FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Davivienda's IDR at 'BB+'; Outlook Stable

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Fitch Ratings - New York - 10 Dec 2021: Fitch Ratings has affirmed Banco Davivienda S.A.'s (Davivienda) Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) at 'BB+'. The Rating Outlook for the Long-Term IDRs is Stable. Fitch has also affirmed Grupo Bolivar S.A.'s (GB) National Ratings at 'AAA(col)'/Stable.

Fitch is also withdrawing Davivienda's Support Rating and Support Rating Floor as they are no longer relevant to the agency's coverage following the publication of our updated Bank Rating Criteria on Nov. 12, 2021. In line with the updated criteria, Fitch has assigned a Government Support Rating (GSR) of 'bb'.

KEY RATING DRIVERS

Davivienda's IDRs are driven by the bank's VR and consider its intrinsic strength, as reflected in its sound company profile due to its domestic franchise as the second and third largest bank in Colombia by loans and assets, respectively, and its adequate franchise in Central America where its business also operates.

The influence of the operating environment on the Davivienda's VR has been revised to moderate as Fitch does not anticipate a material impact on the bank's financial profile from any remaining pressures on the operating environment, such as upcoming elections or a higher than expected deceleration in economic growth.

Davivienda has a leading franchise in Colombian mortgage and retail segment and ranks among the top players in Corporates and the Central American market where it operates. The bank's business model benefits from geographical and revenues diversification as well as continuous efforts to develop cutting edge digital technologies.

Davivienda has reported sound asset quality indicators through economic cycles, although the ultimate effects from the coronavirus pandemic are still difficult to foresee. The level of the bank's past-due loans improved to 3.8% at 3Q21 from 4.4% at YE20; meanwhile, the take-up rate for payment relief initiatives in Colombia gradually decreased to 8% of gross loans in Colombia and Central America as of September 2021, down from 32% in May 2020.

Reserve coverage has increased consistently up to 1.3x as of September 2021 since an average of 1.1x between 2016 to 2020 as part of the process to protect the bank of the asset deterioration. Stage 3 reserve coverage remained around 60% as part of the risk assessment. 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 lockdowns measures. Fitch has revised the Outlook on the 'bb+' asset quality score to Stable from Negative based on reduced downside risks.

Davivienda's profitability is underpinned by its resilient performance supported by adequate cost control, a consolidated franchise and geographical diversification. However, loan impairment charges, mainly related to conservative provisions for the deteriorated expected scenario resulted from the coronavirus pandemic, and limited business growth weigh on profitability. Fitch's core metric ratio of operating profit to RWAs improve to 1.79% at September 2021 since 0.42% at YE20 and compare closely with the average of 2.0% from 2016 to 2019.

The recession pressured credit costs, with loan impairment charges consuming 89% of pre-impairment operating profit at YE20, compared with an average of 50% from 2015-2019; however, as of September 2021, this pressure has decreased gradually to 64%. Fitch expects that profitability will continue improving during the second half of the year, as a result of higher operating revenues, increases in interest rates levels and lower credit expansion.

Fitch views the bank's capital as sufficient considering its relatively ample loan loss reserves, good asset quality, recurrent earnings generation and adequate risk management. The bank's CET1 ratio reached 12.3% in September 2021. Limited asset growth, profits recovery and currency depreciation drive the ratio performance. CET1 plus an additional Tier 1 ratio was 14.19%; hybrids provided additional buffer and enhanced total regulatory metric to 18.5%.

Despite operating environment challenges faced during 2020, operating profits have increased its room to maneuver credit cost. Fitch does not anticipate significant pressures for the new capital requirements during the Basel III implementation period under a scenario of conservative risk management and gradual business recovery.

Davivienda boasts a wide deposit base of well-diversified, stable and relatively low-cost funds and good liquidity. Customer deposits consistently provide over 73% of total funding. Additionally, Davivienda has established market access to international and local debt markets. Its loans/deposits ratio of around 124% at September 2021, exceeds the peer average as of the bank utilizes longer tenor funding that helps to better match its assets and liabilities 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.

RATING SENSITIVITIES

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

VR, IDRS AND NATIONAL RATINGS

--Davivienda's VRs and IDRs are sensitive to a material deterioration in the local operating environment or a negative sovereign rating action;

--The 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 if the CET1 ratio falls consistently below 10%.

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

VR, IDRS AND NATIONAL RATINGS

--Given the limitations of the operating environment, a ratings upgrade is unlikely in the medium term;

--Over the longer-term, an improvement in the operating environment along with the restoration of financial metrics toward pre-pandemic levels could be positive for creditworthiness.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

GOVERNMENT SUPPORT RATING

The bank's Government support of 'bb' reflect Davivienda's size, systemic importance and the country's historical support policy. Fitch believes there is a high probability of sovereign support. Colombia's ability to provide such support is reflected in the sovereign's Long-term IDR (BB+/Stable).

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).

Davivienda's AT1 notes are rated four notches below Davivienda's VR. The notching reflects the notes' higher loss severity in light of their deep subordination, and additional non-performance risk relative to the VR, given the high write-down trigger of CET1 at 5.125% and full discretion to cancel coupons. The debt has thus been affirmed due to the affirmation of Davivienda's VR.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

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

--Davivienda's GS are potentially sensitive to any change in assumptions as to the propensity or ability of Colombia to provide timely support to the bank;

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

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

--Davivienda's GS are potentially sensitive to any change in assumptions as to the propensity or ability of Colombia to provide timely support to the bank;

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

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

GRUPO BOLIVAR NATIONAL RATINGS AND SENIOR DEBT

GB's National Ratings reflect the creditworthiness of its main subsidiary, Banco Davivienda, which it owns 58.5% of. GB's ratings are aligned with Davivienda's because of its low double leverage (June 2021: 101%) 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. However, it considers that GB's prudent liquidity management, as well as the flexibility of the investment plans and contingency plans sustains a projected cash flow that sufficiently covers the debt service.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

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 result in a sustained deterioration of its debt coverage ratios could pressure GB's ratings.

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.

VR ADJUSTMENTS

The operating environment score has been assigned above the implied score due to the following adjustment reason: Sovereign Rating (positive). International operations are a relevant positive factor in the assessment.

The business profile score has been assigned above the implied score due to the following adjustment reason: Business Model, market position and composition of operating income (positive).

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's ratings are driven by the rating of its main subsidiary, Banco 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)
Banco Davivienda S.A.	LT IDR	BB+ Rating Outlook Stable	Affirmed	BB+ Rating Outlook Stable
	ST IDR	B	Affirmed	B
	LC LT IDR	BB+ Rating Outlook Stable	Affirmed	BB+ Rating Outlook Stable
	LC ST IDR	B	Affirmed	B

	Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable
	Natl ST	F1+(col)	Affirmed	F1+(col)
	Viability	bb+	Affirmed	bb+
	Support	WD	Withdrawn	3
	Support Floor	WD	Withdrawn	BB
	Government Support	bb	New Rating	
senior unsecured	LT	BB+	Affirmed	BB+
subordinated	LT	BB-	Affirmed	BB-
junior subordinated	LT	B	Affirmed	B

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 12 Nov 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Banco Davivienda S.A.	EU Endorsed, UK Endorsed

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Banks Latin America Colombia