

FITCH UPGRADES DAVIVIENDA TO 'BBB'; OUTLOOK REVISED TO STABLE

Fitch Ratings-New York-21 July 2015: Fitch Ratings has today upgraded Banco Davivienda S.A.'s (Davivienda) viability rating (VR) to 'bbb' from 'bbb-' and Issuer Default Ratings (IDRs) to 'BBB' from 'BBB-'. A full list of rating actions follows at the end of this press release.

The VR, IDRs and senior debt ratings have been upgraded because the bank restored its capital to levels in line with its peers and consolidated its performance in spite of the lower (relative to Colombian operations) profitability of its subsidiaries in Central America while improving asset quality and maintaining adequate reserves and liquidity.

The Outlook has been revised to Stable because in Fitch's opinion, the bank's balance sheet, performance and key credit metrics should remain roughly the same over the rating horizon.

KEY RATING DRIVERS

VR, IDRS, NATIONAL RATINGS AND SENIOR DEBT

The bank's VR, IDRs and senior debt ratings reflect Davivienda's improved capitalization and profitability are considered key for Fitch in order to keep enhancing the bank's financial profile.

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).

Sustained growth and lower yet positive profitability helped improve capital along with a conservative dividend payout policy. As of December 2014, Davivienda's Fitch Core Capital ratio was 9.6% and it has hovered in the 9.5%-10% range during 2014; a level that compares well to that of similarly rated peers. Capital ratios were under pressure after the acquisitions in 2013, but are today more in line with its peers, a trend that Fitch expect will be maintained in the short and medium term..

Sustained loan growth in Colombia and abroad has driven the bank's performance which in spite of the lower profitability (relative to Colombia) of the new subsidiaries remains healthy. ROAA stood at about 1.76% at December 2014, above the 1.55% at YE2013 and poised to improve gradually in line with the performance of the new subsidiaries. Besides growth and earnings retention, the bank should benefit from the introduction of IFRS in Colombia (i.e. goodwill ceases to be amortized but remains excluded in full for Fitch Core capital ratio calculations) and slower growth, which should underpin profitability and help capital consolidate around 10%.

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

Davivienda's new 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: 1.57% at Dec. 2014, slightly lower than 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. However, the bank's health reserves (2.4x at YE14) provide an adequate cushion against unexpected asset deterioration.

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 RATING AND SUPPORT RATING FLOOR

The bank's Support Rating and Support Rating Floor reflect Davivienda's size, systemic importance and the country's 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).

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Davivienda's subordinated debt is rated one notch below its VR to reflect lower expected recoveries, while there is no notching differentiation due incremental non-performance risk given the terms of the issuances (plain vanilla subordinated debt).

RATING SENSITIVITIES

VR, IDRS, NATIONAL RATING AND SENIOR/SUBORDINATED DEBT

Davivienda's VR and IDRs could benefit from the continued strengthening of its capital base (Fitch Core Capital Ratio consolidating above 11%) and/or a sustainable increase of its profitability (Operating ROAA above 2%), 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 9% or 100%, respectively) and/ or a dismal management of the new subsidiaries would negatively affect the bank's VR and IDR.

Debt ratings will mirror any action on the banks IDR.

SUPPORT RATING AND SUPPORT RATING FLOOR

The SR and SRF are potentially sensitive to any change in assumptions around the propensity or ability of Colombia to provide timely support to the bank.

Fitch has taken the following rating actions:

Banco Davivienda

- Long-term foreign currency IDR upgraded to 'BBB' from 'BBB-'; Outlook Stable;
- Long-term local currency IDR upgraded to 'BBB' from 'BBB-'; Outlook Stable;
- Short-term foreign currency IDR affirmed at 'F3';
- Short-term local currency IDR affirmed at 'F3';
- Viability rating upgraded to 'bbb' from 'bbb-';

--Support Rating affirmed at '2';
--Support Rating Floor affirmed at 'BBB-';
--National long term rating affirmed at 'AAA(Col)'; Outlook Stable;
--National Short term rating affirmed at 'F1+(Col)'.
--Senior unsecured debt upgraded to 'BBB' from 'BBB-';
--Subordinated debt upgraded to 'BBB-' from 'BB+';
--National scale Senior unsecured debt affirmed at 'AAA(col)';
--National scale Subordinated debt affirmed at 'AA+(col)'.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501
National Scale Ratings Criteria (pub. 30 Oct 2013)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082

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