



Fitch Revises Banco Davivienda's Outlook to Stable; Affirms IDR at 'BBB'

Fitch Ratings-New York-30 June 2017: Fitch Ratings has revised Banco Davivienda S.A.'s (Davivienda) Rating Outlook to Stable from Negative and affirmed the Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed Grupo Bolivar S.A.'s (GB) National Ratings at 'AAA(col)'. A full list of rating actions is at the end of this rating action commentary.

The Stable Outlook on Davivienda's Long-Term IDRs now mirrors that of Colombia's Sovereign Rating Outlook. It has been revised to Stable from Negative as part of this peer review of major Colombian banks, once Fitch has updated its assessment of the bank's resilient and stable financial performance that has proven effective and consistent during periods of market turmoil.

KEY RATING DRIVERS

VR, IDRS, NATIONAL RATINGS AND SENIOR DEBT

Davivienda's Long-Term Local and Foreign Currency IDRs are driven by its Viability Rating (VR) of 'bbb'. The bank's VR considers the operating environments in which its businesses are performed, its stable financial performance, adequate capital and sound asset quality. Davivienda's rating also reflects its conservative risk management and its clear long-term strategy.

Resilient margins in the context of an uncertain operating environment, adequate cost control and geographical diversification underpinned Davivienda's financial performance. However, an increase in delinquency levels accompanied by the need for additional loss loan provisions weighed on profitability. In Fitch's opinion, Davivienda's solid profitability reflects its well balanced mix between retail and corporate lending, strong earnings generation and consolidated franchise within Colombia.

The bank's capital is deemed sufficient considering its ample loan loss reserves, sound asset quality and risk management. Like other large Colombian banks, capitalization remains the bank's main credit weakness compared with similarly rated international peers (universal commercial banks in a 'bbb' operating environment). The bank's Fitch Core Capital (FCC) ratio was 10.06% at March 2017 and is supported by Davivienda's record of sound, recurrent earnings generation. This has been a significant driver of capital growth.

Like the rest of the Colombian banking system, the weaker economic environment drove a cyclical deterioration in impaired loan ratios. Non-performing loans (NPLs) increased to 2.4% at March 2017 due mainly to corporate segment deterioration related with specific cases. As expected by Fitch, retail and mortgage portfolios also experienced a slight deterioration, due to a less dynamic cycle that affected consumption in particular. 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 improved in Central America and is now on par with that of Colombia.

Davivienda boasts a wide deposit base of well-diversified, stable and relatively low-cost funds. Customer deposits consistently provide over 70% of total funding. Additionally, Davivienda has established market access to international and local debt markets. As such, Davivienda's loans/deposits ratio is higher than that of its peers as Davivienda periodically uses capital markets 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, whose ability to provide support reflects the country's financial and fiscal standing (Colombia is currently rated 'BBB' with a Stable Outlook).

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

Grupo Bolivar S.A.'s (GB) National Ratings reflect the creditworthiness of its main subsidiary, Banco Davivienda. GB owns 55.3% of Davivienda. GB ratings are aligned with Davivienda's because of its low double leverage (December 2016: 106.80%) 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 current capitalization levels and 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 or reserve cushion (materially and consistently below 10% or 100%, respectively) and/ or poor management of its subsidiaries would negatively affect the bank's VR and IDRs.

SUPPORT RATING AND SUPPORT RATING FLOOR

The 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 deterioration of its debt coverage ratios would pressure GB's ratings.

Fitch has affirmed the following ratings:

Banco Davivienda S.A.

- Long-Term Foreign and Local Currency IDR at 'BBB'; Outlook revised to Stable from Negative;
- 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)'.

Contact:**Primary Analyst**

Theresa Paiz-Fredel (Davivienda)

Senior Director

+1-212-908-0534

Fitch Ratings, Inc.

33 Whitehall St.

New York, NY 10004

Sergio Pena (Grupo Bolivar / Secondary Analyst: Davivienda)

Associate Director

+57 1 484 6770 Ext 1160

Secondary Analyst

Jairo Espejo (Grupo Bolivar)

Analyst

+57 1 4846770

Committee Chairperson

Alejandro Garcia

Managing Director
+1-212-908-9137

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

National Scale Ratings Criteria (pub. 07 Mar 2017) (<https://www.fitchratings.com/site/re/895106>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/1025966>)

Solicitation Status (<https://www.fitchratings.com/site/pr/1025966#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

(<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM (<https://www.fitchratings.com>). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory) (<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely

responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.