Fitch Ratings-New York-22 June 2009: Fitch Ratings has affirmed Bancolombia's long- and short-term Issuer Default Ratings (IDRs) and outstanding debt ratings as follows:

--Long-term foreign currency IDR at 'BB+';
--Short-term foreign currency IDR at 'B';
--Long-term local currency IDR at 'BB+';
--Short-term local currency IDR at 'B';
--Individual at 'C/D';
--Support at '3';
--Support Floor at 'BB-'.

At the same time the rating for Bancolombia's subordinated debt maturing May 2017 was affirmed at 'BB'. The Rating Outlook is Stable.

Bancolombia's ratings reflect its dominant franchise, diversified loan portfolio and revenues, ample deposit base, strong earnings generation and sound management. They also factor in the stretched capital, deteriorating asset quality and increased provision requirements.

Upward potential for Bancolombia's IDRs is contingent upon its ability to navigate the crisis maintaining reasonable asset quality and a performance that gradually restores its capital. Should asset quality deteriorate, performance decline or capital weaken, there would be significant downward pressure on Bancolombia's ratings.

Given the size and systemic importance of Bancolombia, there is - in Fitch's opinion - a moderate probability of support from Colombia's Central Bank whose ability to provide such support is reflected in Colombia's Sovereign rating (rated 'BB+' with a Stable Outlook by Fitch).

Facing a significantly deteriorated economic backdrop, the bank adjusted its strategy focusing on efficiency and service rather than growth. Bancolombia's performance was driven by strong loan growth mainly during first-half 2008 (1H’08). Additionally, resilient margins compensated for still growing operating expenses and higher loan loss provisions; profitability remained fairly stable but is likely to decline. Banco Agricola (BA, Bancolombia's largest subsidiary abroad) continues growing and has cemented its competitive position as large global banks froze their operations in El Salvador; BA's performance has exceeded expectations.

Loan growth was mostly driven by corporations which turned back to local banks in the aftermath of the credit crunch. Sustained credit demand underpinned interest revenues and offset higher funding costs caused by the contractive economic policy (1H’08). As the economic policy has eased, funding costs have started to decline and the bank curbed loan growth tightening consumer and corporate lending criteria.

Bancolombia's loan portfolio quality declined but remains reasonable considering the global crisis; reserves appear adequate and have been sustained. The loan portfolio shows adequate diversification and deposits are widely based and diversified. Regulatory capital ratios were sustained - in spite of a more stringent regulation - through plain vanilla subordinated bonds which receive no equity credit according to Fitch's methodology; hence the bank's capital appears somewhat stretched.

Future growth should be modest and margins are expected to remain stable in the short run. Operating costs should decline in relative terms but pressure from loan loss provisions will continue. Accordingly, profitability should suffer as the bank sustains reserves to cope with higher delinquency. Capital ratios could see some decline but lower growth should result in some stability.
Bancolombia is Colombia's largest bank boasting about 23% of the system's assets at March 2009. A universal bank active in corporate, SME and retail, Bancolombia acquired El Salvador's largest bank (Banco Agricola, rated BB+ with a negative outlook by Fitch); Bancolombia is controlled by a conglomerate of companies informally known as Grupo Empresarial Antioqueno.

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