CREDIT OPINION
22 January 2025

Update

Send Your Feedback

Banco Davivienda S.A.

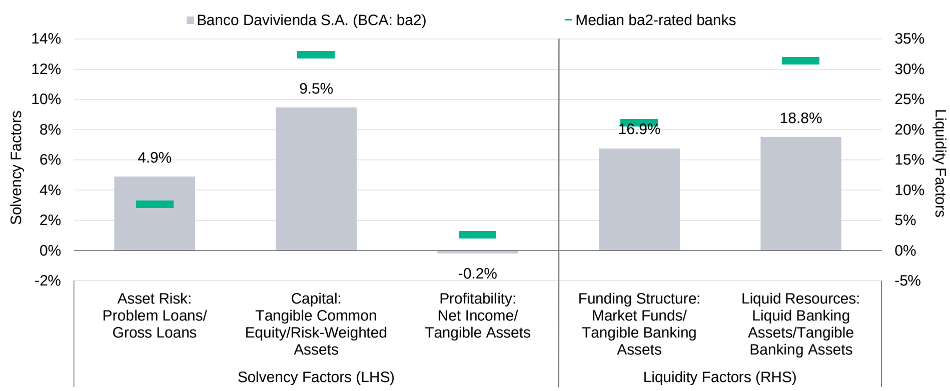
Update following rating affirmation, outlook remains negative

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. The ba2 BCA also reflects asset quality metrics that remain high compared to historical levels. In addition, Davivienda's BCA is challenged by the net losses the bank reported in 2023 and cumulative net losses in the first nine months of 2024. The negative pressure on profitability was driven by a significant rise loan loss provisions in 2023, as well as by a reduction in margins that reflected conservative business activity, the high monetary policy rate and the implementation of the NSFR in Colombia.

Davivienda's deposit ratings of Baa3 incorporate our assessment of a very high probability that the bank would receive support from the Government of Colombia (Baa2 negative) 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 September 2024



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

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Long Term Debt	Withdrawn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Outlook	Rating(s) WithDrawn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	Negative

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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Credit strengths

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

» Problem loan ratios in Q3 2024 were still below those of large peer banks in Colombia.

» Regulatory capital metrics at adequate levels.

Credit challenges

» Negative bottom-line results in the first nine months of 2024.

» Problem loan ratios are high compared to previous years, reflecting delinquency in consumer loans that are high, but decreasing gradually on quarterly basis, and decline in loan portfolio volume. Despite that, the problem loan ratio for consumer loans improved in Q3 2024 compared with peak in Q4 2023.

Outlook

The negative outlook on Davivienda's deposit ratings of Baa2 considers the negative outlook on Colombia's sovereign rating, coupled with negative pressure on the bank's BCA stemming from net losses reported in 2023 and first half 2024 and problem loan ratios that remained relatively high, compared with historical levels, as of September 2024.

Factors that could lead to an upgrade

Considering the negative outlook on Colombia's sovereign rating, upward rating pressure is unlikely at this time for Davivienda's ratings. However, a stabilization of the outlook on the sovereign rating could lead to a stabilization of the bank's ratings outlook.

Upward pressure on the bank's BCA would stem from material and consistent improvement in asset quality and capital. In addition, a higher profitability would also be positive to the BCA, particularly as result of successful loan portfolio cleanup. Stronger economic growth and lower inflation in Colombia and Central America will also be beneficial to the bank's financial metrics and BCA.

Factors that could lead to a downgrade

The bank's deposit ratings, which benefit from government support uplift, would face negative pressure in case Colombia's sovereign debt rating were to be downgraded. Additionally, Davivienda's long-term ratings would face downward pressure if its BCA is downgraded, which could happen in case the bank reports additional net losses on a consistent basis and negative pressure on asset quality leads to higher provisioning needs, affecting earnings and capitalization. A longer-than-expected and costly integration process could also pressure profits and have a negative effect on the BCA.

Key indicators

Exhibit 2
Banco Davivienda S.A. (Consolidated Financials) [1]

	09-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[3]	CAGR/Avg.[4]
Total Assets (COP Billion)	182,062.5	177,813.2	181,495.8	152,161.1	134,705.4	8.4[5]
Total Assets (USD Million)	43,617.9	45,899.1	37,430.4	37,803.5	39,381.8	2.8[5]
Tangible Common Equity (COP Billion)	13,268.4	12,565.9	14,513.3	12,518.9	10,835.5	5.6[5]
Tangible Common Equity (USD Million)	3,178.8	3,243.6	2,993.1	3,110.3	3,167.8	0.1[5]
Problem Loans / Gross Loans (%)	4.9	4.9	3.2	4.3	5.0	4.5[6]
Tangible Common Equity / Risk Weighted Assets (%)	9.5	9.3	10.2	11.1	9.2	9.9[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	36.5	36.1	22.3	28.3	30.8	30.8[6]
Net Interest Margin (%)	5.0	5.2	5.4	5.3	5.6	5.3[6]
PPI / Average RWA (%)	3.9	3.6	4.6	4.7	4.0	4.1[7]
Net Income / Tangible Assets (%)	-0.2	-0.2	0.9	0.8	0.3	0.3[6]
Cost / Income Ratio (%)	53.7	53.1	46.3	46.4	46.3	49.2[6]
Market Funds / Tangible Banking Assets (%)	15.6	16.9	19.1	17.8	19.5	17.8[6]
Liquid Banking Assets / Tangible Banking Assets (%)	17.5	18.8	16.8	18.5	18.8	18.1[6]
Gross Loans / Due to Customers (%)	108.1	109.0	119.6	117.6	120.5	115.0[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 Ratings 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 September 2024, the bank reported consolidated assets of COP182,468 billion (USD 44 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 15% 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 September 2024.

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 59.2% of ownership as of Septemeber 2024. Grupo Bolivar is among the most important conglomerates in Colombia with over 80 years of experience, it has operations in Colombia, Central America and Miami. On 6 January 2025, Davivienda entered into an agreement with Bank of Nova Scotia (BNS, Aa2 stable, a3) to integrate BNS's subsidiaries in Colombia, Costa Rica, and Panama. The integration of operations is likely to begin in the second half of 2025, when the agreement receives regulatory approvals.

Detailed credit considerations

Problem loan ratios benefited partly from gradual improvement in the consumer segment, but remained at high levels

In September 2024, Davivienda's nonperforming loan (NPL) ratio, measured as stage 3 loans under IFRS to gross loans, decreased to 4.90% from 4.96% one year prior. The decline stemmed mostly from a lower formation of problem loans in the consumer book and by a small but positive growth of 0.8% in gross loans. This, in turn, reflected the bank's stringent underwriting standards that led to better new loan vintages. Despite that, Davivienda reported an increase in loan delinquency in the portfolios of mortgage and commercial loans in Q3 2024. The bank's asset quality measured as 90-day past due loans to gross loans also decreased to 4.64% in September 2024, from 4.73% one year prior. The bank´s loan loss reserves remained at an adequate 81.46% of Stage 3 loans, down from 95.47% in the previous year, and continued to be an important mitigant against credit risk.

Davivienda's gross loans grew 0.8%, year-over-year, in September 2024. The bank's consumer portfolio experienced a decline of 13.2% in loan volume, after having posted a 17.5% drop in Q1 2024, primarily related to operations in Colombia. Nonetheless, this decline was counterbalanced by growth in the portfolios of mortgage and commercial, which went up 7.8% and 5.7%, respectively, and comprised 75% of gross loans in September 2024.

Davivienda's Central American credit exposures comprised about 24% of the bank's consolidated loan book as of September 2024, increasing from 21% in December 2021, mainly due to loan book contraction in Colombia. The bank's operations in El Salvador and Costa Rica were the largest exposures overseas, with around 7% of total consolidated credits each, while the Honduras and Panama-based subsidiaries accounted for 6% and 3%, respectively, as of Q3 2024. However, the merger with BNS's subsidiaries in Costa Rica and Panama will allow Davivienda to gain market share in the two countries, making their operations rank fifth and eight, respectively, in terms of loans.

Slight improvement in core capitalization

Our preferred ratio of tangible common equity to risk-weighted assets (TCE/RWA) for Davivienda increased to 9.46% in September 2024, up from 9.38% one year prior. The increase in the capital ratio reflected the continued reduction in the bank's loan book, mostly in consumer financing, the positive, albeit still-small, effect from earnings posted for Q3 2024, and the issuance of 36 million new shares in March 2024, equivalent to COP 720 billion. We expect Davivienda's TCE ratio will likely benefit from the gradual improvement in bottom-line results in 2025, although these contributions will be somewhat modest because of contained loan growth.

On regulatory basis, the bank's common equity tier 1 (CET1) ratio was 10.37% in September 2024, slightly higher than 10.23% one year prior and adequately above the minimum threshold of 7.0%. The bank's total capital ratio was 14.74% in Q3 2024, compared with 15.32% in Q1 2023.

For 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.

In 2026, Davivienda may have higher CET1 ratios as a result of its integration with BNS's subsidiaries if the bank is able to strengthen its bottom-line results throughout 2025, before it begins to incur additional operating expenses from the merging process. As of September 2024, the bank's estimate of a combined CET1 ratio for its operation as a merged entity was 10.74%, reflecting a more positive effect from the aggregation of CET1 than of risk-weighted assets for the new entity.

Profitability continues to show small, but gradual improvement; still affected by provision expenses

In September 2024, Davivienda's ratio of net income to tangible assets (NI/TA) was -0.2%, compared with -0.1% one year prior. Despite that, the bank reported positive earnings of COP 109.4 billion in Q3 2024, after three quarters of losses. This improvement reflected a reduction in provision expenses – because of better new loan vintages – and in interest expenses, in line with lower interest rates.

The bank´s loan loss provision expenses decreased 35% year-over-year in Q3 2024, after having gone up 71.7% in 2023. Similar to other banks in Colombia, Davivienda recorded an increase in loan loss provisions in 2023 in line with the weak operating environment. In addition, the bank had already reported high growth in consumer loans in 2022, contributing to a more pronounced exposure to riskier loans, particularly with low income individuals, than its peers. The bank's ratio of loan loss provisions to pre-provision income (PPI) decreased to 107.0% in September 2024, from 109.4% one year prior.

In September 2024, the bank's net interest margin (NIM), as we calculate it, stood at 5.02%, lower than the 5.26% recorded the previous year. Davivienda's NIM has remained relatively stable over the last 24 months despite the increase in the country's benchmark policy rate from 2022 until April 2024 and the rise in funding costs for all banks in the system due to new regulations on long-term financing.

In 2025, we expect Davivienda´s profitability will likely benefit from the ongoing slow reduction in provision expenses, gradual improvement in funding costs, as reference rates keep decreasing, and inflation pressure subsides, benefiting operating expenses. Despite that, the bank's profitability metrics will likely remain small in year-end 2024. The merger with BNS's subsidiaries will weigh on the bank's profitability as the incorporation process begins, reflecting higher operating expenses, but it will benefit in the long-run from the migration of additional clients and future synergy gains which will likely result in a more stable generation of recurring earnings for the bank.

Volume of core funding and liquid assets remains stable

Our assessment of funding structure incorporates the bank's moderate reliance on market funds, representing about 15.6% of tangible banking assets as of September 2024, 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 14% 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 17.5% of tangible banking assets as of September 2024.

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

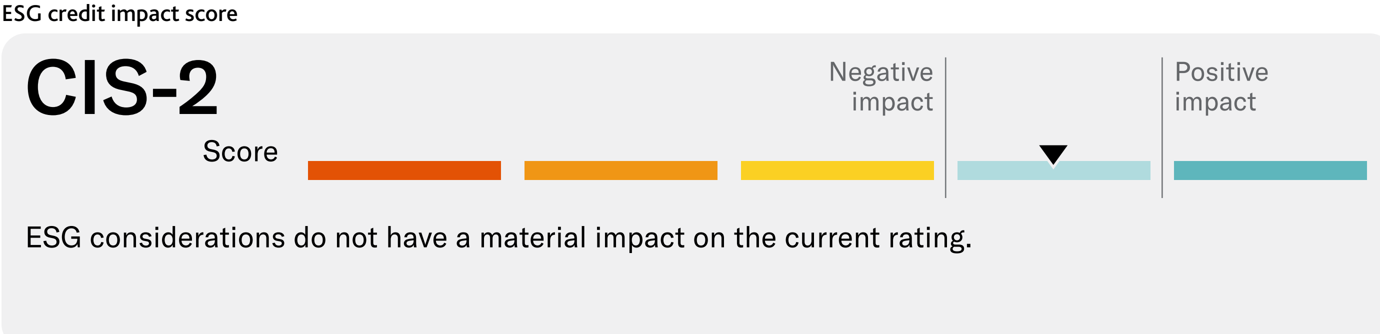
Davivienda's operations are mainly focused on Colombia, which has a Moderate+ Macro Profile. The remainder of the bank's operations are distributed among Panama (Moderate), El Salvador (Weak-), Honduras (Weak-) and Costa Rica (Moderate-), which results in the bank's Moderate weighted Macro Profile. Our 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.

ESG considerations

Banco Davivienda S.A.'s ESG credit impact score is CIS-2

Exhibit 3
ESG credit impact score

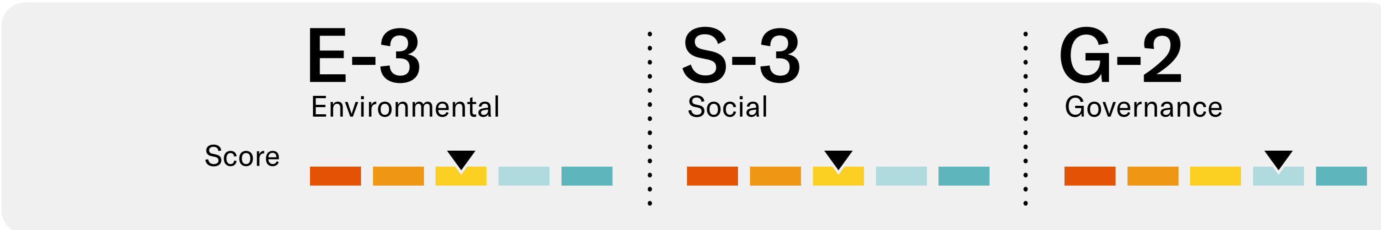


Source: Moody's Ratings

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



Source: Moody's Ratings

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 moderate social risks related to customer relations. The bank's developed policies and procedures, mitigate risk associated with the distribution of financial products such as conduct, regulatory and reputational risks, as well as exposure to litigation; Davivienda has activities primarily in Colombia, a country which has imposed only moderate penalties in relation to consumer protection. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. 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

Rating Factors

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	4.9%	ba1	↔	ba2	Expected trend	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	9.5%	ba3	↔	ba3	Expected trend	
Profitability						
Net Income / Tangible Assets	-0.2%	caa2	↔	caa2	Loan loss charge coverage	
Combined Solvency Score		ba3		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	16.9%	baa3	↔	baa3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	18.8%	ba2	↔	ba2	Stock of liquid assets	
Combined Liquidity Score		ba1		ba1		
Financial Profile				ba3		
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				ba2 - b1		
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
Dated subordinated bank debt	-3	0	b2	0		B2 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
BANCO DAVIVIENDA S.A.	
Outlook	Negative
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 Ratings

REPORT NUMBER 1435370