FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Davivienda's IDR at 'BBB-'; Outlook Negative

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Fitch Ratings - New York - 15 Dec 2020: Fitch Ratings has affirmed Banco Davivienda S.A.'s (Davivienda) Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) at 'BBB-'. The Rating Outlook for the Long-Term IDRs is Negative. Fitch has also affirmed Grupo Bolivar S.A.'s (GB) National Long-Term Rating at 'AAA(col)' with a Stable Outlook. A full list of rating actions follows at the end of this release.

The Negative Outlook on Davivienda reflects the increased downside risks from the economic implications of the coronavirus pandemic, reflected in the Negative Outlook for the operating environment score. It also incorporates the Negative Outlook on the sovereign rating as Fitch is unlikely to rate banks in Colombia higher than the sovereign based on their intrinsic credit profiles. Fitch believes the recession of at least 6.9% in 2020 will result in asset quality deterioration and will weigh on profitability.

KEY RATING DRIVERS

VR, IDRS, NATIONAL RATINGS AND SENIOR DEBT

Davivienda's IDRs are driven by the bank's VR and primarily reflect the relevant change in the operating environment, brought on by the spread of coronavirus, as well as its company profile characterized by a sound franchise in which its businesses operate. In Fitch's view, the bank enters this economic crisis from a relatively good position, underpinned by recurring moderate profitability, good asset quality and solid liquidity. However, the agency expects the bank's financial metrics to weaken relative to its historical performance.

Davivienda has reported sound asset quality indicators through the cycles, though future credit losses are uncertain as the ultimate effects from the pandemic are difficult to foresee. The level of the bank's past due loans has remained relatively stable at around 3.0% of gross loans over the 3 years ending in 2020, and the take-up rate for payment relief initiatives has gradually decreased to 7% of gross loans as of September 2020 from 32% in May 2020; 4.2% of which correspond to the second stage of relief programs, that compares favorably to the Colombian bank average. However, under the current macroeconomic scenario, Fitch expects asset quality to deteriorate for all banks in all economic sectors and to continue pressuring credit costs.

Reserve coverage has steadily increased to 2.2 times (x) as of September 2020, from an average of 1.1x between 2016 to 2019 as part of the process to protect the bank from asset quality deterioration. Reserve coverage of Stage 3 loans reached 60% in 3Q20. Davivienda has a solid level of real guarantees given its business model, which includes leasing operations and mortgages. Central American subsidiaries' asset quality follows similar adherence to Colombian relief measures amid different lockdown measures.

Fitch expects Davivienda's profitability to be tested in 2020 and part of 2021 given the pandemic's economic impact, as we expect a sustained deceleration in loan growth and increase in provisioning expenses. The recession has pressured credit costs, with loan impairment charges consuming 85% of pre-impairment operating profit at September 2020, compared with an average of 50% from 2015-2019.

Davivienda's profitability is underpinned by its resilient performance supported by adequate cost control, digital transformation, a consolidated franchise and geographical diversification. Fitch's core metric ratio of operating profit to RWAs of 0.58% at September 2020 was substantially lower than its average of 2.1% from 2016 to 2019. Fitch expects profitability to remain low in the short term, as a result of lower operating revenues, higher delinquency levels and slow credit growth due to the coronavirus crisis.

Fitch views the bank's loss absorption as sufficient considering its relatively ample loan loss reserves, good asset quality, recurrent earnings generation and adequate risk management. The bank's Fitch Core Capital (FCC) ratio reduced to 9.6% in September 2020. Asset growth, reduced profits and currency depreciation explained the ratio's performance. The upcoming implementation of Basel III is expected to prevent a marked deterioration in capitalization ratios due to adjustments in risk weightings and additional capital buffers. The bank's current capital metrics will continue to be tested under this less benign operating environment.

Davivienda boasts a wide deposit base of well-diversified, stable and relatively low-cost funds and good liquidity. Customer deposits consistently provide over 74% of total funding. Additionally, Davivienda has established market access to international and local debt markets. Its loans/deposits ratio of around 125% at September 2020, exceeds the peer average as the bank utilizes longer tenor funding to better match its asset and liability structure.

Davivienda's subsidiaries are funded independently in their home markets and must be self-sufficient to avoid contagion effect. Fitch does not anticipate major effects from the coronavirus in its evaluation of the funding and liquidity score. Fitch considers Davivienda's reported liquidity coverage ratio of 155% and NSFR of 108% as prudent under current stressed conditions.

SUPPORT RATING AND SUPPORT RATING FLOOR

Fitch has affirmed the bank's Support Rating (SR) of '3' and Support Rating Floor (SRF) of 'BB+', reflecting the agency's estimation of a moderate probability of sovereign support, if required, given the bank's systemic importance. The ability of the sovereign to provide support is based on its 'BBB-' Long-term IDRs, which have Negative Rating Outlooks.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Davivienda's subordinated debt is rated two notches below its VR; one notch for loss severity (-1) and one notch for non-performance risk (-1), given the terms of the issuances (plain-vanilla subordinated debt).

GRUPO BOLIVAR NATIONAL RATINGS AND SENIOR DEBT

GB's National Ratings reflect the creditworthiness of its main subsidiary, Banco Davivienda, in which it owns a 58.4% stake. GB's ratings are aligned with Davivienda's because of its low double leverage (September 2020: 101.8%) supported by a high level of earnings retention and strong cash flow metrics that sufficiently meet its debt service requirements. Fitch expects a weakening of the dividend flow due to the effects of the coronavirus and mild increase in double leverage with the recent issuance of COP1 trillion. However, we believe that GB's prudent liquidity management, as well as the flexibility of its investment plans and contingency plans, will sustain a projected cash flow that sufficiently covers debt service.

RATING SENSITIVITIES

VR, IDRS, NATIONAL RATINGS AND SENIOR DEBT

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Davivienda's VRs and IDRs are sensitive to any further rating actions on Colombia´s sovereign ratings or a material deterioration in the local operating environment;

- The Rating Outlook implies that ratings could be downgraded from a continued deterioration of the operating environment due to an extended period of economic disruption as a result of the coronavirus that leads to a significant deterioration of the asset quality and/or profitability (Operating profit to RWA consistently below 1.5%), resulting in an erosion of capital cushions.

- Davivienda's ratings could be downgraded if the FCC ratio falls consistently below 10%.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- The ratings currently have a negative outlook, which makes an upgrade highly unlike in the near future as the banks' IDRs are constrained by the sovereign rating, while the VRs are constrained by the worsening operating environment.

- Rating Outlook could be revised to Stable if the operating environment stabilizes and if the bank is in a good path to sustain or rebuild capital metrics and profitability toward pre- pandemic levels.

SUPPORT RATING AND SUPPORT RATING FLOOR

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Davivienda's SR and SRF are potentially sensitive to any positive change in assumptions as to the propensity or ability of Colombia to provide timely support to the bank.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Davivienda's SR and SRF are potentially sensitive to any negative change in assumptions as to the propensity or ability of Colombia to provide timely support to the bank.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

- Subordinated debt ratings will mirror any action on the bank's VR.

SUBSIDIARY AND AFFILIATED COMPANIES

GRUPO BOLIVAR NATIONAL RATINGS AND SENIOR DEBT

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- The national scale ratings of GB's are at the highest level on the national scale; therefore, they cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- GB's National ratings will mirror any action taken on Davivienda's national ratings. Additionally, a substantial increase of GB's leverage (double leverage above 120%) or a decline in the dividend flows from the operating companies that results in a sustained deterioration of its debt coverage ratios could pressure GB's ratings.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Grupo Bolivar ratings are support driven from Davivienda.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Grupo Bolivar S.A.	Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable
	Natl ST	F1+(col)	Affirmed	F1+(col)
• senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col)
• senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col) Rating Outlook Stable
Banco Davivienda S.A.	LT IDR	BBB- Rating Outlook Negative	Affirmed	BBB- Rating Outlook Negative
	ST IDR	F3	Affirmed	F3

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Metodología de Calificación de Bancos (pub. 18 Sep 2019)

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

National Scale Rating Criteria (pub. 08 Jun 2020)

Metodología de Calificaciones en Escala Nacional (pub. 08 Jun 2020)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Banco Davivienda S.A.	EU Endorsed

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Banks Latin America Colombia