BANCOLOMBIA SA
Form 20-F/A
July 23, 2009

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 23, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F/A

AMENDMENT NO 2

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

Commission file number: 001-32535

BANCOLOMBIA S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant s name into English)

Republic of Colombia

(Jurisdiction of incorporation or organization)

Avenida Los Industriales Carrera 48 No. 26-85
Medellin, Colombia

(Address of principal executive offices)

Juan Esteban Toro Valencia, Investor Relations Manager
Avenida Los Industriales Carrera 48 No. 26-85, Medellín, Colombia
Tel. +574 440 1837, Fax. + 574 404 5146, e-mail: juatoro@bancolombia.com

(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each Class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Preferred Shares	New York Stock Exchange*

* Bancolombia s preferred shares are not listed for trading directly, but only in connection with its American Depositary Shares, which are evidenced by American Depositary Receipts, each representing 4 preferred shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not applicable

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares	**509,704,584**
Preferred Shares	**278,122,419**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934

Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other þ

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow

Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes o No þ

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the precedent 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS.)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes o No o

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EXPLANATORY NOTE

This Amendment No. 2 on Form 20-F/A (this "Amendment No. 2") amends the Bank's annual report on Form 20-F for the year ended December 31, 2007, filed with the Securities and Exchange Commission (the "SEC") on July 8, 2008 (the "original filing"). The Bank is filing this Amendment No. 2 to include under Item 18 the report relating to the financial statements of Banagrícola S.A. and its subsidiaries as of December 31, 2007 audited by PriceWaterhouseCoopers, S.A. The report of PriceWaterhouseCoopers, S.A. was included in the original filing but was inadvertently omitted from the Amendment No.1 on Form 20-F/A that was filed on June 29, 2009 ("Amendment No.1").

Additionally, the Bank amends Item 19 of the original filing by including as exhibit 15.1 the consent by PriceWaterhouseCoopers, S.A. to the incorporation by reference of their report to the registration statement in Form F-3 No. 333-142898 and by adding updated CEO and CFO certifications as exhibits 12.1, 12.2, 13.1 and 13.2.

The revisions mentioned above appear on the following pages or exhibits:

ITEM 18. FINANCIAL STATEMENTS

Page F-4 (Report of independent registered public accounting firm);

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ITEM 19. EXHIBITS

The following exhibits are filed as part of this Annual Report.

12.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated July 23, 2009.
12.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated July 23, 2009.
13.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 23, 2009.
13.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 23, 2009.
15.1	Consent of PriceWaterhouseCoopers, S.A.

Except for the certifications, this Amendment No. 2 speaks as of the filing date of the original filing. Other than as set forth above, this Amendment No. 2 does not, and does not purport to, amend, update or restate any other information or disclosure included in the original filing or reflect any events that have occurred after the filing date of the original filing. This amendment should be read in conjunction with the Bank s filings made with the SEC subsequent to the original filing, as information in such reports and documents may update or supersede certain information contained in this amendment. This amendment retains the page numbering of the original filing for ease of reference.

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PART III
FINANCIAL STATEMENTS

ITEM 18. FINANCIAL STATEMENTS

Reference is made to pages F 1 through F 149.

ITEM 19. EXHIBITS

The following exhibits are filed as part of this Annual Report.

1. (2)	English Translation of Corporate by-laws (estatutos sociales) of the registrant, as amended on March 01, 2007.
2. (1)	The Deposit Agreement entered into between Bancolombia and The Bank of New York, as amended.
4.1 (2)	Master Stock Purchase Agreement among Bancolombia (Panama) S.A. and the Majority Shareholders of Banagrícola S.A. and first amendment.
4.2 (2)	Byssa Stock Purchase Agreement among Bancolombia (Panama) S.A. and the Majority Shareholders Bienes y Servicios S.A.
4.3 (2)	English Summary of the Stock Sale Agreement among Bancolombia S.A. and Portal de Inversiones S.A.
7. (3)	Selected Ratios Calculation.
8.1 (3)	List of Subsidiaries.
11. (3)	English translation of the Ethics Code of the registrant, as amended on June 23, 2008.
12.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated July 23, 2009.
12.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated July 23, 2009.
13.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 23, 2009.
13.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 23, 2009.
15(a) (3)	English Translation of Corporate Governance Code (Código de Buen Gobierno) of the registrant, as amended on June 23, 2008.
15.1	Consent of PriceWaterhouseCoopers, S.A.

(1) Incorporated by reference to the Registration Statement in Form F-6, filed by Bancolombia on January 14, 2008.

(2) Incorporated by reference to the Bank s Annual Report on Form 20-F for the year ended December 31, 2006 filed on May 10, 2007.

(3) Incorporated by reference to the Bank s Annual Report on Form 20-F for the year ended December 31, 2007 filed on July 8, 2008.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Dated: July 23, 2009

BANCOLOMBIA S.A.

By: /s/ JAIME ALBERTO VELÁSQUEZ BOTERO

Name: Jaime Alberto Velásquez Botero.

Title: Chief Financial Officer

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Deloitte & Touche Ltda.
Edificio Corficolombiana
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of directors and shareholders of BANCOLOMBIA S.A.:

We have audited the accompanying consolidated balance sheets of Bancolombia S.A. and subsidiaries (the Bank) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Bank s management. Our responsibility is to express an opinion on the financial statements based on our audits. We did not audit the consolidated financial statements of Banagrícola, S.A. (a consolidated subsidiary acquired by the Bank on May 16, 2007) and its subsidiaries, which statements reflect total assets and income before taxes constituting 16.30% and 15.30%, respectively, of the related consolidated totals for the year ended December 31, 2007. Those statements, prepared in accordance with the accounting standards prescribed by the Superintendence of Financial System of EI Salvador, were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Banagrícola, S.A. and its subsidiaries on such basis of accounting, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements (including the Bank s conversion of the amounts in the financial statements of Banagrícola S.A. and its subsidiaries, prepared in conformity with accounting standards prescribed by the Superintendence of Financial System of El Salvador, to amounts in conformity with accounting principles generally accepted in Colombia and the regulations of the Colombian Superintendency of Finance (collectively Colombian GAAP) and accounting principles generally accepted in the United States of America (U.S. GAAP)). An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Bancolombia S.A. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with Colombian GAAP.

Colombian GAAP vary in certain significant respects from U.S. GAAP. Information relating to the nature and effect of such differences is presented in Note 31 to the consolidated financial statements.

Our audits also comprehended the translation of Colombian pesos amounts into U. S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2b. Such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bank s internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management excluded from its assessment the internal control over financial reporting of Banagrícola, S.A. and its subsidiaries which was acquired on May 16, 2007. Our report dated July 7, 2008, and June 25, 2009 as to the effects of the restatements discussed in Note 32, expressed an unqualified opinion on the Bank s internal control over financial reporting excluding Banagrícola, S.A. and its subsidiaries.

As discussed in Note 32, the accompanying financial statements have been restated.

/s/ Deloitte & Touche Ltda.

Medellin, Colombia

July 7, 2008 (June 25, 2009 as to the effects of the restatements discussed in Note 32)

PRICEWATERHOUSECOOPERS

Ave Samuel Lewis y

Calle 55 E

Apartado 0819-05710

El Dorado Panamá R. P.

Teléfono (507) 206-9200

Fax (507) 264-5527

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Banagrícola, S.A.

We have audited the accompanying consolidated balance sheets of Banagrícola, S.A. and its subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholder s equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banagrícola, S.A. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting standards prescribed by the Superintendence of Financial System of El Salvador as described in Note 2.

As described in Note 2, the accompanying consolidated financial statements have been prepared in conformity with accounting standards for controlling entities issued by the Superintendence of Financial Systems of El Salvador, which is a comprehensive basis of accounting other than International Financial Reporting Standards.

/s/ PriceWaterhouseCoopers

June 28, 2008

Panama, Republic of Panama

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of BANCOLOMBIA S.A.:

We have audited the internal control over financial reporting of Bancolombia S.A. and subsidiaries (the Bank) as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in the Management s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Banagrícola S.A. and its subsidiaries, which was acquired on May 16, 2007 and whose financial statements constitute 16.15% of total assets and 10.2% of income before taxes of the consolidated financial statement amounts as of and for the year ended December 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at Banagrícola S.A. and its subsidiaries. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes

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those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007 of the Bank and our report dated July 7, 2008 and June 25, 2009 as to the effects of the restatements discussed in Note 32, expressed an unqualified opinion on those financial statements and included explanatory paragraphs regarding to the nature and effect of differences between accounting principles generally accepted in Colombia and in the United States of America, and that our audit also comprehended the translation of Colombian Pesos amounts into U.S. dollars amounts in accordance with note 2b. of such consolidated financial statements.

/s/ Deloitte & Touche Ltda.
Medellin, Colombia
July 7, 2008 (except for the effects of the restatement discussed in Note 32 to which the date is June 25, 2009)

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BANCOLOMBIA S.A. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2006 and 2007
(Stated in millions of pesos and thousands of U.S. Dollars)

	Notes	*2006*	*2007*	*2007*(1) *U.S. Dollar*
Assets				
Cash and cash equivalents:				
Cash and due from banks	4	Ps 1,548,752	Ps 3,618,619	US$ 1,796,055
Overnight funds		457,614	1,609,768	798,987
Total cash and cash equivalents		**2,006,366**	**5,228,387**	**2,595,042**
Investment securities:	5			
Debt securities:		5,530,559	5,596,051	2,777,527
Trading securities		2,605,852	1,916,012	950,987
Available for sale		1,810,584	1,954,593	970,137
Held to maturity		1,114,123	1,725,446	856,403
Equity securities		224,787	253,747	125,944
Trading securities		61,640	93,125	46,221
Available for sale		163,147	160,622	79,723
Market value allowance		(77,585)	(75,547)	(37,496)
Total investment securities		**5,677,761**	**5,774,251**	**2,865,975**
Loans and financial leases:	6			
Commercial loans		16,028,505	23,397,058	11,612,827
Consumer loans		3,587,260	6,593,211	3,272,455
Small business loans		91,078	129,900	64,474
Mortgage loans		1,385,445	2,883,628	1,431,251
Financial leases		3,553,286	4,698,827	2,332,202
Allowance for loans and financial leases losses	7	(834,183)	(1,457,151)	(723,238)
Loans and financial leases, net		**23,811,391**	**36,245,473**	**17,989,971**
Accrued interest receivable on loans and financial leases:				
Accrued interest receivable on loans and financial leases		266,934	431,863	214,350
Allowance for accrued interest losses	7	(11,644)	(33,303)	(16,530)
Interest accrued, net		**255,290**	**398,560**	**197,820**

Customers acceptances and derivatives	8	166,395	196,001	97,283
Accounts receivable, net	9	562,598	716,106	355,430
Premises and equipment, net	10	712,722	855,818	424,774
Operating leases, net	11	167,307	488,333	242,378
Foreclosed assets, net	15	18,611	32,294	16,029
Prepaid expenses and deferred charges	12	46,462	137,901	68,445
Goodwill	14	40,164	977,095	484,968
Other	13	675,265	580,642	288,194
Reappraisal of assets	16	348,364	520,788	258,486
Total assets		**Ps 34,488,696**	**Ps 52,151,649**	**US$ 25,884,795**
Memorandum accounts	25	**Ps 153,080,705**	**Ps 182,209,139**	**US$ 90,437,143**

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BANCOLOMBIA S.A. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2006 and 2007
(Stated in millions of pesos and thousands of U.S. Dollars)

	Notes	*2006*	*2007*	*2007*[1] *U.S. Dollar*
Liabilities and Stockholders Equity				
Deposits				
Non-interest bearing:		Ps 4,580,649	Ps 5,804,724	US$ 2,881,100
Checking accounts		4,121,506	5,300,864	2,631,015
Other		459,143	503,860	250,085
Interest bearing:		18,635,818	28,569,426	14,180,064
Checking accounts		1,244,348	1,567,411	777,964
Time deposits		7,377,586	14,304,727	7,099,966
Savings deposits		10,013,884	12,697,288	6,302,134
Total deposits		**23,216,467**	**34,374,150**	**17,061,164**
Overnight funds		1,007,045	2,005,490	995,399
Bank acceptances outstanding		64,030	55,208	27,402
Interbank borrowings	17	1,066,845	1,506,611	747,787
Borrowings from development and other domestic banks [3]	18	2,449,581	3,344,635	1,660,066
Accounts payable		988,723	1,714,418	850,929
Accrued interest payable		190,121	286,627	142,264
Other liabilities	19	387,697	503,433	249,871
Long-term debt	20	1,302,702	2,850,730	1,414,923
Accrued expenses	21	119,984	218,860	108,628
Minority interest in consolidated subsidiaries		48,889	92,217	45,771
Total liabilities		**30,842,084**	**46,952,379**	**23,304,204**
Stockholders equity[2]	22, 24			
Subscribed and paid in capital:		430,684	460,684	228,655
Nonvoting preference shares		121,422	151,422	75,157
Common shares		309,262	309,262	153,498
Retained earnings:		3,063,136	4,446,527	2,206,976
Appropriated	23	2,313,607	3,359,604	1,667,496
Unappropriated		749,529	1,086,923	539,480
Reappraisal of assets	16	140,693	319,646	158,652
Gross unrealized net gain or loss on investments		12,099	(27,587)	(13,692)
Stockholders equity		**3,646,612**	**5,199,270**	**2,580,591**

Total liabilities and stockholders equity		**Ps 34,488,696**	**Ps 52,151,649**	**US$ 25,884,795**
Memorandum accounts	25	**Ps 153,080,705**	**Ps 182,209,139**	**US$ 90,437,143**

The accompanying notes, numbered 1 to 32, form an integral part of these Consolidated Financial Statements

(1) See note 2 (ff)

(2) A summary of significant adjustments to stockholders equity that would be required if U.S. GAAP had been applied is disclosed in Note 31.

(3) Included Domestic banks borrowings.

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BANCOLOMBIA S.A. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2005, 2006 and 2007

(Stated in millions of pesos and thousands of U.S. Dollars, except per share data)

	Note	*2005*[(2)]	*2006*	*2007*	*2007*[(1)] *U.S. Dollar*
Interest income:					
Interest on loans		Ps 2,050,274	Ps 2,312,525	Ps 3,707,751	US$ 1,840,294
Interest on investment securities		824,709	273,197	416,644	206,796
Overnight funds		33,629	43,863	115,324	57,240
Leasing		291,472	384,147	570,689	283,254
Total interest income		**3,200,084**	**3,013,732**	**4,810,408**	**2,387,584**
Interest expense					
Checking accounts		20,311	32,676	39,076	19,396
Time deposits		449,367	459,513	816,688	405,352
Saving deposits		241,889	264,381	461,437	229,028
Total interest expense on deposits		**711,567**	**756,570**	**1,317,201**	**653,776**
Interbank borrowings		54,630	94,872	109,843	54,518
Borrowings from development and other domestic banks		156,509	180,507	274,484	136,237
Overnight funds		73,910	100,876	131,127	65,083
Long-term debt		153,658	113,404	169,435	84,097
Total interest expense		**1,150,274**	**1,246,229**	**2,002,090**	**993,711**
Net interest income		**2,049,810**	**1,767,503**	**2,808,318**	**1,393,873**
Provision for loan, accrued interest losses and other receivables, net	7	(185,404)	(266,107)	(707,865)	(351,340)
Recovery of charged-off loans		61,829	70,746	89,997	44,669
Provision for foreclosed assets and other assets		(63,969)	(44,353)	(60,531)	(30,044)
Recovery of provisions for foreclosed assets and other assets		56,504	89,532	81,364	40,384
Total net allowances		**(131,040)**	**(150,182)**	**(597,035)**	**(296,331)**
		1,918,770	**1,617,321**	**2,211,283**	**1,097,542**

Net interest income after provision for loans and accrued interest losses

Commissions from banking services	101,355	162,273	324,352	160,986
Electronic services and ATMs fees	101,299	85,049	80,711	40,060
Branch network services	48,984	62,403	104,601	51,917
Collections and payments fees	56,670	74,708	130,421	64,733
Credit card merchant fees	10,076	8,150	39,191	19,452
Credit and debit card annual fees	205,606	238,898	258,937	128,520
Checking fees	54,846	60,083	67,438	33,472
Warehouse services	62,155	72,494		
Fiduciary activities	60,131	62,114	69,200	34,347
Pension Plan Administration			82,453	40,925
Brokerage fees	68,231	67,034	62,493	31,018
Check remittance	10,579	11,040	22,762	11,298
International operations	36,484	34,281	43,643	21,662

BANCOLOMBIA S.A. AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended December 31, 2005, 2006 and 2007
(Stated in millions of pesos and thousands of U.S. Dollars, except per share data)

	Note	*2005[2]*	*2006*	*2007*	*2007[1]* *U.S. Dollar*
Fees and other service income		**Ps 816,416**	**Ps 938,527**	**Ps 1,286,202**	**US$ 638,390**
Fees and other service expenses		**(48,087)**	**(70,866)**	**(116,453)**	**(57,800)**
Total fees and income from services, net		**768,329**	**867,661**	**1,169,749**	**580,590**
Other operating income:					
Net foreign exchange gains (expenses)		(53,361)	58,008	27,584	13,691
Forward contracts in foreign currency		141,055	45,073	141,930	70,445
Gains (losses) on sales of investments on equity securities		8,097	75,697	(15,034)	(7,462)
Gains on sale of mortgage loan			14,371	7,304	3,625
Dividend income		42,731	21,199	18,968	9,415
Revenues from commercial subsidiaries		45,020	40,323	101,148	50,203
Insurance income				8,013	3,977
Communication, postage, rent and others		10,406	16,762	17,572	8,722
Total other operating income		**193,948**	**271,433**	**307,485**	**152,616**
Total operating income		**2,881,047**	**2,756,415**	**3,688,517**	**1,830,748**
Operating expenses:					
Salaries and employee benefits		615,121	690,117	835,150	414,516
Bonus plan payments		26,826	35,771	84,226	41,804
Compensation		8,030	6,375	23,463	11,646
Administrative and other expenses	27	793,179	882,182	1,071,139	531,645
Deposit security, net		55,050	67,813	49,113	24,377
Donation expenses		615	22,596	15,375	7,631
Depreciation	10	87,633	104,553	122,835	60,968
Merger expenses		45,703	35,779		
Goodwill amortization		22,648	25,814	70,411	34,948
Total operating expenses		**1,654,805**	**1,871,000**	**2,271,712**	**1,127,535**
Net operating income		**1,226,242**	**885,415**	**1,416,805**	**703,213**

Non-operating (expense) income:									
Other income			109,770		194,589		126,796		62,933
Minority interest			(6,496)		(6,352)		(13,246)		(6,574)
Other expense			(105,120)		(149,243)		(81,549)		(40,476)
Total non-operating (expense) income	28		**(1,846)**		**38,994**		**32,001**		**15,883**
Income before income taxes			**1,224,396**		**924,409**		**1,448,806**		**719,096**
Income tax expense	21		(277,515)		(174,880)		(361,883)		(179,616)
Net income		**Ps**	**946,881**	**Ps**	**749,529**	**Ps**	**1,086,923**	**US$**	**539,480**
Earnings per share		**Ps**	**1,301**	**Ps**	**1,030**	**Ps**	**1,433**	**US$**	**0.71**

The accompanying notes, numbered 1 to 32, form an integral part of these Consolidated Financial Statements.

(1) See Note 2 (ff).

(2) The consolidated statement of operations for the year ended December 31, 2005 includes Conavi s and Corfinsura s results since the beginning of the year.

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BANCOLOMBIA S.A. AND SUBSIDIARIES
Consolidated Statements of Stockholders Equity

Years ended December 31, 2005, 2006 and 2007
(Stated in millions of pesos and thousands of U.S. Dollars, except share data)

	Non Voting Preference Shares		*Voting Common Shares*		*Retained Earnings*		*Surplus*		
	Number	*Par Value*	*Number*	*Par Value*	*Appro-priated*	*Unappro-priated*	*Reappraisal of assets*	*Gross unrealized gain or loss on investments available for sale*	*St*
, 2004	**178,435,787**	**Ps 101,579**	**398,259,608**	**Ps 253,540**	**Ps 1,010,481**	**Ps 578,678**	**Ps 42,237**	**Ps 104,208**	**Ps**
						946,881			
ings					578,678	(578,678)			
d es	39,686,634	19,843	111,444,976	55,722	160,646				
							(179,033)	31,690	
t					193,673		247,275	(12,650)	
clared					(216,838)				
					39,358				
, 2005	**218,122,421**	**Ps 121,422**	**509,704,584**	**Ps 309,262**	**Ps 1,765,998**	**Ps 946,881**	**Ps 110,479**	**Ps 123,248**	**Ps**
						749,529			
ings					946,881	(946,881)			
							30,214	(111,149)	
clared					(369,736)				
					(29,536)				
,2006	**218,122,421**	**Ps 121,422**	**509,704,584**	**Ps 309,262**	**Ps 2,313,607**	**Ps 749,529**	**Ps 140,693**	**Ps 12,099**	**Ps**
						1,086,923			
ings					749,529	(749,529)			

d es	59,999,998	30,000			897,612			
							178,953	(39,686)
clared					(403,164)			
					(197,980)			
,2007	**278,122,419**	**151,422**	**509,704,584**	**309,262**	**3,359,604**	**1,086,923**	**319,646**	**(27,587)**
,	**278,122,419**	**US$ 75,157**	**509,704,584**	**US$ 153,498**	**US$ 1,667,496**	**US$ 539,480**	**US$ 158,652**	**US$ (13,692) US**

The accompanying notes, numbered 1 to 32, form an integral part of these Consolidated Financial Statements.

(1) See note 2 (ff)

(2) The consolidated statement of operations for the year ended December 31, 2005, includes Conavi s and Corfinsura s results since the beginning of the year.

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BANCOLOMBIA S.A. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

Years ended December 31, 2005, 2006 and 2007
(Stated in millions of pesos and thousands of U.S. Dollars)

	2005	2006	2007	2007(1)
Cash flows from operating activities:				
Net income	Ps 946,881	Ps 749,529	Ps 1,086,923	US$ 539,480
Adjustments to reconcile net income to net cash used by operating activities:				
Depreciation	87,633	104,553	122,835	60,968
Amortization	77,111	42,905	110,076	54,635
Minority interest	5,862	(251)	43,328	21,505
Provision for loan, accrued interest and accounts receivable losses	395,369	600,273	1,268,241	629,475
Provision for foreclosed assets	44,665	22,044	35,783	17,760
Provision for losses on investment securities and equity investments	10,317	12,200	7,313	3,630
Provision for premises and equipment	302	914	2,925	1,452
Provision for other assets	1,825	1,600	7,914	3,928
Reversal of provision for investments	(5,330)	(27,593)	(20,722)	(10,285)
Reversal of provision for loans and accounts receivable	(220,224)	(334,082)	(560,241)	(278,069)
Reversal of provision for foreclosed assets	(45,445)	(54,298)	(52,995)	(26,304)
Reversal of provision for other assets	(3,943)	(880)	(244)	(121)
Reversal of provision for premises and equipment	(1,787)	(6,845)	(7,537)	(3,741)
Realized and unrealized (gain) loss on derivative financial instruments	(67,180)	15,449	(117,653)	(58,395)
Valuation gain on investment securities	(476,139)	(159,249)	(355,190)	(176,294)
Foreclosed assets donation	45	20,888	10,708	5,315
(Increase) in accounts receivable	(514,867)	(38,311)	(344,052)	(170,765)
Decrease (increase) in other assets	92,256	(187,584)	(1,336,181)	(663,196)
Increase (Decrease) in accounts payable	593,764	(253,531)	822,201	408,088
Increase (Decrease) in other liabilities	227,036	(72,270)	115,735	57,443
(Increase) in loans	(8,521,859)	(6,182,386)	(13,087,618)	(6,495,869)
Increase (Decrease) in estimated liabilities and allowances	59,210	(10,875)	98,876	49,076
Net cash used in operating activities	(7,314,498)	(5,757,800)	(12,149,575)	(6,030,284)
Cash flows from investing activities:				
	Ps (25,813)	Ps (47,520)	Ps 79,225	Ps 39,322

(Increase) Decrease in customers acceptances				
Proceeds from sales of premises and equipment	92,815	23,284	15,280	7,584
Proceeds from sales of foreclosed assets	98,090	61,791	71,811	35,643
Proceeds from sales of investments		29,934	43,200	21,442
(Purchases) of premises and equipment	(589,212)	(230,992)	(590,568)	(293,121)
(Purchases) sales of investment securities	(2,719,300)	2,815,501	189,224	93,919
Net cash (used in) provided by investing activities	(3,143,420)	2,651,998	(191,828)	(95,211)

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BANCOLOMBIA S.A. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

Years ended December 31, 2005, 2006 and 2007
(Stated in millions of pesos and thousands of U.S. Dollars)

	2005	*2006*	*2007*	*2007*[(1)]
Cash flows from financing activities:				
Dividends declared	(216,838)	(369,736)	(403,163)	(200,105)
Increase in deposits	6,522,866	4,831,484	11,157,682	5,537,971
Increase (decrease) in long-term debt	1,095,781	(345,610)	1,548,028	768,344
Increase (decrease) in overnight funds	713,419	(322,868)	998,445	495,565
Increase (decrease) in interbank borrowings and borrowings from development and other domestic banks	2,823,352	(411,124)	1,334,820	662,520
Issuance of preference and commons shares			30,000	14,890
Retained earnings (additional paid-in capital)			897,612	445,518
Net cash provided by financing activities	10,938,580	3,382,146	15,563,424	7,724,703
Increase in cash and cash equivalents	480,662	276,344	3,222,021	1,599,208
Cash and cash equivalents at beginning of year	1,249,360	1,730,022	2,006,366	995,834
Cash and cash equivalents at end of year	Ps 1,730,022	Ps 2,006,366	Ps 5,228,387	US$ 2,595,042
Supplemental disclosure of cash flows information:				
Cash paid during the year for:				
Interest	Ps 1,033,420	Ps 1,238,419	Ps 1,905,585	US$ 945,812
Income taxes	Ps 190,014	Ps 161,967	Ps 122,477	US$ 60,790

The accompanying notes, numbered 1 to 32, form an integral part of these Consolidated Financial Statements.

(1) See note 2 (ff).

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BANCOLOMBIA S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(*Stated in millions of pesos and thousands of U.S. dollars*)

(1) Organization and Background

Bancolombia S.A., previously known as Banco Industrial Colombiano S.A. is a private commercial bank incorporated under Colombian law on January 24, 1945. On April 3, 1998, Banco Industrial Colombiano S.A. merged with Banco de Colombia S.A. and the surviving entity was renamed Bancolombia S.A. The registered office and business address of Bancolombia S.A. is in Medellín, Colombia. Bancolombia S.A. and its subsidiaries are defined as the Bank.

On July 30, 2005, Conavi Banco Comercial y de Ahorros S.A. (Conavi) and Corporación Financiera Nacional y Suramericana S.A. (post-spin off) (Corfinsura) were merged into Bancolombia S.A. (the Conavi/Corfinsura merger). The Conavi/Corfinsura merger was approved at Bancolombia S.A. s ordinary shareholders meeting held on March 28, 2005 and was also duly approved at the annual shareholder meetings of Conavi and Corfinsura, respectively. The Superintendency of Finance approved the transaction on July 19, 2005. The Conavi/Corfinsura merger was formalized and registered in the Commercial Registry of the Medellín Chamber of Commerce on August 1, 2005. As a result of the Conavi/Corfinsura merger, Bancolombia S.A. acquired the entire property, rights and obligations of Conavi and Corfinsura, entities which were dissolved without being liquidated.

On March 1, 2007 Bancolombia S.A. s shareholders approved an amendment to its bylaws, which extended the number of directors serving on Bancolombia s Board of Directors to a total of nine (9) and eliminated substitute members.

Bancolombia S.A. s business purpose is to carry out all operations, transactions, acts and services inherent to the banking business, through banking establishments that carry its name and according to all applicable legislation.

The Bank had 24,836 employees of which 12,906 were employed directly by Bancolombia S.A. and operates through 888 branches, 57 Non-Banking Correspondent (*Corresponsales no Bancarios*) and 240 mobile branches (*Puntos de Atención Móviles)* in Colombia. Bancolombia S.A also has an agency in Miami, Florida, United States of America and a representation office in Madrid, Spain.

In May 2007, Bancolombia S.A. through its subsidiary Bancolombia Panamá S.A. acquired 89.15% of the Banagrícola S.A. (Banagrícola). Banagrícola s shareholders agreed to sell 16,817,633 of the total 18,865,000 outstanding shares. The purchase price was US$47.044792 per share for a total of US$ 791,182. Simultaneously with the acquisition, the Bank had signed an agreement with Bienes y Servicios S.A (BYSSA), former major Banagrícola s shareholder, which included a call and written put option. The options were exercised in December 2007 and as a consequence the Bank acquired the shares representing 9.59% of interest in Banagríola. Bancolombia Panamá S.A. has continued purchasing shares from Banagrícola s minority shareholders and at December 31, 2007 held an interest of 98.90% of Banagrícola s total shareholder s equity.

Banagrícola is a holding company with several subsidiaries dedicated to banking, commercial and consumer activities, insurance, pension funds and brokerage, among which are Banco Agrícola S.A. in El Salvador and Banco Agrícola (Panamá) S.A. in Panama. The acquisition of Banagrícola intends to place the Bank as one of several key players in Central America boosting its income generation and also diversifying its loan portfolio mix, reducing risk and exposure concentration.

BANCOLOMBIA S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(*Stated in millions of pesos and thousands of U.S. dollars*)

The consolidated financial statements includes the assets, liabilities, earnings, contingent accounts and memorandum accounts of the Bank in which they hold, directly or indirectly, 50% or more of the outstanding voting shares (the Subsidiaries). Bancolombia S.A. has the following subsidiaries making up the Bancolombia Group, which is currently registered as a corporate group:

Entity	*Location*	*Business*	*Participation percentage Dec-2006*	*Participation percentage Dec-2007*	*Date of creation*
Leasing Bancolombia S.A.	Colombia	Leasing	100	100	December 1978
Fiduciaria Bancolombia S.A.	Colombia	Trust	98.81	98.81	January 1992
Bancolombia Panamá S.A.	Panama	Banking	100	100	January 1973
Bancolombia Caymán	Cayman Islands	Banking	100	100	August 1987
Sistema de Inversiones y Negocios S.A.	Panama	Investments	100	100	September 1975
Sinesa Holding Company Ltd.	British Virgin Islands	Investments	100	100	June 1988
Future Net Inc.	Panama	E-commerce	100	100	November 2000
Banca de Inversión Bancolombia S.A. Corporación Financiera	Colombia	Investment banking	100	100	July 1994
Inversiones Valsimesa S.A.	Colombia	Investments	71.75	71.75	December 2006
Inmobiliaria Bancol S.A.	Colombia	Real estate broker	99.09	99.09	June 1995
Fundicom S.A.	Colombia	Metals engineering	79.90	79.90	May 2000
Valores Simesa S.A.	Colombia	Investments	71.75	71.75	December 2000
Todo UNO Colombia S.A.	Colombia	E-commerce	89.92	89.92	June 2001
Almacenes Generales de Depósito Mercantil S.A. ALMACENAR (1)	Colombia	Warehousing and logistics	98.31		February 1953
Unicargo de Colombia S.A. (2)	Colombia	Freight service	98.41		August 1994
Ditransa S.A. (2)	Colombia	Freight service	52.73		September 1994
Compañía de Financiamiento Comercial S.A. Sufinanciamiento	Colombia	Financial services	99.98	99.99	November 1971
Renting Colombia S.A.	Colombia	Operating leasing	75.50	90.30	October 1997
Patrimonio Autónomo Localiza (3)	Colombia	Car rental	75.50		December 2006

Renting Perú S.A.C. [4]	Peru	Operating leasing		90.39	January 2007
Tempo Rent a Car S.A. [4]	Colombia	Car rental		90.80	June 2007
Patrimonio Autónomo Renting Colombia	Colombia	Investments		100	December 2007
Suleasing Internacional S.A. [5]	Panama	Leasing	100		August 1993
Suleasing International USA, Inc.	USA	Leasing	100	100	July 2003
Suleasing Internacional do Brasil Locacao de Bens S.A.	Brazil	Leasing	100	100	December 2005
Inversiones CFNS Ltda.	Colombia	Investments	100	100	April 1998
Valores Bancolombia S.A.	Colombia	Securities brokerage	100	100	May 1991
Suvalor Panamá S.A.	Panama	Securities brokerage	100	100	April 2005
Bancolombia Puerto Rico Internacional, Inc	Puerto Rico	Banking	100	100	December 1997
Multienlace S.A.	Colombia	Contact center	98.20	98.20	March 1997
Inversiones IVL S.A.	Colombia	Investments	98.31	98.25	December 2006

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BANCOLOMBIA S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(*Stated in millions of pesos and thousands of U.S. dollars*)

Entity	*Location*	*Business*	*Participation percentage Dec-2006*	*Participation percentage Dec-2007*	*Date of creation*
Factoring Bancolombia S.A	Colombia	Financial services	99.97	99.99	September 1980
Patrimonio Autónomo CV Sufinanciamiento	Colombia	Loan management	100	100	May 2006
Banagrícola S.A. (6)	Panama	Investments		98.90	March 2003
Banco Agrícola Panamá S.A. (7)	Panama	Banking		98.90	March 2002
Inversiones Financieras Banco Agrícola S.A. (7)	El Salvador	Investments		98.08	July 2001
Banco Agrícola S.A. (7)	El Salvador	Banking		96.00	January 1955
Arrendadora Financiera S.A. (7)	El Salvador	Leasing		96.02	November 2001
Credibac S.A. de CV (7)	El Salvador	Credit card services		96.01	July 2006
Bursabac S.A. de CV (7)	El Salvador	Securities brokerage		98.08	November 1994
AFP Crecer S.A. (7)	El Salvador	Pension fund		98.32	March 1998
Aseguradora Suiza Salvadoreña S.A. (7)	El Salvador	Insurance company		94.70	November 1969
Asesuisa Vida S.A. (7)	El Salvador	Insurance company		94.70	December 2001

(1) It was divested in February 2007.

(2) Subsidiaries of Almacenar S.A. which ceased to be in turn subsidiaries of the Bancolombia when Almacenar S.A. was divested in February 2007.

(3) Trust liquidated in August 2007.

(4)

Companies created by Renting Colombia S.A.

(5) Merged with Bancolombia Panamá S.A. in September 2007.

(6) Company acquired in May 2007.

(7) Companies acquired as a result of Banagrícola s acquisition in May 2007.

(2) Main Accounting Policies

(a) <u>Basic Accounting and Consolidation Policy</u>

Accounting practices and the preparation of financial statements of the Bank follow generally accepted accounting principles in Colombia and the special regulations of the Superintendency of Finance, collectively Colombian GAAP . For consolidated purposes, accounting policies relating to the application of adjustments for inflation were aligned with those established by the Superintendency of Finance for the Bank. By means of External Circular 014 issued April 17, 2001 by the Superintendency of Finance, the application of inflation adjustments was eliminated for accounting purposes as of January 1, 2001. This practice formed part of the generally-accepted accounting principles in Colombia until December 2006, when it was extended to all reporting entities with Decree 1536 issued May 7, 2007.

The financial statements of foreign subsidiaries were adjusted in order to adopt uniform accounting practices as required by Colombian GAAP. The major adjustments relates to investments, loans and leased assets.

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BANCOLOMBIA S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(*Stated in millions of pesos and thousands of U.S. dollars*)

The Bank consolidates companies in which it holds, directly or indirectly, 50% or more of outstanding voting shares. As described below, some of the Bank s subsidiaries also consolidate their own subsidiaries. The Bank s subsidiary Bancolombia Panamá S.A. sub-consolidates Bancolombia Caymán, Sistema de Inversiones y Negocios S.A., Sinesa Holding Company Ltd., Future Net Inc., Suleasing Internacional USA Inc., Suleasing Internacional do Brasil Locacao de Bens S.A., Banagrícola S.A., Banco Agrícola Panamá S.A., Inversiones Financieras Banco Agrícola S.A., Banco Agrícola S.A., Arrendadora Financiera S.A., Credibac S.A. de CV, Bursabac S.A. de CV, AFP Crecer S.A., Aseguradora Suiza Salvadoreña S.A. and Asesuisa Vida S.A. The Bank s subsidiary Leasing Bancolombia S.A. sub-consolidates Renting Colombia S.A., Renting Perú S.A.C. and Tempo Rent a Car S.A. The Bank s subsidiary Banca de Inversión Bancolombia S.A. sub-consolidates Inmobiliaria Bancol S.A., Inversiones Valsimesa S.A., Inversiones CFNS Ltda., Valores Simesa S.A., Fundicom S.A., Todo Uno Colombia S.A. and Patrimonio Autónomo Renting Colombia. The Bank s subsidiary Valores Bancolombia S.A. sub-consolidates Suvalor Panamá S.A. The remaining companies are consolidated directly by the Bank.

Under Col GAAP, the results of operations of Almacenar are excluded from the consolidated results of operation of the Bank in 2007.

The consolidated financial statements are prepared for the presentation to the stockholders, but are not taken as a basis for the distribution of dividends or appropriation of profits.

Intercompany operations and balances are eliminated upon consolidation.

(b) Conversion of Foreign Currency Transactions and Balances

As an authorized exchange dealer, the Bank and its Colombian Subsidiaries are authorized by the Superintendency of Finance to make direct foreign exchange purchases and sales on the exchange market.

Operations in foreign currencies other than U.S. Dollars are translated into U.S. Dollars using the exchange rate published by Reuters and then re-expressed in Colombian Pesos at the Representative Market Rate (RMR) calculated on the last business day of the month and certified by the Superintendency of Finance. The RMR at December 31, 2006 and 2007 was Ps 2,238.79 and Ps 2,014.76, respectively.

Foreign currency position is the difference between assets and liabilities denominated in foreign currency, recorded in and out of the balance, realized or contingent, including those that are settled in Colombian local currency, which correspond to the financial statements that include operations within the national territory.

Spot foreign currency position is the difference between assets and liabilities, denominated in foreign currency, based on the unique chart of accounts, excluding, investments available for sale in equity and debt securities, held to maturity and capital contributions in foreign branches and derivatives such as: next day operations, forward contracts, futures contracts, swaps and profit or loss in option valuation. Operations that can be settled in local currency are not included in this position.

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BANCOLOMBIA S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(*Stated in millions of pesos and thousands of U.S. dollars*)

Gross leverage position consists of all rights and obligations contained in term and future contracts denominated in foreign currency; cash transactions in foreign currency carried out between one (t+l) and two banking days (t+2) and the exchange exposure relating to debit and credit contingencies acquired in negotiating exchange options and derivatives.

The arithmetic average of three (3) business days of the Bank s position in any currency other than Pesos cannot exceed the equivalent in foreign currency of twenty percent (20%) of the Bank s technical capital and the minimum amount may be negative, without exceeding the equivalent in foreign currency of five per cent (5%) of the Bank s technical capital; and gross leverage position cannot exceed five hundred percent (500%) of the Bank s technical capital.

The maximum amount corresponding to the Bank s spot foreign currency position cannot exceed fifty percent (50%) of the Bank s technical capital and cannot be negative.

The assets, liabilities and stockholders equity in foreign currency of the Subsidiaries outside Colombia included in the consolidated financial statements were converted into Colombian Pesos using the RMR calculated the last business day of the month.

The income accounts were converted at an average rate of Ps 2,357.98 and Ps 2,078.35 per U.S. Dollar for the years 2006 and 2007, respectively. These rates correspond to the average value of the representative market exchange rate on each business day in the period from January 1 to December 31 of each year.

(c) Comparability

The consolidated statements of operations for the year ended December 31, 2006 includes financial information of the Bancolombia S.A. and its subsidiaries. The consolidated statements of operations for the year ended December 31, 2007 also includes the operations of Banagrícola S.A. since June 1, 2007 and its subsidiaries since January 1, 2007. For this reason, the consolidated statements of operations for 2006 and 2007 should be read taking into account this impact.

(d) Cash and Cash Equivalents

The statement of cash flows was prepared using the indirect method. These cash flows were calculated by taking the net differences in the balances shown on the consolidated balance sheet on December 31, 2007 and 2006. Overnight funds sold with reselling agreements are considered to be cash equivalents for the purposes of this statement.

(e) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with Colombian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are allowance for loan losses, accrued interest losses, allowance for foreclosed assets and valuation of investments and derivatives. Actual results could differ from those estimates.

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BANCOLOMBIA S.A. AND SUBSIDIARIES
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(*Stated in millions of pesos and thousands of U.S. dollars*)

(f) Real Value Unit Rate (UVR)

The main operations that the Bank carries out with regard to mortgage loans are linked to the *Unidad de Valor Real* (the Real Value Unit or UVR) and adjusted on a daily basis according to the daily value of the UVR, as published by the Central Bank.

The values assigned by the Central Bank to the UVR, in Colombian pesos, on December 31, 2006 and 2007, were Ps 160.0161 and Ps 168.4997 respectively.

The UVR rate corresponds to the monthly variance of the IPC during the calendar month immediately prior to the month for which the UVR rate is being calculated. In light of the above, the annualized UVR rate at December 31, 2006 and 2007 was 0.63% and 2.95%, respectively.

(g) Overnight Funds

This represents the funds directly placed by the Bank in other financial institutions with or without investment collateral, using surplus liquidity, with or without a commitment to resell, at terms of up to 30 days. The account also includes overnight deposits with banks abroad using Bank funds deposited outside Colombia.

Transactions with collateral, not repaid within 30 days are classified as investments, loans or financial lease operations, as the case may be.

The difference between present value (cash received) and future value (resale price) is recorded as interest income on overnight funds statement of operations.

(h) Investment Securities

This includes investments acquired by the Bank to maintain secondary liquidity, to acquire direct or indirect control in a company, and if authorized by legislation, to satisfy requirements of law or regulation, or simply to eliminate or significantly reduce market risks to which assets, liabilities or other balance sheet items are exposed.

1. Classification

The investments are classified as trading investments , investments available for sale and investments held to maturity The first two of these groups may include investments in debt or equity securities. The third group shall only include investments in debt securities.

Debt securities are those securities that make a holder the creditor of the issuer, whereas equity investments are those that make a holder a part-owner of the issuer.

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Trading Securities

Trading investments are those acquired mainly for obtaining profits from fluctuations in short-term prices.

Held to Maturity

Investments held to maturity are debt securities acquired with the stated purpose and legal, contractual, financial and operational capacity to hold them until maturity or redemption. They may not be used for liquidity operations unless they are mandatory investments entered into on the primary market and provided that the counterparty for the operation is the Colombian Central Bank, the General Treasury Direction of Colombia, institutions overseen by the Superintendency of Finance or, in exceptional cases, as determined by the Superintendency of Finance.

Available for Sale

These are the investments which do not fall into either of the other two classifications, for which the investor has the stated intention and legal, contractual, financial, and operational capacity to hold them for at least one year from the date of classification.

This classification covers equity investments with low exchange turnover or which are unquoted and those held as parent or controlling stockholder of the issuer. There is no one-year minimum holding period required for sale.

2. Valuation

The purpose of valuation is to record the fair market value for a given investment at a determined date.

2.1. Debt Securities

Debt securities are valued daily and the result is recorded daily. The procedures are defined in 1995 External Circular 100, Chapter I, numeral 6.1 issued by the Superintendency of Finance.

The Bank determines the market value of trading debt securities and available for sale debt securities by using the prices, reference rates and margins that the *Bolsa de Valores de Colombia* (the Colombian Stock Exchange) calculates and publishes daily.

Investments in debt securities held to maturity are valued based on internal rate of return calculated on the purchase date.

2.2 Equity Securities

Section 5 of Chapter 1 of External Circular 100 of 1995 issued by the Superintendency of Finance provides for investments to be appraised on a daily basis; however, in the case of equity investments with low volume, or unquoted, whose only source of appraisal are the financial statements of the corresponding company, the Bank conducts monthly appraisals of said investments, recording the appraised amounts also on a monthly basis.

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Equity investments are valued based on the level of exchange volume at the time of valuation, as follows:

- High-volume: they are valued based on the daily weighted average trading price published by the exchange.
- Medium-volume: they are valued based on the average price published by the exchange, being the weighted average trading price on the last five days on which securities are traded.
- Low volume and unquoted: They are valued based on the increase or decrease according to the investor s share of the variations in equity value calculated based on the most recent audited financial statements that cannot be older than six months from the valuation date, or more recent statements, if available.

2.3 Securities Denominated in Foreign Currency, in UVR or in Other Units

The procedures are defined in 1995 External Circular 100, Chapter I, numeral 6.1.1 and 6.1.2 issued by the Superintendency of Finance. If the security is denominated in a currency other than the U.S. Dollar, the value of the security determined in its original currency is converted into U.S. Dollars using the foreign exchange translation rates authorized by the Superintendency of Finance. The value thus obtained is multiplied by the RMR effective on the valuation date and certified by the Superintendency of Finance or by the effective unit for the same day, as the case may be.

Foreign exchange gains or losses resulting from investment securities conversion are recorded as net foreign exchange in the consolidated statements of operations.

3. Recording

Investments are measured depends on the classification and must be recorded initially at their purchase cost. The subsequent measurement is recorded as follow:

3.1 Trading Investments

The difference between current and previous market value is adjusted to the value of the investment and is recorded as income or expense, respectively.

3.2 Investments Held to Maturity

Investments held to maturity are accounted for at historical cost plus accrued interest using the effective interest rate method. The effective interest rate is the internal rate of return calculated at the time of purchase of investment. Interest accruals are recorded as interest income on investment securities.

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3.3 Investments Available for Sale

3.3.1 Debt Securities

Changes in the values of these securities are recorded using the following procedure:

The difference between the present value on the valuation date and the previous present value increases or decreases the value of the investment and is credited as income on income statement. The present value is calculated based on an internal rate of return established at the time of purchase.

The difference between the market value and the present value of the investment increases or decreases its value and is recorded in the equity account as gross unrealized net gain or loss.

3.3.2 Equity Investments

Changes to equity investments are recorded in accordance with the investment trading volume, as follows:

3.3.2.1 Investments in Securities with Low Volume or Unquoted Securities

If the investment value based on the investor s shares of the equity of the investee is greater than the value at which the investment is registered, the difference will affect the market value allowance account or devaluation in reappraisal of assets account until it runs out, and the excess is registered as a surplus in reappraisal of assets in stockholders equity against reappraisal of assets account.

If the investment value based on the investor s shares of the equity of the investee is less than the value at which the investment is registered, the difference will affect the surplus for valuation of the corresponding investment until it runs out, and the excess is registered as devaluation of said investment within reappraisal of assets in equity, against a devaluation in the reappraisal of assets account.

When the dividends or profits are distributed in kind, including those from capitalizing the equity revaluation account, the portion recorded as valuation in reappraisal of assets must be recorded as dividend income, charged against the equity security and the reappraisal of assets must be reversed. When the dividends or profits are distributed in cash, the value recorded as valuation in reappraisal of assets must be recorded as dividend income, the valuation reversed and the excess amount of the dividends must be recorded as a lesser equity investment value.

3.3.2.2 Investment in Securities with High or Medium Volume

The update of the market value of these securities is recorded as gross unrealized net gain or loss on investments, within the equity accounts, crediting or debiting the investment securities.

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Dividends or profits distributed in kind or in cash, including those from capitalizing the equity revaluation account, must be recorded as dividend income up to the amount corresponding to the investor over profits or equity revaluation that the issuer has recorded since the investment acquisition date, charged to accounts receivable.

4. Allowances or Losses due to Credit Risk Classification

The prices of trading and available for sale debt securities that do not have fair exchange prices, those classified as held to maturity and the price for equity securities with low or minimum volume or that are unquoted must be adjusted on each valuation date, based on the credit risk classification.

Internal or external debt securities issued or guaranteed by the Republic of Colombia or the Colombian Guarantee Fund for Financial Institutions (Fogafin) or issued by the Central Bank are not subject to this adjustment.

4.1 Securities Issued Abroad or with Foreign Ranking

Securities that are rated by a rating firm acknowledged by the Superintendency of Finance or securities issued by entities that are rated by those rating firms cannot be registered for an amount that exceeds the following percentages of their nominal net amortization value as of the valuation date:

Long Term Ranking	***Max. Amount %***
BB+, BB, BB-	Ninety (90)
B+, B, B-	Seventy (70)
CCC	Fifty (50)
DD, EE	Zero (0)

Short Term Ranking	***Max. Amount %***
3	Ninety (90)
4	Fifty (50)
5 and 6	Zero (0)

Provisions for investments classified as held to maturity, correspond to the difference between the recorded value and the fair exchange value.

4.2 Securities from Issues or Issuers without any Foreign Rating and Equity Securities

These securities are rated and classified according to the methodology defined by the Bank. The securities are categorized as A except there is a risk associated to them (Category B to E). The maximum value, as defined by the Superintendency of Finance, at which these investments are posted, according to their category is:

Category	***Max. Registered Amount %***[(1)]	***Investment Characteristics***
B Acceptable risk, greater than normal	Eighty (80)	Present factors of uncertainty that could affect the capacity to continue adequately fulfilling debt service and weaknesses that could affect their financial situation.
C Appreciable risk	Sixty (60)	Present medium-high probabilities of non-fulfillment of timely payments of capital and interest in their financial situation that may compromise the recovery of the investment.
D Significant risk	Forty (40)	

E Unrecoverable	Zero (0)	Present non-fulfillment of agreed terms of the security and material deficiencies in their financial situation, the probability of recovering the investment is highly doubtful. Recovery highly improbable.

(1) On the net nominal amortization values as of the valuation date for debt securities or the acquisition cost less allowances for equity securities.

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(i) Loans and Financial Lease

These accounts record loans and financial leases made by the Bank in the various modalities permitted. They are funded by the Bank s own capital, public deposits and other internal and external sources of funds.

Loans are recorded at face value, except for acquisition of accounts receivable (factoring operations) which are recorded at cost, and foreign currency operations, which are converted into local currency.

The Bank s subsidiary Bancolombia Panamá S.A., authorized by the Panama Superintendency of Banking, includes participating credit loans in its loan portfolio. These are loans for which the subsidiary assumes no credit risk, which, in spite of having been sold and 100% paid, are not taken out or omitted from the portfolio group. The profit in this business activity is recorded in the net interest margin between interest income received on the original loan portfolio and interest paid for the participated loan portfolio.

External Circular 040 dated October 23, 2003 modified the treatment of financial leases. Since January 1, 2004, they have been included as part of the loan portfolio.

The institutions overseen by the Superintendency of Finance must have a Credit Risk Administration System that sets forth policies, processes, models, and control mechanisms to enable risk identification, mitigation and measurement. Credit risk evaluation is done pursuant to effective regulations, using an ongoing monitoring process and periodic portfolio classification.

For allowance for loans and financial leases losses, the Bank applies the regulations of the Superintendency of Finance as described below.

The 1995 External Circular 100 Chapter II issued by the Superintendency of Finance, sets forth guidelines for credit risk administration. This Circular defines the basic elements of the system for the management of credit risk (SARC) and contains reference models and a time schedule for submitting the internal models to the Superintendency of Finance, among others. The Bank has adopted all required modifications and will continue its development of the proposed schemes.

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1. Classification

Loans and financial lease contracts are classified as follows:

Mortgage Loans

These are loans, regardless of value, granted to individuals for the purchase of new or used housing or to build a home, all in accordance with Law 546 of 1999. These loans include loans denominated in UVR or local currency, that are guaranteed by a senior mortgage on the property and that are financed with a total repayment term of 5 to 30 years.

Consumer Loans

These are loans and financial leases, regardless of value, granted to individuals for the purchase of consumer goods or to pay for non-commercial or business services.

Small Business Loans

These are loans and financial leases granted to microbusinesses, whose total balance outstanding with the Bank does not exceed twenty-five (25) times the effective legal minimum monthly salaries (SMMLVs).

Microbusiness means any economic exploitation unit owned by an individual or corporate entity, in entrepreneurial, farming and livestock, industrial, commercial or service activities, whether rural or urban, whose staff does not exceed ten (10) workers and whose total assets are under five hundred (500) effective legal minimum monthly salaries (SMMLVs).

Commercial Loans

Commercial loans are loans and financial leases that are granted to individuals or companies in order to carry out organized economic activities; and not classified as small business loans.

Loan-related commissions and other receivables are classified within the accounts for the type of loan to which they are related.

For the purpose of consolidating of the financial statements in the year 2007, The Colombian Superintendency of Finance in a communication dated January 17, 2008 required the classification of the commercial loan portfolio for the debtors whose main economic activity is carried out outside Colombia, as is the case of debtors of Banco Agrícola S.A. in El Salvador, to be performed in accordance with rules substantially consistent with the rules applicable to Bancolombia in the year 2006.

2. Evaluation Frequency

The Bank makes continuous evaluations of their lending and financial lease operation risk, making all necessary modifications to the respective classifications when there are new analyses or data to justify such changes.

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In addition the previous process, in the months of May and November, the Bank evaluates all loans and financial leases that are past due after having been restructured and that at the time of the evaluation exceed three-hundred (300) effective SMMLVs, as well as loans from debtors whose debt from the different loan types exceeds this threshold.

3. Evaluation Criteria

The Bank evaluates loans and financial leases using the criteria required by the Superintendency of Finance. In general, they evaluate the ability to pay of the debtor/co-debtors/guarantors or any other person directly or indirectly unconditionally liable for the debt, and project the cash flow for such entities, if any.

The minimum information required from the debtors are: the income and outgoing cash flows; economic solvency; information on its current and past compliance with its obligations, the financial and credit history of debtors in risk centers; the number of times loans have been restructured; possible financial risks to cash flow, legal, operational and strategic risks; and the possibility that the customer may be impact by changes in the economy or the industry.

4. Classification

The Bank classifies loans and financial leases on the basis of the above criteria into the following credit risk categories:

In the year 2007:

Category		*Consumer*
A	Normal Risk	Current and up to 1 month past due
B	Acceptable Risk, Above Normal	1-2 months past due
C	Appreciable Risk	2-3 months past due
D	Significant Risk	3-6 months past due
E	Risk of Unrecoverability	over 6 months past due

Category		*Small Business Loans*	*Mortgage*
A	Normal Risk	Current and up to 1 month past due	Current and up to 2 months past due
B	Acceptable Risk, Above Normal	1-2 months past due	2-5 months past due
C	Appreciable Risk	2-3 months past due	5-12 months past due
D	Significant Risk	3-4 months past due	12-18 months past due
E	Risk of Unrecoverability	over 4 months past due	over 18 months past due

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Commercial loans and financial leases were classified as follows in 2006:

Category	*Commercial*
A Normal Risk	Current and up to 1 month past due
B Acceptable Risk, Above Normal	1-3 months past due
C Appreciable Risk	3-6 months past due
D Significant Risk	6-12 months past due
E Risk of Unrec overability	over 12 months past due

As of July 2007, given the introduction of the MRC the commercial category was classified as follows:

Category	*Commercial*
AA	Current and up to 1 month past due
A	1-2 months past due
BB	2-3 months past due
B	3-4 months past due
CC	4-5 months past due
Risk of Unrecoverability	over 5 months past due

Rules of Alignment

The Bank would automatically classify all of that debtor s accounts in the maximum risk category, B, C, D or E, or BB, B, CC or Risk of Unrecoverability due the MRC application for any loan or financial lease, unless it can demonstrate to the Superintendency of Finance that the Bank has sound reasons for another risk classification.

Under the terms of the Colombian Commercial Code, financial institutions that are related parties will receive the same classification as the parent company unless the Superintendency of Finance is shown that there are good reasons for maintaining such entities in a lower risk category.

The Superintendency of Finance requires that entities align their classifications with other financial institutions when at least two of them have classified the debtor into a higher risk category, where the debt represents at least 20% of the debtor s total indebtedness according to the most recent information available from credit bureaus. In this event, there may not be more than one level of difference in risk classification.

The Superintendency of Finance can order reclassifications and re-ranking of the classifications assigned by financial institutions. It can also order loan portfolio reclassifications for an economic sector, geographical zone or for one debtor or a group of debtors, whose borrowings must be accrued pursuant to rules on individual debt limits.

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5. Suspension of Accruals

The Superintendency of Finance established that interest, UVR, lease payments and other items of income cease to be accrued in the statement of operations and begin to be recorded in memorandum accounts until effective payment is collected, after a loan is in arrears for more than a certain time:

Type of loan and financial lease	***Arrears in excess of:***
Mortgage	2 months
Consumer	2 months
Small business loans	1 month
Commercial	3 months

Bancolombia adopted a policy, in which all loans and financial leasing operations of any type, with the exception of mortgage loans that are more than 30 days past due, cease to accumulate interest on the statement of operations and instead are recorded in the memorandum accounts until such time the client proceeds with their payment.

Those loans that become past due and that at some point have stopped accruing interest, UVR, lease payments or other items of income, will stop accruing said income from their collection. Their entries will be recorded in memorandum accounts until such loans are collected.

6. Allowance for Loans and Financial Leases Losses

The Bank records allowance for loans and financial leases losses for each period as follows:

General Allowance:

The Bank sets up a general provision corresponding to one per cent (1%) of the total value of the gross loan portfolio, except on commercial loans. External Circular 039 of 2007 exempted the calculation of a general provision from the commercial classification. This rule also allowed for the general provision set up until that moment, to be used for part of the individual provisions required for the enforcement of the MRC.

The general provision, however, may be increased if approved by the general shareholders meeting, and is updated on a monthly basis according to the increases or decreases in the loan portfolio.

In the case of companies belonging to Banagrícola and its subsidiaries, the instructions prior to External Circular 039 of 2007 were applied, that is to say, a general provision was set up corresponding to a minimum of one per cent (1%) on the total amount of the gross loan portfolio.

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Individual Allowance:

In compliance with instructions issued by the Superintendency of Finance, in External Circular 040 of 2007, for the consumer and small business classifications, the Bank must maintain at all times provisions corresponding to following minimum percentages, calculated on the outstanding balance.

Category	***Minimum provision percentage net of guarantees***	***Minimum provision percentage***
A	0%	1%
B	1%	2.20%

Minimum provision percentage net of guarantees is the percentage of the provision that shall be applied on the outstanding balance, deducting the value of the appropriate guarantees. Minimum provision percentage is the percentage of the provision that shall be applied on the outstanding balance, without deducting the value of the appropriate guarantees.

In any case, the individual provision for each rating must correspond to the sum of the provisions that result from applying the minimum provision percentage net of guarantees and the minimum provision percentage.

External Circular 040 of 2007 required that as of July 1, 2007, and until June 30, 2008, the provision for consumer loans in Categories A and B be increased, calculating this on the outstanding balance without deducting the value of the appropriate guarantees according to the following percentages. As of December 31, 2007, Bancolombia S.A. recognized the total provision permitted by the Circular.

Category	***Additional Provision***
A	0.60%
B	1.80%

Pursuant to Chapter II of the Basic Accounting Circular, companies may design and adopt their own internal models for estimating and/or measuring losses with regard to their commercial, consumer, housing and small business loans; or apply the reference models designed by the Superintendency of Finance for these same purposes. As of May 31, 2008, the Superintendency of Finance has issued reference models for commercial loans and consumer loans, the application of the first was mandatory in July 2007, and of the second one will be in July 2008.

The Bank adopted the Reference Model issued by the Superintendency of Finance in External Circular 035, 2006 for its commercial loans, whose application became mandatory as of July 2007, except for Banagrícola s subsidiaries which adopted the guidance effective to December 31, 2006. This model allows for components of expected losses to be determined, according to the following parameters:

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1. Probability of Default (PD): This corresponds to the probability of the debtors within a specific portfolio of commercial loans defaulting on their obligations in a period of twelve (12) months (according to the cases described in subsection b of section 1.3.3.1 of Chapter II of the Basic Accounting Circular). The probability of default is defined according to matrixes issued by the Superintendency of Finance, which are updated every year in May and come into full force and effect as of the following July, based on the terms and conditions specified by the Superintendency.

For 2007, the matrixes governing individual provisions were as follows:

Matrix B	***Non-fulfillment***			
Commercial	***Corporate***	***Small Business***	***Medium Business***	***Individuals***
AA	2.19%	7.52%	4.19%	8.22%
A	3.54%	8.64%	6.32%	9.41%
BB	14.13%	20.26%	18.49%	22.36%
B	15.22%	24.15%	21.45%	25.81%
CC	23.35%	33.57%	26.70%	37.01%
Non-fulfillment	100%	100%	100%	100%

2. The loss given default (LGD): This is defined as the economic deterioration sustained by a company should any of the events of default, as referred to in subsection b of section 1.3.3.1 of Chapter II of the Basic Accounting Circular, arise. The LGD for debtors classified in the default category would suffer a gradual increase according to the amount of days lapsing after being classified in said category. The LGD per type of guarantee is as follows:

Type of Collateral	***LGD***	***Days after non-fulfillment***	***New LGD***	***Days after non-fulfillment***	***New LGD***
Inadmissible guarantee	55%	270	70%	540	100%
Subordinate loans	75%	270	90%	540	100%
Admissible financial collateral	0-12%				
Residential and commercial real estate	40%	540	70%	1080	100%
Leased real estate	35%	540	70%	1080	100%
Leased assets different from real estate	45%	360	80%	720	100%
Other collaterals	50%	360	80%	720	100%
Collection rights	45%	360	80%	720	100%
No guarantee	55%	210	80%	420	100%

According to Decree 2360 of 1993, admissible guarantee means any guarantee with respect to which the Bank would have preference over other creditors and the collateral for which complies with certain parameters and objectives of the Superintendency of Finance.

3. Exposure at Default (EAD): Defined as the total balance outstanding, conformed by the principal, interests and any other conceept owed by the debtor.

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Based on the regulations issued by the Superintendency of Finance, the minimum allowances for mortgage portfolio must correspond to the following percentages:

Home Mortgage %	***Capital***		
	On Guaranteed Portion	***On Non-Guaranteed Portion***	***Interest/Other***
A- Normal Risk	1	1	1
B- Acceptable Risk, Above Normal	3.2	100	100
C- Appreciable Risk	10	100	100
D- Significant Risk	20	100	100
E- Risk of Unrecoverability	30	100	100

In the case of the mortgage portfolio, if the loan has remained in Category E for 2 consecutive years the provision for the guaranteed portion is increased to 60% and if it remains for another year in this category, the provision is increased to 100%, unless there is any indication of a possible recovery by actions previously taken by the Bank.

In addition, the Bank has also recorded additional provisions for certain clients based on an individual analysis of loss and probabilities of recovery.

In the case of loans pertaining to the commercial category of Banagrícola s subsidiaries, minimum provisions were applied according to the following percentages:

	Commercial %	
Category	***Capital***	***Interest/Other***
A Normal Risk	1	1
B Acceptable Risk, Above Normal	3.2	3.2
C Appreciable Risk	20	100
D Significant Risk	50	100
E Risk of Unrecoverability	100	100

For categories such as consumer, small business and mortgage, apply the guidelines set forth in External Circular 040 of 2007 issued by the Superintendency of Finance.

7. The Effect of Guarantees on Allowances

In the case of commercial loans in Colombia, the effect of guarantees on allowances is determined in accordance with the parameters set by the Reference Model (MRC) for the applicable LGD, as shown in the tables above, and the respective provisions are calculated taking into account 100% of the value of the guarantees. For consumer loans, small business loans and mortgage loans the respective provisions are calculated based on seventy per cent (70%) of the guarantee value, and, in these cases, the guarantee value will not exceed the principal amount of the loan.

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In the case of Banagrícola s portfolio for consumer loans, small business loan, commercial loans and mortgages, the respective provisions are calculated taking into account up to seventy per cent (70%) of the guarantee value, and the guarantee value will not exceed the principal amount of the loan.

For Bancolombia Panamá the respective provisions for commercial loans are calculated using 100% of the value of the related guarantees.

Nevertheless, depending on whether the security is a mortgage or not and on the length of time the loan has been in arrears, the Bank may only take into consideration the percentages of the total security value indicated below:

	Time elapsed from default date to security non-execution	
% Cover of security	***Appropriate mortgage security/escrow***	***Non-mortgage security***
70	0-18 months	0 -12 months
50	18-24 months	12-24 months
30	24-30 months	
15	30-36 months	
	Over 36 months	Over 24 months

The security is perfected when it is formalized and if it has a professionally-established and objective value to provide effective legal backing to repayment of the secured loan, giving the lender or creditor preferential or prior rights to obtain payment, and if it is reasonably marketable.

Appreciation of mortgage collateral

The value of the collateral posted by the Bank is established based on parameters set forth in External Circular 034 of 2001 issued by the Superintendency of Finance and listed below:

In the case of mortgage collateral consisting of property to be used for housing purposes, the market value shall be the initial appraisal value of the collateral duly adjusted according to the housing price index published by the National Planning Department. The value shall be updated at least on a quarterly basis, using the aforementioned index.

In the case of mortgage collateral consisting of property different than housing, the market value shall be the appraisal value of the property given over in guarantee when the loan was issued or the new appraisal value as subsequently calculated on a periodic basis.

For the purpose of calculating provisions, the value of the collateral pledged on the debtor s commercial or industrial establishments is not taken into account. Also, the main real estate which forms part and the respective establishment or mortgages on property where the establishment operates or functions, are not taken into account, except in those cases where the financial institution shows that it is possible to split up the property of the establishment and that the market value of this property is not adversely affected by this division.

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The Bank does not base their lending decisions on the amount and/or type of collateral offered, since they understand that the source of payment of the loan or financing arrangement is provided by the capacity of the beneficiary of the loan to generate cash flows, whether this is an individual or a company. However, in the case of new projects and/or mid to long-term financing, alternative sources are required in order to recover the loan. Considering that the Bank has made inroads on the Small and Medium Enterprises (SME) segment, its policy is to obtain coverage with the Colombian National Guaranty Fund (*Fondo Nacional de Garantías* FNG, a Government entity responsible for issuing guaranties to micro-small and medium-sized businesses), and the Colombian Agricultural Guaranty Fund (*Fondo Agricola de Garantías* FAG).

8. Mortgage debt relief

Mortgage relief originates from the large-scale process of reliquidating mortgage loans as a result of the change in the housing financing system, introduced by Law 546 of 1999. Credit institutions carried out this reliquidation process based on the difference between the *Depósito a Término Fijo* rate (Colombia s average of term deposits rate or DTF) and the *Unidad de Poder Adquisitivo Constante* rate (the Purchasing Power Unit Rate or UPAC), for the purpose of comparing how the UPAC rate is performing in comparison to the UVR rate s performance, so that these might be accorded the same reduction as that corresponding to the UPAC-linked credit. The Colombian government proceeded to credit to the value of the obligations the total amount of the difference produced by this reliquidation process and for the purpose of paying the amounts credited issued UVR-denominated Treasury Bonds (TES).

Decree 712 of 2001, which amended Decree 2221 of 2000, established grounds for returning the debt relief applied for credit institutions, to the Republic of Colombia through the Ministry of Finance and Public Credit, as follows:

Due to default on

a) More than twelve (12) successive monthly payment installments, as of the date on which the amount is credited to the individual long-term mortgage loan, according to the provisions of Law 546 of 1999.

Due to failure to pay an

b) If the credit institution has started collection proceeding against the mortgagor prior to the expiry of the term of default established in the prior section.
c) Mortgage credits for more than one dwelling per person.
d) Due to waiving the amount relieved to other loans
e) Amounts credited are higher than those due

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9. Loans to Regional Authorities

The evaluation of loans to regional authorities includes not only the criteria applicable to regular borrowers but also the provisions set forth in Law 358 of 1997 and Law 617 of 2000.

10. Restructured Loans

A restructured loan is a loan for which an agreement exists and whose purpose or effect is to modify some of the terms of the loan. This includes informal or non-moratorium agreements, Law 550 of 1999 agreements, Law 617 of 2000 agreements, and special restructuring as defined in the Superintendency of Finance Circular 39 of 1999.

Restructured loans shall not be considered to include the credit relief stipulated by law, as was the case of the relief stipulated in Law 546 of 1999, for the housing loan portfolio.

For the loans restructured as indicated above or using other restructuring methods which include the capitalization of interest recorded in memorandum accounts or balances written off, including capital, interest and other items, the amounts capitalized are recorded as deferred income in other liabilities and they are amortized in proportion to the amounts actually collected.

11. Charge-Offs

In June and December, the Bank writes off debtors classified as unrecoverable , based on the following criteria:

Provision of 100% of all amounts past due (capital, interest and other items).

One hundred eighty (180) days past due for consumer and small business loans.

Three hundred sixty (360) days past due for commercial loans.

One thousand six hundred twenty (1620) days past due for mortgage loans.

All charge-offs must be approved by the board of directors. Even if a loan is charged off, management remains responsible for its decisions in respect of the loan, and the Bank is not relieved of its obligations to pursue recovery as appropriate.

The recovery of charged-off loans is accounted for as income in the Consolidated Statements of Operations.

Charge-offs in Bancolombia Panamá S.A.

Bancolombia Panamá takes into account the regulation issued by Republic of Panama Superintendency of Banking, which requires charges-off all loans by the end of the fiscal period in which they were classified as unrecoverable.

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12. Securitized Loans

The Bank has securitized both performing housing loans indexed to UVR s and at a fixed rate, as well as non-performing loans.

The non-performing mortgage loan portfolio was securitized by the Bank in order to reduce the level of overdue loans, and as a result reduce the systemic risk presented given the concentration of long-term assets as compared to short-term liabilities, and to improve the Bank s financial indicators.

The securitization process carried out on the non-performing mortgage loan portfolio was made in accordance with subsection one of Article 12 of Law 546 of 1999. The Bank proceeded to completely separate and isolate from its equity the total amount of underlying assets that were securitized, pursuant to Article 2 of Resolution 775 of 2001 issued by the Superintendency of Finance by issuing A, B and C-rated credit securities to finance the building and purchase of housing. A- rated securities were sold to the securitizing party and the B- and C- rated securities were recorded as trust rights investments pursuant to instructions received from the Superintendency of Finance. All expenses incurred in taking possession of the guarantee are paid for by the Bank; in exchange the Bank receives the amount remaining after paying out the total amount of principal and interest on these securities. The Bank is the guarantor of the notes issued by in the securitization of non-performing loans in Banagrícola.

(j) Customer s Acceptances and Derivatives

Acceptances

The Bank issues local currency bank acceptances for up to 180 days for import or export operations or for local purchases of merchandise, pursuant to legal provisions.

They are treated as active loans and may not exceed the Bank s paid in capital and legal reserve. The asset and liability are initially recorded at the same time as Customer acceptances.

If unpaid at maturity, the asset is reclassified to a loan account and the liability to past due bank acceptances until it is paid, and as of maturity, these acceptances are subject to reserve requirements for on demand liabilities for payment within 30 days.

The term granted by the beneficiary abroad to the client in Colombia to pay for the goods is governed by International Chamber of Commerce rules and may exceed 180 days under the internationally-accepted deferred credit mode for up to one year. The ledgers may therefore contain foreign currency acceptances for more than 180 days.

Next Day Operations

These include all agreements or contracts entered into by two parties and to be fulfilled within two business days immediately following the date on which the agreement or contract is entered into and must be valued applying the methodology provided for by Chapter XVIII of 1995 External Circular 100.

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Derivatives

The Bank records the amount of agreements between two or more parties to purchase or sell assets at a future date, whose compliance or settlement is agreed upon more than two business days following the operation initiation date, in order to provide or obtain hedging, in the terms defined by competent authorities. Therefore, these agreements create reciprocal and unconditional rights and obligations, which are recorded as assets, presenting the obligations with opposite nature. Operations are formalized by contract or letter of intent. The Bank has contracts for forwards, for options, swaps and futures.

Currency derivatives are designed to cover exchange exposure risks on structural or traded open positions by setting up a reciprocal operation or synthetic coverage for up to the maximum exposures allowed by the regulation and control agencies.

The difference between rights and obligations is recorded daily as income or expense from forward contracts in foreign currency, as the case may be.

Forward Contracts

A forward contract is any agreement or contract that meets the needs of two parties acting outside the market for the purpose of accepting or delivering a specific quantity of a product or underlying asset with defined specifications regarding price, date, place and means of delivery.

Future Contracts

These are standard contracts for future delivery, specifying due date, quantities, amounts, qualities, etc. The valuation is calculated pursuant to the stock market practices where the securities are traded.

Futures may be liquidated in cash, by a reciprocal operation prior to the due date, by physical delivery of a product or by liquidating against an index.

Swap Contracts or Financial Exchange Contracts

A swap contract or financial exchange contract is a contract between two parties that agree to exchange flows of money within the time set forth in the obligations, which is financially similar to a series of Forward Contracts whose objective is to reduce costs and risks due to variations in exchange rates or in interest rates.

Simultaneous Operations

Simultaneous operations are those that are set up as a result of purchase and sale agreements by virtue of which a person (original seller) sells fixed-income securities to another (original buyer), with the undertaking that the latter shall sell back to the former, at a later date and at a price established at the beginning of the operation, securities equivalent to those originally handed over. Likewise, the original seller is obligated to purchase the securities handed over to the original buyer, according to the terms and conditions that were expressly stipulated in the agreement or contract.

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Option Contracts

In option contracts, the holder of an option has the right, but not necessarily the obligation, to purchase or sell a specific quantity of an asset at a given price on a given date or during a determined period. The Bank measures these operations, taking into account market risks, operational risks and legal risks.

Derivatives are accounted for at fair value on a daily basis and results of the valuation are recorded on the same basis.

The Bank records the assets received in guarantee of credits unpaid using the following criteria:

The initial value recorded is the value specified in the court award or the one agreed upon by the debtors.

When foreclosed assets are not in conditions to be immediately disposed of their cost increases with all those expenses required in order to get said assets ready for sale.

If the proceeds of the sale are more than the settlement value agreed upon with the debtor, that difference is recorded as accounts payable to the debtor. If the proceeds of sale are expected to be insufficient to cover the outstanding debt, the difference must be immediately recorded on the statement of operations as a non-operating expense.

Moveable assets received in payment corresponding to investment securities are valued by applying the criteria indicated in this note under letter (h) Investments, but taking into account provision requirements for the periods referred to below.

When the commercial value of the property is lower than its book value, a provision is recorded for the difference.

Legal term for the sale of Foreclosed Assets

Institutions must sell the foreclosed assets, in a period no later than two years after the foreclosing date, except when upon the board of directors request, the Superintendency of Finance extends the term. However, in any event the extension may not exceed an additional period of two years.

Provisions for Foreclosed Assets

With the issuance of the Superintendency of Finance External Circular 034 of August 2003, (effective since October 2003) supervised banks must design and adopt their own internal models for the calculation of provisions for foreclosed assets, through which expected losses for all types of assets are estimated. The Bank does not have their own internal model for calculating provisions for foreclosed assets through which expected losses are estimated by type of asset and approved by the Superintendency of Finance.

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Until such model is presented and approved by the Superintendency of Finance, provisions will be made following the parameters set forth below.

Real estate

The Superintendency of Finance requires a provision equal to 30% of the value of the asset at the time of receipt must be made in proportional monthly installments within the first year following receipt. This provision will increase an additional 30% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 80% of the value upon receipt. In case the term extension is granted, the remaining 20% of the provision may be constituted within said term.

Moveable Assets

The Superintendency of Finance requires a provision equal to 35% of the value of the asset at the time of acquisition must be made in proportional monthly installments within the first year following receipt. This provision must be increased an additional 35% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 100% of the book value of the asset prior to provisions. If the term extension is granted, the remaining 30% of the provision may be constituted within said term.

The value of moveable assets received in payment is calculated according to the criteria established by the Superintendency of Finance for appraising investments as set out in Chapter I of Circular 100 of 1995. Considering that said assets in the Bank s possession are provisioned for 100% of its value, this appraisal process is not required.

Also, it is the Bank s policy, in the case of foreclosed assets that remain for more than 5 years in the Bank s possession as of the date when first recorded in the financial statements, for an adjustment to be applied to the provision, increasing the value up to 100% of its value in books. All property governed by a promissory bill of sale or an agreement is excluded from this practice.

(k) Loan Fees

Loan origination and commitment fees, as well as direct loan origination and commitment costs, are recorded in the consolidated statement of operations as collected or incurred.

(l) Loan Fees

Loan origination and commitment fees, as well as direct loan origination and commitment costs, are recorded in the consolidated statement of operations as collected or incurred.

(m) Property, Plant and Equipment

This account records tangible assets acquired or leased assets, constructed or in the process of importation or construction and permanently used in the course of the Bank s business which have a useful life exceeding one year. Property and equipment is recorded at the cost of acquisition, including direct and indirect costs and expenses incurred up to the time that the asset is in a usable condition.

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Additions, improvements and non-routine repairs that significantly prolong the useful life of an asset are capitalized. Payments for routine maintenance and repairs are charged to expense in the period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The annual depreciation rates for each asset item are:

Buildings	5%
Equipment, furniture and fittings	10%
Computer equipment	20%
Vehicles	20%
Monitors, laptops and CPU s	33%

The individual net book value of real estate (cost less accumulated depreciation) is compared against market values taken from independent professional appraisals. If the market value is higher, a reappraisal of assets is recorded; otherwise, the difference is charged to expenses as provision for other assets for the period. Valuations must be made at least every three years.

At December 31, 2006 and 2007, the Bank had insurance coverage for the acts of its employees which could affect the Bank as well as the financial risks and civil liability coverage for risks inherent to its business. Other policies protect assets against fire, earthquake, explosion, civil disturbance, riot, terrorism, damage to computers and vehicles.

Maintenance policy

There are corrective maintenance measures that consist of immediately repairing the parts, pieces or elements that could affect the property s safety and proper working order. Preventive maintenance consists of periodically checking each one of the parts; electrical and premise checks are carried out twice a year, whereas maintenance on furniture, equipment and fixtures are carried out three or four times a year. The maintenance expenses are recorded as Administrative and other expenses in the statements of operations.

(n) Prepaid Expenses and Deferred Charges

Prepaid expenses are payments made by the Bank in the normal course of business, the benefits of which are recovered over more than one period and are recoverable assuming continuous delivery of services. Deferred charges are goods and services received, for which the Bank expects to obtain future economic benefits.

Amortization of prepaid expenses and deferred charges is calculated from the date which they contribute to the generation of income, based on the following factors:

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Prepaid Expenses

Prepaid expenses include mainly the following monetary items: interest, amortized monthly during the period prepaid; insurance, over the life of the policy; rent, over the period prepaid; equipment maintenance, over the life of the contract; and other prepaid expenses over the period in which services are received or costs and expenses are incurred.

Deferred Charges

Deferred charges are non-monetary items:

Software is amortized over a maximum of three years.

The External Circular 034 issued in October 2006 by the Superintendency of Finance modified the instructions contained in Chapter XVII of the Basic Accounting Circular with regard to goodwill pertaining to new acquisitions and establishes that the value of the goodwill acquired shall be determined once the purchasing entity effectively obtains control over the acquired entity. This value must be distributed throughout each of the business segments, which must be fully identified, even at the book-keeping level. Acquired goodwill is not recorded in the case of acquisitions between controlling and controlled or subordinate entities, or between entities that have the same controller or controllers pursuant to Articles 260 and 261 in the Code of Commerce or between entities that make up a corporate group pursuant to Article 28 onwards of Law 222 of 1995.

Acquired goodwill is recorded as a deferred charge and amortized on a monthly basis on the administrative and other expenses account over a term of twenty (20) years, unless the supervised entity voluntarily selects a shorter period of amortization. Annual amortization is determined on an exponential basis. The different business lines is appraised on an annual basis using technical value appraisal methods performed by an expert, whose suitability and independence has been previously rated by the Superintendency of Finance.

In the case of goodwill already acquired by the Bank and its subordinates on the date when this regulation came into full force and effect, the current amortization term was maintained. With regard to the acquisition of equity securities, prior to the accounting, the Bank carried out an independent appraisal of each business, taking into account the period in which the investment is recovered, the amount of goodwill involved, and the impact of such goodwill on the income statement. Based on the aforementioned evaluation, the amortization period was determined, which does not in any case exceed the terms stipulated in the applicable rules and regulations.

Stationery is expensed when consumed.

Bonuses under the voluntary retirement plan are amortized as permitted by the Superintendency of Finance.

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The discount on the placement of investment securities is amortized over the term specified for the redemption of these same.

Contributions and affiliations are amortized over the period prepaid.

The Bank does not record deferred charges corresponding to studies and projects, institutional advertising and publicity. The value of the disbursements made in connection with these items is recorded directly on the statement of operations as administrative and other expenses.

(o) Operating Leases

Subsidiaries Leasing Bancolombia S.A. and Renting Colombia S.A. each posts all assets given over under operating leasing arrangements in its financial statements.

Depreciation is applied over either the asset s useful life or the term of the leasing agreement, whichever period is the shortest. The methodology used is the financial depreciation method (deducting the residual value) where depreciation on the leased assets bears an adequate relation to the income generated thereon.

The financial depreciation system requires that every month or fraction of a month, the depreciation expense is recorded and therefore depreciation methods involving grace periods are not admissible in this case nor are those that use non-market-based discount rates to estimate the depreciation value.

The assets are amortized upon to the amount of the estimated residual value and upon to the total, when the entity does not have a third party guaranteeing the residual value.

Likewise, a general provision of 1% shall continue to be set up on the value of these assets, without the total value of the accumulated depreciation and the general provision exceeding 100% of the value of the leased asset.

Instructions contained in Chapter II of External Circular 100 of 1995 are followed when evaluating and rating the leased assets.

(p) Trust

This corresponds to the rights arising from having entered into mercantile trust agreements which provide the Bank with the possibility of exercising such rights according to the specific agreement or the applicable law.

The transfer of one or more assets to a trust fund is carried out at its cost value, so that the actual handing over of the asset does not imply any profits for the party setting up the trust and these may only affect the results when the assets subject to the trust are transferred to third parties.

The rights in trusts are adjusted according to the nature of the assets being transferred, following the adjustment procedures for each one of these assets. According to the class of asset in question, an evaluation is carried out, provisions are set up, and legal limits are defined.

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(q) Reappraisals

This account records reappraisals of property and equipment, real state available for sale investments with low exchange volume or which are unquoted.

Valuations are subject to the accounting policy for each type of asset.

(r) Interbank Funds Purchased and Repurchase Agreements

The Bank records funds obtained by the Bank from other financial institutions to satisfy transient liquidity needs in overnight funds. These transactions have a maximum term of thirty (30) calendar days, except the operations with the Colombian Central Bank. Purchases not repaid within that term are reclassified as bank loans and other financial obligations.

The difference between present value (cash received) and future value (repurchase price) is recorded as interest expenses on overnight fund in statement of operations.

(s) Insurance reserves

The subsidiaries, Aseguradora Suiza Salvadoreña S.A. y Asesuisa Vida S.A, record the following insurance reserves on their financial statements:

Mathematical reserves

Mathematical reserves on long-term individual life insurance are calculated based on mortality tables, technical interest and actuarial formulas for each type of insurance. In calculating these reserves the mean reserve and deferred premiums are deducted. The total value of this reserve is certified by an authorized actuary.

Reserves for ongoing risk

In the case of short-duration contracts, a non-accrued premium reserve is calculated based on a percentage of the net retained premium for each type insurance contract. There is no reserve to the insurance contracts with monthly premiums (Debt and a portion of Fire and Foreseeable Lines) and which the premium does not cover any future risk.

Reserves to incurred but not reported claims

The reserve for incurred but not reported (IBNR) claims is calculated as the average value of the retained portion of the payments made over the last three (3) years on claims not reported for prior periods.

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(t) Deferred Income

This account records deferred income and income received in advance in the course of business. Amounts recorded in this account are amortized over the period to which they relate or in which the services are rendered.

The capitalization of yields on restructured loans that have been recorded in memorandum accounts or as charge off loan balances are included in this category as indicated in Note 2 (i) Loans and Financial Lease.

(u) Retirement Pensions

The Bank applies the provisions in Decree 1517 of 1998, which requires a distribution of charges to amortize the actuarial calculation by 2010. As of December 31, 2007, the Bank has amortized the total actuarial liability.

(v) Accrued Expenses

The Bank records provisions to cover estimated liabilities, such as fines, sanctions, litigations and lawsuits, provided that:

- The Bank has acquired a right, and therefore has an obligation;
- Payment may be demanded or is probable; and
- The provision is justifiable, quantifiable and verifiable.

This account also records estimates for taxes.

(w) Additional Paid in Capital

This corresponds to the greater value paid by shareholders over the nominal value of the share. With regard to the issuance of ADRs abroad, the discount granted to the underwriting firms was registered as a lower value of the amount paid by the new shareholders.

(x) Recognition of Interest Revenue

Interest revenue is recognized in current earnings as it accrues. Interest is suspended when due and there is a doubt regarding its collectibility.

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(y) Contingent and Memorandum Accounts

Contingent accounts record operations in which the Bank acquires rights or assumes obligations conditioned by possible future events with varying degrees of probability, such as definite, possible or remote. Memorandum accounts record third party operations whose nature does not affect the financial situation of the Bank. Contingent and memorandum accounts are included in the caption memorandum accounts of the balance sheet.

(z) Net Income per Share

To determine net income per share, the Bank uses the weighted average of the number of shares outstanding during the accounting period.

(aa) Asset and liability management

The Bank evaluates its asset and liability management as well as its off-balance positions, estimating and controlling its degree of exposure to main risks prevalent on the market, this in order to protect these from eventual losses given fluctuations in their value (assets and liabilities).

(bb) Legal Reserve

According to Colombian law, credit institutions must constitute a legal reserve that amounts to at least fifty percent (50%) of the subscribed capital, formed with ten percent (10%) of the net income of each period.

(cc) Recognition of Insurance Income and Related expenses

Premiums from individual and group life insurance policies, property and liability contracts are recognized as income over the period to which the premiums relate, in proportion to the amount of insurance protection provided.

Acquisition costs that are primarily related to the acquisition of new and renewal insurance business, including commissions, underwriting and agency expenses are accounted for as incurred.

(dd) Policies Pension Fund Administrator

Each pension fund administrator must set up and maintain a Special Guarantee Contribution (AEG) for the purpose of protecting minimum returns for the fund being administered. This guarantee is calculated based on Executive Decree No. 13 Rules and Regulations for Managing the Special Guarantee Contribution which stablishes a maximum 3% guarantee of the fund s assets. Therefore, each pension fund administrator may set up, using its own funds, guarantees, sureties and other financial instruments that allow for the protection of the established percentage, with financial institutions having the minimum rating required for issues subject to being acquired by pension funds.

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As of December 31, 2006 and 2007 the AEG was calculated based on 0.25% of the Pension Fund assets and is guaranteed by an administrative surety.

(ee) Reserve for Country Risk

Banco Agrícola S.A., Aseguradora Suiza Salvadoreña S.A. and Asesuisa Vida S.A. record, in their financial statements, reserves for country risk.

Reserves for country risk are set up to cover the placement of funds abroad. For this purpose, permanent investments in subsidiaries abroad are not included. This risk is attributed to the place of domicile of the debtor or the party who is obliged to pay, from whom a return on the invested funds is to be obtained, except when the controlling company is jointly responsible and/or when the guarantor is domiciled in a country with an investment rating.

Institutions that place or commit funds in other countries use the sovereign risk ratings for the country in question in order to determine the country risk. Said ratings are issued by well-known international risk rating agencies for long-term obligations.

Any increase in these reserves gives rise to a debit to the inappropriate earnings account profits from prior years and a credit in the restricted equity account profits from prior years. Drops in the reserves cause a reverse effect in the books.

(ff) Convenience Translation to U.S. Dollars

The Bank maintains its accounting records and prepares its financial statements in Colombian pesos. The U.S. Dollar amounts presented in the financial statements and accompanying notes have been converted from peso figures solely for the convenience of the reader at the exchange rate of Ps 2,014.76 per US$ 1, which is approximately the exchange rate, calculated on December 31, 2007, the last business day of the year, by the Superintendency of Finance. This translation may not be construed to represent that the Colombian peso represents or has been, or could be converted into, U.S. Dollars at that or any other rate.

(gg) Income Tax Expenses Current and Deferred

The income tax is determined as follows: from the ordinary and extraordinary income realized in the period, that being susceptible of produce net increase of shareholders equity in the moment they incurred and, that have not been exempted, are reduced returns, reductions and discounts to obtain net income. As appropriate, realized costs that have a direct relation with income are subtracted to determine income before taxes. Deductions are applied to income before taxes to obtain the taxable income for the ordinary system.

For purposes of income tax, it is presumed that the taxable income is not lower than 6% of shareholder s equity at the last day of the immediately previous taxable period. The excess of taxable income determined under the ordinary system over presumed income becomes taxable income to which the statutory tax rate applies.

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When income tax is paid on presumed income, the difference between this and the income tax calculated under ordinary system can be adjusted in the subsequent five years.

Deferred income taxes are generally recognized for timing differences for commercial and manufacturing subsidiaries. For financial companies, the Superintendency of Finance has restricted inclusion of timing differences related to the amortization of fiscal losses and the excess of presumed income over ordinary income as a deferred tax asset.

For our Subsidiaries domiciled in Panama (Bancolombia Panamá and Subsidiaries, Banagrícola S.A. and Banco Agrícola Panamá S.A.) income tax is governed by the Panamanian Tax Code. Consequently, profits from transactions conducted outside the Republic of Panama, are not subject to tax and therefore the profits obtained by these companies are not subject to income tax within the Republic of Panama.

Our Subsidiaries incorporated in El Salvador pay income tax on revenues obtained in that country, according to the Income Tax Law of El Salvador, contained in Legislative Decree No. Nº134 issued December 18, 1991, which became effective as of January 1, 1992.

(hh) <u>Business Combination</u>

Upon a business combination, the Colombian purchase method of accounting requires that (i) the purchase price be allocated to the acquired assets and liabilities on the basis of their book value, (ii) the statement of income of the acquiring company for the period in which a business combination occurs include the income of the acquired company as if the acquisition had occurred on the first day of the reporting period and (iii) the costs directly related to the purchase business combination not be considered as a cost of the acquisition, but deferred and amortized over a reasonable period as determined by management.

The pooling of interest method of accounting requires the aggregate of the shareholder s equity of the entities included in the business.

The Conavi and Corfinsura acquisition was accounted for using the pooling of interests method in accordance with the methodology suggested by the Superintendency of Finance. The Sufinanciamiento, Comercia (now Factoring Bancolombia), Sutecnología and Banagrícola acquisition was accounted for using the purchase method under Colombian GAAP.

The line merger effect in the consolidated statement of stockholder s equity under Colombian GAAP for 2005 includes the difference between the issuance of shares and the carrying amount of the net asset acquired from Conavi and Corfinsura.

(3) Transactions in Foreign Currency

The Colombian Superintendency of Finance defines limits on the amount of foreign-currency assets and liabilities. As of December 31, 2006 and 2007, the Bank was in compliance with these limits.

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Substantially all foreign currency holdings are in U.S. Dollars. The consolidated foreign currency assets and liabilities, converted to US$, of the Bank at December 31, 2006 and 2007 were as follows:

	2006	***2007***
Assets:		
Cash and due from banks	US$ 130,867	US$ 709,099
Overnight funds	55,090	746,919
Investment securities	621,604	802,648
Loans, net	1,636,001	5,116,185
Customers acceptances and derivatives	(339,803)	(659,910)
Accounts receivable	36,381	91,158
Premises and equipment, net	6,230	68,392
Other assets	94,918	667,486
Total foreign currency assets	US$ 2,241,288	US$ 7,541,977
Liabilities:		
Deposits	1,338,157	4,823,721
Bank acceptances outstanding	27,520	20,971
Borrowings from development and other domestic banks	1,333	279,768
Interbank borrowings	476,527	747,787
Other liabilities	186,175	1,321,228
Total foreign currency liabilities	2,029,712	7,193,475
Net foreign currency asset position	US$ 211,576	US$ 348,502

At December 31, 2006 and 2007, the Bank (unconsolidated) net foreign currency asset position amounted to US$ 176,451 and US$ 668,030, respectively; which meet the legal requirements.

At December 31, 2006 and 2007, the Subsidiaries Bancolombia Panamá S.A, Bancolombia Caymán, Sistema de Inversiones y Negocios S.A, Sinesa Holding Company Limited, Future Net S.A, Banagrícola S.A, Banco Agrícola Panamá S.A, Inversiones Financieras Banco Agrícola S.A, Banco Agrícola S.A, Arrendadora Financiera S.A, Credibac S.A, Bursabac S.A, Crecer S.A, Aseguradora Suiza Salvadoreña S.A, Asesuisa Vida S.A, Valores Bancolombia Panamá S.A, Bancolombia Puerto Rico, Renting Perú S.A.C, Suleasing Internacional USA Inc and Suleasing Internacional Do Brasil Locacao de Bens had foreign currencies which represent 54.61% and 82.63% respectively, of the consolidated assets in foreign currency and 51.30% and 80.45%, respectively, of the consolidated liabilities in foreign currency.

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(4) Cash and Due From Banks

The balances of cash and due from banks consisted of the following:

	2006	***2007***
***Colombian peso denominated*:**		
Cash	Ps 1,148,238	Ps 1,554,035
Due from the Colombian Central Bank	75,025	521,113
Due from domestic banks	12,047	96,016
Remittances of domestic negotiated checks in transit	21,199	19,019
Provision	(741)	(229)
Total local currency	1,255,768	2,189,954
Foreign currency:		
Cash	15,634	215,124
Due from the Colombian and El Salvador Central Bank	2,962	564,779
Due from foreign banks	270,495	546,012
Remittances of foreign negotiated checks in transit	4,490	102,750
Provision	(597)	
Total foreign currency	292,984	1,428,665
Total cash and due from banks	Ps 1,548,752	Ps 3,618,619

Reserves required to certain transactions and time deposits with the Colombian and El Salvador Central Bank amounted to Ps 1,315,927 and Ps 2,634,108 at December 31, 2006 and 2007, respectively. The reserves, which are prescribed by the Colombian Central Bank, are based on a percentage of deposits maintained at the Bank by its customers.

(5) Investment Securities

Investment in trading securities consisted of the following:

	2006	***2007***
Trading Securities		
Colombian peso denominated:		
Colombian government	Ps 814,342	Ps 938,768
Colombian Central Bank	55,559	19
Government entities	16,784	368,419
Financial institutions	1,014,276	338,693
Corporate bonds	140,151	67,814
Equity securities	30,716	69,718
Total local currency denominated	2,071,828	1,783,431

Foreign currency denominated:		
Colombian government	153,677	125,868
Foreign government		6,087
Government entities	3,481	12,876
Financial institutions	407,582	49,442
Corporate bonds		8,026
Equity securities	30,924	23,407
Total foreign currency denominated	595,664	225,706
Total trading securities	2,667,492	2,009,137
Allowance for trading securities	(7,622)	(8,023)
Trading securities, net	Ps 2,659,870	Ps 2,001,114

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The foreign currency denominated securities issued or secured by the Colombian government are bonds denominated in U.S. Dollars, purchased at par value, with annual average interest rates of 6.22% and 5.73% for 2006 and 2007, respectively.

As of December 31, 2006 and 2007, the Bank had pledged investments securities amounting to Ps 1,147,942 and Ps 1,277,453, respectively as collateral to secure lines of credit at international banks, domestic development banks and other financial institutions.

The Bank sold Ps 218,569,232 and Ps 218,683,534 of investment securities during the years ended December 31, 2006 and 2007, respectively.

Investment in available for sale securities consisted of the following:

	2006	***2007***
Available for sale		
Colombian peso denominated:		
Colombian government	Ps 679,056	Ps 549,007
Government entities		29,729
Financial institutions	67,823	660,622
Other	313,424	26,185
Total local currency denominated	1,060,303	1,265,543
Foreign currency denominated:		
Colombian government	674,437	82,408
El Salvador Central Bank		39,658
Government entities		156,364
Foreign government		379,467
Financial institutions	61,687	31,153
Other	14,157	
Total foreign currency denominated	750,281	689,050
Total Available for sale Debt securities	Ps 1,810,584	Ps 1,954,593

	Participation percentage at December 31, 2006	***2006***	***Participation percentage at December 31, 2007***	***2007***
Available for sale equity securities				
Todo Uno Services	46.51%	Ps 53,335	47.04%	Ps 47,998
Sociedad Administradora de Fondos de Pensiones y de Cesantías Protección S.A.	23.44%	19,481	23.44%	19,481
Titularizadora Colombiana S.A.	21.25%	14,765	21.25%	17,308

Promotora La Alborada	25.81%	14,001	25.81%	14,001
Metrotel Redes	28.42%	10,568	28.42%	10,568
Bolsa de Valores de Colombia	8.54%	5,509	5.87%	8,578
Concesiones Urbanas S.A.	33.32%	8,446	33.33%	8,449
Urbanización Chicó Oriental No. 2 Ltda.	24.37%	7,848	24.37%	7,848
Redeban Red Multicolor	20.36%	4,396	20.36%	4,396
Cadenalco S.A. Titularización	3.33%	3,929	3.33%	4,378
Concesiones CCFc S.A.	25.50%	4,358	25.50%	4,358

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	Participation percentage at December 31, 2006	***2006***	***Participation percentage at December 31, 2007***	***2007***
Depósito Centralizado de Valores de Colombia Deceval S.A.	13.58%	3,735	13.58%	4,209
Banco Latinoamericano de exportaciones BLADEX S.A.	0.22%	2,109	0.27%	2,618
Terminal Maritimo Muelles El Bosque (1)	7.01%	3,390		
Muelles El Bosque Operadores Portuarios (1)	7.93%	1,242		
Sutecnología S.A. (2)	49.50%	1,535		
ACH 4G S.A.	20.00%	1,225	20.00%	1,225
Urbanización Sierras del Chicó Ltda.	0.55%	203	0.55%	203
Serfinsa (3)			31.11%	1,314
Other		3,072		3,690
Total equity securities		163,147		160,622
Allowance for other-than-temporary impairment in value		(63,060)		(53,717)
Equity securities, net		Ps 100,087		Ps 106,905

(1) These securities were sold during 2007.

(2) In 2007, the bank acquired 50.50% of interest in Sutecnología which was subsequently merged with Leasing Bancolombia in December 2007.

(3) Investment derived from Banagrícola

acquisition in
May 2007.

Dividends received from equity investments amounted to Ps 42,731, Ps 21,199 and Ps 18,968 for the years ended December 31, 2005, 2006 and 2007, respectively.

The equity investments were classified as Category A , except for the following:

	2006		2007	
	Category	***Valuation allowance***	***Category***	***Valuation allowance***
Todo Uno Services	D	Ps 44,218	D	Ps 34,849
Urbanización Chicó Oriental No. 2 Ltda.	E	7,848	E	7,848
Urbanización Sierras del Chicó Ltda.	E	203	E	203
Industria Colombo Andina Inca S.A.	E	300	E	300
Sociedad Portuaria San Andrés	E	3		
Sociedad Promotora Siderúrgica Colombiana E.U.	E	297	D	427
Promotora La Alborada	E	9,897	E	9,897
Oikos Títulos de Inversión en Circulación	E	287	E	186
Others		7		7
		Ps 63,060		Ps 53,717

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Investment in held to maturity securities consisted of the following:

	2006	2007
Held to Maturity Securities		
Colombian peso denominated:		
Colombian government	Ps 523,007	Ps 525,368
Colombian Central Bank		145
Government entities	5,106	47,765
Financial institutions	520,926	423,056
Corporate bonds	30,712	41,710
Total Held to maturity securities	1,079,751	1,038,044
Foreign currency denominated:		
Colombian government	12,394	
El Salvador Central Bank		546,552
Government entities		853
Foreign government		64,929
Financial institutions		72,374
Other	21,978	2,694
Total foreign currency denominated	34,372	687,402
Total Held to maturity securities	1,114,123	1,725,446
Allowance for other-than-temporary impairment in value	(6,903)	(13,807)
Total Held to maturity securities, net	Ps 1,107,220	Ps 1,711,639

The maturity and yield of securities issued by Colombian Government Peso-denominated, as of December 31, 2007, were as follow:

Maturity	*Balance*	*Yield* (1)
One year or less	334,500	9.22%
After one year through five years	1,013,792	9.39%
After five years through ten years	460,543	7.37%
After ten years	204,308	10.71%
Total	**2,013,143**	**9.04%**

(1) Calculated using internal return rate (IRR) as of

December 31,
2007

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(6) Loans and Financial Leases

Loan portfolio and financial lease contracts were classified, in accordance with the provisions of the Superintendency of Finance, as follow:

December 31, 2006

Classification	*Mortgage*	*Commercial*	*Consumer*	*Small loan*	*Financial leases*	*Total*
A Normal Risk	Ps 1,288,334	Ps 15,216,763	Ps 3,327,404	Ps 79,225	Ps 3,398,819	Ps 23,310,545
B Acceptable Risk	53,139	431,653	111,728	3,566	108,688	708,774
C Appreciable Risk	22,454	114,146	38,659	1,807	32,320	209,386
D Significant Risk	11,833	173,634	50,937	1,203	5,156	242,763
E Unrecoverable	9,685	92,309	58,532	5,277	8,303	174,106
Total loans and financial leases	Ps 1,385,445	Ps 16,028,505	Ps 3,587,260	Ps 91,078	Ps 3,553,286	Ps 24,645,574

December 31, 2007

Classification	*Mortgage*	*Commercial*	*Consumer*	*Small loan*	*Financial leases*	*Total*
A Normal Risk	Ps 2,729,470	Ps 22,060,695	Ps 6,056,276	Ps 114,274	Ps 4,436,788	Ps 35,397,503
B Acceptable Risk	78,228	677,279	225,934	4,065	149,516	1,135,022
C Appreciable Risk	35,067	157,559	81,695	2,047	23,717	300,085
D Significant Risk	13,793	380,711	123,025	1,328	85,177	604,034
E Unrecoverable	27,070	120,814	106,281	8,186	3,629	265,980
Total loans and financial leases	Ps 2,883,628	Ps 23,397,058	Ps 6,593,211	Ps 129,900	Ps 4,698,827	Ps 37,702,624

Promissory notes documenting loans amounting to Ps 707,546 and Ps 1,601,926 at December 31, 2006 and 2007, respectively, have been duly endorsed to domestic development banks, as required by applicable laws.

The following table represents a summary of restructured loans:

	2006	*2007*
Ordinary restructurings	Ps 551,293	Ps 849,522
Extraordinary restructurings	1,265	1,265
Under law 550	90,500	72,519
Under law 617	166,198	151,883
Creditor agreement proceedings	5,582	4,092
Performance Agreement	2,133	1,165
Interest and other receivables items	9,415	16,164
	826,386	1,096,610

Allowances for loan losses		(176,110)		(211,779)
Net of restructured loans	Ps	650,276	Ps	884,831

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(7) Allowance for Loans, Financial Leases and Accrued Interest Losses

The following table sets forth an analysis of the activity in the allowance for loans and financial leases losses:

	2005	2006	2007
Balance at beginning of year	Ps 434,378	Ps 705,882	Ps 834,183
Balance at beginning of period (Factoring Bancolombia)		5,625	
Balance at beginning of period (Conavi, Corfinsura and subsidiaries)	236,013		
Balace at beginning of period (Banagrícola s subsidiaries)(1)			147,357
Provision for loan losses	374,744	568,679	1,203,543
Charge-offs	(115,455)	(136,789)	(186,273)
Effect of changes in exchange rate	(3,955)	(1,210)	(25,441)
Reclasification Securitization	(11,947)		
Reversals of provisions	(207,896)	(308,004)	(516,218)
Balance at end of year	Ps 705,882	Ps 834,183	Ps 1,457,151
Ratio of charge-offs to average outstanding loans	0.66%	0.63%	0.60%

(1) Includes allowance for loan losses of Banco Agrícola, Banco Agrícola (Panamá), Arrendadora Financiera, Credibac, Aseguradora Suiza Salvadoreña and Asesuisa Vida.

The recoveries of charged-offs loans are recorded in the consolidated statement of operations separated from provisions for loan losses.

The following table sets forth the activity in the allowance for accrued interest losses:

	2005	2006	2007
Balance at beginning of year	Ps 4,603	Ps 8,655	Ps 11,644
Balance at beginning of period (Factoring Bancolombia)		481	
Balance at beginning of period (Conavi, Corfinsura and subsidiaries)	9,609		
Provision	12,379	14,825	35,543

Charge-offs		(4,657)		(4,126)		(3,167)
Recoveries		(13,267)		(8,159)		(10,507)
Effect of changes in exchange rate		(12)		(32)		(210)
Balance at end of year	Ps	8,655	Ps	11,644	Ps	33,303

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(8) Customer Acceptances and Derivatives

The Bank s rights and commitments from derivatives operations were as follows:

	2006	2007
Customer Acceptances		
Current	Ps 57,202	Ps 53,889
Overdue	6,828	1,319
Total	64,030	55,208
Derivatives		
(Fair value of derivatives instruments)		
Next Day Operations		
Foreign exchange rights contracts bought	245,494	15,527
Foreign exchange rights contracts sold	241,641	10,575
Investment securities rights bought (local currency)	50,242	78,381
Investment securities rights sold (local currency)	115,455	67,322
Total rights	652,832	171,805
Foreign exchange commitments contracts bought	(245,705)	(15,433)
Foreign exchange commitments contracts sold	(241,671)	(10,656)
Investment securities commitments bought (local currency)	(50,164)	(77,898)
Investment securities commitments sold (local currency)	(115,410)	(67,495)
Total obligations	(652,950)	(171,482)
Total Next Day Operations	(118)	323
Forward Contracts		
Foreign exchange rights contracts bought	3,257,790	3,211,826
Foreign exchange rights contracts sold	3,915,765	4,462,834
Investment securities rights bought (local currency)	1,042,606	643,016
Investment securities rights sold (local currency)	260,854	275,637
Other rights		301
Total rights	8,477,015	8,593,614
Foreign exchange commitments contracts bought	(3,369,751)	(3,243,867)
Foreign exchange commitments contracts sold	(3,757,637)	(4,399,430)
Investment securities commitments bought (local currency)	(1,031,758)	(643,308)

Investment securities commitments sold (local currency)		(271,562)	(274,938)
Total obligations		(8,430,708)	(8,561,543)
Total (1)		46,307	32,071
Futures Contracts			
Foreign exchange rights contracts bought	Ps		30,117
Foreign exchange rights contracts sold		43,973	10,036
Investment securities rights bought (local currency)		6	863
Investment securities rights sold (local currency)		6	5,611
Other rights			599
Total rights		43,985	47,226

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		2006		2007
Foreign exchange commitments contracts bought				(30,117)
Foreign exchange commitments contracts sold		(43,973)		(10,036)
Investment securities commitments bought (local currency)		(6)		(863)
Investment securities commitments sold (local currency)		(6)		(5,611)
Other commitments				(603)
Total obligations		(43,985)		(47,230)
Total Future Contracts				(4)
Swaps				
Foreign exchange right contracts		1,151,073		3,129,471
Interest rate rights contracts		121,547		155,589
Foreign exchange commitments contracts		(1,098,591)		(3,024,895)
Interest rate commitments contracts		(116,558)		(153,625)
Total Swaps		57,471		106,540
Options				
Foreign exchange call options		86		(1,062)
Foreign exchange put options		(1,381)		(141)
Caps				3,066
Total Options		(1,295)		1,863
Total customer acceptances and derivatives	Ps	166,395	Ps	196,001

(1) As of December 31, 2006 includes forward contracts known in Colombia as *operaciones carrusel*.

The Bank currently has an investment portfolio in local and foreign currencies that allows it to offer foreign exchange and interest rate coverage to its clients. By using derivatives, the Bank hedges exchange risk and protects its foreign-currency investment portfolio. These derivatives help protect the Bank against exchange-rate fluctuation and increase the predictability of the Bank s yield on foreign-currency investments. The bank does not economically hedge the foreign exchange exposition of its investment in foreing subsidiaries, which is substantially U.S. Dollar.

The Bank s derivatives policy is to maintain active and passive positions with clients with the intent to reduce interest rate and exchange rate risk as much as possible. Within the credit limit granted to the Bank s clients, there is a portion for derivatives operations. For this reason, the Bank never carries out a derivatives transaction unless the client has the capacity to obtain credit from the Bank.

Under the rules of the Superintendency of Finance, the Bank s derivatives portfolio is marked to market daily and the fair value of the asset and liability legs of the derivatives are recorded as rights and commitments separatedly in the balance sheet. The changes in fair value are recorded in the statement of operations.

For forward contracts, the average cost of rights and commitments relating to the purchase of financial instruments is 9.66% with a maturity of eight days and the average yield from rights and commitments relating to the sale of investments securitites is 7.45% with a maturity of four days.

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The average yield from rights and commitments relating to the sale of foreign currency is 3.80% annually with a maturity of 67 days. The average yield from rights and commitments relating to the purchase of foreign currency is 3.90% annually with an average maturity of 63 days.

The rates and maturity indicated for forward contracts are the same as the futures contracts.

The average value of hedging portfolio during the years 2007 was US$ 6,194 and the average yield was 5.27%.

(9) Accounts Receivable

Accounts receivable consisted of the following:

	2006 (2)	2007 (2)
Credit card compensation	Ps 210,056	Ps 275,765
Overnight funds sold	1,048	2,394
Commissions	34,843	46,527
Sierras del Chicó y Chicó Oriental	4,289	4,467
Sale of Bank s equity investments (1)	45,200	49,744
Renting	474	63
Advances to contractors and honoraries	124,353	149,438
Commitment seller	10,993	19,289
Warehousing services	10,292	
Dividends	2,826	2,008
Treasury operations pending of paid by the customers	1,193	2,500
Services and properties sells	27,759	24,017
Employee advances	367	5,835
Deposit security receivable (Fogafin)	26,540	23,342
Insurance premium receivables		32,525
Taxes	7,538	10,447
Other credit card receivable	6,883	11,219
International operations	25,480	10,234
Accounts receivables in branches	7,680	25,846
Other receivables	36,999	54,850
Total accounts receivable	584,813	750,510
Allowance for accounts receivable losses	(22,215)	(34,404)
Accounts receivable	Ps 562,598	Ps 716,106

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The changes in allowance for accounts receivable are as follows:

	2005	2006	2007
Balance at beginning of year	Ps 14,840	Ps 30,984	Ps 22,215
Balance at beginning of period (Banagrícola s subsidiaries)[3]			2,787
Provision for uncollectible amounts	25,121	17,621	28,536
Charge-offs	(7,851)	(5,573)	(7,052)
Effect of exchange rate	(163)	557	(459)
Reversal of provision and recoveries	(963)	(21,374)	(11,623)
Balance at end of year	Ps 30,984	Ps 22,215	Ps 34,404

(1) Includes sales of Lab Investment & Logistic and Abocol and affiliate.

(2) Includes all accounts receivable except those originated for interest loans.

(3) Includes allowance for accounts receivable losses of Banco Agrícola, Aseguradora Suiza Salvadoreña and Asesuisa Vida.

(10) Premises and Equipment

Premises and equipment consisted of the following:

	2006	2007
Premises and equipment		
Land	Ps 78,512	Ps 136,369
Buildings	321,055	421,666
Warehouses	7,116	

Furniture, equipment and fixtures	212,874	261,029
Computer equipment	441,846	543,041
Vehicles	6,328	13,034
Construction in progress	18,221	122,606
Machinery and equipment	15,478	17,293
Equipment in transit[(1)]	245,478	157,341
Total	1,346,908	1,672,379
Less accumulated depreciation	(617,947)	(806,567)
Allowance	(16,239)	(9,994)
Premises and equipment, net	Ps 712,722	Ps 855,818

(1) Includes goods being imported to be allocated to leasing.

Premises and equipment depreciation expense for the years ended December 31, 2005, December 31, 2006 and December 31, 2007, amounted to Ps 79,293, Ps 95,921 and Ps 104,442 respectively.

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(11) Operating Leases

Operating leases consisted of the following:

	2006	2007 (1)
Operating Leases		
Machinery and equipment	Ps 5,463	Ps 5,650
Vehicles	211,240	482,440
Furniture, equipment and fixtures	3,440	15,271
Computer equipment	24,186	97,259
Real goods	1,505	1,711
Total	245,834	602,331
Rents	7,459	15,690
Less accumulated depreciation	(84,687)	(126,080)
Allowance	(1,299)	(3,608)
Operating Leases, net	Ps 167,307	Ps 488,333

(1) As of December 31, 2007, includes Sutecnología operating leases since the beginning of the year. Sutecnología merged with Leasing Bancolombia, on December 2007.

Operating lease depreciation expense for the years ended December 31, 2005, 2006 and 2007, amounted to Ps 8,340, Ps 8,632 and Ps 18,393, respectively.

(12) Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges consisted of the following:

	2006	2007
Prepaid expenses:		
Insurance premiums	Ps 12,417	Ps 11,636
Interest	11	10
Other	16,072	12,086

Total prepaid expenses		28,500		23,732
Deferred charges:				
Studies and projects		1,887		10,058
Computer programs		8,450		25,329
Leasehold improvements		2,994		8,898
Deferred taxes non-banking entities		714		695
Stationery and supplies		233		1,618
Discounts on issuance of long-term debt				12,918
Commissions from derivative products		744		451
Loss on valuation of debt securities		941		
Banagrícola acquisition costs				38,033
Customer list				8,082
Commisions				2,700
Other		1,999		5,387
Total deferred charges	Ps	17,962	Ps	114,169
Total prepaid expenses and deferred charges	Ps	46,462	Ps	137,901

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(13) Other Assets

Other assets consisted of the following:

		2006		2007
Other assets:				
Value added tax deductible and withholding taxes	Ps	39,426	Ps	14,486
Investment in Trust		16,129		10,978
Deposits		147,423		23,842
Assets to place in lease contracts		445,050		502,260
Inventory		5,543		7,906
Consortiums		9,808		8,329
Other		11,886		12,841
Total other assets	Ps	675,265	Ps	580,642

(14) Goodwill

The movements in goodwill are as follows:

		2005		2006		2007
Balance at beginning of year	Ps	73,607	Ps	50,959	Ps	40,164
Additions derived from the acquisition of Factoring Bancolombia by Bancolombia				15,019		
Additions derived from the acquisition of Banagrícola by Bancolombia Panamá						881,434
Other Additions [1]						132,154
Amortization		(22,648)		(25,814)		(70,411)
Effect of change in exchange rate						(6,246)
Balance at end of year	Ps	50,959	Ps	40,164	Ps	977,095

(1) Corresponds to: a) The balance at beginning of year of the goodwill derived from the acquisition of Inversiones Financieras Banco Agrícola (IFBA) and Banco Agrícola

by Banagrícola and the goodwill derived from the acquisition of Banco Agrícola by Inversiones Financieras Banco Agrícola in the total amount of Ps 74,521; b) the additions to the goodwill derived from the acquisition of IFBA and Banco Agrícola by Banagrícola in the amount of Ps 30,052 and the additions to the goodwill derived from the acquisition of Banco Agrícola by IFBA in the amount of Ps 24,436 during the year 2007 and c) the goodwill derived from the acquisition of Sutecnologia by Leasing Bancolombia in the amount of Ps 3,145.

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(15) Foreclosed Assets

Foreclosed assets consisted of the following:

		2006		2007
Equity securities	Ps	54,202	Ps	58,906
Real estate		131,816		166,992
Other assets		6,986		8,218
Total		193,004		234,116
Allowance		(174,393)		(201,822)
Total foreclosed assets, net	Ps	18,611	Ps	32,294

The following is a summary of equity securities classified as foreclosed assets:

		2006		2007
Chicó Oriental Número 2 Ltda.	Ps	14,202	Ps	14,202
Urbanización Sierras del Chicó Ltda.		11,703		11,703
Procampo trust		7,044		7,044
Enka de Colombia				6,965
Lote2C Chisa trust		3,511		4,480
Pizano S.A.		3,663		3,663
Convertible Securities Pizano S.A.		3,221		3,221
Derechos Fibra Tolima				1,572
Derechos Calima Resort				1,485
Derecho fiduciario ADM-Ceylán				1,209
BIMA trust				675
Líneas Agromar trust		1,399		209
Conconcreto S.A.		2,622		
Holguines Cali		1,485		
Coltejer		2,674		
Other		2,678		2,478
Total	Ps	54,202	Ps	58,906

The changes in allowance for foreclosed assets are as follows:

		2005		2006		2007
Balance at beginning of year	Ps	140,865	Ps	205,176	Ps	174,393
Balance at beginning of year 2007 (Aseguradora Suiza, Banco Agrícola)						70,612
Balance at beginning of the year (Factoring Bancolombia, Conavi, Corfinsura and subsidiaries)		65,814		2,370		

Provision	44,665	22,037	35,298
Charge-offs	(772)	(978)	(23,866)
Reversal of provisions	(45,445)	(54,298)	(52,995)
Reclassifications	52	91	5,244
Effect of changes in exchange rates	(3)	(5)	(6,864)
Balance at the end of year	Ps 205,176	Ps 174,393	Ps 201,822

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(16) Reappraisal of Assets

The following table describes reappraisals of assets:

	2006	2007
Asset revaluations, net	Ps 348,364	Ps 520,788
Less: proportional equity revaluations	(179,651)	(167,069)
Less: minority interests	(28,020)	(34,073)
Total equity revaluations	Ps 140,693	Ps 319,646

The proportional equity revaluations refer to the acquisition of investment in Banca Inversión Bancolombia S.A., Almacenar S.A. (for 2006), Valores Bancolombia S.A., Leasing Bancolombia S.A., Fiduciaria Bancolombia S.A., Sufinanciamiento S.A., Factoring Bancolombia S.A. and Inversiones Financieras Banco Agrícola S.A., and some of the affiliates of the entities mentioned above, calculated on the acquisition date. Consolidation rules require this value to be unchanged while the investment is held or no new acquisitions are made.

(17) Interbank Borrowings

Interbank borrowings, primarily denominated in U.S. Dollars, are summarized as follows:

	2006	2007
Foreign banks		
Short-term	Ps 679,105	Ps 454,878
Long-term	387,740	1,051,733
Total	Ps 1,066,845	Ps 1,506,611

For the purposes of this classification, short-term interbank borrowings, obtained from other banks for liquidity purposes, are unsecured and generally have maturities ranging from 90 to 180 days.

As of December 2006 and 2007, interest rates on U.S. dollar denominated short-term borrowings from foreign banks averaged 5.59% and 5.28%, respectively.

For long-term interbank borrowings, the average interest rate was 5.76% and 5.86% in 2006 and 2007, respectively.

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Maturities of interbank borrowings for the end of the year 2007 were as follows:

	2007
2008	Ps 1,112,032
2009	16,432
2010	70,408
2011	7,613
2012 and thereafter	300,126
	Ps 1,506,611

(18) Borrowings from Development and other domestic banks

The Colombia goverment has established programs to promote the development of specific sectors of the economy. These sectors include foreign trade, agriculture, tourism and many other industries. These programs are under the administration of the Colombian Central Bank and various goverment entities.

Under these programs, the Bank receives a loan request from an applicant operating in a designated economic sector. The Bank then performs a full credit analysis of the aplicant based on its normal credit criteria. If the criteria are met, the Bank applies to the appropriate government agency for funding.The government agency reviews the loan application to determine compliance with the policy and objectives and may also perform an independent credit analysis of the applicant. Upon approval, the agency disburses funds to the Bank. The Bank, in turn, disburses the loan to its customer and assumes all credit risk.

These loans generally bear interest from 3% to 6% above the average rates paid by domestic banks on short-term Time Deposits. Loan maturities vary depending on the program (ranging from one to ten years). The bank funds approximately 0% to 15% of the total loan balance, with the reminder being provided by the respective government agencies. Loans to customers are in the same currency and maturity as the borrowings from the agencies.

Borrowings from Development bank received from certain Colombian goverment agencies and other domestic banks consisted of the following:

	2006	2007
Banco de Comercio Exterior de Colombia (Bancoldex)	Ps 732,617	Ps 1,190,028
Fondo para el Financiamiento del Sector Agropecuario (Finagro)	429,175	631,940
Findeter	753,200	1,035,910
Other (1)	534,589	486,757
Total	Ps 2,449,581	Ps 3,344,635

(1) Includes borrowings from comercial banks and other non-financial entities

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Interest rates on borrowings from development and other domestic banks averaged 6.58% and 9.8% in 2006 and 2007, respectively, in local currency and 6.47% and 6.82% in 2006 and 2007, respectively, in foreign currency. Maturities at December 31, 2007 were as follows:

2007	Ps	329
2008		740,971
2009		385,022
2010		839,417
2011		377,231
2012		565,364
2013 and thereafter		436,301
Total	Ps	3,344,635

(19) Other Liabilities

Other liabilities consisted of the following:

		2006		***2007***
Unearned income	Ps	20,579	Ps	33,779
Accrued severance Law 50, net of advances		17,269		21,028
Accrued severance pre-Law 50, net of advances to employees of Ps 11,360 and Ps 10,160 in 2006 and 2007, respectively		13,553		13,669
Accrued payroll and other severance benefits		43,649		48,308
Accrued pension obligations net of deferred cost		99,085		110,669
Negative goodwill		7,137		4,604
Deferred interest on restructured loans		50,549		45,956
Deferred tax liability		40,683		64,183
Advances		75,104		52,200
Insurance reserves				67,229
Deferred profit on sales of assets		11,039		12,787
Deferred paid standby letters		2,150		3,965
Other		6,900		25,056
Total	Ps	387,697	Ps	503,433

Unearned income fundamentally consists of prepayments of interest by customers. Terms for the prepayment of interest are established when the loan is originated. Unearned income is generally amortized on a straight-line basis over the term for which interest has been prepaid. Furthermore, unearned income includes commissions paid by clients and other rents.

Colombian labor law give the right to each employee hired before January 1, 1991 to a severance payment in an amount equal to such employee s last monthly salary multiplied by the number of years of service. The Bank increases the accrued liability for such severance benefits whenever an employee s salary is increased. To allow greater flexibility in labor contracts, the Colombian government enacted Law 50 in 1990, which, among other things, permits companies to negotiate a waiver of the retroactivity component of severance pay with their employees. In August 1994, the Bank and its executive employees agreed on a plan that waived the retroactivity component of severance pay.

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In accordance with the Colombian Labor Code, employers must pay retirement pensions to employees who fulfill certain requirements as to age and time of service. However, the Social Security Institute and other private funds have assumed the pension obligation for the majority of the Bank s employees.

Pension obligation

The following is an analysis of the Bank s pension obligations:

	Projected pension liability	*Deferred cost*	*Net*
Balance at December 31, 2004	Ps 87,138	Ps (785)	Ps 86,353
Balance at beginning of year (Corfinsura)	356		356
Decrease for Abocol sale	(5,292)	785	(4,507)
Reclassification	(51)		(51)
Adjustment per actuarial valuation	16,715	(16,715)	
Benefits paid	(10,184)		(10,184)
Pension expense		16,715	16,715
Balance at December 31, 2005	Ps 88,682	Ps	Ps 88,682
Adjustment per actuarial valuation	22,156	(22,156)	
Benefits paid	(11,753)		(11,753)
Pension expense		22,156	22,156
Balance at December 31, 2006	Ps 99,085	Ps	Ps 99,085
Adjustment per actuarial valuation	25,736	(25,736)	
Benefits paid	(12,652)		(12,652)
Settlement due to sale of Almacenar	(1,500)		(1,500)
Pension Expense		25,736	25,736
Balance at December 31, 2007	Ps 110,669	Ps	Ps 110,669

In compliance with Colombian law, the present value of the obligation for pensions was determined on the basis of actuarial calculations. The significant assumptions used in the actuarial calculations were the following:

	2005	*2006*	*2007*

Discount rate	19.06%	16.53%	14.05%
Future pension increases	12.01%	10.55%	8.83%

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(20) Long Term-Debt

Companies are authorized by the Superintendency of Finance to issue or place ordinary bonds or general collateral bonds. Every time a new issuance is planned, the Superintendency of Finance must be informed of the total value, series, number of bonds, date of issuance, term and frequency of payment, the corresponding return and the place and form of payment of said return as duly provided for by applicable legislation.

The bonds issued are recorded in the National Register of Securities for all legal purposes and may be subject to a public offer without any need for further authorization from the Superintendency of Finance.

The term for repaying the bonds issued, either partially or totally, may not be less than one (1) year and these shall cease to yield a return as of the date established for collecting said payment.

The scheduled maturities of long term-debt at December 31, 2007 were as follows:

2008	448,636
2009	696,144
2010	321,431
2011	206,770
2012	168,152
2013 and thereafter	1,009,597
	Ps 2,850,730

Long-term debt consists of bonds issued by Bancolombia (unconsolidated), Banco Agrícola S.A., Leasing Colombia S.A., Sufinanciamiento S.A., Renting Colombia S.A. and by Fundicom S.A. bearing interest at the following rates:

Bancolombia S.A.

Peso Denominated

Issue Date	*Maturity Date*	*Rate* (1)
2000	30-Nov-02	14.15%
2001	20-Dec-10	11.90%
2002	21-Jun-10	9.88%
2004	11-Feb-09	11.34%
2004	11-Feb-09	10.10%
2007	26-Dec-12	11.58%

Foreign Currency Denominated

Issue Date	*Maturity Date*	*Rate*
2007	25-May-17	6.99%

(1) Each of these issuances has a different nominal rate; for this reason the effective

rate presented here corresponds to the estimate made with each one of the rate for each issuance in circulation.

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On May 14, 2007, Bancolombia issued US$ 400,000 of subordinated notes due 2017 (the Notes). The notes have a 10-year maturity term and a coupon of 6.99%, payable semi-annually on May 25 and November 25 of each year, beginning on November 25, 2007. The Notes were offered pursuant to an effective shelf registration statement filed with the SEC. The Notes offering settled on May 25, 2007.

On September 26, 2007, Bancolombia did a local public offering of the first issuance of Bancolombia s Ordinary Notes (Bonos Ordinarios Bancolombia). Bancolombia successfully completed the issuance for an aggregate principal amount of Ps 400,000.

The principal conditions of this issuance are described as follows:

Issue	*Maturity date*	*Payment term*	*Yield*	*Amount*
1st	March 26, 2009	Quarterly	DTF + 1.99	139,848
2nd	September 26, 2009	Quarterly	DTF + 2.2	91,000
3rd	September 26, 2012	Quarterly	DTF + 2.68	107,400
3rd	September 26, 2012	Biannually	DTF + 6.10	61,752
Total amount				400,000

Banco Agrícola S.A.

Issue Date	*Maturity Date*	*Rate*
2002	2009	Up to an annual rate of 4.9%
2003	2008	Up to an annual rate of 5.08%
2003	2010	Up to an annual rate of 5.36%
2004	2009	Up to an annual rate of 5.28%
2004	2011	Up to an annual rate of 5.88%
2005	2010	Up to an annual rate of 5.97%
2006	2008	Up to an annual rate of 6%
2006	2011	Up to an annual rate of 5.82%
2006	2013	Up to an annual rate of 5.46%
2007	2009	Up to an annual rate of 6.25%
2007	2010	Up to an annual rate of 6.30%
2007	2014	Up to an annual rate of 5.71%

Leasing Bancolombia S.A.

Issue Date	*Maturity Date*	*Rate*
2002	From 60 to 72 months	

		Up to an annual rate of the DTF or IPC plus 3.00%
2003	From 18 to 60 months	Up to an annual rate of DTF or IPC plus 5.67%
2004	From 36 to 60 months	Up to an annual rate of DTF or IPC plus 4.5%
2006	From 18 to 60 months	Up to an annual rate of DTF or IPC plus 5.05%

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Sufinanciamiento S.A.

Issue Date	*Maturity Date*	*Rate*
11-Mar-04	11-Mar-14	IPC + 2%
30-Mar-06	30-Mar-16	IPC + 2%
08-Sep-06	08-Sep-16	IPC + 2%
05-Oct-06	05-Oct-16	IPC + 2%
07-Nov-06	07-Nov-16	IPC + 2%
06-Dec-06	06-Dec-16	IPC + 2%
21-Dec-06	21-Dec-16	IPC + 2%
03-Jul-07	03-Jul-17	IPC + 2%
28-Nov-07	28-Nov-17	IPC + 2%

Renting Colombia S.A.

Issue Date	*Maturity Date*	*Rate*
28-Jan-03	28-Jan-08	IPC 7.25% E.A.
28-Jan-03	28-Jan-09	IPC 6.7% T.A.
21-Sep-06	21-Sep-09	DTF 2.80% T.A.
21-Sep-06	21-Sep-11	IPC 5.38% E.A.
21-Feb-07	21-Sep-09	DTF 2.9% T.A.
26-Apr-07	21-Sep-10	DTF 3.09% T.A.

Fundicom S.A.

Issue Date	*Maturity Date*	*Rate*
06-Aug-06	05-Aug-15	IPC
07-Jun-07	06-Jun-14	DTF

DTF: Average weekly rate of Time Deposits (issued by commercial and mortgage banks and commercial finance companies) with a maturity of 90 days.

IPC: Consumer price index

(21) Accrued Expenses

Accrued expenses consisted of the following:

		2006		2007
Income tax payable	Ps	8,077	Ps	39,548
Fines and sanctions (1)		86,764		92,395
Labor obligations		12,115		24,303
FICAFE contingency (2)				48,772
Other		13,028		13,842
Total	Ps	119,984	Ps	218,860

(1) See Note 26(d).

(2) As a result of Banagriícola s acquisition, the Bank for the year ended December 31, 2007, has established an allowance available to absorb probable losses inherent in the FICAFE investment, booked through its subsidiary, Banco Agrícola S.A. FICAFE investment consists of fiduciary s certifications, issued by the Found of Enviromental Preservation of Coffee-producing lands established by the Salvadorian government.

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For 2006 the statutory income tax was 37% for the Bank unconsolidated, Leasing Bancolombia S.A., Banca de Inversión S.A. and Fiduciaria Bancolombia S.A. according to an agreement of tax stability, for 2007 the statutory income tax for the Bank and those subsidiaries was 36%.

For 2007 the statutory income tax for subsidiaries of Banagrícola, a subsidiary of Bancolombia, was 25% according to Salvadorian tax regulation and 34% for the other subsidiaries not mentioned before.

The following is a reconciliation of taxable income before income taxes:

	2005	***2006***	***2007***
Income before income taxes	Ps 1,224,396	Ps 924,409	Ps 1,448,806
Adjustments for consolidation purposes, net	37,032	159,103	653,554
Difference between net operating loss carry-forwards and presumed income	8,149	20,879	91,947
Non-deductible provisions, costs and expenses	130,528	177,966	236,274
Non-taxable or exempt income	(364,663)	(636,915)	(1,064,598)
Difference between monetary correction for tax purposes and for financial reporting purposes	(38,028)	(62,776)	
Excess of accrued income over valuation income	(130,265)	6,652	(23,142)
Amortization of excess of presumed income over ordinary income and amortization of net operating loss carry forwards	(94,562)	(102,352)	(65,391)
Valuation derivatives effect	(100,495)	(33,075)	(35,380)
Special tax deduction for Investment in Real Productive Assets	(28,181)	(21,254)	(177,036)
Other	(127,941)	(66,281)	(57,360)
Taxable income	Ps 515,970	Ps 366,356	Ps 1,007,674
Statutory tax rate	34.69%	37.21%	33.58%
Estimated current income tax	Ps 178,992	Ps 136,307	Ps 338,364
Deferred income tax expense	98,523	38,573	23,519
Total	Ps 277,515	Ps 174,880	Ps 361,883

Income taxes for the years ended December 31, 2006 and 2007 are subject to review by the tax authorities. The Bank management and its legal advisors believe that no significant liabilities in addition to those recorded will arise from such a review.

The following tables present, for the fiscal years cited, the estimated amortizations of losses that can be recorded and the excess of presumed income over ordinary income:

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Fiscal Losses to amortize

	Renting Perú	*Inversiones CFNS*	*Tempo Rent a car*	*Renting Bancolombia*	*Todo Uno Colombia*	*Fundicom*	*Total*
2011	Ps	Ps	Ps	Ps	Ps 26	Ps 1,962	Ps 1,988
2012					117		117
2013						294	294
With no maximum expiry date	866	20	632	93,221			94,739
	Ps 866	**Ps 20**	**Ps 632**	**Ps 93,221**	**Ps 143**	**Ps 2,256**	**Ps 97,138**

	Inversiones CFNS	*Renting Bancolombia*	*Inversiones Valsimesa*	*Fundicom*	*Banca de Inversión*	*Bancolombia*	*Total*
2008	Ps	Ps	Ps	Ps 297	Ps	Ps 7,300	Ps 7,597
2009		1,718		634		39,507	41,859
2010		2,181		593			2,774
2011		2,796		817	1,539		5,152
2012	91	1,564	5		4,988		6,648
	Ps 91	**Ps 8,259**	**Ps 5**	**Ps 2,341**	**Ps 6,527**	**Ps 46,807**	**Ps 64,030**

(22) Subscribed and Paid-in Capital

Subscribed and paid-in capital consisted of the following:

	2005	***2006***	***2007***
Authorized shares	1,000,000,000	1,000,000,000	1,000,000,000
Issued and outstanding:			
Common shares with a nominal value of Ps 500 (in pesos)	509,704,584	509,704,584	509,704,584
Preference shares with a nominal value of Ps 500 (in pesos)	218,122,421	218,122,421	278,122,419

In May and June of 2007, the Bank conducted public offerings of non-voting, preferential shares, which was initially offered to the Bancolombia S.A. shareholders holding preferred shares in Colombia, and then, as part of a second offering, was exclusively offered to investors outside Colombia, the form of American Depository Shares (ADSs).

Out of the entire 60 million preferential shares offered, 21,307,238 were offered in the first round at a price of Ps 15,205 (in pesos) each for an approximate total of Ps 323,976.

With regard to the offering conducted outside Colombia, a total of 8,411,470 ADSs were placed, corresponding to 33,645,880 preferential shares, each ADS for a price of US$ 33.25 (in US$ dollar). Additionally, international placement agents exercised an option granted by the Bank, consisting of acquiring another 1,261,720 ADRs corresponding to 5,046,880 preferential shares to cover excess demand for the offer. The net funds received by the

Bank for this sale of ADSs amounted to US$ 314,000.

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As a result of these offerings, Bancolombia S.A. placed a total of 59,999,998 preferential shares, for which it received approximately Ps 927,612 (US$ 480,000), of which Ps 30,000 were applied to increase the Bank s subscribed and paid-in capital and Ps 897,612 were recorded in the form of additional paid-in capital. See the Statement of Stockholders Equity.

A partial amendment to the Bancolombia s by-laws, which was recorded in the Commercial Registry of the Medellin Chamber of Commerce on July 26, 2005, increases the Bancolombia s authorized capital from Ps 335,000 to Ps 500,000 divided into 1,000,000,000 shares of a par value of 500 pesos each, which may be of the following classes: (i) common shares, (ii) privileged shares, and (iii) shares with preferred dividend and no voting rights (preferred shares). Pursuant to Article 6 of the by-laws, all shares issued shall have the same nominal value.

As of December 31, 2007, Bancolombia had 509,704,584 common shares and 278,122,419 preferred shares outstanding and a capital stock of Ps 460,684 divided into 787,827,003 shares. No privileged shares have been issued by Bancolombia.

Under the Colombian Commerce Code, a company must, after payment of income taxes and appropriation of legal reserves, and after off-setting losses from prior fiscal years, distribute at least 50% of its annual net profits to all shareholders, payable in cash, or as determined by the shareholders, within a period of one year following the date on which the shareholders determine the dividends. If the total amount segregated in all reserves of a company exceeds its outstanding capital, this percentage is increased to 70%. The minimum common stock dividend requirement of 50% or 70%, as the case may be, may be waived by a favorable vote of the holders of 78% of a company s common stock present at the meeting.

Under Colombian law and Bancolombia s by-laws annual net profits are to be applied as follows:

- first, an amount to compensate for any losses that affected its capital;
- second, an amount equivalent to 10% of net profits is segregated to build a legal reserve until that reserve is equal to at least 50% of Bancolombia s paid-in capital;
- third, payment of the minimum dividend on the preferred shares; and
- fourth, allocation of the balance of the net profits is determined by the holders of a majority of the common shares entitled to vote on the recommendation of the board of directors and President and may, subject to further reserves required by the by-laws, be distributed as dividends.

Preferred shares will be entitled to receive a minimum preferred dividend equal to one percent (1%) of the initial offering price per preferred share for each fiscal year the Bank reports profits after the Bank deducts an amount to compensate for any losses that affected its capital and any necessary contribution to a reserve account that must be made by law, and in compliance with Colombian regulation, but before the Bank creates or increases any other reserve. In addition, the dividend per share paid on preferred share cannot be less than the dividend per share paid on ordinary share (and will be increased if a higher dividend on ordinary share is declared). The Bank does not recognize accumulation of dividends to holders of preferred shares.

Preferred shares grant its holder the right to participate in the shareholders meetings and to vote solely on the matters provided for by law and in the by-laws, in the following events:

in the event that changes in the Bank s by-laws may impair the conditions or rights assigned to such shares and when the conversion of such shares into common shares is to be approved;

when voting the anticipated dissolution, merger or transformation of the corporation or change of its corporate purpose;

when the preferred dividend has not been fully paid during two consecutive annual terms. In this event, holders of such shares shall retain their voting rights until the corresponding accrued dividends have been fully paid to them;

when the general shareholders meeting orders the payment of dividends with issued shares of the Bank;

if at the end of a fiscal period, the Bank does not produce sufficient profits to pay the minimum dividend and the Superintendency of Finance, by its own decision or upon petition of holders of at least ten percent (10%) of preferred shares, determines that benefits were concealed or shareholders were misled with regard to benefits received from the Bank by the Bank s directors or officers decreasing the profits to be distributed, the Superintendency of Finance may resolve that holders of preferred shares should participate with speaking and voting rights at the general shareholders meeting, in the terms established by law;

when the register of shares at the Colombian Stock Exchange or at the National Register of Securities is suspended or canceled. In this event, voting rights shall be maintained until the irregularities that resulted in such cancellation or suspension are resolved.

Holders of preferred shares are not entitled to vote for the election of directors or to influence the Bank s management policies.

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Upon liquidation, holders of fully paid preferred shares will be entitled to receive in pesos, pari passu with any of the other shares with similar ranking, a liquidation distribution of an amount equal to the subscription price of those preferred shares before any distribution or payment may be made to holders of common shares and any other shares at that time ranking junior to the preferred shares and subsequently the preferred shareholders s participation in Bank s surplus assets. If, upon any liquidation, assets that are available for distribution among the holders of preferred shares and liquidation parity shares are insufficient to pay in full their respective liquidation preferences, then those assets will be distributed among those holders pro rata in accordance with the respective liquidation preference amounts payable to them.

A foreign capital institutional investment fund in Colombia has been formed to hold certain non-voting preferred shares issued by the Bank as custodian and American Depositary Shares (ADSs) related to those non-voting preferred shares have been issued abroad.

Pursuant to Colombian law, capital adequacy for banks is required to be not less than 9% of their total credit risk weighted assets and credit contingencies. Under Decree 1720 of 2001, the calculation of capital adequacy must incorporate market risk in addition to the credit risk. This risk for capital adequacy requirement was covered 100% in 2006 and 2007. Calculations are made each month on an unconsolidated basis and in June and December on consolidated accounts which include the Bank s financial Subsidiaries in Colombia and abroad.

On December 2006, the issuance of Decree 4648 introduced modifications to Decree 1720 of 2001 which established new rules for calculating currency obligations in the additional equity of credit institutions.

The specific requirements relating to capital adequacy for the Bank s Subsidiaries, are as follows:

Bancolombia Panamá S.A.: Pursuant to the Acuerdo 6, 1998, as amended, issued by the Superintendency of Banking of Panama, Bancolombia Panamá has to comply with the technical capital ratio required by the Superintendency of Finance of Colombia to its parent company in a consolidated way with financial subsidiaries (as set forth in Decree 1720 of 2001, as amended) in the way describe above;

Bancolombia Puerto Rico Internacional, Inc.: According to requirements established by the Oficina del Comisionado de Instituciones Financieras (OCIF) in Puerto Rico, total shareholder s equity of Bancolombia Puerto Rico has to amount at least 8% of total assets excluding demand deposits.

Banco Agrícola: According to requirements established by the Banking System of El Salvador, specially in the Article 41 of the Bank s Law (Ley de Bancos), Banco Agrícola s capital adequacy is required to be not less than 12% of their total weighted assets according to the Bank s Law; not less than 7% of their total liabilities and contingencies and not less than 100% of their paid-in capital as is explained in Article 36 of the Bank s Law.

In El Salvador, Capital Adequacy is known as Fondo Patrimonial. It is composed by the primary capital and the secondary capital, less: the amount of the resources invested in operations defined in the Article 23 of the Bank s Law, the amount of the equity investments in entities according with the Article 24 of this Law and the amount of other equity investments in other entities.

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As of December 31, 2006 and 2007 the Bank s capital adequacy ratio was 11.05% and 12.67%, respectively.

(23) Appropriated Retained Earnings

Pursuant to Colombian law, 10% of the net income of the Bank and its Colombian subsidiaries in each year must be appropriated through a credit to a legal reserve fund until its balance is equivalent to at least 50% of the subscribed capital. This legal reserve may not be reduced to less than the indicated percentage, except to cover losses in excess of undistributed earnings.

Appropriated retained earnings consist of the following:

	2005	2006	2007
Legal reserve (1)	Ps 886,159	Ps 1,405,733	Ps 1,172,799
Additional paid-in capital	268,005	268,005	1,165,617
Other reserves	611,834	639,869	1,021,188
Total	Ps 1,765,998	Ps 2,313,607	Ps 3,359,604

(1) Includes legal reserve and net income from previous years.

In addition, paid-in capital of Ps 268,005, Ps 268,005 and Ps 1,165,617 at December 31, 2005, 2006 and 2007, respectively, were recorded as part of the legal reserve and presented within the retained earnings, as required by the Superintendency of Finance.

(24) Dividends Declared

The dividends are declared and paid to shareholders based on the adjusted net income from previous year. The dividends were paid as indicated below:

	2006	2007	2008
Preceding year s unconsolidated earnings	Ps 737,389	Ps 582,365	Ps 804,261
Dividends in cash	508 pesos per share paid in four quarterly installments of 127 pesos per share from April 2006 on 509,704,584 and 218,122,421 common and preferred shares, respectively.	532 pesos per share payable in four quarterly installments of 133 pesos per share from April 2007 on 509,704,584 and 218,122,421 common and preferred shares, respectively. Additionally 266 pesos per share on 59,999,998 payable preferred shares	568 pesos per share payable in four quarterly installments of 142 pesos per share from April 2008 on 509,704,584 and 278,122,419 common and preferred shares, respectively

				issued in June and July 2007.		
Total dividends declared	Ps	369,736	Ps	403,164	Ps	447,486
Dividends payable at December 31 [1]	Ps	98,340	Ps	111,842		

(1) The amount of the dividends payable at December 31, is recorded as accounts payable in the Consolidated Balance Sheets.

(2) The amount disclosed as Total Dividends Declared in the table for 2007 differs from those disclosed in the annual report of 2006, because Bancolombia S.A. paid dividends on 59,999,998 preferred shares issued during 2007.

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(25) Memorandum Accounts

Memorandum accounts were composed of the following:

	2006	***2007***
Trust:		
Investment trusts	Ps 34,886,946	Ps 39,609,384
Commitments:		
Unused credit card limits	2,893,839	4,703,942
Civil demands against the Bank	858,644	874,107
Issued and confirmed letters of credit	1,053,601	1,354,921
Uncommitted lines of credit	751,304	865,706
Bank guarantees	780,280	1,258,448
Approved credits not disbursed	660,558	1,467,745
Nation account payable (546 law)	34,862	30,371
Other	194,684	124,195
Total	Ps 42,114,718	Ps 50,288,819

Other memorandum accounts:

	2006	***2007***
Memorandum accounts receivable:		
Tax value of assets	29,028,917	30,481,070
Assets and securities given in custody	3,813,482	3,411,382
Assets and securities given as a collateral	2,163,335	3,300,348
Trading investments in debt securities	2,401,899	1,692,960
Written-off assets	1,023,745	1,439,114
Quotas of leasing to receive	4,219,686	5,977,221
Investments held to maturity	1,171,055	1,058,280
Adjustments for inflation of assets	166,941	162,724
Accounts to receive yields trading investments in debt titles	139,763	103,286
Investments available for the sale in debt titles	1,641,970	1,379,980

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