Banco Davivienda S.A. / PFDAVVNDA

Third Quarter Results 2019 / 3Q19

Bogotá, Colombia. November 19th, 2019. – Banco Davivienda S.A. (BVC: PFDAVVNDA) announces its 2019 Third Quarter consolidated results. Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in Colombian Pesos (COP).

HIGHLIGHTS

- Net profit for the quarter reached $344 billion, increasing 19.1% compared to 3Q18 and decreasing 4.8% compared to 2Q19. Accumulated profit reached $1.1 trillion, recording a 7.3% increase compared to the same period last year. 12-months ROAE closed at 12.7%, 10 bps higher than the previous quarter and 30 bps lower than 3Q18.

- Gross loans totaled $97.0 trillion, growing 6.3% compared to 2Q19 and 15.9% over the year. Annual growth recorded by segment was: 12.2% commercial, 24.5% consumer and 14.6% mortgage.

- 90-days consolidated PDL at the end of September stood at 3.81%, increasing 12 bps compared to the previous quarter and decreasing 15 bps compared to 3Q18.

- Net financial margin for the quarter reached $1 trillion, rising 2.0% against 2Q19 and 12.4% against 3Q18. Accumulated net financial margin closed at $3.1 trillion, growing 9.1% over the year. 12-months Net Interest Margin (NIM) increased 3 bps over the quarter and 2 bps over the year, closing at 6.55%.

- 12-months Cost of Risk stood at 2.45%, 1 bp lower than 2Q19 and 3 bps lower than 3Q18.

- 12-months Cost-to-Income ratio closed at 45.8% in 3Q19, decreasing 20 bps compared to 2Q19 and 70 bps compared to 3Q18.

- At the end of September 2019, Total Capital Adequacy Ratio closed at 11.15% and Tier I ratio at 8.15%.

- As of 3Q19, Davivienda was present in 6 countries, had over 11 million customers, 17,031 employees, 685 branches, and 2,666 ATMs.

ECONOMIC ENVIRONMENT COLOMBIA

High levels of uncertainty around the world marked the third quarter of 2019, meanwhile major economies moderated their growth. As a matter of fact, the *Global Economic Policy Uncertainty Index*[1] (an indicator of society's concern about the economic situation) reached an all-time high due to slow progress in trade war negotiations between China and the United States, uncertainty regarding Brexit and economic activity slowdown in Europe. Preliminary figures show that growth rates for 3Q19 in the United States, Eurozone, and China were 2.0%, 1.1%, and 6.0%, respectively, decreasing when compared to 2Q19 and 3Q18.

During 3Q19, the average price of WTI oil fell to $56.33 USD, a 5.9% decrease against 2Q19 and a 19% decrease against 3Q18. This price drop is still associated with the global economic slowdown, considering that OPEC production shrank, mainly in Saudi Arabia as a result of attacks against oil facilities on September 14th.

Annual GDP growth in 3Q19 was 3.3%, higher than the 3.0% growth registered in 2Q19. Cumulative GDP growth over the first three quarters of 2019 stood at 3.1%, above the figure reported this time last year (2.5%). Household spending and investment showed a positive performance growing 4.9% and 5.5%, respectively.

In Colombia, Central Bank's interest rate remained unchanged at 4.25% given economic growth below potential level and inflation within the target range. At the end of 3Q19, inflation was 3.82%, which is higher than inflation in June 2019 (3.42%) and September 2018 (3.23%), mainly as a result of the 5.52% annual increase of food prices.

The COP to USD exchange rate[2] reached an average of $3,338.9 in 3Q19, topping the average exchange rate recorded in 2Q19 ($3,239.4), and experiencing two successive historical peaks: COP $3,477 on August 29th and COP $3,462 on September 29th. The pressure on the exchange rate is derived from increased uncertainty and international risk aversion, along with lower oil prices (which are also linked to concerns regarding global growth).

Internal tax revenue totaled COP $40.8 trillion in 3Q19, growing 12.6% compared to 3Q18. In September, taxpayers who opted for the simple regime started paying taxes and the deadline to benefit from asset normalization expired. Moreover, revenue associated with tax administration totaled COP $3.5 trillion[3], an 18.1% increase over 2Q19. As a result, in the first nine months of the year 78% of the COP $157 trillion revenue target for 2019 had been accomplished[4].

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[1] The index is calculated as a weighted average (by its share in GDP) of uncertainty indicators at the national level for the 20 most important economies in the world. Each national indicator shows the intensity in the number of quotes from newspaper articles that simultaneously combine words associated with "economy", "uncertainty", as well as terms such as "deficit" and "legislation".

[2] Foreign exchange rate figures refer to the Official Exchange Rate.

[3] This figure excludes revenues raised in connection with the non-existent assets and liabilities normalization benefit established in the tax reform approved at the end of 2018.

[4] Document prepared by the Executive Department for Economic Studies with information available as of November 8, 2019.

ECONOMIC ENVIRONMENT CENTRAL AMERICA

Economic growth slowed down once again in the region during 2Q19. Honduras had the greatest downturn due to poorer performance in the agricultural, manufacturing and trade sectors. As a result, GDP in Honduras expanded 1.85% annually in 2Q19, below the figure reported in 1Q19 (3,54%).

Throughout the region, coffee, African palm and shrimp production were affected by climate factors (lower rainfall and warming), as well as international price drops, which reduce the incentive to harvest crops.

In El Salvador, GDP annual variation in 2Q19 was 1.98%, lower than the 2.11% figure recorded in 1Q19. As a result of less agricultural development projects, there was a lower demand for professional, scientific and technical activities which made this sector the major contributor to the slowdown.

GDP growth in Costa Rica in 2Q19 was 1.44%, below the 1.64% growth in 1Q19, due to reduced dynamism of domestic demand associated with low consumer confidence. In contrast, medical equipment and devices exports performed well.

Annual GDP growth rate in Panama was 2.85%, lower when compared to the 1Q19 growth rate of 3.07%, mainly as a result of the transportation and commerce sectors deceleration, affected by lower revenues from tolls in the Panama Canal and trade contraction in the Colon Free Zone, respectively.

On the other hand, during July and August, economic activity measured using IMAE-IVAE monthly indicators suggested a recovery in Costa Rica and a slowdown in El Salvador and Honduras, against average annual growth recorded in 2Q19.

The average inflation in the region in 3Q19 decreased versus the previous quarter due to a slowdown in El Salvador and Honduras as well as a steeper contraction in Panama. On the other hand, in Costa Rica, inflation increased.

Average annual inflation in 3Q19 was 2.76% in Costa Rica, -0.35% in El Salvador, 4.47% in Honduras and -0.49% in Panama, whereas in 2Q19 annual inflation rate was 2.27%, 0.71%, 4.94% and -0.21%, respectively. In Costa Rica as well as in Honduras inflation remained within the target range set by their Central Banks.

The Monetary Policy Rate (MPR) in Costa Rica went to 3.75% from 4.50% at the end of 3Q19. According to the country's Central Bank, the rate-cutting cycle continued with the aim to boost economic growth, which stands below its potential. Conversely, MPR in Honduras stayed at 5.75%.

The behavior of the Costa Rican Colon and the Honduran Lempira remains uneven. While the Colon appreciated 4.83% throughout the year as of September, the Lempira has depreciated 1.17% over the same period.

Finally, risk ratings did not change in 3Q19 and neither did the outlooks.

MAIN CONSOLIDATED FIGURES:

Statement of Financial Condition

(COP billion)				% Chg.	
Assets	**Sep. 18**	**Jun. 19**	**Sep. 19**	**Q/Q**	**Y/Y**
Cash and Interbank Funds	9,416	10,643	9,643	-9.4	2.4
Investments	10,058	11,864	12,430	4.8	23.6
Gross Loan Portfolio	83,653	91,266	96,988	6.3	15.9
Loan Loss Reserves	-3,514	-4,206	-4,572	8.7	30.1
Property, Plant and Equipment	714	1,839	1,798	-2.2	151.8
Other Assets	4,206	4,809	4,741	-1.4	12.7
Total Assets	104,533	116,214	121,028	4.1	15.8
Liabilities					
Repos and Interbank Liabilities	2,108	2,631	2,234	-15.1	6.0
Demand Deposits	32,638	38,167	38,715	1.4	18.6
Term Deposits	32,790	34,188	35,998	5.3	9.8
Bonds	9,920	11,167	12,754	14.2	28.6
Credits	11,552	12,083	12,993	7.5	12.5
Other Liabilities	4,591	6,124	5,950	-2.8	29.6
Total Liabilities	93,598	104,360	108,644	4.1	16.1
Equity					
Non-controlling Interest	84	96	103	7.7	22.8
Equity	10,851	11,759	12,281	4.4	13.2
Total Equity	10,934	11,854	12,383	4.5	13.3
Total Liabilities and Equity	**104,533**	**116,214**	**121,028**	**4.1**	**15.8**

Income Statement	**Quarterly Figures**			**% Chg.**		**Accumulated Figures**		**% Chg.**
(COP billion)	**3Q18**	**2Q19**	**3Q19**	**Q/Q**	**Y/Y**	**Sep. 18**	**Sep. 19**	**Y/Y**
Interest Income	2,320	2,611	2,717	4.1	17.1	7,075	7,975	12.7
Loans	2,173	2,371	2,494	5.2	14.8	6,592	7,247	9.9
Investments	119	211	195	-7.8	63.5	405	645	59.4
Other Income	28	28	28	-0.4	-0.5	78	83	5.5
Financial Expenses	885	995	1,040	4.5	17.5	2,647	2,985	12.8
Gross Financial Margin	1,435	1,616	1,676	3.8	16.8	4,428	4,990	12.7
Net Provision Expenses	532	620	661	6.5	24.3	1,562	1,862	19.2
Net Interest Margin	904	996	1,016	2.0	12.4	2,866	3,127	9.1
Operating Income	317	356	344	-3.3	8.3	970	1,019	5.1
Operating Expenses	830	892	933	4.6	12.4	2,495	2,692	7.9
Exchange and Derivatives	42	-15	46	100.0	10.3	89	32	-64.8
Other Income and Expenses, net	1	7	-8	-100.0	-100.0	-21	-25	-18.4
Income Before Taxes	434	451	464	2.9	7.1	1,410	1,461	3.6
Income Tax	145	89	120	34.4	-17.0	385	362	-6.2
Net Profit	**289**	**362**	**344**	**-4.8**	**19.1**	**1,024**	**1,099**	**7.3**

MAIN RATIOS

12 Months	3Q18	2Q19	3Q19	Bps. Chg Q/Q	Bps. Chg Y/Y
NIM	6.53%	6.52%	6.55%	3	2
Cost of Risk	2.48%	2.46%	2.45%	-1	-3
Cost-to-Income	46.5%	46.0%	45.8%	-20	-71
ROAE	13.0%	12.6%	12.7%	10	-30
ROAA	1.40%	1.30%	1.30%	0	-10

Annualized Quarter	3Q18	2Q19	3Q19	Bps. Chg Q/Q	Bps. Chg Y/Y
NIM	6.24%	6.46%	6.41%	-5	17
Cost of Risk	2.54%	2.72%	2.72%	0	18
Cost-to-Income	46.2%	45.7%	45.3%	-40	-90
ROAE	10.7%	12.5%	11.4%	-108	65
ROAA	1.12%	1.27%	1.16%	-11	4

STATEMENT OF FINANCIAL CONDITION

Assets

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Assets	Sep. 18	Jun. 19	Sep. 19	Q/Q	Y/Y	Sep. 19	Q/Q	Y/Y	Sep. 19	Q/Q	Y/Y
Cash and Interbank Funds	9,416	10,643	9,643	-9.4	2.4	4,356	-25.5	-16.5	1,520	1.6	7.6
Investments	10,058	11,864	12,430	4.8	23.6	10,033	5.7	22.9	1,071	-7.2	-1.8
Gross Loans Portfolio	83,653	91,266	96,988	6.3	15.9	76,832	5.3	14.2	5,796	1.4	5.3
Loan Loss Reserves	-3,514	-4,206	-4,572	8.7	30.1	-4,011	8.2	30.7	-161	4.1	7.9
Property, Plant and Equipment	714	1,839	1,798	-2.2	151.8	1,307	-5.0	197.6	141	-2.2	52.8
Other Assets	4,206	4,809	4,741	-1.4	12.7	3,521	-2.8	12.8	213	-3.7	4.5
Total Assets	104,533	116,214	121,028	4.1	15.8	92,038	2.7	13.4	8,581	0.1	5.2

Q/Q Performance:

Total assets reached $121.0 trillion at the end of September 2019, increasing 4.1% over the quarter. Assets grew 2.1% excluding the impact of the COP devaluation during the quarter (8.5%).

Cash and interbank funds totaled $9.6 trillion, decreasing 9.4% compared to 2Q19 due to lower cash in foreign banks and central banks. The investment portfolio closed with a $12.4 trillion balance, growing 4.8% mainly due to fixed income securities dynamics in the Colombian operation. Gross loans totaled $97.0 trillion, recording a 6.3% growth over the quarter. Finally, loan-loss reserves as of September stood at $4.6 trillion, increasing 8.7% compared to the previous quarter.

Y/Y Performance:

Assets increased 15.8% over the year. Consolidated assets grew 11.8% excluding the impact of the COP devaluation during the year (17.0%).

Cash and interbank funds rose 2.4% while the investment portfolio grew 23.6%. The increase in investments, concentrated in Colombia's operation, is explained by a higher position in the trading portfolio, as well as greater structural liquidity requirements in line with the balance sheet size. On the other hand, 5,5% of investments growth is due to exchange rate effect.

Gross loans increased 15.9% compared to 3Q18 explained by the higher dynamism in the consumer segment which increased 24.5%. Consolidated loan-loss reserves grew 30.1%, in line with portfolio growth and higher coverage levels for corporate customers from energy, transportation and infrastructure sectors.

Finally, the increase in property, plant, and equipment is due to the rights-of-use recognition following IFRS[5] 16 implementation, effective on January 1st, 2019[6].

Gross Loans

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Gross Loans	Sep. 18	Jun. 19	Sep. 19	Q/Q	Y/Y	Sep. 19	Q/Q	Y/Y	Sep. 19	Q/Q	Y/Y
Commercial	42,399	45,911	47,584	3.6	12.2	36,726	2.1	9.8	3,122	0.5	3.7
Consumer	21,390	23,702	26,638	12.4	24.5	21,715	12.7	24.2	1,416	2.4	7.8
Mortgage	19,863	21,653	22,766	5.1	14.6	18,391	3.8	12.4	1,258	2.6	6.8
Total	83,653	91,266	96,988	6.3	15.9	76,832	5.3	14.2	5,796	1.4	5.3

Q/Q Performance:

Gross loans totaled $97.0 trillion, recording a 6.3% growth compared to 2Q19, mainly driven by the consumer portfolio. Gross loans grew 4.6% excluding the impact of the COP devaluation during the quarter (8.5%).

Commercial portfolio increased 3.6% mainly due to the behavior of SMEs and corporate segments which increased 1.1% and 8.0% in Colombia.

Consumer portfolio grew 12.4% over the quarter mainly as a result of unsecured personal loans and credit cards. In Colombia's operation unsecured personal loans grew 42.2%, while credit cards grew 9.1% compared to the previous quarter. This behavior is explained by a better macroeconomic environment, analytics-based strategies and digital initiatives, that allowed us to identify growth opportunities in adequate risk profiles from current and new customers.

[5] International Financial Reporting Standards.

[6] For more information regarding IFRS 16 implementation, please refer to Davivienda Financial Results Report 1Q19.

Consolidated mortgage portfolio grew 5.1% over the quarter mainly due to residential housing and leasing for housing, which recorded a 7.0% and 4.2% increase, respectively, in Colombia.

In international subsidiaries, gross loans reached USD $5.8 billion increasing 1.4% compared to the previous quarter, mainly as a result of commercial and consumer portfolios. Commercial portfolio growth was led by the corporate segment, meanwhile consumer portfolio growth was driven by payroll loans and credit cards.

Y/Y Performance:

Consolidated gross loans grew 15.9% explained by commercial and consumer portfolios. Consolidated gross loans increased 12.6% excluding the impact of the COP devaluation during the year (17.0%).

Commercial portfolio grew 12.2%, driven by corporate and SMEs segments which increased 13.4% and 12.5%, respectively, in Colombia.

Consumer portfolio grew 24.5% due to the behavior of unsecured personal loans, payroll loans and credit cards. In Colombia's operation, these products increased 72.3%, 9.2% and 16.5%, respectively, leveraged by digital products and analytics-based strategies. At the end of September 2019, 58% of total unsecured personal loan placements were made through digital channels. 16% of payroll loans and 36% of credit cards were also disbursed through these channels. Over the year, Davivienda has gained more than 60 bps of market share in the consumer segment.

Finally, mortgage portfolio increased 14.6% over the year due to leasing for housing and social housing which recorded a 15.3% and 9.3% growth, respectively, in Colombia. In the last twelve months, mortgage loans by $630 billion pesos were securitized.

Gross loans in international subsidiaries grew 5.3% mainly as a result of increased balances in commercial and consumer portfolios. The corporate segment explained the increase in the commercial portfolio, as payroll loans and credit cards did in the consumer portfolio.

Asset Quality and Coverage

	Consolidated			Colombia			International		
PDL	**3Q18**	**2Q19**	**3Q19**	**3Q18**	**2Q19**	**3Q19**	**3Q18**	**2Q19**	**3Q19**
Commercial	4.73%	4.22%	4.57%	5.53%	4.97%	5.50%	1.72%	1.53%	1.42%
Consumer	2.51%	2.35%	2.24%	2.43%	2.23%	2.07%	2.88%	2.85%	2.99%
Mortgage	3.89%	4.02%	4.05%	4.14%	4.21%	4.25%	2.76%	3.14%	3.23%
Total (90)[7]	3.96%	3.68%	3.81%	4.39%	4.06%	4.23%	2.22%	2.19%	2.20%
Mortgage (120)	2.96%	3.17%	3.17%	3.09%	3.26%	3.26%	2.31%	2.77%	2.81%
Total (120)[8]	3.74%	3.48%	3.60%	4.13%	3.83%	4.00%	2.13%	2.11%	2.11%

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

Q/Q Performance:

As of September 30th, 90 days Consolidated PDL stood at 3.81%, increasing 12 bps compared to the previous quarter, mainly as a result of the commercial portfolio.

Commercial portfolio PDL closed at 4.57%, impacted by Colombia's operation where the ratio stood at 5.50%, increasing 53 bps over the quarter. This behavior is explained mainly by the deterioration of some customers in the construction sector, as well as other corporate customers. In Central America, the commercial portfolio PDL as of September was 1.42%, decreasing 10 bps against 2Q19 due to payments received from corporate customers and restructuring agreements with some others.

90 days PDL ratio for the consumer portfolio closed at 2.24%, 10 bps lower than the figure reported in June 2019. In Colombia, the ratio was positively impacted by portfolio growth and better performance of vintages since 2018. In Central America, the consumer portfolio PDL ratio increased 14 bps mainly due to payroll loan deterioration in El Salvador.

90 and 120 days PDL of mortgage loans closed at 4.05% and 3.17% respectively, showing a relatively steady behavior compared to the previous quarter. In the Colombian operation, 90 days PDL increased slightly (explained by the deterioration of restructured debt in previous months), while 120 days PDL remained stable. In Central America, both ratios of mortgage loans rose due to deterioration in Costa Rica and Panama.

Write-offs for the total loan-book reached $480 billion in 3Q19, increasing 2.7% as a result of higher write-offs in the consumer portfolio throughout the quarter.

Write-offs	Quarterly Figures			% Chg.	
(COP billion)	3Q18	2Q19	3Q19	Q/Q	Y/Y
Total write-offs	523	467	480	2.7	-8.3

Y/Y Performance:

90 days consolidated PDL decreased 15 bps over the year as a result of commercial and consumer portfolios' performance.

Commercial portfolio PDL fell 16 bps compared to 3Q18. In Colombia, as well as in Central America, PDL ratios improved due to payments and restructuring agreements.

Consumer portfolio PDL decreased 27 bps compared to 3Q18. The ratio diminished in Colombia as a result of portfolio growth and better performance of unsecured personal loans, credit cards and vehicle loans' vintages since 2018. In Central America, the consumer portfolio PDL increased explained by payroll loan dynamics in El Salvador and personal loans in Costa Rica (the latter impacted by high unemployment rates and low economic growth in this country).

90 and 120 days PDL for mortgage loans rose 16 and 22 bps compared to 3Q18. On one hand, securitizations in Colombia throughout the year (totaling $630 billion) accounted for approximately 10 bps of the ratios' impact. On the other hand, restructuring agreements, made in January and February within the Housing Law framework, deteriorated during the second quarter resulting in a higher balance of non-performing loans in this period, which has maintained until the third quarter. In the case of Central America, 90 and 120 days mortgage PDL increased mainly because of Costa Rica's macroeconomic situation.

Write-offs in 3Q19 decreased 8.3% over the year, mainly due to lower write-offs in consumer and mortgage portfolios.

Accumulated write-offs as of September reached $1.4 trillion, decreasing 1.5% compared to the same period last year, as a result of lower write-offs in Colombia's consumer portfolio.

Write-offs	Accumulated Figures		% Chg.
(COP trillion)	Sep. 18	Sep. 19	Y/Y
Write-offs	1,422	1,400	-1.5

Coverage

	Coverage[9]			Total Reserves Coverage[10]		
Coverage	3Q18	2Q19	3Q19	3Q18	2Q19	3Q19
Commercial	89.80%	122.0%	119.9%	105.1%	136.6%	130.5%
Consumer	270.3%	271.4%	268.3%	278.6%	291.8%	296.8%
Mortgage	33.7%	38.3%	39.2%	65.5%	68.3%	67.7%
Total	106.0%	125.1%	123.8%	124.0%	144.6%	141.7%

Q/Q Performance:

Coverage ratio closed at 123.8%, decreasing 129 bps compared to 2Q19. Total consolidated coverage was 141.7% at the end of September, 289 bps lower than the previous quarter due to an increase in 90 days past due loans, despite higher asset allowances and equity reserves.

Y/Y Performance:

Coverage and Total Reserves Coverage ratios increased 17.7 pps over the year due to increased asset allowances and equity reserves.

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

Funding Sources

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Funding Sources	Sep. 18	Jun. 19	Sep. 19	Q/Q	Y/Y	Sep. 19	Q/Q	Y/Y	Sep. 19	Q/Q	Y/Y
Demand deposits	32,638	38,167	38,715	1.4	18.6	30,188	0.4	17.7	2,452	-2.8	4.3
Term deposits	32,790	34,188	35,998	5.3	9.8	25,783	3.0	5.7	2,938	2.9	4.0
Bonds	9,920	11,167	12,754	14.2	28.6	11,161	12.3	23.5	458	19.7	54.5
Credits	11,552	12,083	12,993	7.5	12.5	8,423	12.3	17.6	1,314	-8.0	-11.0
Total	86,900	95,605	100,460	5.1	15.6	75,555	4.1	14.1	7,162	-0.4	3.1

Q/Q Performance:

As of September 2019, funding sources totaled $100.5 trillion, growing 5.1% over the quarter as a result of increased balances in term deposits and bonds. Funding sources grew 3.0% excluding the impact of COP devaluation over the quarter (8.5%).

Demand and term deposits grew 1.4% and 5.3% over the quarter, reaching balances of $38.7 and $36.0 trillion respectively, aligned with the strategy of optimizing funding costs.

Bonds reached $12.8 trillion, growing 14.2% mainly due to the Colombian operation where nearly $1.3 trillion senior bonds were issued during the quarter, partially offset by the maturity of $222 billion in July. Bonds increased in Central America because of bonds issued in Costa Rica over the quarter which summed up USD $72 million.

Credits closed September with a $13.0 trillion balance, increasing compared to 2Q19 as a result of higher credit volumes with foreign institutions.

Loans to funding ratio stood at 96.5%, increasing 100 bps compared to 2Q19 mainly due to gross loan portfolio growth.

Y/Y Performance:

Funding sources grew 15.6% over the year as a result of higher balances in demand and term deposits, as well as in bonds. Funding sources increased 11.6% excluding the impact of COP devaluation over the year (17.0%).

In Colombia, demand and term deposits grew 17.7% and 5.7% respectively. On the other hand, in Central America, both types of deposits grew at a similar pace (4.3% and 4.0% respectively).

Consolidated bonds balance increased 28.6% over the year, explained by 23.5% increase in Colombia's operation, as a result of local senior bond issuances totaling $2.3 trillion pesos, and 54.5% increase in the international operation due to issuances in Costa Rica and El Salvador, which summed up USD $211.7 million.

Finally, credits grew 12.5% over the year reflecting larger liabilities with foreign financial entities, multilateral organizations and national institutions in Colombia and a lower level of credits in Central America.

Loans to funding ratio increased 20 bps compared to 3Q18.

Equity and Regulatory Capital

Total Regulatory Capital and Risk Weighted Assets	**Consolidated**				
(COP Billion)	**3Q18**	**2Q19**	**3Q19**	**Q/Q**	**Y/Y**
Equity	10,934	11,854	12,383	4.5	13.3
Common Equity Tier I Capital	7,842	8,718	8,824	1.2	12.5
Tier II Capital	3,662	3,486	3,259	-6.5	-11.0
Total Regulatory Capital	11,504	12,205	12,083	-1.0	5.0
Risk Weighted Assets	89,748	97,936	103,098	5.3	14.9
Capital Adequacy Ratio	12.27%	11.91%	11.15%	-76 bps	-112 bps
Tier I	8.37%	8.51%	8.15%	-36 bps	-22 bps
Tier II	3.91%	3.40%	3.01%	-39 bps	-90 bps

Q/Q Performance:

Consolidated equity reached $12.4 trillion at the end of September 2019, growing 4.5% over the quarter due to the resulting profits.

Total capital adequacy ratio stood at 11.15% as of September 2019, 76 bps lower than the figure reported in 2Q19, as a result of lower weight of subordinated debt and higher level of risk-weighted assets, in line with portfolio growth during the quarter. On the other hand, Tier I ratio decreased 36 bps, closing at 8.15%, given risk-weighted assets growth over the quarter. Total capital adequacy ratio is 215 bps above the minimum required by Colombian regulation (9%).

Density[11] of risk-weighted assets closed September 2019 at 85.2%, increasing 90 bps compared to 2Q19 (84.3%).

Y/Y Performance:

Consolidated equity grew 13.3% due to reserves growth (on the occasion of the $782 billion capitalization approved by the Shareholders Meeting).

Total capital adequacy ratio decreased 112 bps compared to 3Q18, explained by lower weight of subordinated debt instruments and risk-weighted assets growth over the year (14.9%). On the other hand, Tier I ratio decreased 22 bps against 3Q18.

Density of risk-weighted assets decreased 67 bps compared to 3Q18 (85.9%).

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

INCOME STATEMENT

Income Statement (COP billion)	Quarterly Figures 3Q18	2Q19	3Q19	% Chg. Q/Q	Y/Y	Accumulated Figures Sep. 18	Sep. 19	% Chg. Y/Y
Interest Income	2,320	2,611	2,717	4.1	17.1	7,075	7,975	12.7
Loan Income	2,173	2,371	2,494	5.2	14.8	6,592	7,247	9.9
Commercial	879	897	1,008	12.4	14.6	2,643	2,860	8.2
Consumer	802	864	908	5.1	13.2	2,378	2,603	9.5
Mortgage	491	611	578	-5.3	17.6	1,571	1,784	13.5
Investment Income	119	211	195	-7.8	63.5	405	645	59.4
Other Income	28	28	28	-0.4	-0.5	78	83	5.5
Financial Expenses	885	995	1,040	4.5	17.5	2,647	2,985	12.8
Demand Deposits	154	200	203	1.3	31.9	459	592	29.0
Term Deposits	419	410	444	8.2	5.9	1,254	1,242	-1.0
Credits	125	146	146	-0.2	16.4	343	433	26.2
Bonds	170	192	200	4.1	17.6	535	578	8.1
Other Expenses	16	46	47	2.8	185.9	57	141	148.3
Gross Financial Margin	1,435	1,616	1,676	3.8	16.8	4,428	4,990	12.7
Net Provision Expenses	532	620	661	6.5	24.3	1,562	1,862	19.2
Net Interest Margin	904	996	1,016	2.0	12.4	2,866	3,127	9.1
Operating Income	317	356	344	-3.3	8.3	970	1,019	5.1
Operating Expenses	830	892	933	4.6	12.4	2,495	2,692	7.9
Personnel Expenses	345	375	374	-0.5	8.3	1,090	1,127	3.5
Operation Expenses	362	351	387	10.2	7.0	1,043	1,061	1.7
Other Expenses	123	166	172	4.2	39.8	362	504	39.3
Exchange and Derivatives	42	-15	46	100.0	10.3	89	32	-64.8
Other Income and Expenses, net	1	7	-8	-100.0	-100.0	-21	-25	-18.4
Income before Taxes	434	451	464	2.9	7.1	1,410	1,461	3.6
Income Tax	145	89	120	34.4	-17.0	385	362	-6.2
Net Profit	**289**	**362**	**344**	**-4.8**	**19.1**	**1,024**	**1,099**	**7.3**

Net Profit

Quarterly figures

Q/Q Performance:

Net profits at the end of September 2019 totaled $344 billion, 4.8% lower than 2Q19. Therefore, Annualized Quarter Return on Average Equity (ROAE) reduced 108 bps closing at 11.4%.

Net profit for Colombia's operation reached approximately $275 billion, decreasing 8.7% compared to the previous quarter, explained by lower investment and operating income, as well as higher operating and provision expenses.

Loan income in Colombia showed a greater dynamism, growing 5.6% mainly because of higher commercial portfolio income compared to 2Q19, when a lower income was recorded as a result of some debt restructuring. In contrast, investment income reduced 11.9% due to lower debt instruments valuation compared to 2Q19. Furthermore, operating expenses grew as a result of advertising and digital transformation projects. Finally, net provision expenses rose 3.9% due to the increased volume of consumer portfolio, as well as higher coverage levels for corporate customers.

Profits of foreign subsidiaries reached approximately USD$20.9 million, increasing 11.3% as a result of higher foreign exchange income (11.1%).

Y/Y Performance:

Consolidated profits in 3Q19 showed an annual growth of 19.1% driven by higher financial and operating income coupled with lower income tax. Accordingly, Annualized Quarter Return on Average Equity (ROAE) was 65 bps higher than the figure reported in 3Q18.

In Colombia's operation, loan and investment income rose 13.6% and 75.2%, respectively. Returns from the investment portfolio increased due to higher valuation compared to the same quarter of the past year. On the other hand, operating income increased 6.4% driven by higher income derived from services. Finally, income tax decreased 17.3% contributing to a 27.5% profit growth against 3Q18.

Net profits in Central America decreased 16.0% as a result of higher financial expenses, provision expenses (mainly in Costa Rica given the economic situation of the country) and higher hedging strategy costs associated to Costa Rica's currency appreciation.

Accumulated figures

Y/Y Performance

Accumulated profits as of September 2019 reached $1.1 trillion, growing 7.3% compared to the same period last year. 12-months ROAE closed at 12.7% decreasing 30 bps in the same period. In the 12 months preceding 3Q18, profits were atypical because of lower provision expenses resulting from IFRS 9 implementation, and non-recurrent income from real estate assets' sales. Therefore, accumulated profits in the 12 months preceding 3Q19 grew less compared to the accumulated profits in 3Q18, explaining the ROAE reduction.

In Colombia's operation accumulated profits grew 10.7%, driven mainly by higher financial and operating income. Among loan income, consumer and mortgage portfolio income recorded growth rates of 7.6% and 12.3% respectively. Investment income increased 63.9% due to public debt appreciation, as well as valuation adjustments of securitization instruments which generated a non recurring income in 1Q19. Lastly, operating income increased 2.9% driven mainly by higher income derived from fees and services.

Accumulated profits in Central America decreased 17.1%, as a result of higher financial expenses from saving accounts coupled with higher provision expenses and higher hedging strategy costs associated to Costa Rica's currency appreciation.

Gross Financial Margin

Gross Financial Margin	Quarterly Figures			% Chg.		Accumulated Figures		% Chg.
(COP billion)	3Q18	2Q19	3Q19	Q/Q	Y/Y	Sep. 18	Sep. 19	Y/Y
Loan Income	2,173	2,371	2,494	5.2	14.8	6,592	7,247	9.9
Investments and Interbank Income	147	240	223	-6.9	51.3	483	728	50.6
Financial Income	2,320	2,611	2,717	4.1	17.1	7,075	7,975	12.7
Financial Expenses	885	995	1,040	4.5	17.5	2,647	2,985	12.8
Gross Financial Margin	1,435	1,616	1,676	3.8	16.8	4,428	4,990	12.7

Quarterly figures

Q/Q Performance:

Consolidated gross financial margin closed at $1.7 trillion at the end of September 2019, increasing 3.8% compared to 2Q19, mainly as a result of higher loan income which rose 5.2%.

In Colombia, loan income grew 5.6% mainly because of higher commercial portfolio income. This behavior was counterbalanced by lower mortgage portfolio income, resulting from cyclical changes in the UVR (inflation-linked unit).

Additionally, investment income in Colombia decreased 11.9% given that the greatest valuation recorded throughout the year was in 2Q19.

Financial expenses in Colombia rose 5.4% due to higher term deposit expenses, in line with their increased balance.

Consequently, gross financial margin for the operation in Colombia grew 3.7% compared to 2Q19.

In Central America, gross financial margin increased 0.9% compared to 2Q19. This behavior is explained by loan income stability and decreasing financial expenses (-1.4%). Commercial portfolio income decreased as well as consumer loan income. However, mortgage loan income grew 4.2%. Within financial expenses, the main reduction stemmed from Costa Rica due to lower money market operations and lower funding costs, following the intervention rate cuts throughout 2019.

Consequently, annualized quarter NIM closed at 6.41%, decreasing 5 bps compared to 2Q19.

NIM				Bps. Chg	
Annualized Quarter	3Q18	2Q19	3Q19	Q/Q	Y/Y
Total NIM	6.24%	6.46%	6.41%	-5	17

Y/Y Performance:

Gross financial margin grew 16.8% compared to 3Q18 driven by loan and investment income growth.

In Colombia, gross financial margin increased 16.3% compared to 3Q18. Higher loan income was explained by the commercial and consumer segments, whose income grew 13.2% and 12.0%, respectively. Moreover, investment income grew 75.2% over the year concentrated in debt instruments as a result of their appreciation. On the other hand, financial expenses increased 15.2% in Colombia due to higher demand deposit expenses, larger money market operations and higher interest expenses associated with IFRS 16 implementation.

In Central America, gross financial margin denominated in USD increased 5.5% compared to 3Q18, as a result of higher loan and investment income. Commercial and consumer portfolio income increased 5.4% and 8.7% respectively, leading loan income growth. Investment income was positively impacted by the appreciation and portfolio recomposition given the exchange rate volatility. Increased financial expenses stemmed from higher expenses of saving deposits and bonds, which increased 34.5% and 51.0%, respectively.

Annualized NIM for the quarter increased 17 bps compared to 3Q18, as a result of higher gross financial margin growth over the past year, compared to performing assets growth throughout the same period.

Accumulated figures

Y/Y Performance

As of September 2019, gross financial margin reached $5.0 trillion, rising 12.7% against the same period last year, due to higher loan and investment income.

Gross financial margin in Colombia's operation nearly totaled $4.1 trillion, growing 11.0% against the accumulated figure for the same period last year. Higher loan income derived from commercial and consumer portfolios. Growth in investment income resulted from public and private debt instruments appreciation throughout 2019, as well as from non-recurring income received in 1Q19 due to valuation adjustments of securitization instruments. On the other hand, financial expenses increased because of higher interest expenses associated with increased balances of demand deposits and IFRS 16 adoption, coupled with higher expenses derived from a larger position in passive money market operations employed to fund the trading portfolio.

Accumulated gross financial margin from Central America's operation closed at USD $270.3 million as of September 2019, increasing 8.0% due to higher commercial and consumer loan income. Investment income grew 31.4% due to debt instruments appreciation throughout the year. In particular, returns on short-term and long-term instruments in Costa Rica, denominated in both Costa Rican Colons and in USD, increased. Finally, accumulated financial expenses increased compared to September 2018 due to higher expenses of demand deposits and bonds.

The 12-month NIM closed at 6.55%, remaining relatively steady compared to the figure reported in September 2018 (2 bps increase).

NIM				Bps. Chg	
12 Months	3Q18	2Q19	3Q19	Q/Q	Y/Y
Total NIM	6.53%	6.52%	6.55%	3	2

Provision Expenses

Provision Expenses (COP billion)	Quarterly Figures 3Q18	2Q19	3Q19	% Chg. Q/Q	Y/Y	Accumulated Figures Sep. 18	Sep. 19	% Chg. Y/Y
Provision for credit losses	618	764	816	6.8	32.0	1,851	2,270	22.6
Loan recoveries	85	137	154	11.8	80.9	284	399	40.5
Net loan sales	2	7	2	-70.6	10.8	6	9	55.8
Net Provision Expenses	**532**	**620**	**661**	**6.5**	**24.3**	**1,562**	**1,862**	**19.2**

Quarterly figures

Q/Q Performance:

Consolidated gross provision expenses reached a balance of $816 billion for the quarter. In Colombia, higher provision expenses were explained by consumer portfolio growth and additional provisions for the infrastructure sector. Provision expenses in Central America increased mainly due to consumer loan performance and were concentrated in Honduras.

Recoveries occurred mainly in the international subsidiaries, where they grew 21.3% over the quarter, primarily in the commercial segment.

As a result, provision expenses (net of recoveries) for 3Q19 reached $661 billion, increasing 6.5% compared to 2Q19.

Annualized Cost of Risk for the quarter stayed at 2.72%, remaining stable over the quarter.

Cost of Risk Annualized Quarter	3Q18	2Q19	3Q19	Bps. Chg Q/Q	Y/Y
CoR	2.54%	2.72%	2.72%	0	18

Y/Y Performance:

Consolidated gross provision expenses grew 32.0% and occurred mainly in Colombia’s commercial portfolio, given the increased coverage for specific corporate cases.

Consolidated recoveries grew compared to 3Q18 primarily due to collections in Colombia’s consumer segment where written-off portfolio sales increased.

As a result from the above, 3Q19 provision expenses (net of recoveries) recorded an annual increase of 24.3%.

Annualized Cost of Risk for the quarter increased 18 bps compared to 3Q18, impacted by increased net provision expenses.

Accumulated Figures

Y/Y Performance:

Provision expenses (net of recoveries) as of September 2019 reached $1.9 trillion, increasing 19.2% compared to the accumulated as of September 2018. Higher provision expenses stemmed from the commercial portfolio, followed by the consumer and mortgage portfolios.

Cost of Risk				**Bps. Chg**	
12 months	**3Q18**	**2Q19**	**3Q19**	**Q/Q**	**Y/Y**
CoR	2.48%	2.46%	2.45%	-1	-3

12-month Cost of Risk[12] closed at 2.45%, down 3 bps compared to the figure reported in September 2018, due to the impact of loan portfolio growth throughout the year.

Operating Income

Quarterly figures

Q/Q Performance:

During the last quarter, net operating income reached nearly $344 billion, decreasing 3.3% compared to the previous quarter due to lower dividend income and higher commission expenses.

Dividend income decreased in comparison to 2Q19, when dividends from associated entities were received mainly in Colombia. On the other hand, commission expenses increased in Colombia's operation because of credit and debit cards royalties, billing and processing fees.

Y/Y Performance:

Consolidated operating income increased 8.3% in 3Q19 compared to 3Q18.

Net commission income increased 4.0% explained by the operation in Colombia, where income increased due to fees related with credit cards and trust businesses, partially compensated by higher expenses from larger volume of debit and credit cards transactions. On the other hand, service income grew 14.2%, mainly derived from transaction and corporate services in Colombia.

Accumulated Figures

Y/Y Performance:

Accumulated operating income in September 2019 increased 5.1% over the year mainly due to higher debit and credit card commissions originated in the Colombian operation, as well as higher service income derived from collection, transfer, connection services, among others. The increase in income

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

was partially offset by higher commission expenses given larger transaction volumes, as well as by exchange rate adjustments.

Operating Expenses

Operating Expenses	Quarterly Figures			% Chg.		Accumulated Figures		% Chg.
(COP billion)	3Q18	2Q19	3Q19	Q/Q	Y/Y	Sep. 18	Sep. 19	Y/Y
Personnel Expenses	345	375	374	-0.5	8.3	1,090	1,127	3.5
Operational Expenses	362	351	387	10.2	7.0	1,043	1,061	1.7
Other Expenses	123	166	172	4.2	39.8	362	504	39.3
Total Expenses	**830**	**892**	**933**	**4.6**	**12.4**	**2,495**	**2,692**	**7.9**

Quarterly figures

Q/Q Performance:

Consolidated operating expenses closed at $933 billion, 4.6% higher compared to 2Q19, mainly as a result of higher expenses related to advertising and digital transformation projects in Colombia and Central America.

Considering the above, and as a result of higher gross financial margin, annualized Cost-to-Income ratio for the quarter was 45.3%, 40 bps lower compared to 2Q19.

Cost-to-Income				Bps. Chg	
Annualized Quarter	3Q18	2Q19	3Q19	Q/Q	Y/Y
Cost-to-Income	46.2%	45.7%	45.3%	-40	-90

Y/Y Performance:

Consolidated operating expenses increased 12.4% compared to 3Q18 explained by higher administrative and depreciation expenses. Administrative expenses grew mainly in Colombia due to digital initiatives and alliances. On the other hand, higher depreciation expenses of property, plant, and equipment for rights-of-use are related to IFRS 16 adoption.

As a result from the above, annualized Cost-to-Income ratio decreased 90 bps compared to the one reported in 3Q18.

Accumulated Figures

Y/Y Performance:

At the end of September 2019, accumulated operating expenses reached $2.7 trillion, growing 7.9% compared to accumulated expenses as of September 2018. This result is explained by higher administrative expenses due to outsourcing fees, IT services and maintenance expenses.

12-month Cost-to-Income ratio closed at 45.8%, 70 bps lower than the figure reported in September 2018, mainly due to the impact of higher gross financial margin over the last 12 months.

Cost-to-Income				**Bps. Chg**	
12 months	**3Q18**	**2Q19**	**3Q19**	**Q/Q**	**Y/Y**
Cost-to-Income	46.5%	46.0%	45.8%	-20	-70

Taxes

Quarterly figures

Tax Rate				**Pps. Chg**	
Quarter	**3Q18**	**2Q19**	**3Q19**	**Q/Q**	**Y/Y**
Effective Tax Rate	33.4%	19.8%	25.9%	6.1	-7.5

Q/Q Performance:

In 3Q19 income tax closed at $120 billion, which generated an increase in the effective tax rate compared to the previous quarter. This was due to the adjustment in the long-term income tax rate applied to loan provisions estimated on the Individual Income Statement under local rules, versus the Consolidated Income Statement under IFRS.

Y/Y Performance:

Income tax decreased 17.0% in 3Q19 compared to 3Q18, as a result of a higher tax discount for Industry and Commerce Tax (ICA) and VAT.

Accumulated Figures

Y/Y Performance:

As of September 2019, income tax stood at $362 billion, decreasing 6.2% compared to the amount accumulated in the same period of the previous year, as a result of the adjustment in the long-term income tax rate applied to loan provisions estimated on the Individual Income Statement under local rules, versus the Consolidated Income Statement under IFRS.

Consequently, the accumulated effective tax rate decreased by 2.6 pps.

Tax Rate			**Pps. Chg**
Accumulated	**Sep. 18**	**Sep. 19**	**Y/Y**
Effective Tax Rate	27.3%	24.7%	-2.6

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