FitchRatings

FITCH AFFIRMS DAVIVIENDA AT 'BBB-'; REVISES OUTLOOK TO POSITIVE

Fitch Ratings-New York-20 January 2015: Fitch Ratings has affirmed Banco Davivienda S.A.'s (Davivienda) viability rating (VR) at 'bbb-' and Issuer Default Ratings (IDRs) at 'BBB-'. Fitch has also revised Davivienda's Outlook to Positive. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS

Viability and Issuer Default Ratings

Davivienda's Rating Outlook was revised to Positive given Fitch's expectation that the banks' financial profile and performance will continue to improve. The bank's integration of its subsidiaries in Central America (HSBC's former subsidiaries in Costa Rica, El Salvador and Honduras) has so far been uneventful and Davivienda has restored its capital levels closer to pre-acquisition levels while gradually improving its profitability.

Davivienda's capitalization and profitability have the highest influence on its VR and IDRs. Davivienda's ratings also consider its consistent performance, strong asset quality and risk management and its clear long-term strategy and adequate execution. Fitch's view of Davivienda's creditworthiness is tempered by the bank's moderate but improving efficiency, which is weaker than its higher rated international peers (emerging market commercial banks).

Capital ratios declined after the acquisition as risk weighted assets (RWA) increased while goodwill and other adjustments eroded the capital base. Sustained growth and lower yet positive profitability helped improve capital along with a conservative dividend payout policy. As of September 2014, Davivienda's Fitch Core Capital ratio was 9.8% and it has hovered in the 9.5%-10.0% range during 2014; a level that compares well to that of similarly rated peers.

Sustained loan growth in Colombia and abroad has driven the bank's performance which in spite of the lower profitability of the new subsidiaries remains healthy. ROAA stood at about 1.72% at September 2014, above the 1.57% at September 2013 and poised to improve gradually in line with the performance of the new subsidiaries.

Given the still sound economic prospects at home and the positive impact that lower oil prices should have on Central American economies, Davivienda should gradually continue to perform well, maintain good asset quality and underpin its capital.

Davivienda's newly acquired subsidiaries have shown an improvement in their performance; they have resumed asset growth and re-balanced their funding while they gained in efficiency and improved asset quality to be, on average, at par with Davivienda Colombia. As expected, Davivienda's consolidated capital and profitability had declined after the acquisition but these metrics improved since 2012 and are well in line with previous projections.

Owing to its sound risk management policies and mature organization, the bank kept asset quality under control while bolstering reserves under increasingly stringent regulation. Davivienda's asset quality ratios (90-day NPLs: 1.6% at Sept. 2014, unchanged from a year earlier but improving in Central America) compare well to those of its peers even though its loan portfolio has a slightly riskier profile.

Davivienda has a proven ability to devise and execute a clear long-term strategy. Building patiently around its core mortgage business, Davivienda became a universal bank, a regional player and diversified its target market, revenue sources, funding base, and loan portfolio. In the process, the bank's management gained in depth and expertise; this was key to ensure an uneventful integration of its new subsidiaries.

Davivienda's funding remains stable at home and has somewhat changed its mix abroad - deposit growth in Central America was mainly driven by time deposits - but remains adequate to its growth needs. The bank tapped global and local markets for senior and subordinated debt and remains an attractive name for investors at home and abroad. In addition, its use of capital markets funding improves its asset/liability matching.

Support and Support Rating Floor

Given Davivienda's size, systemic importance and historic support policy, Fitch believes there is a high probability of support from Colombia's central bank, whose ability to provide support reflects the country's financial and fiscal standing (Colombia is currently rated 'BBB'/'BBB+' with a Stable Outlook). This underpins the bank's Support (SR) and Support Rating Floor (SRF) ratings.

RATING SENSITIVITIES

Viability and Issuer Default Ratings

Davivienda's VR and IDRs could benefit from the continued strengthening of its capital base (Fitch Core Capital Ratio consolidating around 10%) and/or a sustainable increase of its profitability (ROAA around 1.8%), while maintaining reasonable asset quality and sound reserves.

A significant decline in its performance and or weaker asset quality that would erode the core capital/reserve cushion (below 8.5% or 100%, respectively) could negatively affect the bank's VR. Davivienda's IDRs would be underpinned by the SRF.

Support and Support Rating Floor

Changes in the support rating and support rating floor are contingent on changes in Colombia's sovereign ratings or Fitch's view of Colombia's willingness to support this bank.

Davivienda is Colombia's third largest bank with a market share of about 12% - 13% by assets and has a presence in all segments, with a particular stronghold in retail. The bank has rapidly grown in the past decade organically and through targeted acquisitions. Since late 2012 it has an international franchise with banks in Costa Rica, El Salvador and Honduras that add to its banks in Panama and branch in the US.
Fitch has affirmed the following ratings:

Davivienda

--Long-term foreign currency IDR at 'BBB-'; Outlook Revised to 'Positive';
--Long-term local currency IDR at 'BBB-'; Outlook Revised to 'Positive';
--Short-term foreign currency IDR at 'F3';
--Short-term local currency IDR at 'F3';
--Viability rating at 'bbb-';
--Support Rating at '2';
--Support Rating Floor at 'BBB-';
--Senior unsecured debt at 'BBB-';

--Subordinated debt at 'BB+';
--National Long term rating at 'AAA(Col)'; Outlook Stable;
--National Short term rating at 'F1+(Col)'.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Global Financial Institutions Rating Criteria' (Jan. 31, 2014);
--'National Ratings Criteria' (Oct. 30, 2013).