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CREDIT OPINION
29 June 2023

Update

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RATINGS

Banco Davivienda S.A.

Domicile	Colombia
Long Term CRR	Baa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Fgn Curr
Outlook	Rating(s) WithDrawn
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.

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Banco Davivienda S.A.

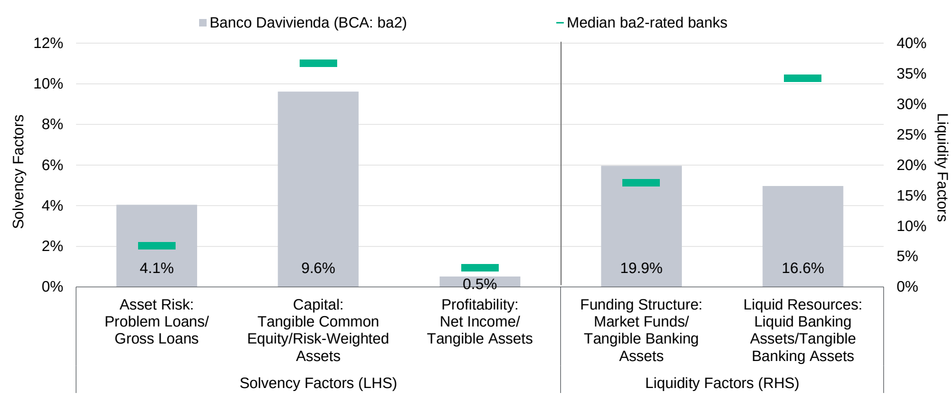
Update following rating affirmation and BCA downgrade, outlook remained stable

Summary

Banco Davivienda S.A. (Davivienda) has a standalone Baseline Credit Assessment (BCA) of ba2 that reflects the bank's good access to core deposits and its long track record of steady, although modest, position of liquid assets. In addition, the ba2 BCA also reflects asset quality metrics that have remained below those of its peers, although loan delinquency for the bank will likely rise in the next two to three quarters, similar to that of other Colombian banks, because of weak economic conditions in the country. Conversely, Davivienda's BCA is challenged by a lowering trend in its ratio of net income to tangible assets, as calculated by Moody's, that have declined in the past five quarters, as well as consistent track record of strong loan growth, which may pressure asset quality when there is a slowdown in credit origination.

Davivienda's global scale deposit ratings of Baa3 incorporate our assessment of a very 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 two notches of rating uplift from the bank's Adjusted BCA of ba2.

Exhibit 1
Rating Scorecard - Key financial ratios
As of March 2023



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 of core deposits, reflecting Davivienda's good market share in the Colombian banking system.

» Asset quality metrics have remained below that of local peers, benefiting from loan growth.

» Regulatory capital metrics above those of peer Colombian banks.

Credit challenges

» Profitability declined gradually in last five quarters, staying below pre-pandemic levels.

» Asset quality likely to suffer negative pressure in next two to three quarters amid increase of loan delinquency in consumer financing, driven by weak economic environment.

Outlook

The stable outlook on Davivienda's long-term deposit ratings incorporates the bank's adequate fundamentals and its ability to manage the effects of the current operating conditions.

Factors that could lead to an upgrade

Davivienda's BCA could be upgraded if the bank reports sustainable and material improvement of its profitability metrics in the next 18 months. A possible upgrade of the bank's BCA would also depend on asset quality metrics that remain in line with levels observed currently.

Factors that could lead to a downgrade

Davivienda's ratings could be downgraded if there is a sizable and consistent weakening in the bank's asset quality metrics. Ratings could also be lowered if the bank's profitability and capitalization weakens materially. The bank's deposit ratings would not be affected by a downgrade of the Government of Colombia's sovereign bond rating of Baa2, which is unlikely at this time given the stable outlook on the rating.

Key indicators

Exhibit 2

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

	03-23 [2]	12-22 [2]	12-21 [2]	12-20 [3]	12-19 [3]	CAGR/Avg. [4]
Total Assets (COP Billion)	186,452.3	183,586.7	152,161.1	134,705.4	122,222.0	13.9 [5]
Total Assets (USD Million)	40,017.2	37,861.6	37,803.5	39,381.8	37,245.8	2.2 [5]
Tangible Common Equity (COP Billion)	14,290.8	14,513.3	12,518.9	10,835.5	8,934.3	15.5 [5]
Tangible Common Equity (USD Million)	3,067.1	2,993.1	3,110.3	3,167.8	2,722.6	3.7 [5]
Problem Loans / Gross Loans (%)	3.7	3.2	4.3	5.0	3.7	4.0 [6]
Tangible Common Equity / Risk Weighted Assets (%)	9.6	10.2	11.1	9.2	8.4	9.7 [7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	26.1	22.3	28.3	30.8	27.5	27.0 [6]
Net Interest Margin (%)	5.7	5.4	5.3	5.6	5.9	5.6 [6]
PPI / Average RWA (%)	3.8	4.6	4.7	4.0	4.3	4.3 [7]
Net Income / Tangible Assets (%)	0.5	0.9	0.8	0.3	1.2	0.8 [6]
Cost / Income Ratio (%)	53.6	46.3	46.4	46.3	45.9	47.7 [6]
Market Funds / Tangible Banking Assets (%)	20.1	19.9	17.8	19.5	20.7	19.6 [6]
Liquid Banking Assets / Tangible Banking Assets (%)	18.0	16.6	18.5	18.8	16.6	17.7 [6]
Gross Loans / Due to Customers (%)	117.2	119.6	117.6	120.5	126.9	120.4 [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., 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 enterprises (SME), corporate and commercial clients, as well as to public authorities. As of March 2023, the bank reported consolidated assets of COP186,452 billion (USD 40 billion), being the second largest bank 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 76% of its loans in Colombia and the remaining 24% throughout Costa Rica, El Salvador, Honduras, and Panama as of March 2023.

Davivienda was established in 1972 as a savings and mortgage corporation named Corporación Colombiana de Ahorro y Vivienda. The bank is owned by Grupo Bolivar which had 58.5% of ownership as of March 2023. Grupo Bolivar is among the most important conglomerates in Colombia with over 80 years of experience. The group has operations in Colombia, Central America and Miami. As of March 2023, Davivienda served 22.2 million customers across 6 countries, employing more than 18,000 people and operating 669 branches and nearly 2,800 ATMs.

Detailed credit considerations

Problem loan ratio remained below pre-pandemic levels in Q1 2023, but it will likely rise in next two to three quarters amid weak economy

In March 2023, Davivienda's nonperforming loan (NPL) ratio, measured as Stage 3 loans under IFRS to gross loans, decreased to 3.74% from 3.93% one year prior. The decline in the NPL ratio reflected mostly a 19.0% loan growth the bank reported in the period. In addition, the volume of net charge-offs was up 5.2% in the quarter, representing 0.94% of gross loans and overall stable compared with 0.9% in December 2022. At the same time, the balance of Stage 3 loans went up 16.5% in Q1 2023. Davivienda's problem loan ratio remains below those reported by domestic peers. The bank's asset quality measures as consolidated 90-day past due loans to gross loans was 3.67% in Mach 2023, up 74 bps from one year prior.

The robust annual growth in Davivienda's loan book was driven mostly by a 21.9% rise in the commercial portfolio, followed by a growth of 16.8% in mortgage financing and of 16.6% in the consumer portfolio. On quarterly basis, however, total loans were up by just 0.2% in March 2023, reflecting a deceleration in loan origination that was already seen in the second half of 2022.

Davivienda's Central American credit exposures comprised about 24% of the bank's consolidated loan book, increasing from 21% in December 2021. Problem loans from Central America accounted for 13.5% of the bank's total NPLs in March 2023, in line with 13% in December 2021, yet below 23% in December 2015. The bank's operations in El Salvador and Costa Rica are the largest exposures overseas, with around 8% of total consolidated credits each, while the Honduras and Panama-based subsidiaries accounted for 5% and 3%, respectively as of Q1 2023.

Loan loss reserves remained at an adequate 119% of Stage 3 loans as of March 2023 and will be an important mitigant for further deterioration in asset quality. In addition, as of the same date, loan loss reserves stood at 4.5% of gross loans, in line with 2022 metrics but above the 3.8% average for 2017-19.

In the next 12 months, we expect Davivienda's asset quality metrics will likely show some gradual weakening as economic activity becomes slower, as observed in first quarter 2023. Davivienda has larger exposure to consumer and mortgage financing with low-income households than its peers and, as a result, has a loan book that is more sensitive to economic downturns. In addition, the bank's asset quality will be challenged by still persistent inflationary pressures that could lead to lower repayment capacity from its customers.

Capitalization to be pressured by high loan growth

Our preferred ratio of tangible common equity to risk-weighted assets (TCE/RWA) for Davivienda decreased to 9.6% as of March 2023, from 10.2% in year-end 2022 and 11.1% in December 2021. The drop in capitalization stemmed mainly from a rise in RWAs, reflecting a robust loan growth mostly driven by the consumer loan book. The bank's payment of COP 484.12 million in dividends in 2022, equaling 38% of consolidated net income in 2021, also contributed with the reduction in the bank's capital ratio. On regulatory basis the bank had a total capital ratio of 15.32% and a common equity tier 1 (CET1) ratio of 10.49% in March 2023.

In the TCE/RWA ratio, we adjust RWA by assigning a risk-weighting to government securities in accordance with the countries that issue them, i.e. in Colombia we assign a 50% risk-weighting in line with the Colombian government's Baa2 bond rating. In addition, we adjust TCE to exclude the bank's non-controlling participation in its subsidiaries.

We expect Moody's TCE/RWA ratio for Davivienda to be pressured negatively by loan growth, particularly amid a weak economic environment, in the next 12 months.

Profitability stood below 2022, affected by high increase in provision expenses

Davivienda's net income decreased 53.7% in first quarter 2023 compared with March 2022. The decline in bottom-line results was driven mainly by higher provision expenses, growth in operating costs and lower noninterest income. Davivienda reported an increase of 49.3% in provision expenses in first quarter 2023 from one year prior, in line with the weak economic activity in Colombia. Overall, Moody's ratio of net income to tangible assets for Davivienda dropped to 0.5%, from 1.3% a year earlier.

The bank's ratio of loan loss provisions to pre-provision income (PPI) increased to 76.5% in March 2023, from 49.1% a year earlier. The volume of loan loss provisions was 2.9% of gross loans as of March 2023, compared with 2.3% as of March 2022.

In March 2023, the bank's net interest margin (NIM), as calculated by Moody's, stood at 5.7%. Davivienda's margin has remained relatively stable during the last 24 months despite the recent rise in the country's benchmark policy rate. This reflected the bank's balance sheet structure, with liabilities that tend to reprice faster than assets, therefore, affecting funding costs and generating pressure in margins in the short term, we expect that funding cost will gradually decrease going forward.

The persistent high level of inflation, the depreciation of the Colombian Peso and a reduction in non-interest income driven by net losses on trading activities (i.e. derivatives) had a negative impact on Davivienda's efficiency. The bank's cost to income ratio stood at 53.6% as of March 2023, up from 47.5% in March 2022.

We expect provision expenses will continue to rise in the next two to three quarters, reflecting higher pressures on asset quality from the slowdown in economic activity. Despite that, we anticipate that funding cost will become fairly stable in the second half of 2023, while it will likely go down once policy rates start to decline.

Volume of core funding and liquid assets remains stable

Our Funding Structure assessment incorporates the bank's moderate reliance on market funds, representing about 20% of tangible banking assets as of March 2023, supported by its sizable branch network — positioned among Colombia's top three networks — and good market position in Central America. Davivienda has a market share of about 15% 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 comprised of investments in low-risk assets, mainly made up of cash, balances with the central bank and government bonds of Colombia. The bank's liquid banking assets stood at 18% of tangible banking assets as of March 2023, despite the loan growth reported in the last trailing 12 months.

Davivienda's Moderate Macro Profile balances its exposure to Colombia and to weaker operating environments in Central America

Davivienda's operations are mainly focused on Colombia, which has a Moderate+ Macro Profile. The remainder of the bank's operations are distributed among Panama (Moderate), El Salvador (Very Weak+), Honduras (Weak-) and Costa Rica (Weak+), which results in the bank's Moderate weighted Macro Profile. Our Banks methodology indicates that a weighted Macro Profile should be used for banks that have balance sheets exposed to different systems.

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 and the establishment of basic guidelines for the renegotiation of terms and conditions of existing loans.

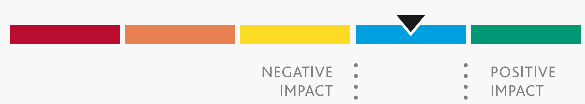
Economic growth decelerated in 2022 relative to one year prior and the credit-to-GDP ratio remains relatively modest. While banks are mainly deposit funded, a substantial portion of these deposits are provided by institutions, leaving banks vulnerable to funding concentration risk. At the same time, high concentration in the banking system supports banks' pricing power and lending spreads.

ESG considerations

Banco Davivienda S.A. has an ESG Credit Impact Score of 2

Exhibit 3
ESG Credit Impact Score

CIS-2
Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Davivienda's CIS-2 indicates that ESG considerations do not have a material impact on the rating to date. This reflects the limited credit impact of environmental and social risk factors on the rating to date and 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

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental
Davivienda has exposure to environmental risks related to its large portfolio of commercial loans with corporate customers, which are inherently exposed to carbon transition risk. As a result, the bank's exposure to carbon transition risk is in line with the banking industry's inherent exposure to this risk category in our environmental risk heat map. However, as a large bank in Colombia, Davivienda has a diversified loan portfolio that mitigates some of the environmental risks from carbon transition. In line with its peers, the bank is facing 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 a better than industrywide exposure to demographic and societal trends.

Governance
Davivienda has exposure to governance risks related to shareholder ownership that is dominated by one private group, despite the bank 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 track record of the bank's management team in terms of sustained earnings generation and delivering on strategic goals. Moreover, the bank's risk management, policies and procedures are in line with industry best practices

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order 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 very high likelihood of government support for Davivienda's rated wholesale deposits. 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 two-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 Prime-2, 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 B2 (hyb) foreign-currency subordinated debt rating assigned to Davivienda's additional Tier 1 capital notes is positioned three notches below the bank's ba2 Adjusted BCA, in line with our standard notching guidance for contractual non-viability perpetual maturity securities.

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	4.0%	ba1	↔	ba2	Expected trend	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	9.6%	ba3	↔	ba3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.5%	ba2	↔	ba1	Earnings quality	
Combined Solvency Score		ba2		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	19.9%	baa3	↔	baa3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	16.6%	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				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

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	ba1	2	Baa2	Baa2
Counterparty Risk Assessment	1	0	ba1 (cr)	2	Baa2(cr)	
Deposits	0	0	ba2	2	Baa3	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	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Subordinate	B2 (hyb)

Source: Moody's Investors Service

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