MOODY'S
INVESTORS SERVICE

CREDIT OPINION
28 April 2022

Update

Send Your Feedback

RATINGS

Banco Davivienda S.A.

Domicile	Colombia
Long Term CRR	Baa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Baa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Alexandre Albuquerque +55.11.3043.7356
VP-Senior Analyst
alexandre.albuquerque@moodys.com

Marcelo De Gruttola +54.11.5129.2624
VP-Senior Analyst
marcelo.degruttola@moodys.com

Luis Fernando Baza +52.55.1253.5735
Associate Analyst
luis.baza@moodys.com

Ceres Lisboa +55.11.3043.7317
Associate Managing Director
ceres.lisboa@moodys.com

Banco Davivienda S.A.

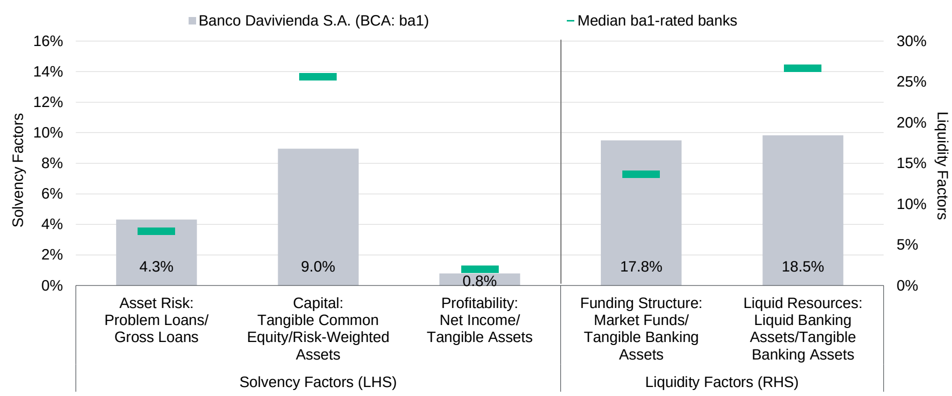
Update to credit analysis

Summary

Banco Davivienda S.A.'s (Davivienda) standalone Baseline Credit Assessment (BCA) of ba1 reflects the bank's good access to core deposits and a long track record of steady, although modest, position in liquid assets. Conversely, Davivienda's BCA is challenged by a problem loan ratio, measured as Stage 3 loans to gross loans, that remains above its pre-coronavirus pandemic level, despite a reduction from year-end 2020. The stable rating outlook reflects our view that profitability will likely rise as economic activity gradually recovers, driven by the favorable operating environment in Colombia.

Davivienda's global scale deposit and debt ratings of Baa3 incorporate our assessment of a high probability that the bank would receive support from the Government of Colombia (Baa2 stable) in an event of financial stress. This assessment results in one notch of rating uplift from the bank's Adjusted BCA of ba1.

Exhibit 1
Rating Scorecard - Key financial ratios
As of December 2021



For the problem loan and profitability ratios, we review the latest three year-end ratios, as well as the most recent intra-year ratio, where applicable, and base our starting point ratio on the weaker of the average of this period and the latest figure. For the capital ratio, we use the latest figure. For the funding structure and liquid asset ratios, we use the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Funding comprised mostly core deposits, reflecting Davivienda's good market share in the banking system.

» Capitalization has benefited from the implementation of Basel III and stable earnings.

Credit challenges

» Asset-quality metrics will likely remain at levels similar to those in December 2021, facing risks from rising interest rates and inflationary pressures

» Persistent challenges on profitability to recover to pre-pandemic metrics

Outlook

The stable outlook on Davivienda's ratings reflects our expectation that the bank's funding, profitability and capital metrics will likely improve with a favorable economic environment for banks in Colombia in the next 12-18 months.

Factors that could lead to an upgrade

Davivienda's ratings could be upgraded if the bank's asset quality improves steadily, along with a sustainable enhancement in earnings generation that could boost its current capitalization levels, which would support the acceleration of loan growth.

Factors that could lead to a downgrade

Davivenda's ratings could be downgraded if the bank's asset quality 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 Colombia's sovereign bond rating of Baa2, which is unlikely at this time because of the stable outlook on the rating.

Key indicators

Exhibit 2

Banco Davivienda S.A. (Consolidated Financials) [1]

	12-21[2]	12-20[3]	12-19[3]	12-18[3]	12-17[3]	CAGR/Avg.[4]
Total Assets (COP Billion)	152,680.5	135,162.3	122,222.0	110,723.9	100,771.3	10.9[5]
Total Assets (USD Million)	37,932.6	39,515.4	37,245.8	34,095.1	33,764.9	3.0[5]
Tangible Common Equity (COP Billion)	10,074.0	8,881.8	8,934.3	8,207.8	7,312.7	8.3[5]
Tangible Common Equity (USD Million)	2,502.8	2,596.6	2,722.6	2,527.4	2,450.2	0.5[5]
Problem Loans / Gross Loans (%)	4.3	5.0	3.7	4.0	2.8	3.9[6]
Tangible Common Equity / Risk Weighted Assets (%)	8.9	7.7	8.4	8.5	8.3	8.4[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	32.8	34.8	27.5	29.6	22.4	29.4[6]
Net Interest Margin (%)	5.3	5.6	5.9	5.8	5.8	5.7[6]
PPI / Average RWA (%)	4.7	4.0	4.3	4.3	4.3	4.3[7]
Net Income / Tangible Assets (%)	0.8	0.3	1.2	1.3	1.3	1.0[6]
Cost / Income Ratio (%)	46.4	46.3	45.9	46.2	46.2	46.2[6]
Market Funds / Tangible Banking Assets (%)	17.8	19.5	20.7	25.2	23.6	21.4[6]
Liquid Banking Assets / Tangible Banking Assets (%)	18.5	18.8	16.6	17.6	18.7	18.0[6]
Gross Loans / Due to Customers (%)	117.6	120.5	126.9	128.4	123.5	123.4[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] Basel II; IFRS. [4] May include rounding differences because of the scale of reported amounts. [5] Compound annual growth rate (%) based on the periods for the latest accounting regime. [6] Simple average of periods for the latest accounting regime. [7] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Banco Davivienda S.A. (Davivienda), a universal bank, provides banking and other financial products and services, including deposit and savings accounts, loans, mortgages and leasing facilities to retail, microfinance, small and medium-sized enterprise (SME), corporate and commercial clients, as well as to public authorities. As of December 2021, the bank reported consolidated assets of COP152,680 billion ($38.4 billion), being the second largest banks in terms of assets in Colombia. In addition, it was the country's second-largest financial entity in terms of gross loans, with a market share of about 16% in Colombia. The bank had about 79% of its loans in Colombia and the remaining 21% throughout Costa Rica, El Salvador, Honduras, and Panama as of December 2021.

Davivienda was established in 1972 as a savings and mortgage corporation named Corporación Colombiana de Ahorro y Vivienda.

Detailed credit considerations

Problem loans decreased in 2021, but remain above pre-pandemic metrics

Davivienda's asset quality weakened at the beginning of the pandemic in March 2020, but showed resilience during 2021. The bank's nonperforming loans (NPLs), measured as Stage 3 loans under IFRS, decreased to 4.3% of gross loans as of December 2021 from 5.0% a year earlier. Nevertheless, the ratio was above the 3.7% reported in December 2019. Although the bank's problem loan ratio is higher than pre-pandemic levels, it remains below those reported by domestic peers. The decrease in NPLs is attributable to positive payment behavior and loan growth. In addition, Stage 3 loans decreased, driven by higher charge-offs, with the latter increasing to 1.1% in 2021 from 0% in 2020. Additionally, the total loan portfolio grew 11% year over year during 2021.

In December 2021, the bank's consolidated gross loans rose about 11% annually, driven by a 17% jump in the mortgage portfolio, followed by growth in the consumer and commercial portfolios of 12% and 8%, respectively.

Davivienda's Central American credit exposures comprised about 21% of the bank's consolidated loan book over the last few years. In December 2021, problem loans from Central America accounted for 14% of the bank's total NPLs, slightly above the 10% posted in December 2020, yet well below the 23% mark posted in December 2015. The bank's operations in El Salvador and Costa Rica are its largest exposures overseas, with around 7% of total consolidated credits each, while its Honduras and Panama-based subsidiaries account for 6%.

Loan loss reserves remained at an adequate 106% of Stage 3 loans as of December 2021. The increase in problem loans since the pandemic outbreak was partially offset by a 54.3% rise in loan loss reserves during 2020, as the bank anticipated a potential deterioration in asset quality. As of December 2021, loan loss reserves are 4.5% of gross loans, below the 6.0% a year earlier, and above the 3.8% average for 2017-19.

In the next 12 months, we expect Davivienda's asset quality metrics will likely remain at levels similar to those in December 2021, despite inflationary pressures in the country. A minor part of the bank's mortgage portfolio (15%) is indexed to inflation, for example. Loans under the Debtors Support Program, which expired in August 2021, represented 6% and 7% of the portfolio in Colombia and Central America, of which just 7% and 4% were delinquent loans, respectively, as of December 2021. Davivienda is more exposed than its peers to consumer and mortgage financing for low-income households, and, as a result, its loan book is more sensitive to economic downturns than its local peers.

Stable capitalization supported by steady earnings

Our preferred ratio of tangible common equity to risk-weighted assets (TCE/RWA) for Davivienda increased to 8.9% as of December 2021, well above 7.7% as of year-end 2020. The 120-basis-point (bp) increase in capitalization was driven mainly by lower RWA following the implementation of the Basel III framework in January 2021, as well as by higher earnings and diminished dividends paid. On a regulatory basis, the implementation of the Basel III framework had a positive impact of more than 555 bps on Davivienda's total capital ratio.

Capital levels will gradually decrease in 2022. The bank approved a dividend payment totaling COP484.2 billion ($120.3 million), payable in two halves, the first in April 2022 and the second in September 2022. This will result in a dividend payout ratio of around 38%, above the 28% average for 2018-20.

We calculate TCE by deducting goodwill from common equity. We adjust RWA by risk weighting government securities at 50%, in line with the Colombian government's Baa2 bond rating. Davivienda's capital is negatively affected by a large stock of goodwill, which is mainly related to the acquisition of Bancafé/Granbanco.

Profitability recovered in 2021, benefited by higher fee income and lower provisions

Davivienda's bottom-line results increased 209% in 2021 from the year-earlier level. The increase in net income was driven mainly by lower provision expenses, higher earnings from foreign-exchange operations and higher fee income. Davivienda reported a 33% increase in fee income from the year-earlier level, reflecting higher transaction volumes from debit and credit cards.

On the other hand, loan loss provisions decreased 21% during 2021. The bank's ratio of loan loss provisions to pre-provision income (PPI) declined to 65% in December 2021, from 90% a year earlier. The volume of loan loss provisions was 2.8% of gross loans as of December 2021, compared with 3.9% as of December 2020. Although inflationary pressures increased in 2021, Davivienda's efficiency metrics remained in line with pre-pandemic levels as the bank benefits from its strong digitalization strategy.

Overall, Davivienda's ratio of net income to tangible assets increased to 0.8% in December 2021, from 0.3% a year earlier. For the next 12 to 18 months, we expect bottom-line results will benefit from rising interest rates and lower provision needs. Still, Colombia will face economic and political uncertainty during 2022.

Volume of core funding and liquid assets remains high

Our Funding Structure assessment incorporates the bank's moderate reliance on market funds, representing about 17.8% of tangible banking assets, supported by its sizable branch network — positioned among Colombia's top four networks — and good market position in Central America. Davivienda has a market share of about 14% in terms of deposits in the Colombian banking system, which will remain an important strength for the bank.

Davivienda's presence in different markets provides it an opportunity to gather core deposits and reduce its dependence on market funds.

The bank's liquid resources remain modest, but consist of highly liquid instruments because most of them are invested in low-risk assets, mainly made up of cash, balances with the central bank and government bonds of Colombia. Liquidity decreased slightly to 18.5% as of December 2021 from 18.8% as of December 2020.

Davivienda's ratings are supported by Colombia's Macro Profile of Moderate +

Davivienda's operations are mainly focused on Colombia, which represents about 79% of its loan portfolio and whose Macro Profile is Moderate+. Colombia's Moderate+ Macro Profile reflects the country's relatively large economy, with a history of predictable policymaking, balanced against a relatively high dependence on commodities and sensitivity to trade shocks, and borrower concentration in the banking system.

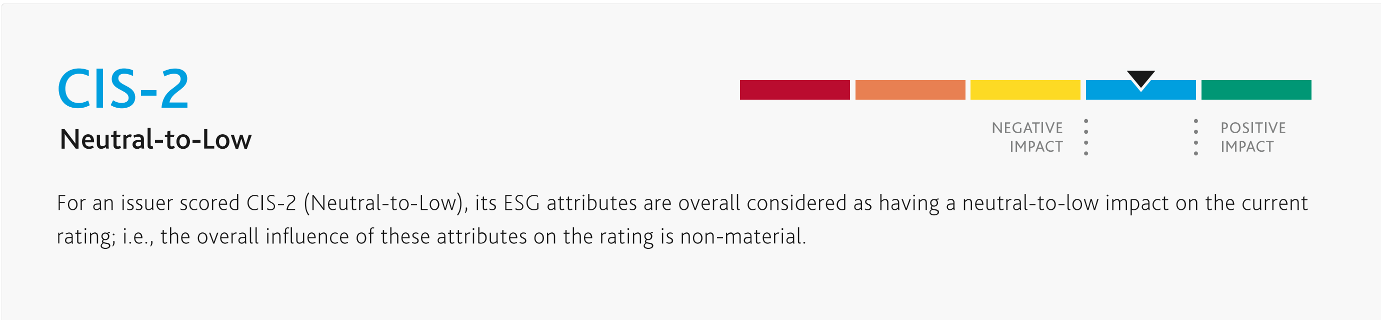
Despite its high exposure to trade shocks, external vulnerabilities are limited by the country's adequate foreign-exchange buffers and access to a sizable credit line from the International Monetary Fund. Moreover, the effectiveness of the government's policy response to recent commodity shocks illustrates the country's moderate institutional strength. In this regard, the actions by the Colombian government and the central bank in response to the pandemic include measures to reinforce the liquidity of financial institutions, the establishment of basic guidelines for the renegotiation of terms and conditions of existing consumer and SME loans, and interest rate cuts.

In line with lower economic growth, credit growth has decelerated substantially, and the credit-to-GDP ratio remains relatively modest. While banks are mainly deposit funded, a substantial portion of these deposits are provided by institutions, leaving banks vulnerable to funding concentration risk. At the same time, high concentration in the banking system supports banks' pricing power and lending spreads.

ESG considerations

Banco Davivienda S.A.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

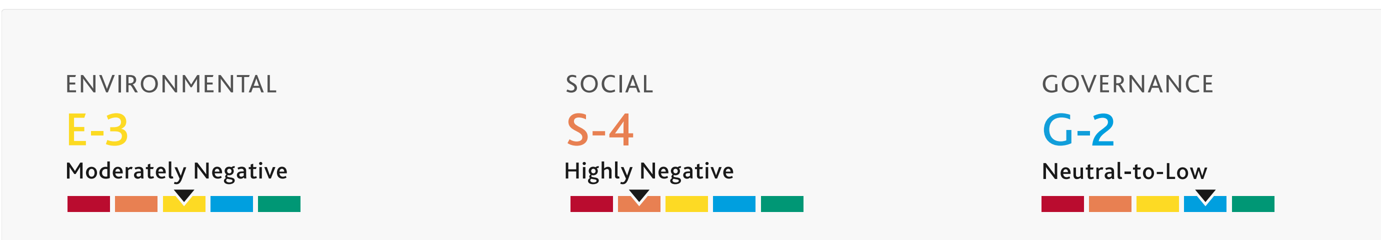
Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

Davivienda's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the limited credit impact of environmental and social risk factors on the rating to date, and the low governance risks. Despite its concentrated ownership, the bank's corporate governance practices are robust and have supported the bank's credit profile during past crises. The bank has a strong track record and earnings recurrence is high, underpinned by its sound risk management practices.

Exhibit 4
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Davivienda has moderate exposure to environmental risks because of its portfolio exposure to carbon transition risk as a large and diversified bank in Colombia. In line with its peers, the bank faces mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Davivienda is engaging in developing its climate risk and portfolio management capabilities.

Social

Davivienda faces high industrywide social risks related to regulatory and litigation risk requiring the bank to meet high compliance standards. High cyber and personal data risks are mitigated by technology solutions and organizational measures to prevent data breaches. Opportunities from financial inclusion are reflected in better-than-industry exposure to demographic and societal trends.

Governance

Davivienda faces neutral-to-low governance risks, and its risk management, policies and procedures are in line with industry best practices. The bank's ownership is dominated by one private group despite being publicly listed. However, the associated governance risks are mitigated by the composition of the board, with a majority of independent directors, and further supported by the bank's management team's track record of sustained earnings generation and delivering on strategic goals.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on www.moodys.com. To view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support considerations

There is a high likelihood of government support for Davivienda's rated wholesale deposits and senior unsecured debt. This reflects Davivienda's large market share of deposits and loans in Colombia and, hence, the significant systemic consequences that would result from an unsupported failure. Davivienda's deposit rating currently benefits from a one-notch uplift from government support.

Counterparty Risk (CR) Assessment

Davivienda's CR Assessment is Baa2(cr)/Prime-2(cr)

The CR Assessment is one notch above the bank's deposit rating of Baa3, reflecting our view that its probability of default is lower for operating obligations than for deposits.

Counterparty Risk Ratings (CRRs)

Davivienda's CRRs are Baa2/Prime-2

Davivienda's global CRRs are positioned at Baa2 and Not Prime, one notch above the bank's deposit rating of Baa3, reflecting the lower probability of default of CRR liabilities and our expectation of a normal level of loss given default.

Foreign-currency debt rating

The Baa3 long-term foreign-currency debt rating of Davivienda's senior debt issuances is based on our evaluation of high government support, leading to a one-notch uplift from the bank's ba1 standalone BCA.

The Ba2 foreign-currency debt rating assigned to Davivienda's dollar-denominated subordinated debt reflects one notch of subordination from the bank's ba1 standalone BCA, in line with our standard notching practices for plain vanilla subordinated debt issuances[1].

The B1 (hyb) foreign-currency subordinated debt rating assigned to Davivienda's additional Tier 1 capital notes is positioned three notches below the bank's ba1 Adjusted BCA, in line with our standard notching guidance for contractual non-viability perpetual maturity securities[2].

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Banco Davivienda S.A.

Macro Factors		
Weighted Macro Profile	**Moderate**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.3%	ba1	↔	ba2	Sector concentration	Loan growth
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	8.9%	b1	↔	b2		
Profitability						
Net Income / Tangible Assets	0.8%	ba1	↔	baa3	Expected trend	
Combined Solvency Score		ba2		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.8%	baa3	↔	ba1	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	18.5%	ba2	↔	ba2	Stock of liquid assets	
Combined Liquidity Score		ba1		ba1		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa2		
BCA Scorecard-indicated Outcome - Range				ba1 - ba3		
Assigned BCA				ba1		
Affiliate Support notching				0		
Adjusted BCA				ba1		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	baa3	1	Baa2	Baa2
Counterparty Risk Assessment	1	0	baa3 (cr)	1	Baa2(cr)	
Deposits	0	0	ba1	1	Baa3	Baa3
Senior unsecured bank debt	0	0	ba1	1		Baa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
BANCO DAVIVIENDA S.A.	
Outlook	Stable
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Senior Unsecured	Baa3
Subordinate	B1 (hyb)

Source: Moody's Investors Service

Endnotes

1 See our Press Release Moody's rates Davivienda's proposed subordinated debt issuance, published on 27 June 2012.

2 See our Press Release Moody's rates B1(hyb) Davivienda's proposed additional Tier 1 capital notes, published on 12 April 2021.

REPORT NUMBER 1324892

MOODY'S
INVESTORS SERVICE