Banco Davivienda S.A. / PFDAVVNDA

Fourth Quarter Results 2018 / 4Q18

Bogotá, Colombia. March 13th, 2019 – Banco Davivienda S.A. (BVC: PFDAVVNDA), announces its consolidated results for the fourth quarter of 2018. Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in Colombian Pesos (COP).

HIGHLIGHTS

- Accumulated net income reached $1.4 trillion as of December 2018, 9.0% higher relative to the previous year. Net income for the quarter closed at $374 billion, which represents an increase of 29.6% when compared to the third quarter of 2018, and a 4.0% rise compared to the fourth quarter of 2017. 12-month ROAE closed at 12.9%, increasing 45 bps over the year.

- Gross loans closed at $87.8 trillion, which represents a 12.3% increase over the previous year, driven by the behavior of the commercial and mortgage portfolios, which grew 12.7% and 16.4% respectively. Compared to the previous quarter, gross loans grew 5.0%.

- 90 days Consolidated PDL closed at 3.93%, increasing 117 bps over the year and decreasing 3 bps quarter on quarter. Main annual increases were registered in the commercial and mortgage loans.

- The accumulated net financial margin reached $3.9 trillion, an increase of 10.2% over the previous year, due to higher loan income, lower financial expenses, and a 5% growth in provision expenses. The 12-month Net Interest Margin (NIM) expanded 10 bps compared to the previous year closing at 6.49%.

- 12 months cost of risk closed at 2.36%, decreasing 16 bps over the year and 12 bps over the quarter.

- Accumulated operating income closed at $1.3 trillion, 6.6% higher than the accumulated total at December of 2017 resulting from higher card fees, trust businesses, mutual funds management and insurance premiums.

- 12-month efficiency closed at 46.5%, improving 13 bps relative to the fourth quarter of 2017 and remaining at the same level than the one of 3Q18.

- Capital Adequacy ratio closed December 2018 at 11.93%, and Tier I ratio at 7.98%.

- As of December 2018, Davivienda was present in six countries, had 10.3 million customers, 17,357 employees, 725 branches, and 2,621 ATMs.

ECONOMIC ENVIRONMENT - COLOMBIA

World economic growth was slightly lower in 2018 than in 2017. This slowdown occurred in both developed and emerging countries. According to World Bank figures, global growth went from 3.1% in 2017 to 3% in 2018. Even though the United States accelerated its growth, the opposite occurred in Japan and Europe.

Regarding emerging countries, China's economic slowdown is noteworthy. Economic growth in Latin America also decelerated to an estimated growth of only 0.6%. This result was especially influenced by the behavior in Argentina, Mexico, and Brazil, countries that grew -2.8%, 2.1%, and 1.2% respectively.

Colombia grew 2.7% in 2018, higher than the region and last years' Colombia's growth. This growth results from better average oil prices, lower interest rates, and private consumption recovery after 2017, which was severely impacted by the increase in Value Added Tax.

Regarding oil prices, despite falling significantly in the last quarter of the year, the average Brent price throughout 2018 was USD 71.7, higher than in 2017, when it reached USD 54.7.

Regarding monetary policy, the average intervention rate of the Central Bank of Colombia went from 6.1% in 2017 to 4.35% in 2018. This greater flexibility was enabled by the fact that economic growth did not surpass potential growth and better behavior of inflation. Regarding the latter, it is worth mentioning that after three years of not meeting the inflation target, 2018 closed with inflation at 3.18%, thereby comfortably meeting the inflation target. This figure is 91 basis points lower than that of 2017 (4.09%), which demonstrates the prices' downward adjustments during the year.

The average exchange rate against the US dollar was $2,955.8 in 2018, very similar to the one observed in 2017 ($2,950.6). Although the Colombian Peso experienced a revaluation between January and April, subsequently the price of the US dollar started to increase, reaching its peak on December 27th ($3,289.6) due to the slump in oil prices and the global US dollar revaluation. This concurred with the devaluation of emerging countries' currencies. The exchange rate closed the year at $3,249.75.

In the fiscal sphere, gross tax revenue amounted to $144.4 trillion in 2018, growing 6.0% relative to 2017. This was derived from efforts undertaken by the National Direction of Taxes and Customs (DIAN) and from the acceleration of economic activity, despite a lower income tax for legal entities, which was approved by Law 1819 of 2016. The National Government accomplished its goal of a 3.1% deficit as a proportion of GDP.

ECONOMIC ENVIRONMENT - CENTRAL AMERICA

At the end of the third quarter of 2018, Costa Rica, Honduras, Panama and El Salvador registered deceleration in the economic activity relative to the same period in 2017. Compared to the second quarter of 2018, Panama registered an acceleration.

The region faced challenges in foreign trade particularly in the second and third quarter of the year related to the conflict in Nicaragua, which hindered the movement of goods from El Salvador and Honduras towards Costa Rica and Panama and vice versa.

Other important events which contributed to deceleration were the lower international prices of agricultural goods, a decreased consumer confidence in Costa Rica due to the uncertainty regarding the tax reform approval, strikes in the public sector of this country, deceleration of the construction industry in Panama and impacts from strikes of workers of this industry between April and May.

Annual inflation decelerated in the region mainly due to lower stresses on prices of agricultural goods, as well as on fuels and other oil products. In particular, inflation in Costa Rica and Honduras closed within the target range of each central bank, closing at 2.0% and 4.2%, respectively. Inflation in El Salvador in 2018 was 0.4% and in Panama, it was 0.2%.

Regarding the exchange rate, the Costa Rican Colon closed the year with a devaluation of 6.9%. On the other hand, the Honduran Lempira closed the year with a devaluation of 3.18%.

As a result of an increase in inflationary expectations in Costa Rica, the Monetary Policy Rate (MPR) was increased from 4.75% to 5.25%. In Honduras, MPR was also increased from 5.50% to 5.75% at the beginning of 2019 due to concerns about inflation in the medium-term, according to the Central Bank of Honduras.

Finally, risk rating for Costa Rica was downgraded by Moody's, Standard & Poor's, and Fitch due to a deterioration in debt metrics, deficit, and the debt burden. This happened even though the rating agencies perceived the approval of the tax reform as positive and as a necessary step towards ensuring debt sustainability in the medium-term and fiscal deficit reduction.

Debt ratings improved for El Salvador amidst a better fiscal outlook and the approval of foreign debt financing that will allow the government to meet obligations and extend the debt maturity profile. On the other hand, even though there were no changes in ratings in Panama, Standard & Poor's improved its debt outlook to positive. Finally, there were no changes in rating or outlook for Honduras.

MAIN CONSOLIDATED FIGURES:

Statement of Financial Condition
(COP billion)

Assets	Dec. 17	Sep. 18	Dec. 18	% Chg. Q/Q	% Chg. Y/Y
Cash and Interbank Funds	9,336	9,416	9,937	5.5	6.4
Investments	11,041	10,058	11,477	14.1	3.9
Gross Loans Portfolio	78,220	83,653	87,822	5.0	12.3
Loan Loss Reserves	-2,310	-3,514	-3,710	5.6	60.6
Property, Plant and Equipment	732	714	801	12.2	9.4
Other Assets	3,752	4,206	4,397	4.6	17.2
Total Assets	100,771	104,533	110,724	5.9	9.9
Liabilities					
Demand Deposits	33,132	32,638	36,086	10.6	8.9
Term Deposits	29,328	32,790	31,118	-5.1	6.1
Bonds	12,009	9,920	10,686	7.7	-11.0
Credits	9,686	11,552	12,495	8.2	29.0
Other Liabilities	5,733	6,698	8,929	33.3	55.8
Total Liabilities	89,887	93,598	99,314	6.1	10.5
Equity					
Non-controlling Interest	85	84	90	7.2	5.8
Equity	10,799	10,851	11,320	4.3	4.8
Total Equity	10,884	10,934	11,410	4.3	4.8
Total Liabilities and Equity	**100,771**	**104,533**	**110,724**	**5.9**	**9.9**

Income Statement	**Quarterly Figures**			**% Chg.**		**Accumulated Figures**		**% Chg.**
(COP billion)	4Q17	3Q18	4Q18	Q/Q	Y/Y	Dec. 17	Dec. 18	Y/Y
Interest Income	2,325	2,320	2,435	4.9	4.7	9,338	9,510	1.8
Loans	2,156	2,173	2,270	4.5	5.3	8,667	8,862	2.2
Investments	145	119	143	19.6	-1.5	593	547	-7.7
Other Income	24	28	22	-20.4	-7.1	78	101	28.3
Financial Expenses	919	885	911	2.9	-0.9	3,844	3,558	-7.4
Gross Financial Margin	1,405	1,435	1,524	6.2	8.4	5,494	5,951	8.3
Provision Expenses	512	532	513	-3.5	0.3	1,975	2,075	5.0
Net Interest Margin	894	904	1,011	11.9	13.1	3,519	3,877	10.2
Operating Income	325	317	326	2.7	0.3	1,216	1,296	6.6
Operating Expenses	870	830	919	10.7	5.7	3,190	3,414	7.0
Exchange and Derivatives	8	42	56	35.0	620.6	104	145	39.3
Other Income and Expenses, net	55	1	-7	-972.0	-113.2	39	-28	-172.5
Income Before Taxes	412	434	467	7.6	13.4	1,688	1,876	11.2
Income Tax	52	145	92	-36.2	78.7	405	478	18.0
Net Profit	**360**	**289**	**374**	**29.6**	**4.0**	**1,283**	**1,399**	**9.0**

MAIN RATIOS

12 months	4Q17	3Q18	4Q18	Bps. Chg Q/Q	Bps. Chg Y/Y
NIM	6.39%	6.53%	6.49%	-4	10
Cost of Risk	2.53%	2.48%	2.36%	-12	-16
Efficiency	46.6%	46.5%	46.5%	0	-13
ROAE	12.5%	13.0%	12.9%	-9	45
ROAA	1.32%	1.37%	1.35%	-2	4

Annualized Quarter	4Q17	3Q18	4Q18	Bps. Chg Q/Q	Bps. Chg Y/Y
NIM	6.33%	6.24%	6.39%	15	6
Cost of Risk	2.62%	2.54%	2.34%	-21	-28
Efficiency	48.5%	46.2%	48.4%	216	-11
ROAE	13.5%	10.7%	13.4%	270	-8
ROAA	1.44%	1.12%	1.39%	27	-5

STATEMENT OF FINANCIAL CONDITION

Assets

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Assets	Dec. 17	Sep. 18	Dec. 18	Q/Q	Y/Y	Dec. 18	Q/Q	Y/Y	Dec. 18	Q/Q	Y/Y
Cash and Interbank Funds	9,336	9,416	9,937	5.5	6.4	5,077	-2.6	2.2	1,495	5.8	2.2
Investments	11,041	10,058	11,477	14.1	3.9	9,301	13.9	1.9	1,084	-0.6	-2.8
Gross Loans Portfolio	78,220	83,653	87,822	5.0	12.3	69,580	3.4	11.4	5,613	2.0	6.4
Loan Loss Reserves	-2,310	-3,514	-3,710	5.6	60.6	-3,242	5.6	62.5	-144	-3.9	36.6
Property, Plant and Equipment	732	714	801	12.2	9.4	422	-4.0	-6.9	117	26.3	24.6
Other Assets	3,752	4,206	4,397	4.6	17.2	3,300	5.7	20.0	191	-6.5	8.3
Total Assets	100,771	104,533	110,724	5.9	9.9	84,437	4.0	8.6	8,357	2.5	4.2

Q/Q Performance:

As of December 31st, 2018, assets totaled $110.7 trillion, increasing 5.9% relative to the previous quarter. Cash and interbank totaled $9.9 billion, increasing 5.5%, and the investment portfolio closed at $11.5 trillion, increasing 14.1%. Gross loans totaled $87.8 trillion, an increase of 5.0% over September 2018. Finally, loan loss reserves closed at $3.7 trillion, rising 5.6% against the previous quarter.

Excluding the effects of the Colombian peso devaluation during the quarter, consolidated assets grew 3.8% over the quarter.

Y/Y Performance:

Assets increased by 9.9% over the year. Cash and interbank rose 6.4% and the investment portfolio increased by 3.9%. Moreover, gross loans had an annual increase of 12.3%, being the mortgage and commercial portfolios the ones with higher growth. Finally, an increase in loan loss reserves stemmed from the IFRS 9 implementation since January 2019, when the expected losses model was implemented.

Excluding the effects of the Colombian peso devaluation during the year, consolidated assets grew 7.8% over the year.

Gross Loans

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Gross Loans	**Dec. 17**	**Sep. 18**	**Dec. 18**	**Q/Q**	**Y/Y**	**Dec. 18**	**Q/Q**	**Y/Y**	**Dec. 18**	**Q/Q**	**Y/Y**
Commercial	39,542	42,399	44,553	5.1	12.7	34,512	3.2	11.9	3,090	2.6	6.1
Consumer	20,670	21,390	22,306	4.3	7.9	17,979	2.8	5.9	1,331	1.4	7.5
Mortgage	18,008	19,863	20,963	5.5	16.4	17,088	4.4	16.7	1,192	1.2	5.8
Total	78,220	83,653	87,822	5.0	12.3	69,580	3.4	11.4	5,613	2.0	6.4

Q/Q Performance:

Gross loans reached $87.8 trillion, increasing 5.0% when compared to the third quarter of 2018. The highest quarterly growth in nominal terms is presented by the commercial portfolio, driven by the behavior in the corporate segment in Colombia. If we exclude the effects of the Colombian peso devaluation during the quarter, consolidated gross loans grow 3.2%.

Consumer loans grew in Colombia, mainly in fixed-rate unsecured personal loans (boosted by the mobile credit behavior) and vehicle segments (which increased 6.2% and 9.0% respectively).

The growth in Colombia's mortgage loans resulted from the behavior of leasing and residential housing portfolios (which grew 4.0% and 7.7%) in main cities.

Gross loans in international subsidiaries totaled USD$5.6 billion, an increase of 2.0% relative to the previous quarter, mainly due to the growth of the commercial portfolio, which had a positive dynamic, specifically in El Salvador and Costa Rica.

Y/Y Performance:

The 12.3% growth in gross loans was mainly driven by the performance of the commercial and mortgage portfolios. The effect of the Colombian peso devaluation during the year, explains 1.8% of the consolidated gross loans growth against 4Q17.

The commercial portfolio grew 12.7% over the year as a result of the demand in corporate and construction segments in Colombia, which grew 13.7% and 14.8% respectively.
Consumer portfolio grew 7.9%. Unsecured personal loans and payroll portfolios stand out (growing 13.6% and 6.5% respectively). Additionally, our unsecured personal mobile loan (100% digital) reached a balance of $545 billion as of December 2018.

Finally, mortgage loans grew 16.4% over the year. Segments with the best behavior were leasing (17.7%) and residential housing (29.8%) in Colombia. The latter boosted by government programs. Growth is also explained by a lower portfolio securitizations dynamic relative to 2017.

Regarding the international subsidiaries, gross loans mainly grew as a result of the behavior of the commercial and consumer segments in Honduras and El Salvador. Within the commercial portfolio, the energy, manufacturing, and commercial sectors presented good results. Credit card and payroll segments stand out in the consumer portfolio.

Asset Quality and Coverage

Asset Quality

	Consolidated			Colombia			International		
PDL	**4Q17**	**3Q18**	**4Q18**	**4Q17**	**3Q18**	**4Q18**	**4Q17**	**3Q18**	**4Q18**
Commercial	2.55%	4.73%	4.62%	2.85%	5.53%	5.48%	1.49%	1.72%	1.66%
Consumer	2.63%	2.51%	2.55%	2.60%	2.43%	2.50%	2.79%	2.88%	2.76%
Mortgage	3.35%	3.89%	3.92%	3.61%	4.14%	4.15%	2.24%	2.76%	2.88%
Total (90)[1]	2.76%	3.96%	3.93%	2.96%	4.39%	4.38%	1.95%	2.22%	2.18%
Mortgage (120)	2.52%	2.96%	3.03%	2.65%	3.09%	3.18%	1.94%	2.31%	2.38%
Total (120)[2]	2.57%	3.74%	3.72%	2.74%	4.13%	4.15%	1.89%	2.13%	2.07%

Q/Q Performance:

90 days Consolidated PDL closed at 3.93%, improving 3 bps relative to the previous quarter.

Commercial portfolio PDL improved 11 bps over the quarter, explained by lower growth in past-due loans in Colombia, compared to the portfolio growth. Loan recovery improvement actions took place in Colombia as well as policy adjustments in the SMEs segment enabling us to perceive positive behaviors. In Central America, improvements were led by better payment behavior, mainly in Panama.

Consumer portfolio PDL increased 4 bps relative to September 2018. The ratio was affected by slower growth in payroll and vehicle portfolios in Colombia, affecting the estimation base. However, adjustments made in policies have allowed us to improve the risk level in new placements.

The 120 days PDL for mortgage loans reached 3.03% at the end of the fourth quarter of 2018, increasing 8 bps over the previous quarter. In Colombia, it kept being impacted by specific segments in some regions of the country. However, adjustment measures have improved the risk profile of recent placements, restraining the deterioration trend. In Central America, customers' payment behavior has been affected by macroeconomic dynamics.

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

We continue to monitor our risk ratios and to adjust our placement policies with the purpose of providing further stability to loan quality.

Write-offs for the total loan book totaled $509 billion in the quarter.

Write-offs (COP billion)	Quarterly Figures 4Q17	3Q18	4Q18	% Chg. Q/Q	Y/Y
Write-offs	469	523	509	-2.7	8.4

Y/Y Performance:

Consolidated PDL increased 117 bps year on year, mainly as a result of deteriorations presented in the commercial and mortgage loans.

Commercial PDL rose 207 bps over the year, because of certain situations with specific customers in the transport, energy, and infrastructure sectors, as well as customer deteriorations in diverse sectors of the Colombian economy, resulting from the lagged effects of slower economic growth in previous years.

Consumer PDL dropped 8 bps relative to the figure reported in the same quarter of the previous year, attributable to a favorable response to policy changes implemented in Colombia. PDL decreased 3 bps in Central America, mainly explained by a positive response to the adjustment of credit policies in Honduras and Costa Rica.

Finally, the 120 days PDL for mortgage loans increased 51 bps over the year. Even though the ratio has increased, deterioration has slowed down as vintages with a higher level of risk have reached a higher level of maturity. Additionally, since this is a long-term portfolio, the effects of adjustments take longer to reflect.

Accumulated write-offs for the total loan book totaled $1.93 trillion.

Write-offs (COP trillion)	Accumulated Figures Dec. 17	Dec. 18	% Chg. Y/Y
Write-offs	1.54	1.93	25.7

Coverage

	Coverage[3] 4Q17	3Q18	4Q18	Total Reserves Coverage[4] 4Q17	3Q18	4Q18
Commercial	121.0%	89.8%	94.8%	156.8%	105.1%	107.7%
Consumer	181.7%	270.3%	254.4%	273.5%	278.6%	270.2%
Mortgage	16.4%	33.7%	37.7%	71.3%	65.5%	67.0%
Total	107.1%	106.0%	107.6%	162.3%	124.0%	124.9%

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

Q/Q Performance:

Total reserves coverage closed the quarter at 124.9%, higher level than the third quarter of 2018, mainly resulting from an increase in asset and equity allowances. On the other hand, the coverage ratio closed at 107.6%, increasing quarter on quarter, due to the higher asset allowances stock.

Y/Y Performance:

Total reserves coverage fell over the year as a result of the increase in non-performing commercial and mortgage loans. However, the coverage ratio increased compared to the figure reported in the fourth quarter of 2017 as a result of higher loan loss reserves attributable to IFRS 9 implementation, where provisions are made under the expected-losses model.

Funding Sources

	Consolidated (COP Billion)					Colombia (COP Billion)			International (USD Million)		
				% Chg.			% Chg.			% Chg.	
Funding Sources	**Dec. 17**	**Sep. 18**	**Dec. 18**	**Q/Q**	**Y/Y**	**Dec. 18**	**Q/Q**	**Y/Y**	**Dec. 18**	**Q/Q**	**Y/Y**
Demand deposits	33,132	32,638	36,086	10.6	8.9	27,726	8.1	9.2	2,573	9.4	-0.9
Term deposits	29,328	32,790	31,118	-5.1	6.1	22,389	-8.2	3.1	2,686	-4.9	5.3
Bonds	12,009	9,920	10,686	7.7	-11.0	9,584	6.0	-13.7	339	14.3	11.5
Credits	9,686	11,552	12,495	8.2	29.0	7,624	6.4	34.6	1,499	1.5	11.2
Total	84,155	86,900	90,385	4.0	7.4	67,323	1.6	5.4	7,097	2.1	4.4

Q/Q Performance:

Funding sources totaled $90.4 trillion as of December of 2018, growing 4.0% over the quarter, mainly due to higher demand deposits and credits with entities.

Demand deposits closed at $36.1 trillion. This increase in Colombia resulted from the focus on low funding cost. In Central America, deposits in checking accounts increased mainly in Costa Rica and El Salvador.

Term deposits closed at $31.1 trillion, decreasing over the quarter in Colombia, as a result of changes in the funding mix; and in Central America as a result of maturity and lower demand for this type of instruments.

On the other hand, bonds closed at $10.7 trillion, increasing in Colombia due to the issuance of senior bonds for $453 billion COP during November, and in Central America, due to the issuance of local currency bonds in Costa Rica for $47 million USD during October.

Credits with entities rose 8.2% as a result of higher financing from multilateral organizations, national entities, and foreign banks, and as an effect of the Colombian peso devaluation during the quarter.

Loans to funding ratio rose 90 bps over the previous quarter.

Y/Y Performance:

Funding sources increased 7.4% relative to the previous year, mainly as a result of growth in deposits and credits with entities.

Colombia showed an increase of 9.2% in demand deposits, mainly in savings accounts (which grew 11.5% over the year).In Central America, demand deposits decreased (mainly in savings accounts in Panama), and term deposits increased by 5.3% as a result of higher demand in the business segment in Panama and Honduras.

Reduction in bonds was due to maturity of a senior bond for $500 million dollars in January 2018, and senior bonds in Colombia. It is important to recall that Global Notes were issued in October of 2017 for an equivalent in COP close to 500 million dollars, in anticipation of the senior bonds maturity.

During the year, credits with entities increased by 29.0% as a result of acquired liabilities with foreign financial entities, multilateral and national entities, and foreign financial institutions.

Loans to funding ratio closed at 97.2%.

Equity and Regulatory Capital

Total Regulatory Capital and Risk Weighted Assets (COP Billion)	**Consolidated**				
	4Q17	**3Q18**	**4Q18**	**Q/Q**	**Y/Y**
Equity	10,884	10,934	11,410	4.3	4.8
Common Equity Tier I Capital	6,814	7,842	7,887	0.6	15.7
Tier II Capital	4,330	3,662	3,908	6.7	-9.8
Total Regulatory Capital	11,144	11,504	11,795	2.5	5.8
Risk Weighted Assets	86,513	89,748	94,724	5.5	9.5
Capital Adecuacy Ratio	12.34%	12.27%	11.93%	-34 bps	-41 bps
Tier I	7.54%	8.37%	7.98%	-39 bps	44 bps
Tier II	4.79%	3.91%	3.95%	5 bps	-84 bps

Q/Q Performance:

Consolidated equity reached $11.4 trillion, increasing 4.3% quarter on quarter, mainly due to higher profits in the period.

Capital adequacy ratio as of December of 2018 was 11.93%, 34 bps less than the figure reported in the third quarter of 2018. Tier I ratio as of December 2018 closed at 7.98%, decreasing 39 bps over the previous quarter. The latter is the result of higher business growth. Capital adequacy ratio is located 293 bps above the minimum required by the Colombian regulation (9%).

Risk-weighted assets reached $94.7 trillion, 5.5% higher than the figure reported in the previous quarter. Additionally, its density[5] reached 85.5%, 3 bps less than the figure reported in the third quarter of 2018 (85.9%).

[5] Risk Weighted Assets´ Density: RWAs/Total Assets

Y/Y Performance:

Consolidated equity grew 4.8% over the year as a result of higher reserves and profits during the year, given the Bank's $1 trillion capitalization approved by the General Shareholders´ Meeting in March 2018.

The capital adequacy ratio decreased by 41 bps less than the figure of December 2017. The Tier I ratio increased 44 bps over against December 2017, closing at 7.98%.

Risk-weighted assets increased 9.5% at the end of the fourth quarter of 2018 relative to the same quarter the previous year, and its density decreased 3 bps relative to the fourth quarter of 2017 (85.9%).

INCOME STATEMENT

Income Statement	**Quarterly Figures**			**% Chg.**		**Accum. Figures**		**% Chg.**
(COP billion)	**4Q17**	**3Q18**	**4Q18**	**Q/Q**	**Y/Y**	**Dec. 17**	**Dec. 18**	**Y/Y**
Interest Income	2,325	2,320	2,435	4.9	4.7	9,338	9,510	1.8
Loans	2,156	2,173	2,270	4.5	5.3	8,667	8,862	2.2
Commercial	898	879	922	4.9	2.7	3,634	3,565	-1.9
Consumer	799	802	823	2.6	3.0	3,105	3,201	3.1
Mortgage	458	491	525	6.8	14.6	1,927	2,096	8.8
Investments	145	119	143	19.6	-1.5	593	547	-7.7
Other Income	24	28	22	-20.4	-7.1	78	101	28.3
Financial Expenses	919	885	911	2.9	-0.9	3,844	3,558	-7.4
Demand Deposits	173	154	169	9.7	-2.2	895	627	-29.9
Term Deposits	429	419	403	-3.8	-6.1	1,711	1,658	-3.1
Credits	102	125	138	9.8	35.4	383	480	25.5
Bonds	189	170	178	4.8	-5.7	728	713	-2.0
Other Expenses	26	16	23	38.9	-13.5	128	80	-37.4
Gross Financial Margin	1,405	1,435	1,524	6.2	8.4	5,494	5,951	8.3
Provision Expenses, net of recoveries	512	532	513	-3.5	0.3	1,975	2,075	5.0
Net Interest Margin	894	904	1,011	11.9	13.1	3,519	3,877	10.2
Operating Income	325	317	326	2.7	0.3	1,216	1,296	6.6
Operating Expenses	870	830	919	10.7	5.7	3,190	3,414	7.0
Personnel Expenses	345	345	350	1.4	1.4	1,359	1,440	6.0
Operation Expenses	393	362	428	18.5	9.0	1,383	1,472	6.4
Other Expenses	132	123	141	14.3	7.0	449	503	11.9
Exchange and Derivatives	8	42	56	35.0	620.6	104	145	39.3
Other Income and Expenses, net	55	1	-7	-972.0	-113.2	39	-28	-172.5
Income before Taxes	412	434	467	7.6	13.4	1,688	1,876	11.2
Income Tax	52	145	92	-36.2	78.7	405	478	18.0
Net Profit	**360**	**289**	**374**	**29.6**	**4.0**	**1,283**	**1,399**	**9.0**

Net Income

Quarterly figures

Q/Q Performance:

Net income for the quarter reached $374 billion, a 29.6% increase relative to the third quarter of 2018, mainly due to higher loan and investments income, lower provision expenses, and lower income tax.

On one hand, higher loan income was led by the commercial and mortgage segments. The increase in investment income was related both to higher portfolio balance and higher appreciations, resulting from inflationary expectations for 2019. The decrease in net provisions expenses was due to portfolio recovery actions. On the other hand, income tax decreased by adjustments in the long term nominal income tax rate.

Annualized quarter Return on Average Equity (ROAE) closed at 13.4% in 4Q18, 270 bps higher than the figure reported in 3Q18 (10.7%).

Y/Y Performance:

Consolidated profits for 4Q18 increased 4.0% against the same period of the previous year, due to higher loan income, stability of financial and provision expenses, and higher exchange and derivatives income.

Loan income increased mainly driven by the mortgage portfolio in Colombia (related to the growth of this loan book during the year).

Stability of financial expenses occurred both in deposits and bonds, resulting from the effect of liabilities' repricing.

Provision expenses slightly increased due to loan collection strategies.

Finally, exchange and derivatives income increase was as a result of the 8.9% devaluation of the Colombian peso against the US dollar, and a profit increase from derivatives' operations.

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Accumulated figures

Y/Y Performance

Accumulated net profit as of December of 2018 reached $1.4 trillion, which represents a 9.0% increase over the year, resulting from lower financial expenses, mainly in savings and term deposits; and higher operating income.

In Colombia, accumulated profit closed at $1.1 trillion, 3.7% over the previous year. Accumulated profit from the international operation reached USD $96 million, growing 36.3% compared to the accumulated up to December 2017.

Return on Average Equity for the last 12 months closed at 12.9% as of December of 2018, 45 bps higher than in 2017.

Gross Financial Margin

Gross Financial Margin (COP billion)	Quarterly Figures 4Q17	3Q18	4Q18	% Chg. Q/Q	Y/Y	Accum. Figures Dec. 17	Dec. 18	% Chg. Y/Y
Loan Income	2,156	2,173	2,270	4.5	5.3	8,667	8,862	2.2
Investments and Interbank Income	169	147	165	11.9	-2.3	671	648	-3.5
Financial Income	2,325	2,320	2,435	4.9	4.7	9,338	9,510	1.8
Financial Expenses	919	885	911	2.9	-0.9	3,844	3,558	-7.4
Gross Financial Margin	1,405	1,435	1,524	6.2	8.4	5,494	5,951	8.3

Quarterly figures

Q/Q Performance:

Consolidated gross financial margin closed at $1.5 trillion in the fourth quarter of 2018, a 6.2% increase against the previous quarter, mainly due to higher loan and investment income and a slight increase in financial expenses, resulting from the low-cost funding strategy, in which the share of term deposits decreased.

Colombia's Gross financial margin increased 5.5% over the quarter, as a result of higher loan portfolio income (mainly in the mortgage and commercial segments) and financial expenses stability. Financial Expense increases in demand deposits and acquired credits in Colombia are related to their higher balance. However, the decrease in term deposits resulted in a significant reduction of expenses, which allowed total financial expenses of the Colombian operation to remain relatively stable (increasing 0.9%).

In Central America, USD gross financial margin grew 2.1%, driven by the commercial and consumer portfolios, due to these portfolios growth dynamics. On the other hand, financial expenses increased in savings deposits and bonds, due to balance increases.

Therefore, the annualized-quarter NIM closed at 6.39%, rising 15 bps over the one reported in 3Q18.

NIM Annualized Quarter	4Q17	3Q18	4Q18	Bps Chg. Q/Q	A/A
Total NIM	6.33%	6.24%	6.39%	15	6

Y/Y Performance:

The consolidated gross financial margin for the quarter grew 8.4% over the same quarter of 2017, as a result of growth in loan portfolio income, and a decrease in financial expenses.

As a result, the annualized quarter NIM rose 6 bps against 4Q17's.

In Colombia, the gross financial margin grew 7.0%. Regarding loan income, commercial portfolio income was affected by asset repricing, while the mortgage portfolio income had a good performance, as this book grew. Likewise, financial expenses were impacted by monetary policy decisions in Colombia, resulting in lower funding costs.

In the international operations, the USD gross financial margin grew 8.9% as a result of higher loan and investment income. The income from the commercial portfolio had the highest growth, followed by the consumer portfolio. Investment income rose mainly in Panama and Costa Rica as a result of appreciation, profits from investments sales and balance increases.

Accumulated figures

Y/Y Performance:

Accumulated gross financial margin as of December of 2018 reached $6.0 trillion, increasing 8.3% over the accumulated figure for December 2017, mainly due to lower interest expenses.

The accumulated gross financial margin for the Colombian operation closed at $5.0 trillion and increased 7.8% as a result of lower interest expenses in savings and term deposits, given the Central Bank's interest rate adjustment.

The gross financial margin for the Central American operation reached USD $338 million, rising 10.7% due to higher income from the commercial and consumer portfolios, and higher investment income.

As a result, the 12-month NIM closed at 6.49%, rising 10 bps against the one reported in December of 2017.

NIM				**Bps Chg.**	
12 Months	**4Q17**	**3Q18**	**4Q18**	**Q/Q**	**Y/Y**
Total NIM	6.39%	6.53%	6.49%	-4	10

Provision Expenses

Provision Expenses	**Quarterly Figures**			**% Chg.**		**Accum. Figures**		**% Chg.**
(COP billion)	**4Q17**	**3Q18**	**4Q18**	**Q/Q**	**Y/Y**	**Dec. 17**	**Dec. 18**	**Y/Y**
Provision for credit losses	608	618	699	13.1	15.0	2,312	2,551	10.3
Loan recoveries	88	85	186	119.5	111.2	322	470	46.0
Net loan sales	8	2	0	-99.8	-100.0	14	6	-60.0
Provision expenses, net of recoveries	**512**	**532**	**513**	**-3.5**	**0.3**	**1,975**	**2,075**	**5.0**

Quarterly figures

Q/Q Performance:

Quarter's provision expenses (net of recoveries) closed at $513 billion, decreasing 3.5% over the third quarter of 2018.

Both in the Colombian and in the USD international operation, quarter provision expenses increased. However, these growths were compensated by recoveries of past due loans, which resulted in a lower net provision expense than the previous quarter.

As a result, annualized Cost of Risk for the quarter closed at 2.34%, 21 bps below the figure reported in 3Q18.

Cost of Risk (Annualized quarter)	**4Q17**	**3Q18**	**4Q18**	**Bps Chg.** Q/Q	Y/Y
Cost of Risk	2.62%	2.54%	2.34%	-21	-28

Y/Y Performance:

Consolidated provision expenses for the 4Q18 increased 0.3% annually. However, it is worth mentioning that during 2017 provisions were made under the incurred losses model and, since 2018, provisions are made according to the expected losses model due to IFRS 9 implementation.

Annualized-quarter Cost of Risk closed 28 bps below the figure reported in 4Q17.

Accumulated figures

Y/Y Performance:

Accumulated gross provision expenses increased by 10.3%, mainly due to the deterioration in different portfolios. However, the effect was offset by positive results in loan recoveries (which grew 46.0%), resulting in a net provision expense of $2.1 trillion, increasing only 5.0% compared to December 2017.

The 12-month cost of risk[6] closed at 2.36%, 16 bps lower than December 2017, positively impacted by the growth of the loan portfolio.

Cost of Risk (12 months)	**4Q17**	**3Q18**	**4Q18**	**Bps Chg.** Q/Q	Y/Y
Cost of Risk	2.53%	2.48%	2.36%	-12	-16

[6] 12-months Cost of Risk: Accumulated provision expenses (12 months) / Gross Loans Balance

Operating Income

Quarterly figures

Q/Q Performance:

Operating income for the quarter reached $326 billion, an increase when compared to the third quarter of 2018, mainly due to higher services fee income and better results of associated entities.

Consolidated fee income slightly increased by 1.1%. The figure fell in Colombia as a result of higher expenses for the use of off-shore networks and loan placement fees, as well as fees paid for cash purchase. In Central America, fee income increased 11.1%, mainly explained by Costa Rica and El Salvador due to the higher card fees, cash remittances, and banking services fees.

Y/Y Performance:

Consolidated operating income in the fourth quarter of 2018 remained stable when compared to the same quarter of the previous year, which is explained by a reduction of 3.9% in Colombia's fee income, compensated by increases of 8.8% of this item in Central America.

Accumulated figures

Y/Y Performance:

Accumulated operating income reached $1.3 trillion in the fourth quarter of 2018, a 6.6% increase relative to the previous year.

In Colombia, operating income increased 4.6% as a result of higher commissions from credit cards, trusts, mutual funds management, and insurances premiums. Additionally, further income derived from diverse services, network usage fees, and higher dividends.

In Central America, operating income grew 14.0% over the accumulated figure of the previous year. Income from commissions and fees increased 15.4%, and income from insurance activities excelled.

Operating Expenses

Operating Expenses	**Quarterly Figures**			**% Chg.**		**Accum. Figures**		**% Chg.**
(COP billion)	**4Q17**	**3Q18**	**4Q18**	**Q/Q**	**Y/Y**	**Dec. 17**	**Dec. 18**	**Y/Y**
Personnel Expenses	345	345	350	1.4	1.4	1,359	1,440	6.0
Operational Expenses	393	362	428	18.5	9.0	1,383	1,472	6.4
Other Expenses	132	123	141	14.3	7.0	449	503	11.9
Total Expenses	**870**	**830**	**919**	**10.7**	**5.7**	**3,190**	**3,414**	**7.0**

Quarterly figures

Q/Q Performance:

Consolidated operating expenses closed at $919 billion, increasing 10.7% over the previous quarter, as a result of higher operating expenses associated to location remodeling, fees for software development and advertising; and a higher tax expense, mainly in the Colombian Tax on Financial Transactions.

Accordingly, the quarter's Efficiency ratio was 48.4%, 216 bps above the figure reported in the third quarter of 2018.

Efficiency (Annualized Quarter)	**4Q17**	**3Q18**	**4Q18**	**Bps Chg.** **Q/Q**	**Y/Y**
Efficiency	48.5%	46.2%	48.4%	216	-11

Y/Y Performance:

Consolidated operating expenses of 4Q18 increased 5.7% when compared to the same period in the previous year, mainly as a result of higher operating and tax expenses.

On one hand, Colombia´s operating expenses increased due to higher costs in adequation and installation, rental, information technology platforms and advertising services. Meanwhile in Central America, the increase was due to expenses in advertising and maintenance.

Increase in taxes is mainly explained by the tax on financial transactions and industry and commerce tax in Colombia.

The annualized-quarter efficiency ratio closed 11 bps below the figure reported in the fourth quarter of 2017, positively affected by the behavior of non-financial income.

Accumulated figures

Y/Y Performance:

Accumulated operating expenses closed at $3.4 trillion as of December of 2018, growing 7.0% over the same period of 2017, due to higher operating and personnel expenses.

Within the operating expenses, rental expenses (related to the real estate assets' sale in 2017), and expenses associated to digital transformation (such as subscription to cloud services and fees for software development) stand out.

The increase in personnel expenses is mainly explained by the payment of an extraordinary bonus in Colombia amounting $30 billion in the second quarter of 2018, and by salary increases. When excluding the effect of the bonus, operating expenses would have grown 6.1% over the accumulated up to December of 2017.

The 12-month efficiency ratio closed at 46.5%, remaining stable over the quarter and improving 13 bps when compared to the figure reported in 4Q17. The non-recurring personnel bonus impacted the 12 month efficiency ratio in 41 bps. This means, that if we exclude this payment, the ratio would have closed at 46.1%.

Efficiency (12 months)	4Q17	3Q18	4Q18	Bps Chg. Q/Q	Y/Y
Efficiency	46.6%	46.5%	46.5%	0	-13

Taxes

Quarterly figures

Q/Q Performance:

Income tax was $92 billion in the 4Q18, decreasing over the previous quarter as a result of the change in long term income tax (from 33% to 30%), according to the Financing Law (Tax Reform).

Effective Tax Rate Quarter	4Q17	3Q18	4Q18	PP Chg. (%) Q/Q	Y/Y
Effective Tax Rate	13%	33%	20%	-13,6	7,2

Y/Y Performance:

Income tax in the fourth quarter increased over the same period of the previous year. That is explained by the fact that in 2017, exempted income from the real estate assets sale and from the merge between the Colombian Stock Exchange and the Securities Centralized Deposit of Colombia were recognized.

Accumulated figures

Y/Y Performance:

Accumulated income tax reached $478 billion as of December of 2018, an increase of 18.0% over the accumulated up to December of 2017, as a result of higher income before taxes. As a result, the effective tax rate was 25%.

Effective Tax Rate Accumulated	Dec. 17	Dec. 18	PP Chg.(%) Y/Y
Effective Tax Rate	24%	25%	1,5

The examples mentioned should not be taken as a guarantee for future projections, and it is not to be assumed or obligated, explicitly or implicitly in relation to previsions expected for the future.

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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 December 31st, 2018 shall not be necessarily indicative of results expected for any other period.

Investor Relations and Capital Management
Phone: (57-1) 220-3495
ir@davivienda.com
www.davivienda.com
Bogotá, Colombia