Fitch Affirms Bancolombia and Related Entities' Ratings; Outlook Revised to Stable

Fitch Ratings-New York-30 June 2017: Fitch Ratings has today affirmed the international ratings for Bancolombia S.A. and certain related foreign subsidiaries. Bancolombia’s Viability Rating (VR) and Issuer Default Ratings (IDRs) were affirmed in 'bbb' and 'BBB', respectively. A full list of rating actions is at the end of this rating action commentary.

The Stable Outlook on the Long-Term IDRs for Bancolombia, mirrors that of Colombia’s Sovereign Rating. The Outlook has been revised to Stable from Negative as part of this peer review of major Colombian banks, once Fitch has updated its broad assessment of Bancolombia’s capital adequacy, including the recent progress toward rebuilding its Fitch Core Capital ratio to levels closer to 10% over the near future.

KEY RATING DRIVERS - BANCOLOMBIA

IDRS, VR, NATIONAL RATINGS AND SENIOR DEBT RATINGS
Bancolombia's ratings are driven by its robust company profile and overall sound and consistent financial performance, although capital adequacy metrics remain relatively low. More importantly, its ratings remain constrained by Fitch's assessment on the operating environment of the jurisdictions in which Bancolombia's businesses are performed.

Bancolombia reported a solid performance in 2016, with an operating profit to risk weighed assets ratio of 2.38%. Higher interest income on earning assets, increased net fees and improved operating efficiency underpinned Bancolombia's profitability. The bank's higher net interest margin reflected a quicker re-pricing of assets (60% of the loan portfolio has variable rates) compared with liabilities, and the benefits of having the lowest-cost deposit base in the Colombian market.

Bancolombia's low capitalization compared to its peers (emerging market commercial banks in the 'bbb' category) remains its main credit weakness despite recent improvements. A deceleration in asset growth and sustained internal capital generation amid a stable economic environment and less volatile exchange rates boosted Bancolombia's capital ratios. The bank's Fitch Core Capital (FCC) ratio increased to 9.62% of risk weighted assets at the first quarter of 2017 (1Q17), from 8.32% in 2015. Considering Bancolombia's sound internal capital generation and Fitch's expectations for continued moderate growth, the agency believes that the bank will sustain the positive trend in capital ratios.

Bancolombia's past due loans (PDLs) increased to 2.38% at 1Q17 from 2.01% at 1Q16, a rise caused primarily by slower loan growth, a moderate deterioration in some of the largest exposures in the commercial segment and the seasoning of consumer loans. Despite cyclical deterioration, Fitch expects Bancolombia to maintain its asset quality ratios in line with its current rating level and similar to regional peer medians due to the bank's conservative credit risk culture.

Bancolombia's successful franchise, distribution network and reputation as a long-standing, conservative institution support a well-diversified, stable and relatively low-cost funding base, important credit strength. In addition, Bancolombia has proven access to local and global capital and debt markets. Accordingly, the loan-to-deposits ratio reached 121.8% at December 2016, as Bancolombia actively uses capital markets to better match its assets and liabilities tenor profile.

Bancolombia has a well-balanced business with loans diversified by geography, industry, product and obligor. It is Colombia's largest bank in terms of assets and loans, with a market share of 25% in both as of December 2016. Furthermore, the bank has a significant footprint in Central America where it has grown steadily through acquisitions in recent years.

SUPPORT RATING AND SUPPORT RATING FLOOR
Fitch has affirmed the bank's Support Rating of '2' and Support Rating Floor of 'BBB-', reflecting the agency's estimation of a high probability of sovereign support if required, given the bank's systemic importance. The ability of the sovereign to provide support is based on its 'BBB'/Outlook Stable IDRs.

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 the gone concern-only characteristics.

KEY RATING DRIVERS - BP, BPR, BANISTMO, TUYA, FIDUCOLOMBIA AND VB

IDRs, NATIONAL RATINGS and SENIOR DEBT
Bancolombia Panama SA (BP), Bancolombia Puerto Rico Internacional Inc. (BPR), Banistmo S.A. (Banistmo), Compania de
Financiamiento Tuya S.A. (Tuya), Fiduciaria Bancolombia S.A. (Fiducolombia), and Valores Bancolombia S.A. (VB)'s ratings reflect the potential support they would receive from their main shareholder, Bancolombia, should it be required. Therefore, these entities' ratings mirror those of Bancolombia.

SUPPORT RATINGS
Fitch believes Bancolombia's willingness to support BP, BPR and Banistmo is substantial should it be required, given that they are core to the parent's business strategy and regional expansion. The support also underpins a support rating of '2'. The bank's ability to support these entities is reflected in Bancolombia's 'BBB' IDR.

RATING SENSITIVITIES - BANCOLOMBIA

IDRs, VR, NATIONAL RATINGS AND SENIOR DEBT
Upside potential for Bancolombia's ratings is limited given current capitalization levels and the sovereign's current rating. Negative rating actions could arise from a failure to rebuild the bank's FCC ratio to levels closer to 10% over the next 12 to 18 months. A sustained deterioration in its impaired loan ratio above 4%, or a weaker financial performance (operating ROAA relative to risk weighted assets consistently below 1.5%) could also trigger negative ratings actions at Bancolombia's ratings.

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
The ratings of Bancolombia's subordinated debt would move in line with the bank's VR.

RATING SENSITIVITIES - BP, BPR, Banistmo, Tuya, Fiducolombia, AND VB
IDRs
The IDRs of BP, BPR and Banistmo are support-driven and aligned with its parent's. Therefore, these ratings would mirror any changes in Bancolombia's IDRs.

NATIONAL RATINGS
A negative change in the capacity or propensity of Bancolombia to provide support to these entities could pressure creditworthiness.

SENIOR DEBT
The ratings of BP's senior debt would move in line with Bancolombia's IDRs.

SUPPORT RATINGS
BP, BPR and Banistmo's SR would be affected if Fitch changes its assessment of its parents' willingness and/or ability to provide support.

Fitch has affirmed the following ratings:

Bancolombia
--Long-Term Foreign Currency IDR at 'BBB'; Outlook revised to Stable from Negative;
--Short-Term Foreign Currency IDR at 'F2';
--Long-Term Local Currency IDR at 'BBB'; Outlook revised to Stable from Negative;
--Short-Term Local Currency IDR at 'F2';
--Viability Rating at 'bbb';
--Support Rating at '2';
--Support Rating Floor at 'BBB-';
--Senior unsecured debt at 'BBB';
--Subordinated debt at 'BBB-';
--National Long-Term Rating at 'AAA(col)'; Outlook Stable;
--National Short-Term Rating at 'F1+';
--Senior unsecured debt national rating at 'AAA(col)';
--Subordinated debt national rating affirmed at 'AA+(col)'.

Bancolombia Panama
--Long-Term IDR at 'BBB'; Outlook revised to Stable from Negative;
--Short-Term IDR at 'F2';
--Support Rating at '2';
--Long-Term Deposits at 'BBB';
--Short-Term Deposits at 'F2'.

Bancolombia Puerto Rico
--Long-Term IDR at 'BBB'; Outlook revised to Stable from Negative;
--Short-Term IDR at 'F2';
--Support Rating at '2'.

Banistmo
--Long-Term IDR at 'BBB'; Outlook revised to Stable from Negative;
--Short-Term IDR at 'F2';
--National Long-Term Rating at 'AAA(pan)'; Outlook revised to Stable from Negative;
--National Short-Term Rating at 'F1+(pan)';
--Support Rating affirmed at '2'.

Compania de Financiamiento Tuya
--National Long-Term Rating at 'AAA(col)'; Outlook Stable;
--National Short-Term rating at 'F1+'.

Fiduciaria Bancolombia
--National Long-Term Rating at 'AAA(col)'; Outlook Stable;
--National Short-Term rating at 'F1+'.

Valores Bancolombia
--National Long-Term Rating at 'AAA(col)'; Outlook Stable;
--National Short-Term rating at 'F1+'.

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Applicable Criteria

National Scale Ratings Criteria (pub. 07 Mar 2017) (https://www.fitchratings.com/site/re/895106)

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