S&P Global
Ratings

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Banco Davivienda S.A.

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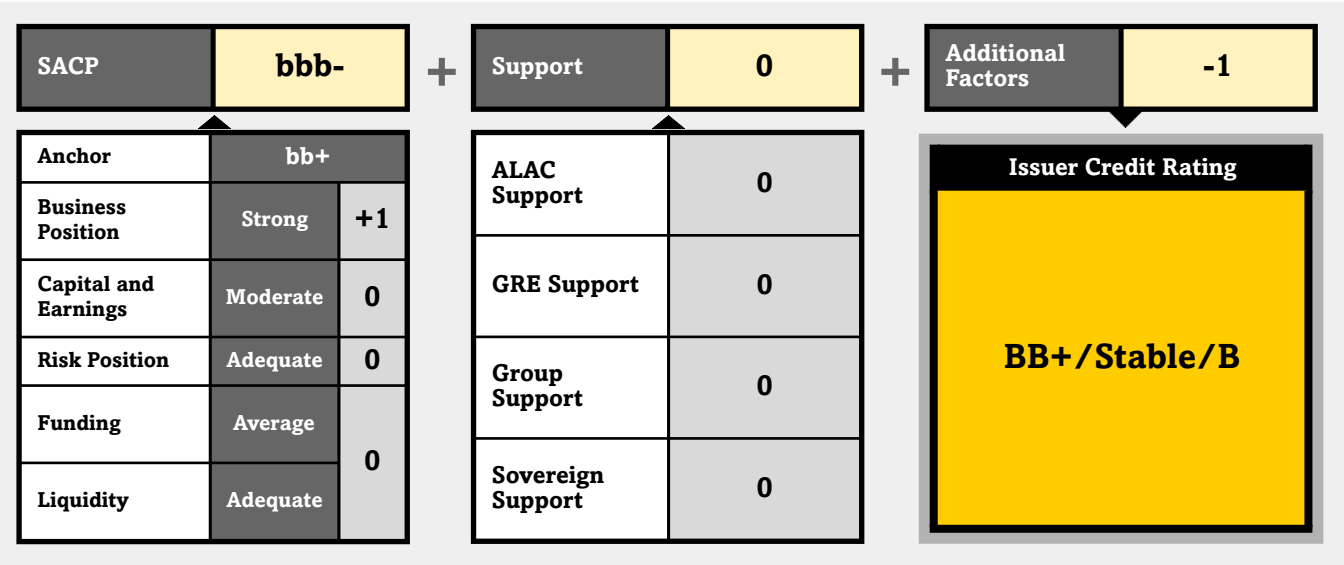


Credit Highlights

Key strengths	Key risks
Large franchise in Colombia with diversified operations in Central America.	Pandemic uncertainties still weigh on some of the jurisdictions where the bank operates.
Solid deposit base that supports its funding stability.	Highly competitive markets in the countries in which the bank operates could pressure its margins.
Healthy liquidity profile to cushion against effects of the pandemic.	Modest capitalization compared with regional peers.

We expect Banco Davivienda's (Davivienda) prominent market position and diversified business activities to keep supporting its business profile. Davivienda continues to be the second largest lender in Colombia with a diversified loan portfolio in terms of geography and business lines. These factors helped the bank's operating income remain resilient despite recent social unrest and economic downturns.

Davivienda's digital transformation will make up a key part of its strategy in the coming years. In our opinion, the bank's ongoing digital transformation will raise future growth prospects and further diversify its product base. The alliances with third parties are helping the bank to accelerate its deployment and will be a key factor in its digitalization efforts. The latter will be reinforced with the creation of a native digital bank to complement its products and continue increasing its client base, particularly in the retail segment.

Davivienda's risk-adjusted capital (RAC) ratio will remain stable, supported by internal capital. The recent issuance of $500 million AT1 hybrid notes and the bank's internal capital generation relieved pressure in its capitalization levels. In our view, the bank's revenue generating capabilities will be enough to support its expected loan portfolio growth without jeopardizing its capital levels.

We expect the bank's asset quality to worsen somewhat this year. We forecast that nonperforming assets (NPA) and net-charge offs (NCOs) will remain slightly above the rest of the banking system. However, we still think these levels remain manageable and compare in line with its regional peers in countries with similar economic risk.

Outlook: Stable

The stable outlook for the next two years on Davivienda reflects our expectation that despite the challenging conditions in the region, the bank's asset quality and capitalization levels will remain manageable, supported by its solid market position in Colombia and well-diversified loan portfolio in terms of industries and borrowers. We think the bank's nonperforming assets (NPAs) will be about 4% and its projected RAC ratio at about 6.2% in the next two years. Davivienda will support these metrics through its business stability, prudent underwriting standards, and stable internal capital, helped by better efficiency and reinforced by its digitalization strategy.

Downside scenario

We could lower the ratings if:

- The bank's RAC ratio drops below 5%. This could happen if the dividend payout ratio is higher than we expect or loan growth rates increase more than projected; and
- Its asset quality metrics worsen more than the industry norm and above those of its main regional competitors.

Upside scenario

Given that the sovereign ratings on Colombia (foreign currency: BB+/Stable/B; local currency: BBB-/Stable/A-3) cap those on Davivienda, we expect the ratings to move in tandem with those on the sovereign in the next two years. This is because we rarely rate financial institutions above the long-term sovereign rating because during sovereign stress, the latter's regulatory and supervisory powers may restrict a bank's or financial system's flexibility. In our view, banks are affected by many of the same economic factors that cause sovereign stress

Key Metrics

Banco Davivienda S.A.--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in operating revenue	9.9	8.9	6.6-8.0	7.4-9.1	7.4-9.1
Growth in customer loans	10.9	9.5	5.4-6.6	6.3-7.7	6.3-7.7
Growth in total assets	10.4	11.6	4.4-5.3	5.4-6.6	5.4-6.6
Net interest income/average earning assets (NIM)	6.4	6.5	6.0-6.6	6.1-6.7	6.1-6.8
Cost to income ratio	46.1	47.0	45.2-47.6	44.7-47.0	44.4-46.7
Return on average common equity	13.6	3.5	6.3-7.0	10.8-11.9	11.3-12.5
Return on assets	1.3	0.3	0.5-0.6	0.9-1.1	1.0-1.2
New loan loss provisions/average customer loans	2.6	4.1	3.5-3.8	2.8-3.1	2.8-3.1
Gross nonperforming assets/customer loans	3.8	4.5	4.0-4.5	3.8-4.3	3.7-4.1
Net charge-offs/average customer loans	2.8	2.2	3.6-3.6	2.7-2.7	2.7-2.7
Risk-adjusted capital ratio	5.4	5.2	6.0-6.3	6.0-6.4	6.1-6.4

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast.

Anchor: 'bb+' Based On The Industry And Average Economic Risk Scores

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating in Colombia is 'bb+'.

For Colombia, we expect continued pragmatism in economic policies in handling the economic consequences of the pandemic, including steps to maintain long-term growth prospects and to address recent weakening of public finances. This would contribute to economic stability, setting the stage for healthy credit growth in 2021-2022 as the impact of the pandemic recedes. We expect credit losses to widen in 2021 due to weaker economic conditions causing unemployment to rise, which points to a likely correction phase with the potentially large effect on banks. However, our economic assessment for the Colombian banking system already captures a potential deterioration in asset quality--with greater impact among entities more exposed to sensitive sectors such as oil, transportation, tourism, and importers--because of the increasing economic imbalances. We expect that once the economy and employment resume growing, the banking system will return to an expansionary phase and NPAs and credit losses will return to more normal patterns.

Recent and ongoing regulatory changes and reforms in Colombia are increasing the banking authority's ability to remedy problems sooner, ensuring that banks take corrective actions. In particular, we believe that efforts to strengthen banks' RAC levels--which could provide greater ability to absorb credit losses and which we have identified as a weakness for several years--along with greater supervision of conglomerates, could strengthen Colombia's regulatory track record and its institutional framework. This in turn will reduce the banking system's vulnerability to financial crises. We'll observe if the regulatory improvements cause the RAC ratios of banks with exposures abroad to improve and wholesale funding concentrations to diminish, which would allow banks to weather the pandemic-related crisis. At that point, we could reassess the banking system's institutional framework.

Business Position: Large Market Share And Digitalization Efforts Will Support Business Profile

Davivienda has maintained a strong market position and brand recognition in the Colombian banking system. The bank remains the second largest lender in the country with a market share of about 16% of loans. This prominent position, coupled with well-diversified business activities throughout Central America, has helped the bank's operating income to remain resilient despite recent social unrest and economic downturns. We forecast that operating revenues will grow about 7.3% in 2021 and 8.2% in 2022 as economic conditions begin to improve and efficiency levels begin to reap the benefits of the bank's digital strategy.

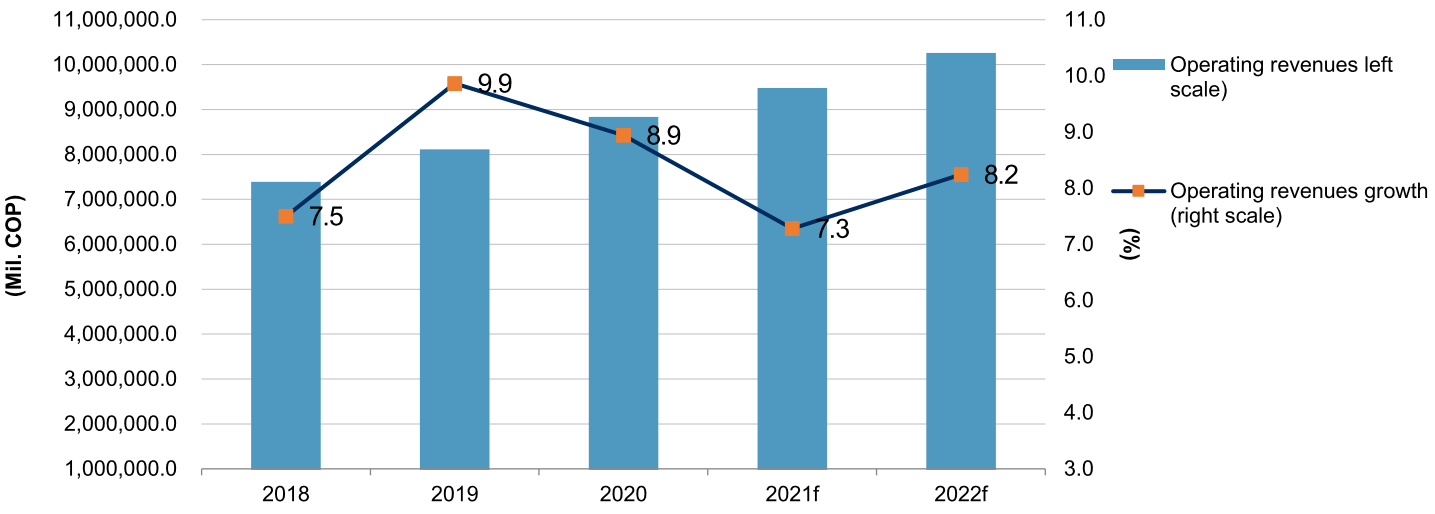
The bank's diversification in terms of products and regions helped it grow its loan portfolio 9.5% in 2020. This growth was also boosted by Davivienda's participation in government support programs and mortgage subsidies granted by Colombia. However, we expect the bank's loan portfolio to grow slightly less--at about 6% in 2021 and 7% in 2022--and below its five-year compound annual growth rate of 10.7%. This reflect the absence of additional support

programs from the government, still depressed credit demand in the region, and the bank's strategy to continue to have a cautious credit appetite in order to keep asset quality controlled and coverage metrics solid.

The COVID-19 pandemic accelerated the use of digital platforms by customers and significantly increased the number of transactions through Davivienda's digital channels. Additionally, the alliances with third parties are helping the bank to accelerate its digital deployment efforts and will be a key factor on the bank's digitalization efforts. The percentage of the bank's customers that use digital platforms reached about 84% and accounted for nearly 49% of its total sales in 2020. Going forward, the bank aims to create a digital bank to complement its products and continue increasing its client base, particularly in the retail segment. We consider that the implementation of this digital strategy and product developments will support Davivienda's expected growth.

Chart 1

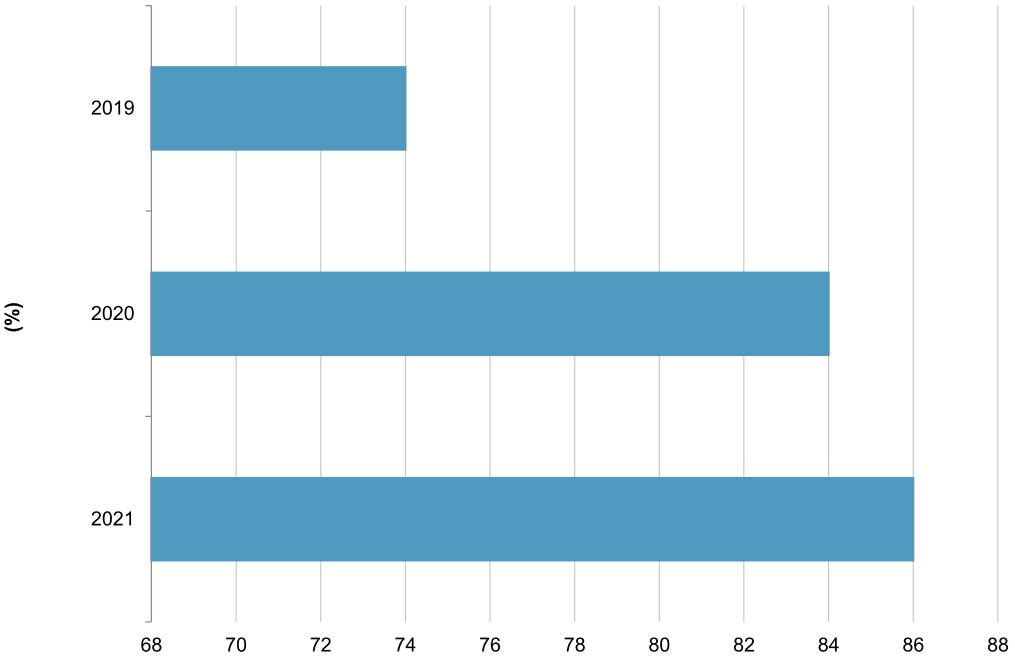
Davivienda's Operating Revenues



COP--Colombian peso. f--Forecast. Source: S&P Global Ratings.

Chart 2

Proportion Of Davivienda's Digital Clients*



*Clients that opened digital products or that made transactions through digital channels. Source: S&P Global Ratings.

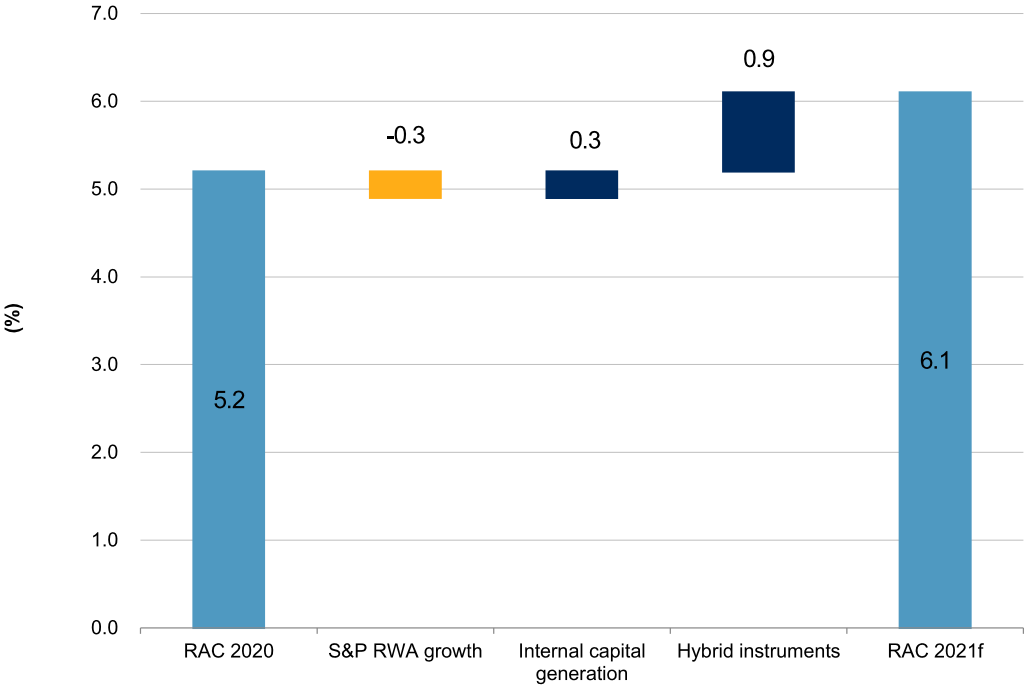
Capital And Earnings: Stable RAC Ratio Around 6.2% For The Next Few Years

We expect Davivienda's capitalization levels to remain stable, mainly supported by its internal capital and slightly lower loan portfolio growth. Our expected RAC ratio also considers the bank's recent issuance of $500 million AT1 hybrid notes, which we consider to have intermediate capital content and that relieved pressure that the bank had within its capital assessment. We forecast that Davivienda's RAC ratio will hover around 6.2% for the next few years.

Davivienda's bottom-line results plummeted in 2020 mainly because its loan loss reserves grew almost 73%. To a lesser extent, its trading gains and fees and commissions also suffered because of the challenging economic conditions. As a result, its return on average assets (ROAA) decreased 98 basis points last year. We consider that our expected recovery for Colombia along with fewer loan loss reserves and improving efficiency ratios will help the bank to gradually regain its profitability. We forecast the bank's ROAA will be about 0.6% for 2021 and 1.0% for 2022 with efficiency ratios close to 46% for the same timeframe.

Chart 3

Projected RAC Ratio



f--Forecast. Source: S&P Global Ratings.

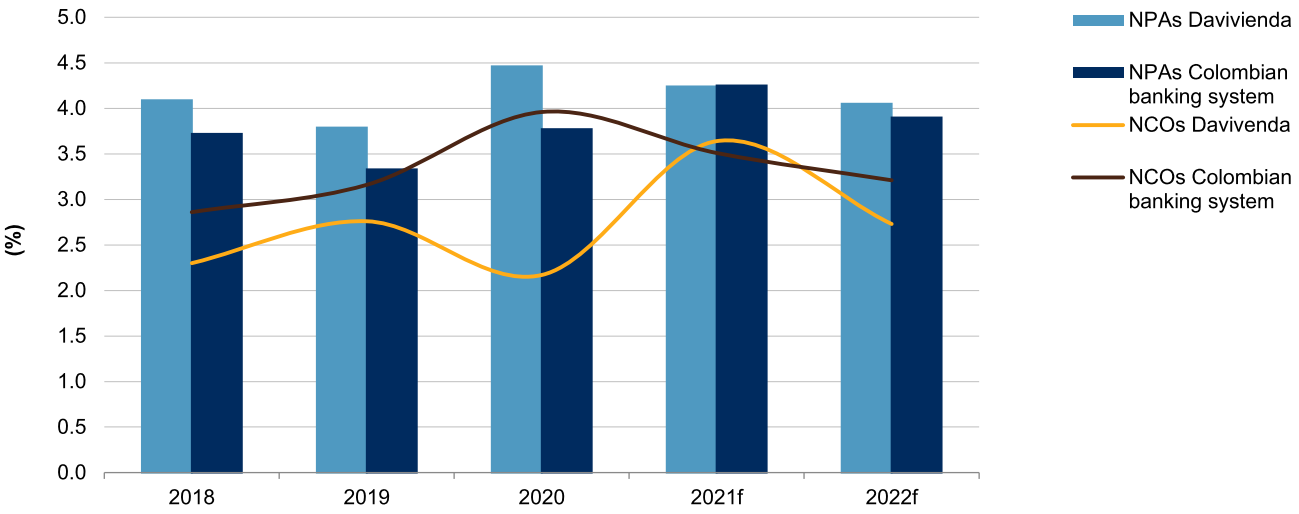
Risk Position: As The Pandemic Continues, Asset Quality To Worsen But Remain Manageable

The expected deterioration will be a product of the end of support and forbearance measures during the second part of the year. As of June 2021, only 9% of its Colombian loans and 9% of Central American loans were still under these programs, compared to the 27% and 46%, respectively, at the peak of the pandemic last year. We predict NPAs to reach about 4.2% and NCOs close to 3.6% during 2021. For 2022, we expect a recovery toward close to 4.0% and 2.7%, respectively, as economic conditions begin to improve. We expect the bank to maintain full reserve coverage even after these increases. Finally, if Banco Davivienda's asset quality metrics weaken more than we expect, we could reassess our risk position assessment.

Banco Davivienda's loan portfolio continues to be diversified in terms of clients, with no material concentrations in any economic sector. As of June 2021, its top 20 exposures only represented around 10% of the total loan portfolio and 1.05x its total adjusted capital. Additionally, no economic sector within Davivienda's loan portfolio represents more than 20%. We don't' expect any major changes because the bank intends to grow within the same segments and keep a diversified client base.

Chart 4

Davivienda's Asset Quality Versus Colombian Banking System



f--Forecast. Source: S&P Global Ratings.

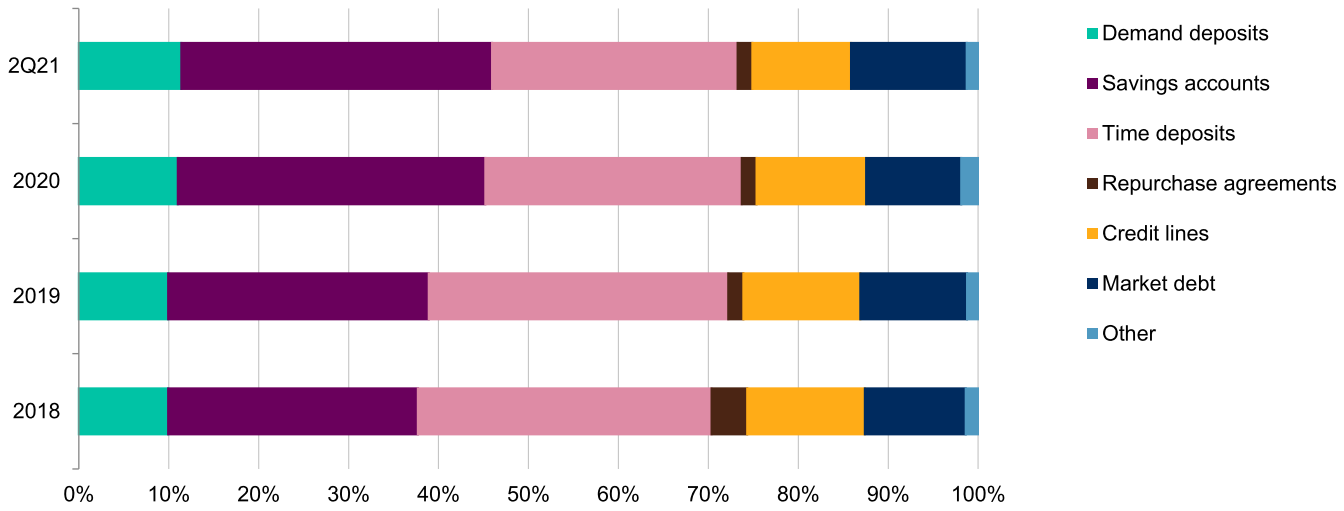
Funding And Liquidity: Stable Deposit Base Supports Davivienda's Funding Profile

A highly pulverized deposit base will continue to support Davivienda's funding profile. As of June 2021, deposits represented 75.6% of its total funding base, while the rest is composed of market debt, credit lines, and repurchase agreements. The digital transformation that the bank is currently undergoing is helping it to attract more deposits at competitive costs. This, coupled with a large number of clients storing cash and flight-to-quality conditions helped the bank's deposit base grow 15.4% during 2020. This funding structure is reflected in a stable funding ratio of 105.2%--slightly above its three-year average of 102.9%. We don't anticipate any major changes in the bank's funding base because its strategy will stay focused on maintaining its deposit base.

The increased deposits and lower loan portfolio growth last year increased the bank's share of highly liquid assets. This gives it a comfortable cushion against potential effects that could still arise from the extended pandemic and will also support its maturity profile for domestic and international issuances. In this regard, as of June 2021, Davivienda's broad liquid assets covered 2.2x its short-term wholesale funding needs. We expect that as credit demand recovers and the loan portfolio expands, the bank's liquidity will gradually return to pre-pandemic levels around 1.7x.

Chart 5

Davivienda's Funding Mix



Source: S&P Global Ratings.

Support: High Systemic Importance In The Colombian Financial System

We consider Davivienda a highly systemic important bank in the Colombian financial system, given its sound market share in terms of local deposits and loans. Moreover, we view the Colombian government as supportive toward its banking system.

Nonetheless, the stand-alone credit profile (SACP) on Davivienda is higher than the ratings on Colombia, so the sovereign rating caps the ratings on the bank. This is because we rarely rate financial institutions above the long-term sovereign rating because, during sovereign stress, the latter's regulatory and supervisory powers may restrict a bank's or financial system's flexibility. Banks are affected by many of the same economic factors that cause sovereign stress.

Environmental, Social, And Governance

We believe ESG credit factors for the bank are in line with the industry and domestic peers. Historical risk and control management have supported the bank's reputation in the Colombian and Central American banking systems. Additionally, Davivienda has been actively funding social interest mortgages, loans to women-owned SMEs, and sustainable construction. Also, Davivienda has been implementing a digital strategy that will help its client base expansion by improving the customer experience. Finally, although environmental and social risks are important for its long-term strategy and the bank has been proactive in green and social financing, they don't influence its credit quality more than peers.

Key Statistics

Table 1

Banco Davivienda S.A.--Key Figures

		--Year-ended Dec. 31--			
(Mil. COP)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	138,194,803.0	134,569,201.0	120,396,422.0	108,916,852.0	98,966,954.0
Customer loans (gross)	110,975,991.0	106,674,756.0	97,399,570.0	87,821,593.0	78,219,574.0
Adjusted common equity	9,991,060.0	9,249,039.8	9,043,668.8	7,993,629.8	7,564,697.8
Operating revenues	4,692,212.0	8,814,854.0	8,091,477.0	7,364,904.0	6,853,688.0
Noninterest expenses	2,126,161.0	4,139,050.0	3,729,883.0	3,413,889.0	3,190,350.0
Core earnings	533,529.0	408,032.0	1,483,855.0	1,398,501.0	1,282,981.0

*Data as of June 30. COP--Colombian peso.

Table 2

Banco Davivienda S.A.--Business Position

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (currency in millions)	4,692,212.0	8,814,854.0	8,091,477.0	7,364,904.0	6,853,688.0
Commercial & retail banking/total revenues from business line	92.4	98.7	97.5	96.1	96.4
Trading and sales income/total revenues from business line	6.1	0.3	0.8	2.0	1.5
Insurance activities/total revenues from business line	1.4	1.4	1.3	1.3	1.3
Other revenues/total revenues from business line	0.2	(0.3)	0.3	0.6	0.8
Investment banking/total revenues from business line	6.1	0.3	0.8	2.0	1.5
Return on average common equity	8.9	3.5	13.6	14.0	13.8

*Data as of June 30. N.A.--Not available.

Table 3

Banco Davivienda S.A.--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	13.9	8.3	8.0	8.0	7.5
S&P Global Ratings' RAC ratio before diversification	N/A	5.2	5.4	5.2	5.5
S&P Global Ratings' RAC ratio after diversification	N/A	4.8	5.0	4.8	5.1
Adjusted common equity/total adjusted capital	89.8	89.1	88.8	87.6	86.9
Net interest income/operating revenues	78.6	85.8	82.7	80.8	80.2
Fee income/operating revenues	13.8	12.8	14.8	15.3	16.3
Market-sensitive income/operating revenues	6.1	0.3	0.8	2.0	1.5
Cost to income ratio	45.3	47.0	46.1	46.4	46.5
Preprovision operating income/average assets	3.7	3.6	3.7	3.7	3.8
Core earnings/average managed assets	0.8	0.3	1.3	1.3	1.3

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Banco Davivienda S.A.--Risk Position

	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	8.1	9.5	10.9	12.3	7.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	8.2	8.3	9.4	7.3
Total managed assets/adjusted common equity (x)	14.0	14.7	13.5	13.9	13.3
New loan loss provisions/average customer loans	3.4	4.1	2.6	2.5	2.6
Net charge-offs/average customer loans	5.3	2.2	2.8	2.3	2.0
Gross nonperforming assets/customer loans + other real estate owned	4.0	4.5	3.8	4.1	2.9
Loan loss reserves/gross nonperforming assets	128.8	134.3	112.3	103.3	101.2

*Data as of June 30. N/A--Not applicable.

Table 5

Banco Davivienda S.A.--Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	74.5	75.4	73.5	71.7	73.3
Customer loans (net)/customer deposits	116.3	113.3	121.5	123.0	119.9
Long-term funding ratio	93.4	93.5	91.7	89.4	91.6
Stable funding ratio	105.2	106.5	101.8	100.5	103.3
Short-term wholesale funding/funding base	7.3	7.1	9.2	11.7	9.3
Broad liquid assets/short-term wholesale funding (x)	2.2	2.5	1.7	1.4	1.8
Net broad liquid assets/short-term customer deposits	14.8	17.2	10.5	7.3	11.9
Short-term wholesale funding/total wholesale funding	27.5	27.7	33.2	39.7	33.1

*Data as of June 30.N/A--Not applicable.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	**7**	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	**bb+**	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 25, 2021)*

Banco Davivienda S.A.	
Issuer Credit Rating	BB+/Stable/B
Issuer Credit Ratings History	
20-May-2021	BB+/Stable/B
30-Mar-2020	BBB-/Negative/A-3
02-Aug-2016	BBB-/Stable/A-3
Sovereign Rating	
Colombia	
Foreign Currency	BB+/Stable/B
Local Currency	BBB-/Stable/A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.