FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns 'B+' Final Rating to Davivienda's Perpetual AT1 Notes

Tue 20 Apr, 2021 - 4:45 PM ET

Fitch Ratings - New York - 20 Apr 2021: Fitch Ratings has assigned a 'B+' final rating to Banco Davivienda S.A.'s (Davivienda) U.S. dollar-denominated perpetual non-cumulative Additional Tier 1 (AT1) junior subordinated notes.

The final rating follows a review of the final terms and conditions confirming to information already received when Fitch assigned the expected rating on April 12, 2021. For more details see, "Fitch Rates Davivienda's Upcoming Perpetual AT1 Notes 'B+(EXP)'" at www.fitchratings.com.

The perpetual non-cumulative notes, for a final amount of USD500,000,000 will carry a fixed interest rate of 6.65% per annum (until but excluding April 22, 2031 the first optional redemption date), and thereafter reset on each tenth anniversary of the issue date as described on the final notes, will pay interest semi-annually in arrears on April 22 and Oct. 22 of each year, commencing on Oct. 22, 2021. The notes are perpetual instruments (unless redeemed as described in the offering memorandum) with no fixed maturity or fixed redemption date.

Proceeds will be used for general purposes and will count as Additional Tier 1 capital ratios at the bank per local regulation. The notes can be redeemed at the option of the Issuer no earlier than 10 years, subject to prior approval of the Colombian Superintendence of Finance (SFC), if the bank maintains its capital adequacy ratios in accordance with regulatory requirements.

The notes will be junior in right of payment with respect to the Davivienda's depositors, all senior external liabilities of the bank, Tier 2 Capital subordinated debt instruments and other instruments issued and guaranteed by the bank designated as ranking senior to the notes. The notes rank senior to the Davivienda's Common Equity Tier 1 Capital, and rank pari passu among themselves and any other unsecured and Additional Tier 1 Capital subordinated indebtedness.

KEY RATING DRIVERS

The final rating assigned to Davivienda's new issuance is four notches below Davivienda's 'bbb-' Viability Rating (VR), with two notches for loss severity and two notches for incremental non-performance risk. According to Fitch's criteria, this is the minimum downward notching for deeply subordinated notes with fully discretionary coupon cancellation issued by banks with a VR anchor of 'bbb-'. The notching reflects the notes' higher loss severity in light of their deep subordination, and additional non-performance risk relative to the VR, given the high write-down trigger of CET1 at 5.125% and full discretion to cancel coupons.

Coupon payments may be cancelled at the bank's discretion and full or partial write-down in case either individual or consolidated CET1 capital ratio is below 5.125% or if SFC determines the outstanding principal, accrued and unpaid interest, and any other amounts due on the notes will be permanently reduced, pro rata with reductions on other Additional Tier 1 Capital subordinated by an amount needed to restore the individual or the consolidated CET1 to 6%. Additionally, the interest payments under the notes will be automatically cancelled (in whole or in part) if the bank does not have sufficient distributable items or if the bank fail to preserve the required combined capital buffer (capital conservation and systemic buffers) according the Decree 2555 and the four-year schedule to adopt Basel III requirements starting in January 2021.

As of December 2020, CET1 was 8.26% comparing favorably with the minimum requirements (4.5%). Basel III adoption started on January 2021 has already increased calculated CET1 by around 370 bps while the AT1 new issuance would increase the regulatory capital ratio considering CET1 plus AT1 by other 181 bps. Despite operating environment challenges that have reduced the bank's already low profitability and that are expected to continue to weigh on asset quality, Fitch does not anticipate significant pressures for the new capital requirements during the Basel III implementation period under a scenario of conservative risk management and gradual business growth.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The rating of the AT1 Notes is sensitive to movements in the bank's VR in any direction, and the baseline scenario is that the notching will likely remain -4 relative to the bank's VR. However, the notching could potentially be widened to some extent as per Fitch's criteria under certain circumstances, if there is a change in Fitch's view on the non-performance risk of these instruments on a going concern basis, which is not the baseline scenario.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The rating of the AT1 notes is sensitive to movements in the bank's VR in any direction, and the baseline scenario is that the notching will likely remain -4 relative to the bank's VR. However, the notching could potentially be widened to some extent asper Fitch's criteria under certain circumstances, if there is a change in Fitch's view on the non-performance risk of these instruments on a going concern basis, which is not the baseline scenario.

For further information about the drivers and rating sensitivities for Banco Davivienda's ratings, please refer to "Fitch Affirms Davivienda's IDR at 'BBB-'; Outlook Negative" (dated Dec. 12, 2020) at www.fitchratings.com.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

DATE OF RELEVANT COMMITTEE

08 April 2021

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR

ENTITY/DEBT	RATING			PRIOR
Banco Davivienda S.A.				
• junior subordinated	LT	B+	New Rating	B+ (EXP)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Banco Davivienda S.A.	EU Endorsed, UK Endorsed

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