



Structured Finance

Banco Davivienda

HIGHLIGHTS

- US\$50mn inflation-indexed local currency subordinated bond issue by Colombian mortgage originator
- IFC partial credit guarantee for up to US\$30mn in addition to a US\$10mn call option on the originator's equity
- The issue was the first-ever subordinated debt issue in the country under the new Tier II capital guidelines
- It was successfully placed among domestic institutional investors

THE COMPANY

Banco Davivienda (Davivienda, the Bank) was established in 1973 as a Corporación de Ahorro y Vivienda (CAV, a savings and loan type institution) under legislation that only permitted CAVs to supply mortgage loans to the public. Later in 1997, Davivienda was converted to a commercial bank. Today the Bank is Colombia's leading mortgage originator with approximately 40% of total mortgage originations. The Bank is also the third largest Colombian financial institution by deposits (approximately US\$1.5bn), and the second largest by number of retail customers (approximately 2.1mn). Davivienda provides financial services to 45 towns and cities through a network of 227 branches and 3,855 employees.

FINANCING OBJECTIVES

The primary objective of the issue was to bolster Davivienda's Tier II capital base in order to facilitate the Bank's expansion and diversification strategy into non-mortgage financing. Davivienda's new strategy focused on generally more capital intensive assets as well as on funding new investments in IT infrastructure.

In order to contribute to the success of the issue, and help establish a market for Tier II capital in Colombia, IFC provided a partial guarantee on the bond.

THE STRUCTURE

The issue consists of a ten-year, non-call five, UVR1bn subordinated step-up bond partially guaranteed by IFC for 30% of the face value equivalent to UVR300mn, up to US\$30mn. The bond carries a coupon of UVR+7.5%, which would increase to UVR+11.25% after 5 years. Interest is payable quarterly and principal is payable at maturity. As part of the agreement IFC has an option to purchase up to US\$10mn in common equity shares.



Furthermore, through this transaction IFC contributed to the development of the Colombian capital markets by helping to establish an alternative means for banks to raise capital, and providing an alternative investment opportunity for institutional investors.

OUTCOME

The issue, which received a one-notch upgrade to achieve a AA+ rating by the local affiliate of Fitch, was placed among domestic institutional investors within the first day of offering. With this bond, Davivienda was able to tap additional and longer-term funding than it otherwise would have been able to, and to bolster its capital base.

TERMS AND CONDITIONS

Amount	UVR1bn
Maturity	10 years, callable after year 5
Interest Payment	UVR+7.5%, stepping-up to +11.25% in year 5, payable quarterly
Principal Payment	Bullet repayment at maturity
Rating	AA+ by the local affiliate of Fitch
Enhancement	Principal for an amount equal to 30% of the outstanding principal equivalent to UVR300mn (approximately US\$15mn), up to US\$30mn