FitchRatings

Banco Davivienda S.A.

Banks
Universal Commercial Banks
Colombia

Key Rating Drivers

Viability Rating Drives Issuer Default Ratings: Banco Davivienda S.A.'s (Davivienda) Issuer Default Ratings (IDRs) are driven by its Viability Rating (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 Davivienda's credit profile due to 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 the bank's 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, significant collection efforts and a shift towards better credit quality borrowers. Total past due loans (PDL) decreased to 4.6% as of September 2024, reflecting a 226 basis points improvement in the consumer portfolio since the peak in December 2023.

Fitch Ratings 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 due to 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, strategically 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 (RWA) ratio was 0.6% as of September 2024 compared to -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 in losses has been slower than anticipated, affecting net interest margins 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 the pressure on net interest margin (NIM) decreases.

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 ratio (CET1)-to-RWA ratio and a 14.7% total regulatory capital ratio as of 3Q24 due to additional loss absorption provided by hybrid capital securities.

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(col)
National Short-Term Rating	F1+(col)
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 (March 2024)

National Scale Rating Criteria (December 2020)

Related Research

Focused Loan Growth, Lower Provisions Likely to Drive Davivienda's Recovery (August 2024)

Fitch Affirms Colombia at 'BB+'; Outlook Stable (November 2024)

Latin American Banks Outlook 2025 (December 2024)

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Fitch expects capitalization to remain at about 10.5%-11.0% over the next two years, with a capitalization 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 was about 108% as of September 2024, 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 the profitability ratio (operating profit-to-RWA) consistently deviates below the 1.25% expected by Fitch in the next 12 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

Rating Level	Rating
Junior Subordinated: Long Term	B
Senior Unsecured: National Long Term	AAA(col)
Subordinated: National Long Term	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, 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.

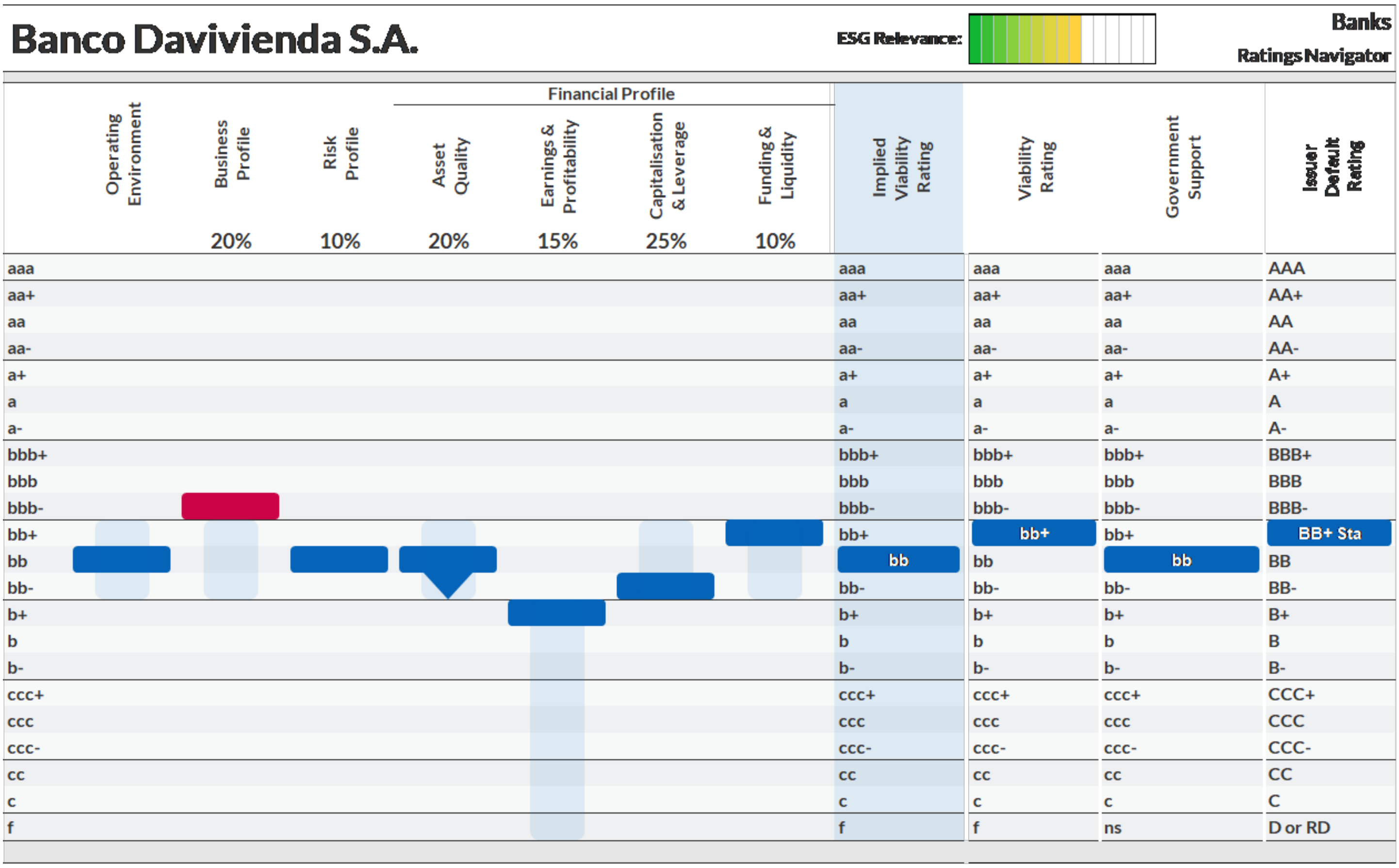
- Davivienda’s junior subordinated debt ratings will mirror any action on the bank’s VR.
- Davivienda’s local senior debt rating and subordinated debt rating would move in line with its National Long-Term rating.

Significant Changes from Last Review

The Rating Outlook revision to Stable from Negative 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/RWA ratio is still below the 1.25% threshold for the 'bb' score, the financial performance is aligned with the bank's 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's and Grupo Bolivar National Long-Term ratings mirrors the Outlook on Davivienda's IDRs.

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 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).

Company Summary and Key Qualitative Factors

Operating Environment

Gradual Recovery on Operating Environment

Fitch expects the OE for Colombian banks to remain neutral in 2025, as credit growth is expected to recover amid still challenging macroeconomic conditions due to the political environment and the government reforms. We anticipate lower inflation and less restrictive monetary policy will drive higher consumption and investment, as well as improving conditions for interest-rate-sensitive sectors, such as construction. Funding and credit costs are decreasing even though the largest banks' NIMs could be impacted by lower interest rates, as they tend to be asset-sensitive. Fitch expects that core financial metrics will continue to be generally commensurate with their respective credit risk profiles. These metrics should remain stable or slightly improve after withstanding headwinds.

Business Profile

Consolidated Franchise, Leader in Mortgage

Davivienda's business profile is underpinned by its stable TOI, strong market position in Colombia and leading franchise in Central America. 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. During 2023, the bank created a sub-holding in Panama to consolidate its operations in Central America.

Davivienda is Colombia's second largest bank, with a market share of about 13.2% by assets, 15.1% by loans and 14.2% by deposits within Colombia as of September 2024, coupled with a regional presence since 2012. The bank has a diversified business model serving over 24 million customers, offering a full suite of retail and commercial banking, along with wealth management and capital market services. Its consolidated, competitive position in terms of local and regional presence and technology and efficiency advantages provide the entity with pricing power. By geography, about 26% of Davivienda's assets are in Central America. The bank's network includes 661 branches, more than 2,800 ATMs and presence in six countries.

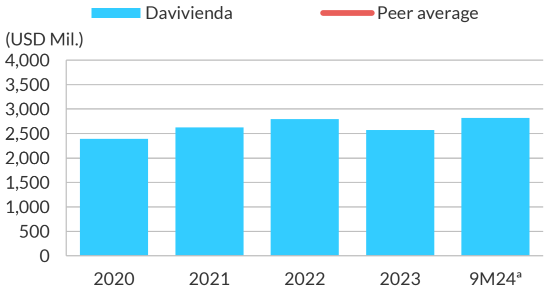
Strong Digital Banking Strategy

The bank is developing its core capabilities based on a premise that incorporates 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, thereby maintaining its synergistic advantages of operating in various business lines. The bank's digital transformation includes, analytics, cybersecurity, product transformation, new channels and creating digital ecosystems in Colombia and Central America.

Davivienda is also committed to an overall strategy of sustainable development goals that involve promoting gender equality; decent work and economic growth; industry, innovation and infrastructure; reducing inequality; sustainable cities and communities; responsible consumption and production; and climate initiatives; and adhering to the United Nations' Principles for Responsible Investment. The strategy incorporates the business model's environmental and social financing in different fields. Some examples are sustainable construction, renewable energy, infrastructure, low income housing and female-owned SMEs.

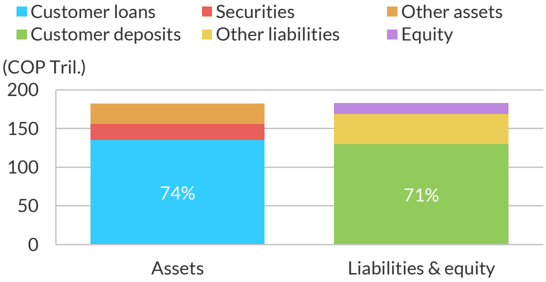
Davivienda has established a sound and credible track record of adequate long-term planning and good execution. The bank's digital transformation has been central to improving speed of service, increasing its client focus and simultaneously reducing its operating costs. Over the past year, Davivienda has continued to direct efforts toward 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, banks

Balance Sheet
(Ended Sep. 2024)



Source: Fitch Ratings, Fitch Solutions, Davivienda

Risk Profile

Strengthened Risk Profile

The positive trend in asset performance reflects the bank's effective risk management and credit policies that have strengthened loan performance within the consumer segment, as well as a fine-tune of its lending strategies and a close monitoring of its loan portfolio. Fitch views the Davivienda's risk profile as sound, supported by its well-developed credit risk standards and risk control framework, and high collateral requirements. Credit growth has decelerated in line with a scenario of still higher interest rates and a slowdown in local economic activity. This has been accompanied by improvement in asset quality and lower provision requirements.

Adequate Risk Controls

Davivienda has established a centralized risk management unit that oversees credit, operational and market risk for the bank, its subsidiaries and all Grupo Bolivar companies. The bank leads in terms of policies and risk control processes; best practices are adopted throughout the group wherever feasible. In Fitch's opinion, Davivienda's risk and credit policies are relatively conservative, while its credit process is sound and mature, as illustrated by its asset quality. Credit risk management involves vintage analysis, portfolio flows, tolerated loss limits for products, fine-tuning of models and portfolio quality ratios. Collection is a key part of the process and is centralized in a specialized unit.

Davivienda's loan growth during the 12-month period ended in September 2024 (0.8%) has revealed strict measures to control asset deterioration. Consumer contraction of 13.2% in the same period reflect the bank's discipline in lending standards, following a focused growth in better profiles and lower risk products. Meanwhile, corporate and mortgage portfolio growths of 5.7% and 7.8%, respectively, are largely due to the loan mix re-composition still impacted by lower investor sentiment, recent government stimulus to boost the housing market and lower interest rates. Conversely, the bank's funding mix has shown a marked preference for term deposits, which are perceived as more stable and reliable sources of funding in the current economic climate but are costly for the bank. Growth in the Central American operation reflects modest performance in wholesale and retail segments.

Financial Profile

Asset Quality

Improving Asset Quality

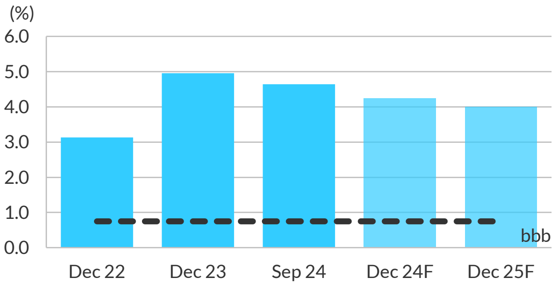
Davivienda's asset quality metrics of its consumer portfolio improved to 4.7% (-226 basis points in its 90-day PDL ratio since 6.97% at YE23), leading to lower-than-expected provisioning requirements. The agency expects a gradual normalization of provision expenses, although this is seemingly happening at a slower pace than originally expected. The 4.3% cost of risk as of 3Q24 is still significantly higher than the average of close domestic peers at 2.8%.

The mortgage portfolio remains affected by the challenging OE, though there are positive expectations due to anticipated reduction in interest rates. On the other hand, the commercial portfolio continues to be influenced by high political uncertainty and deterioration in some sectors.

Moderate risk concentrations by debtor and economic sector and real guarantees partially mitigate risks, even though Davivienda is not expected to see excess loan loss reserves. Industry concentration is moderate, with only one sector concentrating above 10% of total gross loans. 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 bank expects the asset quality performance of its Central American operation to remain stable.

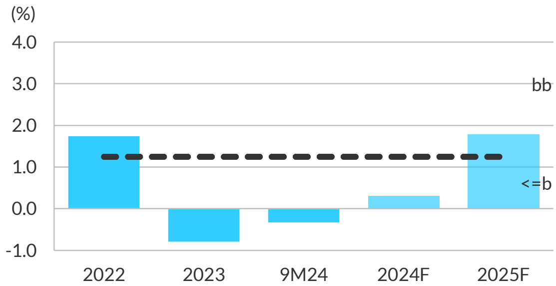
Reserve coverage decreased to 0.8x as of September 2024 from a 2020–2023 average of 1.3x, partly due to efforts to protect the bank from asset deterioration with collaterals. This level should remain at or near 0.90x as of YE24, 1.3x including collateral. Stage 3 reserve coverage remained at about 55% as part of the risk assessment. Davivienda has a solid level of real guarantees due to its business model, which includes leasing operations and mortgages.

Impaired Loans/Gross Loans
Davivienda



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets
Davivienda



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Lower Provisions Likely to Drive Recovery

Davivienda has exhibited a decreasing trend in operational losses, driven by asset quality improvement, strategic focused growth and a deliberate shift in its loan and deposit mix. This strategic shift has impacted the NIM, as the bank has optimized its asset and liability management to enhance profitability and manage liquidity more effectively. The bank is characterized by a higher sensitivity on the liabilities side, which will benefit from the reduction of interest rates. Additionally, the improved quality of its loan portfolio has resulted in lower provision expenses, further contributing to the reduction in operational losses.

Davivienda expects the reduction in interest rates and growth in less risky portfolios to limit its interest earnings generation compared to previous years. Fitch expects NIM should remain around 5.6% to 6% while concluding the asset quality normalization and resuming the loan growth. However, this impact is offset by increased commission fees and treasury gains. This strategy underscores Davivienda's resilience in maintaining robust financial performance despite a still challenging OE. Davivienda's Central American operations have exhibited more stability, but the hedge of foreign exchange positions and Colombian peso appreciation weigh on consolidation.

Operating expenses increased 3.0% yoy as of September 2024 amid lag on the inflation pressure and continued efforts to control operating costs. These efforts prevented efficiency from deteriorating compared to the gradual resumption of the operating revenues. The cost-to-income ratio was 52%, above the 46%–48% range from 2019–2022 and similar to the average of regional peers of 56% as of June 2024.

Fitch expects a gradual normalization of provision expenses, although this is seemingly happening at a slower pace than originally expected. The 4.3% cost of risk as of 3Q24 is still significantly higher than the average of close domestic peers at 2.8%. Loan impairment charges continue pressured pre-impairment operating profit decreased to 108% from a peak of 120.5% at YE23 and an average of 62% during 2021-2022.

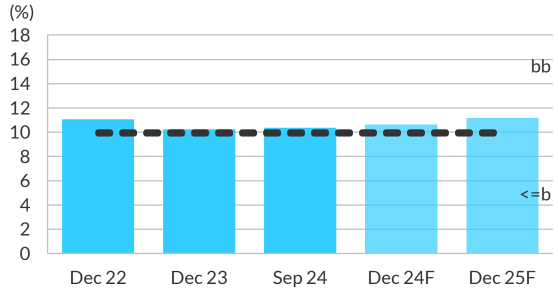
Capitalization and Leverage

Adequate Capital

Davivienda's capitalization remains adequate amid asset contraction and weak profitability in 2023 and 2024, with a 10.4% CET1-to-RWA ratio and a 14.7% total regulatory capital ratio as of 3Q24 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 capitalization 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.

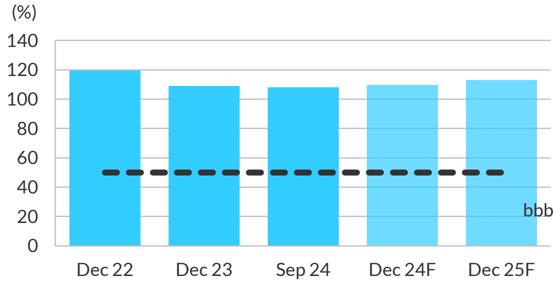
The erosion of the CET1 ratio moves to levels closer to the 10% sensitivity established for a potential downgrade. Fitch expects a gradual improvement in the CET1 ratio over the next 18 to 24 months as asset quality normalizes. Fitch projects the bank's recovery efforts to slowly bolster its capitalization despite no significant changes anticipated by the end of 2024. Moderate dividend payments will also support Davivienda's capital.

CET1 Ratio
Davivienda



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits
Davivienda



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Diversified and Stable Funding

Customer deposits experienced a shift from demand deposits to term deposits, which are perceived as more stable and reliable sources of funding in the current economic climate but are costly for the bank. Fitch expects the deposit base and regular access to capital markets to sustain loan growth. Conservative liquidity policies and a consolidated market position will allow the bank to fulfil regulatory liquidity ratios above 100%. The Funding and Liquidity factor score remains at 'bb+'. Davivienda's subsidiaries are funded independently in their home markets and must be self-sufficient to avoid cross-border contagion effects.

Customer deposits consistently provide over 75% of total funding (September 2024: 80%). Additional funding sources include credit lines and an significant amount of senior unsecured bonds and subordinated bonds issuances locally and abroad to better match assets and liabilities and to bolster regulatory capital. Deposit concentration is moderate, with the top 20 deposits representing around 15% of total deposits. Liquidity coverage ratio under Basel III was 2.2x. The net stable funding ratio fluctuates between 103% and 105%, as determined by the bank's internal policy.

Additional Notes on Charts

The forecasts within 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, sector outlook and company-specific considerations. As a result, Fitch's forecasts may differ materially from guidance provided by the rated entity to the market.

To the extent Fitch is aware of material nonpublic information with respect to future events, such as planned recapitalizations or M&A activity, Fitch will not reflect these nonpublic future events in its published forecasts. However, where relevant, Fitch considers such information to be part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments Fitch scores in the 'bb' category. Light blue columns represent Fitch forecasts.

The peer average includes Bancolombia S.A. (VR: bb+), Banco de Bogota, S.A. (bb+), Banco de Credito del Peru S.A. (bbb), Banco Mercantil del Norte, S.A., Institucion de Banca Multiple (bbb−), Banco General S.A. (bbb−) and BBVA Colombia S.A. (bb+). The latest average uses 1H23 data for Banco de Bogota, S.A. and Banco General S.A. and 3M22 data for Grupo Financiero Banorte, S.A.B. de C.V.

Financials

Financial Statements

	September 30, 2024		December 31, 2023	December 31, 2022	December 31, 2021
	9 months	9 months	12 months	12 months	12 months
	(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	1,589	6,617	9,322	8,878	7,505
Net fees and commissions	345	1,437	1,894	1,678	1,501
Other operating income	81	336	-258	620	807
Total operating income	2,015	8,389	10,959	11,175	9,813
Operating costs	1,063	4,425	6,049	5,395	4,716
Pre-impairment operating profit	952	3,965	4,910	5,780	5,097
Loan and other impairment charges	1,031	4,294	5,917	3,446	3,301
Operating profit	-79	-330	-1,008	2,334	1,796
Other non-operating items (net)	–	–	14	-14	-23
Tax	-19	-78	-622	704	512
Net income	-61	-252	-372	1,616	1,261
Other comprehensive income	146	609	-132	1,454	357
Fitch comprehensive income	86	357	-504	3,070	1,618
Summary balance sheet					
Assets					
Gross loans	33,812	140,801	135,975	144,787	118,620
- Of which impaired	1,569	6,533	6,727	4,532	3,974
Loan loss allowances	1,350	5,620	6,076	6,319	5,374
Net loans	32,463	135,181	129,899	138,469	113,246
Interbank	65	269	152	668	2,156
Derivatives	280	1,164	1,581	2,195	758
Other securities and earning assets	5,498	22,893	22,699	20,388	16,415
Total earning assets	38,304	159,507	154,331	161,720	132,575
Cash and due from banks	3,108	12,941	15,003	14,479	13,154
Other assets	2,406	10,020	8,884	7,931	6,951
Total assets	43,818	182,468	178,218	184,129	152,681
Liabilities					
Customer deposits	31,285	130,279	124,737	121,072	100,879
Interbank and other short-term funding	835	3,477	1,926	1,123	835
Other long-term funding	6,476	26,968	29,157	36,615	31,049
Trading liabilities and derivatives	233	971	1,975	2,357	648
Total funding and derivatives	38,830	161,695	157,795	161,167	133,412
Other liabilities	1,221	5,083	5,671	6,668	4,989
Preference shares and hybrid capital	475	1,979	1,808	1,808	0
Total equity	3,293	13,712	12,945	14,485	14,280
Total liabilities and equity	43,818	182,468	178,218	184,129	152,681
Exchange rate		USD1 = COP4164.21	USD1 = COP3822.05	USD1 = COP4810.2	USD1 = COP3997.71

Source: Fitch Ratings, Fitch Solutions

Key Ratios

	September 30, 2024	December 31, 2023	December 31, 2022	December 31, 2021
Ratios (%; annualized as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-0.3	-0.8	1.7	1.7
Net interest income/average earning assets	5.6	5.9	6.1	6.1
Non-interest expense/gross revenue	52.4	54.5	48.0	48.1
Net income/average equity	-2.5	-2.5	11.0	9.4
Asset Quality				
Impaired loans ratio	4.6	5.0	3.1	3.4
Growth in gross loans	3.6	-6.1	22.1	11.2
Loan loss allowances/impaired loans	86.0	90.3	139.4	135.3
Loan impairment charges/average gross loans	4.2	4.2	2.6	3.0
Capitalization				
Common equity Tier 1 ratio	10.4	10.3	11.1	12.0
Fully loaded common equity Tier 1 ratio	–	–	–	–
Fitch Core Capital ratio	–	–	–	–
Tangible common equity/tangible assets	6.3	6.2	6.9	8.3
Basel leverage ratio	8.0	7.7	8.6	8.9
Net impaired loans/common equity Tier 1	6.7	5.0	-12.1	-10.9
Net impaired loans/Fitch Core Capital	–	–	–	–
Funding and Liquidity				
Gross loans/customer deposits	108.1	109.0	119.6	117.6
Gross loans/customer deposits + covered bonds	–	–	–	–
Liquidity coverage ratio	224.0	191.8	–	–
Customer deposits/total non-equity funding	80.1	79.1	75.4	76.0
Net stable funding ratio	110.2	110.5	–	–

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, as well as 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

FitchRatings **Banco Davivienda S.A.**

Banks
Ratings Navigator

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.

			ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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.

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 www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.