FitchRatings

FITCH AFFIRMS BANCO DAVIVIENDA S.A. AT 'BBB-'; OUTLOOK STABLE

Fitch Ratings-New York-24 January 2013: Fitch Ratings has affirmed Banco Davivienda S.A.'s (Davivienda) viability rating (VR) at 'bbb-' and Issuer Default Ratings (IDRs) at 'BBB-'. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS:

Davivienda's ratings reflect the bank's clear long-term strategy, sound asset quality and risk management, well established franchise, consistent performance, ample, diversified funding. Fitch's view of Davivienda's creditworthiness is tempered by the bank's somewhat stretched capital base, moderate efficiency and the execution risk related to its recent acquisitions.

Daviviendas's support rating and support rating floor are driven by Fitch's opinion that there is a moderate probability of support from Colombia's central bank, given Davivienda's size and systemic importance. The ability of the central bank to provide support is constrained by the country's financial and fiscal standing; Colombia's sovereign rating is 'BBB-' with a Stable Outlook.

SENSITIVITY/RATING DRIVERS

Davivienda's VR and IDRs would benefit from a steady, material, and swift restoration of its capital base, a seamless integration of its recently acquired subsidiaries in Central America, as well as from improved efficiency that would underpin its performance, while maintaining reasonable asset quality and sound reserves. Upside potential on these ratings is contingent on improving capital adequacy above pre-acquisition levels, which Fitch believes can only be achieved over the medium term.

A disruptive integration of Davivienda's new subsidiaries, a significant decline in its capital ratios - namely a Fitch Core Capital below 6% - or a severe deterioration of asset quality that would pressure the bottom line through increased loan loss provisions, would negatively affect the bank's VR and IDRs.

Changes in the support rating and support rating floor are contingent on changes in Colombia's sovereign ratings.

CREDIT PROFILE

Davivienda has shown a proven ability to devise and execute a long-term strategy. Building patiently around its core mortgage business, Davivienda became a universal bank and successfully diversified its target market, revenue sources, funding base, and loan portfolio. This has allowed the bank to gain market share while leaving behind its monoline structure and image.

Davivienda cherry-picked its mergers and acquisitions to complement and enhance its business then seamlessly integrated them into a new organization that is strengthened by its parts. In late 2012, the bank closed the acquisition of the former subsidiaries of HSBC in El Salvador, Honduras and Costa Rica. This transaction has affected the bank's capital ratios and profitability but these are expected to revert to pre-acquisition levels within 18-30 months.

Owing to its sound risk management policies and mature organization, the bank was able to bring asset quality under control while bolstering reserves under increasingly stringent regulation. Davivienda's asset quality ratios (NPLs: 1.6% at September 2012) compare well to those of its regional peers even though its loan portfolio has a slightly riskier profile.

A few years of sustained growth and steady performance as well as a conservative dividend payout policy resulted in a rapid improvement in the size and quality of Davivienda's capital. The burden of its goodwill had also declined and become more manageable but increased again due to the acquisition of HSBC's subsidiaries in Central America.

By the same token, capital levels declined to the lower end of similarly rated banks, with Fitch Core Capital declining to the 6%-6.5% range and Fitch Eligible Capital to the 9.0-9.5% range. Fitch's assessment of Davivienda's capital adequacy considers its sound internal capital generation (earnings) and ample loan loss reserves. Fitch expects that sustained profitability and conservative dividend payouts will allow the bank to restore its capital levels closer to pre-acquisition levels (6.5%-7.5% for the FCC and 9.5%-10.5% for the FEC respectively) by the end of 2014

Sound loan growth and resilient margins have resulted in a steady performance that may not be as spectacular as that of some regional high-flyers but remains impressive (ROAA was about 1.96% at Sept. 2012) given the economic background and structural constraints to its retail business.

Its heightened market presence allowed Davivienda to widen and deepen its deposit base. At the same time, the bank opened its capital to local investors and actively tapped the local and international securities market.

A relatively high cost structure and low non-interest revenues weigh on its efficiency ratios. Efforts are underway to improve this and bolster the bank's performance but gains in this area tend to be slow to come. In the short term, efficiency should improve through stronger revenues rather than nimbler processes or better cross-selling.

Davivienda is Colombia's third largest bank by assets with a market share of about 11% at end 2012. It is a universal bank operating across all business segments with a particular strength in the consumer business. The bank is controlled by Sociedades Bolivar, which has interests in the construction and insurance industries in Colombia.

Fitch has affirmed Davivienda's ratings as follows:

--Long-term foreign currency IDR at 'BBB-'; Outlook Stable;
--Long-term local currency IDR at 'BBB-'; Outlook Stable;
--Short-term foreign currency IDR at 'F3';
--Short-term local currency IDR at 'F3';
--Viability rating at 'bbb-';
--Support Rating at '3';
--Support Rating Floor at 'BB+';
--Senior unsecured debt at 'BBB-';
--Subordinated debt at 'BB+'.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Global Financial Institutions Rating Criteria' (Aug. 15, 2012).

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Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181