FitchRatings

Banks

Colombia

Banco Davivienda S.A.

Full Rating Report

Ratings

Banco Davivienda

Long-Term FC IDR	BBB
Short-Term FC IDR	F3
Long-Term LC IDR	BBB
Short-Term LC IDR	F3
Viability Rating	bbb
Support Rating	2
Support Rating Floor	BBB–
National Long Term Rating	AAA(col)
National Short Term Rating	F1+(col)

Sovereign Risk

Foreign-Currency Long-Term IDR	BBB
Local-Currency Long-Term IDR	BBB

Outlooks

Foreign-Currency Long-Term IDR	Negative
Sovereign Foreign-Currency Long-Term IDR	Negative
Sovereign Local-Currency Long-Term IDR	Negative

Financial Data

Banco Davivienda S.A.

	3/31/16	12/31/15
Total Assets (USDm)	28,774.0	26,581.7
Total Assets (COPbn)	86,965.0	83,718.3
Total Equity (COPbn)	8,708.0	8,716.0
Operating Profit (COPbn)	583.0	1,724.9
Published Net Income (COPbn)	424.0	1,236.7
Comprehensive Income (COPbn)	424.0	1,684.6
Operating ROAA (%)	2.75	2.27
Operating ROAE (%)	26.91	21.69
Internal Capital Generation (%)	19.58	14.19
Fitch Core Capital/ Weighted Risks (%)	9.50	9.36
Tier 1 Ratio (%)	7.10	6.92
Net Income (COPbn)	424.0	1,236.7

Related Research

2016 Outlook: Andean Banks (December 2015)

Analysts

Theresa Paiz-Fredel
+1 212 908-0534
theresa.paiz@fitchratings.com

Sergio Pena
+571 484 6770
sergio.pena@fitchratings.com

Key Rating Drivers

Resilient and Stable Performance: Banco Davivienda S.A.'s (Davivienda) long-term local and foreign currency IDRs are driven by its VR of 'bbb'. The bank's VR is highly influenced by its capitalization metrics and operating environment. Davivienda's ratings also consider its consistent performance, solid asset quality and risk management and its clear long-term strategy and adequate execution of that strategy.

Resistant Capital Metrics: Significant currency depreciation in 2015 increased the proportion of USD-denominated assets, although capital remained mainly denominated in local currency. The impact was limited for Davivienda compared to other large Colombian banks, as the bank's goodwill was in Colombian pesos (COP1.6 trillion), which reduced this deduction from capital. However, Fitch notes Davivienda's FCC ratio is weak compared with international peers (universal commercial banks in the 'bbb' rating category operating environments).

Improved Efficiency Explains Profitability: Despite increased funding costs, higher non-interest revenues offset a slight decline in margins during 2015. Operating expenses increased at a slower pace than revenues; thus, overall efficiency continued to improve. Credit costs also increased due to coverage of specific exposures. Nevertheless, the bank's operational ROAA of 2.27% continued to compare favorably with international peers and was above Davivienda's historical average of 2.05% from 2011–2014.

Sound Asset Quality: Davivienda's loan quality ratios continued to compare well with similarly rated international peers. NPLs have remained between 1.5% and 2.0% for the past five years. Asset quality has steadily improved in Central America and is now on par with that of Colombia. The introduction of the International Financial Reporting Standard (IFRS) led to a reduction of reserves, though coverage of NPLs remained high (1.6x at March 31, 2016) and continued to provide an adequate cushion against unexpected asset deterioration.

Diversified and Stable Funding: Davivienda's funding remained stable at home but the mix has somewhat changed abroad, as deposit growth in Central America was mainly driven by time deposits. The bank tapped global and local markets for senior and subordinated debt issuances and remains an attractive name for investors at home and abroad. In addition, its use of capital markets funding improved the bank's asset/liability matching.

Uneventful Integration: The performance of Davivienda's foreign subsidiaries continued to improve. The bank's subsidiaries resumed asset growth, re-balanced their funding, increased efficiency, and improved asset quality, which is now similar on average to that of Davivienda within Colombia.

Rating Sensitivities

Decline in Performance: A significant decline in performance and or weaker asset quality that erodes the bank's Fitch core capital or reserve cushion (below 9% or 100%, respectively) and or poor management of the new subsidiaries would negatively affect the bank's VR and IDRs.

Sovereign Rating Action: A downgrade of Colombia's IDRs would lead to a similar action on Davivienda's IDRs and VR. Upside potential for the ratings is limited given current capitalization levels and the sovereign's current rating and Outlook.

Operating Environment

Macroeconomic Challenges Represent Downside Risk for Economic Prospects

Colombia has entered a period of slower growth marked by lower commodity prices and reduced foreign direct investment after an average economic expansion of 4% for the period 2009-2014. Economic growth has been well diversified by sector and region and, quite importantly, has driven up employment and disposable income. Growth reached 3.1% in 2015 reflecting external financing availability, government programs and increased public regional and local spending. Fitch expects growth to average 2.3% in 2016 reflecting tighter monetary policy and weaker public spending, before recovering to 3% and 3.5% in 2017 and 2018, respectively, on the back of higher oil prices and the full year execution of the 4G infrastructure program.

Exchange rate flexibility has helped the transition to the new external environment, but the pass-through has increased inflationary pressures. Strong depreciation of the Colombian peso, the impact of El Nino and a still dynamic domestic demand have pushed inflation above the inflation target of 3% (plus or minus 1%) and could average 7.0% in 2016. Though these factors could ease in coming months, core inflation and inflation expectations have also increased significantly above the target range.

In its last policy meeting in late July, Banco de la Republica increased its policy rate by 25 bps to 7.75%, following a surprising April increase of 50 bps. Rates have risen by 275 bps since the current tightening cycle began in September 2015. Fitch expects monetary policy will remain focused on bringing headline inflation and expectations under control and supporting the reduction of external imbalances.

The Colombian banking system is highly concentrated, as three banks account for over 50% of the system's total assets. In spite of this concentration, competition is fierce and poised to intensify as smaller players consolidate and challenge the market leaders. Colombia's capital markets have also grown rapidly and are among the largest in the region with very active institutional investors and a range of issuers. The depth of the financial system is moderate, compared with the region's leading markets, but has been improving and should further develop as the integrated regional market with Peru, Chile and Mexico consolidates.

Colombia's financial regulator has enacted regulation to move towards Basel III, tightening capital requirements, demanding capital of a better quality and proactively monitoring loan growth. The recent publication of regulations concerning the use of hybrid capital as secondary capital reflects the government's commitment to update its standards, but the extent of these measures remains unclear. The regulator defined the framework for Tier II capital but gave a window of one more year to continue using old style subordinated bonds that lack of equity credit under Basel III and Fitch's methodology. Colombian regulation has gradually improved but still lags the region's best practices.

Related Criteria

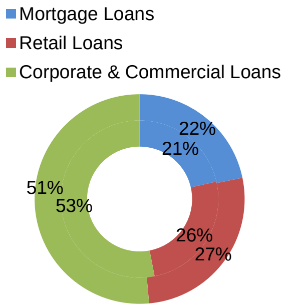
Global Bank Rating Criteria (July 2016)

Company Profile

Sound, Patiently Built Franchise

Davivienda is Colombia's third-largest bank with a market share of about 12.8% by assets, second by loans within Colombia and a regional presence since late 2012. A universal bank present in all business segments, the bank has come a long way since its incorporation in 1972 as a savings and loans company (S&L). Davivienda gradually acquired a leading position in mortgage lending and deposits and introduced credit cards in 1994 to leverage on its large customer base. The S&L was transformed into a commercial bank in 1997 with the objective of broadening its target market and product offerings.

Loan Breakdown
(2015 vs. 2014)



Source: Davivienda.

Since then, Davivienda has undergone a series of strategic mergers and acquisitions in Colombia and Central America that broadened Davivienda's franchise into the commercial and corporate segments and added a new international focus that is expected to contribute to the bank's growth and earnings in the medium term. The bank expanded its footprint, but most importantly, acquired operative structures, portfolios and customers (more than 2 million new customers) that complemented its core business. At December 2015, the bank's network included 749 branches and 2,164 ATMs, more than 8.1 million customers and presence in six countries.

Davivienda's market share was higher in mortgage lending and consumer lending (first in the market with 26% and 14% respectively as of March 2016), but a bit lower in corporate/commercial lending (13%, third). In Central America, Davivienda's market share was about 7% in Honduras (sixth largest) and 14% in El Salvador (second) and Costa Rica (third among private banks, sixth overall).

Low Risk Business Model, Simple Organizational Structure

Davivienda's business model comprises all business segments with revenues coming largely from intermediation and recurrent banking services. As of March 2016, Davivienda's consolidated loan portfolio was roughly 51% commercial, 27% consumer, and 22% mortgage lending. While this loan composition can be deemed riskier than that of its larger peers given its share of retail lending, it is very well diversified and relatively low-risk given the relatively low banking penetration in its core markets. When broken down by geography, about 27% of Davivienda's assets are in Central America, which is estimated to have contributed about 13% of the banks' net income at YE15.

Davivienda controls two subsidiaries in Colombia that are active trust services and securities brokerage. In addition to the six companies acquired in Central America (three banks and three insurance companies), Davivienda carries out international banking operations in Panama through Davivienda (Panama) and has a branch in the U.S. (Miami). Davivienda is controlled by Grupo Bolivar (GB), which holds directly and indirectly 56% of the company's shares. Cusezar, a Colombian homebuilding company holds an 18%, and IFC holds a 2.0% stake, with 22.6% of the bank's shares floating on the local stock exchange. Grupo Bolivar is in turn controlled by the Cortes family, a well-regarded local family that is mainly active in insurance and construction. In addition to Davivienda, Grupo Bolivar owns a subsidiary in Colombia active in insurance services (Seguros Bolivar).

Management

Experienced Management Was Enriched by M&A

Davivienda's management has been enriched by several mergers over the past decade and shows adequate depth and stability. The bank has a very distinctive culture of carefully planning the bank's long-term strategy while adapting to and managing short-term challenges. The acquisition of HSBC's subsidiaries in Central America posed an additional challenge as Davivienda had to integrate these entities while entering new markets. Davivienda used a pragmatic and open-minded approach, acknowledging the strengths of existing managerial teams, retaining key executives, empowering them and introducing top-level controls.

Davivienda's board of directors is composed of five members, including three independents. Five alternate directors and four advisors also contribute to the board, while some of its members also perform executive functions. Their backgrounds are varied, but they have significant business experience in common; most of the directors have been serving in the board for over 10 years. The compliance unit and internal audit report to the board. Davivienda created a new international unit that reports directly to the CEO and is responsible for

Davivienda's subsidiaries in Central America, Panama and its branches in the U.S. In Fitch's opinion, Davivienda's corporate governance is well in line with the region's best practices, reflecting the influence of IFC's participation as a shareholder, the listing of the company in the local exchange and its plans to be listed on the NYSE in the near future.

Clear and Well Executed Long-Term Strategy

Davivienda's long-term strategy is to consolidate as the third largest Colombian bank with a strong footing in retail and mortgage lending. The bank expects that the universal bank model will allow it to achieve balanced growth as banking penetration grows in Colombia. Growth in Central America will be more selective as each market offers different opportunities and challenges.

The bank's commercial strategy is based on a clear segmentation of its target markets. In retail lending, the bank aims at the middle- to upper-revenue segments with a full range of products, but also caters to lower-revenue segments with services and low-risk products that can give way to greater risk taking once it gathers sufficient information for its behavioral scoring systems.

On the corporate side, the bank steadily increased its market penetration as its size allowed it to book bigger tickets while foreign players, which had less risk appetite, left room for locals to exploit. The focus is on better segmenting these customers, tailoring products to their needs and deepening the relationships to improve cross-selling and revenue generation. An effort to develop the microfinance business was scrapped when its results did not meet the bank's expectations.

The expansion into Central America is consistent with Davivienda's long-term strategy and follows the progress made by its two larger competitors abroad. Davivienda's operations in Central America have stable, local funding and good asset quality. They boast a strong control environment and well-trained staff and management. Davivienda has adopted a hands-off approach to manage these entities. The control and reporting lines have been harmonized with the parent, but local management is trusted with day-to-day decisions. The banks are arguably less risk-averse under Davivienda's helm, and the parent has adopted some best practices found in its new subsidiaries.

Davivienda has established a sound and credible track record of adequate long-term planning and good execution. While inorganic growth has transformed the bank, the management of day to day operations is also well planned and consistently executed. Budgets and short-term plans are largely achieved, and whenever changes occur, they are usually due to adjustments to events and/or changing circumstances.

Risk Appetite

Conservative Credit Origination

Credit risk policies are aligned with the risk management policies of its main shareholder, Grupo Bolivar. The board of directors sets the risk appetite and policies, assesses the exposures and defines the loan portfolio limits. Exposures by industry are limited to 10% of the loan portfolio and exposure by group to 8%. The risk management unit and the investments risk unit reports to the Corporate Risk Committee who oversees the entirety of the credit process from defining the target market to collection as well as all of bank's risk exposures. Additionally, the bank has divided the risk controls in two segments, Banco Davivienda Colombia and Banco Davivienda International, with areas responsible to monitor and control all exposures following the limits set by the Corporate Risk Committee.

The risk management unit is divided into three areas, one for corporate credit, the second one for SMEs recently created, and the other for retail lending. The corporate credit and retail lending for Banco Davivienda International are overseen by the international credit unit, with people responsible in each country, which is in charge to assess, manage and collect all of the credit lines.

The corporate credit process involves preparing industry studies to identify key risks in target industries, a thorough credit analysis of prospective borrowers (including an internal risk rating process), credit/collateral administration and — after credit approval — active follow-up and portfolio management (including classification) to ensure early detection of potential problems. During 2015, Davivienda continued with the segmentation process, created the enterprise credit unit, separated the government unit from SME and created the new infrastructure office to handle the new projects.

Davivienda’s subsidiaries abroad adopted a mixed-credit approval process for high exposures that involves individual delegations at the local level and collegiate decisions at the parent level. The target sectors were redefined, excluding a number of segments not deemed desirable. In addition, a better separation of the commercial and risk management functions was created so as to avoid conflicts of interest.

Adequate Risk Controls Underpin Asset Quality

The bank has organized a centralized risk management unit that oversees credit, operational and market risk for the bank, its subsidiaries and all the companies of the Bolivar Group. Although the bank leads the way in terms of policies and risk control processes, best practices are adopted across the group whenever possible. In Fitch’s opinion, Davivienda’s risk and credit policies are relatively conservative, and its credit process is sound and mature, as illustrated by its good asset quality.

For the implementation of the general process of credit risk management, Davivienda has established three sub general processes in which the bank monitors the composition and quality of the loans portfolio to detect segment concentration and risk exposures, define models and credit risk criteria and to ensure compliance and warrants proper implementation of the definitions established by the Board and Risk Committee. These policies include integral risk committees, balance scorecards, target market goals, exposure limits, product committees, collection and corporate assessment processes. In addition, Davivienda implemented in its operations abroad a semi-annual credit review process for corporate and consumer loans in line with the one it has in Colombia.

Risk management for retail lending involves vintage analysis, portfolio flows, tolerated loss limits for products, fine-tuning of the models and portfolio quality ratios. Collection is considered a key part of the process and is centralized in a specialized unit since 2000 with clear guidelines and processes. The bank’s risk appetite in retail is curbed by interest rate caps set by regulators. While the caps have an impact on the bottom line, they aim at curbing loan growth rather than profitability and have now entered an expansive phase that should benefit the bank’s results.

Colombian Peso Depreciation Boosted Loan Growth

Similar to the other Colombian banks with operations abroad, the significant depreciation of the local currency during 2015 boosted loan growth to around 25% (2015-2014). However, when deducting the currency effect the growth within Colombia was 18.2% meanwhile Central America operations grew 12.4%. Amid the lesser dynamism in the Colombian economy, Davivienda´s loan growth in 2015 was the second highest in the Colombian loan portfolio. Loan growth has been in almost all segments, with a further increase in commercial (up 28%), mortgage (up 23%) and consumer (up 18%). Although the bank has historically had a higher share of retail lending, this portfolio mix has changed marginally during recent years to a more balance one between corporate and retail due to the organic and inorganic growth.

Consolidated Central America growth in 2015 was less than that of the Colombian operations with the exceptions of Costa Rica (28.7%) and Panama (18.5%), where growth was mainly in corporate and consumer loans.

Moderate Market Risk

Market risk policies and limits are set forth by a market risk committee at the group level and approved by the board of each company. Davivienda has exposure to interest rate, exchange rate risks, stock prices and investments funds, deriving from its loan and investment portfolios. Within the bank, a specialized unit monitors adherence to these policies and limits. The regulatory standardized VaR is calculated (95% confidence level, one-day holding period), and the bank exposure remains below the regulatory limit of 10% of the bank's equity. In addition, an internal parametric VaR model is used including stress testing and back testing, DVO1, sensitivity analysis, operating limits for structural and trading portfolios and limits to current exchange exposures. VaR in local currency for the unconsolidated bank (the highest of all subsidiaries) remained below the internal limit (COP16bn) during 2015. For the structural interest rate risk exposure, the bank performs sensitivity analysis of interest-bearing assets and liabilities with financial cost to evaluate the impact of interest rate changes on the net interest margin.

Financial Profile

Asset Quality

Sound Asset Quality

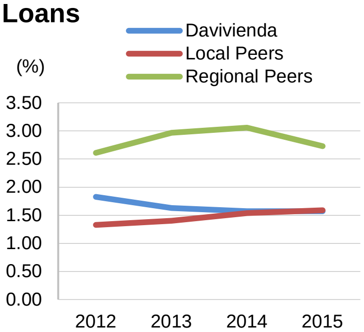
Asset Quality Metrics

(%)

	1Q16	2015	2014	2013
Growth of Gross Loans	3.34	24.11	23.80	19.43
Impaired Loans /Gross Loans	1.91	1.57	1.57	1.63
Reserves for Impaired Loans/Impaired Loans	158.16	171.78	247.21	254.23
Impaired Loans Less Reserves for Impaired Loans/Fitch Core Capital	(10.59)	(10.39)	(21.71)	(23.54)
Loan Impairment Charges/Average Gross Loans	2.75	2.01	1.73	2.05

Source: Davivienda, Fitch.

Asset Quality: NPL / Gross Loans



Source: Fitch.

Loan concentration by industry is very moderate, with concentrations below 10% of total loan portfolio, and even though no economic sector is a source of concern for the bank currently, the risk unit has performed a complete analysis for the oil and gas and related sectors, as well as customers with currency exposures and infrastructure projects. Additionally the bank has been adjusting its origination models due to weaker economic prospects in the retail segments, especially for residential leasing as well as for payroll deduction, mortgage and consumer loans. The Central American subsidiaries should continue to grow moderately and at a slower pace than Davivienda in Colombia, reflecting the bank's risk appetite and slower economic growth in some countries.

Loan quality remained stable as NPLs increased only slightly to 1.9% of gross loans at end-March 2016 due to a specific case in the infrastructure sector that affected all of the large Colombian banks. Nevertheless, Davivienda's loan quality ratios continued to compare well with similarly rated international peers. NPLs have remained between 1.5% and 2.0% for the past five years. Asset quality has steadily improved in Central America and is now on par with that of Colombia. Broken down by segment, PDLs were about 2.40% in consumer at March 2016, 2.15% in mortgages and 1.59% in corporate. Obligor concentration remains relatively unchanged compared to last year's. The top 20 debtor groups, all rated in the best-risk category, accounted for roughly 8.5% of the total portfolio at December 2015, a level considered low by Fitch.

Davivienda's loan portfolio is further diversified with lower concentrations per geography, industry, product and obligor. The breakdown by segment has barely changed, but some differences among countries exist. Honduras (52%) and El Salvador (57%) have a more retail-heavy mix, while Costa Rica (58%) and Panama (93%) are mostly corporate. Average asset quality shows the best asset quality in Panama (0.4%) and Costa Rica (1.5%), followed by Honduras (1.6%) and El Salvador (2.9%). Asset quality has been improving in the three countries since 2012.

The introduction in IFRS led to a reduction of reserves though coverage of NPLs remained high (1.6x at end-March 2016) and continued to provide an adequate cushion against unexpected asset deterioration. Consolidated reserve coverage should remain stable or decline slightly as newer credit portfolios mature while asset quality declines slightly. Reserve coverage at the subsidiary level is gradually being brought to Colombian standards. Given the bank's bias toward retail lending, charge-offs are consistently between 1.5% and 2.6% of gross loans. However, IFRS implementation increases the term to charge-off specially for auto loans and mortgage.

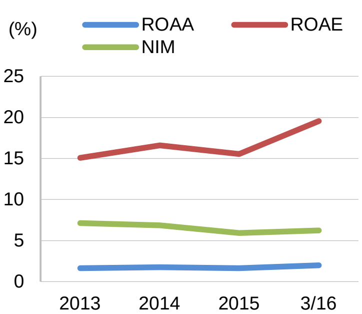
Limited Risk in Other Assets

The investment portfolio, which main objective is to preserve liquidity of the entity and generate financial results, represents around 11% of the assets. Investment policies are quite conservative and focus on the underlying credit and market risk. Approximately 66% of the investment portfolio is in securities from the government (mainly Colombian government) and government entities and agencies. The rest is a diversified mix of securities from foreign governments, local financial institutions, local corporations, multilateral agencies and mortgage-backed securities of mortgages originated by the bank. Investments have been relatively stable in volume since 2009 and are mostly in the trading book (about 74%), as the bank is market maker for short-term securities that are widely used for liquidity purposes.

Earnings and Profitability

Improvements in Efficiency explain Stable Profitability

Earnings & Profitability



Source: Davivienda.

Profitability

(%)

	1Q16	2015	2014	2013
Net Interest Income/Average Earning Assets	6.23	5.93	6.87	7.13
Non-Interest Expense/Gross Revenues	39.74	46.77	54.51	56.95
Loans and Securities Impairment Charges/Pre-Impairment Operating Profit	43.29	40.10	36.70	43.93
Operating Profit/Average Total Assets	2.75	2.27	2.34	2.00
Operating Profit/Risk-Weighted Assets	3.21	2.32	2.51	2.24
Net Income/Average Equity	19.57	15.55	16.60	15.06

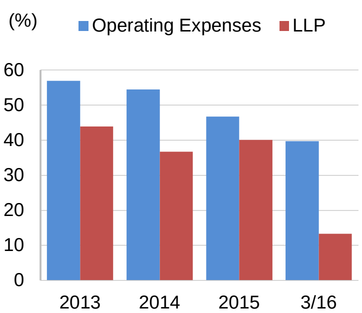
Source: Davivienda, Fitch.

Despite increased funding costs, higher non-interest revenues offset a slight decline in margins during 2015. Operating expenses increased at a slower pace than revenues; thus, overall efficiency continued to improve. Credit costs also increased due to coverage of specific exposures. Despite these factors, the bank's operational ROAA of 2.27% continued to compare favorably with international peers and was above Davivienda's historical average of 2.05% from 2011-2014.

Strong loan growth (up 25% year over year at December 2015), slightly lower margins and stronger non-interest revenues drove an increase in Davivienda's operating revenues. Margins showed a slight decline due to an increase in funding cost within Colombia for the hike in interest rates and the effects on international funding cost for peso depreciation. Additionally a greater growth in term deposits rather than in low-cost funds pushed the margins.

The performance of Davivienda's foreign subsidiaries continued to improve. The bank's subsidiaries resumed asset growth, re-balanced funding, increased efficiency and improved asset quality, which is on average similar to that of Davivienda Colombia now.

Operating Expenses & LLP



Source: Davivienda.

Improvements in Efficiency, Pressure in Impairment Charges

During 2015 operating expenses increased at a slower pace amid Davivienda's rapid business growth, showing the efforts to control costs and improve efficiency. Deducting the peso depreciation effect, Central American expenses remained relatively stable (negative 1.4% at March 2016) meanwhile Colombian expenses were explained by the increase in labor costs. Efficiency improved to 46.8% in 2015, and that trend should continue in line with the performance of the new subsidiaries. Davivienda's loan loss provisions (LLPs) went up compared to 2014 after a slight deterioration in the commercial loan portfolio quality in Colombia and the credit card portfolio in Central America. Continued growth should drive LLPs up in the near-term as well.

Moderate growth in its core market and a renewed risk appetite in Central America will drive Davivienda's growth in 2016. Less dynamic economic growth and potential margin pressures may detract from profitability, though Fitch expects the bank's efficiency and controlled credit costs to continue to underpin internal capital generation.

Capitalization and Leverage

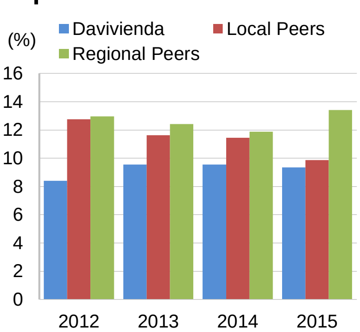
Capital Metrics

(%)

	1Q16	2015	2014	2013
Fitch core capital/weighted risk	9.50	9.36	9.55	9.55
Tangible common equity/tangible assets	8.15	8.48	8.33	8.20
Total regulatory capital ratio	12.20	11.70	10.89	10.82
Internal capital generation	19.58	14.19	15.16	14.00

Source: Davivienda, Fitch.

Capitalization: FCC/RWA



Source: Fitch.

Resilient Capital Levels

Significant currency depreciation in 2015 increased the proportion of USD-denominated assets, although capital remained mainly denominated in local currency. Nevertheless, sustained growth supported profitability, which combined with a conservative dividend payout policy improved the bank's capital position. The impact of the introduction of IFRS accounting standards and significant peso depreciation of around 32% in 2015 was limited for Davivienda compared to other large Colombian banks. Davivienda's FCC to RWA ratio decreased to 9.4% in 2015 from 9.6% in 2014, a level that compares well with similarly rated domestic banks. The impact on Davivienda's FCC ratio was less as the bank's goodwill was in Colombian pesos (COP1.6tn) versus USD, which reduced this deduction from capital relative to its local peers.

In addition, Davivienda's capital should be seen in light of its ample loan loss reserves, which consistently exceeded PDLs and creates an additional cushion of about 10% of the FCC to face unexpected losses. Fitch believes that Davivienda's capital ratios remain adequate in light of its stable performance and less risky business focus compared with other large domestic peers, a trend that Fitch expects to continue in the short and medium term. Regulatory capital reached 12.2% (March 2016), benefitting from growth in subordinated securities, which do not qualify for equity credit under Fitch's methodology.

Funding

(%)

	1Q16	2015	2014	2013
Loans/Customer Deposits	112.86	116.83	113.35	114.65
Interbank Assets/Interbank Liabilities	11.55	43.69	36.36	3.34
Customer Deposits/Total Funding (Excluding Derivatives)	78.25	75.29	75.57	75.74

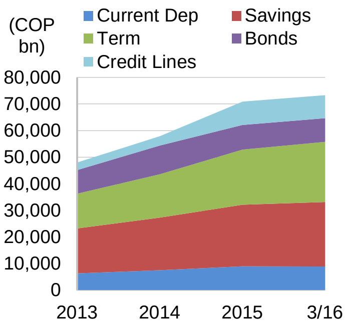
Source: Davivienda.

Funding and Liquidity

Adequate Funding & Liquidity

Davivienda's funding remained stable at home and has somewhat changed its mix abroad as deposit growth in Central America was mainly driven by time deposits. The bank tapped global and local markets for senior and subordinated debt issuances. In addition, its use of capital markets funding improved the bank's asset/liability matching.

Funding Sources



Source: Davivienda.

Given its retail roots and acquisitions, Davivienda boasts a wide deposit base of well-diversified, stable and relatively low-cost funds. Customer deposits consistently provide over 75% of total funding. Approximately two-fifths of total deposits are term deposits that have caused the bank's total share to increase after the acquisitions in Central America, as they were a privileged source of funding in these countries. Additional funding sources include deposits and borrowings from banks — Davivienda has about USD1.5bn in available, noncommitted credit facilities — and an increasingly important amount of bonds and subordinated bonds issued mostly to better match assets and liabilities and to bolster regulatory capital.

Davivienda continues to issue bonds abroad and in the local capital markets, and increasingly resorted to this type of funding as a response to the government's efforts to curb growth by raising deposit reserve requirements and restricting liquidity in the market. Henceforth, the loans-to-deposits ratio increased to peak at about 121% from about 100% during 2012. While its funding structure relies more on capital markets than that of its peers, it is adequate to better match assets and liabilities. In spite of having the largest mortgage portfolio, Davivienda does not have significant medium/long-term mismatches.

Liquidity risk is carefully monitored, and the bank's liquidity position is ample, as the bank held about COP18bn of cash and equivalents that represented 33% of the total short-term funding as of March 2016 (32% at YE14). Liquidity risk in the bank book is monitored on a permanent basis through a gap analysis and four stress scenarios that consider a liquidity squeeze of varying severity. Only in the most severe scenario will the bank's contingency plan expect to tap on the central bank's liquidity window using its investments (and some selected loan portfolios) as collateral. Central America subsidiaries established limits of exposure and must be self-sufficient to absorb a stress scenario.

Support

Systemic Important Bank

The bank's SR and SRF reflect Davivienda's size, systemic importance and the country's historical support policy. Fitch believes there is a high probability of sovereign support, whose ability to provide support reflects the country's financial and fiscal standing (Colombia is currently rated 'BBB'/'BBB+' with Negative Outlook).

Holding Companies: Grupo Bolivar

Grupo Bolivar S.A.'s (GB) National Ratings reflect the creditworthiness of its main subsidiary, Banco Davivienda. GB owns 55.9% of Davivienda. GB ratings are aligned with Davivienda's because of a low double leverage (December 2015: 102.89%) supported by a high level of earnings retention and strong cash flow metrics that sufficiently meet its debt service requirements.

Debt Ratings

Davivienda's subordinated debt is rated one notch below its VR to reflect lower expected recoveries, while there is no notching differentiation based on incremental non-performance risk given the terms of the issuances (plain-vanilla subordinated debt). The debt has thus been affirmed due to the affirmation of Davivienda's VR.

Banco Davivienda S.A.

Income Statement

	IFRS		COLGAAP			
	31 Mar 2016		31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
	3 Mos - 1st Qtr	3 Mos - 1st Qtr	Year End	Year End	Year End	Year End
	USDm	COPbn	COPbn	COPbn	COPbn	COPbn
	Unaudited	Unaudited	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
1. Interest Income on Loans	629.6	1,903.0	6,066.4	4,797.4	4,141.1	3,715.8
2. Other Interest Income	3.7	11.1	32.8	368.5	364.8	437.1
3. Dividend Income	n.a.	n.a.	5.1	26.3	23.2	16.3
4. Gross Interest and Dividend Income	633.3	1,914.1	6,104.3	5,192.2	4,529.1	4,169.2
5. Interest Expense on Customer Deposits	169.4	512.0	1,435.0	1,058.5	883.4	827.5
6. Other Interest Expense	90.3	273.0	823.6	594.8	545.7	498.5
7. Total Interest Expense	259.7	785.0	2,258.6	1,653.3	1,429.1	1,326.0
8. Net Interest Income	373.6	1,129.1	3,845.7	3,538.9	3,100.0	2,843.2
9. Net Gains (Losses) on Trading and Derivatives	19.9	60.0	(84.1)	(6.0)	(28.4)	12.8
10. Net Gains (Losses) on Other Securities	81.4	245.9	405.2	28.6	37.9	106.7
11. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	26.4	n.a.	n.a.	n.a.
12. Net Insurance Income	n.a.	n.a.	66.2	n.a.	n.a.	n.a.
13. Net Fees and Commissions	n.a.	n.a.	910.5	1,219.1	1,099.1	674.5
14. Other Operating Income	89.7	271.0	227.7	163.1	90.6	196.2
15. Total Non-Interest Operating Income	190.9	576.9	1,551.9	1,404.8	1,199.2	990.2
16. Personnel Expenses	102.6	310.0	1,110.4	957.0	865.3	752.4
17. Other Operating Expenses	121.8	368.0	1,414.0	1,737.7	1,582.9	1,411.9
18. Total Non-Interest Expenses	224.3	678.0	2,524.4	2,694.7	2,448.2	2,164.3
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	6.6	n.a.	n.a.	n.a.
20. Pre-Impairment Operating Profit	340.1	1,028.0	2,879.8	2,249.0	1,851.0	1,669.1
21. Loan Impairment Charge	147.2	445.0	1,154.9	784.1	767.3	866.7
22. Securities and Other Credit Impairment Charges	n.a.	n.a.	n.a.	41.2	45.8	14.4
23. Operating Profit	192.9	583.0	1,724.9	1,423.7	1,037.9	788.0
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
25. Non-recurring Income	n.a.	n.a.	n.a.	4.8	2.5	8.7
26. Non-recurring Expense	n.a.	n.a.	n.a.	1.9	2.1	5.1
27. Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
28. Other Non-operating Income and Expenses	2.0	6.0	(8.2)	14.3	51.5	130.6
29. Pre-tax Profit	194.9	589.0	1,716.7	1,440.9	1,089.8	922.2
30. Tax expense	54.6	165.0	480.0	373.8	233.1	226.4
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
32. Net Income	140.3	424.0	1,236.7	1,067.1	856.7	695.8
33. Change in Value of AFS Investments	n.a.	n.a.	n.a.	n.a.	0.0	0.0
34. Revaluation of Fixed Assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
35. Currency Translation Differences	n.a.	n.a.	279.8	n.a.	n.a.	n.a.
36. Remaining OCI Gains/(losses)	n.a.	n.a.	168.1	n.a.	0.0	0.0
37. Fitch Comprehensive Income	140.3	424.0	1,684.6	1,067.1	856.7	695.8
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	3.6	6.7	5.7	7.9
39. Memo: Net Income after Allocation to Non-controlling Interests	140.3	424.0	1,233.1	1,060.4	851.0	687.9
40. Memo: Common Dividends Relating to the Period	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Exchange rate		USD1 = COP3022.35000	USD1 = COP3149.47000	USD1 = COP2392.46000	USD1 = COP1922.56000	USD1 = COP1771.54000

Banco Davivienda S.A.

Balance Sheet

	IFRS		COLGAAP			
	31 Mar 2016		31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
	3 Mos - 1st Qtr	3 Mos - 1st Qtr	Year End	Year End	Year End	Year End
	USDm	COPbn	COPbn	COPbn	COPbn	COPbn
Assets						
A. Loans						
1. Residential Mortgage Loans	4,678.1	14,139.0	13,721.9	6,520.9	5,490.5	4,098.3
2. Other Mortgage Loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Other Consumer/ Retail Loans	5,466.3	16,521.0	16,321.9	13,629.8	11,231.2	10,490.5
4. Corporate & Commercial Loans	11,771.6	35,578.0	33,941.9	30,500.2	24,195.0	19,761.3
5. Other Loans	n.a.	n.a.	111.7	268.6	215.3	90.1
6. Less: Reserves for Impaired Loans	662.1	2,001.0	1,728.6	1,976.2	1,704.6	1,628.7
7. Net Loans	21,254.0	64,237.0	62,368.8	48,943.3	39,427.4	32,811.5
8. Gross Loans	21,916.1	66,238.0	64,097.4	50,919.5	41,132.0	34,440.2
9. Memo: Impaired Loans included above	418.6	1,265.2	1,006.3	799.4	670.5	630.3
10. Memo: Loans at Fair Value included above	n.a.	n.a.	n.a.	0.0	n.a.	n.a.
B. Other Earning Assets						
1. Loans and Advances to Banks	n.a.	n.a.	n.a.	508.8	446.3	140.5
2. Reverse Repos and Cash Collateral	n.a.	n.a.	506.8	0.0	n.a.	n.a.
3. Trading Securities and at FV through Income	n.a.	n.a.	7,249.6	3,189.0	3,216.1	3,808.7
4. Derivatives	169.4	512.1	441.7	428.6	78.2	121.4
5. Available for Sale Securities	n.a.	n.a.	1,241.3	3,069.4	2,643.9	1,377.5
6. Held to Maturity Securities	n.a.	n.a.	n.a.	1,873.3	2,035.6	964.6
7. Equity Investments in Associates	n.a.	n.a.	96.3	n.a.	n.a.	n.a.
8. Other Securities	2,902.4	8,772.0	177.2	(12.6)	(18.2)	(16.4)
9. Total Securities	3,071.8	9,284.1	9,712.9	8,547.7	7,955.6	6,255.8
10. Memo: Government Securities included	n.a.	n.a.	n.a.	5,146.3	5,067.2	3,675.0
11. Memo: Total Securities Pledged	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
12. Investments in Property	n.a.	n.a.	65.7	n.a.	n.a.	n.a.
13. Insurance Assets	n.a.	n.a.	n.a.	0.0	0.0	0.0
14. Other Earning Assets	n.a.	n.a.	92.7	0.0	0.0	0.0
15. Total Earning Assets	24,325.8	73,521.1	72,240.1	57,999.8	47,829.3	39,207.8
C. Non-Earning Assets						
1. Cash and Due From Banks	3,010.2	9,098.0	7,432.6	5,258.9	4,550.5	4,104.7
2. Memo: Mandatory Reserves included above	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Foreclosed Real Estate	n.a.	n.a.	n.a.	76.0	90.8	89.1
4. Fixed Assets	417.6	1,262.0	1,268.4	1,098.9	1,012.2	1,024.1
5. Goodwill	540.9	1,634.9	1,634.9	1,549.6	1,627.8	1,668.3
6. Other Intangibles	42.3	127.9	127.9	n.a.	0.0	0.0
7. Current Tax Assets	n.a.	n.a.	n.a.	0.0	14.0	n.a.
8. Deferred Tax Assets	n.a.	n.a.	93.2	24.8	35.9	n.a.
9. Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10. Other Assets	437.1	1,321.1	921.2	1,462.6	1,228.0	1,028.0
11. Total Assets	28,774.0	86,965.0	83,718.3	67,470.6	56,388.5	47,122.0
Exchange rate		USD1 = COP3022.35000	USD1 = COP3149.47000	USD1 = COP2392.46000	USD1 = COP1922.56000	USD1 = COP1771.54000

Banco Davivienda S.A.

Balance Sheet

	IFRS		COLGAAP			
	31 Mar 2016		31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
	3 Mos - 1st Qtr	3 Mos - 1st Qtr	Year End	Year End	Year End	Year End
	USDm	COPbn	COPbn	COPbn	COPbn	COPbn
Liabilities and Equity						
D. Interest-Bearing Liabilities						
1. Customer Deposits - Current	2,950.7	8,918.0	9,004.2	7,532.5	6,350.9	5,203.9
2. Customer Deposits - Savings	8,016.3	24,228.0	23,127.7	19,756.6	16,871.2	15,319.8
3. Customer Deposits - Term	7,481.9	22,613.0	20,717.0	16,295.9	13,064.0	9,516.4
4. Total Customer Deposits	18,448.9	55,759.0	52,848.9	43,585.0	36,286.1	30,040.1
5. Deposits from Banks	2,863.0	8,653.0	8,769.2	1,164.7	1,227.6	51.1
6. Repos and Cash Collateral	n.a.	n.a.	1,147.3	n.a.	7.7	n.a.
7. Commercial Paper and Short-term Borrowings	n.a.	n.a.	0.0	2,348.7	1,620.8	1,909.3
8. Total Money Market and Short-term Funding	21,311.9	64,412.0	62,765.4	47,098.4	39,142.2	32,000.5
9. Senior Unsecured Debt (original maturity > 1 year)	2,939.8	8,885.0	6,543.5	7,391.3	5,631.4	5,496.5
10. Subordinated Borrowing	n.a.	n.a.	2,709.2	3,398.9	3,241.1	2,167.2
11. Covered Bonds	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
12. Other Long-term Funding	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
13. Total LT Funding (original maturity > 1 year)	2,939.8	8,885.0	9,252.7	10,790.2	8,872.5	7,663.7
14. Derivatives	n.a.	n.a.	365.1	311.3	62.6	197.3
15. Trading Liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
16. Total Funding	24,251.7	73,297.0	72,383.2	58,199.9	48,077.3	39,861.5
E. Non-Interest Bearing Liabilities						
1. Fair Value Portion of Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2. Credit impairment reserves	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Reserves for Pensions and Other	n.a.	n.a.	170.9	0.0	0.0	127.8
4. Current Tax Liabilities	n.a.	n.a.	59.5	24.6	26.6	23.5
5. Deferred Tax Liabilities	n.a.	n.a.	1,062.9	426.7	322.5	214.6
6. Other Deferred Liabilities	n.a.	n.a.	n.a.	45.7	40.9	37.5
7. Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
8. Insurance Liabilities	n.a.	n.a.	n.a.	44.6	n.a.	n.a.
9. Other Liabilities	1,641.1	4,960.0	1,325.8	1,688.4	1,788.0	1,429.4
10. Total Liabilities	25,892.8	78,257.0	75,002.3	60,429.9	50,255.3	41,694.3
F. Hybrid Capital						
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	0.0	n.a.	0.0	0.0
G. Equity						
1. Common Equity	2,881.2	8,708.0	7,239.5	6,961.9	6,051.0	5,284.4
2. Non-controlling Interest	n.a.	n.a.	89.4	63.9	60.4	96.8
3. Securities Revaluation Reserves	n.a.	n.a.	n.a.	14.9	7.8	46.5
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Fixed Asset Revaluations and Other Accumulated OCI	n.a.	n.a.	1,387.1	n.a.	n.a.	n.a.
6. Total Equity	2,881.2	8,708.0	8,716.0	7,040.7	6,119.2	5,427.7
7. Total Liabilities and Equity	28,774.0	86,965.0	83,718.3	67,470.6	56,374.5	47,122.0
8. Memo: Fitch Core Capital	2,297.9	6,945.2	6,953.2	5,419.9	4,423.3	3,626.5
9. Memo: Fitch Eligible Capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Exchange rate		USD1 = COP3022.35000	USD1 = COP3149.47000	USD1 = COP2392.46000	USD1 = COP1922.56000	USD1 = COP1771.54000

Banco Davivienda S.A.

Summary Analytics

	31 Mar 2016 3 Mos - 1st Qtr	31 Dec 2015 Year End	31 Dec 2014 Year End	31 Dec 2013 Year End	31 Dec 2012 Year End
A. Interest Ratios					
1. Interest Income on Loans/ Average Gross Loans	11.74	10.57	10.60	11.06	12.77
2. Interest Expense on Customer Deposits/ Average Customer Deposits	3.79	2.98	2.66	2.68	3.35
3. Interest Income/ Average Earning Assets	10.56	9.41	10.08	10.41	12.50
4. Interest Expense/ Average Interest-bearing Liabilities	4.33	3.50	3.19	3.27	4.08
5. Net Interest Income/ Average Earning Assets	6.23	5.93	6.87	7.13	8.52
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	3.78	4.15	5.35	5.36	5.92
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	6.23	5.93	6.87	7.13	8.52
B. Other Operating Profitability Ratios					
1. Non-Interest Income/ Gross Revenues	33.82	28.75	28.42	27.89	25.83
2. Non-Interest Expense/ Gross Revenues	39.74	46.77	54.51	56.95	56.46
3. Non-Interest Expense/ Average Assets	3.20	3.32	4.44	4.72	5.48
4. Pre-impairment Op. Profit/ Average Equity	47.46	36.22	34.99	32.54	36.03
5. Pre-impairment Op. Profit/ Average Total Assets	4.84	3.79	3.70	3.57	4.22
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	43.29	40.10	36.70	43.93	52.79
7. Operating Profit/ Average Equity	26.91	21.69	22.15	18.25	17.01
8. Operating Profit/ Average Total Assets	2.75	2.27	2.34	2.00	1.99
9. Operating Profit / Risk Weighted Assets	3.21	2.32	2.51	2.24	1.93
C. Other Profitability Ratios					
1. Net Income/ Average Total Equity	19.57	15.55	16.60	15.06	15.02
2. Net Income/ Average Total Assets	2.00	1.63	1.76	1.65	1.76
3. Fitch Comprehensive Income/ Average Total Equity	19.57	21.19	16.60	15.06	15.02
4. Fitch Comprehensive Income/ Average Total Assets	2.00	2.22	1.76	1.65	1.76
5. Taxes/ Pre-tax Profit	28.01	27.96	25.94	21.39	24.55
6. Net Income/ Risk Weighted Assets	2.33	1.66	1.88	1.85	1.70
D. Capitalization					
1. FCC/FCC-Adjusted Risk Weighted Assets	9.50	9.36	9.55	9.55	8.88
2. Fitch Eligible Capital/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.	n.a.
2. Tangible Common Equity/ Tangible Assets	8.15	8.48	8.33	8.20	8.27
3. Tier 1 Regulatory Capital Ratio	7.10	6.92	6.15	7.00	10.06
4. Total Regulatory Capital Ratio	12.20	11.70	10.89	10.82	15.20
5. Common Equity Tier 1 Capital Ratio	n.a.	n.a.	n.a.	n.a.	n.a.
6. Equity/ Total Assets	10.01	10.41	10.44	10.85	11.52
7. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.	n.a.	n.a.
8. Internal Capital Generation	19.58	14.19	15.16	14.00	12.82
E. Loan Quality					
1. Growth of Total Assets	3.88	22.90	19.65	19.66	28.55
2. Growth of Gross Loans	3.34	24.11	23.80	19.43	28.32
3. Impaired Loans/ Gross Loans	1.91	1.57	1.57	1.63	1.83
4. Reserves for Impaired Loans/ Gross Loans	3.02	2.70	3.88	4.14	4.73
5. Reserves for Impaired Loans/ Impaired Loans	158.16	171.78	247.21	254.23	258.40
6. Impaired loans less Reserves for Impaired Loans/ Fitch Core Capital	(10.59)	(10.39)	(21.71)	(23.38)	(27.53)
7. Impaired Loans less Reserves for Impaired Loans/ Equity	(8.45)	(8.29)	(16.71)	(16.90)	(18.39)
8. Loan Impairment Charges/ Average Gross Loans	2.75	2.01	1.73	2.05	2.98
9. Net Charge-offs/ Average Gross Loans	1.51	1.69	1.60	2.24	2.63
10. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	1.91	1.57	1.72	1.85	2.08
F. Funding and Liquidity					
1. Loans/ Customer Deposits	118.79	121.28	116.83	113.35	114.65
2. Interbank Assets/ Interbank Liabilities	n.a.	n.a.	43.69	36.36	274.95
3. Customer Deposits/ Total Funding (excluding derivatives)	76.07	73.38	75.29	75.57	75.74
4. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.	n.a.
5. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.	n.a.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.