Fitch Ratings

Fitch Affirms Bancolombia and Related Entities' Ratings; Outlook Stable

Fitch Ratings-New York-21 June 2018: Fitch Ratings has today affirmed the international ratings for Bancolombia S.A., certain local and foreign subsidiaries, and a related entity. 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.

KEY RATING DRIVERS - BANCOLOMBIA
IDRS, VR, NATIONAL RATINGS AND SENIOR DEBT RATINGS
Bancolombia's VR is highly influenced by Fitch's assessment on the operating environment of the jurisdictions in which the bank's businesses are performed. Additionally, Bancolombia's ratings consider its robust company profile and generally good financial performance, although capital adequacy metrics continue to compare unfavorably with similarly rated international peers (emerging market commercial banks in the 'bbb' rating category).

A declining interest rate environment in Colombia, lackluster loan growth and weaker asset quality due to a deceleration in economic growth, drove Bancolombia's operating profit to risk weighted assets ratio (1.9% at 1Q18) to its lowest level reported since 2015. These factors were somewhat offset by healthy contributions from fee income and controlled operating costs. Fitch believes that Bancolombia's performance could continue to be affected by the challenges associated with improving its asset quality as it follows a more conservative risk focus in terms of growth, particularly in large corporates and retail.

Bancolombia's consolidated asset quality ratios deteriorated significantly in 2017 and 1Q18, reflecting the impact of a weaker economy on the wholesale and retail portfolios. As was the case at other large Colombian banks, exposure to specific corporate names in the infrastructure, energy and natural resources sectors hit Bancolombia's loan quality. The bank's past-due loans greater than 90 days (PDLs) ratio increased to 3.08% at 1Q18 from 2.22% at 1Q17. Bancolombia's asset quality ratios now compare unfavorably to those of other large Colombian banks and similarly rated regional peers, but remain in line with its current rating level.
Bancolombia's low capitalization compared to its peers remains its main credit weakness. Low asset growth, less volatile exchange rates, and earnings retention boosted Bancolombia's capital ratios in 2017. The bank's FCC ratio increased to 10.4% of risk weighted assets at YE17 from 9.5% at YE16. Nevertheless, asset quality deterioration drove a significant increase in risk weighted assets during 1Q18, and as a result the bank's FCC ratio declined to 9.6%. Fitch expects that the forthcoming adoption of Basel III guidelines in Colombia will generally benefit Colombian banks capital ratios by between 150 and 350 bps due to a lower risk weighted assets density, increased capital buffers and more comparable capital definitions.

Bancolombia's funding and liquidity are commensurate to its rating level. Bancolombia benefits from a well-diversified and low cost deposit base and has the highest deposit market share in the country across all major products, including demand, savings and time deposits. Bancolombia has proven access to local and global capital and debt markets. Accordingly, the loan-to-deposits ratio reached 121.6% at December 2017 as Bancolombia actively uses capital markets to better match its assets and liabilities term profile. At YE17, the bank's liquid assets covered 19% of total deposits and short-term funding.

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'/Rating Outlook Stable IDRs.

SUBORDINATED DEBT
Bancolombia's plain vanilla 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.

The local Tier II capital subordinated notes are rated two notches below Bancolombia's VR of 'bbb' and reflect loss severity exclusively. There is no notching due to incremental non-performance risk. Notwithstanding, these securities rank pari passu with other existing subordinated indebtedness and the loss severity notching is wider on the proposed notes due to the existence of a full write-down feature, which is not contained in other outstanding subordinated debt.

KEY RATING DRIVERS - BP, BPR, TUYA, FIDUCOLOMBIA AND VB
IDRs, NATIONAL RATINGS, and SENIOR DEBT
Bancolombia Panama SA (BP), Bancolombia Puerto Rico Internacional Inc. (BPR), 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 Bancolombia, should it be required. In Fitch's view, these entities are an integral part of its parent's business model and core to its strategy; therefore, their ratings mirror those of Bancolombia. Fitch also incorporates in its support view the negative reputational implications of a potential default of BP, BPR, Fiducolombia and VB for the parent. In the case of Tuya, Fitch also considers the support track record of the parent toward the entity.

SUPPORT RATINGS
Fitch believes Bancolombia's willingness to support BP and BPR is substantial, should it be required, given that they are core to the parent's business strategy and regional expansion. This 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 if the bank is not able to sustain a FFC ratio of around 10%. 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 on 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 subordinated debt ratings are sensitive to a change in Bancolombia's VR. The ratings are also sensitive to a wider notching from the VR if there is a change in Fitch's view on the non-performance of these instruments on a going concern basis, which is not the baseline scenario.

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

NATIONAL RATINGS - Tuya, Fiducolombiana and VB
A negative change in the capacity or propensity of Bancolombia to provide support to Tuya, Fiducolombiana or VB could pressure creditworthiness.

SUPPORT RATINGS
BP and BPR'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 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 '2';  
--Support Rating Floor at 'BBB-';  
--Senior unsecured debt at 'BBB';  
--Subordinated debt at 'BBB-';  
--Subordinated debt at 'BB+';  
--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 at 'AA+(col)'.  
--Subordinated debt national rating at 'AA(col)'.

Bancolombia Panama
--Long-Term IDR at 'BBB'; Outlook Stable;  
--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 Stable;  
--Short-Term IDR at 'F2';
--Support Rating 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**

Bank Rating Criteria (pub. 23 Mar 2018)
(https://www.fitchratings.com/site/re/10023430)
National Scale Ratings Criteria (pub. 07 Mar 2017)
(https://www.fitchratings.com/site/re/895106)
Non-Bank Financial Institutions Rating Criteria (pub. 22 Mar 2018)
(https://www.fitchratings.com/site/re/10023420)

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