Rating Action: Bancolombia S.A.

Moody's upgrades Bancolombia's BFSR to D+; outlook changed to stable

New York, May 12, 2009 -- Moody's Investors Service upgraded Bancolombia S.A.'s bank financial strength rating (BFSR) to D+, from D. The outlook on the BFSR was changed to stable, from positive. At the same time, the bank's long- and short-term local currency deposit ratings of Baa2 and Prime-3, as well as the long- and short-term foreign currency deposit ratings of Ba2 and Not Prime, were affirmed. The bank's foreign currency subordinated debt rating of Baa3 was also affirmed with a stable outlook.

The upgrade of the bank's BFSR was based on the bank's improved financial fundamentals and franchise value, as well as the successful integration of Banco Agrícola, S.A. (Banagrícola) of El Salvador. Through this process, Bancolombia has continued to generate stable core earnings, supported by an ample net interest margin and improved operating efficiency.

Moody's said that Bancolombia maintains a strong franchise in all areas of traditional banking, as the largest bank in both Colombia and El Salvador. The bank holds leading positions in retail banking and commercial lending, with a broad and stable core deposit base. In Colombia, the bank has defended its market share of 19% of deposits and 22% of gross loans, as of year-end 2008. In El Salvador, Banagrícola maintained its largest market shares by far of 30% in loans and deposits, with solid profitability and asset quality indicators through the first quarter of 2009.

The rating agency noted it expects Bancolombia to be challenged by less favorable credit and macroeconomic environments in 2009. Colombia's GDP growth is expected to slow down to slightly above zero, from 2.5% in 2008. The decline in economic growth should further stress the bank's asset quality, which is nevertheless supported by proactive risk management and solid reserve coverage. During the first quarter of 2009, Bancolombia also reported higher earnings in line with loan and fee expansion though marked by higher credit costs.

Moody's also noted that while Bancolombia's tier one ratio is weaker than that of peers in Latin America, its capitalization has been supported by the bank's good earnings generation and retention, as well as capitalization of reserves. Further acquisitions could however put undue pressure on capital levels, said the agency.

Moody's last rating action on Bancolombia was on June 19, 2008 when the foreign currency deposit and subordinated debt ratings were upgraded to Ba2 and Baa3, respectively, as a result of the upgrade of Colombia's foreign currency ceilings for deposits and debt.

The principal methodologies used in rating this bank were "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found at www.moodys.com in the Credit Policy and Methodologies directory, in the Ratings Methodology subdirectory. Other methodologies and factors that may have been considered in the process of rating this bank can also be found in the Credit Policy & Methodologies directory.

Bancolombia is headquartered in Medellín, Colombia. As of March 31, 2009, the entity had US$25.5 billion in assets and US$2.4 billion in shareholders' equity. Banagrícola represented 15% of Bancolombia's consolidated assets and 11% of net income for the first quarter of 2009.

The following ratings were affected:

Bank financial strength rating, upgraded to D+, from D, stable outlook

Long term local currency deposit rating of Baa2, affirmed

http://v2.moodys.com/moodys/cust/research/MDCdocs/12/2007400000608015.asp?named...
Short term local currency deposit rating of Prime-3, affirmed

Long term foreign currency deposit rating of Ba2, affirmed

Short term local currency deposit rating of Not Prime, affirmed

Long term foreign currency subordinated debt rating of Baa3, affirmed

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