Fitch Ratings-New York-26 June 2012: Fitch Ratings has today upgraded Bancolombia's Issuer Default Ratings (IDRs) to 'BBB' from 'BBB-'. The Rating Outlook has been revised to Stable from Positive. A complete list of rating actions is included at the end of this press release.

Bancolombia's Viability Rating and IDRs were upgraded as the bank sustained its strong performance while maintaining solid asset quality metrics, ample loan loss reserves and adequate capital. In addition, the bank's continued expansion within Colombia and into Central and South America deepen its revenue diversification and underpin its revenues while a positive economic background fosters healthy growth. Bancolombia's strong balance sheet and performance and solvency metrics compare well with similarly rated peers.

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 Stable Outlook).

In the medium term, Bancolombia's IDRs and viability ratings would be upgraded if the bank is able to sustain performance while maintaining its sound balance sheet in terms of diversification, reasonable asset quality and capital/reserves cushion.

The ratings would be pressured downward if asset quality deteriorates beyond reasonable levels, performance declines significantly, and/or the bank's capital/reserves cushion weakens.

Bancolombia is a top contender in its core markets (21% market share by assets in Colombia, 30% in El Salvador) and an increasingly active competitor in Central and South America although these operations do not yet represent a big part of their business. 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 mirror a well-diversified deposit base and proven access to capital markets to procure long-term funding and enhance its ample and stable deposit base. Moreover, the bank consistently improved its capital.

Strong earnings generation, resilient margins and well controlled operating costs contributed to Bancolombia's performance while sound asset quality and adequate risk management contained credit cost. In spite of changing external conditions, Bancolombia's profitability (ROAA over 2%) compared well with its regional peers.

In spite of rapid growth into riskier segments and portfolio seasoning, Bancolombia's asset quality metrics show stabilization signs during 2Q'12 and remain sound with past due loans (PDLs) reaching 2.7% at March 2012 (1.36% for 90-day PDLs). This reflects the positive economic background and adequate remedial processes. Moreover, the bank maintains ample reserves that cover PDLs 1.75x.
Given its sizable market share the bank enjoys a well-diversified, stable and relatively low cost deposit base. Besides the cross-selling potential that has yet to be fully exploited, this base underpins the bank's margins and provides flexibility to grow. In addition, the bank has proven access to local and global capital and debt markets.

Considering Colombia's solid growth momentum and low banking penetration, Bancolombia should continue to grow and leverage its franchise to achieve higher revenues and better cross-selling. The bank should maintain a healthy balance sheet while its profitability remains stable. Synergies and increased efficiency from its organizational overhaul could further underpin its performance and solvency.

The U.S.'s frail recovery, China's slowdown or Europe's continued woes may end up tarnishing Bancolombia's otherwise rosy prospects. Fitch expects that the bank will maintain a vigilant eye and steadfast risk management discipline to face any gathering storms.

Fitch has taken the following rating actions on Bancolombia:

--Long-term foreign currency IDR upgraded to 'BBB' from 'BBB-'; Outlook revised to Stable from Positive;
--Short-term foreign currency IDR upgraded to 'F2' from 'F3';
--Long-term local currency IDR upgraded to 'BBB' from 'BBB-'; Outlook revised to Stable from Positive;
--Short-term local currency IDR upgraded to 'F2' from 'F3';
--Viability Rating upgraded to 'bbb' from 'bbb-';
--Support Rating affirmed at '3';
--Support Rating Floor affirmed at 'BB+';
--National Scale Long Term Rating affirmed at 'AAA(col)';
--National Scale Short Term Rating affirmed at 'F1+(col)'.
--Senior unsecured debt upgraded to 'BBB' from 'BBB-';
--Subordinated debt upgraded to 'BBB-' from 'BB+';
--National Ratings Senior Unsecured Bonds affirmed at 'AAA(col)'
--National Ratings Subordinated Bonds affirmed at 'AA+(col)'

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by,
or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Global Financial Institutions Rating Criteria', Aug. 16, 2011;

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
Rating Bank Regulatory Capital and Similar Securities

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