



## Rating Action: Moody's affirms Davivienda's ratings; changes outlook to stable

31 Mar 2021

New York, March 31, 2021 -- Moody's Investors Service, ("Moody's") has affirmed all of Banco Davivienda S.A.'s (Davivienda) ratings, following the affirmation of the bank's ba1 baseline credit assessment (BCA). Davivienda is rated Baa3 for long-term local- and foreign-currency deposit and foreign currency senior debt, as well as Ba2 for foreign currency subordinated debt. At the same time, Moody's changed the outlook on Davivienda's ratings to stable, from negative.

A full list of the affected ratings and assessments is provided at the end of this press release.

### RATINGS RATIONALE

The affirmation of Davivienda's ratings and assessments incorporates the bank's good access to core funding and stable liquidity. The change in outlook to stable, from negative, on Davivienda's ratings reflects Moody's views that its funding, profitability and capital metrics will improve as economic activity gradually recovers in 2021.

Moody's noted that amid economic weakness owing to the fallout of the pandemic, Davivienda's asset quality deteriorated and problem loans increased to 5.0% of gross loans in December 2020, from 3.7% one year prior, a level that is modestly below that of domestic peers. The bank's asset quality metrics could deteriorate further if borrowers are unable to repay the deferred loans from programs extended up to June 2021 in Colombia and in Central America. The extension of such programs will likely delay credit losses. Moody's noted that Davivienda is more exposed than its peers to consumer and mortgage financing to low income households and hence its loan book is more sensitive to economic downturns. That said, Davivienda's charge-offs as a percentage of gross loans have been generally lower than peers, reflecting the bank's larger exposure to mortgage loans. In addition, the bank has already built significant prudential loan loss reserves against expected credit losses, which represented 6.0% of the its total gross loans in 2020, and could therefore, help mitigate future credit costs.

Moody's expects that Davivienda's funding needs will be limited for most of the year because loan growth and credit demand will be constrained by the slow vaccination rollout in Colombia. With management prioritizing improving funding mix over loan growth, we expect further improvement over the next 12-18 months. Liquidity remains stable, with liquidity coverage ratio at end December 2020 of 120.5%.

The change in Davivienda's outlook to stable from negative also reflects the expectation that the bank's capitalization will improve due to stronger earnings generation, earnings retention, and the adoption of Basel III framework, which is expected to be fully implemented throughout 2021 and to boost Davivienda's regulatory capital ratio. Moody's capitalization ratio, measured as tangible common equity relative to risk weighted assets, remained relatively low at 7.7% in December 2020 from 8.4% one year before. At the same time, profitability deteriorated significantly because of the 72% increase in provisions in 2020 against 2019, but will gradually improve as credit costs normalize in 2021.

Davivienda's Baa3 deposit and senior unsecured debt ratings also incorporate Moody's assessment of a high probability that Davivienda would benefit from government support in an event of financial stress given its meaningful market share of local deposits. This results in one notch of ratings uplift from the bank's BCA of ba1.

### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Davivienda's ratings could be downgraded if asset risk and profitability deteriorate and/or the bank is unable to sustain capitalization at current levels. However, the ratings would not be affected by a downgrade of the Government of Colombia's sovereign bond rating of Baa2, which has a negative outlook.

Davivienda's ratings could be upgraded if the bank's asset quality improves, along with sustainable earnings generation that would boost its current capitalization levels even as loan growth begins to accelerate.

### ISSUERS AND RATINGS AFFECTED

The following Banco Davivienda S.A.'s ratings were affirmed:

- Long-term local currency deposit rating of Baa3, Stable from Negative
- Long-term foreign currency deposit rating of Baa3, Stable from Negative
- Short-term local currency deposit rating of P-3

- Short-term foreign currency deposit rating of P-3
- Long-term foreign currency senior unsecured debt of Baa3, Stable from Negative
- Long-term foreign currency global subordinated debt of Ba2
- Long term local currency counterparty risk rating of Baa2
- Long term foreign currency counterparty risk rating of Baa2
- Short term local currency counterparty risk rating of Prime-2
- Short term foreign currency counterparty risk rating of Prime-2
- Adjusted Baseline Credit Assessment of ba1
- Baseline Credit Assessment of ba1
- Long Term counterparty risk assessment of Baa2(cr)
- Short Term counterparty risk assessment of Prime-2(cr)
- Outlook, Stable from Negative

The principal methodology used in these ratings was Banks Methodology published in March 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1261354](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1261354). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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