Banco Davivienda S.A. / PFDAVVNDA

Third Quarter Results 2018 / 3Q18

Bogotá, Colombia. November 15th, 2018 - Banco Davivienda S.A. (BVC: PFDAVVNDA), announces its consolidated results for the third quarter of 2018. Financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) in Colombian Pesos (COP).

HIGHLIGHTS

- Accumulated net income reached $1.02 trillion as of September 2018, 10.9% higher than the one registered in the same period of 2017. Net income for the quarter closed at $289 billion, which represents an increase of 2.9% over the previous quarter, and 5.8% compared to 3Q17. 12-month ROAE was 12.9%.

- Gross loans closed at $83.7 trillion, growing 8.3% against the previous year, led by the performance of the commercial and mortgage portfolios, which presented 6.8% and 14.9% increases respectively. Gross loans grew 2.5% over the quarter, mainly due to those same segments, with growths of 2.3% and 3.5% respectively.

- The accumulated net financial margin reached $2.9 trillion, 9.2% higher than the same period of 2017. The net financial margin for the quarter closed at $904 billion, 0.8% less than the previous quarter, due to lower loan income levels; and 6.9% more than the previous year, as a result of lower provision expenses and funding cost. The 12-month Net Interest Margin (NIM) increased 31 bps year over year, closing at 6.53%

- Accumulated operating income closed at $970 billion, 8.9% higher than the accumulated total at September 2017, as a result of higher fees from cards and trust businesses. Operating income for the quarter totaled $317 billion, a reduction of 5.4% against 2Q18, and an increase of 5.0% compared to 3Q17.

- The 12-month efficiency closed at 46.5%, which represents an improvement of 9 bps over the previous quarter, and of 82 bps over the third quarter of 2017.

- The total capital ratio closed at 12.27%, and the Tier 1 ratio at 8.37%.

- As of September 2018, Davivienda was present in six countries, with 9.7 million customers, 17,324 collaborators, 739 branches and 2,616 ATMs.

ECONOMIC ENVIRONMENT - COLOMBIA

The world economy continued to experience slower growth during the third quarter of the year. The US economy reported a modest reduction in its growth rate: from 4.2% in the second quarter to 3.5% in the third quarter. Meanwhile, the Chinese economy reported the lowest third-quarter growth in several decades: 6.5%. The lower level of growth can also be observed in aggregate figures such as global PMI, and the movement of containers in the world's major ports. In addition to increases in interest rates which have taken place this year, there have been fears of lower world growth, and its possible impact on commodities' prices. As a result, emerging country currencies have continued to be under pressure.

The oil price increased slightly in the third quarter. WTI rose from US $67.9/barrel in 2Q18 to US$69.4/barrel in 3Q18. The recovery in its price was associated with supply factors, especially the collapse of production in Venezuela. The United States became the world's largest producer of crude during the quarter. However, the upward trend was reversed at the beginning of October, due to concerns regarding world economic growth.

As a result of the Federal Reserve's firm decision to introduce four rate increases during the year, the price of the dollar continued to rise worldwide. This brought about an accelerated devaluation of the Colombian peso: the average exchange rate against the US dollar was $2,959 in 3Q18, 4.2% higher than the one of 2Q18 ($2,839). The fall in oil prices, which became evident in October, also had an impact on country risk levels, which increased compared to those of the second quarter.

One of the most important factors in the quarter was an improved consumer confidence in Colombia. For the 3Q18, the confidence indicator stood at an average of -9.2, more positive than the -17.5 reported for the preceding period[1]. This improvement may be attributed to a number of factors, including the reduction in interest rates, moderate inflation, and the end of the uncertainty related to the elections.

Regarding inflation, results for the third quarter were very similar to those of 2Q18. In September, annual inflation closed at 3.23%, just above the one observed in June. It is interesting to note that food inflation rose from 1.74% in June to 2.05% in September, suggesting that while inflation in this group continues to contribute to overall low inflation, it is now beginning to show a rising trend.

[1] Davivienda's Confidence Index is obtained from a survey applied to a monthly average of 5,000 customers, in which they are asked about their confidence on the country's economic environment. The Index results can be found on https://www.davivienda.com/wps/portal/estudios-economicos/

ECONOMIC ENVIRONMENT - CENTRAL AMERICA

In 2Q18, economic growth accelerated in Costa Rica and Honduras, while slowing down in El Salvador and Panama.

In Costa Rica, the annual GDP increase was 3.3%, improving from the 3.2% for 1Q18 with the recovery of the construction sector, particularly in non-residential private works.

In Honduras, GDP achieved an annual growth of 3.9% in 2Q18, up from the 3.1% reported for 1Q18. The most dynamic sector was agriculture, given the positive evolution of African palm and fruit crops, as an important banana-grower in the country resumed its operations.

El Salvador reported a slowdown, with annual growth of 2.2% in 2Q18, compared to 3.1% for 1Q18. The sector which contributed most to this slowdown was construction. Panama grew 3.1% in annual terms, below the 4.2% reported for 1Q18, due to the construction sector contraction, set off by a strike that ran from late April to late May.

Regarding the economic activity in 3Q18, the Monthly Economic Activity Index (IMAE) for July and August recorded an acceleration in Costa Rica, while presenting a slowdown for Honduras.

In terms of prices, average inflation in 3Q18 was higher than that recorded for 2Q18. The most dynamic sectors were transportation and foods. In Costa Rica, average annual inflation for the third quarter was 2.2%, within the Costa Rican central bank's target range; and in Honduras, inflation reached 4.3%, also on the target range. El Salvador's inflation closed at 1.3%, and Panama's at 1.1%.

Monetary policy rates remained stable in the region during the third quarter of the year. However, in terms of exchange rates, Costa Rica came under pressure for devaluation, related to uncertainty regarding the tax reform approval. At the end of 3Q18, the colon accumulated a devaluation of 2.4% against the end of 2017. However, in the final months, devaluation accelerated and reached 8.8% in October.

In contrast, 3Q18 accumulated devaluation in Honduras reached 2.0%, and closed at 2.2% in October.

There were no changes in country risk ratings in 3Q18. However, Standard & Poor's placed a positive outlook on Panama's rating, and Moody's placed Costa Rica's rating under review, for possible downgrading.

MAIN CONSOLIDATED FIGURES:

Statement of Financial Condition
(COP billion)

Assets	Sep. 17	Jun. 18	Sep. 18	% Chg. Q/Q	% Chg. Y/Y
Cash and Interbank Funds	9,176	8,705	9,416	8.2	2.6
Investments	9,749	10,220	10,058	-1.6	3.2
Gross Loans Portfolio	77,245	81,642	83,653	2.5	8.3
Loan Loss Reserves	-2,203	-3,356	-3,514	4.7	59.5
Property, Plant and Equipment	834	734	714	-2.8	-14.4
Other Assets	3,757	3,952	4,206	6.4	12.0
Total Assets	98,558	101,897	104,533	2.6	6.1
Liabilities					
Demand Deposits	31,892	32,340	32,638	0.9	2.3
Term Deposits	29,557	32,754	32,790	0.1	10.9
Bonds	10,835	10,009	9,920	-0.9	-8.4
Credits with Entities	9,027	10,248	11,552	12.7	28.0
Other Liabilities	6,773	5,894	6,698	13.6	-1.1
Total Liabilities	88,083	91,245	93,598	2.6	6.3
Equity					
Non-controlling Interest	84	84	84	0.1	0.1
Equity	10,391	10,568	10,851	2.7	4.4
Total Equity	10,475	10,652	10,934	2.7	4.4
Total Liabilities and Equity	**98,558**	**101,897**	**104,533**	**2.6**	**6.1**

Income Statement	**Quarterly Figures**			**% Chg.**		**Accumulated Figures**		**% Chg.**
(COP billion)	**3Q17**	**2Q18**	**3Q18**	**Q/Q**	**Y/Y**	**Sep. 17**	**Sep. 18**	**Y/Y**
Interest Income	2,296	2,350	2,320	-1.2	1.1	7,013	7,075	0.9
Loans	2,157	2,189	2,173	-0.7	0.7	6,511	6,592	1.2
Investments	120	137	119	-13.1	-0.3	448	405	-9.6
Other Income	19	23	28	19.8	51.7	54	78	44.0
Financial Expenses	929	872	885	1.5	-4.8	2,925	2,647	-9.5
Gross Financial Margin	1,366	1,477	1,435	-2.9	5.1	4,089	4,428	8.3
Provision Expenses	521	566	532	-6.1	2.0	1,464	1,562	6.7
Net Interest Margin	845	911	904	-0.8	6.9	2,625	2,866	9.2
Operating Income	302	336	317	-5.4	5.0	891	970	8.9
Operating Expenses	782	876	830	-5.3	6.1	2,321	2,495	7.5
Exchange and Derivatives	12	21	42	93.8	243.6	97	89	-7.5
Other Income and Expenses, net	-2	4	1	-81.4	-133.8	-16	-21	36.4
Income Before Taxes	375	397	434	9.3	15.6	1,276	1,410	10.4
Income Tax	102	116	145	24.8	41.8	353	385	9.1
Net Income	**273**	**281**	**289**	**2.9**	**5.8**	**923**	**1,024**	**10.9**

MAIN RATIOS

12 months	3Q17	2Q18	3Q18	Bps. Chg Q/Q	Bps. Chg Y/Y
Net Interest Margin	6.22%	6.56%	6.53%	-3	31
Cost of Risk	2.13%	2.53%	2.48%	-5	34
Efficiency	47.3%	46.6%	46.5%	-9	-82
ROAE	14.4%	12.9%	12.9%	1	-141
ROAA	1.51%	1.37%	1.36%	0	-14

Annualized Quarter	3Q17	2Q18	3Q18	Bps. Chg Q/Q	Bps. Chg Y/Y
Net Interest Margin	6.27%	6.64%	6.24%	-40	-3
Cost of Risk	2.70%	2.77%	2.54%	-23	-16
Efficiency	46.6%	47.9%	46.2%	-161	-36
ROAE	10.5%	10.7%	10.7%	-1	18
ROAA	1.10%	1.12%	1.12%	0	2

STATEMENT OF FINANCIAL CONDITION

Assets

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Assets	Sep. 17	Jun. 18	Sep. 18	Q/Q	Y/Y	Sep. 18	Q/Q	Y/Y	Sep. 18	Q/Q	Y/Y
Cash and Interbank Funds	9,176	8,705	9,416	8.2	2.6	5,215	14.8	13.2	1,413	-0.5	-9.2
Investments	9,749	10,220	10,058	-1.6	3.2	8,163	-1.9	0.4	1,091	-1.6	5.7
Gross Loans Portfolio	77,245	81,642	83,653	2.5	8.3	67,300	2.4	9.0	5,502	1.1	4.2
Loan Loss Reserves	-2,203	-3,356	-3,514	4.7	59.5	-3,069	4.9	61.0	-150	1.8	48.3
Property, Plant and Equipment	834	734	714	-2.8	-14.4	439	-4.2	-20.2	93	-1.7	-4.4
Other Assets	3,757	3,952	4,206	6.4	12.0	3,122	6.8	12.1	204	8.6	21.3
Total Assets	98,558	101,897	104,533	2.6	6.1	81,169	2.7	6.9	8,154	0.6	1.5

Q/Q Performance:

As of September 30th of 2018, assets totaled $104.5 trillion, increasing 2.6% over the previous quarter. Cash and interbank totaled $9.4 trillion, which represents an increase of 8.2% on 2Q18. The investment portfolio closed at $10.1 trillion. Gross loans totaled $83.7 trillion, increasing 2.5% over the quarter. Finally, loan loss reserves closed at $3.5 trillion, growing 4.7% compared to 2Q18.

Y/Y Performance:

Assets increased by 6.1% in the last 12 months. Against 2017, cash and interbank increased 2.6%, and the investment portfolio grew 3.2%. The gross loans annual increase of 8.3% was mainly driven by the commercial and mortgage portfolios. Finally, the growth of loan loss reserves was a result of IFRS 9 implementation since January, when we implemented the expected losses model.

Gross Loans

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Gross Loans	**Sep. 17**	**Jun. 18**	**Sep. 18**	**Q/Q**	**Y/Y**	**Sep. 18**	**Q/Q**	**Y/Y**	**Sep. 18**	**Q/Q**	**Y/Y**
Commercial	39,692	41,454	42,399	2.3	6.8	33,451	2.4	7.9	3,011	0.3	1.9
Consumer	20,266	20,988	21,390	1.9	5.5	17,488	1.5	4.8	1,313	2.5	7.9
Mortgage	17,286	19,200	19,863	3.5	14.9	16,361	3.5	16.6	1,179	1.9	6.5
Total	77,245	81,642	83,653	2.5	8.3	67,300	2.4	9.0	5,502	1.1	4.2

Q/Q Performance:

Gross loans totaled $83.7 trillion, increasing 2.5% over the quarter. The highest quarterly growth on nominal terms was recorded in the commercial portfolio, driven by medium-sized companies in Colombia.

Consumer loans grew in Colombia, mainly in fixed-rate unsecured personal loans and credit cards (4.6% and 2.6% increases).

The growth in Colombia's mortgage loans was led by leasing and residential housing portfolios, which increased 4.0% and 6.6% respectively, in major and intermediate cities.

International subsidiaries reported gross loans for US $5.5 billion, an increase of 1.1% over the previous quarter, mainly due to the growth in consumer and mortgage lending.

Y/Y Performance:

Gross loans increased 8.3% annually, mainly driven by the performance of the commercial and mortgage portfolios.

Commercial loans grew 6.8% on an annual basis, given the demand from the corporate and construction segments in Colombia, which increased 5.3% and 15.1% respectively.

Moreover, performance of the payroll and unsecured personal loans stands out in Colombia's consumer portfolio, with growths of 8.0% and 9.6% respectively. Furthermore, our unsecured personal mobile loan reached a balance of $314 billion as of September 30th.

Finally, mortgage loans grew at an annual rate of 14.9%. Segments with the highest growth were leasing and residential housing in Colombia, with increases of 18.3% and 28.8% respectively.

In Central America, gross loans grew mainly due to Honduras (mostly in commercial and consumer segments), and Costa Rica's dynamics (in mortgage and consumer portfolios).

Asset Quality and Coverage

Asset Quality

NPL	Consolidated 3Q17	Consolidated 2Q18	Consolidated 3Q18	Colombia 3Q17	Colombia 2Q18	Colombia 3Q18	International 3Q17	International 2Q18	International 3Q18
Commercial	2.81%	4.51%	4.73%	3.14%	5.27%	5.53%	1.64%	1.65%	1.72%
Consumer	2.68%	2.60%	2.51%	2.69%	2.54%	2.43%	2.63%	2.87%	2.88%
Mortgage	3.23%	3.81%	3.89%	3.46%	4.11%	4.14%	2.24%	2.44%	2.76%
Subtotal (90)[2]	2.87%	3.85%	3.96%	3.09%	4.28%	4.39%	1.99%	2.11%	2.22%
Mortgage (120)	2.35%	2.92%	2.96%	2.47%	3.11%	3.09%	1.84%	2.05%	2.31%
Total (120)[3]	2.67%	3.64%	3.74%	2.87%	4.04%	4.13%	1.91%	2.03%	2.13%

Q/Q Performance:

Consolidated NPL closed at 3.96%, increasing 11 bps over the quarter. NPL ratio was mostly impacted by the commercial portfolio, which deterioration is explained by some customers in Colombia's transport sector, who exceeded 90 days of delinquency.

On the other hand, consumer loans NPL fell 9 bps compared to the one reported on the second quarter, as a result of the portfolio's stabilization, both in Colombia and Central America, given origination policies adjustments.

The 120 days NPL ratio for mortgage loans, which is a more accurate measure of payment behaviour, closed at 2.96% presenting an increase of 4bps over the quarter.

We continue to adjust our origination and write-offs' policies, aiming to provide stability to the NPL ratio.

Write-offs for the total loan book totaled $523 billion in the quarter.

Write-offs (COP billion)	Quarterly Figures 3Q17	Quarterly Figures 2Q18	Quarterly Figures 3Q18	% Chg. Q/Q	% Chg. Y/Y
Write-offs	430	509	523	2.7	21.7

Y/Y Performance:

Consolidated NPL increased 109 bps over the year, mainly as a result of deteriorations presented in commercial and mortgage loans.

[2] Portfolio > 90 days / Gross portfolio.

[3] Total (120) includes: (Mortgage>120 days + Commercial>90 days + Consumer>90 days) / Gross portfolio

The commercial NPL rose 191 bps annually, as a consequence of specific situations in Colombia's transport and infrastructure industries, as well as other customers in diverse sectors of the economy.

Consumer NPL improved 17 bps compared to the one reported in 3Q17, given the favorable response of credit card, payroll and unsecured personal loans to policy changes implemented in Colombia.

Finally, the 120 days NPL ratio for the mortgage loans increased 61 bps on an annual basis, as a result of the deterioration explained in previous quarters.

Accumulated write-offs for the total loan book totaled $1.42 trillion.

Write-offs	Accumulated Figures		% Chg.
(COP billion)	Sep. 17	Sep. 18	Y/Y
Write-offs	1,067	1,422	33.3

Coverage

	Coverage[4]			Total Reserves Coverage[5]		
Gross Loans	3Q17	2Q18	3Q18	3Q17	2Q18	3Q18
Commercial	102.4%	92.2%	89.8%	140.7%	107.1%	105.1%
Consumer	177.6%	253.2%	270.3%	257.1%	280.2%	278.6%
Mortgage	16.8%	34.3%	33.7%	71.9%	65.9%	65.5%
Total	99.3%	106.7%	106.0%	151.9%	127.6%	124.0%

Q/Q Performance:

Total consolidated coverage closed at 124%, declining over the quarter mainly due to the increase in commercial loans overdue by 90 days. On another hand, the coverage ratio closed at 106%, lower than the one reported at 2Q18.

Y/Y Performance:

Total consolidated coverage fell over the year, given the increase in non-performing commercial and mortgage loans. However, the coverage ratio rose compared to the one presented on 3Q17, as a result of higher loan loss reserves. The latter is explained by the expected-losses model adoption, which also includes macroeconomic effects and leads to a higher level of provisions.

[4] Coverage: Asset Allowances / Portfolio> 90 days

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

Funding Sources

Funding Sources	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
	Sep. 17	Jun. 18	Sep. 18	Q/Q	Y/Y	Sep. 18	Q/Q	Y/Y	Sep. 18	Q/Q	Y/Y
Demand deposits	31,892	32,340	32,638	0.9	2.3	25,650	1.9	5.4	2,351	-3.9	-8.6
Term deposits	29,557	32,754	32,790	0.1	10.9	24,395	-1.7	12.2	2,825	4.4	6.3
Bonds	10,835	10,009	9,920	-0.9	-8.4	9,038	-1.4	-9.7	297	3.8	5.6
Credits with entities	9,027	10,248	11,552	12.7	28.0	7,162	16.5	40.6	1,477	5.5	10.3
Total	81,310	85,351	86,900	1.8	6.9	66,245	1.4	8.3	6,949	1.6	1.4

Q/Q Performance:

Funding sources closed at $86.9 trillion in September 2018. Quarterly growth is mainly explained by higher levels of financing from multilateral entities, international banks and domestic institutions. The operation in Colombia obtained a loan of USD $243 million from the Overseas Private Investment Corporation (OPIC) in August this year. Additionally, the Costa Rican operation issued local senior bonds by USD $35 million in the months of July and September.

Demand deposits reached $32.6 trillion, increasing mainly in Colombia as a result of greater preference among the public to keep their funds liquid, given the uncertainty of the evolution of global economy. Meanwhile, in Central America deposits in savings and checking accounts fell, as some institutional customers decided to withdraw part of their deposits to invest in long-term debt.

Term deposits closed at $32.8 trillion, remaining relatively stable compared to the previous quarter. However, they presented an important increase in the international subsidiaries, led by medium-sized companies in Costa Rica. Bonds closed at $9.9 trillion, declining on balance due to the maturity of senior bonds in Colombia.

Loans to funding ratio closed at 96.3%, rising 61 bps compared to the one presented on 2Q18.

Y/Y Performance:

Funding sources increased 6.9% over the year, mainly due to growth in term deposits and credits with entities.

On one hand, a preference for term deposits has been observed in Colombia, as evidenced in their annual variation. However, during 3Q18, there was a tendency for keeping funds liquid, as a result of uncertainties about the world economy, as noted above.

In Central America, demand deposits fell especially in the corporate segment; and term deposits increased 6.3% as a result of broader customer portfolios in Panama and new deposits taken in El Salvador, mainly from customers in the institutional banking segment.

Furthermore, the reduction in bonds was due to the maturity of a USD $500 million senior bond in January this year, and senior bonds in Colombia. Finally, credits with entities increased due to further liabilities with multilateral entities, as explained earlier. Loans to funding ratio increased 126 bps during the last 12 months.

Equity and Regulatory Capital

Total Regulatory Capital and Risk Weighted Assets (COP Billion)	Consolidated		
	3Q17	2Q18	3Q18
Tier I Capital	6,861	7,855	7,842
Tier II Capital	4,156	3,838	3,662
Total Regulatory Capital	11,016	11,693	11,504
Risk Weighted Assets	84,968	88,518	89,748
Total Capital Ratio	12.52%	12.68%	12.27%
Tier I	7.80%	8.52%	8.37%
Tier II	4.72%	4.16%	3.91%

Q/Q Performance:

Consolidated equity totaled $10.9 trillion, an increase of 2.7% over the quarter, mainly due to higher profits in the period.

Total capital ratio closed at 12.27% in September, 41 bps lower than the level reported in 2Q18. However, this level is 327 bps above the minimum required under Colombia's regulation (9%).

Risk-weighted assets totaled $89.7 trillion, increasing 1.4% over the quarter. Additionally, its density[6] was 85.9%, decreasing 100 bps against the one reported on 2Q18, which closed at 86.9%.

Y/Y Performance:

Consolidated equity showed an annual increase of 4.4% as a result of higher reserves and profits for the period, given the Bank's $1 trillion capitalization approved by the General Shareholders' Meeting, last March 2018. Risk-weighted assets increased 5.6% over the year, and its density fell 35 bps against the one registered on 3Q17 (86.2%).

[6] Risk Weighted Assets' Density: RWAs / Total Assets.

INCOME STATEMENT

Income Statement (COP billion)	**Quarterly Figures**			**% Chg.**		**Accum. Figures**		**% Chg.**
	3Q17	**2Q18**	**3Q18**	**Q/Q**	**Y/Y**	**Sep. 17**	**Sep. 18**	**Y/Y**
Interest Income	2,296	2,350	2,320	-1.2	1.1	7,013	7,075	0.9
Loans	2,157	2,189	2,173	-0.7	0.7	6,511	6,592	1.2
Commercial	894	882	879	-0.3	-1.6	2,736	2,643	-3.4
Consumer	794	780	802	2.9	1.0	2,306	2,378	3.1
Mortgage	470	527	491	-6.8	4.6	1,469	1,571	6.9
Investments	120	137	119	-13.1	-0.3	448	405	-9.6
Other Income	19	23	28	19.8	51.7	54	78	44.0
Financial Expenses	929	872	885	1.5	-4.8	2,925	2,647	-9.5
Demand Deposits	191	147	154	4.8	-19.3	722	459	-36.5
Term Deposits	427	420	419	-0.3	-1.8	1,282	1,254	-2.1
Credits with Entities	93	115	125	8.5	34.0	281	343	21.9
Bonds	178	170	170	-0.1	-4.2	539	535	-0.8
Other Expenses	41	19	16	-13.1	-59.5	101	57	-43.7
Gross Financial Margin	1,366	1,477	1,435	-2.9	5.1	4,089	4,428	8.3
Provision Expenses, net of recoveries	521	566	532	-6.1	2.0	1,464	1,562	6.7
Net Interest Margin	845	911	904	-0.8	6.9	2,625	2,866	9.2
Operating Income	302	336	317	-5.4	5.0	891	970	8.9
Operating Expenses	782	876	830	-5.3	6.1	2,321	2,495	7.5
Personnel Expenses	334	397	345	-13.2	3.2	1,014	1,090	7.5
Operation Expenses	343	359	362	0.8	5.3	990	1,043	5.4
Other Expenses	104	120	123	2.9	18.1	317	362	14.0
Exchange and Derivatives	12	21	42	93.8	243.6	97	89	-7.5
Other Income and Expenses, net	-2	4	1	-81.4	-133.8	-16	-21	36.4
Income before Taxes	375	397	434	9.3	15.6	1,276	1,410	10.4
Income Tax	102	116	145	24.8	41.8	353	385	9.1
Net Income	**273**	**281**	**289**	**2.9**	**5.8**	**923**	**1,024**	**10.9**

Net Income

Quarterly figures

Q/Q Performance:

Net income for the quarter totaled $289 billion, presenting an increase of 2.9% compared to 2Q18, given the reduction in operating expenses, and the contraction in provision expenses due to loan collection strategies.

Given that personnel expenses for the second quarter were unusually high due to the payment of bonuses, and that salary expenses fell during the third quarter, total operating expenses dropped 5.3% against 2Q18.

As a result, annualized quarter ROAE closed at 10.7%.

Y/Y Performance:

Consolidated profits for 3Q18 increased 5.8% year over year, as a result of higher loan income, lower financial expenses and increasing operating income.

Loan income increased mainly driven by the mortgage portfolio in Colombia (related to the growth of this loan book during the year), as well as the commercial and consumer portfolios in Central America, with income increases of 7.8% and 10.5% respectively.

The reduction in financial expenses occurred both in deposits and bonds, as a result of the liabilities' repricing.

Finally, operating income increased due to higher commission and fee income in Central America, related to fees from disbursements, credit and debit cards.

Accumulated figures

Y/Y Performance

Accumulated net profit as of September 2018 reached $1.02 trillion, which represents an increase of 10.9% in annual terms, given higher loan income from mortgage and consumer loans, the reduction in financial expenses, and the increase in operating income. If the effect of the average COP revaluation over the year was excluded, net income would have grown 11.3%.

In Colombia, accumulated profits increased 8.7% over the year, closing at $830 billion. Accumulated profits from the international operation reached US $67.2 million, growing 24.0% compared to the accumulated up to September 2017.

The average return on equity for the last 12 months closed at 12.9%, 141 bps less than the one reported in September 2017.

Gross Financial Margin

Gross Financial Margin	Quarterly Figures			% Chg.		Accum. Figures		% Chg.
(COP billion)	3Q17	2Q18	3Q18	Q/Q	Y/Y	Sep. 17	Sep. 18	Y/Y
Loan Income	2,157	2,189	2,173	-0.7	0.7	6,511	6,592	1.2
Investments and Interbank Income	138	161	147	-8.3	6.7	502	483	-3.8
Financial Income	2,296	2,350	2,320	-1.2	1.1	7,013	7,075	0.9
Financial Expenses	929	872	885	1.5	-4.8	2,925	2,647	-9.5
Gross Financial Margin	1,366	1,477	1,435	-2.9	5.1	4,089	4,428	8.3

Quarterly figures

Q/Q Performance:

The consolidated gross financial margin for the period closed at $1.4 trillion, declining over the quarter mainly due to lower financial income.

This reduction in interest income is related to asset repricing, consistent with the reduction of the reference rate by Colombia's Central Bank.

The mortgage portfolio suffered the greatest impact on its revenues, as a consequence of the UVR (inflation linked unit) adjustment. This situation also impacted investment income.

Financial expenses increased over the quarter, associated with the growth of credits with entities and savings deposits in Colombia. As a result, the gross financial margin of Colombia's operations closed at $1.2 trillion, falling 5.0% against 2Q18.

In the international subsidiaries, gross financial margin reached USD $85.8 million, improving 4.5% compared to 2Q18, due to higher income from the commercial and consumer portfolios.

As the overall result, the annualized-quarter NIM closed at 6.24%, dropping 40 bps when compared to the one reported in 2Q18.

NIM				**Bps Chg.**	
Annualized Quarter	**3Q17**	**2Q18**	**3Q18**	**Q/Q**	**A/A**
Total NIM	6.27%	6.64%	6.24%	-40	-3

Y/Y Performance:

The consolidated gross financial margin for the quarter showed an annual increase of 5.1%, as a result of higher loan income (mainly from the mortgage portfolio) and lower financial expenses. Therefore, the annualized quarter NIM stayed relatively stable, increasing 1 bp against the one registered on the 3Q17.

In Colombia, the gross financial margin grew 2.3%, caused by lower funding cost, as a result of rates' adjustment due to the monetary policy decisions in Colombia. As a consequence, commercial loan income was affected by asset repricing, while mortgage loan income performed better, as this segment grew strongly over the year.

The international operation reported a growth of 21.1% in its gross financial margin as a consequence of higher loan and investment income. Commercial loans presented the greatest income growth, followed by consumer loans.

Accumulated figures

Y/Y Performance:

Accumulated gross financial margin reached $4.4 trillion by September 2018, increasing 8.3% compared to the accumulated figure for September 2017, as a result of lower interest expenses.

The accumulated gross financial margin for the Colombian operation closed at $3.7 trillion, growing 8.1% as a consequence of lower expenses in savings and term deposits, given the interest rates adjustment.

The gross financial margin for the Central American operation totaled USD $250.3 million, an increase of 11.4% due to higher income from commercial, mortgage loans and investments.

As a result, the 12-month NIM closed at 6.53%, increasing 31 bps compared to the one reported in September 2017.

NIM				**Bps Chg.**	
12 Months	**3Q17**	**2Q18**	**3Q18**	**Q/Q**	**Y/Y**
Total NIM	6.22%	6.56%	6.53%	-3	31

Provision Expenses

Provision Expenses	**Quarterly Figures**			**% Chg.**		**Accum. Figures**		**% Chg.**
(COP billion)	**3Q17**	**2Q18**	**3Q18**	**Q/Q**	**Y/Y**	**Sep. 17**	**Sep. 18**	**Y/Y**
Provision for Credit Losses	610	694	618	-10.9	1.3	1,704	1,851	8.7
Loan Recoveries	89	128	85	-33.7	-4.7	234	284	21.4
Net Loan Sales	0	0	2	48148.7	0.0	6	6	-7.2
Provision expenses, net of recoveries	**521**	**566**	**532**	**-6.1**	**2.0**	**1,464**	**1,562**	**6.7**

Quarterly figures

Q/Q Performance:

Provision expenses for 3Q18 closed at $532 billion, contracting 6.1% over the quarter. This fall was driven by the Colombian operation, where they dropped 7.7%, as a result of portfolio recovery actions. Provision expenses in Central America increased 6.0%, due to lower loan recovery.

3Q18 annualized cost of risk closed at 2.54%, 23 bps below the level reported for the second quarter of the year.

Cost of Risk				**Bps Chg.**	
(Annualized quarter)	**3Q17**	**2Q18**	**3Q18**	**Q/Q**	**Y/Y**
Cost of Risk	2.70%	2.77%	2.54%	-23	-16

Y/Y Performance:

Consolidated provision expenses for 3Q18 showed a 2.0% increase, when compared to 3Q17. However, it is important to mention that during 2017, provisions were made under the incurred losses model.

Accumulated figures

Y/Y Performance:

Accumulated provision expenses as of September 2018 reached $1.6 trillion, increasing against the accumulated figure for September 2017. This growth resulted from IFRS 9 adoption, and specific deteriorations in the commercial segment.

As a result of the latter, the 12-month cost of risk closed at 2.48%, 34 bps higher than the ratio for September 2017.

Cost of Risk (12 months)	**3Q17**	**2Q18**	**3Q18**	**Bps Chg.** Q/Q	Y/Y
Cost of Risk	2.13%	2.53%	2.48%	-5	34

Operating Income

Quarterly figures

Q/Q Performance:

Operating income for the quarter totaled $317 billion, registering a reduction against 2Q18 mainly due to lower fee income in Colombia, as a result of higher expenses as collection, exchange and acquisition, and debit and credit card royalties.

Y/Y Performance:

Operating income for 3Q18 increased 5.0% compared to 3Q17, driven by higher fee income in Central America (mainly in El Salvador, Honduras, and Costa Rica) due to higher fees from banking services, credit and debit cards, and mutual fund management.

Accumulated figures

Y/Y Performance:

Accumulated operating income reached $970 billion by the third quarter, increasing 8.9% compared to the previous year as a result of fee income growth (7.1% in Colombia and 16.8% in the international operation), led by higher commissions from banking services, cards, trusts, and mutual funds management.

Operating Expenses

Operating Expenses (COP billion)	Quarterly Figures 3Q17	2Q18	3Q18	% Chg. Q/Q	Y/Y	Accum. Figures Sep. 17	Sep. 18	% Chg. Y/Y
Personnel Expenses	334	397	345	-13.2	3.2	1,014	1,090	7.5
Operational Expenses	343	359	362	0.8	5.3	990	1,043	5.4
Other Expenses	104	120	123	2.9	18.1	317	362	14.0
Total Expenses	**782**	**876**	**830**	**-5.3**	**6.1**	**2,321**	**2,495**	**7.5**

Quarterly figures

Q/Q Performance:

Consolidated operating expenses closed at $830 billion in 3Q18, dropping 5.3% against 2Q18 as a result of lower personnel expenses in Colombia.

Accordingly, the annualized quarter Efficiency ratio for the quarter was 46.2%, improving on 161 bps over the quarter and 36 bps over the year.

Efficiency (Annualized Quarter)	3Q17	2Q18	3Q18	Bps Chg. Q/Q	Y/Y
Efficiency	46.6%	47.9%	46.2%	-161	-36

Y/Y Performance:

Consolidated operating expenses for 3Q18 increased 6.1% over 3Q17, mainly as a result of higher tax expenses and operating costs.

On one hand, Colombia's operating costs increased due to digital transformation expenses; while In Central America, raises were presented in contribution and advertising expenses. Finally, tax expense was impacted by higher industry tax, given the higher volume of loans.

Accumulated figures

Y/Y Performance:

Accumulated operating expenses totaled $2.5 trillion as of September 2018, growing over the same period of 2017, due to higher personnel and operating expenses in Colombia related to leasing and technology fees, and to the payment of a non-recurring personnel bonus last quarter ($30 billion).

The 12-month efficiency ratio closed at 46.5%, falling 9 bps against the quarter and 82 bps over the year.

Efficiency (12 months)	3Q17	2Q18	3Q18	Bps Chg. Q/Q	Y/Y
Efficiency	47.3%	46.6%	46.5%	-9	-82

Taxes

Quarterly figures

Q/Q Performance:

Income tax closed the quarter at $145 billion, increasing over 2Q18 as a result of higher profits and a reduction of the exempted income from social housing (due to the behavior of inflation).

Effective Tax Rate				**Bps Chg.**	
Quarter	**3Q17**	**2Q18**	**3Q18**	**Q/Q**	**Y/Y**
Effective Tax Rate	27%	29%	33%	4	6

The increase observed between 2Q18 and 3Q18 in the annualized effective tax rate, is explained by lower tax-exempt income and nontaxable dividends.

Y/Y Performance:

3Q18 income tax grew against 3Q17, as a consequence of net income growth and IFRS 9 adoption.

Accumulated figures

Y/Y Performance:

Accumulated income tax at September 2018 reached $385 billion, growing 9.1% compared to the accumulated total at September 2017, as a result of higher income before taxes.

Effective Tax Rate			**Bps Chg.**	
Accumulated	**3Q17**	**3Q18**	**Q/Q**	**Y/Y**
Effective Tax Rate	28%	27%	3	-0.34

The effective tax rate for 3Q18 was 27%, mainly due to the increase in net income and implementation of IFRS 9.

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These financial statements have been prepared in conformity to accounting principles generally accepted in Colombia and are presented in nominal terms. The result statement for the closed quarter on September 30th, 2018 shall not be necessarily indicative of results expected for any other period.

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