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INVESTORS SERVICE

CREDIT OPINION
18 July 2016

Update

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RATINGS

Banco Davivienda S.A.

Domicile	Colombia
Long Term Rating	Baa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information.The ratings and outlook shown reflect information as of the publication date.

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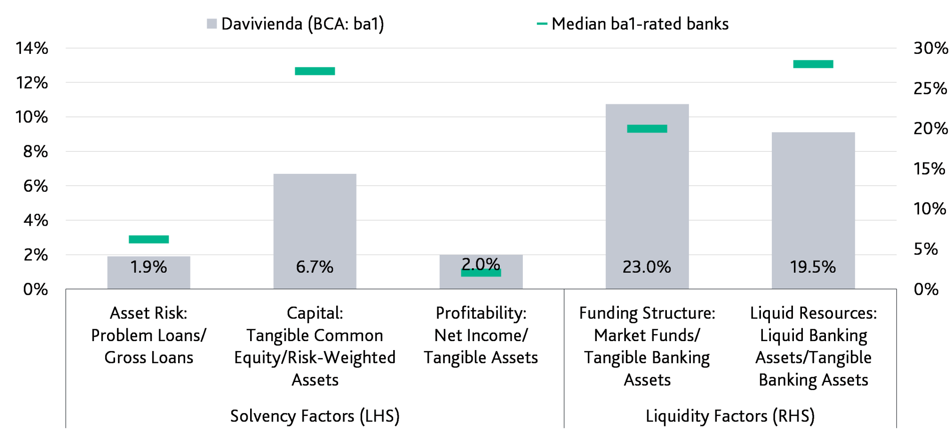
Banco Davivienda S.A.

Semiannual Update

Summary Rating Rationale

Moody's assigns a ba1 standalone baseline credit assessment (BCA) and ba1 Adjusted BCA to Colombia's Banco Davivienda S.A. (Davivienda), which reflects the bank's diversified banking franchise supported by significant retail lending operations, access to core funding, and good asset quality and reserve coverage. Profitability remains strong, but earnings growth has lagged the bank's overall expansion, which has been driven by both organic growth and acquisitions. Davivienda's low capitalization levels are a key rating constraint and limit loss absorption in an eventual situation of stress.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Moody's also assigns long- and short-term global local and foreign currency deposit ratings of Baa3/Prime-3 and long-term foreign currency senior unsecured debt ratings of Baa3 to Davivienda in line with the rating agency's assessment of high government support in a situation of stress for the bank, reflecting the bank's large market share of deposits and loans in Colombia as well as its importance to the payments system. The bank's deposit and senior debt ratings benefit from one notch of government support uplift. The bank's long-term foreign currency subordinate debt rating of Ba2, one notch below Davivienda's ba1 BCA, in line with Moody's notching practices for these types of debt instruments. Moody's also assigns long- and short-term Counterparty Risk (CR) Assessments of Baa2(cr)/Prime-2(cr) to Davivienda. All of Davivienda's ratings have a stable outlook.

Credit Challenges

» Modest capitalization

» Expected deterioration of asset risk metrics

» Profitability, though ample, will likely face downward pressure

Credit Strengths

» Good asset quality and reserve coverage

» Good access to core funding

» Moderate macro profile

Rating Outlook

All of Davivienda's ratings have a stable outlook reflecting the bank's diversified business supported by significant retail lending operations, access to core funding, and good asset quality and reserve coverage.

Factors that Could Lead to an Upgrade

The bank's ratings would face upward pressure if tangible common equity to risk weighted assets were to increase substantially and sustainably or if asset quality improved.

Factors that Could Lead to a Downgrade

Davivienda's BCA of ba1 could come under negative pressure if the growth leads to a deterioration in asset quality, or if capitalization or profitability weaken. Capital adequacy is modest and therefore could generate ratings volatility if capitalization weakens.

Key Indicators

Exhibit 2

Banco Davivienda S.A. (Consolidated Financials) [1]

	3-16[2]	12-15[2]	12-14[2]	12-13[3]	12-12[3]	Avg.
Total Assets (COP billion)	86965.4	83718.3	68117.2	56374.5	47121.9	13.0[4]
Total Assets (USD million)	28956.9	26372.1	28663.0	29179.4	26667.7	0.5[4]
Tangible Common Equity (COP billion)	5357.0	5170.1	4428.4	3706.2	3070.7	10.0[4]
Tangible Common Equity (USD million)	1783.7	1628.6	1863.4	1918.4	1737.8	-2.2[4]
Problem Loans / Gross Loans (%)	1.9	1.6	1.8	1.6	1.8	1.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	6.7	6.7	7.1	7.1	6.8	6.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.2	14.6	15.6	12.4	13.4	15.8[5]
Net Interest Margin (%)	6.6	5.8	5.5	6.2	7.4	6.0[5]
PPI / Average RWA (%)	5.3	4.1	3.5	3.8	4.6	4.3[6]
Net Income / Tangible Assets (%)	2.0	1.5	1.5	1.6	1.5	1.7[5]
Cost / Income Ratio (%)	39.6	47.8	50.9	55.4	54.2	46.1[5]
Market Funds / Tangible Banking Assets (%)	23.0	23.8	22.1	16.1	16.8	23.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	19.5	18.8	19.0	20.6	21.9	19.1[5]
Gross loans / Due to customers (%)	118.8	121.3	118.0	113.4	114.6	119.4[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; LOCAL GAAP [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel II & IFRS reporting periods have been used for average calculation

Source: Moody's Financial Metrics

Detailed Rating Considerations

MODEST CAPITALIZATION

Davivienda reported a low tangible common equity (TCE, common stock plus retained earnings minus goodwill) to risk weighted assets of 6.7% as of March 2016. The bank's goodwill is mainly related to the acquisition of Bancafé/Granbanco. Moody's adjusts RWAs by risk-weighing government securities at 50%, in line with the Colombian government's Baa2 bond rating.

Capital adequacy is modest and therefore could generate ratings volatility if capitalization weakens.

EXPECTED DETERIORATION OF ASSET RISK METRICS

Likely deterioration of consumer loans as a result of the slow economy will test the bank's asset risk profile. Davivienda is relatively more exposed to economic cycles based on its higher focus on retail lending than most larger peers in Colombia, whereby 46% of its loans are directed to consumer financing and residential mortgages, as of March 2016. The economic deceleration, translating to an up tick in unemployment will affect borrowers' loan repayment capacity, and therefore we expect loan deterioration through 2017. Delinquency ratios will nevertheless remain at manageable low levels overall, but loan loss provisions will have a toll on profitability.

PROFITABILITY, THOUGH AMPLE, WILL LIKELY FACE DOWNWARD PRESSURE

Davivienda's long-term profitability remains high with net income to tangible assets of 2.0% as of March 2016, higher than the bank's three year-end average. The bank's net interest margin remains ample at 6.6% through March 2016, from 5.8% during 2015. Bottom line profitability however will likely face downward pressure stemming from higher provisioning efforts as a result of expected deterioration of loans, particularly in the consumer segment.

GOOD ASSET QUALITY AND RESERVE COVERAGE

Davivienda's low levels of problem loans and high loan loss reserve (LLR) coverage support its aggressive capitalization levels. As of March 2016, 90+ days past due loans (problem loans) represented 1.9% of gross loans, coupled by an ample LLR coverage of problem loans of 158.3%. The problem loan ratio for the foreign operations is 1.6% versus LLR coverage of problem loans of 164.5%.

Davivienda's asset quality is also supported by a lending book that is evenly spread between wholesale and retail operations. While the portfolio is well diversified between commercial loans (54%), consumer (25%) and mortgages (21%), as of March 2016, the bank's foreign franchises expose it to increased credit, market and foreign exchange risks within several developing Central American markets with less benign and highly dollarized operating environments. We nevertheless expect a controlled deterioration in asset quality going forward related to slower lending in the context of much slower economic growth in Colombia.

Despite Davivienda's single major shareholder (family ownership), the bank maintains best practices in corporate governance which are reflected in almost null related party lending and funding. The bank has a well experienced management team and a long standing relationship with the International Finance Corporation (IFC, initial investment in 1973) which encourages Davivienda's sound corporate governance. Loans to related parties composed a low 2.5% of tangible common equity (TCE), as of March 2016.

Davivienda is the largest subsidiary of the Colombian economic conglomerate Grupo Bolívar, which controls 55.1% of the bank. Other major shareholders include Inversiones Cúsezar (17.4%, 17.8% with preferred shares) and the IFC (1.9%). Also 23.9% of the bank's capital is held by minority shareholders (excluding Bolívar and Cúsezar preferred shares) and including those shares that are publicly traded in the Colombian stock exchange.

GOOD ACCESS TO CORE FUNDING

Davivienda has a well-diversified core deposit franchise with important market shares in Colombia and Central America. Core deposits represent 64.1% of total assets as of March 2016.

Davivienda is the third largest bank in Colombia, with an important market share of 12.5% of loans and 11.6% of deposits. The bank operates through 571 branches in Colombia, where the bank has 78% of its loans, 163 branches in El Salvador (8%), Costa Rica (7%) and Honduras (3%), four agencies in Panama City (Davivienda Internacional Panamá) (4%), and one branch in Miami, as of March 2016.

The bank's presence in different markets provides opportunity for gathering core deposits and reduce dependence on market funding, as a result, the bank's market funding levels are somewhat low at 23.0% of tangible banking assets leading as of March 2016. The bank's loan to deposit ratio has remained stable at 102.8%, as of March 2016.

Nevertheless, the bank holds modest levels of liquid banking assets at 19.5% of tangible banking assets as of March 2016.

DAVIVIENDA'S RATING IS SUPPORTED BY A WEIGHTED MACRO PROFILE OF MODERATE

Davivienda's operations are mainly focused on Colombia, which represents 78% of its loan portfolio as of March 2016, and whose Macro Profile is Moderate+.

Colombia's economy has remained resilient in the midst of adjusting to a large terms of trade shock from the drop in oil prices. Growth will moderate in 2016 and inflationary pressures will begin to subside later in the year. The authorities are implementing the necessary adjustment and reforms to withstand the external shock. Peace negotiations are progressing, albeit slowly. Improved security and a decline in domestic political risk as the peace process comes to fruition could boost business confidence and support economic growth.

The bank's remaining operations are focused in El Salvador where 8% of Davivienda's loans are domiciled and whose Macro Profile is Weak, Costa Rica (7%, Macro Profile of Moderate-), Panama (4%, Macro Profile of Moderate) and Honduras (3%, no rated banks), as of March 2016. While Central America provides the bank with ample geographic diversification to several countries with high GDP growth, it also exposes Davivienda to countries with high poverty and inequality indicators, coupled with low economic and institutional strength. As such, the bank's exposures adjust its Macro Profile downwards to Moderate.

Notching Considerations

Moody's assigns a foreign currency debt rating of Ba2 to Davivienda's ten-year subordinated debt in foreign currency of USD500 million due 9 July 2022 (coupon of 5.95%) and a Baa3 long term foreign currency debt rating to Davivienda's five-year senior debt issuance of USD500 million due 29 June 2018 (coupon of 2.95%).

Government Support

We believe there is a high likelihood of government support for Davivienda's rated wholesale deposits and senior unsecured debt. This reflects Davivienda's large market share of deposits and loans in Colombia and hence the material systemic consequences that would result from an unsupported failure. Davivienda's deposit rating benefits from one notch uplift from government support, at this instance.

Counterparty Risk Assessments

Davivienda's long- and short-term CR Assessments are positioned at Baa2(cr)/Prime-2(cr).

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment, prior to government support, is positioned one notch above the Adjusted BCA of ba1 and therefore above senior unsecured and deposit ratings, reflecting our view that its probability of default is lower than that of senior unsecured debt and deposits. We believe senior obligations represented by the CR Assessment will be more likely preserved in order to limit contagion, minimize losses and avoid disruption of critical functions.

The CR Assessment also benefits from one notch of systemic support, in line with our support assumptions on deposits and senior unsecured debt. This reflects our view that any support provided by governmental authorities to a bank which benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Methodology and Scorecard Factors

Exhibit 3

Banco Davivienda S.A.

Macro Factors						
Weighted Macro Profile	**Moderate**	**100%**				
Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.9%	baa1	←→	baa2	Loan growth	
Capital						
TCE / RWA	6.7%	caa1	←→	b3	Expected trend	
Profitability						
Net Income / Tangible Assets	1.6%	baa1	↓	baa1	Earnings quality	
Combined Solvency Score		ba1		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	23.8%	ba1	←→	ba1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	18.8%	ba2	←→	ba2	Quality of liquid assets	
Combined Liquidity Score		ba1		ba1		
Financial Profile				ba1		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Baa2		
Scorecard Calculated BCA range				baa3-ba2		
Assigned BCA				ba1		
Affiliate Support notching				0		
Adjusted BCA				ba1		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Counterparty Risk Assessment	1	0	baa3 (cr)	1	Baa2 (cr)	--
Deposits	0	0	ba1	1	Baa3	Baa3
Senior unsecured bank debt	0	0	ba1	1	--	Baa3

Dated subordinated bank debt	-1	0	ba2	0	--	Ba2

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
BANCO DAVIVIENDA S.A.	
Outlook	Stable
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Senior Unsecured	Baa3
Subordinate	Ba2

Source: Moody's Investors Service

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