Fitch Ratings-New York-19 September 2013: Fitch Ratings has affirmed Bancolombia S.A.'s Viability Rating (VR) at 'bbb' and its Issuer Default Rating (IDR) at 'BBB'. The Rating Outlook is 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 local and foreign currency IDRs are driven by its VR of 'bbb' which reflects its strong franchise, solid balance sheet, consistent, sound performance, robust asset quality and reserves, ample deposit base and access to funding. The VR also reflects the expected decline in capital and profitability ratios due to the bank's inorganic expansion and their gradual recovery.

Bancolombia is a top contender in its core markets (22% market share by assets in Colombia, 30% in El Salvador at June 2013) 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.

In El Salvador, Banco Agricola has consolidated its leading position and has been able to improve its performance in spite of limited growth. The bank has a strong franchise, good asset quality, adequate reserves, strong capital and sound performance. Besides improving its contribution to Bancolombia's bottom line, the bank is also performing an important role in Bancolombia's expansion into the region, beyond El Salvador.

Bancolombia boasts a well-balanced business with loans diversified by geography, by industry, by product and by obligor. Little undesired concentrations, adequate asset quality, ample reserves and sufficient liquidity reflect 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 contain credit costs. In spite of changing external conditions and market volatility which affected the bank's investment portfolio valuation, Bancolombia's profitability has historically compared very well with its regional peers.

In spite of rapid growth into riskier segments and portfolio seasoning, Bancolombia's asset quality metrics showed signs of stabilization during 2012 and 1H'13 and remain sound, with past-due loans (90-day PDLs) reaching 1.5% at June 2013. Moreover, the bank maintains ample reserves that cover PDLs 3.1x.

Given its sizable market share the bank enjoys a well-diversified, stable and relatively low-cost deposit base providing flexibility to grow. In addition, the bank has proven access to local and global capital and debt markets. Accordingly, the loan-to-deposits ratio reached 109% at June 2013 as the bank actively uses capital markets to better match its assets and liabilities tenor profile.

Fitch's view of Bancolombia's creditworthiness is tempered by its heightened competitive environment and the execution risk that any merger or acquisition entails. In addition, the bank's acquisitions will somewhat stretch the bank's capital - Fitch expects Bancolombia's Fitch Core Capital ratio (FCC) to decline about 400 basis points (bps) on day one of the announced acquisition - but positive prospects in its two main markets, continued profitability and moderate organic growth should allow it to replenish its capital and bring FCC closer to 10% within a 24-30-month period.
On Feb. 19, 2013 Bancolombia announced that it would acquire 100% of the common shares and 90.1% of the preferred shares of HSBC's banking and insurance operations in Panama for $2.1 billion. In addition, Bancolombia announced on Dec. 18, 2012 that it would acquire 40% of the holding company of Banco Agromercantil (BAM) for $216 million through Bancolombia Panama (BP), a wholly owned subsidiary of Bancolombia.

The expected expansion of Bancolombia's activities in Panama through the acquisition of HSBC Panama will further enhance the 'core' characteristics of the Panamanian operations of Bancolombia in Panama and Central America.

In Fitch's opinion, the bank's expansion within Colombia and abroad would deepen its revenue diversification and support its revenues while a positive economic background fosters healthy growth. Bancolombia would maintain a strong balance sheet and performance while solvency metrics would gradually revert to the average of similarly rated peers.

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 considered moderate and reflected in its sovereign rating ('BBB-' with a Positive Outlook).

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 reflecting a potentially higher loss in the event of default given its subordinated nature.

RATING SENSITIVITIES

VIABILITY AND ISSUER DEFAULT RATINGS
Bancolombia's VR and IDRs may be negatively affected if the bank fails to replenish its FCC according to the expected projections (expected FCC Ratio of around 10% by 2015), an unexpected deterioration of its impaired loans ratio above 4%, or a reduction of its ample loan loss coverage. In addition, a weaker profitability below the recent average (ROAA around 1.7%) could hinder its ability to replenish its capital base and may trigger a negative rating action.

Bancolombia's IDRs and VRs would be upgraded if the bank completes uneventful mergers and is able to sustain its performance while maintaining its sound balance sheet and restoring its FCC ratio toward the median of similarly rated banks.

Even when integration risk of the acquired entities exists, as it does in any other M&A transaction, a solid history of successful integration in Colombia and abroad and the good financial profile of the acquired entity suggests that these risks are manageable for Bancolombia. Alternatively, a failure to duly integrate the acquired business may trigger a negative rating action on Bancolombia's VR and IDRs.

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.

Fitch has affirmed the following ratings for Bancolombia S.A.:

--Long-term foreign currency IDR at 'BBB'; Outlook Stable;
--Short-term foreign currency IDR at 'F2';
--Long-term local currency IDR at 'BBB'; Outlook Stable;
--Short-term local currency IDR at 'F2';
--Viability rating at 'bbb';
--Support rating at '3';
--Support rating floor at 'BB+';
--Senior unsecured debt at 'BBB'.
--Subordinated debt at 'BBB-';
--National long-term rating at 'AAA(col)'; Outlook Stable
--National short-term rating at 'F1+(col)';
--Multiples y sucesivas emisiones de bonos ordinarios de Bancolombia con cupo global por $1.5 billones National rating at 'AAA(col)'.

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Applicable Criteria and Related Research:
--Global Financial Institutions Rating Criteria' (Aug. 15, 2012);
--'National Ratings Criteria' (Jan. 19, 2011);
--'Rating FI Subsidiaries and Holding companies' (Aug. 10, 2012);
--'Assessing and Rating Bank Subordinated and Hybrid Securities' (Dec. 05, 2012).

Applicable Criteria and Related Research:
Assessing and Rating Bank Subordinated and Hybrid Securities
Rating FI Subsidiaries and Holding Companies
National Ratings Criteria
Global Financial Institutions Rating Criteria

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