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Banco Davivienda S.A.

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Banco Davivienda S.A.

SACP	bbb-	+	Support	0	+	Additional Factors	0

Anchor	bb+	
Business Position	Strong	+1
Capital and Earnings	Moderate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:	Weaknesses:
• Solid market position in the Colombian banking system and well diversified business operations across Central America; • Despite recent economic weakness in Colombia, the bank's financial performance and asset quality remain in line with the domestic banking system; and • Well-diversified funding structure mainly composed of a large and stable deposit base.	• Moderate risk-adjusted capitalization (RAC), reflecting a relevant amount of goodwill generated by past acquisitions; and • Strong competition in the Colombian and Central American financial systems pressures margins and profitability metrics.

Outlook: Stable

The stable outlook on Banco Davivienda S.A. (Davivienda) for the next two years reflects our view that the bank will remain a leading player in the Colombian banking system and keep its satisfactory market position in Central America. We expect the bank's asset quality metrics and capitalization levels to remain stable for the next 24 months, with nonperforming assets (NPAs) around 3.8% and a projected RAC ratio between 5.30% and 5.50%. Davivienda will support these metrics through its diversified business activities, prudent underwriting standards, and stable internal capital generation. Finally, we expect its large retail deposit base and manageable liquidity needs to continue to support the ratings.

Downside scenario

We could lower the ratings if the bank's RAC ratio drops below 5%. This could happen amid higher-than-expected loan growth rates, weakening asset quality that could constrain internal capital generation capacity, or a higher-than-expected dividend payout ratio that could weigh on the bank's capital base. We could also lower the ratings if asset quality metrics worsen more than that of the industry norm and of the main regional competitors with the same economic risk.

Upside scenario

We don't expect significant changes in the bank's business or financial profile for the next 24 months, and believe there's a low likelihood of an upgrade. The sovereign ratings on Colombia limit those on Davivienda, given its large exposure to the country (around 75%), so we don't think that the bank would pass our sovereign stress test in the event of sovereign distress.

Rationale

Davivienda's business position continues to reflect the bank's solid market share in Colombia and its diversified business operations in terms of geography and economic sector. Our capital and earnings assessment reflects our forecasted RAC ratio of above 5%, thanks to the bank's robust internal capital generation and manageable loan portfolio growth rate. In terms of risk position, the bank has kept its metrics in line with the industry norm and competitors in the region with same economic risk. As of September 2018, Davivienda's NPAs were 3.99%, 105% of which the reserves covered, and charge-offs were at 1.70%. The bank's funding continues to benefit from a large and stable deposit base with sufficient liquidity sources to meet upcoming financial obligations. Davivienda's stand-alone credit profile (SACP) is 'bbb-'

Anchor: 'bb+' based on the industry and average economic risk scores

Our anchor for Davivienda is 'bb+', reflecting the weighted-average economic risk of '7' given the countries in which the bank has its major loan portfolio exposures: Colombia with 80.5%, Costa Rica 7%, El Salvador 6.5%, Panama 3%, and Honduras 3%. The industry risk score for Colombian banks is '5', with a positive trend, reflecting the improvement in Colombia's banking regulation that will extend its supervision capacity.

Healthy competitive dynamics in Colombia's banking system, with moderate risk appetite and absence of market distortions, currently support the industry risk. The improving regulatory framework includes the recently approved conglomerates law; the introduction of standardized loan restructuring rules; and the Colombian banking authority's capacity to address problems at earlier stages, ensuring that banks take corrective actions. Nevertheless, Colombia's financial system still heavily depends on wholesale funding, which we consider as less stable during times of economic and market distress. This dependency is due to the low share (about 25%) of retail deposits in commercial banks' total deposits. However, the domestic debt capital market has mitigated this weakness because it's moderately broad and deep, allowing investment- and speculative-grade entities to access funds with medium- to long-term maturities. In our view, capitalization remains the main regulatory challenge for Colombia's financial institutions, but the potential implementation of Basel III capitalization rules could remove this risk.

Table 1

Banco Davivienda S.A. Key Figures					
		--Year-ended Dec. 31--			
(Mil. COP)	**2018***	**2017**	**2016**	**2015**	**2014**
Adjusted assets	102,738,838.0	98,966,954.0	91,777,227.0	81,955,523.0	65,921,052.3
Customer loans (gross)	83,652,767.0	78,219,574.0	72,929,640.0	64,097,380.0	50,919,484.7
Adjusted common equity	7,640,729.8	7,564,697.8	6,780,573.8	5,721,507.8	4,296,972.0
Operating revenues	5,466,164.0	6,853,688.0	6,513,765.0	5,396,098.0	5,812,168.3
Noninterest expenses	2,494,919.0	3,190,350.0	2,935,000.0	2,524,553.0	2,694,688.3
Core earnings	1,024,059.0	1,282,981.0	1,724,730.0	1,236,717.0	1,054,403.2

*Data as of Sept. 30. COP--Colombian peso.

Business position: Large market share in the Colombian banking system and geographic diversification in Central America provide business stability

Davivienda's significant market share in Colombia--in almost all of the bank's products--and its business and geographic diversification in Central America support the lender's business position. With a market share of nearly 14.6% in terms of loans as of September 2018, Davivienda has maintained its solid market position and highly recognized brand in the Colombian banking system. Currently, the bank ranks second in the country in terms of total loans (and is first in mortgages and second in consumer loans with market shares of 23% and 13%, respectively as of September 2018). These market shares, along with the faster depositor growth than those of main domestic competitors, occurred despite Colombia's sluggish economy in 2017 and 2018. Although Colombian banks posted a lower net income last year mainly due to higher loan loss reserves, Davivienda has exhibited operating revenue stability during the past three years, reflected in a compound annual growth rate (CAGR) of 6.9% (we don't include loan loss reserves, which are the main reason for lower income, in our metric for operating revenues).

In terms of geographical diversification, the bank's exposure to Central America hasn't significantly changed in the past year, representing around 20% of Davivienda's consolidated loan portfolio as of September 2018. We believe that the share of domestic loans in Davivienda's total loans will remain stable at around 75%. We also think its geographic diversification makes its business position more resilient in the event of adverse conditions in the Colombian economy, as seen during the last year.

Table 2

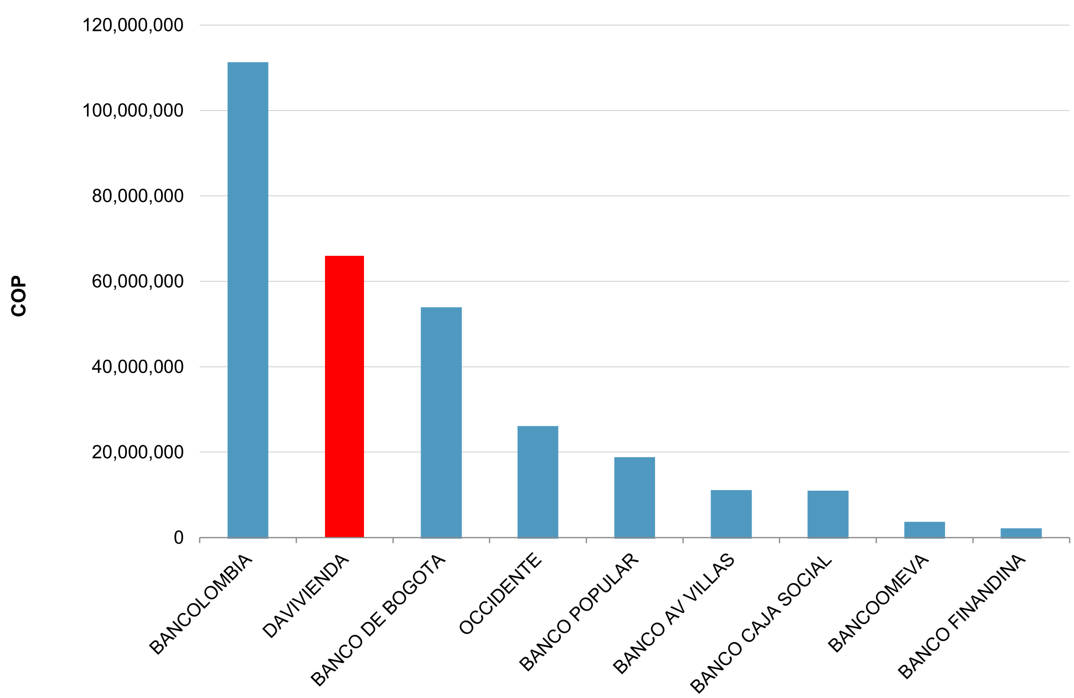
Banco Davivienda S.A. Business Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (currency in millions)	N/A	6,853,688.0	6,513,765.0	5,396,098.0	5,829,394.0
Commercial & retail banking/total revenues from business line	N.M.	96.4	92.3	96.0	75.1
Trading and sales income/total revenues from business line	N.M.	1.5	2.7	2.7	0.1
Other revenues/total revenues from business line	N.M.	2.0	5.0	1.3	24.8
Investment banking/total revenues from business line	N.M.	1.5	2.7	2.7	0.1
Return on average common equity	14.1	13.8	21.1	18.5	19.7

*Data as of Sept. 30. N/A--Not applicable. N.M.--Not meaningful. Return on average common equity calculation follows our methodology: net income after extraordinary divided by average common equity two year period.

Chart 1

Davivienda's Lending Participation Of Total Loans In Colombia
Data as of September 2018



Source: Superintendencia Financiera de Colombia.

Capital and earnings: Forecast RAC ratio between 5.36% and 5.50% for the next two years

We're maintaining our capital and earnings assessment of Davivienda, based on our forecast RAC ratio of between 5.36% and 5.50% for the next two years. We expect the bank's healthy internal capital generation, along with a stable dividend payout ratio, to compensate for the growth in risk-weighted assets.

Our forecast RAC ratio takes into account our base-case scenario assumptions, which include:

- Colombia's expected GDP growth in 2019 of 2.9% and 3.0% in 2020 (see "Credit Conditions Latin America: Tough Fixtures Home And Away," published Nov. 29, 2018);
- Loan portfolio growth of 9.0% for 2019 and 2020, on average;
- Net interest margins around 6.40% over the next two years;
- Core earnings to adjusted assets of 1.34%;
- Efficiency levels will remain around 46%;
- NPAs around 3.8%, with reserve coverage over 100%, and charge-offs around 2%;
- A 25% dividend payout ratio; and
- No acquisitions in 2019 and 2020.

As of September 2018, net interest income represented 81% of Davivienda's total operating revenue, while trading gains have represented less than 3% for the past three years. Additionally, the bank's profitability metrics remained in line with those of its main peers in Colombia and the region, despite the country's sluggish economy. Its core earnings to adjusted assets (net income divided by average adjusted assets two years period) was 1.35% as of September 2018 with a three-year average of 1.67%, in line with the 1.66% ratio of the Colombian banking system as of the same date.

Table 3

Banco Davivienda S.A. Capital And Earnings

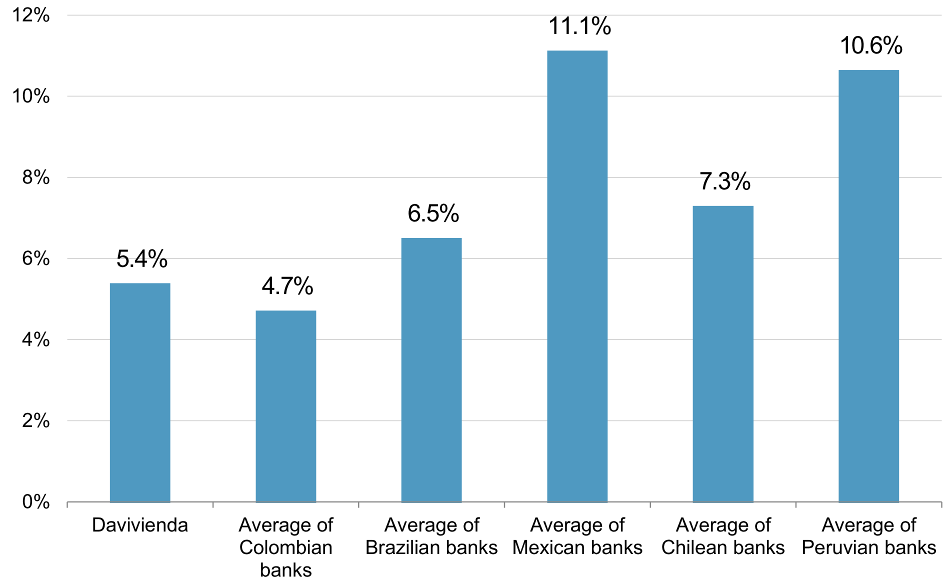
		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	8.37	7.54	6.47	6.92	6.15
S&P Global Ratings' RAC ratio before diversification	N/A	5.5	5.8	N/A	5.9
S&P Global Ratings' RAC ratio after diversification	N/A	5.1	5.5	N/A	6.0
Adjusted common equity/total adjusted capital	87.1	86.9	85.7	83.4	79.1
Net interest income/operating revenues	81.0	80.2	76.3	79.2	60.3
Fee income/operating revenues	17.3	16.3	15.9	16.9	15.0
Market-sensitive income/operating revenues	2.1	1.5	2.7	2.7	0.1
Noninterest expenses/operating revenues	45.6	46.5	45.1	46.8	46.4
Preprovision operating income/average assets	3.9	3.8	4.0	3.8	5.0
Core earnings/average managed assets	1.3	1.3	1.9	1.6	1.7

*Data as of Sept. 30. N/A--Not applicable.

Chart 2

Davivienda's Average RAC Ratio Compared To Peers

2019 Forecast



Averages are made up of the three largest banks in each country. Market shares of the three largest banks are Colombia: 50%, Brazil: 62%, Chile: 52%, Mexico: 52%, and Peru: 71%. Source: S&P Global Ratings.

Risk position: Diversified loan portfolio and asset quality performance likely in line with domestic peers

Davivienda's risk position is based on its loan portfolio diversification in terms of economic sector and creditors, and our expectations for adequate asset quality performance for the next two years, despite projected and historically higher loan growth rates than the industry average and the slow economy in the country. Davivienda's loan portfolio growth as of September 2018 was 8.3% (with consolidated figures) for the rolling 12 months, while the Colombian banking system grew around 6.0%. The bank has been able to maintain asset quality metrics in line with those of the industry because the majority of its loan growth has been in sectors where it has historically participated. The bank has adequate risk diversification in terms of sector and single-name exposures. As of June 2018, its top 20 group exposures represented almost 10% of the total loan portfolio and only 0.94x its total adjusted capital (TAC), while top 20 single name-exposures represented 8.5% and 0.8x of its TAC. These metrics are in line with those of previous years.

The bank's three main lending sectors are commercial loans (51%); followed by consumer loans (26%), which include credit cards, auto, and personal loans; and mortgages (23%). NPAs (nonperforming loans [NPLs] and foreclosed assets) represented 3.99% of the total loans as of September 2018, higher than 3.04% in the same period last year. We project NPAs to be around 3.8% for the next two years, reflecting a modest improvement from 2018 figures, due to our expectations that Colombia's economic growth will slightly improve. As we already mentioned, although its asset quality has recently worsened, Davivienda's metrics have generally remained in line with those of the banking system and its main peers, and we expect that to continue.

Table 4

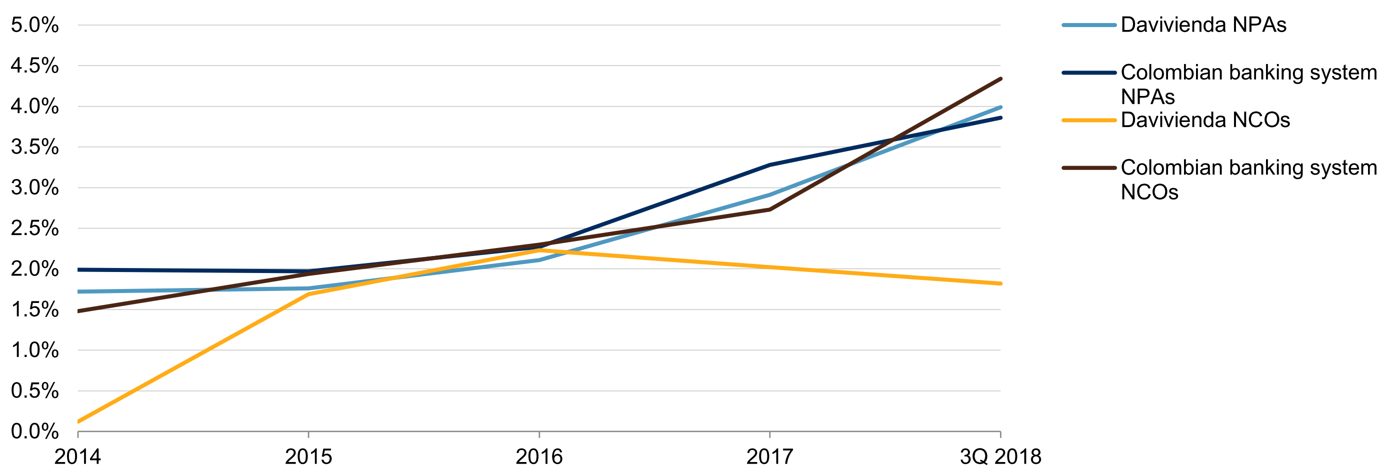
Banco Davivienda S.A. Risk Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	9.3	7.3	13.8	25.9	23.8
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	7.3	6.6	N/A	(0.8)
Total managed assets/adjusted common equity (x)	13.7	13.3	13.8	14.6	15.7
New loan loss provisions/average customer loans	2.6	2.6	1.8	2.0	3.7
Net charge-offs/average customer loans	1.7	2.0	2.2	1.7	0.1
Gross nonperforming assets/customer loans + other real estate owned	4.0	2.9	2.1	1.8	1.7
Loan loss reserves/gross nonperforming assets	105.1	101.2	108.7	152.8	225.6

*Data as of Sept. 30. N/A--Not applicable.

Chart 3

Davivienda's Asset Quality Compared To Colombian Banking System
Date as of September 2018



*NPAs--Nonperforming assets. NCOs--Net charge-offs. Source: S&P Global Ratings.

Funding and liquidity: Structure composed of deposits, and manageable short-term obligations

Our funding assessment of Davivienda reflects that its funding structure is mainly composed of stable deposits. Current and saving deposits--12% and 38%, respectively, of total deposits--make up the remainder. Deposits account for 74% of Davivienda's total funding structure as of September 2018. The rest of the funding base is composed of bond issuances (11%), interbank loans (13%), and repos (2%), including subordinated debt. This funding mix has remained stable during the past few years and we don't expect to change significantly in the coming years based on the bank's profile and strategy. Davivienda's funding assessment is also supported by its long-term funding sources, resulting in a stable funding ratio (SFR) of 102.5% as of September 2018 with a three-year average of 103%, which is in line with those of its main Colombian peers. Given our expected stable funding needs and funding structure for the next two years, we expect the SFR to remain above 100%.

The bank's broad liquid assets to short-term wholesale funding ratio was 1.70x as of September 2018. The maturity profile of its market debt is not a concern in our opinion and the refinancing risk has remained limited, as evidenced by the international bond issued in October 2017 to cover the senior dollar-denominated bond maturing in 2018. We expect the broad liquid assets to short-term wholesale funding to be above 1.8x for the next two years, based on our expectation that the bank won't rely significantly on short-term market debt and the maturity profile will be extended once the senior dollar-denominated bond is repaid. In addition, the bank isn't exposed to significant refinancing risks in the short term since 36% of its bond issuances are due in more than five years. We don't expect any change in Davivienda's liquidity structure in the next 18 to 24 months.

Table 5

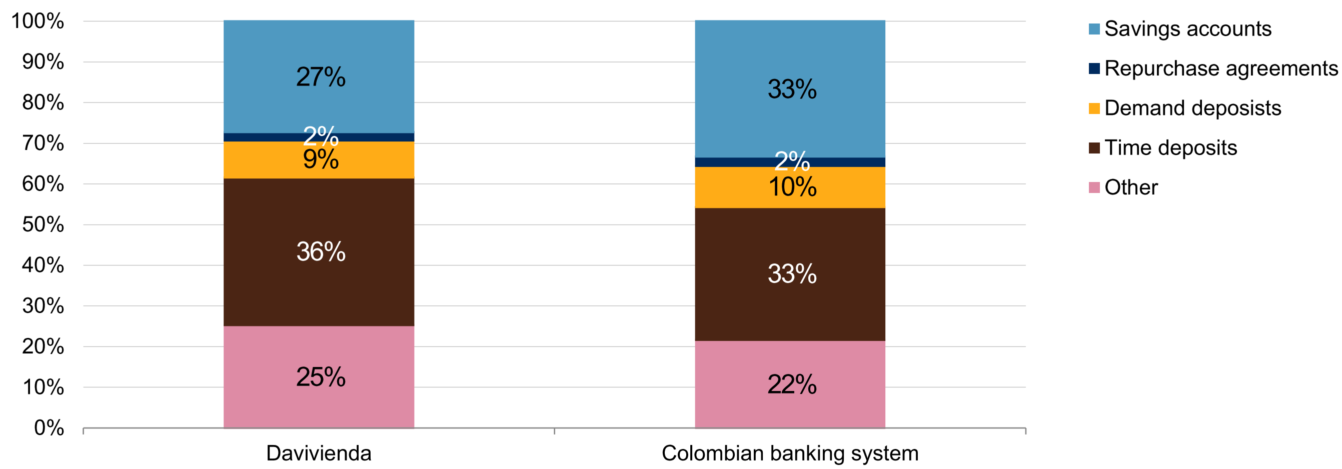
Banco Davivienda S.A. Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	73.8	73.3	74.3	73.4	75.3
Customer loans (net)/customer deposits	120.8	119.9	119.5	118.0	112.3
Long-term funding ratio	92.2	91.6	92.3	91.9	94.0
Stable funding ratio	102.5	103.3	102.5	104.9	109.5
Short-term wholesale funding/funding base	8.6	9.3	8.5	8.9	6.6
Broad liquid assets/short-term wholesale funding (x)	1.7	1.8	1.7	1.9	2.9
Net broad liquid assets/short-term customer deposits	10.3	11.9	10.4	14.0	21.0
Short-term wholesale funding/total wholesale funding	31.4	33.1	31.2	31.4	24.7

*Data as of Sept. 30.

Chart 4

Davivienda's Funding Mix Compared To Colombian Banking System
Data as of September 2018



Source: S&P Global Ratings.

Support: High systemic importance

We consider that Davivienda has high systemic importance, an assessment we base on Davivienda's status as the third-largest bank in terms of deposits and the second-largest in terms of loans, as well as its brand recognition. This results in a moderately high likelihood of extraordinary government support. We also consider that the Colombian government is supportive of its financial system. However, the combination of the 'bbb-' SACP on Davivienda and 'BBB+' local currency rating on Colombia doesn't result in any uplift for the issuer credit rating on Davivienda.

The bank's ultimate parent is Grupo Bolivar, a family-owned firm. Therefore, the group credit profile is equal to the 'BBB-' issuer credit rating on the bank.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	**7**	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	**bb+**	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of January 24, 2019)

Banco Davivienda S.A.	
Issuer Credit Rating	BBB-/Stable/A-3
Issuer Credit Ratings History	
02-Aug-2016	BBB-/Stable/A-3
17-Feb-2016	BBB-/Negative/A-3
15-May-2012	BBB-/Stable/A-3
Sovereign Rating	
Colombia	
Foreign Currency	BBB-/Stable/A-3
Local Currency	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.