



Fitch Affirms Davivienda's IDR at 'BBB'; Outlook Stable

Fitch Ratings-New York-21 June 2018: Fitch Ratings has affirmed Banco Davivienda S.A.'s (Davivienda) Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) at 'BBB'. The Rating Outlook for the Long-Term IDRs and National ratings is Stable. Fitch has also affirmed Grupo Bolivar S.A.'s (GB) National Ratings at 'AAA(col)'. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS

VR, IDRS, NATIONAL RATINGS AND SENIOR DEBT

The IDRs are driven by Davivienda's Viability Rating (VR) of 'bbb'. The bank's VR is highly influenced by the operating environments in which its businesses operate. Additionally, the ratings also consider the bank's resilient financial performance and reasonable asset quality metrics, which are underpinned by Davivienda's appropriate risk management and clear long-term strategy. Capitalization metrics compare unfavorably with similarly rated international peers (universal commercial banks in a 'bbb' operating environment), and Fitch consider them the main weakness for the bank's VR.

Margins are resilient given the bank's retail focus and despite Colombia's declining interest rate environment; adequate cost control, a consolidated franchise and geographical diversification underpin Davivienda's financial performance. However, a trough in the economic cycle and legacy corporate names contributed to asset quality deterioration and underpin the need for additional loss loan provisions and weigh on profitability.

Davivienda's consolidated loan quality indicators worsened moderately in 2017 due to challenges in the wholesale loan portfolio. The impaired loans/gross loans ratio deteriorated to 2.8% at December 2017; however this level continued to compare favorably to the system average, which deteriorated to 3.1%. Additionally, the economic slowdown negatively affected the bank's total loan portfolio, including 30 days PDL for auto and other consumer loans by installments.

The bank's capital is deemed sufficient considering its relatively ample loan loss reserves, good asset quality, recurrent earnings generation and adequate risk management. The bank's Fitch Core Capital (FCC) ratio reached 10.24% at March

2018. Fitch expects that the forthcoming adoption of Basel III guidelines in Colombia will generally benefit capital ratios for the country's banks by between 150 and 350 bps due to a lower risk weighted assets density, increased capital buffers and more comparable capital definitions.

Davivienda boasts a wide deposit base of well-diversified, stable and relatively low-cost funds and good liquidity. Customer deposits consistently provide over 70% of total funding. Additionally, Davivienda has established market access to international and local debt markets. Its loans/deposits ratio exceeds the peer average as of the bank utilizes longer tenor funding that help to better match its assets and liabilities structure. Davivienda's subsidiaries are funded independently in their home markets and must be self-sufficient to avoid contagion effect.

SUPPORT RATING AND SUPPORT RATING FLOOR

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. Colombia's ability to provide such support is reflected in the sovereign's Long-term IDR (BBB/Stable) and drives Davivienda's support rating floor of 'BBB-'.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Davivienda's subordinated debt is rated one notch below its VR to reflect lower expected recoveries, while no notching is applied for incremental non-performance risk, given the terms of the issuances (plain-vanilla subordinated debt with gone concern-only features). The debt has thus been affirmed due to the affirmation of Davivienda's VR.

GRUPO BOLIVAR NATIONAL RATINGS AND SENIOR DEBT

GB's National Ratings reflect the creditworthiness of its main subsidiary, Banco Davivienda, which it owns 55.2% of. GB's ratings are aligned with Davivienda's because of its low double leverage (December 2017: 103.9%) supported by a high level of earnings retention and strong cash flow metrics that sufficiently meet its debt service requirements.

RATING SENSITIVITIES

VR, IDRS, NATIONAL RATINGS AND SENIOR DEBT

Upside potential for the ratings is limited given the sovereign's current rating and Outlook. A significant decline in performance and or weaker asset quality that erodes the bank's Fitch Core Capital ratio (materially and consistently below 10%) could negatively pressure the ratings.

SUPPORT RATING AND SUPPORT RATING FLOOR

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

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt ratings will mirror any action on the bank's VR.

SUBSIDIARY AND AFFILIATED COMPANIES

GRUPO BOLIVAR NATIONAL RATINGS AND SENIOR DEBT

GB's National ratings will mirror any action taken on Davivienda's national ratings. Additionally, a substantial increase of GB's leverage (double leverage above 120%) or a decline in the dividend flows from the operating companies that result in a sustained deterioration of its debt coverage ratios could pressure GB's ratings.

Fitch has affirmed the following ratings:

Banco Davivienda S.A.

- Long-Term Foreign and Local Currency IDR at 'BBB'; Outlook Stable;
- Short-Term Foreign and Local Currency IDR at 'F3';
- Viability rating at 'bbb';
- Support Rating at '2';
- Support Rating Floor at 'BBB-';
- National Long-Term rating at 'AAA(col)'; Outlook Stable;
- National Short-term rating at 'F1+(col)';
- Senior unsecured debt at 'BBB';
- Subordinated debt at 'BBB-';
- National scale Senior unsecured debt at 'AAA(col)';
- National scale Subordinated debt at 'AA+(col)'.

GRUPO BOLIVAR S.A.

- National Long-Term rating at 'AAA(col)'; Outlook Stable;
- National Short-Term rating at 'F1+(col)';
- National scale senior unsecured debt issuance for COP600 billion at 'AAA(col)'.

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Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018)
(<https://www.fitchratings.com/site/re/10023430>)
Metodología de Calificaciones en Escala Nacional (pub. 27 Mar 2017)
(<https://www.fitchratings.com/site/re/896229>)
Metodología de Calificación Global de Bancos (pub. 09 Jan 2017)
(<https://www.fitchratings.com/site/re/892947>)

Additional Disclosures

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