FitchRatings

Banco Davivienda S.A.

Banks
Universal Commercial Banks
Colombia

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 Rating	
National Long-Term Rating	AAA
National Short-Term Rating	F1+
Sovereign Risk (Colombia)	
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 (September 2022)

National Scale Rating Criteria (December 2020)

Related Research

Colombian Banks Datawatch 2Q22 (November 2022)

LatAm Banks Semiannual Credit Tracker (November 2022)

Analysts

Robert Stoll
+1 212 908-9155
robert.stoll@fitchratings.com

Sergio Pena
+57 601 241 3233
sergio.pena@fitchratings.com

Key Rating Drivers

VR Drives IDRs: Banco Davivienda S.A.'s (Davivienda) Issuer Default Ratings (IDRs) are driven by its Viability Rating (VR) and consider its intrinsic strength, as reflected in a sound company profile due to a domestic bank franchise ranking as the second largest in Colombia, as well as an adequate franchise in Central America. The VR is in line with the implied VR.

Fitch Ratings expects the operating environment (OE) for Colombian banks to remain stable and consistent with the 'bb' factor score, despite an expectation for slowing GDP growth in 2023 and a sharp rise in interest rates through 2022 to address high inflation. Fitch believes sustained capitalization, improving profitability and lower loan impairment charges provide sufficient resilience to face stress for Colombian banks.

Consolidated Franchise: Davivienda has a leading franchise in the Colombian mortgage and retail segments, and ranks among the top players in corporates and the Central American market, which explains its business profile score of 'bbb–'. The bank's business model benefits from geographical and revenue diversification, as well as continuous efforts to develop cutting-edge digital technologies, generating stable earnings over time.

Sound Asset Quality: Fitch expects asset quality pressures over the near term due to the bank's higher exposure to consumer loans and a challenging OE for 2023. However, loan deterioration should reach about 4% at YE23, above the 2.9% at September 2022. It is not expected to be a relevant source of risk under Davivienda's rating horizon, as the bank has shown resilience through economic cycles and proactively monitored its clients, and has excess loan loss allowances (LLAs) to absorb further pressures. In addition, moderate risk concentrations by debtor and economic sector and real guarantees partially mitigate risks from the OE. The asset quality performance for its Central America operation is expected to remain stable.

Resilient Profitability: Davivienda's profitability is underpinned by its resilient performance supported by adequate cost control, a consolidated franchise and geographic diversification. Fitch expects the profitability core metric ratio of operating profit to risk weighted assets (RWA) to contract to 2.1% at YE23 from roughly 2.5% at YE22, and maintain the score in the 'bb' range. High interest rates during the first half of 2023 should benefit Davivienda's net interest margin (NIM) but are likely to be partially offset by higher funding costs, limited business growth, a rise in impairment expenses and inflation that continues to pressure operating expenses in fiscal 2023.

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. Asset growth, profit recovery and currency depreciation have driven the bank's capital performance during 2022. Fitch expects the Common Equity Tier 1 (CET1) ratio to remain at about 11% over the next two years with a capital score of 'bb–', commensurate with the bank's planned growth and financial performance. The CET1 plus additional Tier 1 ratio was 12.8% at September 2022; hybrids provided an additional buffer and enhanced the total regulatory metric to 16.2% at the same period.

Diversified and Stable Funding: Davivienda boasts a wide deposit base of well-diversified, stable and relatively low-cost funds and good liquidity. Fitch expects the deposit base and regular access to capital markets to continue to boost loan growth. Conservative liquidity policies and a consolidated market position will allow the bank to fulfil regulatory liquidity ratios above 100%. The factor score remains at 'bb+'. The loans to deposits ratio of about 122% at September 2022 exceeded the peer average, as the bank utilizes longer-tenor funding that helps to better match its assets and liabilities. Davivienda's subsidiaries are funded independently in their home markets and must be self-sufficient to avoid contagion effects.

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 OE or a negative sovereign rating action.
- The ratings could be downgraded from a continued deterioration of the OE 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 OE, a ratings upgrade is unlikely in the medium term.
- Over the longer term, the ratings could be upgraded by the confluence of an improvement of the OE and the bank's financial profile.

Other Debt and Issuer Ratings

Rating Level	Rating
Junior Subordinated: Long Term	B
Senior Unsecured:	AAA(col)
Subordinated:	AA(col)

Source: Fitch Ratings

Davivienda's AT1 notes are rated four notches below its 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.

Davivienda's local subordinated debt is rated two notches below its National Long-Term rating; two notches for loss severity (-2) and zero notches for non-performance risk (0), given the terms of the issuances (plain-vanilla subordinated debt).

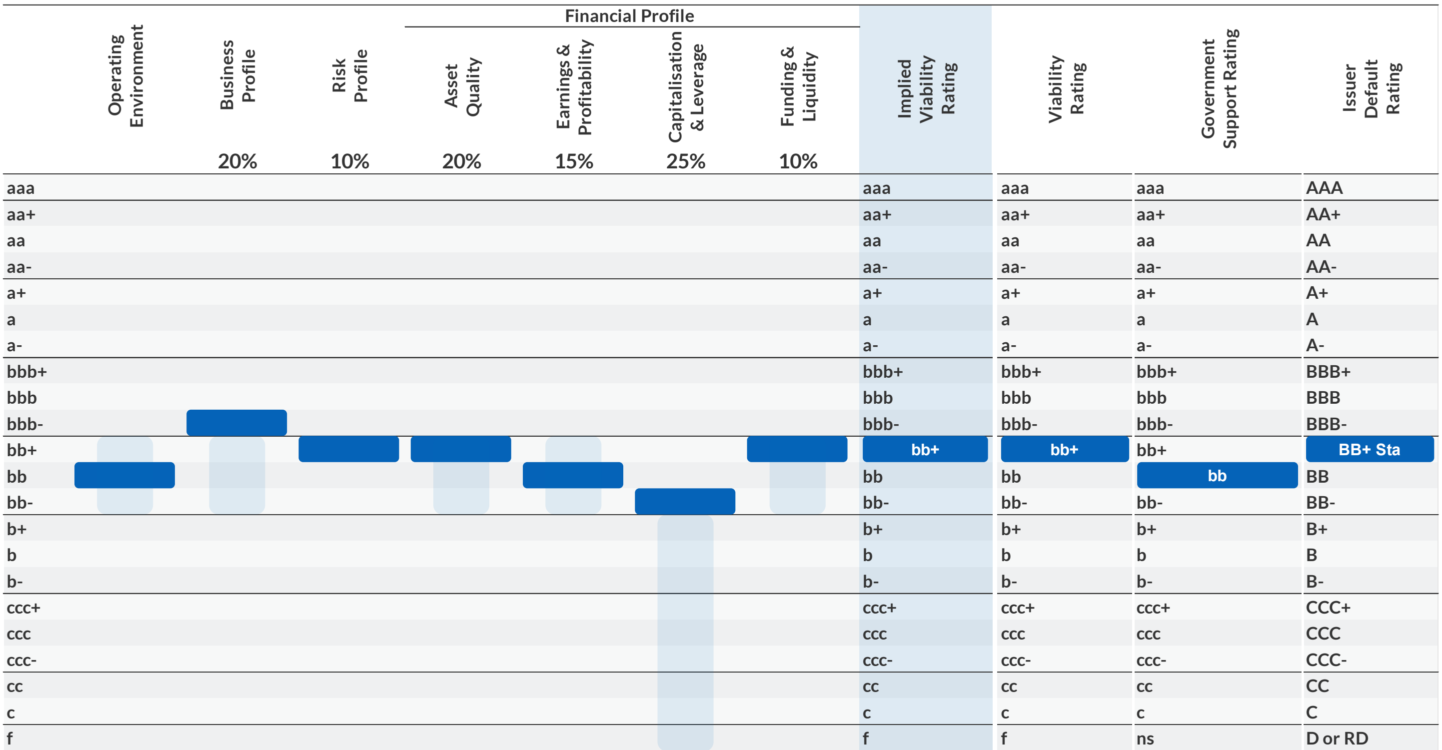
Davivienda's local senior unsecured bonds are rated at the same level as the bank's National Long-Term rating, considering the absence of credit enhancement or any subordination feature.

- Davivienda's junior subordinated debt ratings will mirror any action on the bank's VR.
- Davivienda's local senior debt ratings would move in line with its National Long-Term rating.
- Davivienda's local subordinated debt ratings would move in line with its National Long-Term rating.

Significant Changes from Last Review

The Rating Outlook on the Long-Term IDRs is Stable. Despite operating environment (OE) pressures, which include a slowdown of GDP, high inflation, as well as domestic macro and political uncertainty, Davivienda's core financial metrics have sufficient headroom to maintain its current ratings.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upward or downward to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

- The Business Profile score has been assigned above the implied score due to the following adjustment reason(s): Business Model (positive).
- The Capitalization & Leverage score has been assigned above the implied score due to the following adjustment reason(s): Core Capital Calculation (positive).

Company Summary and Key Qualitative Factors

Operating Environment

Fitch expects the OE for Colombian banks to remain stable and consistent with the 'bb' factor score, despite its expectation for slowing GDP growth in 2023 and a sharp rise in interest rates through 2022 to address high inflation. Fitch believes sustained capitalization, improving profitability and lower loan impairment charges provide sufficient resilience to face stress for the banks.

Business Profile

Consolidated Franchise, Leader in Mortgage

Davivienda has a leading franchise in the 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 revenue diversification, as well as continuous efforts to develop cutting-edge digital technologies.

Davivienda is Colombia's second largest bank, with a market share of about 13.7% by assets, 16.2% by loans and 13.9% by deposits within Colombia as of June 2022, and a regional presence since 2012. The bank has a leading position in mortgage and consumer lending, and has consolidated as an important player in the commercial and corporate segments as well as in Central America. The consolidated competitive position, local and regional presence, and technology and efficiency advantages provide the entity with pricing power. By geography, about 26.8% of Davivienda's assets are in Central America, which is estimated to have contributed to about 22% of the bank's net income at September 2022. The bank's network includes 666 branches, 2,700 ATMs, more than 21.3 million customers and presence in six countries.

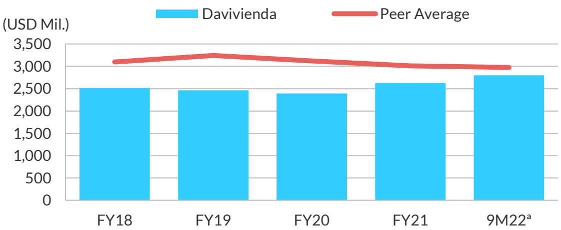
Digital Bank Strategy

Starting in Colombia and then migrating to Central America, the bank is developing its core capabilities based on three premises, innovation, efficiency and customer service, to develop its digital transformation. Davivienda's long-term strategy is to consolidate its position as a multi-Latin American bank, with a strong leadership position in retail and mortgage lending, a solid competitive position in corporates, and an improving position in SME, project finance and private banking, maintaining its synergistic advantages of operating in various business lines. The bank's budget for 2021–2023 includes USD250 million in digital and technological initiatives to create ecosystems, including a joint venture with a local partner in Colombia to launch a digital bank. Central America initiatives comprise boosting the digital strategy, increasing the use of analytics, developing the SME market, increasing market share and improving efficiency.

Davivienda is also committed to an overall strategy comprising sustainable development goals in terms of promoting gender equality and decent working conditions; reducing inequality; promoting sustainable cities and communities, and climate initiatives; and adhering to the UN PRI. The strategy incorporates into the business model environmental and social financing in different fields such as sustainable construction, renewable energy, infrastructure, low-income housing and women-owned SMEs, among others.

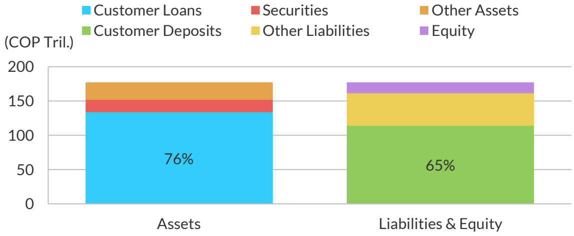
Davivienda has established a sound and credible track record of adequate long-term planning and good execution. The bank's digital transformation has been central to improving speed of service, increasing its client focus and simultaneously reducing its operating costs. During the past year, Davivienda continued to direct its efforts to transforming its digital channels, improving human resources, building alliances with digital stakeholders and taking advantage of data sources to manage its banking business.

Total Operating Income



[a]Annualized.
Source: Fitch Ratings, Fitch Solutions

Balance Sheet
(Ended September 2022)



Source: Fitch Ratings, Davivienda

Risk Profile

Modest Risk Profile

Fitch considers the bank's risk profile as modest, supported by its retail focus, collateral requirements (51% loan portfolio: September 2022) and sound risk management, with well-defined systems and procedures that have proven effective during periods of market turmoil. Nevertheless, the bank has not been immune to crises and economic downturns, and, during 2020, increased loan loss provisions related with its expected losses model, eroding profitability. The recession pressured credit costs, but these have been gradually improving in the past 12 months. As of September 2022, the pressure on operating profits from loan impairments has decreased to45%, as a consequence of better financial performance for Colombia and Central America, compared with an average of 50% from 2015–2019.

Adequate Risk Controls

The bank has organized a centralized risk management unit that oversees credit, operational and market risk for itself, its subsidiaries and all the companies of the Bolivar Group. Although the bank leads in terms of policies and risk control processes, best practices are adopted across the group whenever possible. In Fitch's opinion, Davivienda's risk and credit policies are relatively conservative, and its credit process is sound and mature, as illustrated by its good asset quality. Under IFRS, the expected losses model included migration to Stage 2 and 3, and the forward looking assessment to increase reserve coverage. Risk management involves vintage analysis, portfolio flows, tolerated loss limits for products, fine-tuning of the models and portfolio quality ratios. Collection is considered a key part of the process and is centralized in a specialized unit.

After an economic rebound in Colombia, and due to support from analytics tools, Davivienda's growth during 2022 reflected higher demand for consumer loans, an increased market share in the SME segment, government initiatives for mortgages and relatively better financial conditions for corporate loans. The Central American operation growth reflects modest performance in wholesale and retail segments, albeit magnified in the consolidation process by currency depreciation.

Financial Profile

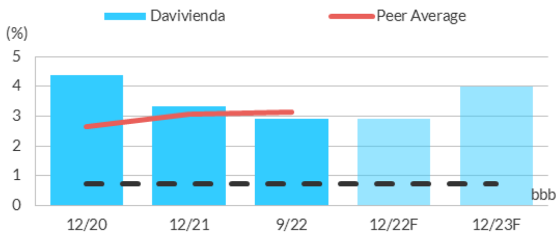
Asset Quality

Sound Asset Quality: Fitch expects asset quality pressures over the near term due to the bank's higher exposure to consumer loans and a challenging OE for 2023. However, loan deterioration is expected to be 4% at YE23, above the 2.9% at September 2022, and is not expected to be a relevant source of risk under Davivienda's rating horizon, as the bank has shown resilience through economic cycles; it has proactively monitored its clients and has excess loan loss allowances (LLAs) to absorb further pressures. Also, moderate risk concentrations by debtor and economic sector as well as real guarantees partially mitigate risks from the OE. The asset quality in Central America is expected to remain stable.

Concentration by industry is moderate, with concentrations below 10% of total gross loans. No economic sector is a source of concern for the bank. However, the bank has periodically adjusted its origination model, including risk assessment, total industry exposures, payment capacity, internal scores and digital channels, through stronger analytical approval tools. The Central American subsidiaries should continue to grow moderately, at a slower pace than Davivienda in Colombia, reflecting the bank's risk appetite.

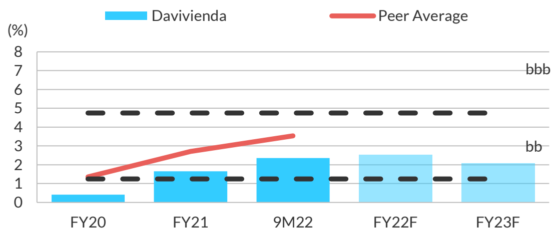
Reserve coverage has increased consistently, reaching 1.5x as of September 2022, from an average of 1.1x between 2016 and 2020 as part of the process to protect the bank from asset deterioration. This level should decrease to 1.3x at YE23, still providing adequate room to absorb losses. Stage 3 reserve coverage remained at about 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. As of September 2022, the proportion of loans secured by some type of guarantee was 51%, and the credit cost of 2.1% compared better than pre-pandemic levels (2.6%) and similar to the banking system (2.2%). The Central American subsidiaries have also been affected by more volatile OEs.

Impaired Loans/Gross Loans



F – Forecast.
Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk Weighted Assets



F – Forecast.
Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

Resilient Profitability: Davivienda's profitability is underpinned by its resilient performance supported by adequate cost control, a consolidated franchise and geographic diversification. Fitch expects the profitability core metric ratio of operating profit to RWA to contract to 2.1% at YE23 from roughly 2.5% at YE22, and maintain the score of 'bb'. High interest rates during first half of 2023 should benefit Davivienda's NIM but are likely to be offset partly by higher funding costs, limited business growth, a rise in impairment expenses and inflation that will continue to pressure operating expenses in 2023.

Loan growth in the retail portfolio is linked to still-high consumer demand in Colombia, as part of Davivienda's business orientation. Despite an increase in funding cost as part of the central bank's measures to control inflation and NSFR requirements, the bank has been able to take advantage of its pricing power and support its NIM. The Central American operations growth is explained mainly by the commercial portfolio amid more signs of economic turmoil. Operational profits to RWA was 2.4% at September 2022, above 2020 and 2021 results that were more impacted by the pandemic. Fitch expects positive profitability to continue for Davivienda during the second half of 2022; however, borrowing costs related to the monetary rate-hiking cycle, market volatility, political uncertainty and high unemployment could affect the positive track record.

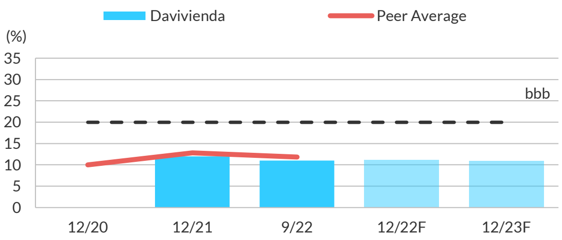
Operating expenses increased 16.3% YOY (September 2022) amid higher inflation, currency depreciation and continued efforts to control operating costs. Positive business dynamics allowed efficiency levels to remain unchanged compared with previous years, with a cost to income ratio in a range of 45%–47%. Consolidated efficiency levels compared in line with regional peers' (44%) as of September 2022. Impairment charges performed better than expected, thanks to asset quality performance and the end of pandemic relief efforts in most of the jurisdictions where the entity operates. Credit costs decreased to 2.1%, while loan impairment charges lowered pressure on pre-impairment operating profits to 45% at 3Q22 from 65% at YE21.

Capital and Leverage

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. Asset growth, profit recovery and currency depreciation have driven the bank's capital performance during 2022. The agency expects the CET1 ratio to remain above 11% over the next two years with a capital score of 'bb-', commensurate with the bank's planned growth and financial performance. CET1 plus additional Tier 1 ratio was 12.8% at September 2022; hybrids provided an additional buffer and enhanced the total regulatory metric to 16.2% at the same period.

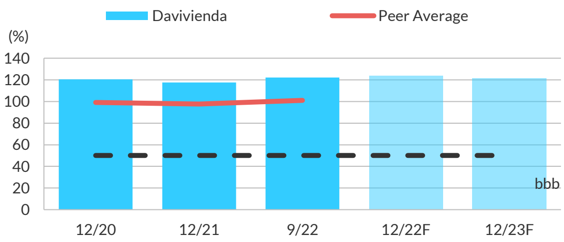
The bank recorded a 93-bp decline in its CET1 ratio during 2022, to 11.03% (September 2022) from 11.96% at YE21 due to RWA growth of 21%, in contrast with the 12% in basic capital. Loss absorption was also enhanced by a higher LLA coverage above 130% and higher real guarantees. Moderate dividend payments will also support capital metrics.

CET1 Ratio



F – Forecast.
Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



F – Forecast.
Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Diversified and Stable Funding: Davivienda boasts a wide deposit base of well-diversified, stable and relatively low-cost funds and good liquidity. Fitch expects the deposit base and regular access to capital markets to continue boosting loan growth. Conservative liquidity policies and the consolidated market position will allow compliance of regulatory liquidity ratios above 100%. The factor score remains at 'bbb–'. Its loans to deposits ratio of about 122% at September 2022 exceeded the peer average, as the bank utilizes longer tenor funding that helps to better match its assets and liabilities. Davivienda's subsidiaries are funded independently in their home markets and must be self-sufficient to avoid contagion effects.

The bank's deposit structure has evolved since 2016 toward longer and stable resources, with term deposits at 37% of total deposits at September 2022, higher than the 30% of YE21 partly due to NSFR requirements in place during 2022. In line with Davivienda's liquidity preference policy and goal to reduce the structural asset and liabilities mismatch, the bank continues to favor savings deposits and bond issuances over lower-cost funding in 2022. Davivienda's funding in Central America was mainly locally driven, through current and term deposits as the main source of funds.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics, per Fitch's "Bank Rating Criteria." They are based on a combination of Fitch's macroeconomic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalizations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

In the charts above: black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bb' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Bancolombia S.A. (VR: bb+), Banco de Bogota, S.A. (bb+), BBVA Colombia S.A. (bb+), Grupo Financiero Banorte, S.A.B. de C.V. (BBB–), Banco General S.A. (BBB–) and Banco de Credito del Peru S.A. (bbb). Latest average reflects 1H22 data for Banco de Bogota, S.A., BBVA Colombia S.A. and Banco General S.A., and 2021 data for Grupo Financiero Banorte, S.A.B. de C.V.

Financials

Financial Statements

Summary Financials and Key Ratios

	Nine Months. — Third Quarter 9/30/22		2021	2020	2019
	USD Mil.	COP Bil.	COP Bil.	COP Bil.	COP Bil.
	Reviewed — Unqualified	Reviewed — Unqualified	Audited — Unqualified	Audited — Unqualified	Audited — Unqualified
Summary Income Statement					
Net Interest and Dividend Income	1.437	6,514.4	7,504.5	7,586.0	6,716.3
Net Fees and Commissions	273	1,236.4	1,501.2	1,129.6	1,190.1
Other Operating Income	127	576.9	807.3	107.8	190.0
Total Operating Income	1.838	8,327.7	9,813.0	8,823.4	8,096.4
Operating Costs	858	3,886.7	4,716.2	4,139.1	3,729.9
Pre-Impairment Operating Profit	980	4,441.0	5,096.8	4,684.3	4,366.5
Loan and Other Impairment Charges	468	2,121.7	3,301.0	4,199.6	2,434.4
Operating Profit	512	2,319.3	1,795.8	484.7	1,932.1
Other Non-Operating Items (Net)	(4)	(16.1)	(22.8)	(8.5)	(4.9)
Tax	162	735.4	511.8	68.2	443.3
Net Income	346	1,567.8	1,261.2	408.0	1,483.9
Other Comprehensive Income	235	1,063.1	357.1	101.8	496.8
Fitch Comprehensive Income	581	2,630.9	1,618.3	509.8	1,980.7
Summary Balance Sheet					
Assets					
Gross Loans	30.925	140,156.4	118,620.4	106,674.8	97,399.5
- of which Impaired	900	4,078.5	3,973.8	4,671.5	3,370.0
Loan Loss Allowances	1.312	5,944.0	5,374.4	6,394.7	4,143.5
Net Loan	29.614	134,212.4	113,246.0	100,280.1	93,256.0
Interbank	50	227.1	2,155.7	1,454.9	709.0
Derivatives	603	2,732.2	758.4	1,410.5	511.2
Other Securities and Earning Assets	4.120	18,672.3	16,415.2	16,622.4	12,422.9
Total Earning Assets	34.387	155,844.0	132,575.3	119,767.9	106,899.1
Cash and Due from Banks	2.875	13,028.6	13,154.0	10,260.8	9,744.2
Other Assets	1.826	8,277.0	6,951.2	6,384.7	5,578.7
Total Assets	39.088	177,149.6	152,680.5	136,413.4	122,222.0
Liabilities					
Customer Deposits	25.304	114,678.0	100,879.2	88,526.2	76,732.1
Interbank and Other Short-Term Funding	864	3,914.7	835.1	1,936.2	1,759.7
Other Long-Term Funding	7.563	34,277.5	31,049.4	26,954.1	25,963.9
Trading Liabilities and Derivatives	563	2,553.5	648.3	1,640.3	617.8
Total Funding and Derivatives	34.294	155,423.7	133,412.0	119,056.8	105,073.5
Other Liabilities	1.289	5,844.0	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	3.504	15,881.9	14,279.8	12,720.0	12,650.9
Total Liabilities and Equity	39.088	177,149.6	152,680.5	136,413.4	122,222.0
Exchange Rate		USD1 = COP4,532.07	USD1 = COP3,997.71	USD1 = COP3,444.90	USD1 = COP3,294.05

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

Key Ratios

Summary Financials and Key Ratios

(%, Years Ended Dec. 31)	9/30/22	2021	2020	2019
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk Weighted Assets	2.4	1.7	0.4	1.9
Net Interest Income/Average Earning Assets	6.1	6.1	6.4	6.6
Non-Interest Expense/Gross Revenue	46.6	48.1	46.9	46.1
Net Income/Average Equity	14.2	9.4	3.2	12.4
Asset Quality				
Impaired Loans Ratio	2.9	3.4	4.4	3.5
Growth in Gross Loans	18.2	11.2	9.5	10.9
Loan Loss Allowances/Impaired Loans	145.7	135.3	136.9	123.0
Loan Impairment Charges/Average Gross Loans	2.2	3.0	3.9	2.6
Capitalization				
Common Equity Tier 1 Ratio	11.0	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	8.0	8.3	8.1	9.0
Basel Leverage Ratio	8.6	8.9	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	(12.9)	(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	122.2	117.6	120.5	126.9
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	75.0	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

Support Assessment

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	Positive
Liability structure	Positive
Ownership	Positive

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

Government Support Rating

The bank's Government Support rating of 'bb' reflects Davivienda's size and 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).

Environmental, Social and Governance Considerations

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

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.

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

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.

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.

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.