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Ratings

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Banco Davivienda S.A.

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Banco Davivienda S.A.

Ratings Score Snapshot

Issuer Credit Rating
BB+/Stable/B

SACP: bbb- → **Support: 0** → **Additional factors: -1**

Anchor	bb+	
Business position	Strong	+1
Capital and earnings	Moderate	0
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BB+/Stable/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Large franchise in Colombia with diversified operations in Central America.	Economic uncertainties could result in larger credit losses than we expected.
Solid deposit base that supports funding stability.	Highly competitive markets in the countries in which the bank operates could pressure its margins.
Healthy liquidity provides cushion against extraordinary needs.	Modest capitalization compared with those of regional peers.

We expect Davivienda's asset quality to remain stable after its recent improvement in the first half of 2022. The bank's asset quality improved during the first half of 2022 due to loan portfolio growth and because most of its support programs related to the pandemic ended in 2021. We note that most of the remaining loans under these programs continue paying as expected. As a result, we anticipate that Davivienda's asset quality metrics will remain stable this year and in line with the rest of the Colombian banking system.

Expansion of Banco Davivienda S.A.'s digital platform will be a key part of its strategy in the coming years. The COVID-19 pandemic accelerated the use of digital platforms by customers and sharply increased the number of transactions done through Davivienda's digital channels. In our opinion, the bank's ongoing digital transformation, particularly through its digital bank (Daviplata), will bolster growth prospects and further diversify its product base. Alliances with third parties are helping the bank accelerate the platform's deployment and will be a key factor in its expansion. The percent of transactions through its digital channels reached 62% of total transactions as of June 2022.

We consider that its digital strategy and product developments will fuel Davivienda's growth and operating revenues, which we expect to grow about 12% during 2022.

Davivienda's risk-adjusted capital (RAC) ratio will remain modest for the next 12 months. Last year's issuance of $500 million AT1 hybrid notes and the bank's internal capital generation alleviated pressure on its capitalization. In our view, Davivienda's revenue will fund its expected loan portfolio growth without jeopardizing its capital levels. In this sense, we forecast the bank's RAC ratio to be about 5.5% for the next 24 months--above other Colombian banks but modest compared with the region.

We expect the bank's funding and liquidity profile to remain resilient and stable. Davivienda's highly fragmented deposit base will continue to support its funding profile. As of June 2022, deposits represented 75% of its total funding base, while the remainder consisted of market debt, credit lines, and repurchase agreements. In addition, Davivienda's digital push is helping it to attract more deposits at competitive costs, which translated in a 7% growth in its deposit base in the first half of 2022. The latter increased the bank's share of liquid assets and provided a solid cushion against potential effects that could still arise from the adverse global economic conditions.

Outlook

The stable outlook for the next 12 months on Davivienda reflects our expectation that despite the challenging conditions in the region, the bank's asset quality and capitalization will remain manageable.

Downside scenario

We could lower the ratings on the bank if we downgrade Colombia, or if:

- The bank's RAC ratio drops below 5%. This could happen if the dividend payout ratio or loan growth rate is higher than we expect; and
- Its asset quality metrics worsen to a greater degree than the average for the industry and compare adversely with its main regional competitors.

Upside scenario

Given that the sovereign ratings on Colombia (foreign currency: BB+/Stable/B) cap those on Davivienda, we expect the ratings on it to move in tandem with those on the sovereign in the next two years.

Key Metrics

Banco Davivienda S.A. Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	**2019a**	**2020a**	**2021a**	**2022f**	**2023f**
Growth in operating revenue	9.9	8.9	8.6	10.8-13.2	9.5-11.7
Growth in customer loans	10.9	9.5	11.2	11.1-13.4	9.9-12.1

Banco Davivienda S.A. Key Ratios And Forecasts (cont.)

	--Fiscal year ended Dec. 31 --				
(%)	**2019a**	**2020a**	**2021a**	**2022f**	**2023f**
Growth in total assets	10.4	11.6	11.9	8.9-10.9	8.4-10.2
Net interest income/average earning assets (NIM)	6.4	6.5	5.7	5.8-6.2	5.8-6.2
Cost to income ratio	46.1	47.0	47.0	46.0-47.0	45.8-46.7
Return on average common equity	13.6	3.5	10.5	12.7-14.0	13.4-14.9
Return on assets	1.3	0.3	0.9	1.0-1.2	1.0-1.3
New loan loss provisions/average customer loans	2.6	4.1	2.9	2.5-2.8	2.4-2.6
Gross nonperforming assets/customer loans	3.8	4.5	3.6	3.0-3.4	3.0-3.3
Net charge-offs/average customer loans	2.8	2.2	4.5	2.6-2.9	2.5-3.0
Risk-adjusted capital ratio	5.4	5.2	5.5	5.3-5.6	5.4-5.7

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

Anchor: 'bb+' For Banks Operating In Colombia

Colombian banks' business and operating conditions are recovering at the same pace as the economy. The strong economic rebound in 2021 boosted credit demand, while favorable prospects for the next two years--real GDP growth will average 3.2%--will keep supporting credit expansion in 2022-2023, which we estimate at 8%-9%. However, low income levels, weak payment culture, high inflation and interest rates, and downside risks for the sector will keep credit losses above historical levels during the next 12-18 months. Once consumer and business dynamics stabilize and unemployment falls, credit losses will return to more normal patterns.

Despite the authorities' reactive response in past economic crises--in particular, in the late 1990s--the ongoing efforts to strengthen and align banking regulations with international standards is improving the supervision, timeliness, and transparency in preventing potential deterioration in banks' credit fundamentals. Wholesale funding concentrations are shrinking, but still represent a challenge for banks. Colombian banks' profitability is returning to adequate levels after the pandemic-related hit in 2020, and they maintain fairly conservative lending practices.

The economic risk trend for the Colombian banking system remains stable. In our view, Colombia's ongoing and expected economic recovery will support banks in terms of business and operating conditions and should help in returning nonperforming assets (NPAs) and credit losses to more normal patterns in the next 12-18 months. Economic recovery could alleviate pressure on imbalances and credit risks among Colombian banks. On the other hand, the still high uncertainty about the pandemic's duration and potential recurrence of severe and widespread COVID-19 cases, along with still weak labor market dynamics, high inflation, and increasing interest rates, could arrest recovery and exacerbate economic risks.

We view the industry risk trend for Colombian banks as stable. We expect the banking regulator to continue with its efforts to improve its supervision, capacity to remedy problems quickly, and transparency. If the regulator is successful in doing so, banks' RAC ratios will rise--which could give them greater ability to absorb credit losses--and wholesale funding diversification. In addition, the institutional framework could strengthen, which we expect could take more than two years. We expect Colombia's large banks to maintain their predominant position, and for competitive

dynamics to remain stable due to adequate risk appetite and absence of market distortions.

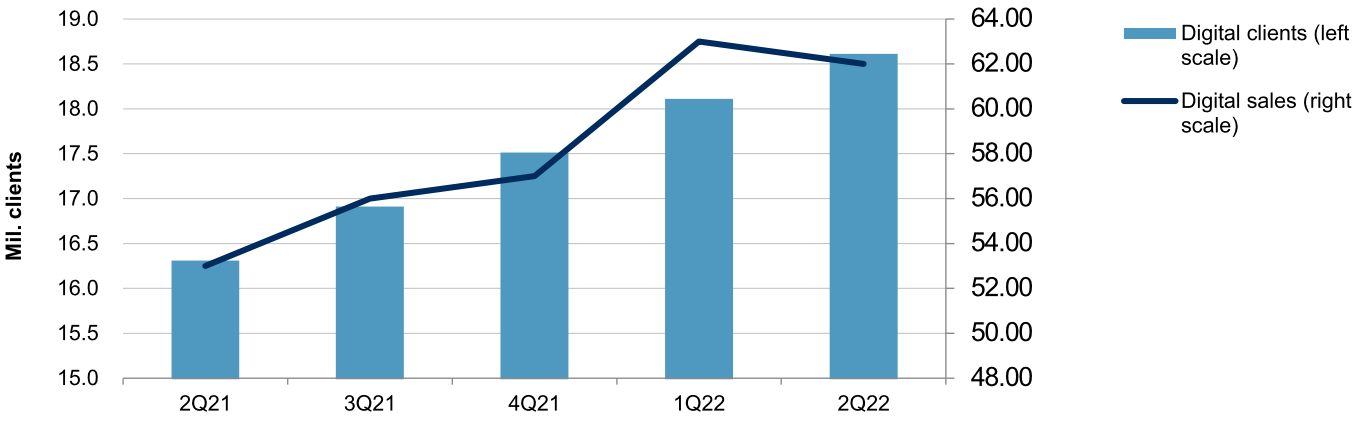
Business Position: Recovering Interest Income And Digital Growth Will Support Davivienda's Business Stability

During 2021, the bank's interest income had a strong recovery--almost reaching pre-pandemic levels--that has continued in 2022. In our opinion, the bank's resilience was a result of its robust market position, sound revenue diversification, and its prudent management team. As of June 2022, the bank represented 16.2% of the Colombian banking system's total loans and 13.9% of deposits. This market share positions Davivienda as the second largest bank in terms of loans in the country.

On the other hand, the bank has been focusing on expanding its digital platforms, particularly through its native digital bank 'Daviplata'. In this sense, digital sales have been gradually increasing to 62% of total sales as of June 2022. Also, using strategic alliances has also helped the bank attract more deposits and expand its product offerings to its nearly 21 million customers as of the same date--of which 89% use digital transactions. Additionally, Daviplata customers reached nearly 15 million as of the same date, and we forecast them to continue growing in the next few years.

Chart 1

Davivenda's Digital Evolution



Q--Quarter. Source: S&P Global Ratings.

We expect Davivienda's loan portfolio to grow around 12% for 2022-2023, maintaining its market participation. Similarly, we expect operating revenues to continue growing 11%-12% for the same timeframe, helping the bank maintain its business stability.

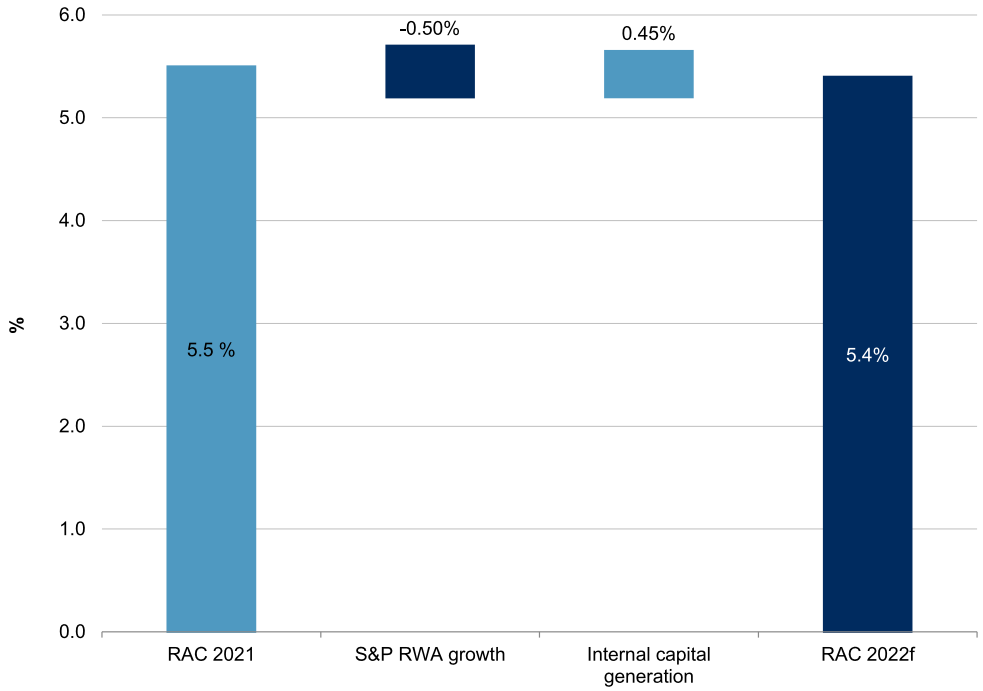
Capital And Earnings: Recovery In Earnings Will Support Its Credit Growth And Keep Its RAC Ratio Stable

Following last year's issuance of $500 million AT1 hybrid notes, Davivienda's capital levels are no longer pressured for

the rating level and continue to be slightly better than the rest of the Colombian banking industry. We forecast risk-weighted assets (RWAs) to grow around 11.6% during 2022, fully compensated by its net income, for which we forecast and improvement of about 40% this year. The latter, coupled with an expected dividend payout of 40% results in stable RAC ratios around 5.7% for the next 12 months.

Chart 2

Davivienda's Projected RAC Ratio



RWA--Risk-weighted assets. RAC--Risk-adjusted capital. f--Forecast. Source: S&P Global Ratings.

In terms of earnings capacity, Davivienda's recovery coming out of the pandemic-related crisis has been substantial. This is mainly due to controlled new loan loss provisions, higher net interest income, and improving efficiencies thanks to its digital efforts. As a result, return on average assets increased to nearly 1.5% as of June 2022. However, given the tough economic conditions and interest rates hikes, we don't think that these levels will continue going forward and will decline slightly to closer to 1.1% by the end of 2022 and 1.15% for 2023. In our view, these levels still lag those from before the pandemic, but are on a recovery path.

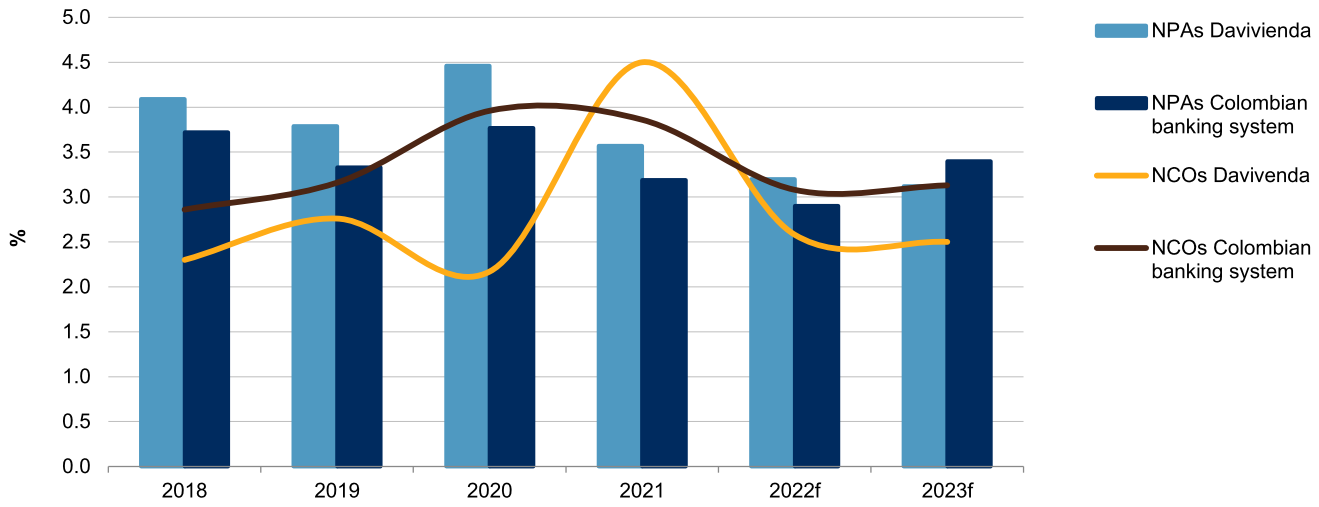
Risk Position: Recovering Asset Quality Metrics And No Significant Concentrations

Davivienda's asset quality improved significantly in the first half of 2022 because most of its support programs from the pandemic came to an end in 2021. Only a small fraction--4% in Colombia and 6% in Central America--of those

programs remain, but 89% of those customers continue paying on time. As a result, we expect Davivienda's asset quality metrics to remain stable this year, with NPAs at 3.2% and net charge-offs at 2.6%--fully covered by loan loss reserves. We consider these ratios to be manageable and in line with the rest of the Colombian banking system.

Chart 3

Davivienda's Asset Quality Versus Colombian Banking System



f--Forecast. NPAs--Nonperforming assets. NCOs--Net charge-offs. Source: S&P Global Ratings.

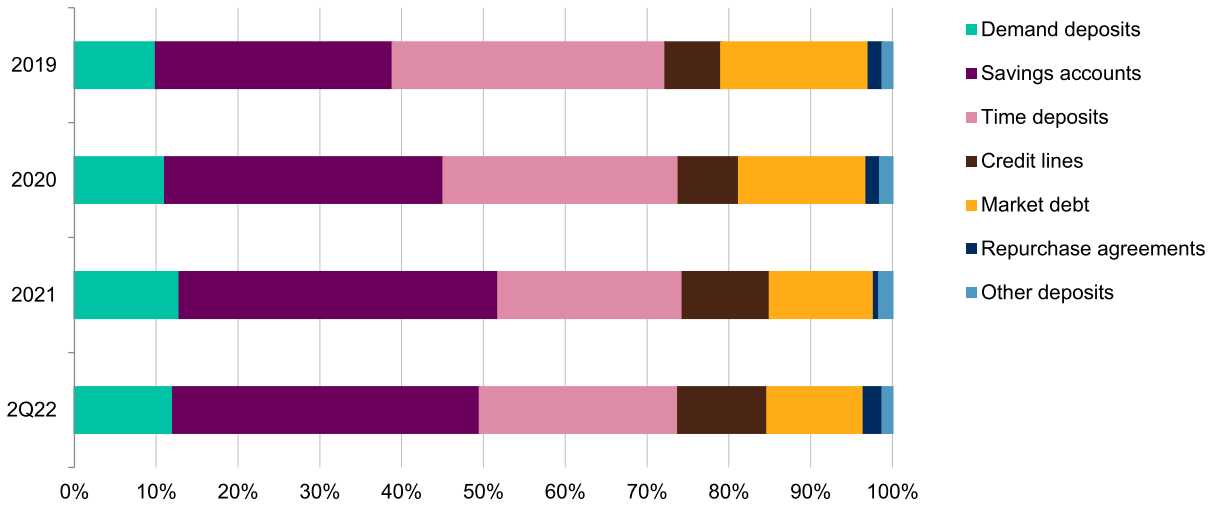
In terms of the bank's diversification, Davivienda has no substantial concentrations in terms of regions and industries. We expect the bank to maintain its loan portfolio growth in the same segments and countries, which should also keep asset quality controlled. Regarding client diversification, its top 20 clients represented 11.95% of its total loan portfolio and 1.25x its total adjusted capital, which we consider manageable and in line with regional peers.

Funding And Liquidity: Stable Deposit Base Will Continue To Support Its Funding Profile

Davivienda's deposit base has proven stable amid the challenging economic conditions during the pandemic and has continued growing, supported by the bank's digital strategies. In 2021, its deposit base grew 14% and it grew close to 7% in the first half of this year. We expect the bank's funding profile to continue to be based on deposits, which represented 75% of its total funding base as of June 2022, in line with the rest of the system (77.1%). Its funding profile is complemented by market debt (11.9%) and credit lines (11%) and repurchase agreements (2.3%). This funding profile translated into a stable funding ratio of 107% as of June 2022, and we don't expect any major changes in the near future.

Chart 4

Davivienda's Funding Mix



Q--Quarter. Source: S&P Global Ratings.

The bank's liquidity position remains solid, with its broad liquid assets covering its short-term wholesale funding 3.1x as of June 2022. Davivienda has maintained prudent management and a proactive stance toward its liquidity during stress periods and has adequate management of market debt gaps. We expect liquidity to remain solid as its deposit base grows and the bank starts leveraging its digital strategy in the Colombian market.

Support: No Uplift To The SACP

We consider Davivienda to have high systemic importance for the government, and the Colombian government as supportive toward its financial system. We base our assessment of high systemic importance on the bank's leading position in the Colombian banking system, as one of the top three largest players in terms of loans and deposits, and its sound brand recognition. This results in a moderately high likelihood of extraordinary government support. However, the combination of Davivienda's stand-alone credit profile (SACP) of 'bbb-' and the local currency rating on Colombia doesn't result in any uplift for the issuer credit rating on the bank.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of Davivienda. The bank has been actively funding social interest mortgages, loans to women-owned small and midsize enterprises, sustainable infrastructure, renewable energy, and energy efficiency projects. Furthermore, the bank has a target that by 2030, around 30% of its total loan portfolio will be ESG-focused. In our view, 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. Finally, in our opinion, governance standards are in line with its main Colombian peers.

Key Statistics

Table 1

Banco Davivienda S.A.--Key Figures

	--Year-ended Dec. 31--				
(Mil. COP)	**2022***	**2021**	**2020**	**2019**	**2018**
Adjusted assets	164,547,487.0	150,847,564.0	134,569,201.0	120,396,422.0	108,916,852.0
Customer loans (gross)	130,618,973.0	118,620,359.0	106,674,756.0	97,399,570.0	87,821,593.0
Adjusted common equity	10,347,886.0	9,858,082.0	9,249,039.8	9,043,668.8	7,993,629.8
Operating revenues	5,498,513.0	9,574,116.0	8,814,854.0	8,091,477.0	7,364,904.0
Noninterest expenses	2,449,586.0	4,500,055.0	4,139,050.0	3,729,883.0	3,413,889.0
Core earnings	1,168,434.0	1,261,164.0	408,032.0	1,483,855.0	1,398,501.0

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

Table 2

Banco Davivienda S.A.--Business Position

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (currency in millions)	5,498,513.0	9,574,116.0	8,814,854.0	8,091,477.0	7,364,904.0
Commercial and retail banking/total revenues from business line	92.5	93.8	98.7	97.5	96.1
Trading and sales income/total revenues from business line	4.9	5.2	0.3	0.8	2.0
Insurance activities/total revenues from business line	1.3	1.3	1.4	1.3	1.3
Other revenues/total revenues from business line	1.3	(0.4)	(0.3)	0.3	0.6
Investment banking/total revenues from business line	4.9	5.2	0.3	0.8	2.0
Return on average common equity	18.7	10.5	3.5	13.6	14.0

*Data as of June 30.

Table 3

Banco Davivienda S.A.--Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	12.0	12.0	8.3	8.0	8.0
S&P Global Ratings' RAC ratio before diversification	N/A	5.5	5.2	5.4	5.2
S&P Global Ratings' RAC ratio after diversification	N/A	4.9	4.8	5.0	4.8
Adjusted common equity/total adjusted capital	83.2	83.2	89.1	88.8	87.6
Net interest income/operating revenues	77.5	78.1	85.8	82.7	80.8
Fee income/operating revenues	15.0	15.7	12.8	14.8	15.3
Market-sensitive income/operating revenues	4.9	5.2	0.3	0.8	2.0
Cost to income ratio	44.5	47.0	47.0	46.1	46.4
Preprovision operating income/average assets	3.8	3.5	3.6	3.7	3.7
Core earnings/average managed assets	1.5	0.9	0.3	1.3	1.3

*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Banco Davivienda S.A.--Risk Position

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	20.2	11.2	9.5	10.9	12.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	11.6	8.2	8.3	9.4
Total managed assets/adjusted common equity (x)	16.1	15.5	14.7	13.5	13.9
New loan loss provisions/average customer loans	2.2	2.9	4.1	2.6	2.5
Net charge-offs/average customer loans	2.3	4.5	2.2	2.8	2.3
Gross nonperforming assets/customer loans + other real estate owned	3.1	3.6	4.5	3.8	4.1
Loan loss reserves/gross nonperforming assets	142.3	126.8	134.3	112.3	103.3

*Data as of June 30. N/A--Not applicable. RWA--Risk-weighted assets.

Table 5

Banco Davivienda S.A.--Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	75.0	76.0	75.4	73.5	71.7
Customer loans (net)/customer deposits	115.8	112.3	113.3	121.5	123.0
Long-term funding ratio	95.4	96.3	93.5	91.7	89.4
Stable funding ratio	107.2	109.9	106.5	101.8	100.5
Short-term wholesale funding/funding base	5.1	4.0	7.1	9.2	11.7
Broad liquid assets/short-term wholesale funding (x)	3.1	4.3	2.5	1.7	1.4
Broad liquid assets/total assets	13.7	15.0	15.0	13.1	13.7
Broad liquid assets/customer deposits	21.1	22.6	23.2	20.9	22.1
Net broad liquid assets/short-term customer deposits	18.0	21.7	17.2	10.5	7.3
Short-term wholesale funding/total wholesale funding	19.2	15.8	27.7	33.2	39.7

*Data as of June 30.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, 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. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of September 14, 2022)*	
Banco Davivienda S.A.	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+
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.