Banco Davivienda S.A. / PFDAVVNDA

Fourth Quarter Results 2020 / 4Q20

Bogotá, Colombia. Feb 25th, 2021. – Banco Davivienda S.A. (BVC: PFDAVVNDA) announces its 2020 Fourth Quarter consolidated results. Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in Colombian Pesos (COP).

HIGHLIGHTS

- 2020 results were marked by the spread of the COVID-19 pandemic and its impact on global and domestic economic activity. Accumulated net profit closed at $408 billion, decreasing 72.5% relative to the previous year, mainly due to higher provision expenses which reached $4.2 trillion.
- DaviPlata, our native digital bank, gained 5.5 million new customers over the course of 2020. It actively participated in the National Government' subsidies distribution and established a new partnership with Metro de Medellín.
- We continue offering support mechanisms to our customers to weather the economic downturn. Accordingly, by the end of December, around 7% of the portfolio in Colombia and 17% in Central America had received some type of financial relief.
- The 12-months Cost of Risk closed at 3.94%, growing over the quarter and the year, resulting from higher provision expenses derived from the COVID-19 crisis.
- In 2020, as part of our sustainability strategy, we acquired USD $640 million in resources from multilaterals and international organizations to fund social housing loans, women entrepreneurship, and sustainable projects.
- The Total Capital Adequacy Ratio closed 4Q20 at 12.31%, whereas the Tier I ratio at 8.26%. From the sustainability resources mentioned above, USD $440 million qualify as new Tier II subordinated debt.
- The 12-month Net Interest Margin (NIM) closed at 6.29%, decreasing by 23 bps over the year mainly due to a lower interest rate environment and lower-income related to assets' repricing.
- As of December 2020, Davivienda operates across 6 countries, serving over 17.5 million customers, with more than 17 thousand employees, 675 branches, and 2,710 ATMs.
- Risk ratings: Fitch BBB-/ S&P Global BBB-/ Moody's Baa3.

ECONOMIC ENVIRONMENT COLOMBIA

2020 will go down in history as one of the most challenging years since the Great Depression. The COVID-19 pandemic led to policy responses such as lockdowns and social distancing, which ultimately undermined economic growth in most parts of the world.

Early last year, the World Bank expected the world economy to grow at a 2.5% annual rate. However, a year later, the World Bank's forecast for growth in 2020 had been reduced to -4.3%.

During the first half of the year, oil price fell, reaching its historical lowest point USD $9.12 due to the slowdown in the global economy. On the other hand, by the end of 2020 oil price was USD $51.22 as a result of improved growth expectations, countercyclical fiscal policies and protocols.

In line with global economic trends, and exacerbated by fiscal constraints, Colombian Gross Domestic Product decreased over the second and third quarters of the year 15.8% and 8.5%, respectively, the largest since quarterly records have been kept. By the end of 2020, Gross Domestic Product shrank 6.8% compared to the same period in 2019.

Annual inflation in 2020 closed at 1.61%, below the target range set by the Central Bank (2% - 4%) and the lowest figure since 1954. This result was heavily impacted by measures adopted to mitigate the pandemic's effects.

Considering the downturn in economic activity, the Central Bank gradually reduced the policy rate between March and September, from 4.75% to 1.75%.

Regarding fiscal matters, the 2020 economic climate posed significant challenges for Colombia. The deficit of the National Government went from 2.2% of the GDP in 2019 to 8.2% of the GDP in 2020. This situation reflects the fall in tax revenues caused by the downturn in economic activity and the allocation of more than $23 trillion in additional spending to strengthen the health care system, support vulnerable populations, stimulate the economy, and prevent mortality across businesses.

As a result, risk rating agencies made announcements related to Colombia's sovereign debt throughout the year. Fitch Ratings downgraded the rating by one notch in April from BBB to BBB-; Standard & Poor's downgraded the outlook from stable to negative in March; Moody's took the same step in December.

The exchange rate of the Colombian peso against the USD reached its highest peak on record during the first half of 2020 $4,153.91 and ended the year at $3,432.5, depreciating by 4.7% vs. the exchange rate recorded at the end of 2019. The exchange rate averaged $3,693.36 over the year, declining by 12.6% from $3,281.09 in 2019.

ECONOMIC ENVIRONMENT CENTRAL AMERICA

In Central America, as in most countries throughout the world, there was a sharp contraction in 2020 caused by the COVID-19 pandemic and the measures that countries adopted to limit the disease's spread. The largest annual contraction in the region occurred in the second quarter of the year, with a slowdown in the third quarter.

Although there are no figures available for the end of the year, estimates suggest that countries that experienced the most significant economic contraction were Panama, El Salvador, Honduras, and Costa Rica. It must be noted that the impact of tropical storms Eta and Iota affected financial performance during the last quarter in Honduras. In Costa Rica, economic recovery between the second and third quarters was not as strong as in the rest of the region,due travel restrictions applied during the second quarter.

In conjunction with economic contraction, inflation in the region was lower than in the previous year. Annual inflation was 0.89% in Costa Rica in 2020, -0.08% in El Salvador, and 4.01% in Honduras. The latest available annual inflation data for Panama at the time of writing this note was -1.97% for August 2020. Inflation in Costa Rica remained below the Central Bank's target range (2%-4%) throughout the year. Inflation in Honduras remained within the range set by the Central Bank (3%-5%).

Over the course of 2020 monetary policy had an active role, with policy rate reductions in Costa Rica and Honduras. In Costa Rica, the monetary policy rate was reduced by 200 basis points to close the year at 0.75% and in Honduras by 250 basis points to close the year at 3%.

Throughout the year, risk rating agencies warned about the countries' risks across the region due to the need for resources to deal with the pandemic and the decline in tax revenues. Ratings were downgraded for Costa Rica and Panama. Moody's, Standard & Poor's, and Fitch Ratings downgraded Costa Rica's ratings by one notch to "B2", "B," and "B," respectively. Standard & Poor's downgraded Panama's rating to "BBB."

In the case of El Salvador, its rating received a negative outlook from all rating agencies mentioned above. In November, it was placed in the category of a possible short-term downgrade by Moody's, given the expected fiscal deterioration. There were no rating or outlook changes for Honduras.

MAIN CONSOLIDATED FIGURES:

Statement of Financial Condition

(COP billion)				% Chg.	
Assets	**Dec. 19**	**Sep. 20**	**Dec. 20**	**Q/Q**	**Y/Y**
Cash and Interbank Funds	10,468	10,998	11,956	8.7	14.2
Investments	12,196	16,256	16,115	-0.9	32.1
Gross Loan Portfolio	97,400	111,540	106,675	-4.4	9.5
Loan Loss Reserves	-4,144	-6,162	-6,395	3.8	54.3
Property, Plant and Equipment	1,734	1,747	1,677	-4.0	-3.3
Other Assets	4,569	6,059	6,385	5.4	39.7
Total Assets	**122,222**	**140,438**	**136,413**	**-2.9**	**11.6**
Liabilities					
Repos and Interbank Liabilities	1,760	3,314	1,936	-41.6	10.0
Demand Deposits	40,786	52,114	53,500	2.7	31.2
Term Deposits	34,805	35,949	33,739	-6.1	-3.1
Bonds	12,399	13,440	12,535	-6.7	1.1
Credits	13,565	16,227	14,419	-11.1	6.3
Other Liabilities	6,257	6,382	7,564	18.5	20.9
Total Liabilities	**109,571**	**127,426**	**123,693**	**-2.9**	**12.9**
Equity					
Non-controlling Interest	113	131	117	-10.8	3.0
Equity	12,538	12,881	12,603	-2.2	0.5
Total Equity	12,651	13,012	12,720	-2.2	0.5
Total Liabilities and Equity	**122,222**	**140,438**	**136,413**	**-2.9**	**11.6**

(COP billion)	**4Q19**	**3Q20**	**4Q20**	**Q/Q**	**Y/Y**	**Dec. 19**	**Dec. 20**	**Y/Y**
Interest Income	2,751	2,820	2,765	-1.9	0.5	10,725	11,448	6.7
Loans	2,548	2,569	2,536	-1.3	-0.5	9,795	10,519	7.4
Investments	167	235	213	-9.3	27.5	812	841	3.5
Other Income	36	17	16	-2.0	-54.4	119	88	-26.1
Financial Expenses	1,046	928	815	-12.2	-22.1	4,031	3,881	-3.7
Gross Financial Margin	1,704	1,892	1,950	3.1	14.4	6,694	7,567	13.0
Net Provision Expenses	572	1,152	1,183	2.7	NA	2,434	4,200	72.5
Net Interest Margin	1,132	740	767	3.6	-32.3	4,259	3,367	-20.9
Operating Income	351	313	366	16.9	4.4	1,339	1,272	-5.0
Operating Expenses	1,037	1,027	1,092	6.4	5.3	3,730	4,139	11.0
Exchange and Derivatives	35	36	-53	NA	NA	67	25	-61.9
Other Income and Expenses, net	-14	10	-24	NA	NA	-8	-50	NA
Income Before Taxes	466	73	-36	NA	NA	1,927	476	-75.3
Income Tax	82	25	-50	NA	NA	443	68	-84.6
Net Profit	**385**	**48**	**14**	**-71.2**	**-96.4**	**1,484**	**408**	**-72.5**

MAIN RATIOS

12 Months	4Q19	3Q20	4Q20	Bps. Chg Q/Q	Bps. Chg Y/Y
NIM	6.52%	6.26%	6.29%	3	-23
Cost of Risk	2.50%	3.22%	3.94%	72	144
Cost-to-Income	46.2%	47.3%	47.1%	-25	83
ROAE	12.4%	6.1%	3.2%	-292	-925
ROAA	1.27%	0.59%	0.30%	-29	-97

Annualized Quarter	4Q19	3Q20	4Q20	Bps. Chg Q/Q	Bps. Chg Y/Y
NIM	6.31%	6.07%	6.31%	24	0
Cost of Risk	2.35%	4.13%	4.44%	31	209
Cost-to-Income	50.0%	45.6%	48.8%	319	-119
ROAE	12.3%	1.5%	0.4%	-105	NA
ROAA	1.26%	0.14%	0.04%	-10	-122

COVID-19 RESPONSE

Since the emergence of the COVID-19 crisis, we have implemented a sound risk management strategy and performed continuous monitoring, primarily focusing on three main areas: evolution of liquidity, capital levels, and credit risk, aiming to manage the potential impacts that the current crisis may have on the business.

In line with our comprehensive strategy to support our customers deployed in March 2020, we have implemented different measures to mitigate the impact caused by the economic downturn and contribute to our customers' well-being.

During the last quarter, we continued implementing the PAD (Programa de Acompañamiento a Deudores) program in Colombia. Under this scheme, we analyze our customers' situations individually, and we are able to offer them particular solutions to their credits. The term of the program was extended in Colombia until June 2021.

In Central America, our relief programs have been extended and will continue to be offered during the first semester of the year.

As we move forward, we will continue adjusting our credit policies in line with current economic conditions to promote economic recovery across various industries. We will continue assessing macroeconomic conditions on an ongoing basis to inform our business decisions.

DIGITAL TRANSFORMATION

Our digital native bank, Daviplata, reached 11.6 million customers at the end of December, adding 5.5 million new customers over the year. In addition to the active participation in the distribution of subsidies granted by the National Government, we reinforce strategic partnerships with partners such as Rappi and established new ones like the one with Metro de Medellín, whereby we launched the Civica App, an all-in-one city app that integrates QR code payments for the transport system, store purchases, and money transfers from mobile devices, supported by a bank, and specifically in this case the Daviplata platform, becoming a world-class innovation.

Within the framework of our digital transformation process, we continued developing our digital offering with high-value-added products, providing a wide range of solutions through our digital channels including mobile car loans, mortgages, balance transfer, and payroll account, etc.

Regarding our customers' digitalization, in December, 84% of them at a consolidated level were considered digital. In Colombia, 87% were digital, while in other countries such as Costa Rica and Panama, the figures were 89% and 75%, respectively.

In Colombia, digital loans[1] outstanding balance increased 73.3% over the year, reaching $3.4 trillion. Digital deposits[2] increased 100.8% year over year, closing with an outstanding amount of $2.1 trillion.

Accumulated product sales through digital channels were 49% out of the total volume for the year, compared to 16% two years ago. In terms of monetary transactions, digital channels continue gaining ground over traditional channels, growing from 29% in 2018 to 52% in 2020. Consequently, and influenced by the Covid-19 pandemic, branches keep recording a downward trend falling by 0.9% during the year, reaching 675 bank branches by the end of 2020.

STATEMENT OF FINANCIAL CONDITION

Assets

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Assets	Dec. 19	Sep. 20	Dec. 20	Q/Q	Y/Y	Dec. 20	Q/Q	Y/Y	Dec. 20	Q/Q	Y/Y
Cash and Interbank Funds	10,468	10,998	11,956	8.7	14.2	6,683	30.3	39.0	1,536	1.2	-11.1
Investments	12,196	16,256	16,115	-0.9	32.1	11,918	2.2	26.2	1,560	4.8	25.3
Gross Loans Portfolio	97,400	111,540	106,675	-4.4	9.5	85,972	-3.0	10.5	6,031	1.6	1.0
Loan Loss Reserves	-4,144	-6,162	-6,395	3.8	54.3	-5,656	5.2	55.4	-215	5.9	40.1
Property, Plant and Equipment	1,734	1,747	1,677	-4.0	-3.3	1,217	-1.5	-4.3	134	1.4	-4.8
Other Assets	4,569	6,059	6,385	5.4	39.7	5,109	8.5	50.4	233	3.0	9.8
Total Assets	122,222	140,438	136,413	-2.9	11.6	105,244	-0.7	13.0	9,278	2.0	1.5

[1] Digital Loans include: Mobile Credit, Mobile Balance Transfer, Mobile Credit Card, Mobile Payroll Loans, Advanced Payroll, Mobile Payroll Balance Transfer, Nanocredit.
[2] Digital Deposits include: Mobile Savings Account, Mobile Payroll Account, Term Deposits, and DaviPlata.

Q/Q Performance:

Assets totaled $136.4 trillion, decreasing by 2.9% over the quarter. Excluding the impact of 11.2% COP appreciation during the quarter, assets remained relatively stable -0.1%.

Cash and interbank funds closed at $12.0 trillion, increasing 8.7% over the quarter. This growth was mainly explained by the increase in interbank funds in Colombia and Central America, which offset lower available liquidity in international subsidiaries (El Salvador and Panama). The investment portfolio reached an outstanding balance of $16.1 trillion, a -0.9% variation over the quarter.

Gross loans totaled $106.7 trillion, decreasing by 4.4% relative to the previous quarter, mainly due to a 9.5% reduction in the commercial portfolio. Loan loss reserves closed at $6.4 trillion, growing 3.8% over the quarter. Loan loss reserves to gross loans reached 6.0%, increasing by 50 bps over the quarter.

Finally, other assets grew driven by accounts receivable, along with acceptances and derivatives, which increased 12.4% and 13.4%, respectively.

Y/Y Performance:

Total assets increased by 11.6% over the year. Excluding the impact of 4.7% COP depreciation during the year, consolidated assets grew by 10.0% .

Cash and interbank funds rose 14.2%, reflecting the increase of available cash and interbank funds abroad. The investment portfolio grew 32.1%, driven by a higher position in debt instruments related to mandatory investments called “Títulos de Solidaridad” in Colombia, which originated from reducing the legal reserve requirement in the second quarter of 2020. The trading portfolio and mandatory investments in El Salvador also leveraged this result.

Gross loans grew 9.5% year-on-year, led by the commercial portfolio, mainly by disbursements in the corporate and SMEs segment during 2020. At a consolidated level, loan loss reserves increased 54.3% due to the current situation in Colombia’s operation and in the international subsidiaries.

Finally, other assets increased due to acceptances and derivatives, explained by a higher volume of financial instruments in Colombia and changes in rates, while maintaining its balance with its counterpart in liabilities.

Gross Loans

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Gross Loans	**Dec. 19**	**Sep. 20**	**Dec. 20**	**Q/Q**	**Y/Y**	**Dec. 20**	**Q/Q**	**Y/Y**	**Dec. 20**	**Q/Q**	**Y/Y**
Commercial	45,367	54,952	49,740	-9.5	9.6	39,075	-9.3	12.3	3,107	1.0	-3.8
Consumer	28,791	30,953	31,033	0.3	7.8	25,624	2.4	6.7	1,576	2.9	8.3
Mortgage	23,241	25,636	25,902	1.0	11.4	21,274	3.8	11.8	1,348	1.4	4.9
Total	97,400	111,540	106,675	-4.4	9.5	85,972	-3.0	10.5	6,031	1.6	1.0

Q/Q Performance:

Gross loans reached $106.7 trillion at the end of 2020, decreasing by 4.4% from the previous quarter. Excluding the impact of 11.2% COP appreciation during the quarter, gross loans decreased by 2.3%.

The consolidated commercial portfolio decreased by 9.5%, mainly due to the following reasons (i) lower portfolio dynamics, (ii) customers' prepayments in Colombia, and (iii) portfolio write-offs during the quarter.

The consumer portfolio remained stable with a quarterly variation of 0.3%. The Colombian operation grew by 2.4% relative to the previous period, due to higher outstanding amount in unsecured personal loans and car loans, driven by demand through digital platforms. Other products, such as revolving credit, payroll loans, and credit cards decreased compared to the previous quarter. The Central American portfolio in US dollars grew by 2.9%, mainly due to payroll loans and credit card dynamics in Honduras, and unsecured personal loans in El Salvador.

The consolidated mortgage portfolio increased 1.0%, reflecting a 3.8% growth in the Colombian operation, although offset by the exchange rate effect. This growth was driven by residential leasing, which rose 3.6% in Colombia. Residential housing and social housing portfolios also increased 6.0% and 2.9%, respectively, in the Colombian operation. The Central American portfolio in US dollars grew by 1.4%.

In Central America, gross loans totaled US$6.0 billion, increasing 1.6% over the quarter, mainly due to a higher outstanding balance in the consumer portfolio, followed by the commercial and the mortgage portfolio.

Y/Y Performance:

Consolidated gross loans grew 9.5% year over year due to the increase in Colombia's commercial portfolio, as well as in the mortgage portfolio in both Colombia and Central America. Excluding the impact of 4.7% COP depreciation during the year, gross loans increased 8.2%.

The commercial portfolio increased by 9.6%, mainly due to loans disbursed to corporate customers in 1Q20 across energy, communications, and mass consumption industries. Also, the Bank’s participation in the Government’s loan guarantee scheme to finance small and medium-sized enterprises, contributed to the annual growth.

The consumer portfolio increased by 7.8% due to unsecured personal loans’ dynamism in Colombia, the deepening of low-risk customers through our digital initiatives, and loans granted to self-employed customers backed by the National Guarantee Fund, in which we reached a 65% market share in disbursements, as we were able to adjust in record-time our Mobile Loan.

The mortgage portfolio increased by 11.4% due to residential leasing, especially in Colombia, where it grew 12.1%, in line with the sector's dynamics during 2020. Similarly, social housing and residential housing in Colombia increased by 18.9% and 7.5%, respectively.

In international subsidiaries, gross loans in USD grew 1.0%, reflecting the growth recorded in the consumer and mortgage portfolios which stood at 8.3% and 4.9%, respectively. The retail banking offset the -3.8% annual contraction in the commercial portfolio, primarily explained by Panama, due to Colombian and Costarican customers exchanging their loans from USD to COP and CRC, given the currencies' depreciation.

Asset Quality and Coverage

30 Days PDL	Consolidated 4Q19	Consolidated 3Q20	Consolidated 4Q20	Colombia 4Q19	Colombia 3Q20	Colombia 4Q20	International 4Q19	International 3Q20	International 4Q20
Commercial	5.02%	4.88%	4.31%	6.05%	5.85%	5.12%	1.65%	1.39%	1.33%
Consumer	5.14%	5.12%	10.53%	5.04%	4.60%	11.53%	5.64%	7.34%	5.79%
Mortgage	9.04%	4.70%	9.74%	9.55%	3.97%	10.42%	6.76%	7.58%	6.57%
Total (30)[3]	6.02%	4.91%	7.44%	6.59%	5.06%	8.34%	3.72%	4.31%	3.67%

90 Days PDL	Consolidated 4Q19	Consolidated 3Q20	Consolidated 4Q20	Colombia 4Q19	Colombia 3Q20	Colombia 4Q20	International 4Q19	International 3Q20	International 4Q20
Commercial	4.04%	3.65%	3.26%	5.03%	4.38%	3.88%	0.79%	0.98%	0.98%
Consumer	2.04%	0.75%	6.04%	1.86%	0.36%	6.57%	2.90%	2.43%	3.54%
Mortgage	4.07%	3.47%	4.53%	4.23%	3.45%	4.72%	3.36%	3.57%	3.64%
Total (90)[4]	3.46%	2.80%	4.38%	3.86%	3.03%	4.89%	1.86%	1.93%	2.24%
Mortgage (120)	3.20%	3.21%	2.77%	3.25%	3.25%	2.66%	2.97%	3.05%	3.31%
Total (120)[5]	3.25%	2.74%	3.95%	3.62%	2.98%	4.38%	1.77%	1.82%	2.17%

Portfolio	Stage 1	Stage 2	Stage 3	Total
Commercial	40,106	6,722	2,912	49,740
Consumer	26,430	2,840	1,762	31,033
Mortgage	23,157	2,107	638	25,902
Total	**89,693**	**11,669**	**5,312**	**106,675**

Q/Q Performance:

As of December 2020, the 30 days PDL ratio for the total portfolio closed at 7.44%, while the 90 days PDL reached 4.38%, increasing over the quarter, mainly impacted by the consumer and mortgage portfolios.

Commercial PDLs decreased over the quarter, reflecting better behavior related to growth in good risk profiles, negotiations carried out within the PAD framework and some write-offs made during the fourth quarter.

Consumer PDLs showed a deterioration, explained by loan growth deceleration and the portfolio's reaction to the pandemic once deferrals ended, mainly in credit cards, payrolls and unsecured personal loans.

[3] Total (30): Portfolio > 30 days / Gross loan portfolio.
[4] Total (90): Portfolio > 90 days / Gross loan portfolio.
[5] Total (120) includes: (Mortgage>120 days + Commercial> 90 days + Consumer> 90 days) / Gross loan portfolio.

30 and 90-days Mortgage PDLs increased over the quarter in Colombia, as the first wave of reliefs mostly started to expire by October 2020. However, the 120 days PDL, which better reflects mortgages risk profile, is not showing yet delinquencies.

In Central America, 30 days PDL ratios decreased over the quarter due to better payment behavior observed in the different segments, as well as to payment alternatives still being offered.

In 4Q20, write-offs totaled $957 billion, increasing $784 billion over the quarter, mainly due to commercial and consumer segments.

Write-offs	Quarterly Figures			% Chg.	
(COP billion)	4Q19	3Q20	4Q20	Q/Q	Y/Y
Total write-offs	1,072	173	957	453.6	-10.8

Y/Y Performance:

30 and 90 days PDL ratios increased over the year, mainly impacted by the pandemic effects and the end of relief programs.

Commercial PDLs decreased over the year reflecting the growth in good risk profiles, negotiations carried out within the PAD framework and some write-offs made during the year, as explained before.

The consumer PDLs deterioration is mainly explained by loan growth deceleration since March 2020, lower write-offs during the year, and the effect of the pandemic.

Mortgage PDLs increased over the year and returned to pre-pandemic levels, mainly due to the end of reliefs offered.

Write-offs in 2020 were 9.7% lower than those made in 2019, as its dynamics during 2020 were impacted by the implementation of relief programs in Colombia and Central America.

Write-offs	Accumulated Figures		% Chg.
(COP billion)	Dec. 19	Dec. 20	Y/Y
Write-offs	2,472	2,233	-9.7

Coverage

Coverage	Coverage[6] 4Q19	3Q20	4Q20	Total Reserves Coverage[7] 4Q19	3Q20	4Q20
Commercial	117.0%	156.5%	169.9%	140.6%	164.4%	182.0%
Consumer	280.6%	1050.7%	168.3%	319.7%	1252.5%	190.5%
Mortgage	37.3%	64.3%	41.5%	67.8%	91.0%	73.0%
Total	123.1%	197.0%	137.0%	151.4%	224.7%	158.0%

Q/Q Performance:

The Coverage ratio closed 4Q20 at 137.0%, decreasing by 60.1 bps quarter over quarter. The Total Reserves Coverage ratio stood at 158.0%, 66,7 bps lower relative to 3Q20. Coverage ratios reduction resulted from higher past-due loans as a result of the pandemic, as explained above.

Y/Y Performance:

Coverage and Total Reserves Coverage ratios increased by 13.9 and 6.7 pps, respectively, due to increased asset allowances and equity reserves throughout the year.

Funding Sources

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Funding Sources	Dec. 19	Sep. 20	Dec. 20	Q/Q	Y/Y	Dec. 20	Q/Q	Y/Y	Dec. 20	Q/Q	Y/Y
Demand deposits	40,786	52,114	53,500	2.7	31.2	42,020	4.8	33.8	3,344	7.6	16.8
Term deposits	34,805	35,949	33,739	-6.1	-3.1	24,350	-4.7	-0.7	2,735	1.6	-12.7
Bonds	12,399	13,440	12,535	-6.7	1.1	11,089	-4.3	1.8	421	-12.0	-8.1
Credits	13,565	16,227	14,419	-11.1	6.3	9,892	-10.3	4.4	1,319	-1.9	5.8
Total	101,555	117,730	114,193	-3.0	12.4	87,351	-1.0	14.5	7,820	2.5	1.5

Q/Q Performance:

In December 2020, funding sources closed at $114.2 trillion, decreasing 3.0% relative to the previous quarter, mainly due to a lower outstanding amount of credits with entities -11.1% and of term deposits -6.1%, which offset the 2.7% increase in demand deposits. Funding sources decreased by 0.3%, excluding the impact of 11.2% COP appreciation during the quarter.

Consolidated demand deposits reached $53.5 trillion, growing 2.7% over the quarter, driven by higher low-cost deposits from companies in Colombia and international subsidiaries. Term deposits amounted to $33.7 trillion by year-end, decreasing 6.1%, reflecting a 4.7% reduction in the domestic operation due to specific corporate customers.

[6] Coverage: Asset Allowances / Portfolio> 90 days.
[7] Total Reserves Coverage: (Assets Allowances + Equity Reserves) / Portfolio> 90 days.

Bonds closed the quarter with an outstanding balance of $12.5 trillion, decreasing 6.7% over the quarter, due to maturities in Colombia and in Central America (mainly in El Salvador and Costa Rica) totaling $233 billion and USD$61 million, respectively. Also, FX revaluation during the quarter contributes to this behavior.

Credits with entities reached $14.4 trillion, reducing 11.1% in comparison to the previous quarter. In the Colombian operation, it decreased by 10.3% mainly due to a lower balance of financial obligations and an exchange rate effect on loans denominated in USD. In international subsidiaries, credits with entities decreased 1.9%, to a large extent driven by Panama.

The loans to funding ratio stood at 93.4%, decreasing 1.3 pps compared to 3Q20, due to the lower gross loans portfolio despite the reduction in funding sources.

Y/Y Performance:

Funding sources grew 12.4%, mainly as a result of higher demand deposits during the year. Excluding the impact of 4.7% COP depreciation during the year, funding sources increased 10.8%.

Traditional deposits increased mainly because of demand deposits, which increased by 33.8% in Colombia and 16.8% in Central America. Term deposits decreased 0.7% and 12.7%, respectively, as more adequate funding alternatives have been sought in a low interest rate environment.

Bonds grew 1.1% due to a 1.8% increase in Colombia. In Central America bonds decreased by 8.1%, since maturities in El Salvador and Costa Rica offset new issuances.

Consolidated credits with entities increased by 6.3% over the year. In Colombia, credits with entities rose 4.4% due to higher financial obligations, totaling USD $540 million accumulated throughout the year. In Central America, credits with foreign banks increased by 5.8%, mainly in Costa Rica, as part of an effort to strengthen short-term funding.

Due to the higher growth of funding sources over the year compared to gross loans, the loans to funding ratio decreased 2.5 pps during the year.

Equity and Regulatory Capital

Total Regulatory Capital and Risk Weighted Assets	**Consolidated**				
(COP Billion)	**4Q19**	**3Q20**	**4Q20**	**Q/Q**	**Y/Y**
Equity	12,651	13,012	12,720	-2.2	0.5
Common Equity Tier I Capital	8,734	9,817	9,557	-2.7	9.4
Tier II Capital	3,956	4,107	4,677	13.9	18.2
Total Regulatory Capital	12,691	13,925	14,234	2.2	12.2
Risk Weighted Assets	103,972	119,009	112,072	-5.8	7.8
Capital Adequacy Ratio	11.61%	11.25%	12.31%	105 bps	70 pbs
Tier I	7.99%	7.93%	8.26%	33 bps	27 pbs
Tier II	3.62%	3.32%	4.04%	72 bps	42 pbs

Q/Q Performance:

Consolidated equity closed 2020 at $12.7 trillion, decreasing by 2.2% over the previous quarter due to a decrease in the other comprehensive income account and lower reserves (given FX exchange behavior) .

The total capital adequacy ratio closed at 12.31%, 106 bps above the 3Q20 figure, mainly due to the acquisition of subordinated loans for USD $270 million with Multilateral Organizations and Development Agencies, strengthening Tier II equity.

The tier I ratio increased 33 bps up to 8.26% due to a decrease in risk-weighted assets given lower loan growth, increased provisions, and regulatory methodology changes to the estimation of value at risk (VaR) that reflect a better market risk assessment.

Considering that the minimum requirement under the current Colombian regulation is 9%, the total capital adequacy ratio stood 331 bps above this threshold.

As of December 2020, the density[8] of risk-weighted assets stood at 82.2%, decreasing 2.6 pps relative to 3Q20 figure of 84.7%.

Y/Y Performance:

Consolidated equity grew 0.5% due to higher reserves related to the capitalization approved by the General Meeting of Shareholders during the first quarter of 2020, which offset lower earnings for the year.

The total capital adequacy ratio increased by 69 bps explained by the 12.2% growth of total regulatory capital throughout the year. This growth is explained by the acquisition of USD $440 million in Tier II instruments. On the other hand, Tier I ratio increased by 27 bps relative to 4Q19 due to higher common equity Tier I capital and a lower value for market risk.

The density of risk-weighted assets dropped 2.9 pps relative to 4Q19 of 85.1%.

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

Income Statement (COP billion)	Quarterly Figures 4Q19	3Q20	4Q20	% Chg. Q/Q	Y/Y	Accumulated Figures Dec. 19	Dec. 20	% Chg. Y/Y
Interest Income	2,751	2,820	2,765	-1.9	0.5	10,725	11,448	6.7
Loan Income	2,548	2,569	2,536	-1.3	-0.5	9,795	10,519	7.4
Commercial	953	1,007	907	-10.0	-4.9	3,813	3,957	3.8
Consumer	1,008	985	982	-0.2	-2.5	3,610	4,064	12.6
Mortgage	587	577	647	12.2	10.3	2,371	2,498	5.4
Investment Income	167	235	213	-9.3	27.5	812	841	3.5
Other Income	36	17	16	-2.0	-54.4	119	88	-26.1
Financial Expenses	1,046	928	815	-12.2	-22.1	4,031	3,881	-3.7
Demand Deposits	227	194	161	-17.2	-29.2	819	829	1.2
Term Deposits	435	361	312	-13.7	-28.3	1,677	1,510	-10.0
Credits	138	127	117	-8.0	-15.4	571	558	-2.2
Bonds	214	203	191	-5.7	-10.8	792	831	4.9
Other Expenses	31	42	34	-19.1	9.6	173	153	-11.5
Gross Financial Margin	1,704	1,892	1,950	3.1	14.4	6,694	7,567	13.0
Net Provision Expenses	572	1,152	1,183	2.7	NA	2,434	4,200	72.5
Net Interest Margin	1,132	740	767	3.6	-32.3	4,259	3,367	-20.9
Operating Income	351	313	366	16.9	4.4	1,339	1,272	-5.0
Operating Expenses	1,037	1,027	1,092	6.4	5.3	3,730	4,139	11.0
Personnel Expenses	417	396	398	0.6	-4.5	1,544	1,608	4.2
Operation Expenses	443	440	496	12.8	12.0	1,504	1,768	17.6
Other Expenses	178	191	198	3.6	11.5	682	763	11.8
Exchange and Derivatives	35	36	-53	NA	NA	67	25	-61.9
Other Income and Expenses, net	-14	10	-24	NA	NA	-8	-50	NA
Income before Taxes	466	73	-36	NA	NA	1,927	476	-75.3
Income Tax	82	25	-50	NA	NA	443	68	-84.6
Net Profit	**385**	**48**	**14**	**-71.2**	**-96.4**	**1,484**	**408**	**-72.5**

Net Profit

Quarterly figures

Q/Q Performance:

Net profit closed 4Q20 at $13.8 billion, decreasing by 71.2% from 3Q20, due to a 14.0% increase in provision expenses and a 6.4% increase in operating expenses. Consequently, the annualized quarter return on average equity (ROAE) reduced 105 bps, from 1.5 to 0.4%.

Net profit recorded in Colombia was -$30.8 billion, reducing 91.1% from the previous quarter. The gross financial margin increased by 4.3% mainly explained by lower financial expenses due to low interest rates. In this context, loan portfolio income remained stable, while investment income fell 14.7%. Operating income increased 16.5%, while operating expenses grew 9.0%.

Net profit in Central America totaled nearly $12.3 Million USD as of December 2020, decreasing 28.5% over the quarter due to lower loan portfolio income , an increase in provision expenses by 57.5%, and lower net income from exchange and derivatives.

Y/Y Performance:

Consolidated profits decreased 96.4% over the year, mainly explained by higher provision expenses and operating expenses related to the COVID-19, advertising, and digital transformation expenses. Consequently, the annualized quarter return on average equity (ROAE) decreased by 11.9 pps relative to 4Q19.

Loan income in Colombia was reduced by 1.3%, while investment income grew by 44.6% due to public and private debt securities' appreciation. Provision expenses rose 92.2%, resulting in a 37.4% contraction of the net financial margin. Furthermore, operating expenses increased 5.9%, also contributing to the annual reduction in net profit.

In international subsidiaries, net profit in USD decreased by 30.6%. Despite the 1.0% increase in the gross financial margin, provision expenses' growth resulted in a lower net financial margin decreasing 20.3%. Moreover, operating income decreased by 6.1% due to lower income from bank fees and services.

Accumulated figures

Y/Y Performance:

Consolidated profits decreased 72.5% even though the gross financial margin increased by 13.0% relative to the accumulated figure recorded in December 2019. This reduction in net profits is mainly explained by higher provision expenses by 72.5%, increased operating expenses of 11.0%, and lower operating income of -5.0%. The 12-months ROAE closed 4Q20 at 3.18%, 9.2 pps lower than in 4Q19.

In Colombia, accumulated loan income increased by 6.0%, offsetting lower investment income which decreased by 2.4%, and contributing to the 12.3% growth in the gross financial margin. However, increased provision expenses and higher operating expenses impacted profits which decreased by 87.8%.

In international subsidiaries, accumulated profits decreased by 5.2% in USD due to increased provision expenses, lower operating income and reduced net income from exchange and derivatives.

Gross Financial Margin

Gross Financial Margin (COP billion)	Quarterly Figures 4Q19	3Q20	4Q20	% Chg. Q/Q	Y/Y	Accumulated Figures Dec. 19	Dec. 20	% Chg. Y/Y
Loan Income	2,548	2,569	2,536	-1.3	-0.5	9,795	10,519	7.4
Investments and Interbank Income	203	252	229	-8.8	13.0	931	928	-0.2
Financial Income	2,751	2,820	2,765	-1.9	0.5	10,725	11,448	6.7
Financial Expenses	1,046	928	815	-12.2	-22.1	4,031	3,881	-3.7
Gross Financial Margin	1,704	1,892	1,950	3.1	14.4	6,694	7,567	13.0

Quarterly figures

Q/Q Performance:

The consolidated gross financial margin reached $2.0 trillion in 4Q20, growing 3.1%, mainly explained by a 12.2% reduction in financial expenses stemming from our low-cost funding strategies.

In Colombia, the gross financial margin increased by 4.3% over the quarter. Loan income remained stable due to increased income from the mortgage portfolio, offset by a decreased income from the commercial and consumer portfolios. Investment income fell by 14.7%, reflecting the appreciation recorded in the third quarter of the year due to market price changes which reverted partially in 4Q20. On the other hand, financial expenses decreased by 12.7% impacted by lower interest rates in the second half of the year and by the low-cost deposits' growth.

In international subsidiaries, the gross financial margin in USD remained stable in comparison to 3Q20, driven by an increase in investment income of 7.6% and a reduction of 8.7% in financial expenses, which offset the decrease in loan portfolio income 4.7%.

The annualized-quarter NIM closed at 6.31%, increasing by 24 bps from the figure reported in 3Q20 due to the gross financial margin increase over the period.

NIM Annualized Quarter	4Q19	3Q20	4Q20	Bps. Chg Q/Q	Y/Y
Total NIM	6.31%	6.07%	6.31%	24	0

Y/Y Performance:

As of 4Q20, the gross financial margin increased by 14.4% year over year mainly due to a 22.1% reduction in financial expenses and a 27.5% increase in investment income. Conversely, loan portfolio income decreased by 0.5% in relation to 4Q19.

In Colombia, investment income grew 44.6% due to the appreciation of public debt securities. Moreover, due to low interest rates, loan income decreased 1.3%, as financial expenses did, decreasing by 25.8%. As a result, the gross financial margin increased by 15.7%.

In the international operation, the gross financial margin in USD increased by 1.0% over the year, mainly due to reduced financial expenses of 15.5%, while loan income decreased by 4.0%, as investment income did by 6.0%.

The annualized-quarter NIM remained stable relative to the previous year. Lower financial expenses led to a higher gross financial margin, which offset higher productive assets during the same period.

Accumulated Figures

Y/Y Performance:

The accumulated gross financial margin reached $7.6 trillion in December 2020, growing 13.0% relative to the accumulated figure recorded in the same period of 2019. This was mainly due to higher loan income and decreased financial expenses recorded since the second half of 2020.

In Colombia, the accumulated gross financial margin closed at $6.2 trillion, growing 12.3% due to the lower income baseline effect from the commercial portfolio in 2019. Investment income decreased by 2.4% due to the baseline effect arising from adjustments in the appreciation of securitization instruments in 2019 and the public debt instruments devaluation in 1Q20. Finally, financial expenses decreased by 6.9%, mainly due to lower expenses associated with term deposits and savings accounts.

In Central America, the gross financial margin totaled $376.4 Million USD, growing 3.5% over the year. During the same period, loan income increased 0.8% and investment income increased 5.2% due to higher yields on securities in the first half of the year. Finally, financial expenses decreased by 4.6%, explained by lower interest expenses on credits with entities and term deposits.

The monetary policy rate in Colombia declined 250 bps over the course of 2020, while the 12-month NIM as of 4Q20 stood at 6.29%, 23 bps lower compared to the figure reported in 4Q19.

NIM				Bps. Chg	
12 Months	4Q19	3Q20	4Q20	Q/Q	Y/Y
Total NIM	6.52%	6.26%	6.29%	3	-23

Provision Expenses

Provision Expenses (COP billion)	Quarterly Figures			% Chg.		Accumulated Figures		% Chg.
	4Q19	3Q20	4Q20	Q/Q	Y/Y	Dec. 19	Dec. 20	Y/Y
Provision for credit losses	757	1,292	1,473	14.0	94.5	3,027	4,872	60.9
Loan recoveries	182	140	289	NA	59.1	581	672	15.8
Net loan sales	3	0	0	0.0	NA	12	0	NA
Net Provision Expenses	**572**	**1,152**	**1,183**	**2.7**	**NA**	**2,434**	**4,200**	**72.5**

Quarterly figures

Q/Q Performance:

Gross provision expenses rose to $1.5 trillion in 4Q20, growing 14.0% over the quarter. This increase is mainly related to higher delinquency.

Loan recoveries increased $149 billion, mainly as a result of negotiations both in Colombia and in Central America. Additionally, the economic reopening resumed loan recovery processes.

Consequently, provision expenses (net of recoveries) in 4Q20 totaled $1.2 trillion, a 2.7% increase relative to the previous quarter.

The annualized cost of risk for the quarter rose 31 bps relative to 3Q20.

Cost of Risk				**Bps. Chg**	
Annualized Quarter	**4Q19**	**3Q20**	**4Q20**	**Q/Q**	**Y/Y**
CoR	2.35%	4.13%	4.44%	31	209

Y/Y Performance:

Over the past year, gross provision expenses increased by $716 billion. In Colombia and Central America, provisions increased mainly in the consumer and commercial portfolio.

Consolidated loan recoveries increased by 59.1% as a result of current loan dynamics in Colombia and Central America.

Consequently, provision expenses (net of recoveries) in 4Q20 grew $611 billion year over year.

The annualized cost of risk for the quarter increased 209 bps relative to 4Q19.

Accumulated Figures

Y/Y Performance:

Provision expenses (net of recoveries) reached $4.2 trillion as of December 2020, growing 72.5% over the accumulated in 2019. This is due to the economic emergency the world is currently experiencing as a result of COVID-19. The following measures were adopted throughout the year to estimate provisioning levels:

- Adjustments in stage classification to recognize risk levels among customers identified as impacted by COVID-19 crisis. Customers who are still benefiting from some type of financial relief and whose future payment capacity is uncertain were transferred to stage 2.
- Provisions were reviewed and adjusted for certain individually significant customers in industries affected by the economic downturn.

- Finally, we updated the countries' macroeconomic outlook by incorporating the latest available information about the pandemic impact on the different economies. These effects are recognized in the Forward-looking component.

12-months Cost of Risk[9] closed at 3.94%, increasing 144 bps relative to the figure recorded a year earlier, reflecting increased provision expenses. Approximately 60% of the cost of risk originated from the effects of the measures outlined above in response to the economic downturn.

Cost of Risk				**Bps. Chg**	
12 months	**4Q19**	**3Q20**	**4Q20**	**Q/Q**	**Y/Y**
CoR	2.50%	3.22%	3.94%	72	144

Operating Income

Quarterly figures

Q/Q Performance:

Net operating income totaled $366.1 billion in 4Q20, a 16.9% increase over the quarter, mainly due to a higher volume of transactions during the year-end season. Net income from bank and transactional fees grew 14.7%, while service income grew 27.2% due to the reinstatement of bank fees that were suspended during the strict quarantine.

In Colombia, operating income increased 16.5%, mainly explained by commission income, in line with fees reactivation that had been suspended, as part of the measures adopted during the second half of the year. Additionally, service income increased by 27.4% in relation to the previous quarter.

In Central America, the Bank adopted a similar strategy in terms of reactivating bank fees. Consequently, fee income increased by 20.2%. Net income from insurance operations also grew by 16.3%. As a result of the above, operating income increased by 20.8%.

Y/Y Performance:

Operating income recorded a 4.4% increase over the year due to higher net commission income, which is consistent with quarterly performance. This is explained by the economic reactivation by year-end 2020 and fees reactivation that had been suspended throughout the year.

In Colombia, operating income increased 5.5%, mainly led by growth in net fees and commission income by 8.7%. Operating income decreased in international subsidiaries as a result of lower fees and commission income.

[9] 12-months Cost of Risk = Accumulated Provision Expenses (12 months) / Gross Loans (Quarter Balance).

Accumulated Figures

Y/Y Performance:

Accumulated operating income as of December 2020 decreased by 5.0% over the year, explained by lower income from net bank fees and services during the first half of the year, as part of the Bank's strategic response to COVID-19.

Operating Expenses

Operating Expenses	Quarterly Figures			% Chg.		Accumulated Figures		% Chg.
(COP billion)	4Q19	3Q20	4Q20	Q/Q	Y/Y	Dec. 19	Dec. 20	Y/Y
Personnel Expenses	417	396	398	0.6	-4.5	1,544	1,608	4.2
Operating Expenses and Others	621	631	694	10.0	11.8	2,186	2,531	15.8
Total Expenses	**1,037**	**1,027**	**1,092**	**6.4**	**5.3**	**3,730**	**4,139**	**11.0**

Quarterly figures

Q/Q Performance:

Operating expenses in 4Q20 amounted to $1.1 trillion, increasing by 6.4% from the previous quarter.

Operating expenses and others increased 10.0%, mainly in Colombia, where they grew 14.0%, due to higher operating expenses associated with the digital transformation process and advertising. Personnel expenses increased 0.6% explained by a 0.5% growth in Colombia, besides exchange rate effects.

As a result of higher operating expenses, the annualized-quarter cost-to-income ratio was 48.8%, increasing 319 bps in relation to the figure recorded in 3Q20
.

Cost-to-Income				Bps. Chg	
Annualized Quarter	4Q19	3Q20	4Q20	Q/Q	Y/Y
Cost-to-Income	50.0%	45.6%	48.8%	319	-119

Y/Y Performance:

4Q20 operating expenses increased 5.3% over the year, mainly due to a 11.8% increase in operating expenses and others.

In Colombia, the increase was associated with fees related to the digital transformation process and advertising. In the international subsidiaries, operating expenses decreased by 4.0% due to lower employee benefits and administrative expenses.

In spite of the increased operating expenses, the annualized-quarter cost-to-income ratio decreased by 119 bps from 4Q19, mainly due to higher operating income over the year.

Accumulated Figures

Y/Y Performance:

Accumulated operating expenses recorded a 11.0% increase from December 2019. Increased expenses were related to the digital transformation strategy, COVID-19 related costs (including donations) and the USD/COP exchange rate variations. Excluding these effects, operating expenses increase by 2.1% over the year.

The 12-months cost-to-income ratio closed 4Q20 at 47.1%, increasing 83 pbs from the previous year, reflecting higher expenses over the past 12 months.

Cost-to-Income				**Bps. Chg**	
12 months	**4Q19**	**3Q20**	**4Q20**	**Q/Q**	**Y/Y**
Cost-to-Income	46.2%	47.3%	47.1%	-25	83

Taxes

Quarterly figures

Income Tax				**% Chg**	
Quarter	**4Q19**	**3Q20**	**4Q20**	**Q/Q**	**Y/Y**
Tax	82	25	-50	NA	NA

Q/Q Performance:

The -$50.1 billion income tax registered during 4Q20 decreased by $74.8 billion over the quarter, mainly due to a reduction in profits before taxes and tax deductions contemplated within the law.

Y/Y Performance:

The income tax decreased $131.9 billion relative to the last quarter of 2019, mainly due to lower income before taxes of -$502.7 billion and tax deductions contemplated within the law.

Accumulated Figures

Y/Y Performance:

The accumulated income tax in December 2020 reached $68.1 billion, an 84.6% decrease over the year, due to the reduction in profits before taxes and tax deductions.

Income Tax			**% Chg**
Accumulated	**Dec. 19**	**Dec. 20**	**Y/Y**
Tax	443	68	-85

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Investor Relations and Capital Management
(+57 1) 2203495
ir@davivienda.com- ir.davivienda.com
www.davivienda.com
Bogotá - Colombia

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