

RATING ACTION COMMENTARY

Fitch Revises Davivienda's Outlook to Stable; Affirms at 'BB+'

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Fitch Ratings - Monterrey/Bogota - 26 Nov 2024: Fitch Ratings has affirmed Banco Davivienda S.A.'s (Davivienda) Long-and Short-Term Local and Foreign Currency Issuer Default Ratings (IDRs) at 'BB+' and 'B', respectively. Fitch has also affirmed Davivienda's Viability Rating (VR) at 'bb+' and its National Long-Term rating at 'AAA(col)' and 'F1+(col)'. Fitch has additionally affirmed Grupo Bolivar S.A.'s (GB) National Long- and Short-Term Ratings at 'AAA(col)' and 'F1+(col)', respectively. The Rating Outlook has been revised to Stable from Negative.

The Outlook revision reflects Davivienda's significant efforts to normalize its asset quality and the continued decreasing trend in operational losses during 2024, as expected by Fitch. This is partly due to a significant improvement in the consumer portfolio asset quality and post-peak lower loan loss provision expenses.

Although the operating profit/risk-weighted assets ratio is still below the 1.25% threshold for the 'bb' score, the financial performance is aligned with its guidance and boosted by its recent discipline in lending standards and pace of growth. Stable capital ratios amid focused asset growth and profitability recovery should absorb any downside risks in 2025. The Stable Outlook on Davivienda and GB National Long-Term ratings mirrors the Outlook on Davivienda's IDRs.

KEY RATING DRIVERS

VR Drives IDRs: Davivienda IDRs are driven by its VR. The VR is one notch above the 'bb' implied VR and reflects the bank's strong business profile. This factor has a positive impact on the bank's credit profile given its leading market position in Colombia as the second largest bank and adequate franchise in Central America. The assessment also considers its sound risk management and financial performance recovery amid the recent challenging

operating environment (OE), as well as its good capital position and large, stable deposit base.

Strong Business Profile: Davivienda's business profile is underpinned by its stable total operating income (TOI), strong market position in Colombia and leading franchise in Central America. Davivienda has a diversified business model, serving more than 24 million customers and offering a full suite of retail and commercial banking, as well as wealth management and capital market services.

The four-year average TOI, at USD2,563 million, is supported by business and geographic diversification and has proven resilient to its overall financial performance while controlling risk. Continuous efforts to develop cutting-edge digital technologies also strengthen its business model.

Improving Asset Quality: Davivienda's improvement in the asset quality metrics of its consumer portfolio suggested a more rigorous credit risk management approach, important collection efforts and a shift towards better credit quality borrowers. Total PDL decrease to 4.6% as of September 2024 including a 226 basis points improvement in the consumer portfolio since the peak of December 2023. Fitch considers that meeting the 4.0%-4.5% target for PDL at the end of 2024 is still challenging, but achievable if the bank sticks to its recent discipline in lending standards and pace of growth. However, credit costs should remain above 3% for the next 12 months given the need for further provision expenses.

Lower Provisions Likely to Drive Recovery: Davivienda has exhibited a decreasing trend in operational losses, driven by asset quality improvement, strategic focused growth toward less riskier segments and a deliberate shift in its loan and deposit mix. The bank's quarterly operating profit/risk-weighted assets ratio was 0.6% in September 2024 versus -1.8% at the end of 2023, aligning with Fitch's 2024 forecast.

Despite lower reference interest rates resulting from gradual inflation reduction, the decline has been slower than anticipated, affecting net interest margins due to the re-composition of the loan mix and gradual resumption of growth. Fitch expects core profitability to return to above 1.25% over the next 12 months once provisions show signs of stabilization and net interest margin (NIM) pressures decrease.

Adequate Capital Metrics: Davivienda's capitalization remains adequate amid asset contraction and weak profitability in 2023 and 2024, with a 10.4% common equity Tier 1 (CET1)-to-risk weighted asset (RWA) ratio as of 3Q24 and a 14.7% total regulatory capital ratio due to additional loss absorption provided by hybrid capital securities. Fitch expects

capitalization to remain at about 10.5% -11.0% over the next two years with a capital score of 'bb-', commensurate with the bank's planned growth and earnings recovery. Sound risk management, high collateral requirements and resilient asset quality also underpinned the bank's capitalization.

Diversified and Stable Funding: Davivienda's funding and liquidity assessment is enhanced by its good market position in deposits, supported by ample banking infrastructure and digital transformation. Its loans to deposits ratio of about 108% as of September 2024 was below its historical average of 121% but still above the peer average, as the bank utilizes longer-tenor funding that helps to better match its assets and liabilities. Customer deposits demonstrated a shift from demand deposits to term deposits to optimize costs and manage liquidity. Conservative liquidity policies and a consolidated market position will allow the bank to fulfill regulatory liquidity ratios above 100%.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

VR, IDRs and National Ratings

--The ratings could be downgraded if asset quality deterioration is not controlled below levels of 4% and profitability ratio (operating profit to RWA) consistently deviate below from 1.25% expected by Fitch for the next 12 months to 24 months, resulting in an erosion of CET1 consistently below 10%;

--A weakening of Fitch's assessment of the business or risk profiles could trigger a downgrade;

--Davivienda's national scale ratings will reflect any change in local relativities.

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 a confluence of improvement within the OE and in the bank's financial profile;

--Davivienda's national ratings have no upside potential because they are at the highest level in the national rating scale.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

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, along with additional nonperformance risk relative to the VR, given the high write-down trigger of CET1 at 5.125% and full discretion to cancel coupons. As such, the debt has 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, encompassing two notches for loss severity (-2) and zero notches for nonperformance risk (0), given the issuance terms (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.

GOVERNMENT SUPPORT RATING

The bank's Government Support (GS) rating of 'bb' reflects Davivienda's size, systemic importance and the country's historical support policy. Fitch believes there is a high probability of sovereign support. Colombia's ability to provide such support is reflected in the sovereign's Long-Term IDR (BB+/Stable).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

--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.

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

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

Grupo Bolivar National Ratings and Senior Debt

Grupo Bolivar's (GB) National ratings reflect the creditworthiness of its main subsidiary, Banco Davivienda. GB's ratings are aligned with Davivienda's due to its low double leverage (June 2024: 101%), supported by a high level of earnings retention and strong cash flow metrics that sufficiently meet its debt service requirements. Additionally, GB's prudent liquidity management, as well as the flexibility of its investment and contingency plans, ensures a projected cash flow that sufficiently covers the debt service for the next several years.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

--GB's National ratings will mirror any action taken on Davivienda's National ratings;

--Additionally, a substantial increase of GB's leverage (double leverage above 120%) or a sustained decline in the dividend flows from the operating companies that result in a deterioration of its debt coverage ratios could pressure GB's ratings;

--GB's national scale ratings are at the highest level on the national scale; therefore, they cannot be upgraded.

VR ADJUSTMENTS

The VR is one notch above the 'bb' implied rating due to the following adjustment reason: Business Profile (positive).

The Business Profile score has been assigned above the implied score due to the following adjustment reason: Business Model (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Grupo Bolivar's ratings are driven by the rating of its main subsidiary, Banco Davivienda.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Grupo Bolivar S.A.	Natl LT	AAA(col) Rating Outlook Stable		AAA(col) Rating Outlook Negative
		Affirmed		
	Natl ST	F1+(col)	Affirmed	F1+(col)
senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col)
Banco Davivienda S.A.	LT IDR	BB+ Rating Outlook Stable		BB+ Rating Outlook Negative
		Affirmed		
	ST IDR	B	Affirmed	B
	LC LT IDR	BB+ Rating Outlook Stable		BB+ Rating Outlook Negative
		Affirmed		
	LC ST IDR	B	Affirmed	B

Natl LT	AAA(col) Rating Outlook Stable	AAA(col) Rating Outlook Negative
Affirmed		
Natl ST	F1+(col) Affirmed	F1+(col)
Viability	bb+ Affirmed	bb+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Metodología de Calificación de Bancos (pub. 28 Sep 2023)

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

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