Fitch Ratings-New York-16 September 2014: Fitch Ratings has affirmed Bancolombia's Viability Rating (VR) at 'bbb' and its IDRs at 'BBB'. Fitch has also revised Bancolombia's Rating Outlook to Positive from Stable. Fitch has also affirmed Bancolombia's National Ratings. A complete list of rating actions is provided at the end of this release.

KEY RATING DRIVERS

VIABILITY AND ISSUER DEFAULT RATINGS

Bancolombia's VR and its local and foreign currency IDRs reflect its strong franchise, solid balance sheet, adequate performance, robust asset quality and reserves, ample deposit base and access to funding and positive operating environment. The VR also reflects the challenges arising from its recent acquisitions. In addition, Fitch notes Bancolombia's efforts to strengthen its capital from the low reached at end 2013.

Bancolombia is in the process of integrating Banistmo (rated 'BBB/F2' with a Stable Outlook by Fitch) and has also acquired a non-controlling interest in Banco Agromercantil in Guatemala (rated 'A+(gtm)/F1(gtm)' with a Stable Outlook). Fitch will continue to monitor Bancolombia's new subsidiaries' performance and their impact on the bank's prospects and credit metrics.

As expected, the bank's acquisitions stretched its capital and combined with the poor performance of its investment portfolio during first-half-2013 (1H'13) drove Bancolombia's Fitch Core Capital ratio (FCC) below 9% at year-end 2013 (YE'13). However, during first-quarter 2014 (1Q'14), Bancolombia raised COP2.6 trillion (about USD1.3 billion) in a public offering of preferred shares, restoring part of the capital deployed for the acquisitions.

The successful share issuance strengthened Bancolombia's FCC and will support current and future balance sheet growth. As the bank grows, FCC is expected to remain in the 10%-11% range. This is a level that Fitch believes is in line with other similarly rated banks, especially under the 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 further enhance its position and creditworthiness.

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 well-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 contained credit cost.

In spite of rapid growth into riskier segments and portfolio seasoning, Bancolombia's asset quality metrics show stabilization signs during 2013 and 1H'14 and remain sound. Past due loans (90-day PDLs) reached 1.6% at June 2014. Moreover, Bancolombia maintains ample reserves that cover PDLs 2.8 times (x).
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 ratios reached 112% at June 2014 as Bancolombia actively uses capital markets to better match its assets and liabilities tenor profile.

SUPPORT AND SUPPORT RATING FLOOR

Bancolombia's Support Rating and Support Rating floor reflect its systemic importance. Support from Colombia's central bank would, in Fitch's opinion, be forthcoming, if needed.

Colombia's ability to provide such support is reflected in Colombia's sovereign rating ('BBB' with a Stable Rating Outlook) and drives Bancolombia's support floor of 'BBB-'. The upgrade on the Support Rating Floor is explained by Fitch's recent upgrade on Colombia's Sovereign Rating in December 2013.

SENIOR UNSECURED AND SUBORDINATED DEBT

The ratings of Bancolombia's senior unsecured and subordinated debt are driven by the bank's IDR. The plain-vanilla subordinated debt is rated one notch below the bank's IDR. These bonds lack equity-like features that would earn it equity credit following Fitch's criteria. The notching reflects one notch for higher expected losses in case of liquidation but no additional notching for non-performance, given its gone concern characteristics.

RATING SENSITIVITIES

VIABILITY AND ISSUER DEFAULT RATINGS

Fitch would upgrade Bancolombia's ratings if the bank continues to improve its performance, adequately consolidates its recent acquisitions and gradually improves and stabilizes its profitability (ROAA around 2%) while maintaining sound capital ratios at levels (FCC above 10%).

Conversely, Bancolombia's VR and IDRs could be negatively affected if the bank allows its capital to deteriorate (FCC consistently below 9.5%) or a fail to duly integrate the acquired businesses. Even when integration risk of the acquired entities exists, as in any other M&A transaction, a solid history of successful integration of acquired entities in Colombia and abroad and the good financial profile of the acquired entity suggests that these risks are manageable for Bancolombia.

An unexpected deterioration of its impaired loans ratio above 4% or a significant reduction of its ample loan loss coverage may also trigger a negative rating action by Fitch on Bancolombia's VR and IDR's. In addition, a weaker profitability below the recent average (ROAA below 1.5%) could hinder its ability to underpin capital and asset growth and may trigger a negative rating action.

SUPPORT 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.

SENIOR UNSECURED AND SUBORDINATED DEBT

The ratings of Bancolombia's Senior Unsecured and Subordinated debt would move in line with the bank's VR/IDR.

PROFILE
Bancolombia is a top contender in its core markets (21.8% market share by assets in Colombia, 11% in Panama and 28.5% in El Salvador at March 2014) and an increasingly active competitor in Central and South America. As a universal bank serving all segments, the bank enjoys a strong competitive position and a diversified and quite stable revenue base.

Fitch has taken the following rating actions for Bancolombia:

--Long-term foreign currency IDR affirmed at 'BBB'; Outlook to Positive from Stable;
--Short-term foreign currency IDR affirmed at 'F2';
--Long-term local currency IDR affirmed at 'BBB'; Outlook to Positive from Stable;
--Short-term local currency IDR affirmed at 'F2';
--Viability rating affirmed at 'bbb';
--Support rating upgraded to '2' from '3';
--Support rating floor revised to 'BBB-' from 'BB+';
--Senior unsecured debt affirmed at 'BBB';
--Subordinated debt affirmed at '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)'.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

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Global Financial Institutions Rating Criteria