

FITCH ASSIGNS INITIAL IDR OF 'BBB-' TO DAVIVIENDA

Fitch Ratings-New York-28 October 2011: Fitch Ratings has assigned a 'BBB-' long-term Issuer Default Rating (IDR) to Banco Davivienda S.A. (Davivienda). The Rating Outlook is Stable. A full list of Davivienda's ratings follows at the end of this press release.

Davivienda's Individual, Viability and IDR ratings are driven by the bank's well-established franchise, clear long-term strategy, sound asset quality and reserves, adequate risk management policies, improved capital base and consistent performance. Fitch's view of Davivienda's creditworthiness is tempered by the bank's moderate concentration in deposits and modest efficiency.

Given its size and systemic importance, there is, in Fitch's opinion, a moderate probability of support from Colombia's Central Bank whose ability to provide support is constrained by the country's financial and fiscal standing; Colombia's Sovereign rating is rated 'BBB-' with a Stable Outlook by Fitch. This is reflected in Davivienda's Support and Support Floor ratings.

Improved efficiency that would underpin its performance within a competitive environment, while maintaining reasonable asset quality, sound reserves and sufficient capital, would be credit positives for Davivienda. A significant decline in its capital ratios due to organic or inorganic growth, or a severe deterioration of its asset quality that would pressure the bottom line through increased loan loss provision requirements, would negatively affect its ratings.

Building patiently around its core mortgage business, Davivienda became a universal bank and successfully diversified its target market, revenue sources, funding base and loan portfolio. Today it is the third largest Colombian bank in a highly concentrated market, active across all segments with leading positions in some retail products.

A clear long-term strategy and a proven ability to execute it, have allowed the bank to gain market share while leaving behind its mono-line structure and image. Davivienda cherry-picked its acquisitions to complement and enhance its business then seamlessly integrated them into a new organization that is strengthened by its parts.

Owing to its sound risk management policies and mature organization, the bank was able to bring asset quality under control while bolstering reserves within an increasingly stringent regulation environment. Davivienda's asset quality ratios compare well to those of its regional peers even though its loan portfolio has a slightly riskier profile.

After a few years of sustained growth and steady performance, as well as a conservative dividend payout policy, Davivienda saw a rapid improvement in the size and quality of its capital. The burden of intangible assets has declined and become more manageable, thus improving core and eligible capital ratios that should be viewed in the light of its strong loan loss reserves.

Strong loan growth and resilient margins have resulted in a steady performance that may not be as spectacular as that of some regional high-flyers but remains impressive given the economic background and structural constraints to its retail business.

Davivienda's heightened market presence allowed it to widen and deepen its deposit base which could still improve in terms of concentration. At the same time, the bank opened its capital to local investors and actively tapped the local securities market. Its plans to issue abroad and the renewed interest of global investors in Colombia should further improve its funding mix.

A relatively high cost structure and low non-interest revenues weigh on Davivienda's efficiency ratios. Efforts are underway to improve this and bolster the bank's performance but gains in this area tend to be slow to come. In the short run, efficiency should improve through stronger revenues

rather than nimbler processes or better cross-selling.

Davivienda is Colombia's third largest bank by assets with a market share of 11.7%; it is a universal bank operating across all business segments with a particular strength in the consumer business. The bank is controlled by Sociedades Bolivar, which has interests in the construction and insurance industries in Colombia.

Fitch has assigned the following ratings to Davivienda:

- Long-term IDR at 'BBB-'; Outlook Stable;
- Short-term IDR at 'F3';
- Long-term local currency IDR at 'BBB-'; Outlook Stable;
- Short-term local currency IDR at 'F3';
- Individual Rating at 'C';
- Viability Rating at 'bbb-';
- Support Rating at '3';
- Support Rating Floor at 'BB+'.

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Additional information is available on www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Global Financial Institutions Rating Criteria' (Aug. 16, 2011).

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Global Financial Institutions Rating Criteria

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