Fitch Ratings-New York-20 December 2012: Following the announcement of an agreement to acquire up to 75% of Banco Agromercantil (BAM, Guatemala), Fitch Ratings has today affirmed Bancolombia's Viability Rating (VR) at 'bbb' and its Issuer Default Rating (IDR) at 'BBB'. The Rating Outlook is Stable. Fitch has also affirmed the VR and IDR of Bancolombia Panama. A complete list of rating actions is provided at the end of this release.

Bancolombia announced on Dec. 18 that it would acquire 40% of the holding company of Banco Agromercantil (BAM) for $216 million. The bank has agreed to acquire up to 75% of the financial group over seven years. The total assets to be acquired (after getting a controlling stake) amount to about $2.3 billion and the transaction will be closed through Bancolombia Panama (BP), a wholly owned subsidiary of Bancolombia.

The acquisition is a new step in Bancolombia's expansion into the region and well in line with the company's policy of acquiring banks with significant market share, consistent performance and adequate management.

Given the modest size of the transaction for Bancolombia - the bank has $51.2 billion assets, $6.2 billion equity at September 2012 - the financial impact for the bank is quite limited. Furthermore, the bank will not immediately take control of BAM and future integration risk is mitigated by Bancolombia's extensive and successful experience in M&A, including the acquisition of Banco Agricola (El Salvador) in 2007.

According to Fitch's initial calculations, should the transaction be closed during 1Q13 (i.e. if Bancolombia takes control of 75% of BAM), Bancolombia's Fitch core capital ratio would decline by about 110-150bp but remain in the 11%-12% range and continue to compare well to that of similarly rated peers; profitability would barely be affected. For Bancolombia Panama, the transaction would mean (again if it were to close during 1Q13) a setback in the improvement of its tangible capital ratio bringing it back to the levels of early 2012, in the 6.5%-7% range, also aligned with the trend of banks with similar VR.

Banco Agromercantil is a mid-sized bank oriented to the corporate segment and enjoying a 7% market share by assets in Guatemala which is seen as a prime target market for Bancolombia in Central America. The bank has recently strengthened its capital, improved its asset quality and sustained a consistent performance within a relatively stable economic background.

In Fitch's opinion, the acquisition will consolidate Bancolombia's competitive position in the region and has the potential to contribute to its growth and performance in the coming years.

Bancolombia's VR is underpinned by its sound franchise, solid balance sheet, consistent performance, robust asset quality and reserves, ample deposit base and access to funding, and positive economic environment and prospects. Fitch’s view of Bancolombia's creditworthiness is tempered by its heightened competitive environment and the execution risk that any merger or acquisition entails.

Given Bancolombia's systemic importance, it is likely to receive support from the sovereign should it be required. Colombia's ability to provide such support is reflected in its sovereign rating ('BBB-/Outlook Stable) and underpins Bancolombia's support rating and support rating floor.

Bancolombia Panama's IDR reflects the support it would receive from its parent given its importance to Bancolombia's business and strategy in the region. Bancolombia Panama's VR is underpinned by its high efficiency, improved diversification, sound performance, improving asset
quality, adequate reserves, diversified funding and sound liquidity. Bancolombia Panama’s VR is limited by its relatively lower but improving capital.

In the medium term, Bancolombia's IDR's and viability ratings would be upgraded if the bank is able to sustain its performance while maintaining its sound balance sheet, including a non-eventful integration of Banco Agromercantil.

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 Panama's IDR's would move in line with those of its parent while its VR would benefit from stronger capital levels. A dismal performance that would erode its capital/reserve cushion would pressure its VR downwards.

Fitch has affirmed Bancolombia's ratings as follows:

--Long-term foreign currency Issuer Default Rating (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 '3';
--Support rating floor at 'BB+';
--Senior unsecured debt at 'BBB';
--Subordinated debt at 'BBB-';
--Long term national scale rating at 'AAA(Col)';
--Short term local national scale at 'F1+(Col)'.

Fitch has affirmed Bancolombia Panama's ratings as follows:

--Long-term foreign currency Issuer Default Rating (IDR) at 'BBB'; Outlook Stable;
--Short-term foreign currency IDR at 'F2';
--Viability rating at 'bb';
--Support rating at '2';
--Long Term Deposits at 'BBB'.
--Short Term deposits at 'F2'.

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