Fitch Maintains Rating Watch Negative on Bancolombia and Related Entities' Ratings

Fitch Ratings-New York-18 July 2016: Fitch Ratings has maintained Bancolombia S.A. and certain foreign subsidiaries' selected international ratings on Rating Watch Negative. At the same time, Fitch has affirmed other Bancolombia ratings, as well as some of its subsidiaries', which are not directly affected by the watch status. A full list of rating actions is at the end of this release.

Affected related subsidiaries are:

--Bancolombia Panama S.A. (BP)
--Bancolombia Puerto Rico International Inc. (BPR)
--Banistmo S.A.

The ratings remain on Rating Watch Negative pending further review of the bank's recapitalization plans. Fitch will resolve the Rating Watch Negative after assessing the evolution of Bancolombia's capital metrics for consistency with the current rating levels.

KEY RATING DRIVERS - BANCOLOMBIA
IDRS, VR, NATIONAL RATINGS AND SENIOR DEBT RATINGS
Bancolombia's capital ratios declined in 2015 due to changes in the accounting standards (IFRS was introduced starting 2015), the significant depreciation of the local currency, which boosted its USD denominated risk-weighted assets and USD denominated goodwill deduction from Fitch Core Capital (FCC), as well as the consolidation of Grupo Agromercantil Holding as a result of an increase in Bancolombia's majority stake. While Fitch expected a slight decline in the bank's capital ratios due to continued growth, the FCC ratio fell to 7.16% at March 2016 (December 2014: 10.1%), a metric that is not consistent with the current rating levels.

Moderate growth, expected higher margins, increased retained earnings and Colombian peso stability are the main assumptions for Bancolombia recapitalization plan. According to Fitch's projections, Bancolombia's slower growth and sustained internal capital generation, could aid in rebuilding its capital ratios over the next year amid a stable economic environment and less volatile exchange rates, which is Fitch's baseline scenario. Nevertheless, Fitch does not expect capitalization to return to levels reported in 2014 during this period.

In 2015, profitability ratios were slightly better than in 2014 given resilient margins, significant loan growth, and the 32% depreciation of the Colombian peso that resulted in foreign exchange gains and significant gains on forward contracts in foreign currency. Operational profits will keep increasing steadily, allowing the bank to boast competitive profitability ratios.

Asset quality indicators have broadly been stable through the cycles, in part benefiting from rapid loan growth. However, a few large exposures in the commercial sector led to a modest deterioration over 2015. Given Bancolombia's conservative credit-risk culture, Fitch expects the bank to maintain asset-quality ratios in line with its current rating level and similar to regional peer medians. Nevertheless, loan quality indicators will be slightly weaker than other large Colombian banks.

Bancolombia's successful franchise, distribution network and its reputation as a longstanding, conservative institution, support a well-diversified, stable and relatively low-cost funding base. In addition,
Bancolombia has proven access to local and global capital and debt markets. Accordingly, the loan-to-deposits ratio reached 124% at December 2015, as Bancolombia actively uses capital markets to better match its assets and liabilities tenor profile.

Bancolombia boasts a well-balanced business with loans diversified by geography, industry, product and obligor. The bank has few undesired concentrations, robust asset quality, ample reserves and sufficient liquidity.

SUPPORT RATING AND SUPPORT RATING FLOOR
Fitch has assigned a Support Rating of '2' and Support Rating Floor of 'BBB-', reflecting the agency's estimation of a high probability of sovereign support should it be required, given the bank's systemic importance. The ability of the sovereign to provide support is based in its 'BBB'/'BBB+'/Outlook Stable IDR.

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.

KEY RATING DRIVERS - BP, BPR AND BANISTMO
IDRS, NATIONAL RATINGS and SENIOR DEBT
BP, BPR and Banistmo's IDRs and BPR's national ratings reflect the potential support they would receive from their main shareholder, Bancolombia S.A., should it be required. Therefore, these entities' IDRs and BP's senior debt are aligned with those of Bancolombia and mirror the Rating Watch Negative of their parent's IDRs.

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

RATING SENSITIVITIES - BANCOLOMBIA
IDRS, VR, and SENIOR DEBT
The bank's IDR, VR and senior debt ratings are sensitive to a change in Fitch's assumptions regarding capitalization. While there is no upside potential given the recent deterioration in the bank's capital position, Bancolombia's ratings could be affirmed if the bank can successfully restore its capital buffers. As Bancolombia's IDRs, VR and senior debt ratings are above those of the sovereign, any negative rating action on the sovereign would also lead to a similar action on Bancolombia's ratings.

An unexpected deterioration of Bancolombia's impaired loans ratio above 4% or a significant reduction of its ample loan loss coverage may also trigger a negative rating action on its VR and IDRs. A dismal performance (operating ROAA consistently below 1.5%) and/or severely weaker asset quality that pressures loan loss provisions and further erodes the bank's capital (FCC ratio sustained below 10%) could also lead to a downgrade of 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.
NATIONAL RATINGS
Bancolombia's national scale ratings are not affected due to Rating Watch Negative on IDRs, because Fitch's baseline scenario is that a potential downgrade in the Bancolombia's ratings, if any, would be limited to one notch, a scenario that would not alter such national scale ratings.

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

NATIONAL RATINGS
The national scale ratings of these entities are not affected due to Bancolombia's Rating Watch Negative, because Fitch’s baseline scenario is that a potential downgrade in the Bancolombia’s ratings, if any, would be limited to one notch, a scenario that would not alter such national scale ratings.

SENIOR AND SUBORDINATED DEBT
Senior and subordinated debt could be downgraded in the same magnitude of a potential downgrade in Bancolombia's IDRs.

Fitch has maintained the following ratings on Rating Watch Negative:

Bancolombia
--Long-Term Foreign Currency IDR 'BBB+';
--Short-Term Foreign Currency IDR 'F2';
--Long-Term Local Currency IDR 'BBB+';
--Short-Term Local Currency IDR at 'F2';
--Viability Rating 'bbb+';
--Senior unsecured debt 'BBB+';
--Subordinated debt 'BBB'.

Bancolombia Panama
--Long-Term IDR 'BBB+';
--Short-Term IDR 'F2';
--Long-Term Deposits 'BBB+';
--Short-Term Deposits at 'F2'.

Bancolombia Puerto Rico
--Long-Term IDR 'BBB+';
--Short-Term IDR at 'F2';

Banistmo
--Long-Term IDR 'BBB+';
--Short-Term IDR at 'F2'.

Fitch has affirmed the following ratings:

Bancolombia
--National long-term rating at 'AAA(col)', Outlook Stable;
--National short-term rating at 'F1+';
--Support rating at '2';
--Support rating floor at 'BBB-';
--COP1.5 billion program senior unsecured issuances' national rating affirmed at 'AAA(col)';

https://www.fitchratings.com/site/pressrelease?id=1009088
--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 senior unsecured issuances' national rating affirmed at 'AAA(col)';
--COP3 billion program subordinated issuances' national rating affirmed at 'AA+(col)'.

Bancolombia Panama
--Support rating at '2';

Bancolombia Puerto Rico
--National long-term rating at 'AAA(col)', Outlook Stable;
--National short-term rating at 'F1+';
--Support rating at '2'.

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Applicable Criteria
Global Bank Rating Criteria (pub. 15 Jul 2016)

Additional Disclosures
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