Banco Davivienda S.A. / PFDAVVNDA

First Quarter Results 2018 / 1Q18

Bogota, Colombia. June 7th, 2018 - Banco Davivienda S.A. (BVC: PFDAVVNDA), announces today its unaudited results for the first quarter of 2018. The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) in Colombian Pesos (COP).

HIGHLIGHTS

- At the end of 1Q18 Davivienda reported a consolidated net income of $454.4 billion, which represents an increase of 26.2% compared to the fourth quarter of 2017 (4Q17) and 39.4% compared to the first quarter of 2017 (1Q17). The 12-month ROAE closed at 13.5%, while the annualized quarter ratio closed at 17.1%.

- Loan gross portfolio at the end of 1Q18 reached $78.4 trillion, 6.7% more than the previous year, mainly due to the growth of the mortgage and consumer portfolio, which grew 13.9% and 6.1% respectively, compared to 1Q17.

- Gross financial margin of 1Q17 closed at $1.5 trillion, presenting an increase of 7.8% compared to 4Q17 and of 12.0% compared to 1Q17. The Net Interest Margin (NIM) ratio closed the quarter at 6.51%, which represents an expansion of 13 bps compared to 4Q17 and 25 bps compared to 1Q17.

- Quarterly loan income expanded 3.5% against 4Q17, mainly due to the increase in income from the mortgage portfolio, which grew 20.7%. Compared to 1Q17, loan income grew 2.3%, explained by higher income volumes in mortgage and consumer portfolios.

- Financial expenses of 1Q18 closed at $889.9 billion, 3.2% less than in 4Q17 and 12.0% less than in 1Q17.

- Operational expenses for 1Q18 closed at $789.1 billion, 9.3% lower than in 4Q17 and 6.7% higher than in 1Q17. The 12-month efficiency ratio closed at 46.25%, showing an improvement compared to the 4Q17 ratio which closed at 46.60%.

- Total solvency ratio at the end of March 2018 closed at 13.08%, 76 basis points higher than that reported in the same period of the previous year. Tier I reached 8.96%, 84 basis points higher than the one of December 2017.

- At the end of March 2018, Davivienda has a presence in 6 countries, 10.1 million customers, 17,351 employees, 748 offices and 2,512 ATMs.

ECONOMIC ENVIRONMENT - COLOMBIA

The world economy registered a moderate slowdown in the first quarter of the year. On one hand, the US economy went from growing 2.89% at the end of 2017 to 2.32% in the first quarter of 2018. The euro zone, on the other hand, went from growing from 2.7% to 2.4% in the same period.

The growth in the first part of the year was affected, to a large extent, by climatic factors. It is expected, at least in the case of the United States, that they resume their upward trend in the coming months.

The price of oil accelerated its recovery in the first months of the year. The WTI reference went from USD $55 in the last quarter of 2017 to USD $63 in the first quarter of 2018. The rebound in the price of this commodity was associated with both supply and demand factors.

On the demand side we can highlight the climatic factors to which we have alluded and, on the supply side, the fall in production of Venezuela and Brazil. Two additional factors that contributed to this increase were the depreciation of the dollar worldwide, which tends to increase the value of dollar-denominated commodities, and geopolitical factors, particularly the departure of the Secretary of State Rex Tillerson which aroused concern about the position of the United States against the possibility of resuming economic sanctions against Iran.

The rebound in oil prices had important consequences on the price of the US dollar in Colombia, which registered a significant appreciation. The average exchange rate against the US currency in the first quarter reached $2,860, 4.2% lower than in the last quarter of the previous year. The increase in the oil price also had an impact on the levels of country risk, which fell compared to those reached on the previous quarter.

Colombian economy showed a moderate recovery in its growth in the first quarter of the year. According to the DANE (National Administrative Department of Statistics), the GDP went from growing 1.7% at the end of 2017 to 2.2% in the first three months of the year. The growth was led by the sector of financial and insurance activities, which recorded a growth of 6.1%, followed by public administration and defense with 5.9%.

The construction sector had a sharp fall of 8.2% and mine exploitation of 3.6%. The manufacturing industry had a fall of 1.2% (less strong than the decrease of 1.8% obtained in the last quarter of 2017). The results of the Davivienda PMI for March and April of this year allow us to conclude that this fall was reversed in recent months.

In terms of inflation, the results obtained in the first quarter were very good, surpassing the expectations of the economic authorities and analysts. The inflation that at the end of last year reached 4.09%, decreased to 3.14% at the end of March. Lower food prices, together with the appreciation of the USD contributed to explain this situation.

ECONOMIC ENVIRONMENT - CENTRAL AMERICA

In 2017, Honduras and Panama registered an acceleration of economic growth measured through GDP. The annual increase of Panama's GDP was 5.36% above the 4.99% recorded in 2016. Likewise, Honduras's was 4.79%, higher than the 3.75% reported in 2016.

The Panamanian economy was driven by higher revenues from tolls from the Panama Canal and the dynamism of the construction sector, due to increases in investment in public and private works. In Honduras, the momentum can be attributed both to the agricultural and the financial intermediation sectors; good results in coffee and sugar crops were crucial for the agricultural sector.

On the other hand, there were slowdowns of economic growth in 2017 in Costa Rica and El Salvador. In Costa Rica, the GDP increase was 3.19% lower than the 4.16% of 2016. This slowdown was characterized by lower contributions to growth by the sectors of professional, scientific, technical and administrative activities and by the manufacturing industry. El Salvador recorded a growth of 2.32% in 2017, lower than the 2.58% of 2016. The slowdown was due to lower contributions to growth by the agricultural and utilities sectors.

When measuring economic activity through the IMAE-IVAE[1] economic indicators for Costa Rica, El Salvador and Honduras in the first two months of the year, there are slowdowns compared to the annual growth reported in the same months of 2017.

Annual inflation in Costa Rica, El Salvador and Honduras closed the first quarter of 2018 at 2.61%, 0.91% and 4.35% respectively. These figures are higher in each case than the annual inflation recorded at the end of the first quarter of 2017. The increases are mainly due to higher contributions from the food and non-alcoholic beverages sectors, although higher fuel prices have played an important role in some countries. For Costa Rica and Honduras, inflation remains within the target range established by their central banks. Panama's annual inflation, on the other hand, is lower in March 2018 (0.58%) than in March 2017 (1.46%), due to the negative contribution of food and non-alcoholic beverages.

Regarding monetary policy, the Central Bank of Costa Rica increased its reference rate from 4.75% to 5.0% in January 2018 and kept it stable for the rest of the quarter. The Central Bank of Honduras has kept its monetary policy rate stable at 5.50% since its increase in June 2016.

Regarding currencies of the region, the Costa Rican colon registered an appreciation of 0.67% compared to the one of the end of 2017 and the Honduran lempira a depreciation of 0.22%. The average prices for the first quarter of 2018 were 569.29 for the colon and 23.76 for the lempira.

The fiscal deficit as a percentage of the GDP closed 2017 with an increase for Costa Rica (to 6.2% from 5.3%) and with decreases for El Salvador, Honduras and Panama (to 2.5% from 3.1%; 2.7% from 2.8%, and 3.1% from 4.0%, respectively).

Finally, in the first quarter of 2018 there was an improvement in the risk rating of El Salvador's debt by Moody's, going from "Caa1" to "B3". Fitch Ratings gave a negative outlook to the rating of Costa Rica that is located in "BB". The ratings and outlooks remained stable for Honduras and Panama.

[1] Monthly Index of Economic Activity – Volume Index of Economic Activity

MAIN FIGURES: BALANCE SHEET AND INCOME STATEMENT

Balance Sheet (COP billion) Assets	Mar. 17	Dec. 17	Mar. 18	% Chg. Q/Q	Y/Y
Cash and interbank	9,311	9,336	8,412	(9.9)	(9.7)
Investments	9,388	11,041	10,440	(5.4)	11.2
Gross Loan Portfolio	73,438	78,220	78,381	0.2	6.7
Loan Loss Reserves	(1,888)	(2,310)	(3,176)	37.5	68.2
Property, Plant and Equipment	835	732	725	(1.0)	(13.2)
Other assets	4,823	4,484	4,810	7.3	(0.3)
Total Assets	95,073	100,771	98,866	(1.9)	4.0
Liabilities					
Deposits	61,604	63,311	64,318	1.6	4.4
Bonds	9,683	12,009	9,844	(18.0)	1.7
Credits with Entities	8,280	9,686	9,835	1.5	18.8
Other Liabilities	5,660	4,882	4,566	(6.5)	(19.3)
Total Liabilities	85,227	89,887	88,562	(1.5)	3.9
Equity					
Non-controlling Interest	83	85	80	(5.7)	(3.4)
Equity	9,762	10,799	10,223	(5.3)	4.7
Total Equity	9,845	10,884	10,303	(5.3)	4.7
Total Liabilities and Equity	**95,073**	**100,771**	**98,866**	**(1.9)**	**4.0**

P&L Statement (COP billion)	1Q17	4Q17	1Q18	% Chg. Q/Q	Y/Y
Interest income	2,364	2,325	2,405	3.5	1.7
Loans	2,179	2,156	2,230	3.5	2.3
Investments	168	145	148	2.3	(11.9)
Other income	16	24	27	10.8	62.2
Financial expenses	1,011	919	890	(3.2)	(12.0)
Gross financial margin	1,353	1,405	1,515	7.8	12.0
Provision expenses	486	512	464	(9.4)	(4.5)
Net interest margin	867	894	1,051	17.6	21.2
Operating income	289	325	317	(2.5)	9.8
Operating expenses	740	870	789	(9.3)	6.7
Exchange and derivatives	26	8	26	239.9	3.0
Other income and expenses, net	1	55	-26	(100.0)	(100.0)
Income before taxes	443	412	579	40.7	30.8
Income tax	117	52	125	141.8	6.9
Net income	**326**	**360**	**454**	**26.2**	**39.4**

MAIN RATIOS

Main Ratios (12 months)	1Q17	4Q17	1Q18	Bps. Chg Q/Q	Bps. Chg Y/Y
Net Interest Margin - NIM	6.26%	6.38%	6.51%	13	25
Cost of Risk	1.74%	2.53%	2.49%	(3)	76
Efficiency	46.4%	46.6%	46.2%	(35)	(11)
ROAE	17.0%	12.4%	13.5%	109	(352)
ROAA	1.77%	1.30%	1.42%	12	(35)

Main Ratios (Annualized quarter)	1Q17	4Q17	1Q18	Bps. Chg Q/Q	Bps. Chg Y/Y
Net Interest Margin - NIM	6.55%	6.33%	6.66%	32	11
Cost of Risk	2.65%	2.62%	2.37%	(25)	(28)
Efficiency	44.5%	48.5%	43.3%	(520)	(117)
ROAE	13.1%	13.5%	17.2%	367	404
ROAA	1.38%	1.44%	1.82%	38	44

MAIN ACCOUNTING CHANGES 1Q18

As of January 1st 2018, the IFRS 9 - 2014 version was implemented in Colombia changing the rules applied in terms of classification and measurement of financial instruments, asset impairment, and hedge accounting.

The main impact came from the measurement of financial assets impairment, where we migrated from an incurred losses model to an expected losses model. This change generated an initial impact of $768 billion on January 1st, which was recognized as a higher value of loan loss reserves in the asset side and a lower value in the Other Comprehensive Income (OCI) account of the equity. It is important to note that this OCI account, is where we recognize the accumulated difference between the model applied under international accounting standards and the reference model applied in Colombia.

As for the classification of financial instruments, with the new alternative to classify investments at fair value with changes in the OCI, we reallocated $3.8 trillion, 37% of the portfolio, from investments at fair value with changes in the P&L to fair value with changes in the OCI.

No particular impacts were identified regarding the new hedge accounting rules.

BALANCE SHEET

Assets

Balance Sheet (COP billion)	Consolidated					Colombia			International USD		
				% Chg.			% Chg.			% Chg.	
Assets	**Mar. 17**	**Dec. 17**	**Mar. 18**	**Q/Q**	**Y/Y**	**Mar. 18**	**Q/Q**	**Y/Y**	**Mar. 18**	**Q/Q**	**Y/Y**
Cash and interbank	9,311	9,336	8,412	(9.9)	(9.7)	4,201	(15.5)	(15.1)	1,515	3.5	0.2
Investments	9,388	11,041	10,440	(5.4)	11.2	8,888	(2.6)	12.0	1,043	(6.5)	7.3
Gross Loan Portfolio	73,438	78,220	78,381	0.2	6.7	63,402	1.5	8.5	5,387	2.1	3.5
Loan Loss Reserves	(1,888)	(2,310)	(3,176)	37.5	68.2	(2,764)	38.5	73.8	(148)	40.9	43.8
Property, Plant and Equipment	835	732	725	(1.0)	(13.2)	459	1.3	(17.5)	96	2.2	(1.0)
Other assets	4,823	4,484	4,810	7.3	(0.3)	3,551	10.9	(1.9)	281	4.1	11.4
Total Assets	95,073	100,771	98,866	(1.9)	4.0	77,277	(0.6)	5.4	8,078	0.7	3.0

Performance Q/Q:

As of March 31st, 2018 consolidated assets totaled $98.9 trillion, decreasing 1.9% compared to 4Q17, mainly due to the drop in cash and interbank of 9.9%. When excluding the effect of the exchange rate, the fall in assets is -0.3%.

Cash and interbank totaled $8.4 trillion, 9.9% lower than 4Q17. The decrease was concentrated in Colombia, responding in the first place to the implementation of foreign currency trading strategies given the expectation of the exchange rate revaluation; and secondly, to the reduction of liquidity surplus due to the growth of the loan portfolio. In the international subsidiaries, the cash totaled USD $1.5 billion, increasing 3.5% compared to the previous quarter, mainly due to higher liquidity operations in Costa Rica and to increases in foreign banks' cash in El Salvador.

The investment portfolio closed with a balance of $10.4 trillion, presenting a decrease of 5.4% concentrated in international subsidiaries (6.5%) due to a decrease in overnight instruments in Costa Rica and lower public debt securities issued by the Central Bank in Honduras. On the other hand, the Colombian operation fell 2.6%, explained by the reduction of surplus liquidity of the Bank.

The gross portfolio for the period totaled $78.4 trillion, remaining stable during the quarter. In Colombia, the portfolio increased 0.3%, given the behavior of the mortgage and commercial portfolios, which showed a growth of 3.3% and 1.5% respectively.

Loan Loss Reserves reached $3.2 trillion pesos, 37.5% more than the previous quarter, as a result of higher risk levels and the increase in provisions due to IFRS 9 implementation.

Performance Y/Y:

The asset showed an increase of 4.0% compared to March 2017, mainly due to the growth of the net portfolio and investments, which presented increases of 5.1% and 11.2%, respectively. During 2017, the Colombian peso revaluated 3.6%, which resulted in a 0.9% decrease on the assets.

The cash and interbank present a drop of 9.7%, mainly due to the operation in Colombia, where cash reports a reduction of 15.5% as a consequence of the legal reserve strategy, while the monetary market operations do not report significant variations. In international subsidiaries, the cash and interbank remained stable compared to the previous year.

The consolidated investment portfolio presented an increase of 11.2%, mainly due to the operation in Colombia, which grew 12.0%. This increase occurred as a result of an expected cut of the interest rates by the issuer and the increase in the liquidity reserve, as a consequence of the natural growth of the balance sheet.

On the other hand, gross loans show an increase of 6.7%, given the performance of the mortgage and commercial portfolios, which show a 13.9% and 4.0% growth respectively.

Finally, loan loss reserves increase, 68.2% compared to the previous year.

Gross Loans

Balance sheet (COP billion)	Consolidated					Colombia			International USD		
				% Chg.			% Chg.			% Chg.	
Gross Loans	**Mar. 17**	**Dec. 17**	**Mar. 18**	**Q/Q**	**Y/Y**	**Mar. 18**	**Q/Q**	**Y/Y**	**Mar. 18**	**Q/Q**	**Y/Y**
Commercial	38,079	39,542	39,610	0.2	4.0	31,314	1.5	6.6	2,984	2.5	(1.0)
Consumer	19,289	20,670	20,461	(1.0)	6.1	16,966	(0.0)	6.2	1,257	1.5	9.4
Mortgage	16,069	18,008	18,309	1.7	13.9	15,123	3.3	15.8	1,146	1.6	9.9
Total	73,438	78,220	78,381	0.2	6.7	63,402	1.5	8.5	5,387	2.1	3.5

Performance Q/Q:

Gross loans closed at $78.4 trillion, remaining stable compared to 4Q17, given the effect of the COP appreciation during the quarter. If we exclude the quarterly COP revaluation, the gross portfolio shows a growth of 1.6%.

The segment with the highest quarterly growth is mortgage with 1.7%, mostly because of the behavior in Colombia, where it grew 3.3%, given the good performance of the leasing segment.

The commercial portfolio increased 0.17%, primarily in Colombia, where it grew by 1.5% as a result of the dynamics in the construction and corporate segments.

On the other hand, the consumer portfolio showed a decrease of 1.0% most of all as a result of the effect of the exchange rate. In Colombia, this portfolio remains stable, while in the international operation it shows a 1.5% growth in US dollars.

Performance Y/Y:

The annual growth of the gross portfolio was 6.7%, mainly due to the performance of the mortgage and consumer portfolios, which grew 13.9% and 6.1% respectively. If we exclude the annual revaluation of the peso, the gross portfolio shows a 7.5% growth.

The mortgage portfolio in Colombia showed an annual growth of 15.8%, first and foremost in the leasing and social interest housing segments (growth of 20% and 10%).
Construction and SMEs segments underscore in the commercial portfolio, with a growth of 20% and 13% respectively.

The consumer portfolio showed a 6.2% growth in Colombia, where significant growth occurred in credit card, payroll and unsecured personal loans (with increases of 6%, 7% and 10%).

In the international subsidiaries, the gross portfolio totaled USD $5.4 billion, mainly due to the mortgage and consumer portfolios (with increases of 9.9% and 9.4% compared to the previous year). This behavior is mainly due to the dynamics presented in Costa Rica and El Salvador.

Asset Quality and Coverage

	Consolidated			Colombia			International USD		
Portfolio Quality	**1Q17**	**4Q17**	**1Q18**	**1Q17**	**4Q17**	**1Q18**	**1Q17**	**4Q17**	**1Q18**
Commercial	1.58%	2.55%	3.34%	1.70%	2.85%	3.83%	1.18%	1.49%	1.52%
Consumer	2.61%	2.63%	2.76%	2.66%	2.60%	2.75%	2.37%	2.79%	2.83%
Mortgage	2.55%	3.35%	3.59%	2.69%	3.61%	3.81%	1.95%	2.24%	2.56%
Subtotal (90)[2]	2.07%	2.76%	3.25%	2.19%	2.96%	3.53%	1.60%	1.95%	2.05%
Mortgage (120)	1.93%	2.52%	2.70%	1.98%	2.65%	2.81%	1.72%	1.94%	2.18%
Total (120)[3]	1.93%	2.57%	3.04%	2.03%	2.74%	3.30%	1.55%	1.89%	1.96%

Performance Q/Q:

The NPL ratio of the consolidated portfolio was 3.25%, showing a deterioration of 49 bps compared to the one reported in December 2017. This increase in the risk level of the portfolio is mainly due to the slowdown in the Colombian economy, which have brought implications in the debtors' ability to pay, a situation that is evident in the country's financial system.

The NPL ratio of the commercial portfolio closed at 3.34%, presenting a decrease of 79 bps compared to the last quarter. This deterioration is explained by the increase in 90 days past due loans of some clients and particular sectors of the Colombian portfolio.

The 90 days NPL ratio of the mortgage portfolio closed at 3.59%, presenting an increase of 24 bps compared to December 2017, mainly due to deterioration in housing leasing loans and in housing loans disbursed to independent persons. During this quarter we securitized mortgage loans by $157.9 billion pesos; when discounting this effect, the NPL ratio for the mortgage portfolio would have been 3.56%.

Aiming to properly observe the behavior of the mortgage loans, we calculated its 120 days NPL, which closed at 2.70% at the end of 1Q18, presenting a deterioration of 18 bps against 4Q17.

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

On the other hand, the consolidated NPL of the consumer portfolio closed at 2.76%, showing a deterioration of 13 bps compared to the one registered in December 2017. This indicator has shown a lower deterioration than the other segments despite the increase in the risk level of the portfolio in Colombia and thanks to the adjustment in origination policies made during the first half of the year.

Performance Y/Y:

Consolidated NPL showed an increase of 118 bps compared to the one reported in March 2017, as a result of the slowdown in the Colombian economy.

Commercial portfolio NPL showed an increase of 176 bps compared to the one reported in March 2017. This is the segment with most deterioration, mainly due to higher credit risk of some clients and particular sectors of the Colombian portfolio.

The NPL ratio of the mortgage portfolio presented an increase of 103 bps compared to the one reported in March 2017. During the last twelve months we securitized $829.4 billion pesos of mortgage loans. When discounting this effect, the mortgage NPL ratio would have been of 3.43%.

The 120 days past due NPL ratio for the mortgage portfolio showed a growth of 77 bps compared to March 2017.

On the other hand, the NPL of the consumer portfolio increased 16 bps compared to the one reported in March 2017.

	Coverage[4]			Total Reserves Coverage[5]		
Coverage	**1Q17**	**4Q17**	**1Q18**	**1Q17**	**4Q17**	**1Q18**
Commercial	147.6%	121.0%	117.2%	218.1%	156.8%	129.6%
Consumer	184.0%	181.7%	247.4%	261.5%	273.5%	281.9%
Mortgage	17.6%	16.4%	34.2%	88.9%	71.3%	70.1%
Total	124.5%	107.1%	124.7%	197.5%	162.3%	148.3%

Performance Q/Q:

Total Reserves Coverage ratio closed at 148.1% on March 2018, lower than the one registered during 4Q17, mainly explained by the increase in the non-performing loans in the commercial and mortgage portfolios in Colombia.

Regarding the Coverage ratio, it closed at 124.7% on March 2018, higher than the 107.1% reported in the previous quarter as a result of the implementation of IFRS 9. This increase was due to the change in the provision model which generated a reallocation of $768 billion on loan loss reserves from the OCI.

Performance Y/Y:

The Total Reserves Coverage Ratio decreased from 197.5% in 1Q17 to 148.1% in 1Q18, mainly due to the increase in the non-performing loans. Moreover, the Coverage ratio closed at 124.7% on March 2018.

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

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

Funding Sources

Balance sheet (COP billion)	Consolidated					Colombia			International USD		
				% Chg.			% Chg.			% Chg.	
Funding Sources	**Mar. 17**	**Dec. 17**	**Mar. 18**	**Q/Q**	**Y/Y**	**Mar. 18**	**Q/Q**	**Y/Y**	**Mar. 18**	**Q/Q**	**Y/Y**
Demand deposits	34,468	33,983	33,526	(1.3)	(2.7)	26,451	1.1	(0.5)	2,544	(3.0)	(6.8)
Term deposits	27,135	29,328	30,792	5.0	13.5	23,574	8.5	19.6	2,596	1.8	0.8
Bonds	9,683	12,009	9,844	(18.0)	1.7	9,049	(18.5)	(0.5)	286	(6.0)	39.8
Credits with entities	8,280	9,686	9,835	1.5	18.8	5,890	4.0	20.1	1,419	5.2	21.3
Total	79,567	85,006	83,997	(1.2)	5.6	64,965	0.5	7.8	6,845	0.3	2.5

Performance Q/Q:

Funding sources closed at $84.0 trillion, falling against 4Q17 mainly due to the maturity of the USD $500 million senior bond and of the $454 billion COP ordinary bonds in Colombia during the quarter, reaching a net loans to funding sources ratio of 89.5%, which decreased 23 bps compared to the previous quarter. Without including bonds, this ratio increases to 101.4%.

Demand deposits totaled $33.5 trillion, 1.3% less than those reported in 4Q17, mainly due to a lower balance in high-cost accounts in Colombia and Central America.

Term deposits totaled $30.8 trillion pesos, 5.0% higher than the previous quarter, as a result of the increase of term deposits in Colombia which grew 8.5% compared to the previous quarter.

On the other hand, the bonds closed at $9.8 trillion, 18.0% lower than the previous quarter as a result of the maturity of the senior bonds in USD in January of this year.

Credits with entities totaled $9.8 trillion, 1.5% higher than those reported in the previous quarter, mainly due to the Colombian operation.

Performance Y/Y:

Funding sources presented an increase of 5.6% compared to 1Q17, mainly due to the growth in the balance of term deposits and credits with entities, with growths of 13.5% and 18.8% respectively. Excluding the effect of the annual revaluation of the Colombian peso, funding sources grew 6.4% compared to 1Q17.

Demand deposits showed a 2.7% reduction compared to those reported in 1Q17, most of all considering the lower balance in high-cost savings accounts; on the other hand, term deposits show an increase of 13.5% mostly by the behavior of the Colombian operation.

The bonds presented a slight increase of 1.7% compared to the previous year as a consequence of issuances made in the Costa Rican operation, and the Global Note issued last October.

Credits with entities increased 18.8% mainly because of the Colombian operation.

Equity and regulatory capital

Technical Equity and Risk Weighted Assets	Consolidated		
(COP billion)	1Q17	4Q17	1Q18
Common equity capital (Tier I)	6.878	6.814	7.914
Additional equity (Tier II)	3.563	4.330	3.639
Technical equity	10.441	11.144	11.553
Risk weighted assets	82.029	86.513	84.855
Total Solvency	12,32%	12,34%	13,08%
Tier I	8,12%	7,54%	8,96%
Tier II	4,21%	4,79%	4,12%

Performance Q/Q:

Equity closed at $10.3 trillion, showing a reduction of $580.7 billion compared to 4Q17. This behavior is overall due to the adoption of IFRS 9. As a result, we reallocated $768 billion from the Other Comprehensive Income account to loan loss reserves, effective on January 1st, 2018.

Additionally, the General Shareholders' Meeting approved the distribution of dividends by $361 billion and to capitalize the bank in $1.01 trillion.

The solvency ratio at the end of March 2018 was 13.08%, 74 bps higher than that reported in 4Q17, which represents 408 bps above the minimum required in Colombia (9%).

Risk weighted assets reached $84.9 trillion, 1.9% lower than in 4Q17.

Performance Y/Y:

Equity presented an increase of 4.7% compared to the same period of the previous year, given the increase in reserves and net income.

The solvency ratio increased 76 bps compared to the previous year, mainly due to the appropriation of profits to the legal reserve, measure approved at the General Shareholders' Meeting.

INCOME STATEMENT

Income statement (COP billion)	1Q17	4Q17	1Q18	% Chg. Q/Q	% Chg. Y/Y
Interest income	2,364	2,325	2,405	3.5	1.7
Loans	2,179	2,156	2,230	3.5	2.3
Commercial	940	898	881	(1.9)	(6.3)
Consumer	744	799	796	(0.4)	7.0
Mortgage	495	458	553	20.7	11.6
Investments	168	145	148	2.3	(11.9)
Other income	16	24	27	10.8	62.2
Financial expenses	1,011	919	890	(3.2)	(12.0)
Demand deposits	290	173	158	(8.6)	(45.6)
Term deposits	421	429	415	(3.3)	(1.4)
Credits with entities	94	102	102	0.2	7.9
Bonds	180	189	194	2.5	7.9
Other expenses	26	26	21	(19.3)	(18.0)
Gross financial margin	1,353	1,405	1,515	7.8	12.0
Provision expenses, net of recoveries	486	512	464	(9.4)	(4.5)
Net interest margin	867	894	1,051	17.6	21.2
Operating income	289	325	317	(2.5)	9.8
Operating expenses	740	870	789	(9.3)	6.7
Personnel expenses	322	345	347	0.7	7.9
Operation Expenses	313	393	323	(17.7)	3.5
Other expenses	105	132	118	(10.1)	12.7
Exchange and derivatives	26	8	26	239.9	3.0
Other income and expenses, net	1	55	(26)	(100.0)	(100.0)
Income before taxes	443	412	579	40.7	30.8
Income tax	117	52	125	141.8	6.9
Net income	**326**	**360**	**454**	**26.2**	**39.4**

Net Income

Performance Q/Q:

Consolidated net income of the first quarter closed at $454.3 billion, showing a quarterly increase of 26.2%, mainly explained by decreases in financial expenses of 3.2%, provision expenses of 9.4% and operating expenses of 9.3%.

On the other hand, the profit of Colombia grew 25.5%, reaching $390.2 billion; and the profit of the international operation in dollars reached $22.5 million, increasing 37.1% compared to the previous quarter.

As a result of the latter, annualized quarter return on average equity (ROAE) at the end of 1Q18 reached 17.2%, 367 bps higher than the previous quarter.

Performance Y/Y:

The consolidated profit for the first quarter of 2018 presented an increase of 39.4% against the previous year, marked to a greater extent by the Colombian operation, which had an increase of 37.5%. On the other hand, the profit of the Central American operation in USD grew 55.7%.

Regarding Colombia, net income growth is the result of a 9.0% increase in operating income and a 1.2% reduction in the income tax.

Regarding the Central American operation in USD, growth of profits is the result of the increase in operational revenues (15.8%) and control of operating expenses (2.8%).

As a result, the return on average equity (ROAE) for the last 12 months at the end of 1Q18 was 13.5%, 352 basis points lower than in 1Q17.This reduction is partially explained by the extraordinary income of 2016.

Net Financial Margin

Net Financial Margin				**% Chg.**	
(COP billion)	**1Q17**	**4Q17**	**1Q18**	**Q/Q**	**Y/Y**
Loan Income	2,179	2,156	2,230	3.5	2.3
Investment and Interbank Income	185	169	175	3.5	(5.3)
Financial Income	2,364	2,325	2,405	3.5	1.7%
Financial Expenses	1,011	919	890	(3.2)	(12.0)
Financial Margin, Gross	1,353	1,405	1,515	7.8	12.0
Provision Expenses	486	512	464	(9.4)	(4.5)
Financial Margin, Net	**867**	**894**	**1,051**	**17.6**	**21.2**

Performance Q/Q:

The net financial margin reached $1.05 trillion at the end of the first quarter of 2018, which represented an increase of 17.6% when compared to the fourth quarter of 2017. This increase is most of all explained by the increase in portfolio revenues of 3.5%, the reduction of financial expenses on 3.2% and the decrease in the allowances expense of 9.4%. By excluding the effect of the exchange rate during the quarter, the Net Financial Margin increases 18.2%.

Consolidated loan income reached $2.2 trillion, showing an increase of 3.5% compared to the previous quarter. This growth was led by the mortgage portfolio. The consolidated income of the mortgage portfolio closed at $553 billion, showing an increase of 20.7% in the last quarter, most of all because of the dynamics of Colombia where it increased by 25.9%. The increase in the income is primarily due to the higher volume of this portfolio, backed by the growth in the leasing segment; and secondly, to income related to the UVR adjustment, given the monetary policy management of the Colombian Central Bank.

On the other hand, the consolidated income of the investment portfolio closed at $148.2 billion, increasing 2.3% compared to the first quarter of 2017, as a result of the increase in value of the investments in debt instruments in Colombia, particularly those indexed at a fixed rate.

Additionally, consolidated interbank funds income increased 10.8% quarterly, reaching $26.7 billion. This growth is led by the behavior in El Salvador.

Lastly, consolidated financial expenses closed at $890 billion, which represents a decrease of 3.2% quarter-on-quarter due to the operation in Colombia, where the variation was -3.4%, as a result of the decrease in collection costs in savings and term deposits, given the cut in the interest rates, which went from 4.75% in December 2017 to 4.50% in March 2018.

NIM (Annualized quarter)	**1Q17**	**4Q17**	**1Q18**	**Bps Var.** Q/Q	Y/Y
NIM	6.55%	6.33%	6.66%	32	11

As a result, the NIM for the quarter closed at 6.66%, 32 bps higher than in 4Q17. The higher financial income, which grew 3.5%, and the lower financial costs, which decreases 3.2%, stand out.

Performance Y/Y:

Consolidated net financial margin showed an annual growth of 21.2%, as a result of an increase in financial income, and decreases in financial expenses and in provision expenses. Excluding the effect of the revaluation of the Colombian Peso during the year, the Net Financial Margin would have increased 21.7% compared to 1Q17.

Consolidated portfolio income showed an increase of 2.3% compared to 1Q17, driven mainly by the consumer and mortgage segments.

Consolidated revenues of the commercial portfolio dropped 6.3% annually. In Colombia, revenues from the commercial portfolio fell by 7.9%, as a result of the decrease in placement rates, related to the expansionist policy of the Colombian Central Bank.

Consolidated income of the consumer portfolio showed an annual increase of 7.0%. It grew 7.1% in Colombia and 8.7% in the international operation in dollars. This dynamic is mostly explained by the payroll and fixed credit segments, which showed growth compared to the previous year.

Finally, consolidated income of the mortgage portfolio increased 11.6%. In the Colombian operation it had a growth of 12.4%, particularly by the good performance of the leasing and social housing segments. In the international operation in dollars, the income of the mortgage portfolio grew 9.8%.

Consolidated investment income fell 11.9% against 1Q17, mainly explained by the 14.1% drop in the Colombia operation, given the fall on return of investments made on demand instruments, related to a lower intervention rate. In the international operation in USD, investment income decreased 1.0%.

On the other hand, income from consolidated interbank funds increased 62.2%. It grew 21.8% in Colombia and 200.4% in the international operation in USD.

Regarding consolidated financial expenses, they decreased 12.0% year over year. Mainly in Colombia, where there was a 15.7% reduction, given lower costs of savings accounts and term deposits, related to the decrease of the monetary policy rate in the country. In one year, the intervention rate of the Central Bank was reduced by 250 bps, from 7% at the end of March 2017 to 4.5% at the end of March 2018.

Regarding the international operation in USD, financial expenses showed an increase of 12.8% over the previous year, as a result of the growth on interests of loans with other banks and the higher cost of bonds.

NIM (12 months)	1Q17	4Q17	1Q18	Bps Chg. Q/Q	Y/Y
NIM	6.26%	6.38%	6.51%	13	25

Therefore, the 12-months NIM closed at 6.51%, 13 bps higher than in 4Q17. The lowest financial cost stands out, which decreases 12.0%, compared to 1Q17.

Provision Expenses

(COP billion)	1Q17	4Q17	1Q18	% Chg. Q/Q	Y/Y
Provision for credit losses	554	608	539	(11.4)	(2.7)
Loan recoveries	65	88	71	(19.6)	8.5
Net loan sales	3	8	4	(52.1)	46.9
Provision expenses, net of recoveries	**486**	**512**	**464**	**(9.4)**	**(4.5)**

Performance Q/Q:

Consolidated allowances expense decreased 9.4% in the last quarter, closing at $463.8 billion. There was a reduction of 8.4% in Colombia and of 12.2% in the international operation in USD. These drops are result of lower provision expenses in Colombia's commercial portfolio, and in the commercial and mortgage portfolio in Central America.

Cost of Risk (Annualized quarter)	1Q17	4Q17	1Q18	Pbs Chg. Q/Q	Y/Y
Cost of Risk	2,65%	2,62%	2,37%	(25)	(28)

As a result, the Cost of Risk for the quarter was 2.37%, 25 basis points lower than in the fourth quarter of 2017.

Performance Y/Y:

Consolidated provision expenses decreased by 4.5% against the first quarter of 2017. In Colombia, there was a reduction of 5.1% as a result of lower provisions in the commercial portfolio. While in the international operation in USD it increased 2.2% year-on-year due to higher provisions in the consumer portfolio.

Cost of Risk (12 months)	1Q17	4Q17	1Q18	Bps Chg. Q/Q	Y/Y
Cost of Risk	1,74%	2,53%	2,49%	(4)	76

As a result, the Cost of Risk of the last 12 months reached 2.49%, 76 basis points higher than in the first quarter of 2017.

Operating Income

Performance Q/Q:

Consolidated operating income closed at $317.2 billion and presented a decrease of 2.5% in the quarter, as a result of lower commissions and fees (-5.8%).

In Colombia, the variation in operating income was -1.1% as a consequence of the 4.3% reduction in commissions and fees derived from lower bank guarantees for commissions related to 4G projects, and lower income from establishments affiliated to credit cards.

On the other hand, the variation in the operating income of the international operation in USD was -3.3%, given the 8.2% reduction in commissions and fees, mainly those generated by establishments affiliated with credit and debit cards in Costa Rica.

Performance Y/Y:

Consolidated operating revenues increased 9.8% compared to the same quarter of the previous year.

In Colombia, the increase in operating income was 9.0%, given the 7.6% increase in commissions and fees, equivalent to the growth in commissions related to establishments affiliated with credit and debit cards, fiduciary businesses and commissions for insurances collection.

On the other hand, in the international operation in USD, the increase of 15.8% in operating income was driven by income from insurance operations, commissions and fees.

Operating Expenses

Operating Expenses				**% Chg.**	
(COP billion)	**1Q17**	**4Q17**	**1Q18**	**Q/Q**	**Y/Y**
Personnel Expenses	322	345	347	0.7	7.9
Operational Expenses	313	393	323	(17.7)	3.5
Other Expenses	105	132	118	(10.1)	12.7
Total Expenses	**740**	**870**	**789**	**(9.3)**	**6.7**

Performance Q/Q:

Consolidated operating expenses reached $789.1 billion, which represents a decrease of 9.3% quarterly, explained by a 7.0% decrease in Colombia and a 2.3% decrease in the international subsidiaries.

If we exclude the effect of the revaluation of the COP during the last quarter, operating expenses would have decreased 8.5% compared to 4Q17.

In Colombia, operating expenses showed a decrease of 9.0%, mainly due to lower fees related to software development, advertising, maintenance and IT equipment repair.

In the international operation in US dollars, the reduction in operating expenses was 6.1%, due to the reduction in fees and legal expenses, maintenance and repair costs.

The reduction in the tax expense is explained by lower payments of the GMF (Tax on Financial Transactions) in Colombia.

Efficiency (Annualized quarter)	1Q17	4Q17	1Q18	Bps Chg. Q/Q	Bps Chg. Y/Y
Efficiency	44.47%	48.51%	43.31%	(520)	(117)

As a result, the efficiency ratio for the quarter closed at 43.31%, decreasing 520 basis points compared to 4Q17 and 117 basis points compared to 1Q18.

Performance Y/Y:

The annual increase in consolidated operating expenses was 6.7%. When excluding the effect of the exchange rate, operating expenses increase 7.2% against 1Q17.

In Colombia, growth was 8.7%, explained by increases of 10.4% in personnel expenses (specifically in salaries), and of 4.5% in operating expenses (mainly by subscription to payment networks and rentals due to the real state asset sale).

Meanwhile, operating expenses remained relatively controlled in the international operation, presenting an annual increase of 2.8%.

Efficiency (12 months)	1Q17	4Q17	1Q18	Bps Chg. Q/Q	Bps Chg. Y/Y
Efficiency	46.36%	46.60%	46.25%	(35)	(11)

As a result, the 12-month efficiency indicator closed at 46.25%, falling 35 bps year-over-year and 11 bps quarter-on-quarter.

Taxes

Performance Q/Q:

The consolidated income tax registered a value of $124.9 billion, showing an increase of 141.8% compared to the previous quarter.

In the Colombian operation, income tax reached $101.9 billion. On one hand, this increase is explained by a non-taxed income of $39 billion, result of the merge between Deceval and the Colombian Stock Exchange. And by $41 billion less, given the real state assets sale taxed at 10% as non-recurring income.

In the international operation in USD, the growth of this item was 62.4%, mainly due to an increase in the operational profit in Panama and Honduras.

Performance Y/Y:

The consolidated operation of Davivienda registered a tax 6.9% higher than the one of the first quarter of 2017. In Colombia, the income tax was reduced by 1.2%, due to a reduction in the nominal income tax rate of 3.0% and of an increase of non-taxed income. In the international operation in USD, taxes increased 72.4%, due to an increase on the operational profit in El Salvador and Honduras.

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

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