

**Rating Action: Moody's rates Banco Davivienda's proposed senior unsecured notes Baa3; stable outlook**

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Global Credit Research - 12 Oct 2017

New York, October 12, 2017 -- Moody's Investors Service ("Moody's") has today assigned a long-term foreign currency senior unsecured debt rating of Baa3 to Banco Davivienda S.A.'s (Davivienda) proposed senior notes issuance denominated in Colombian Pesos (COP) and settled in an equivalent amount of USD. The outlook on the rating is stable.

The notes will be senior unsecured obligations, and will rank pari passu in right of payment with all of Banco de Davivienda's existing and future senior unsecured and unsubordinated external debts.

**RATINGS RATIONALE**

The rating considers that Davivienda's asset risk and profitability remain healthy despite recent deterioration. The rating also reflects the bank's proven access to stable core deposit funding, which helps to mitigate risks associated with its modest capital position. Finally, the rating incorporates Moody's assessment of a high probability of government support for the bank in an event of stress, given its position as the third largest deposit taker in the country.

Asset quality remains sound despite an increase of 76 basis point in non-performing loans (NPLs) in first 6 months of 2017 to 2.7%. The increase was driven by Colombia's still weak economy and delinquencies related to certain large corporates and infrastructure projects that are facing financial difficulties. This deterioration in commercial loan portfolio reflects the bank's loan book concentrations and is in line with the system as a whole and, a result of the dominance of a limited number of conglomerates in the Colombian economy.

Profitability also remains relatively strong despite a steep decline in net income to tangible assets of 1.33% in the first half of 2017 from 1.88% in 2016, as a result of increasing credit costs associated with asset risk pressures. Moody's expects results will continue to suffer from high loan loss provision in the second half of 2017, before beginning to recover next year as growth dynamics improve and the bank's problematic large exposures are fully reserved.

Although capitalization has slightly increased in the last 12 months due to a slowdown in loan growth, it remains modest according to Moody's calculations, with tangible common equity (TCE) to equal to just 7.6% of adjusted risk weighted assets (RWAs) as of June 2017, limiting the bank's loss absorption capacity. Moody's expects capital to stabilize as loan growth remains relatively low.

Notwithstanding the recent issuances of bonds in Central America (USD70 million) and Colombia (240 million), the bank's market funds stood relatively stable at a moderate 23.2% of tangible assets as of June 2017. The bank's relatively limited reliance on market funding, which reduces its exposure to interest rate and refinancing risk, is a reflection of its status as Colombia's third largest deposit taker, supported by an ample branch network and large customer base. The current issuance of senior unsecured notes will not materially increase the bank's market fund reliance as net proceeds from this offering will be used to refinance the bank's currently outstanding US500 million senior debt due 2018.

**WHAT COULD CHANGE THE RATING UP OR DOWN**

The bank's ratings would face upward pressure if tangible common equity to risk weighted assets exceeds 9.0% and/or problem loan ratio falls below 1.0%. The ratings could come under negative pressure if problem loans to gross loans consistently exceeds 3.0% or if TCE / RWA falls below 7.0%.

The last rating action on Banco Davivienda S.A. was on 10 June 2015.

Banco Davivienda S.A, is headquartered in Bogotá Distrito Capital, Colombia, and reported USD32.6 billion (COP99.6 trillion) in assets, as of June 2017.

The principal methodology used in this rating was Banks published in September 2017. Please see the Rating

Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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