FitchRatings

Banks
Universal Commercial Banks
Colombia

Banco Davivienda S.A.

Update

Key Rating Drivers

Viability Rating Drives Issuer Default Ratings: Banco Davivienda S.A.'s (Davivienda, or the bank) Issuer Default Ratings (IDRs) are driven by the bank's Viability Rating (VR) and consider its intrinsic strength, as reflected in its sound company profile due to its position as the second largest bank in Colombia by loans and assets, respectively, and adequate presence in Central America.

Sound Asset Quality: Davivienda has reported sound asset quality indicators through economic cycles and shown its resilience in dealing with the coronavirus pandemic. The bank's 90 days past-due loans improved to 2.9% at 1Q22 from 4.4% at YE20; the take-up rate for payment relief initiatives gradually decreased to 5% of gross loans in Colombia and 7% in Central America, down from 33% and 43%, respectively, in May 2020.

Gradual Return to Pre-Pandemic Profits: Davivienda's profitability is underpinned by its resilient performance supported by adequate cost control, a consolidated franchise and geographical diversification. However, loan impairment charges during 2021, mainly related to conservative provisions for the expected scenario deteriorated due to the coronavirus pandemic, and limited business growth weigh on profitability. Fitch Ratings' core metric ratio of operating profit to RWAs improved to 2.62% at March 2022 from 0.42% at YE20. Fitch expects profitability will continue improving during 2022 due to higher operating revenues, increases in interest rates levels, lower credit cost and higher credit expansion.

Adequate Capital Metrics: 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 11.2% in March 2022. Asset growth, profit recovery and currency depreciation have driven the ratio's performance. CET1 plus additional Tier 1 ratio was 12.9%; hybrids provided an additional buffer and enhanced the total regulatory metric to 16.7% at the same period. 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.

Diversified and Stable Funding: Davivienda boasts a wide deposit base of well-diversified, stable and relatively low-cost funds and good liquidity. Customer deposits have consistently provided over 77% of total funding. Additionally, Davivienda has established market access to international and local debt markets. Its loans-to-deposits ratio of around 121% at March 2022 exceeded the peer average, as the bank utilizes longer tenor funding that helps 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.

Government Support Rating: The bank's government support (GS) rating of 'bb' reflects 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).

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb+
Government Support Rating	bb
National	
National Long-Term Rating	AAA(col)
National Short-Term Rating	F1+(col)
Sovereign Risk	
Long-Term Foreign Currency IDR	BB+
Long-Term Local Currency IDR	BB+
Country Ceiling	BBB–

Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign Currency IDR	Stable
Sovereign Long-Term Local Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Fitch Ratings 2022 Outlook: Latin American Banks (December 2021)

Colombian Banks Datawatch 1Q22 (June 2022)

Amendment

Ratings deck was amended with the addition of the Country Ceiling rating on page 1. This report was originally published on July 15, 2022.

Financial Data

Banco Davivienda S.A.

(COP Bil.)	3/31/22	12/3121
Total Assets (USD Mil.)	42,046.5	38,192.0
Total Assets	157,662.7	152,680.5
Total Equity	13,931.3	14,279.8

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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 (OE) or a negative sovereign rating action.
- The ratings could be downgraded from a continued deterioration of the OE 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%.

GS Rating

- Davivienda's GS rating is potentially sensitive to any 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 positive rating action/upgrade:

VR, IDRs and National Ratings

- Given the limitations of the OE, a ratings upgrade is unlikely in the medium term.
- Over the longer term, an improvement in the OE along with the restoration of financial metrics toward pre-pandemic levels could be positive for creditworthiness.

GS Rating

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

Other Debt and Issuer Ratings: Key Rating Drivers

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 writedown trigger of CET1 at 5.125% and full discretion to cancel coupons. Thus, the debt has 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:

- 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:

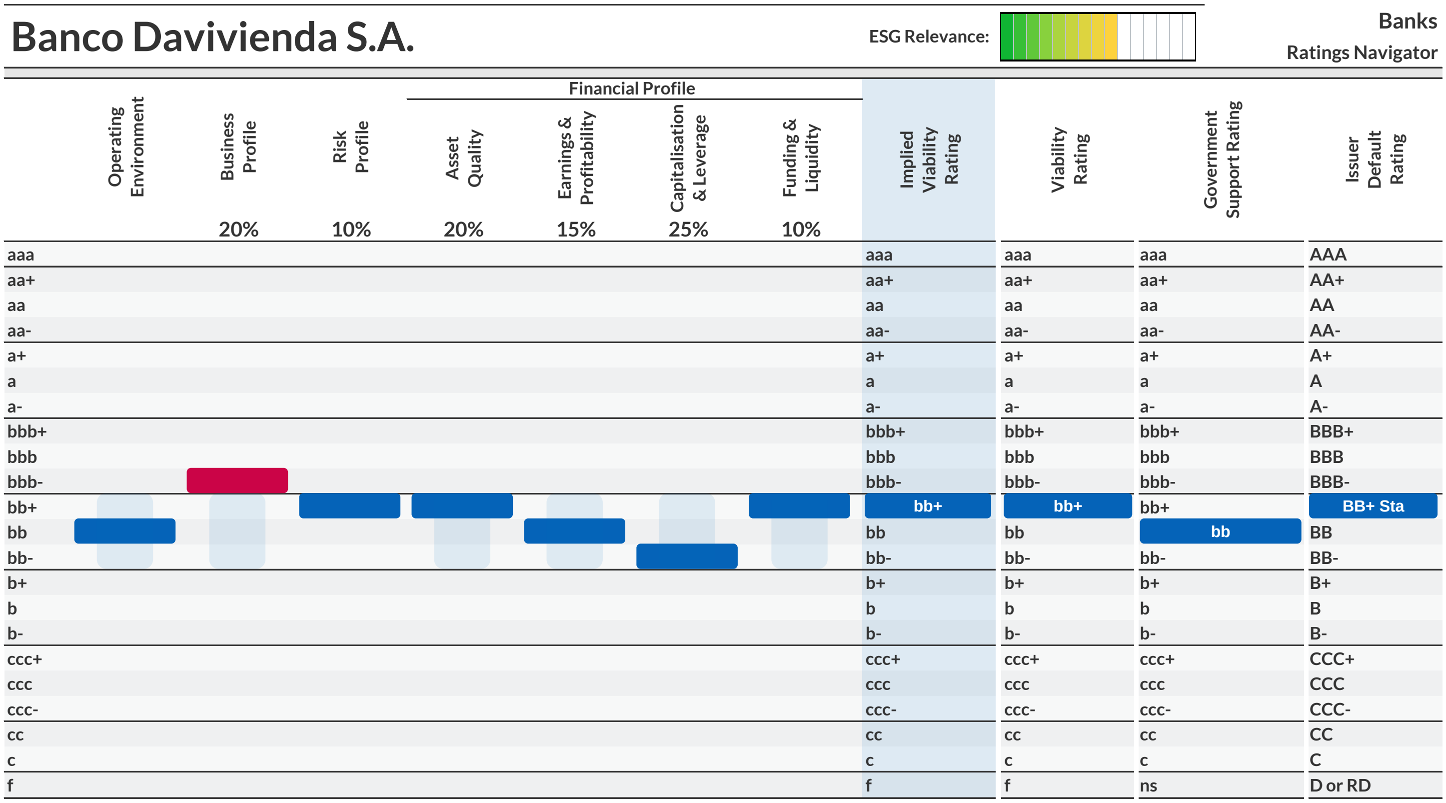
- Subordinated and junior subordinated debt ratings will mirror any action on the bank's VR.

Debt Rating Classes

Rating Level	Rating
Junior Subordinated: Long Term	B
Senior Unsecured: National Long Term	AAA(col)
Senior Unsecured: Long Term	BB+
Subordinated: National Long Term	AA(col)
Subordinated: Long Term	BB–

Source: Fitch Ratings.

Ratings Navigator



Significant Changes

The Stable Rating Outlook reflects Fitch's belief that any remaining pressures on the operating environment, such as higher than expected deceleration in economic growth, is not anticipated to affect materially the bank's financial profile.

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Operating Environment

Colombian banks are well positioned for heightened macro risk. A more benign macroeconomic environment supported the Colombian banks’ recovery path in 2021. Operating profit, net income and capital levels were higher than Fitch projected, with both asset and loan growth exceeding pre-pandemic levels from 2019. Despite a decline in loan impairment charges (LICs), loan impairments fell further than expected, resulting in improved coverage of impaired loans.

Despite our expectations for Colombia’s economic recovery in 2022, the banks’ risks have risen in the first part of the year amid global geopolitical unrest. Along with post-election policy settings, economic and credit growth will be influenced by external factors, including inflation and higher oil prices, which could result in broader macroeconomic uncertainty and exacerbate still high unemployment and underemployment.

Government Support

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	BB+ or BB
Actual jurisdiction D-SIB GSR	BB+
Government Support Rating	**bb**
Government ability to support D-SIBs	
Sovereign Rating	BB+/ Stable
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Positive
Ownership	Positive

The colors indicate the weighting of each KRD in the assessment.
Higher influence   Moderate influence   Lower influence

The bank's GS rating of 'bb' reflects 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).

Summary Financials and Key Ratios

	3/31/22 Three Months — First Quarter		2021	2020	2019
	(USD Mil.)	(COP Bil.)	(COP Bil.)	(COP Bil.)	(COP Bil.)
(Year End as of Dec. 31)	Reviewed - Unqualified	Reviewed - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net Interest and Dividend Income	552.0	2,070.7	7,504.5	7,586.0	6,716.3
Net Fees and Commissions	108.0	403.5	1,501.2	1,129.6	1,190.1
Other Operating Income	41.0	152.3	807.3	107.8	190.0
Total Operating Income	700.0	2,626.5	9,813.0	8,823.4	8,096.4
Operating Costs	321.0	1,202.8	4,716.2	4,139.1	3,729.9
Pre-Impairment Operating Profit	380.0	1,423.7	5,096.8	4,684.3	4,366.5
Loan and Other Impairment Charges	186.0	698.5	3,301.0	4,199.6	2,434.4
Operating Profit	193.0	725.2	1,795.8	484.7	1,932.1
Other Non-Operating Items (Net)	N.A.	N.A.	(22.8)	(8.5)	(4.9)
Tax	57.0	213.9	511.8	68.2	443.3
Net Income	136.0	511.3	1,261.2	408.0	1,483.9
Other Comprehensive Income	(80.0)	(300.0)	357.1	101.8	496.8
Fitch Comprehensive Income	56.0	211.3	1,618.3	509.8	1,980.7
Summary Balance Sheet					
Assets					
Gross Loans	32,508.0	121,897.3	118,620.4	106,674.8	97,399.5
- of which impaired	952.0	3,571.6	3,973.8	4,671.5	3,370.0
Loan Loss Allowances	1,464.0	5,489.6	5,374.4	6,394.7	4,143.5
Net Loan	31,044.0	116,407.7	113,246.0	100,280.1	93,256.0
Interbank	175.0	654.7	2,155.7	1,454.9	709.0
Derivatives	406.0	1,521.3	758.4	1,410.5	511.2
Other Securities and Earning Assets	4,534.0	17,000.9	16,415.2	16,622.4	12,422.9
Total Earning Assets	36,159.0	135,584.6	132,575.3	119,767.9	106,899.1
Cash and Due From Banks	4,001.0	15,001.6	13,154.0	10,260.8	9,744.2
Other Assets	1,887.0	7,076.5	6,951.2	6,384.7	5,578.7
Total Assets	42,047.0	157,662.7	152,680.5	136,413.4	122,222.0
Liabilities					
Customer Deposits	26,878.0	100,784.6	100,879.2	88,526.2	76,732.1
Interbank and Other Short-Term Funding	1,470.0	5,512.6	835.1	1,936.2	1,759.7
Other Long-Term Funding	8,145.0	30,542.1	31,049.4	26,954.1	25,963.9
Trading Liabilities and Derivatives	455.0	1,707.3	648.3	1,640.3	617.8
Total Funding and Derivatives	36,949.0	138,546.6	133,412.0	119,056.8	105,073.5
Other Liabilities	1,383.0	5,184.8	4,988.7	4,636.6	4,497.6
Preference Shares and Hybrid Capital	N.A.	N.A.	0.0	0.0	0.0
Total Equity	3,715.0	13,931.3	14,279.8	12,720.0	12,650.9
Total Liabilities and Equity	42,047.0	157,662.7	152,680.5	136,413.4	122,222.0
Exchange Rate		USD1 = COP3749.72	USD1 = COP3997.71	USD1 = COP3444.90	USD1 = COP3294.05

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions.

Summary Financials and Key Ratios

(%, Annualized as Appropriate, Year End as of Dec. 31)	3/31/22	2021	2020	2019
Profitability				
Operating Profit/Risk-Weighted Assets	2.6	1.7	0.4	1.9
Net Interest Income/Average Earning Assets	6.3	6.1	6.4	6.6
Non-Interest Expense/Gross Revenue	45.8	48.1	46.9	46.1
Net Income/Average Equity	14.7	9.4	3.2	12.4
Asset Quality				
Impaired Loans Ratio	2.9	3.4	4.4	3.5
Growth in Gross Loans	2.8	11.2	9.5	10.9
Loan Loss Allowances/Impaired Loans	153.7	135.3	136.9	123.0
Loan Impairment Charges/Average Gross Loans	2.4	3.0	3.9	2.6
Capitalization				
Common Equity Tier 1 Ratio	11.2	12.0	N.A.	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	N.A.	N.A.	9.6	10.6
Tangible Common Equity/Tangible Assets	7.8	8.3	8.1	9.0
Basel Leverage Ratio	8.4	8.9	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	(15.3)	(10.9)	N.A.	(8.9)
Net Impaired Loans/Fitch Core Capital	N.A.	N.A.	(15.8)	(7.2)
Funding and Liquidity				
Gross Loans/Customer Deposits	121.0	117.6	120.5	126.9
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	73.7	76.0	75.4	73.5
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions.

Environmental, Social and Governance Considerations

FitchRatings **Banco Davivienda S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco Davivienda S.A. has 5 ESG potential rating drivers

- Banco Davivienda S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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