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Banco Davivienda S.A.

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Banco Davivienda S.A.

Ratings Score Snapshot

Issuer Credit Rating
BB+/Negative/B

SACP: bb+ → **Support: 0** → **Additional factors: 0**

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

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

Issuer credit rating
BB+/Negative/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

Overview

Key strengths	Key risks
Strong market position with sound business and revenue diversification.	Weakening economic conditions in Colombia could further erode asset quality, pressuring profitability.
Healthy liquidity provides cushion against extraordinary needs.	Stiff competition among the largest banks in Colombia could translate into tighter net interest margins.
	More modest capitalization than regional peers, reducing the bank's ability to absorb losses.

We expect Banco Davivienda S.A.'s asset quality will remain pressured during 2024, with nonperforming assets of around 4.9%, before gradually recovering. Davivienda's asset quality has eroded faster than that of peers, reflecting its higher share of unsecured loans in its consumer loan portfolio (given its digital capabilities and higher risk appetite that allow the bank to grow faster than the rest of the Colombian banking sector).

The bank continues working to reverse this deterioration by strengthening its origination practices and reducing its unsecured loan portfolio, among other measures, which have already reflected improvements on its consumer portfolio. However, we believe current adverse economic conditions and the uncertainty over the government's economic policies--including the implementation of ambitious social reforms--could impair clients' payment capacity and weaken credit demand, slowing Davivienda's asset quality recovery.

We believe Davivienda will have a stable risk-adjusted capital (RAC) ratio of 6% on average for the next two years. Although we forecast that Davivienda's operating revenue will grow during the next two years due to better net interest margins, the bank's cost of risk will remain high, pressuring profitability.

To help mitigate the lack of profitability and support business growth, the bank issued Colombian peso (COP) 720 billion of common and preferred shares during the first quarter of this year and paused its dividend payment for the year.

Despite some weakness in 2023, we forecast that Davivienda's sound market position and business diversity will support operating revenue growth of 7%-10% for the next 24 months. We also expect modest loan portfolio growth of about 6% on average over the next two years. Banco Davivienda remains Colombia's second-largest bank, reflected in market shares of 15% for loans and 14% for deposits as of March 2024. Regardless of its contraction on its consumer lending business and operating revenues during 2023, in our opinion, its business diversity and higher competitive advantages should enable the bank to recover its growth dynamism in the two next years.

We expect Davivienda's funding structure will remain focused on wholesale deposits while the bank maintains comfortable liquidity. We believe Davivienda will continue working to increase its base of customer deposits, given its digital expansion strategy, with most coming from wholesale sources.

We believe this type of funding is more vulnerable under stress scenarios; however, the bank has maintained long-lasting relationships with these wholesale depositors, and their share of the deposit base aligns with that of the Colombian banking system. In addition, the bank's liquidity continues to benefit from a comfortable debt maturity profile, with modest short-term liquidity needs that translate into low refinancing risk.

Outlook

The negative outlook for the next two years on Davivienda mirrors that on Colombia. In a sovereign stress scenario, we believe regulatory and supervisory powers may restrict the banks' financial flexibility. In our view, banks face many of the same economic factors that cause sovereign stress. Additionally, the outlook incorporates the risk that the bank's lower profitability could dent capitalization.

Downside scenario

We could lower the ratings on Davivienda in the next two years 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 is higher than we expect or if the recovery of the bank's profits takes longer than we anticipate, weakening capital levels.

Upside scenario

We could revise our outlook on the entity to stable if we were to take the same rating action on the sovereign, as long as Davivienda's stand-alone credit profile (SACP) remains unchanged.

Key Metrics

Banco Davivienda S.A.--Key ratios and forecasts*					
	--Fiscal year ended Dec. 31--				
(%)	2021a	2022a	2023a	2024f	2025f
Growth in operating revenue	8.6	15.0	-1.4	8.0-11.0	7.0-10.0
Growth in customer loans	11.2	22.1	-6.1	1.0-5.0	6.0-10.0
Growth in total assets	11.9	20.6	-3.2	2.5-5.5	6.0-10.0
Net interest income/average earning assets (NIM)	5.7	5.9	5.8	5.5-6.0	5.7-6.2
Cost to income ratio	47.0	47.6	54.7	49.0-53.0	48.0-52.0
Return on equity	10.4	12.0	-2.9	-0.2-0.5	2.0-4.0
Return on assets	0.9	1.0	-0.2	-0.2-0.2	0.2-0.5
New loan loss provisions/average customer loans	2.9	2.6	4.2	4.0-4.5	3.8-4.2
Gross nonperforming assets/customer loans	3.6	3.2	5.1	4.5-5.2	4.3-4.9
Net charge-offs/average customer loans	4.5	2.8	5.0	4.2-5.2	3.5-4.5
Risk-adjusted capital ratio	6.2	6.4	6.2	5.8-6.2	5.7-6.0

All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Anchor: 'bb+' According To Country Risk Exposures

The 'bb+' anchor reflects our view of the weighted average economic risk in the countries where the bank has its major loan portfolio operations. As of March 2024, Davivienda's largest exposures by loans were Colombia (76%), Costa Rica (7%), El Salvador (7%), Honduras (5%), Panama (3%), and the US (2%). It also reflects the industry risk for the Colombian banking system, where the bank is domiciled.

The economic risk trend for banks operating in Colombia is stable. However, we expect Colombia's GDP growth to decelerate this year to 1.1% due to persistently weak investor confidence that could affect private investment. Uncertainty over the government's economic policies--including the implementation of ambitious social reforms--could weaken business confidence, amplifying obstacles for economic growth. Therefore, we expect lending to contract by about 1.5% in real terms this year and a growth about 2.9% in 2025 due to the subdued economic growth, low private investment, and resulting modest commercial credit demand. Even though we expect a slight recovery in banks' assets quality in 2024-2025 toward normal patterns, we still believe high levels of household debt, weakening income capacity, and narrowing corporate margins amid elevated inflation will maintain nonperforming assets above their five-year averages.

Our industry risk trend for Colombian banks remains stable. Over the past few years, the regulator has strengthened its supervision capacity, proactive stance, and transparency in preventing the potential erosion of banks' credit fundamentals. Improving regulations are gradually strengthening banks' RAC levels and reducing wholesale funding concentrations.

On the other hand, reliance on wholesale funding will persist in the next few years, although we expect it to lessen slightly due to the implementation of the regulatory net stable funding ratio. We expect competition to remain strong but competitive dynamics to remain healthy and profitability to remain resilient, based on adequate risk appetite.

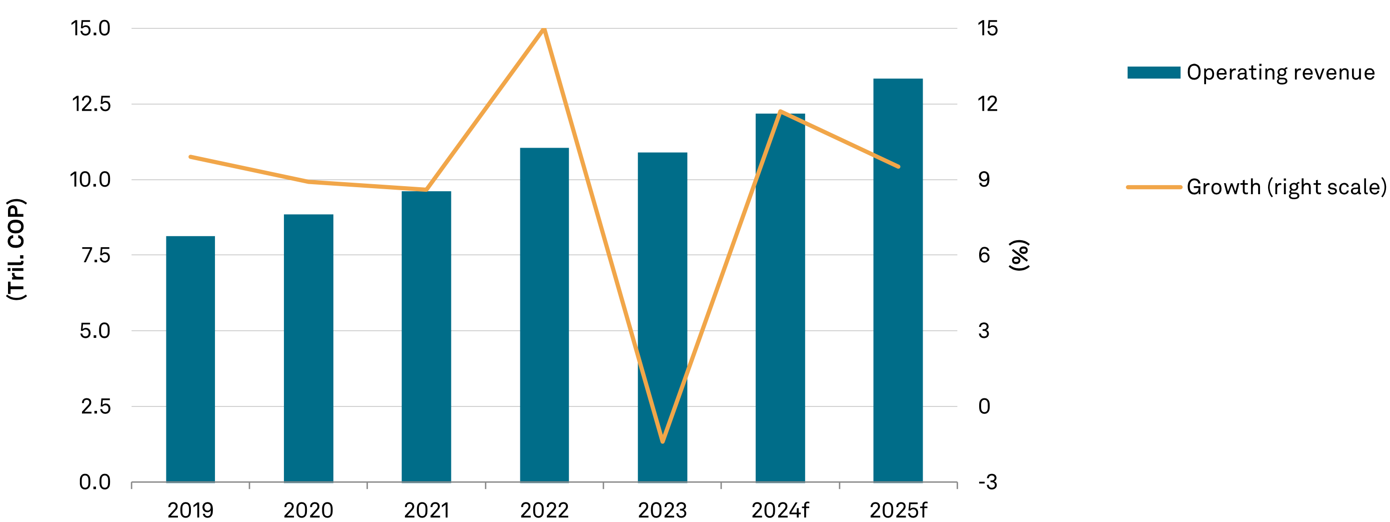
Business Position: Operating Revenue Will Benefit From Sound Market Position And Digital Expansion Strategy

In our view, Davivienda's sound market position, diversified business lines, and enhanced digital channels provide it with competitive advantages over its regional peers. We expect Davivienda's consumer loans to grow 3% in 2024 and 9% in 2025, as the company continues to decrease its exposure to consumer loans in favor of the commercial and housing segments.

We believe Davivienda will remain the second-largest bank in Colombia, holding about 15% and 14% of total loans and deposits, respectively, further supporting operating revenue growth. In addition, the bank's gradual improvement in net interest margins--which we estimate at 5.8%-6.0% for the next two years--will increase operating revenue 7%-10% in the next two years.

Chart 1

Banco Davivienda S.A.--Operating revenue



Data as of March 2024. f--Forecast. Source: S&P Global Ratings.

Capital And Earnings: Stable Capitalization But Higher Cost Of Risk Is Weakening Bottom-Line Results

Although we expect Davivienda's operating revenue will grow in the next two years due to better net interest margins, its cost of risk will remain high, pressuring the bank's profitability. We therefore expect a return on average assets around 0.02% in 2024 and 0.25% in 2025.

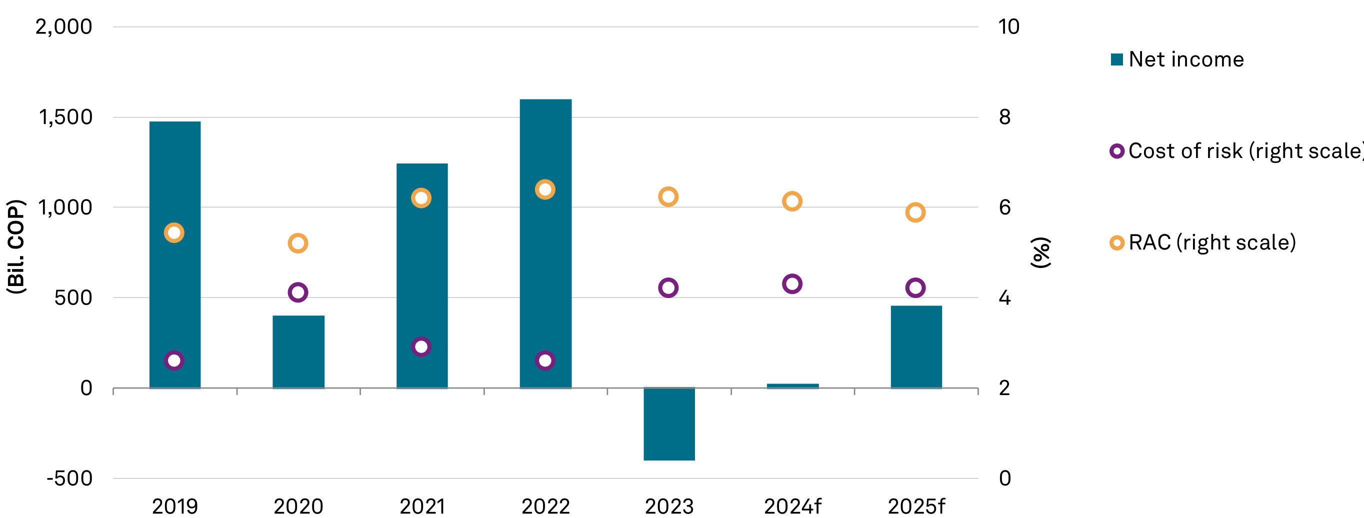
In our view, the bank will take longer than it expects to improve its consumer loan portfolio, while we expect it will be able to contain loan loss provisions for its commercial and mortgage loans.

We expect the bank's net income will remain pressured during 2024, followed by a gradual recovery in 2025. Nonetheless, the issuance of COP720 billion of common and preferred shares during the first quarter of this year, and no dividend payment during 2024 will help to somewhat mitigate the low internal capital generation in the next 24 months.

Therefore, we forecast Davivienda's RAC ratio will remain around 6% for 2024 and 2025, relatively in line with last year. While its RAC ratio is slightly higher than peers' in Colombia, we believe it still compares unfavorably with that of others banks we rate in the region. That said, we think Davivienda's capitalization will enable it to leverage expected loan growth and withstand lower economic growth.

Chart 2

Banco Davivienda S.A.--RAC ratio



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

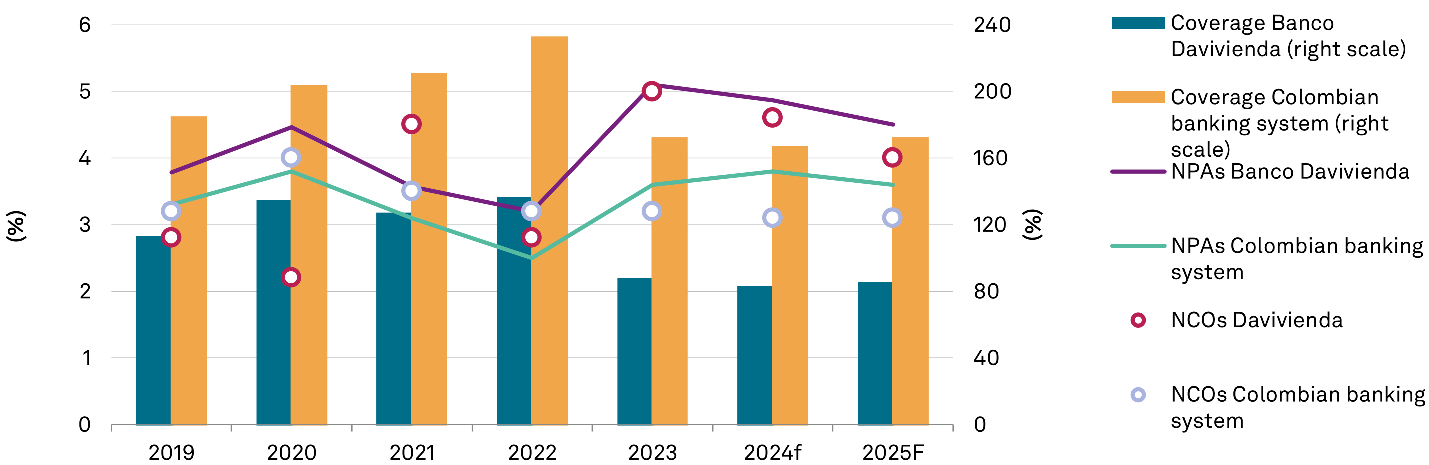
Risk Position: Asset Quality Will Remain Pressured In The Next 12 Months.

By the end of 2024, we expect Davivienda's nonperforming assets and net charge-offs will be around 4.9% and 4.6%, respectively, before gradually improving to 4.5% and 4.0%, respectively in 2025-- still above those of peers and the Colombian banking system. Additionally, we expect the bank's reserves coverage will be 84%, on average, for the next two years, below its historical levels of over 110%.

Chart 3

Asset quality

Banco Davivienda versus Colombian banking system



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

High levels of household debt, weakening income capacity, and narrowing corporate margins amid elevated inflation dented the credit quality of Davivienda's consumer loan portfolio more than we expected in 2023. We believe Davivienda's asset quality eroded faster than those of peers because of the bank's high share of unsecured loans in its consumer loan portfolio, which reflects its higher risk appetite than the rest of the Colombian banking sector.

Davivienda continues working to reverse this deterioration by strengthening its origination practices and reducing its unsecured loan portfolio, among other measures, which have already reflected improvements on its consumer portfolio. However, in our view, current adverse economic conditions and uncertainty over the government's economic policies--including the implementation of ambitious social reforms--could impair clients' payment capacity and weaken credit demand, slowing Davivienda's asset quality recovery.

We think Davivienda maintains a well-diversified loan portfolio by client type and economic sector. The bank's client mix remains relatively unchanged, with its top 20 clients representing 5.6% of its total loan portfolio and 0.5x of its total adjusted capital, in line with regional peers. Moreover, the loan portfolio mix has low exposure to sectors we consider more vulnerable in adverse economic conditions, such as construction (5.4% of total loans) and real estate (0.5%).

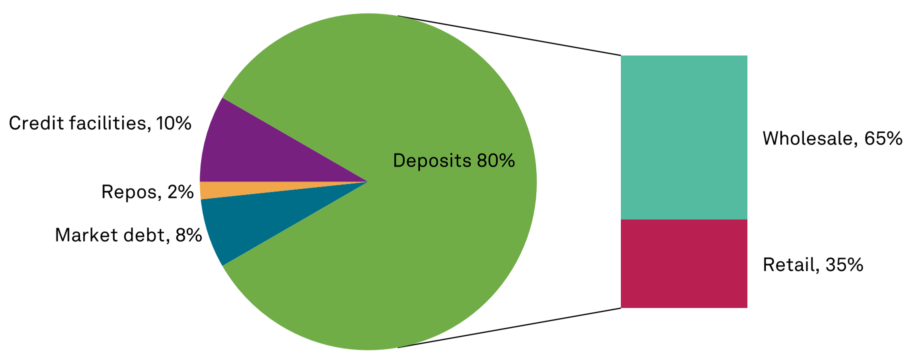
Funding And Liquidity: Stable Wholesale Deposit Base With Healthy Liquidity

Davivienda's deposits grew around 2% during 2023, supported by the bank's digital strategies and high interest rates on time deposits. Core customer deposits represent around 80% of the bank's total funding base. While these are mainly wholesale deposits, which we believe are less stable under stress conditions, the bank has maintained a long-lasting relationship with these depositors, and their share of the deposit base is in line with the rest of the Colombian banking system.

In addition, the bank has complementary funding sources, such as credit facilities (10%), market debt (8%), and repos (2%). This funding mix translated into a stable funding ratio of 110% as of March 2024, where we expect it to remain given we don't anticipate significant changes in the bank's funding strategy.

Chart 4

Banco Davivienda S.A.--Funding base



Data as of March 2024. Source: S&P Global Ratings.

Furthermore, in our view, the bank's liquidity position benefits from a comfortable debt maturity profile, with modest short-term liquidity needs that translate into low refinancing risk. Moreover, we expect the bank's broad liquid assets to short-term wholesale funding to remain around 6.1x, where it was as of March 2024. We consider this level healthy, and it compares favorably with those of regional peers.

Support: No Uplift To The SACP

The bank's leading position in the Colombian banking system, as the second-largest player in loans and deposits, supports our assessment of its high systemic importance to the Colombian government. Additionally, we view the Colombian government as supportive of the domestic banking industry. However, the combination of Davivienda's SACP of 'bb+' and the sovereign rating doesn't result in any uplift for the issuer credit rating on Davivienda.

Environmental, Social, And Governance

Environmental, social, and governance (ESG) factors have no material influence on our credit rating analysis of Davivienda. 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'.

The bank has been actively funding social interest mortgages, sustainable infrastructure, renewable energy, and energy efficiency projects. Furthermore, the bank aims for around 30% of its total loan portfolio to focus on ESG lending by 2030. 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	**2024***	**2023**	**2022**	**2021**	**2020**
Adjusted assets	174,160,933.0	176,661,306.8	182,725,479.5	150,847,564.0	134,569,201.0
Customer loans (gross)	135,560,788.0	135,974,563.0	144,787,324.0	118,620,359.0	106,674,756.0
Adjusted common equity	10,515,248.0	10,765,985.0	12,701,944.5	10,027,704.0	9,249,039.8
Operating revenues	2,850,596.0	10,863,698.0	11,012,546.0	9,574,116.0	8,814,854.0
Noninterest expenses	1,470,370.0	5,940,304.0	5,247,436.0	4,500,055.0	4,139,050.0
Core earnings	(287,652.0)	(372,332.0)	1,615,945.0	1,261,164.0	408,032.0

*Data as of March 31.

Table 2

Banco Davivienda S.A. Business Position

		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Total revenues from business line (currency in millions)	2,850,596.0	10,863,698.0	11,012,546.0	9,574,116.0	8,814,854.0
Commercial & retail banking/total revenues from business line	94.9	79.9	95.6	93.8	98.7
Trading and sales income/total revenues from business line	(1.5)	17.4	2.5	5.2	0.3
Insurance activities/total revenues from business line	1.6	1.8	1.5	1.3	1.4
Other revenues/total revenues from business line	5.0	0.9	0.4	(0.4)	(0.3)
Investment banking/total revenues from business line	(1.5)	17.4	2.5	5.2	0.3

Table 2

Banco Davivienda S.A. Business Position (cont.)

		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Return on average common equity	(9.1)	(2.9)	12.0	10.4	3.5

*Data as of March 31.

Table 3

Banco Davivienda S.A. Capital And Earnings

		--Year ended Dec. 31--			
%	**2024***	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	11.9	11.8	11.1	12.0	8.3
S&P Global Ratings' RAC ratio before diversification	N/A	6.2	6.4	6.2	5.2
S&P Global Ratings' RAC ratio after diversification	N/A	5.9	6.0	5.5	4.8
Adjusted common equity/total adjusted capital	75.2	75.2	75.2	75.2	89.1
Net interest income/operating revenues	78.6	85.5	80.4	78.1	85.8
Fee income/operating revenues	16.4	17.4	15.2	15.7	12.8
Market-sensitive income/operating revenues	(1.5)	(5.6)	2.5	5.2	0.3
Cost to income ratio	51.6	54.7	47.6	47.0	47.0
Preprovision operating income/average assets	3.1	2.7	3.4	3.5	3.6
Core earnings/average managed assets	(0.6)	(0.2)	1.0	0.9	0.3

*Data as of March 31. N/A--Not applicable.

Table 4

Banco Davivienda S.A. Risk Position

		--Year ended Dec. 31--			
%	**2024***	**2023**	**2022**	**2021**	**2020**
Growth in customer loans	(1.2)	(6.1)	22.1	11.2	9.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	5.9	6.2	11.6	8.2
Total managed assets/adjusted common equity (x)	16.8	16.6	14.5	15.2	14.7
New loan loss provisions/average customer loans	5.2	4.2	2.6	2.9	4.1
Net charge-offs/average customer loans	5.9	5.0	2.8	4.5	2.2
Gross nonperforming assets/customer loans + other real estate owned	5.0	5.1	3.2	3.6	4.5
Loan loss reserves/gross nonperforming assets	88.1	87.4	136.1	126.8	134.3

*Data as of March 31. N/A--Not applicable.

Table 5

Banco Davivienda S.A. Funding And Liquidity

		--Year ended Dec. 31--			
%	**2024***	**2023**	**2022**	**2021**	**2020**
Core deposits/funding base	81.4	81.1	77.4	77.1	75.4
Customer loans (net)/customer deposits	104.3	104.1	114.4	112.3	113.3
Long-term funding ratio	97.6	98.1	98.7	96.3	93.5
Stable funding ratio	110.3	111.4	110.0	109.9	106.5

Table 5

Banco Davivienda S.A. Funding And Liquidity (cont.)					
		--Year ended Dec. 31--			
%	**2024***	**2023**	**2022**	**2021**	**2020**
Short-term wholesale funding/funding base	2.6	2.1	1.4	4.1	7.1
Broad liquid assets/short-term wholesale funding (x)	6.1	8.0	11.2	4.3	2.5
Broad liquid assets/total assets	13.8	14.8	13.3	15.0	15.0
Broad liquid assets/customer deposits	19.6	21.1	20.3	22.6	23.2
Net broad liquid assets/short-term customer deposits	20.5	23.1	23.1	21.7	17.2
Short-term wholesale funding/total wholesale funding	12.3	10.0	5.6	15.9	27.7

*Data as of March 31.

Banco Davivienda S.A.--Rating component scores	
Issuer Credit Rating	**BB+/Negative/B**
SACP	bb+
Anchor	bb+
Economic risk	7
Industry risk	5
Business position	Strong
Capital and earnings	Moderate
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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

- 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 July 17, 2024)*	
Banco Davivienda S.A.	
Issuer Credit Rating	BB+/Negative/B
Issuer Credit Ratings History	
19-Jan-2024	BB+/Negative/B
20-May-2021	BB+/Stable/B
30-Mar-2020	BBB-/Negative/A-3
Sovereign Rating	
Colombia	
Foreign Currency	BB+/Negative/B
Local Currency	BBB-/Negative/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.