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Ratings

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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; • 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.

Outlook: Stable

The stable outlook for the next two years on Banco Davivienda S.A. (Davivienda) reflects our expectation that it will maintain its solid market position in Colombia as one of the three largest financial conglomerates in the country, while keeping its geographic diversification in Central America. We believe that despite challenging market conditions in the region, the bank's asset quality metrics and capitalization levels will remain relatively stable, with nonperforming assets (NPAs) at about 3.7% and a projected RAC ratio of about 5.3%. Davivienda will support these metrics through its business stability, prudent underwriting standards, and stable internal capital generation helped by better efficiency levels and reinforced by greater development of online banking.

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 the industry norm and more than the main regional competitors with the same economic risk.

Upside scenario

We believe there's a low likelihood of an upgrade. The sovereign ratings on Colombia (foreign currency: BBB-/Stable/A-3) limit those on Davivienda, because given its large exposure to the country (about 75%), 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 large market share in Colombia and its diversified business operations in terms of geography, economic sector, and business line. Our capital and earnings assessment underpins our forecasted RAC ratio of about 5.3% thanks to the bank's consistent internal capital generation and manageable loan portfolio growth rates. The ratings also consider Davivienda's manageable asset quality metrics, which are in line with the industry norm and other competitors in the region. Finally, the bank's funding continues to benefit from a large and stable deposit base, with sufficient liquidity sources to meet short- and mid-term financial obligations. Davivienda's stand-alone credit profile (SACP) is 'bbb-'.

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

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Colombia is 'bb+'.

In 2016-2018, credit growth in Colombia ranged between 6% and 8%, reflecting its strong link with economic performance. For 2019-2021, we expect a pickup of GDP growth in Colombia will allow higher credit growth. Therefore, we expect total loans to expand at about 8% in 2019 and 9%-10% in 2020-2021.Economic imbalances are limited due to the prolonged period of moderate credit and housing prices growth. However, a large wave of Venezuelan immigrants--that could partly explain the rising unemployment rate--could pressure wages, and consequently, households' income capacity and affect asset quality. Now that contracts to build Concesión Ruta del Sol 2 (CRS2) toll road were declared invalid--due to the corruption probe of Odebrecht S.A.--we expect NPAs to represent about 4% of total loans plus foreclosed assets by the end of 2019 and to be fully covered by reserves. We expect this metric to drop to 3.5% in 2020-2021 as the economy and credit demand improve.

In our view, the gradual regulatory changes will strengthen the banking authority's ability to remedy problems earlier, ensuring that banks take corrective actions. Recent reforms include the implementation of the Conglomerates Law and International Financial Reporting Standards (IFRS) 9 accounting rules, the introduction of standardized loan restructuring rules, the more stringent funding and liquidity regulatory metrics, and the potential ones such as the adoption of Basel III capitalization rules. Moreover, we view as strengths the healthy competitive dynamics in the banking system, moderate risk appetite, and absence of market distortions. Nevertheless, the heavy reliance on wholesale funding persists. However, the domestic debt capital market has mitigated this weakness because it has proven to be moderately broad and deep, allowing investment and for 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. However, an implementation of Basel III capitalization rules could diminish this risk.

Table 1

Banco Davivienda S.A. Key Figures

		--Year-ended Dec. 31--			
(Mil. COP)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	119,210,647.0	108,916,852.0	98,966,954.0	91,777,227.0	81,955,523.0
Customer loans (gross)	96,988,061.0	87,821,593.0	78,219,574.0	72,929,640.0	64,097,380.0
Adjusted common equity	9,430,924.8	8,085,392.8	7,564,697.8	6,780,573.8	5,721,507.8
Operating revenues	6,015,500.0	7,364,904.0	6,853,688.0	6,513,765.0	5,396,098.0
Noninterest expenses	2,692,447.0	3,413,889.0	3,190,350.0	2,935,000.0	2,524,553.0
Core earnings	1,099,239.0	1,398,501.0	1,282,981.0	1,724,730.0	1,236,717.0

*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 strong market share in Colombia in almost all of the bank's products, its business and geographic diversification in Central America, and its recent development of online banking platforms and technologies have supported its bottom-line results and business stability.

Davivienda has maintained a strong market position and strong brand recognition in the Colombian banking system. As of September 2019, the bank ranks second in the country in terms of total loans and first in mortgages, with market shares of about 15% and 25%, respectively. Despite challenging political and economic conditions in the region, Davivienda has had stable operating revenue during the past three years, reflected in a compound annual growth rate (CAGR) of 10.9%. Additionally, Davivienda's Central American subsidiaries, which represent about 21% of the bank's total loans, continue to have stable performances in terms of loan growth and revenue generation. The stable operating revenues result from the large and stable client base, along with Davivienda's investments in digital platforms. The bank aims to gradually migrate most of its operations to digital channels. As of September 2019, about 48% of product sales were digital compared to 29% the previous year. In our opinion, this strategy should lead to better bottom-line results, with improving efficiency levels, while Davivienda continues increasing its client base through better services and banking experiences.

Finally, our assessment reflects the wide experience of its management team with ample expertise in the credit business and in the Colombian market. We expect Davivienda's operating revenue to keep rising, supported by its ample market presence and large customer network.

Table 2

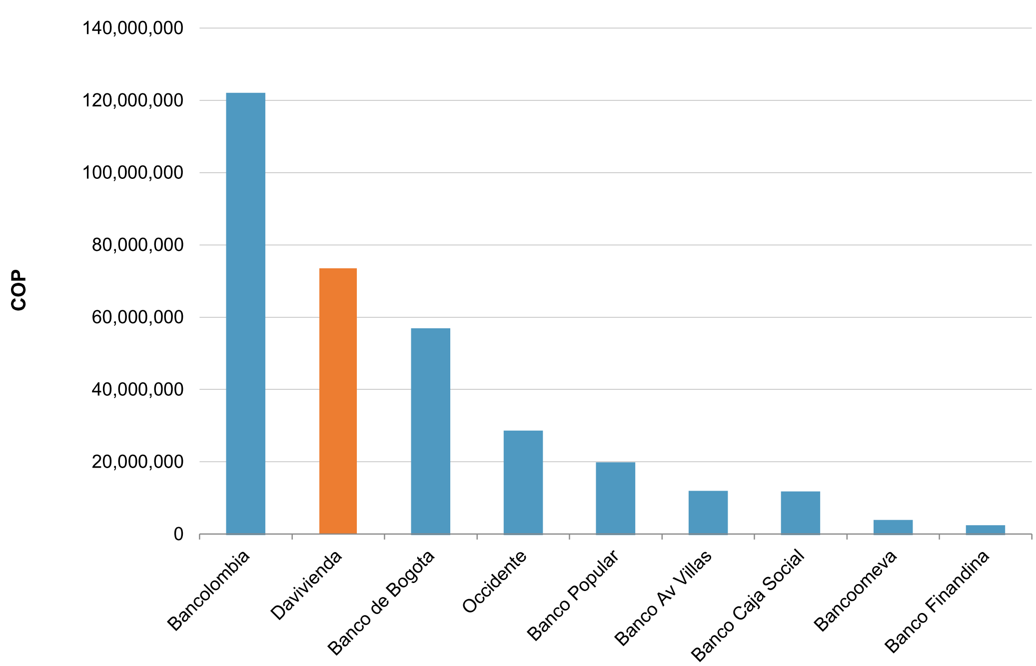
Banco Davivienda S.A. Business Position

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	6,015,500.0	7,364,904.0	6,853,688.0	6,513,765.0	5,396,098.0
Commercial & retail banking/total revenues from business line	98.0	96.7	96.4	92.3	96.0
Trading and sales income/total revenues from business line	0.5	2.0	1.5	2.7	2.7
Other revenues/total revenues from business line	1.5	1.3	2.0	5.0	1.3
Investment banking/total revenues from business line	0.5	2.0	1.5	2.7	2.7
Return on average common equity	13.7	14.0	13.8	21.1	18.5

*Data as of Sept. 30.

Chart 1

Davivienda's Lending Participation Of Total Loans In Colombia
Data as of August 2019



Source: Superintendencia Financiera de Colombia.

Capital and earnings: Forecast RAC ratio of close to 5.3% for the next two years

We base the bank's capital and earnings assessment on our consolidated forecast RAC ratio of about 5.30% for the next two years. We expect the bank's healthy internal capital generation, along with a stable dividend payout ratio, to support bankś capital metrics.

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

- Colombia's expected GDP growth of 3.2% in 2019 and 2020 (see "Political Challenges Will Prevail In 2020," published Dec. 3, 2019);
- Loan portfolio growth of 13% for 2020, supported by consumer strategy and its solid market presence in mortgage loans;
- Net interest margins of about 6.35% over the next two years;
- Core earnings to adjusted assets of 1.25%;
- Efficiency levels will remain around 44% helped by the development of the digital platform;
- NPAs of about 3.7%, with reserve coverage over 100%, and charge-offs near 1.5%;
- A 25% dividend payout ratio; and
- No acquisitions in 2020.

Davivienda's quality of earnings remains adequate. As of September 2019, net interest income represented 83% of the bank'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 challenging market conditions. Its core earnings to adjusted assets (net income divided by average adjusted assets two years period) was 1.28% as of September 2019 with a three-year average of 1.56%, which is in line with of the Colombian banking system. We expect profitability metrics to remain close to 1.3% while improving gradually, reflecting the expected successful digital platform strategy.

Table 3

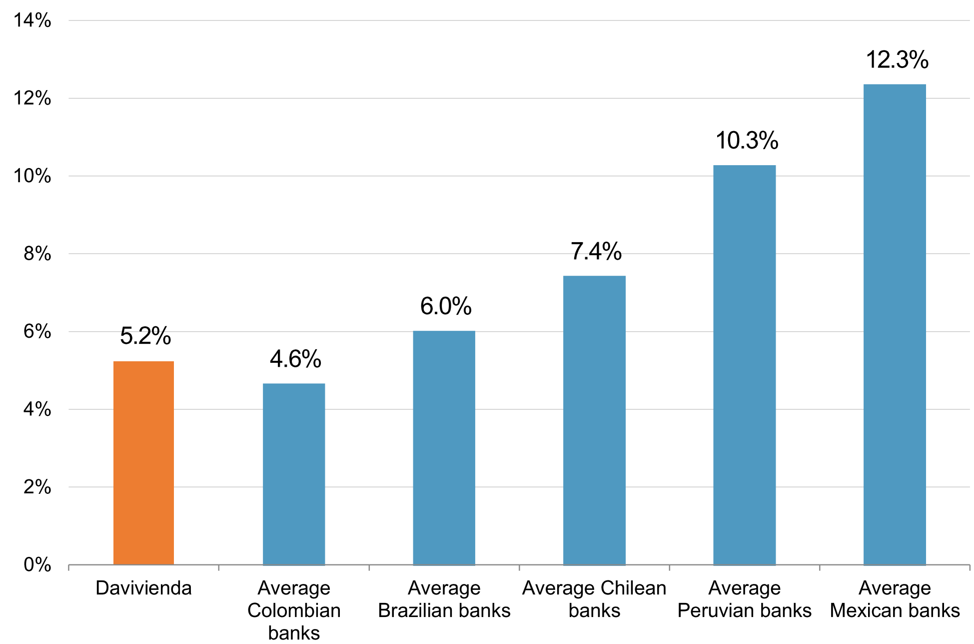
Banco Davivienda S.A. Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	8.2	8.0	7.5	6.5	6.9
S&P Global Ratings' RAC ratio before diversification	N/A	5.3	5.5	5.8	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	4.8	5.1	5.5	N/A
Adjusted common equity/total adjusted capital	89.3	87.7	86.9	85.7	83.4
Net interest income/operating revenues	82.9	80.8	80.2	76.3	79.2
Fee income/operating revenues	15.0	15.9	16.3	15.9	16.9
Market-sensitive income/operating revenues	0.5	2.0	1.5	2.7	2.7
Noninterest expenses/operating revenues	44.8	46.4	46.5	45.1	46.8
Preprovision operating income/average assets	3.8	3.7	3.8	4.0	3.8
Core earnings/average managed assets	1.3	1.3	1.3	1.9	1.6

*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. Source: S&P Global Ratings.

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

Davivienda's loan portfolio diversification in terms of economic sector and creditors, asset quality performance in line with the industry norm, and historically adequate originations standards, supports our risk position assessment. The bank's three main lending sectors are commercial loans (49%); followed by consumer loans (27%), which include credit cards, auto, and personal loans; and mortgages (23%). Additionally, the bankś benefits from geographic diversification in Central America, which as of September 2019 represented about 21% of the bank's total operations. Davivienda's loan portfolio grew about 15.9% over the past 12 months, higher that the Colombian banking system figures (9.2%). However, the bank has been able to maintain manageable asset quality metrics that are comparable with those of the industry. The majority of Davivienda's loan growth has been in sectors where it has historically participated and has ample experience, such as mortgages. Regarding delinquency levels and credit losses, NPAs represented 4.06% of the total loans as of September 2019. We expect NPAs and net charge-offs to remain at about 3.7% and 1.4%, respectively, with coverage of above 100% in the next 12 to 24 months.

Finally, the bank maintained its risk diversification in terms of sector and single-name exposures. As of September 2019, its top 20 group exposures represented almost 10.1% of the total loan portfolio and only 0.93x 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 year's levels and we expect this to remain over the next 12 to 24 months.

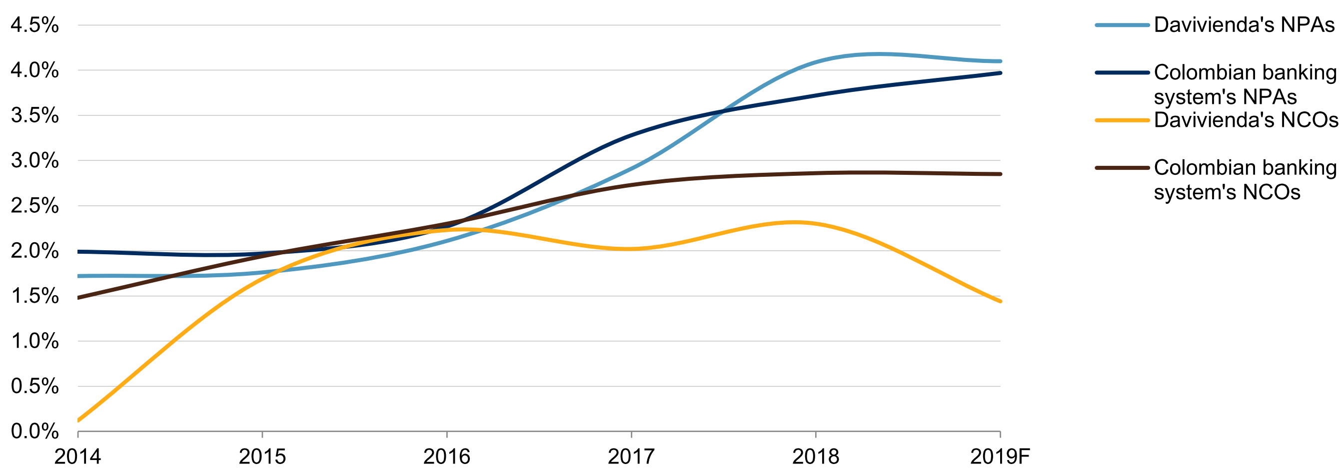
Table 4

Banco Davivienda S.A. Risk Position		--Year-ended Dec. 31--			
(%)	2019*	2018	2017	2016	2015
Growth in customer loans	13.9	12.3	7.3	13.8	25.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	9.4	7.3	6.6	N/A
Total managed assets/adjusted common equity (x)	12.8	13.7	13.3	13.8	14.6
New loan loss provisions/average customer loans	2.7	2.5	2.6	1.8	2.0
Net charge-offs/average customer loans	1.4	2.3	2.0	2.2	1.7
Gross nonperforming assets/customer loans + other real estate owned	4.1	4.1	2.9	2.1	1.8
Loan loss reserves/gross nonperforming assets	116.0	103.3	101.2	108.7	152.8

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

Chart 3

Davivienda's Asset Quality Compared To Colombian Banking System
Date as of March 2019



F--Forecast. 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 continue to be mainly composed of stable deposits. Deposits account for 73% of Davivienda's total funding structure as of September 2019. The rest of the funding base is made up of bond issuances, interbank loans, and repos, including subordinated debt. This funding mix has remained stable during the past few years and we don't expect it 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 101.19% as of September 2019, with a three-year average of 102.12% that's 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 1.57x as of September 2019. The maturity profile of its market debt is not a concern, in our opinion, and the refinancing risk has remained limited. 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 that it will extend its maturity profile once it repays the senior dollar-denominated bond. In addition, the bank isn't exposed to significant refinancing risks in the short term since more than 30% 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

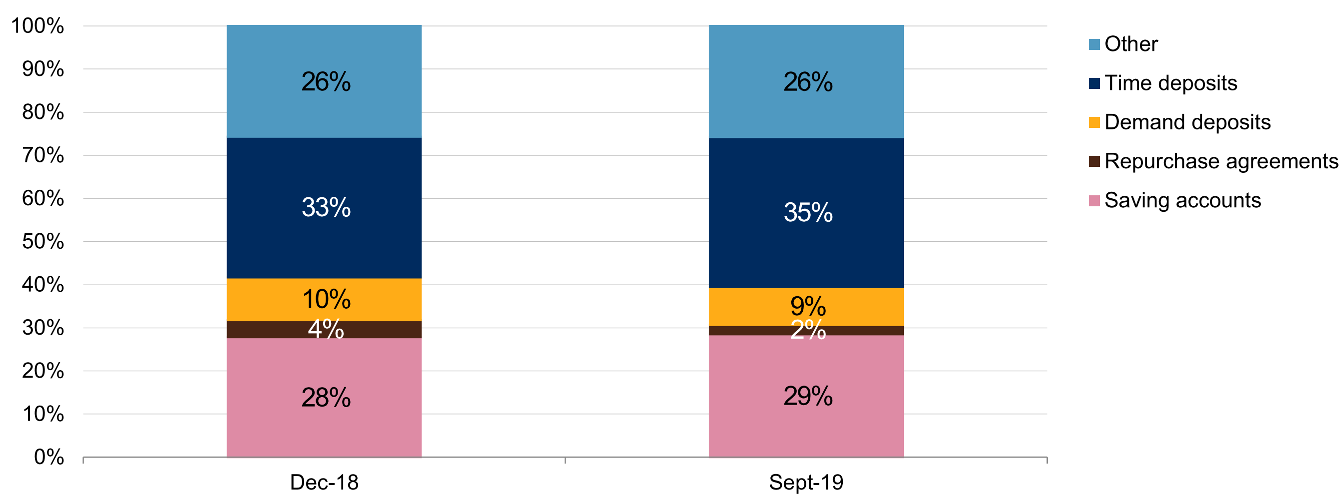
Banco Davivienda S.A. Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	73.0	71.7	73.3	74.3	73.4
Customer loans (net)/customer deposits	122.4	123.0	119.9	119.5	118.0
Long-term funding ratio	91.9	89.4	91.6	92.3	91.9
Stable funding ratio	101.8	100.5	103.3	102.5	104.9
Short-term wholesale funding/funding base	8.9	11.7	9.3	8.5	8.9
Broad liquid assets/short-term wholesale funding (x)	1.7	1.4	1.8	1.7	1.9
Net broad liquid assets/short-term customer deposits	10.6	7.3	11.9	10.4	14.0
Short-term wholesale funding/total wholesale funding	31.6	39.7	33.1	31.2	31.4

*Data as of Sept. 30.

Chart 4

Davivienda's Funding Mix



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 second 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 (not rated), 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 December 23, 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.