Fitch Ratings-New York/Bogota-21 July 2015: Fitch Ratings has today upgraded Bancolombia S.A.'s Viability Rating (VR) to 'bbb+' from 'bbb' and its Issuer Default Ratings (IDRs) to 'BBB+' from 'BBB'; Outlook Stable. Fitch has also affirmed Bancolombia's National Ratings. See the full list of rating actions at the end of this press release.

The VR, IDRs and senior debt ratings have been upgraded because the bank has been able to sustain its Fitch Core Capital Ratio (FCC) at levels above those Fitch expected, supported by moderate, increasing profitability.

KEY RATING DRIVERS

The bank's VR, IDRs, National and senior debt ratings reflect its strong franchise, solid balance sheet, adequate performance, robust asset quality and reserves and ample deposit base, and access to funding. The ratings also reflect the challenges arising from recent acquisitions, since Bancolombia is in the process of integrating Banistmo (rated 'BBB/F2'/Positive Outlook by Fitch). Fitch will continue to monitor Bancolombia's new subsidiaries' performance and their impact on the bank's prospects and credit metrics.

The bank was able to restore and sustain, at levels expected by Fitch, part of the capital deployed after the acquisition, thanks to good performance and capital generation, which supported the capital raised after the first-quarter 2014 COP2.6 trillion public offer of preferred shares.

Bancolombia's FCC (10.15% at December 2014) is a level that Fitch believes is in line with other similarly rated banks, especially in light of its sizable loan loss reserves. Fitch expects that Bancolombia will maintain its conservative earning retention policy and control its growth/expansion in order to sustain its market position and creditworthiness.

Recent profitability metrics have been affected by increased competition in Colombia and the effects of the integration of the newly acquired business. Operational trends of its subsidiary in Panama are slowly improving, a trend Fitch expects will be maintained but will not match Bancolombia's profitability in Colombia. As such, operational profits will keep increasing steadily allowing the bank to boast competitive profitability ratios compared to other large banks in Colombia. Effective cost control and well-managed credit costs will be crucial to preserving this trend.

Bancolombia boasts a well-balanced business with loans diversified by geography, by industry, by product and by obligor. The bank has little undesired concentrations, robust asset quality, ample reserves and sufficient liquidity, as well as a diversified deposit base and proven access to capital markets.

Strong earnings generation, resilient margins and controlled operating costs contribute to Bancolombia's performance while sound asset quality and adequate risk management contain credit costs. Bancolombia's asset quality metrics show signs of stabilization after 2013 and remain sound. Past-due loans (90-day PDLs) reached 1.6% at December 2014. Moreover, Bancolombia maintains ample reserves that cover PDLs 2.7x.

Given its sizable market share the bank enjoys a well-diversified, stable and relatively low-cost deposit base providing flexibility to grow. In addition, Bancolombia has proven access to local and global
capital and debt markets. Accordingly, the loan-to-deposits ratio reached 112.8% at December 2014, as Bancolombia actively uses capital markets to better match its assets and liabilities tenor profile.

Bancolombia is a top contender with substantial market share in its core markets: Colombia (21.9% both by assets and net loans at March 2015), Panama (10% by loans and deposits through Banistmo - commercial license; 31% by assets and 40% by loans through Bancolombia Panama - international license) and El Salvador (28.6% by assets and 28.1% by deposits). As a universal bank serving all segments, the bank enjoys a strong competitive position and a diversified and quite stable revenue base.

SUPPORT RATING AND SUPPORT RATING FLOOR
The bank's Support Rating and Support Rating Floor reflect its systemic importance. In Fitch's opinion support from Colombia's central bank would be forthcoming, if needed. Colombia's ability to provide such support is reflected in its sovereign rating ('BBB'; Stable Outlook) and drives Bancolombia's Support Floor of 'BBB-'.

SUBORDINATED DEBT
Bancolombia's subordinated debt is rated one notch below its IDR to reflect higher expected losses in case of liquidation but no additional notching for non-performance, given its gone concern characteristics. These bonds lack equity-like features that would earn it equity credit according to Fitch's criteria. It has thus been upgraded due to the upgrade of the bank's IDR.

BANCOLOMBIA PANAMA
Fitch upgraded Bancolombia Panama's (BP) Long-term foreign currency IDR in line with that of its parent, Bancolombia. BP is highly integrated with Bancolombia and is a core part of the parent's business strategy in Colombia and Central America. Support from Bancolombia should be forthcoming if needed, and the parent's ability to provide support is reflected in its ratings. Bancolombia's current IDR is 'BBB+'; Stable Outlook.

RATING SENSITIVITIES
VR, IDRS, NATIONAL RATINGS AND SENIOR DEBT
The bank's IDRs, National and senior debt ratings are sensitive to a change in Fitch's assumptions regarding capitalization and profitability. While there is limited upside potential given the current level of the bank and the sovereign's ratings, Bancolombia's ratings would be supported if the bank sustains its performance while consolidating its recent acquisitions adequately, gradually improving its profitability and strengthening its capital in a scenario of a sovereign rating upgrade.

An unexpected deterioration of its impaired loans ratio above 4% or a significant reduction of its ample loan loss coverage may trigger a negative rating action by Fitch on Bancolombia's VR and IDRs. A dismal performance (operating ROAA consistently below 1.5%) and/or severely weaker asset quality that would pressure loan loss provisions and erode the bank's capital (FCC consistently below 10%) would also pressure its VR and IDRs.

SUPPORT RATING AND SUPPORT RATING FLOOR
Bancolombia's Support and Support Rating Floor ratings would be affected by a change in Colombia's ability or willingness to support the bank.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
The ratings of Bancolombia's subordinated debt would move in line with the bank's IDR.

BANCOLOMBIA PANAMA
BP's IDRs could be upgraded if Bancolombia's IDR is upgraded; the IDRs would move in line with Bancolombia's rating.
Fitch has taken the following rating actions:

**Bancolombia**
- Long-term foreign currency IDR upgraded to 'BBB+' from 'BBB'; Outlook Stable;
- Short-term foreign currency IDR affirmed at 'F2';
- Long-term local currency IDR upgraded to 'BBB+' from 'BBB'; Outlook Stable;
- Short-term local currency IDR affirmed at 'F2';
- Viability rating upgraded to 'bbb+' from 'bbb';
- Support rating affirmed at '2';
- Support rating floor affirmed at 'BBB-';
- Senior unsecured debt upgraded to 'BBB+' from 'BBB';
- Subordinated debt upgraded to 'BBB' from 'BBB-';
- National long-term rating affirmed at 'AAA(col)'; Outlook Stable
- National short-term rating affirmed at 'F1+(col)';
- COP1.5 billion program senior unsecured issuances' national rating affirmed at 'AAA(col)';
- COP1 billion program subordinated issuances' national rating affirmed at 'AA+(col)';
- COP2 billion program senior unsecured issuances' national rating affirmed at 'AAA(col)'.
- COP3 billion program subordinated issuances' national rating affirmed at 'AA+(col)'.

**Bancolombia Panama**
- Long-term local currency IDR upgraded to 'BBB+' from 'BBB'; Outlook Stable;
- Short-term local currency IDR affirmed at 'F2';
- Support rating affirmed at '2';
- Long Term Deposits upgraded to 'BBB+' from 'BBB';
- Long Term Deposits affirmed at 'F2'.

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Applicable Criteria