Fitch Downgrades Bancolombia and Related Entities' Ratings; Outlook Negative

Fitch Ratings-New York-17 August 2016: Fitch Ratings has downgraded the international ratings for Bancolombia S.A. and certain related foreign subsidiaries. Bancolombia's Viability Rating (VR) andIssuer Default Ratings (IDRs) were downgraded to 'bbb' and 'BBB', respectively, after Fitch's review of the bank's financial profile.

The ratings had been placed on Rating Watch Negative on April 28, 2016, after the bank reported capital adequacy metrics that were weaker than Fitch's expectations. Following the downgrade, the ratings have been removed from Negative Watch. The Long-Term IDRs have been assigned a Negative Outlook, which is in line with Colombia's Sovereign Rating Outlook (see Fitch's rating action commentary "Fitch Reviews Colombia's Ratings; Applies Criteria Changes" dated July 22, 2016 and available on www.fitchratings.com).

In addition, Fitch has affirmed various Bancolombia and related subsidiaries ratings. A full list of rating actions follows at the end of this release.

The downgrade of Bancolombia and its related entities' selected international ratings reflects Fitch's updated view of the bank's intrinsic business and financial profile after the agency has assessed Bancolombia's plans to address capital metrics deterioration reported in recent quarters. The main elements of Bancolombia's rebuild of its capitalization plan includes moderate growth, expected higher margins, increased retained earnings, and projected Colombian peso stability.

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; however, the agency does not expect capitalization levels to return to those reported in 2014 in this period, which is the main drive of the downgrade. Moreover, the revised 'bbb' VR factors into Fitch's expectation that capital metrics should improve materially over the next 18 months from the current low levels; however, if not achieved, further negative actions could result as described in the "Ratings sensitivities" section of this release.

The Negative Rating Outlook on Bancolombia and its related entities' reflects the recent revision of Colombia's Rating Outlook to Negative from Stable. Fitch believes that given Bancolombia's weaker financial profile reflected in pressured capitalization metrics, it no longer warrants being rated above the sovereign, therefore, its Long-Term Rating Outlook now mirrors that of the sovereign.

KEY RATING DRIVERS - BANCOLOMBIA
IDRs, VR, NATIONAL RATINGS AND SENIOR DEBT RATINGS

Bancolombia's capital ratios declined in 2015 due to changes in accounting standards (International Financial Reporting Standard as 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 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 previous rating levels.

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 likely 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 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'/'BBB+'/Outlook Stable IDRs.

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, BANISTMO, TUYA, FIDUCOLOMBIA, LB AND VB

IDRs, NATIONAL RATINGS and SENIOR DEBT

Bancolombia Panamá SA (BP), Bancolombia Puerto Rico Internacional Inc. (BPR), Banistmo S.A. (Banistmo), Compañía de Financiamiento Tuya S.A. (Tuya), Fiduciaria Bancolombia S.A. (Fiducolombia), Leasing Bancolombia S.A.CFC (LB) and Valores Bancolombia S.A. (VB)'s ratings reflect the potential support they would receive from their main shareholder, Bancolombia, should it be required. Therefore, these entities’ ratings mirror those of Bancolombia.

SUPPORT RATINGS

Fitch believes Bancolombia's willingness to support BP, BPR and Banistmo is substantial should it be required, given they are core to the parent's business strategy and regional expansion. The support 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

Any negative rating action on the sovereign would also lead to a similar action on Bancolombia's IDRs, VR and senior debt ratings. Furthermore, further negative actions could also result if the bank is not able to rebuild its capital metrics to levels closer to a 10% FCC over the next 18 - 24 months, an impaired loans ratio consistently above 4%, or a weaker performance (operating ROAA relative to risk weighted assets consistently below 1.5%).

There is limited upside potential for Bancolombia's ratings given its capitalization metrics and the negative trend of the operating environment. However, significant progress on the bank's capital optimization plan and restoration of its capital buffers to levels consistently above 10% could support its ratings if the bank maintains its overall financial and business profile.

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 ratings of Bancolombia's subordinated debt would move in line with the bank's IDR.

RATING SENSITIVITIES - BP, BPR, Banistmo, Tuya, Fiducolombia, LB AND VB

IDRs

The IDRs of BP, BPR and Banistmo are support-driven and aligned with 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 Negative Outlook. Fitch's baseline scenario stipulates that a potential downgrade in Bancolombia's ratings, if any, would be limited to one notch, a scenario that would not alter the national scale ratings.

SENIOR DEBT

BP's senior debt could be downgraded correspondingly given a potential downgrade in Bancolombia's IDRs.

SUPPORT RATINGS

BP, BPR and Banistmo's SR would be affected if Fitch changes its assessment of its parents' willingness and/or ability to provide support.

Fitch has taken the following rating actions:

Bancolombia
--Long-Term Foreign Currency IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;
--Short-Term Foreign Currency IDR affirmed at 'F2'; removed from Rating Watch Negative;
--Long-Term Local Currency IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;
--Short-Term Local Currency IDR affirmed at 'F2'; removed from Rating Watch Negative;
--Viability Rating downgraded to 'bbb' from 'bbb+'; removed from Rating Watch Negative;
--Support Rating affirmed at '2';
--Support Rating Floor affirmed at 'BBB-';
--Senior unsecured debt downgraded to 'BBB' from 'BBB+'; removed from Rating Watch Negative;
--Subordinated debt downgraded to 'BBB-' from 'BBB'; removed from Rating Watch Negative;
--National Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;
--National Short-Term Rating affirmed at 'F1+';
--Senior unsecured debt national rating affirmed at 'AAA(col)';
--Subordinated debt national rating affirmed at 'AA+(col)'.

Bancolombia Panama
--Long-Term IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;
--Short-Term IDR affirmed at 'F2'; removed from Rating Watch Negative;
--Support Rating affirmed at '2';
--Long-Term Deposits downgraded to 'BBB' from 'BBB+'; removed from Rating Watch Negative;
--Short-Term Deposits affirmed at 'F2'; removed from Rating Watch Negative.
Bancolombia Puerto Rico
---Long-Term IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;
---Short-Term IDR affirmed at 'F2'; removed from Rating Watch Negative;
---National Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;
---National Short-Term Rating affirmed at 'F1+';
---Support Rating affirmed at '2'.

Banistmo
---Long-Term IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;
---Short-Term IDR affirmed at 'F2'; removed from Rating Watch Negative;
---National Long-Term Rating affirmed at 'AAA(pan)'; Outlook Stable;
---National Short-Term Rating affirmed at 'F1+(pan)';
---Support Rating affirmed at '2'.

Compania de Financiamiento Tuya
---National Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;
---National Short-Term rating affirmed at 'F1+'.

Fiduciaria Bancolombia
---National Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;
---National Short-Term Rating affirmed at 'F1+'.

Leasing Bancolombia
---National Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;
---National Short-Term Rating affirmed at 'F1+';
---Senior unsecured debt national rating affirmed at 'AAA(col)'.

Valores Bancolombia
---National Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;
---National Short-Term Rating affirmed at 'F1+'.

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Additional information is available on www.fitchratings.com.
Applicable Criteria
Global Bank Rating Criteria (pub. 15 Jul 2016)
Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016)
National Scale Ratings Criteria (pub. 30 Oct 2013)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1010502)

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