BANCOLOMBIA SA
Form 20-F/A
June 29, 2009

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 29, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F/A

AMENDMENT NO 1

(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. 1 on Form 20-F/A (this Amendment No. 1) to 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), is filed to restate the Bank s Supplemental Consolidated Condensed Balance Sheets, Supplemental Consolidated Condensed Statement of Operations and Supplemental Consolidated Condensed Statements of Cash Flows prepared in accordance with U.S. GAAP and included in the Bank s consolidated financial statements filed in Item 18 of the Form 20-F/A.

During the preparation of the Bank s 2008 financial statements, the Bank reviewed certain of its service agreements with vehicles used to securitize the Bank s performing loans and reconsidered the analysis under SFAS 140 and concluded that such vehicles did not meet the definition of a qualified special-purpose entity under SFAS 140. Consequently, the Bank restated the Supplemental Consolidated Condensed Balance Sheets, Supplemental Consolidated Condensed Statements of Operations and the Supplemental Consolidated Condensed Statements of Cash Flows in order to consolidate the vehicles in which the Bank is the primary beneficiary under FIN 46R Consolidation of Variable Interest Entities (Revised).

In addition, the Bank restated the Supplemental Consolidated Condensed Statements of Cash Flows to correct errors related to (i) for all years presented, the inappropriate classification of the changes in the loan portfolio as operating activities rather than investing activities, (ii) for all years presented, clerical errors in the elimination and reclassification of cash flows related to the different accounting treatment for business combinations under Colombian GAAP and U.S. GAAP (see note 31 (m)), (iii) for the fiscal years ended on December 31, 2006 and 2007, the presentation of the effects of exchange rate changes on cash and cash equivalents. In addition, as noted above, the restatement relating to the treatment of vehicles used to securitize the Bank s performing loans also affects the Supplemental Consolidated Condensed Statements of Cash Flows for the years ended December 31, 2006 and 2007.

The foregoing restatements did not have affect Consolidated Net Income and Stockholders Equity under U.S. GAAP for any of the years presented in the original filing. The effects of the corrections and reclassifications are being presented as restatements in Note 32 to the financial statements included in this Amendment No. 1.

This Amendment No. 1 also amends Item 15 in the original filing to update the opinion of the Bank s President Jorge Londono Saldarriaga and Finance Vice-President Jaime Alberto Velasquez Botero with respect to the effectiveness of the Bank s internal controls over financial reporting as of December 31, 2007, in light of the restatement described above and in Note 32 to the financial statements included in this Amendment No. 1. Accordingly, the Bank hereby amends Item 15 beginning on page 164 of the original filing by adding the language that appears in Part II of this Amendment No. 1 after the first paragraph of Item 15.

As a result of and to reflect the restatements described above, certain disclosures have been added to or amended in Item *18 Financial Statements* and updated CEO and CFO Certifications have been included in *Item 19 Exhibits*.

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

ITEM 18. FINANCIAL STATEMENTS

Page F-2 and F-3 (Report of independent registered public accounting firm);

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

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Page F-5 and F-6 (Report of independent registered public accounting firm about internal control over financial reporting);

Page F-99 (Supplemental Consolidated Condensed Balance Sheets);

Page F-100 (Supplemental Consolidated Condensed Statement of Operations);

Page F-100 (Supplemental Consolidated Condensed Statements of Cash Flows);

Page F-113 to F-118 (Investment Securities and Derivatives);

Page F-131 (Securitization);

Page F-133 to F-135 (Estimated Fair Value of Financial Instruments).

Page F-147 to F-149 (Note 32 Restatements)

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 June 29, 2009.
12.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.
13.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.
13.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.

Except for the certifications, this Amendment No. 1 speaks as of the filing date of the original filing. Other than as set forth above, this Amendment No. 1 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.

PART II

ITEM 15. CONTROLS AND PROCEDURES

In connection with this evaluation, Bancolombia s management, including President Jorge Londono Saldarriaga and Finance Vice-President Jaime Alberto Velasquez Botero, considered whether the restatement described in Note 32 to the financial statements included herein, would change management s previous assessments of disclosures controls and procedures and internal control over financial reporting, and has concluded that, considering both quantitative and qualitative factors, the restatement of the Supplemental Consolidated Condensed Balance Sheets, the Supplemental Consolidated Condensed Statement of Operations and the Supplemental Consolidated Condensed Statements of Cash Flows prepared in accordance with U.S.GAAP included in this Form 20-F/A, did not impact the conclusion that the Bank s disclosure controls and procedures are effective as of December 31, 2007.

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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

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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: June 29, 2009

BANCOLOMBIA S.A.

By: /s/ JAIME ALBERTO VELÁSQUEZ BOTERO
Name: Jaime Alberto Velásquez Botero.
Title: Chief Financial Officer

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Exhibit 12.2
Exhibit 13.1
Exhibit 13.2

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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.

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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)

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Consent of independent public accounting firm

We hereby consent to the use in this Registration Statement on Form 20-F/A of Bancolombia S. A. of our report dated June 28, 2008 relating to the financial statements of Banagrícola, S. A. and its subsidiaries as of December 31, 2007 prepared in conformity with accounting standards prescribed by the Superintendence of Financial System of EI Salvador, which appear in such Registration Statement.

/s/ PriceWaterhouseCoopers

June 25, 2009

Panamá, 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 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.

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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

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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
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*	*Gross unrealized gain or loss on*	
	Number	*Par Value*	*Number*	*Par Value*	*Appro-priated*	*Unappro-priated*	*Reappraisal of assets*	*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.

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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 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) Basic Accounting and Consolidation Policy

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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(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) Business Combination

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.

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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
Remittances sent for collection	24,632	26,103
Amortized debt securities investment	614,528	788,610
Other memorandum account receivable	4,134,808	4,304,690
Total	Ps 50,544,761	Ps 54,125,768
Memorandum accounts payable:		
Assets and securities received as collateral	20,256,982	25,815,805
Qualification commercial loans	16,230,741	23,711,631
Assets and securities received in custody	6,030,005	4,816,267

Tax value of shareholders equity	4,428,133	4,673,067
Qualification consumer loans	3,586,540	6,573,200
Adjustment for inflation of equity	912,418	892,909
Qualification small business loans	92,237	131,913
Merchandise in owned warehouses	85,402	65
Merchandise in third-party warehouses	22,376	
Underwriting	25,000	
Qualification financial leasing	3,593,083	4,749,309
Qualification operating leasing	168,606	491,941
Qualification mortgage loans	1,336,293	2,803,165
Other memorandum account payable	3,653,410	3,135,280
Total	Ps 60,421,226	Ps 77,794,552
Total memorandum accounts	Ps 153,080,705	Ps 182,209,139

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The Superintendency of Finance in El Salvador has different rules for the memorandum accounts if compared to the Colombian. As a consequence, the memorandum accounts may not present the consolidated position of the Bank for certain accounts.

(26) Commitments and Contingencies

For the years ended December 31, 2006 and 2007, the Bank registered allowances for probable contingencies of Ps 86,764 and Ps 92,395 respectively. The detail of the contingencies was as follows:

The Bank

a) Contingencies Covered by FOGAFIN:

During the privatization process of Banco de Colombia (which merged with and into the Bank in 1998), completed on January 31, 1994, Fogafin made a commitment to assume the cost of contingent liabilities resulting from events that occurred before the date when the stock was sold, which should be claimed within the five (5) subsequent years. Fogafin s guarantee covers eighty percent (80%) of the first Ps 10,000, not considering allowances, and thereafter, one hundred percent (100%), all annually adjusted according to the consumer price index.

At December 31, 2006 and 2007, the civil contingencies covered by the guarantee amounted to approximately Ps 957 and Ps 997, respectively, with allowances as of the same dates amounting to Ps 957 and Ps 166. At December 31, 2007 and 2006, labor contingencies amounted to Ps 345 and allowances amounted to Ps 173.

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b) Legal Processes

At December 31, 2006 and 2007, other than the litigation discussed under (a) above, there were labor-related claims against the Bank amounting to approximately Ps 14,506 and Ps 16,590, respectively (the final result of such litigations is not predictable due to the nature of the obligations). The allowances for contingencies on those dates amounted to Ps 7,479 and Ps 8,946, respectively and were recorded as accrued expenses in the consolidated balance sheets.

At December 31, 2006 and 2007, there were ordinary civil lawsuits, group actions, and civil actions within criminal and executive proceedings against the Bank with total claims for approximately Ps 733,525 and Ps 644,953, respectively and with allowances on the same dates of Ps 18,889 and Ps 30,456, respectively.

Allowances are recorded based on the likelihood of the losses and when proceedings are ruled in the first instance against the Bank or based on the opinion of management, the proceedings are likely to result in an unfavorable ruling.

At December 31, 2007, the Superintendency of Finance has imposed fines on the Bank amounting to Ps 1,357, for which complete allowances have been recorded.

Contingencies against the Bank greater to Ps 5,000, as of December 31, 2007, are:

Process	*Initial Exposure*	*Actual Exposure at December 31, 2007*	*Allowance*	*Likelihood*
Arbitration process Jaime Gilinski and Others against Bancolombia and some of its officers	US$ 675,000	Ps 55,975	Ps 27,988	Probable
Civil Lawsuit from Jaime Gilinski and Others	Ps 357,000	Ps 357,000		Remote
Almacenar S.A.	92,048	47,000	20,000	Probable
Inversiones C.B. S.A.	12,468	40,806		Remote
Class action Luis Alberto Duran [(1)]	421,080	39,084	19,542	Probable
Popular action Carlos Julio Aguilar and Other Administrative Tribunal of Valle	25,232	30,210		Remote
Rodrigo Garavito and others against Bancolombia Administrative Tribunal of Cundinamarca	20,000	20,000		Remote
Editorial Oveja Negra Ltda. and Jose Vicente Katerain Velez	10,240	9,635		Remote
Murgueitio and Santander	8,000	8,000		Remote
Invico Ltda. Processes. Civil Court 9 of Bogota	5,000	6,601		Remote
Costrucc.Rojas Jimenez & CÍA. S. EN C.	6,277	6,277		Remote
Ordinary process Gloria Amparo Zuluaga Arcila	1,400	5,784		Remote
Constructodo against Corvivienda. Civil Circuit Court 18 of Bogota	3,500	5,070	5,000	Probable
Arbitration process CAJANAL vs Bancolombia	34,026	34,026		Remote
	5,000	5,000		Remote

Parque Industrial y Comercial of
Barranquilla VIA 40 and others

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c) Contingencies Related to the Purchase of 51% of Former Banco de Colombia S.A. (Banco de Colombia) Stock and Later Merger with Banco Industrial Colombiano (BIC , now Bancolombia)

The Gilinski Case

Contingency asset; Contingency guarantee, former Banco de Colombia:

On March 30, 2006, the arbitration proceedings initiated by the Bank against Jaime Gilinski, as debtor, jointly and severally liable with the companies that sold the majority of the shares of the former Banco de Colombia S.A., resulted in a favorable award. The Bank had pursued various claims in these proceedings with a view to enforce a trust guarantee that was set up by the sellers in order to cover any contingencies arising with the bank thus sold. The value of this guarantee now amounts to US$ 30,000, equivalent to Ps 60,443. The defendant was ordered to pay to the Bank Ps 63,216, including inflation adjustments and interest.

Jaime Gilinski challenged this award, in an annulment action held before the Superior Tribunal of Bogota. At December 31, 2007, the Bank had not posted any income relating to this award on its financial statements, nor had it received any payments with regard to such.

Contingency liability; Criminal Investigation:

On December 26, 2003, the Special Unit Attorney General s Office for Crime Against Public Administration formally rejected grounds for a criminal investigation against Jorge Londoño Saldarriaga and Federico Ochoa Barrera, President and Vice-president of the Bank, respectively; this criminal investigation arose as a result of a complaint filed by the Gilinski family. This decision was subsequently confirmed in the second instance by the Attorney General s Office Delegated Unit before the Supreme Court of Justice on July 8, 2004.

The Attorney General s Office found that the alleged crimes of fraud, unauthorized operations with shareholders and the illegal use of public funds had not been committed and consequently the Bank was fully exonerated from the indemnity claims filed by the plaintiffs.

In 2005, the Gilinskis filed an action for the protection of rights against the Attorney General s Office with the purpose of reopening the criminal investigation based on the argument that the evidence gathered abroad was not taken into account. This action was rejected on two occasions by the Supreme Court and was subsequently selected for review by the Constitutional Court, which ordered the investigation to be reopened so as to analyze the evidence in question. This decision, made by the Constitutional Court (*Sala de Revisión*), is subject to an annulment action that is being heard by the Constitutional Court (*Sala Plena*).

Notwithstanding the fact that the evidence presented did not produce any additional elements to be considered, the Attorney s Office in the first instance, modified the initial particulars of the investigation issuing on January 4, 2007 the following orders:

An order for a criminal judge to review the conduct of the Bank s officers, Messrs. Londoño Saldarriaga and Ochoa Barrera.

An order for the house arrest of the aforementioned officers as a preventive measure.

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An order for the embargo of all goods and property belonging to the officers involved.

An order for an investigation into the conduct of the members of the board of directors of Banco Industrial Colombiano at that time.

An order for an investigation into the conduct of the officers of the former Colombian Superintendencies of Banking and Securities (now Superintendency of Finance) and also the Central Bank.

A few days after issuing this ruling, on January 10, 2007, the Delegated Attorney s Office No. 8 officially revoked the house arrest order with regard to Messrs. Londoño and Ochoa.

On September 25, 2007, the Attorney General s Office (*Fiscal Delegado ante la Corte Suprema de Justicia*), in second instance, revoked the decision of first instance, dated January 4, 2007 and decided not to prosecute Bancolombia s officers as it relates to the events occurred during the acquisition of Banco de Colombia by BIC and its subsequent merger in 1998, ordering the Attorney General of first instance to consider the documentary and testimonial evidence in order to comply with the decision of the Constitutional Court which was disobeyed by the Attorney General on first instance.

In addition, the Attorney General s Office (*Fiscal Delegado ante la Corte Suprema de Justicia*) barred one of the financial crimes (unauthorized transactions with shareholders) for which Mr. Londoño and Mr. Ochoa were investigated, based on the lapse of the statute of limitations.

The Attorney General s Office when remanding the proceeding to the first instance, ordered that the respective Attorney General must exclusively consider the documentary evidence and must incorporate two testimonial pieces of evidence that are still pending as it was ordered by the Constitutional Court.

The Bank s administration considered the contingency remote, based on the following:

This decision does not affect the stability and solvency of the Bank s equity and it is improbable that the Bank will incur any financial responsibility.

During the acquisition process and the subsequent merger, the Bank and its officers acted with loyalty and transparency, and the transactions with the shareholders were in accordance with international customary standards and practices for this type of transactions, and in accordance with Colombian law.

The Bank s conduct in the acquisition and merger process has been thoroughly analyzed in different judicial and administrative venues, including the Supreme Court, the Council of State, the Contentious Administrative Tribunal of Cundinamarca, the Superior Court, the Superior Tribunal of Medellin and three Arbitration Tribunals, as well as the former Superintendency of Banking and the Superintendency of Securities (now the Superintendency of Finance) and was absolved, mostly of the same charges that the Attorney s Office recently formulated against the Bank s officers, in contradiction of all those rulings granted in the Attorney s Office previous first and second instances.

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Additionally, on September 12, 2007 the Attorney General s Office No. 218 of the First Unit of Crimes against the Public Administration and Justice of Bogotá (Fiscal Delegada 218 de la Unidad Primera de Delitos contra la Administración Pública y de Justicia de Bogotá), revoked its July 31, 2006 decision which had precluded the investigation against the president of the Bank, Mr. Jorge Londoño Saldarriaga. These decisions were taken in the context of the preliminary investigation initiated against the officers of the former Superintendency of Banking and former Superintendency of Securities relating to the authorizations granted for the merger of Bancolombia and Banco de Colombia. The Attorney General s Office No. 218 of the First Unit of Crimes against the Public Administration and Justice of Bogotá, in the September 12, 2007 decision initiated a formal investigation of Mr. Jorge Londoño Saldarriaga and the board of directors of the Central Bank and the former Banco Industrial Colombiano (BIC) that had authorized the acquisition of the former Banco de Colombia by BIC and their subsequent merger.

Arbitration

On May 16, 2006, an award was issued in the arbitration proceedings filed by Jaime and Isaac Gilinski and certain foreign companies, against the Bank, its board of directors in 1997, its President, Mr. Jorge Londoño Saldarriaga and its Vice-President of Finance, Mr. Jaime Velásquez Botero, to resolve certain disputes relating to the acquisition of the former Banco de Colombia on the part of BIC and the subsequent merger of these two entities. The cause of action consists of the declaration of nullity (*ineficacia*) of the BIC s acquisition of a majority share in the capital of the former Banco de Colombia. This involved certain other additional claims, which together amounted to US$ 675,000.

The Arbitration Tribunal, formed by Messrs. José Alejandro Bonivento Fernández, Cesar Hoyos Salazar and Jorge Santos Ballesteros ruled in favor of the Bank with regard to the majority of the charges involved. However, the Tribunal determined that the Bank had to pay an indemnification of Ps 15,360 that, together with damages for loss of profit, amounted to Ps 40,570, since it ruled that the Bank had not complied with certain secondary obligations, with regard to the development of the capitalization of 1998 derived from the Purchase and Sale Commitment Agreement signed between the plaintiffs and the former BIC on August 25, 1997.

The Arbitration Tribunal rejected all claims made against the Bank s officers and exonerated them from all responsibility, ordering the Gilinski family at the same time to pay the cost of these proceedings. In addition, the arbitration tribunal held that plaintiffs had failed to prove that Bancolombia and its senior managers committed any fraudulent operations or fraudulent representations regarding the above-mentioned agreement, and denied any moral damages in favor of the plaintiffs.

Against this award, the Bank filed an annulment action before the Superior Court on June 7, 2006, which is currently being heard. Although the annulment action is supported by objective arguments, the contingency with regard to this process is considered probable. Consequently, the Bank has set up a provision of Ps 27,988 while a definite decision is given.

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These arbitration proceedings came as a consequence of an order given by the United States Court for the Southern District of New York where the claim was filed against the Bank, its officers and some of its executives in March 1999 and which was suspended while the arbitration proceedings agreed upon by the parties were duly conducted in Colombia. The plaintiffs requested the District Court to reopen the process, arguing that the Arbitration Tribunal in Colombia did not rule on all the charges presented.

On February 28, 2007, the United States Court for the Southern District of New York dismissed the complaint of the sellers of the former Banco de Colombia and based its ruling on the principle of *res judicata*.

The Court determined that the award of the Colombian arbitral tribunal, dated May 16, 2006, decided on the same grounds filed before the Court in New York and, therefore, put an end to the proceedings in New York.

The Court determined that the arbitral tribunal had decided on the merits of all the claims, and rejected the liability of the Bank and its managers.

The Court noted that the arbitral tribunal rejected the main three allegations of the plaintiffs. The arbitral tribunal found that (i) the Bank had not manipulated the price of ADRs on the New York Stock Exchange; (ii) the failure to raise US$ 150,000, was neither a breach of an express contractual obligation nor unlawful, fraudulent or willful misconduct; and (iii) neither the Bank nor its managers did engage in transactions or conduct in violation of Colombian law and sound banking practices. However, the arbitral tribunal found that the Bank had breached certain secondary duties of conduct.

The District Court also determined that the arbitral tribunal had ruled on the merits of all the claims, and rejected the liability of the Bank and its managers. On March 23, 2007, the plaintiffs filed a notice of appeal of this decision.

Class Action Luis Alberto Durán Valencia

As of December 31, 2007, the decision of the Superior Tribunal of Bogota was still pending with respect to the special appeal for annulment filed by the Bank. The appeal sought to review the decision of the arbitration tribunal previously convened by the class action filed by Luis Alberto Durán Valencia and other shareholders of the former Banco de Colombia.

The appeal solely sought to declare null and void the portion of the award that is questioned, since the award carries a *res judicata* status with respect to the rulings regarding the rest of the claims.

Popular Action Maximiliano Echeverri M

In the popular action filed by the attorney Maximiliano Echeverri against the Bank and the Superintendency of Banking and Securities Superintendency (now known as the Superintendency of Finance) before the Contentious-Administrative Tribunal of Cundinamarca, a final ruling was pronounced on August 10, 2005, rejecting the claims of the plaintiff.

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The decision was upheld by the Third Section of the Council of State on June 7, 2006 in its ruling on an appeal filed by the plaintiff. The plaintiff filed an annulment action before the Contentious Administrative Tribunal of Cundinamarca, and on January 24, 2007 the Contentious Administrative Tribunal of Cundinamarca solved unfavorable to the plaintiff s interests. The contingency is considered remote.

Almacenar S.A

In December, 2006, the spin off process of Almacenar S.A., subsidiary of the Bank, was finalized. Due to the spin-off, two new non-financial companies were created named Inversiones Valores y Logística S.A. and LAB Investment & Logistics S.A. Subsequently, in 2007, the Bank sold to Portal de Inversiones S.A. its share holding in LAB Investment & Logistics S.A. and in Almacenar S.A. Pursuant to this transaction, the Bank acquired the commitment for the contingencies that would have being caused before this transaction; specifically for the possible losses that would suffer Almacenar relating to a fire that occurred in May 2005 in a warehouse located in Salomia, Cali.

As of December 31, 2007, Almacenar has received claims from the insurance entities of its customers for an amount of Ps 92,048, notwithstanding the good s price amounted Ps 56,581, some of which Compañia Suramericana de Seguros S.A. will assume, pursuant the insurance policy, the amount of Ps 45,000. The Bank has a provision of Ps 20,000 for the estimated probable loss.

Sierras del Chicó Ltda and Chicó Oriental Nro. 2 Ltda.

Fondo Nacional de Garantias FOGAFIN initiated a process against Bancolombia on July 21, 2005 before the Administrative Court of Cundinamarca *(Tribunal Administrativo de Cundinamarca*), claiming the 100% of the Bank s interest in Sierras del Chicó Ltda and Chicó Oriental Nro. 2 Ltda. on December 31, 1993.

This process was declared null on July 12, 2006. The plaintiffist appealed this decision, action which was rejected on July 26, 2007 definitively.

d) National Tax and Customs Agency (DIAN)

Special Requirement

On December 27, 2007, the Bank received a special request by the Tax Administration of Medellin (Administracion de Impuestos de Medellin) regarding the income tax (impuesto de renta) for the 2006 year, in which Ps 79,013 are disputed. The Bank and its tax advisors considered that the procedure of the income tax return of 2006 was in compliance with the applicable rules and regulations. Currently, the Bank and its advisors are analyzing the request.

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Industry and Commerce Tax corresponding to 1997 Conavi

Conavi filed its Industry and Commerce Tax return in Medellin on the basis of 1997 (for the fiscal year 1998 for subsequent payment in this same period) and included figures for taxable operating income which coincided with the information reported by the Superintendency of Finance to the Medellin City Council. The Municipal Tax Division notified Conavi of a special requirement, which increased Conavi s tax base by Ps 233 corresponding to income from other towns as well as Ps 45,981 corresponding to the value of nontaxable monetary correction. Subsequently the Division accepted Conavi s explanations regarding the increase in the tax base but maintained its position with regard to tax-exempt monetary correction and issued a Settlement Review Note. Conavi filed a motion to annul the decision. The Administrative Tribunal of Medellin abstained from hearing the motion. Conavi then filed an appeal to be heard by the Council of State. The Council of State, by its decision dated October 25, 2006, revoked the Tribunal s ruling and rejected Conavi s claims.

A provision of Ps 444 was set up for this tax contingency, which is considered probable.

Industry and Commerce Tax corresponding to 2001 Conavi

Currently, this case is in the initial stage, which is considered remote.

Fiduciaria Bancolombia S.A.

Executive proceedings have been filed against Fiduciaria Bancolombia S.A, the Bank s subsidiary that provides fiduciary and trust services. Management considers that these proceedings are not likely to result in unfavorable rulings or to negatively affect the Fiduciaria Bancolombia S.A., otherwise mentioned further ahead

The following is a summary of the executive proceedings:

a. Silvania Trust Seven proceedings are underway in the civil courts of the Bogota Circuit and in an Arbitration Tribunal which ruled in favor of Fiduciaria Bancolombia S.A. All of the proceedings arise from Fiducolombia S.A. s role (now Fiduciaria Bancolombia S.A.) as trustee in the guarantee mercantile trust agreement entered into on December 1, 1993, with Gallego Inmobiliaria S.A. The appraisal of the property was made by the entity Vector.

Two of the aforementioned proceedings were terminated. However, on December 11, 2003, a new ordinary proceeding was initiated against Fiducolombia (now Fiduciaria Bancolombia S.A.), following a legal action filed during the month of September 2003. The Ninth Court of the Civil Circuit of Bogotá (*Juzgado Noveno Civil del Circuito de Bogota*) ordered all of the proceedings to be consolidated into the Tarazona Bermúdez Proceeding, and a judgement in the first instance is currently pending.

b. Invico Ltda. has a lawsuit pending against the Bank and Fiducolombia S.A. (now Fiduciaria Bancolombia S.A.) in the Sixth Court of the Civil Circuit of Bogota (*Juzgado Sexto Civil del Circuito de Bogota)*. The plaintiff seeks a ruling declaring that the Bank and Fiducolombia S.A. (now Fiduciaria Bancolombia S.A.) must exercise the alternate right contained in Article 1948 of the Civil Code, in reference to the land lot denominated La Granjita , pursuant to the trust mandate. The claims amounted to Ps 4,000. On January 17, 2002, the court issued a ruling dismissing a defense presented by Fiduciaria Bancolombia S.A. and ordered it to pay the court fees. The discovery stage has finalized and Fiduciaria Bancolombia S.A. has presented its final legal conclusions on September 17, 2007. Since that date, the ruling is pending.

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c. With regard to the Santa Maria de La Calera Trust there are 7 ordinary proceedings initiated before different courts in which the plaintiffs are seeking the termination of the real estate sales agreements and damages for alleged defects in the property. Fiduciaria Bancolombia S.A. presented a joinder request to Destresa S.A., the company responsible for managing and building the real estate project, and who complied with all the legal formalities and proceedings required by the authorities in real estate projects. Currently, some of these proceedings are at a initial stage, some of the plaintiffs withdrew the evidence, in some the mandatory mediation hearings were unsuccessful as the parties failed to reach an agreement, others are pending for the final judgement, and one of them has final decision judgement in favor of Fiduciaria Bancolombia S.A. According to the legal counsel for Fiduciaria Bancolombia S.A. the sole process that has reached a final judgement was appealed by the plaintiff.

d. With regard to the Fopep Consortium there are two labor proceedings filed by John Freddy Bustos Lombana, who claims that he acted as attorney and assistant manager in two different agreements and therefore requests the payment of salaries and other employment benefits. He seeks to be compensated alleging that he did not freely resigned but that instead his resignation was a consequence of an insinuation made by the manager of the Fopep Consortium. In one of the proceedings, a judgement in the first instance was given in favor of Fiduciaria Bancolombia S.A. An appeal followed and a second instance judgement is pending. In the other proceedings, first and second instance judgments were given in favor of Fiduciaria Bancolombia S.A. and appeals before the Supreme Court of Justice were made by the plaintiff. Currently, these appeals are still pending.

Fiduciaria Bancolombia S.A. management considered probable that these proceedings may have an unfavorable outcome, due to different considerations or opinions of the administrators of justice. Fiduciaria Bancolombia S.A. has a provision of Ps 50 for the estimated probable loss.

e. With regard to the Santa Sofía Trust, there are three different types of proceedings that are taking place:

1. A class action filed by the co-owners of the Santa Sofia Housing Estate against the Bogota Mayor s Office, Fiducolombia S.A. (now Fiduciaria Bancolombia S.A.) and others, claiming that the deterioration to the property was caused by flaws in the terrain, and therefore no building permit should have been issued. In October 2007, a Mediation hearing was held, but the plaintiffs did not assist. Currently, the proceedings are at a discovery stage. The management of Fiduciaria Bancolombia S.A. considered that the probability of liability is low.

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2. Criminal proceedings against Fiduciaria Bancolombia S.A. Legal Representative, based on the action filed by the co-owners of the Santa Sofia Housing Estate, claiming alleged Illegal Squatting and Fraud with regard to the urban development of the real estate project. These proceedings are at a discovery stage and Management based on initial assessment considered the loss low.
3. Ordinary process of major quantity for tort liability. Plaintiff asserts the joint and several liability of Fiduciaria Bancolombia S.A. and other defendants and, consequently order for the payment of the price of the property, including its improvements. Fiduciaria Bancolombia S.A. answered the complaint and denying all liability. As of December 31, 2007, procedd has not been served to all defendants.

f. There are currently two executive proceedings that were filed by Mr. Eugenio Segura Villarraga seeking payment of three checks that were countermanded according to instructions given by the Bank. Mr Segura Villarraga claims that the checks were drawn as a result of an unlawful act. These proceedings are currently suspended.

g. Gacen Ltda. filed an ordinary action against Fiduciaria Bancolombia S.A., alleging that the trust agreement be declared terminated based on the expiration of the agreement. On March 8, 2007, the plaintiff voluntarily withdrew the complaint and the court issued an order to that effect.

h. There is a criminal proceedings against one of Fiduciaria Bancolombia S.A. s legal representatives regarding the Chisa Lote 2C Trust filed by Carmela Guardo and Joaquín Atencio Niño claiming misrepresentation of facts in a public deed, procedural fraud, perturbation of ownership and fraud with regard to a court ruling by virtue of a public deed establishing the boundaries of a plot of land, signed by Fiduciaria Bancolombia S.A. on behalf of the Chisa Lote 2C Trust. These proceedings are at a discovery stage.

Before the two actions were joined, the Attorney General s Office No. 19 rejected the criminal investigation regarding the crimes of fraud to judicial award, invasion of lands and disturbance to the possession (Attorney General s Office No. 19, Bogotá), and continued for the crimes of fraud in public document and procedural fraud (Attorney General s Office No. 10, Bogotá).

The management of Fiduciarias Bancolombia S.A. considered that the probability of liability is low.

Likewise, there are two recovery processes (procesos reivindicatorios): Jose Fernando Ospino Barrios and Andrés Morales Díaz, in which the lawsuit was answered and presented the correspondent defense; and a process of acquisition by lapse of the statute of limitations (*proceso de prescripcion adquisitiva*) of Orlando Marrugo Robles. Process must be served to indeterminate persons.

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Regarding Jose Fernando Ospino Barrios s process, the parties are currently negotiating a settlement. If a settlement is achieved the process would be terminated. The contingency is considered as remote.

With regard to the processes of Andrés Morales Díaz and Orlando Marrugo Robles, it is to early to qualify the contingency because of their early stage.

i. Ordinary proceedings were filed by Maria Rubby Mejía and other, against Fiduciaria Bancolombia S.A., claiming that Fiducolombia S.A. (now Fiduciaria Bancolombia S.A.) failed to carry out as administrator of the Titularización Ganadera Ganar 2000 A, certain contractual obligations such as collecting contributions and therefore seeks to be compensated. The judge denied the request of joinder of an insurance company to the process (*litisconsorcio necesario*). Currently, the process is pending a judgement to decide a motion presented by the plaintiff s attorney regarding the existence of an arbitration clause in the agreement.

The management of Fiduciaria Bancolombia S.A. considered that the probability of liability is extremely low.

j. Trustee GROUP GRANCOLOMBIANO (liquidated on June 29, 1990) managed by Banco de Colombia S.A, has contingencies, including some labor and/or pension contingencies, for which had constituted reserves by the Trust Fund of Contingencies managed by Fiduciaria Bancolombia S.A. Some of them are from the former trustee Grupo Grancolombiano, especially to cover such contingencies. Currently, there are no legal processes related to this trustee. Notwithstanding, this contingency is taken into account because there is no statute of limitation relating to claims for pensions.

The Administration of Fiduciaria Bancolombia S.A. and its legal advisers considered that this process will not generate additional liabilities that should be assessed or, if presented, it will affect directly the reserve fund foreseen by the trustee Fund of Contingencies and not Fiduciaria Bancolombia S.A.

k. Propiedad Horizontal Torres Claras filed an ordinary proceeding against Fiduciaria Bancolombia S.A. requesting the termination of the agreement between Fiduciaria Bancolombia S.A. and Mr. Carlos Cajiao and the payment of the compensation of alleged damages derived from the nonpayment of the correspondents quotas. The award was favorable to Fiduciaria Bancolombia S.A. s interests in first instance. Currently, is pending an appeal action filed by the plaintiff.

Though the decision ruled in first instance was favorable for the interests of Fiduciaria Bancolombia S.A., this contingency represents no liability.

l. El Olimpo Propiedad Horizontal filed a lawsuit against the trust Fideicomiso En Garantía Gabriela Upegui , which is managed by Fiduciaria Bancolombia S.A., the trustor and the lessee. Fiduciaria Bancolombia S.A. and the lessee answered the complaint.

Considering that the claims are against the trust, there is no contingency for Fiduciaria Bancolombia S.A. in case the final decision is unfavorable to the interests of Fiduciaria Bancolombia S.A.

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m. Mr. Juan David, Angelica and Veronica Diez Herrera filed a complaint against Fiduciaria Bancolombia S.A. because the administration of three trustee orders opened in the Fondo Comun Especial SURENTABIC managed by SUFIBIC on behalf of them during the period that they under legal age. The plaintiffs request a declaration of breach of contract by the Trustee, and as a consequence the restitution of the funds (Ps 60) plus interest. Process was served to Fiduciaria Bancolombia S.A. in October 2007, and on November 8, 2007, answered the complaint.

The management of Fiduciaria Bancolombia S.A. considers that the performance of Fiduciaria Bancolombia S.A. has been in accordance with the law. Considering this contingency is remote.

n. The liquidation process of the trust agreement number 255 *(Contrato de Encargo Fiduciario No. 255)* entered into between Consortium FISALUD (to which Fiduciaria Bancolombia S.A., Fiduciaria La Previsora and Fiducafe S.A are parties) and the Colombian Ministry of Public Health (*Ministerio de Protección Social*).

This is an agreement that had been completely performed. Nevertheless, there are some observations and discussions regarding some of the contractual commitments, to which the Consortium FISALUD has presented its defense with the purpose of prevail or clarify the discussed contractual matters.

Currently, the Ministerio de Protección Social is reviewing the arguments, but the legal criteria regarding the arguments alleged by the Consortium FISALUD are unknown, reason for which there are not foreseen losses. Once the legal criteria are known, this contingency will be reevaluated with the purpose of determine if this contingency is probable, remote or extremely low.

o. Contractual process by the Ministerio de Proteccion Social against the Consortium FIDUFOSYGA regarding four breaches. Fiduciaria Bancolombia S.A. and the Consortium FIDUFOSYGA s attorney presented a motion requesting the dismissal of the judicial action as an arbitral tribunal would be the appropriate forum.

Taking into account that there is an arbitration clause in the agreement, this contingency is considered as remote.

Leasing Bancolombia S.A.

As of December 31, 2007, Leasing Bancolombia has an allowance of Ps 480 with respect to an award in first instance of San Mateo Apostol s process, and on May 23, 2007 an appeal action has been admited. The grounds of the litigation arise in the seizure by Dirección de Impuestos y Aduanas Nacionales (the Colombian Customs Authority) of 12 buses that were imported by Leasing Patrimonio and leased to a third party. The Colombian Customs Authority claimed that there were irregularities in the importation process. In 1999, the lessee of the vehicles filed a complaint against Leasing Colombia as it had in turn purchased the assets and liabilities of Leasing Patrimonio which is currently liquidated. The claims amounted to Ps 4,712. Leasing Bancolombia S.A. has a provision of Ps 810 for the estimated probable loss.

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Compañía de Financiamiento Comercial Sufinanciamiento S.A.

Actions filed against Sufinanciamiento total an estimated amount of Ps 5,074.4. Only one of these actions represents a probable loss for the company, and a provision has been recorded for Ps 108.

Valores Bancolombia S.A.

Legal Processes, Fines and Lawsuits

As of December 31, 2007, Valores Bancolombia S.A. is a party to a proceeding to be decided by the Second Civil Court of the circuit of Medellin (Juzgado Civil del Circuito de Medellin). The process is at the discovery stage since November 22, 2007. Plaintiff is requesting compensation for damages for Ps 439.30. However, the management and general counsel of Valores Bancolombia S.A. consider this contingency as remote and believe that if the final decision is unfavorable to the company, the judgement could order damages of approximately Ps 5.

Additionally, Valores Bancolombia S.A. has a fine imposed by the Superintendency of Finance regarding a case of Cementos Argos S.A. This fine has been appealed. The total amount of this fine could be approximately of Ps 200.

Factoring Bancolombia S.A.

Factoring Bancolombia S.A. is currently party in the following proceedings:

A. Three complaints filed by the Central Bank to all the financial entities as a consequence of the lawsuits of debtors of commitments agreed under the UPAC System. These cases are being decided by administrative tribunals of the departments of Nariño, Sucre and Cauca.

There should not be any contingency with regard to these processes because Factoring have not had credit transactions under the UPAC System.

B. Process (proceso verbal de acción reivindicatoria) by Mr. Jairo Buriticá Burbano against FES S.A, acting on behalf of the trustee Comoderna S.A, Banco Santander S.A, Corporación Financiera Colombiana S.A, Banco de Bogotá and Factoring Bancolombia S.A Compañía de Financiamiento Comercial.

Process was served to Factoring Bancolombia S.A. on December 5, 2007. This contingency is considered remote.

C. Labor process by Mr. Jorge Franco against Factoring Bancolombia S.A. Compania de Financiamiento Comercial before the Second Labor Court of Barranquilla (Juzgado Segundo Laboral del Circuito de Barranquilla). Plaintiff requests the payment of an amount of Ps 120 in legal fees. As of December 31, 2007, this process is in the stage of discovery. The fnal judgment was expected for March 11, 2008, but it has been postponed for June 10, 2008.

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AFP Crecer S.A

a. As of December 31, 2007, the entity has an administrative process PA-337-2004 for a supposed loss of US$ 33, regarding the liquidation of Eurobonds 2032. Legal defenses and evidence were presented before Superintendency of Pensions of El Salvador requesting the dismissal of the administrative processes as the transactions were done with the purpose of preserving the interests of customers. The Superintendence of Pensions of El Salvador issued resolution A-AF-DO-072-2005 imposing fine for US$ 1. On February 28, 2005 AFP Crecer S.A filed an appeal, which has been admitted and temporarily suspended the effects of fine, evidence has been presented, and a final decision is now expected. If the appeal is unsuccessful AFP Crecer S.A would probably argue that the statute of limitation has lapsed and/or try to use any other legal defenses. This would probably take approximately 2 additional years. Management believes the contingency is low.

b. According to resolution No. PA-016-2006 notified on February 13, 2006, the Superintendency of Pensions of El Salvador imposed a fine of US$ 28, to AFP Crecer S.A, for omitting to give information regarding some commitments in a term of 5 days. On February 16, 2006, AFP Crecer S.A filed an appeal before the Superintendency of Pensions of El Salvador arguing that the information required was in duly given. This appeal was admitted on February 17, 2006, temporarily suspending the effects of the abovementioned resolution, and consequently, opening to the evidence stage. On March 6, 2006 the Superintendency of Pensions of El Salvador denied the appeal and ordered AFP Crecer S.A to pay the correspondent fine in the term specified on the Ley del Sistema de Ahorro para Pensiones . On March 31, 2006 AFP Crecer S.A filed a motion before the Contentious Administrative Court (*Sala de lo Contencioso Administrativo*) of the Supreme Court of Justice of El Salvador against this decision, which was admitted on May 31, 2006. The appealed decisions, were temporarily suspended and the fine will only be effective once is a definitive decision by the Supreme Court of El Salvador.

The opinion of the Attorney s General Office of the Republic of El Salvador is unfavorable. We expect the final decision in a period of one year approximately. Management believes the contingency is low.

c. According to resolution No. A-AF-DO-330-2004 issued on November 9, 2004, the Superintendency of Pensions of El Salvador ordered AFP Crecer S.A to calculate correctly the value of the complementary certificate of transfer, corresponding to the months of October and November of 2003, pursuant to the requirements of the above mentioned resolution, in order to compare the original value and establish the amount to return to the government of El Salvador and do the corresponding refund with its own funds, without affecting the *Cuenta Individual de Ahorro para Pensiones* of the pensioners.

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On September 27, 2007, AFP Crecer S.A requested the rectification of resolution No. A-AF-PE-195-2007 of the Superintendency of Pensions of El Salvador. AFP Crecer also requested that a procedure be followed, this procedure is known as the complementary payment for insufficiencies in the amount of the certificate of transfer and refund of payments in excess, established by the *Reglamento para la Emision y Pago del Certificado de Traspaso.* Pursuant to resolution A AF DO 243 2007, of December 10, 2007, the Superintendency of Pensions of El Salvador found that the request of AFP Crecer S.A. was groundless. As of December 31, 2007, AFP Crecer S.A is analyzing the further steps to be taken.

Before initiating a judicial process, the administration is searching for a solution with the opposing party, according to the regulation that governs the emissions in excess, with the purpose of eliminating the administrative process. Management believes the contingency is low.

Banco Agrícola S.A

As of December 31, 2007 and 2006, Banagrícola has the following judicial or administrative litigations:

a. As of December 31, 2007, before the Fifth Mercantile Court of El Salvador (*Juzgado Quinto de lo Mercantil*) is a process for damages against BA for a supposed responsibility in the managing of an Executive Mercantile Judgment, filed in 1987 by Banagrícola against a customer, the process before the Fifth Mercantile Court of El Salvador is for an amount of Ps 443,247. As of December 31, 2007, Banagrícola has filed a constitutional action (*recurso de amparo*) before the Superior Civil Court of the Supreme Court of Justice (*Sala de lo Civil de la Corte Suprema de Justicia*). This action has been admitted, suspending the process until the constitutional action is decided. In opinion of Banagrícola s legal advisers, there are sufficient arguments for the claim to dismissed without liability from Banagrícola, which classifies this contingency as remote.

b. As of December 31, 2007, BA has complaints filed against it by the Salvadorian Tax Authority (*Direccion General de Impuestos Internos*) before the Supreme Court of Justice, regarding a complementary determination of Tax to the Transfer of Personal property (*Impuesto a la Transferencia de Bienes Muebles)* and Tax of Services VAT (*Prestacion de Servicios*-IVA) related to the fiscal years of 2002 and 2003; and a process before the Court of Appeals of Internal Taxes and Customs against the Salvadorian Tax Authority, regarding the fiscal year 2002. The amounts of these processes amounted to US$ 4,261 and US$ 8,021, respectively. Management believes the contingency is probable however, the final resolution of these cases will not have significant effects in the financial situation or results of operations.

Fundicom S.A.

labor action against Fundicom S.A. existed at December 31, 2006 and 2007, in which various ex-employees are claiming damages for wrongful dismissal. This proceeding is being held before the Labor Court No. 11 of Bogota and is still in its initial stage. The estimated value of the contingency amounts to Ps 587 and Ps 441 in 2007 and 2006 respectively.

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The other subsidiaries have not reported any other contingencies existing as of December 31, 2007. The Bank s provisions were recorded as accrued expenses in the consolidated Balance Sheet.

(27) Administrative and Other Expenses

Administrative and other expenses consisted of the following:

	2005	*2006*	*2007*
Public services	Ps 47,175	Ps 53,512	Ps 69,857
Advertising	50,235	63,214	68,222
Industry and trade, property, vehicle and other taxes	121,699	129,141	147,684
Communication, postage and freight	48,254	52,403	85,042
Insurance	27,446	29,635	23,660
Security services	29,339	27,292	33,655
Amortization of deferred charges	48,310	40,692	61,143
Rental expenses	56,375	62,182	70,949
Maintenance and repairs	99,678	123,169	164,590
Contributions and membership fees	14,587	17,115	31,971
Temporary services	17,440	31,316	18,379
Travel expenses	17,799	22,840	21,999
Professional fees	56,004	59,506	79,599
Call center services	20,041	26,404	26,617
Information processes outsourcing	18,218	22,731	38,383
Warehouse expenses	11,398	11,777	
Software (1)	34,523	24,041	32,175
Alliance SUFI Almacenes Exito S.A. Expense	2,903	10,950	14,333
Operational expenses related with consortium	10,514	9,138	10,198
Electronic processing data	12,108	4,934	3,575
Public relation	2,586	2,052	2,799
Other (1)	46,547	58,138	66,309
Total	Ps 793,179	Ps 882,182	Ps 1,071,139

(1) The amount disclosed in the table for 2006 differs from those disclosed in the annual report of 2006, because they were reclassificated for comparative purposes with the information

of 2007.

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(28) Non-Operating Income (Expenses)

The following table summarizes the components of the Bank s non-operating income and expenses:

	Year ended December 31,		
	2005	***2006***	***2007***
	(Ps million)		
Non-operating income (expenses):			
Other income[(1)]	Ps 109,770	Ps 194,589	Ps 126,796
Minority interest	(6,496)	(6,352)	(13,246)
Other expenses[(2)]	(105,120)	(149,243)	(81,549)
Total non-operating income (expenses), net	Ps (1,846)	Ps 38,994	Ps 32,001

(1) For 2007 includes gains on sale of foreclosed assets, property, plant and equipmet and other assets, securitization residual benefit, insurance contracts sells and rent. For 2006 includes recovery of deferred tax liability for Ps 98,788 registered in 2005 by the Bank.

(2) Other expenses include operational losses and losses from the sale of foreclosed assets, property, plant and

equipment and payments for fines, sanctions, lawsuits and indemnities.

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(29) Related Party Transactions

Significant balances and transactions with related parties were as follows:

2005

	Shareholders with participating stock equal to or higher than 10% of Bank s capital	***Non-consolidated investments***	***Bank s officers and board of directors (1)***	***Shareholders with participating stock lower than 10% of the Bank s capital and with operations higher than 5% technical equity***
Balance Sheet				
Loans		149,889	18,802	3
Customer s acceptances and derivatives				175,095
Accounts receivable		43,147	306	118,362
Total (1)	Ps	Ps 193,036	Ps 19,108	Ps 293,460
Deposits (1)	157	96,664	996	393,088
Accounts payable		1,768		198
Bonds		3,310		18,960
Total	Ps 157	Ps 101,742	Ps 996	Ps 412,246
Transactions				
Income				
Dividends received		6,403		
Interest and fees		19,965	1,963	64
Other		73	133	
Total	Ps	Ps 26,441	Ps 2,096	Ps 64
Expenses				

Interest		23		3,459		629		29,667
Fees						100		
Other						3		
Total	Ps	23	Ps	3,459	Ps	732	Ps	29,667

(1) The data presented herein for 2005 exclude the transactions with the Qualifying Special Purpose Entity QSPE of Titularizadora Colombiana S.A. and Deceval S.A. and therefore differ from corresponding data presented in previous years.

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2006

		Shareholders with participating stock equal to or higher than 10% of Bank s capital		***Non-consolidated investments***		***Bank s officers and board of directors (1)***		***Shareholders with participating stock lower than 10% of the Bank s capital and with operations higher than 5% technical equity***
Balance Sheet								
Investment securities (1)				737				
Loans		10,610		90,783		36,231		
Customer s acceptances and derivatives				2				107,640
Accounts receivable		89		8,632		4,108		
TOtal	Ps	10,699	Ps	100,154	Ps	40,339	Ps	107,640
Deposits (1)		632		107,389		8,656		287,000
Overnight funds				448				
Accounts payable		6		477		2,274		
Bonds				610				35,300
TOtal	Ps	638	Ps	108,924	Ps	10,930	Ps	322,300
Transactions								
Income								
Dividends received				11,206				
Interest and fees		899		29,639		3,339		
Other				2				
TOtal	Ps	899	Ps	40,847	Ps	3,339		
Expenses								
Interest		49		6,703		6,642		22,400

Fees						156		
Other						18		
TOtal	Ps	49	Ps	6,703	Ps	6,816	Ps	22,400

(1) The data presented herein for 2005 exclude the transactions with the Qualifying Special Purpose Entity QSPE of Titularizadora Colombiana S.A. and Deceval S.A. and therefore differ from corresponding data presented in previous years.

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2007

	Shareholders with participating stock equal to or higher than 10% of Bank s capital	***Non-consolidated investments***	***Bank s officers and board of directors [1]***	***Shareholders with participating stock lower than 10% of the Bank s capital and with operations higher than 5% technical equity***
Balance Sheet				
Investment securities		75,546		
Loans	390	80,231	40,393	
Customer s acceptances and derivatives	624	23,065		2,339
Accounts receivable	19	11,678	488	
Total	Ps 1,033	Ps 190,520	Ps 40,881	Ps 2,339
Deposits	789	184,127	2,164	480,095
Bonds		3,000		74,567
Total	Ps 789	Ps 187,127	Ps 2,164	Ps 554,662
Transactions				
Income				
Dividends received		3,635		
Interest and fees	53	234	61	
Total	Ps 53	Ps 3,869	Ps 61	
Expenses				
Interest	345	8,881	521	35,424
Fees			439	
Total	Ps 345	Ps 8,881	Ps 960	Ps 35,424

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(30) Subsequent Events

Extraordinary annulment action challenging the May 16, 2006 ruling of the Arbitration Tribunal Arbitration Proceeding: Jaime Gilinski and others Vs. The Bank and others.

On May 16, 2006, the arbitration tribunal issued an award that ruled in favor of Bancolombia on the majority of the claims, regarding an arbitration process initiated by the Messrs. Jaime and Isaac Gilinski in conjunction with certain foreign entities against Bancolombia, its Board of Directors of 1997, its President, Mr. Jorge Londoño Saldarriaga, and its Vice President of Finance, Mr. Jaime Alberto Velasquez Botero, to solved some differences relating to the process of acquisition by BIC of a majority of the stock of the old Banco de Colombia and the subsequent merger of both entities.

The plaintiffs main claim sought a declaration nullifying the acquisition by BIC of a majority stake in Banco de Colombia. The petition also contained other secondary causes of action, all of which totaled a considerable sum. The arbitration tribunal denied all the plaintiffs claims against the senior management and exonerated them from all liability, ordering the plaintiffs to pay the court costs. In addition, the arbitration tribunal held that plaintiffs had failed to prove that Bancolombia and its senior management committed any fraudulent operations or fraudulent representations regarding the above-mentioned agreement, and denied any pain and suffering damages in favor of the plaintiffs.

However, the tribunal decided that the Bank should pay an indemnification for the amount of Ps 15,360 that, including, the loss of profits amounted to Ps 40,570, to the plaintiffs with respect to non-compliance with some secondary obligations in the capitalization process in 1998. The Bank filed an extraordinary annulment action before the Superior Tribunal of Bogota.

The Bank classified this contingency as probable because it is an action for which there is no appeal. Consequently, as of December 31, 2007, the Bank allocated a provision of Ps 27,704.

As of March 11, 2008, the paying amount by the Bank regarding this arbitration process is approximately Ps 61,753 including the interests liquidated until March 11, 2008.

Arbitration Proceeding: The Bank Vs. Gilinski.

On February 26, 2008, the Tribunal Superior de Bogota (the Superior Court) annulled arbitral tribunal the decision of March 30, 2006.

On March 5, 2008, the Bank filed a demanda de tutela an action alleging a violation of constitutional rights before the Colombian Supreme Court of Justice (the Supreme Court) seeking to have annulled the decision of February 26, 2008, of the Civil Chamber of the Superior Court of Bogota rendered against the Bank. In its action, the Bank asserts that the Superior Court violated Bancolombia s constitutional rights when it annulled the arbitral award of 2006, in which Mr. Jaime Gilinski was found liable and obliged to compensate the Bank. This constitutional action is still pending.

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On March 28, 2008, the Civil Chamber of the Supreme Court temporarily suspended the decision of the *Tribunal Superior de Bogota* (the Superior Court) dated February 26, 2008, that annulled an award granted by an arbitral tribunal in March 30, 2006. This award was appealed by the counterparty, against the Labor Chamber of the Supreme Court of Justice (*Sala Laboral de la Corte suprema de Justicia*). Additionally, the Bank presented an appeal recurso extraordinario de revision before the Civil Chamber of the Colombian Supreme Court of Justice, which is still pending.

On May 15, 2008, the Labor Chamber of the Supreme Court of Justice (*Sala Laboral de la Corte Suprema de Justicia*) revoked the temporary order granted by the Civil Chamber of the Supreme Court of Justice on March 28, 2008, while the appeal (*recurso extraordinario de revision*) filed by Bancolombia S.A. remained pending. In its decision, the Labor Chamber also ruled that the guarantee (*garantía fiduciaria*) would remain in effect.

Arbitration Proceeding: Luis Alberto Durán Vs. Bancolombia.

On March 5, 2008, the Superior Court dismissed the extraordinary annulment action filed by the Bank on February 17, 2004. The court rejected BC s claim for annulment. Under the arbitral award, shareholders of the former Banco de Colombia will be entitled to compensation if they: (i) fulfill the requirements established in articles 55 and 66 of Law 472 of 1998, (ii) fulfill the requirements established in the arbitral award, (iii) timely became parties to the class action or have timely accepted the outcome of the arbitral award, and (iv) have not elected to be excluded from the class action or its outcome.

April 8, 2008 the Bank sent to the Defensoría del Pueblo, entity in charge of paying to the beneficiaries of the case the amount ordered by the Court, which amounted to a total of Ps 3,335. This amount will cover the claims from the shareholders of the former Banco de Colombia that were timely asked through the *Defensoría del Pueblo.*

Proceeding related to the Gilinski Case , before the United States Court for the Southern District of New York.

In June 2, 2008, the United States Court of Appeals for the Second Circuit (the Court of Appeals) confirmed the decision of February 28, 2007 by the United States Court for the Southern District of New York (the Court).

The Court of Appeals held that the Tribunal had decided the merits of all claims, and confirmed particularly, that the Tribunal rejected the main three allegations of the complaint filed before the Court. The Tribunal found that (i) Bancolombia had not manipulated the price of ADRs on the New York Stock Exchange; (ii) the failure to raise US$ 150,000 was neither a breach of an express contractual obligation nor fraudulent or willful misconduct; and (iii) neither Bancolombia nor the remaining defendants engaged in transactions or conduct in violation of Colombian law and sound banking practices.

Announcement of Multienlace s sale

On june 6, 2008, Bancolombia announced the execution of an agreement whereby it sold 100% of its direct and indirect interest in Multienlace S.A. to Stratton Spain S.L, equating to approximately 98% of Multienlace S.A. The purchase price was Ps 105,882.6 and the sale remains subject to customary closing conditions.

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(31) Differences Between Colombian Accounting Principles for Banks and U.S. GAAP

The Bank s financial statements are prepared in accordance with generally accepted accounting principles and practices prescribed by the Superintendency of Finance and other legal provisions (Colombian GAAP). These principles and regulations differ in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP), and therefore this note presents a reconciliation of net income and stockholders equity to U.S. GAAP. Certain items in the reconciliations were reclassified to conform with current year presentation.

***a*) Reconciliation of net income:**

The following table summarizes the principal differences between accounting practices under Colombian GAAP and U.S. GAAP and their effects on net income for the years ended December 31, 2005, 2006 and 2007:

	2005	***2006***	***2007***
Consolidated net income under Colombian GAAP	Ps 946,881	Ps 749,529	Ps 1,086,923
a) Deferred income taxes	121,025	(132,003)	(91,280)
b) Employee benefit plans	(1,733)	10,320	18,127
c) Inflation adjustment	(4,423)	(104)	(151)
e) Allowance for loans losses, financial leases losses, foreclosed assets and other receivables	(108,886)	195,549	(69,809)
f) Loan origination fees and costs	3,277	16,798	7,241
g) Interest recognition on non-accrual loans	3,976	2,377	6,832
h) Deferred charges	(1,761)	(3,130)	7,192
i) Investment securities & derivatives	27,159	(36,235)	(9,190)
j) Investments in unaffiliated companies	(4,085)	(1,545)	(968)
k) Investments in affiliates	18,277	6,598	13,321
l) Lessor accounting	1,931	(1,703)	709
m) Business combinations			
m.i) Goodwill	31,394	22,642	82,075
m.ii) Intangible assets	(5,889)	(88,248)	(42,063)
m.iii) Fair value adjustments to assets and liabilities acquired	(140,102)	186,546	(6,860)
n) Securitization non-performing loans	5,851	4,717	19,702
o) Foreign currency translation adjustment	1,651	7,853	13,115
p) Minority interest	(3,422)	4,793	(7,965)
r) Guarantees		(3,571)	(2,549)
s) Insurance Contracts			(4,945)
u) Equity tax			(3,813)
Consolidated net income under U.S. GAAP	Ps 891,121	Ps 941,183	Ps 1,015,644
Net income from continuing operations	Ps 930,022	Ps 986,762	Ps 1,072,607
Income (Loss) from operations and disposal of discontinued Operations	Ps (38,901)	Ps (45,579)	Ps (56,963)

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***b*) Reconciliation of Stockholders Equity:**

The following tables summarizes the principal differences between accounting practices under Colombian GAAP and U.S. GAAP and their effects on stockholders equity for the years ended December 31, 2006 and 2007:

	2006	***2007***
Consolidated stockholders equity under Colombian GAAP	Ps 3,646,612	Ps 5,199,270
a) Deferred income taxes	66,326	(108,876)
b) Employee benefit plans	1,052	4,507
c) Inflation adjustment	38,689	38,538
d) Revaluation of assets	(140,693)	(319,646)
e) Allowance for loans losses, financial leases losses, foreclosed assets and other receivables	416,142	561,442
f) Loan origination fees and costs	70,531	77,772
g) Interest recognition on non-accrual loans	8,385	15,217
h) Deferred charges	(6,166)	(11,291)
i) Investment securities & derivatives	(142,421)	(163,559)
j) Investments in unaffiliated companies	(13,298)	(14,266)
k) Investments in affiliates	37,175	50,496
l) Lessor accounting	228	937
m) Business combinations		
m.i) Goodwill	543,164	276,217
m.ii) Intangible assets	142,100	487,691
m.iii) Fair value adjustments to assets and liabilities acquired	(127,176)	(171,222)
n) Securitization of non performing loans	10,568	30,270
p) Minority interest	1,371	(6,595)
r) Guarantees	(3,571)	(6,120)
s) Insurance contracts		(3,228)
	902,406	738,284
Consolidated stockholders equity under U.S. GAAP	Ps 4,549,018	Ps 5,937,554

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***c*) Supplemental Consolidated Condensed Financial Statements under U.S.GAAP:**

The presentation of balance sheet and income statement under U.S. GAAP differs from that from Colombian GAAP due to the acquisition of Conavi and Corfinsura in 2005 and Banagrícola in 2007. As a result, we are presenting the summarized consolidated financial statements under U.S.GAAP for years ended December 31, 2006 and 2007:

Supplemental Consolidated Condensed Balance Sheets

		2006 (As restated, see Note 32)		*2007 (As restated, see Note 32)*
Assets:				
Cash and due from banks	Ps	2,040,892	Ps	5,285,089
Trading account		2,926,959		2,287,673
Investment securities, net		2,203,154		2,361,663
Loans		22,456,573		35,340,990
Financial lease		3,553,514		4,699,764
Allowance for loans, financial leases losses and other receivables		(509,179)		(1,072,307)
Premises and equipment, net		1,637,039		1,922,999
Other assets		1,566,111		3,054,437
Total assets	**Ps**	**35,875,063**	**Ps**	**53,880,308**
Liabilities and Stockholders Equity:				
Deposits		23,191,301		34,356,264
Short term debt		1,209,776		1,195,849
Long term debt		4,031,736		7,330,902
Other liabilities		2,848,792		4,996,708
Minority interest		44,440		63,031
Shareholders equity		4,549,018		5,937,554
Total Liabilities and Stockholders equity	**Ps**	**35,875,063**	**Ps**	**53,880,308**

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Supplemental Consolidated Condensed Statements of Operations

	2005[1]	*2006*[1] *(As restated, see Note 32)*	*2007*[1] *(As restated, see Note 32)*
Total interest income	Ps 2,847,397	Ps 3,261,057	Ps 4,763,632
Total interest expense	(1,032,576)	(1,281,228)	(1,987,244)
Net interest income	1,814,821	1,979,829	2,776,388
Provision of loans, leases and other receivables	(230,015)	(1,765)	(678,962)
Net interest income after provision of loans, leases and other receivables	1,584,806	1,978,064	2,097,426
Other income	938,250	1,154,306	1,614,446
Other expenses	(1,445,552)	(1,945,737)	(2,189,349)
Income before income taxes	1,077,504	1,186,633	1,522,523
Income tax expense	(147,482)	(199,871)	(449,916)
Net income from continued operations	930,022	986,762	1,072,607
Discontinued Operations	**(38,901)**	**(45,579)**	**(56,963)**
Net income	**Ps 891,121**	**Ps 941,183**	**Ps 1,015,644**

(1) The amounts disclosed in the table for 2005 and 2006 differ from those disclosed in the annual report of 2006; these changes correspond to discontinued operations of Multienlace S.A.

Supplemental Consolidated Condensed Statements of Cash Flows [1]

	2005 (As restated, see	*2006 (As restated, see Note*	*2007 (As restated, see*

		Note 32)		*32)*		*Note 32)*
Net income	Ps	891,121	Ps	941,183	Ps	1,015,644
Adjustments to reconcile net income to net cash used by operating activities		(3,059,351)		2,811,272		2,058,680
Net cash provided by operating activities		(2,168,230)		3,752,455		3,074,324
Net cash used in investing activities		474,247		(7,121,607)		(9,139,513)
Net cash provided by financing activities		2,174,645		3,677,955		9,566,743
Increase in cash and cash equivalents	Ps	480,662	Ps	308,803	Ps	3,501,554
Effect of exchange rate on cash and cash equivalent				2,067		(257,357)
Cash and cash equivalents at beginning of year		1,249,360		1,730,022		2,040,892
Cash and cash equivalents at end of year	**Ps**	**1,730,022**	**Ps**	**2,040,892**	**Ps**	**5,285,089**

(1) This consolidated statement of cash flow includes the following non cash transactions: Ps 80,894 related to restructured loans that were transferred to foreclosed assets and foreign exchange gain of Ps 40,699.

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Supplemental Consolidated Condensed Changes in Stockholders Equity

	2005	***2006***	***2007***
Balance at beginning of year	Ps 2,267,286	Ps 4,125,996	Ps 4,549,018
Shares issued at market value [(1)]	1,164,218		927,612
Net income	891,121	941,183	1,015,644
Dividends declared	(216,838)	(369,736)	(403,164)
Other comprehensive loss	(19,148)	(116,229)	(113,681)
Other movements	39,357	(32,196)	(37,875)
Balance at end of year	Ps 4,125,996	Ps 4,549,018	Ps 5,937,554

(1) The line shares issued for Ps 236,212 in the consolidated statement of stockholder s equity under Colombian GAAP for the year 2005, reflects the par value of shares; the line shares issued for Ps 1,164,218 in this table reflects the fair market value of shares issued under U.S. GAAP. In 2007 Bancolombia S.A. issued a total of 59,999,998 preferred shares.

Supplemental Consolidated Statement of Comprehensive Income

	2005	***2006***	***2007***
Net Income	Ps 891,121	Ps 941,183	Ps 1,015,644
Other comprehensive income, net of tax:			

Unrealized gain or (loss) on securities available for sale	2,106	(146,925)	(34,731)
Pension liability	(19,603)	(2,217)	(10,130)
Foreign currency translation adjustments	(1,651)	(7,853)	(68,820)
Other comprehensive (loss) or gain	(19,148)	(156,995)	(113,681)
Comprehensive income	Ps 871,973	Ps 784,188	Ps 901,963

Other comprehensive income (loss)

2005

	Before-Tax Amount	*(Tax Expense) or Benefit*	*Net-of-tax Amount*
Unrealized gain or (loss) on securities available for sale	Ps 6,816	Ps (4,710)	Ps 2,106
Additional minimum liability (net actuarial loss)	(32,876)	13,273	(19,603)
Foreign currency translation adjustment	(1,651)		(1,651)
Other comprehensive income (loss)	Ps (27,711)	Ps 8,563	Ps (19,148)

2006

	Before-Tax Amount	*(Tax Expense) or Benefit*	*Net-of-tax Amount*
Unrealized gain or (loss) on securities available for sale	Ps (232,271)	Ps 85,346	Ps (146,925)
Additional pension liability	(3,487)	1,270	(2,217)
Foreign currency translation adjustment	(7,853)		(7,853)
Other comprehensive income (loss)	Ps (243,611)	Ps 86,616	Ps (156,995)

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2007

	Before-Tax Amount	***(Tax Expense) or Benefit***	***Net-of-tax Amount***
Unrealized gain or (loss) on securities available for sale	Ps (51,632)	Ps 16,901	Ps (34,731)
Additional pension liability	(14,672)	4,542	(10,130)
Foreign currency translation adjustment	(68,820)		(68,820)
Other comprehensive income (loss)	Ps (135,124)	Ps 21,443	Ps (113,681)

Accumulated other comprehensive income

	Unrealized Gains (Losses) on Securities, net of taxes	***Pension Liability, net of taxes***	***Foreign Currency Translation Adjustment***	***Accumulated Other Comprehensive Income***
Beginning balance for 2005	Ps 66,385	Ps (10,319)	Ps (8,661)	Ps 47,405
Current-period change	2,106	(19,603)	(1,651)	(19,148)
Ending balance for 2005	68,491	(29,922)	(10,312)	28,257
Beginning balance for 2006	68,491	(29,922)	(10,312)	28,257
Current-period change	(146,925)	(2,217)	(7,853)	(156,995)
Effects of adoption FAS 158		40,766		40,766
Ending balance for 2006	Ps (78,434)	Ps 8,627	Ps (18,165)	Ps (87,972)
Beginning balance for 2007	Ps (78,434)	Ps 8,627	Ps (18,165)	Ps (87,972)
Current-period change	(34,731)	(10,130)	(68,820)	(113,681)
Ending balance for 2007	Ps (113,165)	Ps (1,503)	Ps (86,985)	Ps (201,653)

Summary of significant differences and required U.S. GAAP disclosures
a) Deferred income taxes:
Under Colombian GAAP, deferred income taxes are generally recognized for timing differences (not temporary differences as in SFAS No. 109) 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.
Under U.S. GAAP, deferred tax assets or liabilities must be recorded for all temporary differences between the financial and tax bases of assets and liabilities. A valuation allowance is provided for deferred tax assets to the extent

that it is more likely than not that they will not be realized. During 2007, the Bank calculated deferred income taxes based on the tax benefits received upon the acquisition of certain property and equipment in accordance to EITF 98-11 Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations.

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Income tax expense under U.S. GAAP is comprised of the following components for the years ended at December 31, 2005, 2006 and 2007:

	2005	***2006***	***2007***
Current income tax expense	Ps 178,992	Ps 136,307	Ps 338,364
Deferred income tax (benefit) expense	(22,502)	71,788	114,799
Total	Ps 156,490	Ps 208,095	Ps 453,163

	2005	***2006***	***2007***
Continuing operation income tax	Ps 147,482	Ps 199,871	Ps 449,916
Discontinued operation income tax	9,008	8,224	3,247
Income tax	Ps 156,490	Ps 208,095	Ps 453,163

Temporary differences between the amounts reported in the financial statements and the tax bases for assets and liabilities result in deferred taxes. Deferred tax assets and liabilities at December 31, 2006 and 2007 were as follows:

	2006	***2007***
Deferred tax assets and liabilities		
Deferred tax assets:		
Allowance for loan losses	Ps	Ps 28,527
Fixed assets	169,674	135,192
Tax losses and excess of presumed income over ordinary income	11,129	23,465
Allowance for foreclosed assets		17,965
Accrued expenses	34,760	33,779
Excess of accrued income over valuation income	4,418	3,625
Business combination		21,971
Unrealized gain on investment securities	43,504	61,909
Deferred interest on restructured loans	17,741	20,421
Other	15,836	20,731
Total gross deferred tax assets	297,062	367,585
Less valuation allowance	(19,708)	(9,491)
Net deferred tax asset	Ps 277,354	Ps 358,094
Deferred tax liabilities:		
Accrual of employee benefits	Ps 381	Ps 1,577
Fixed assets		31,978
Allowance for loan losses	32,875	130,448

Allowance for foreclosed assets		4,829		26,308
Loan origination fees and cost		22,829		24,795
Forward, future and swaps effect		37,537		49,994
Inflation adjustments		78,051		76,090
Business Combination		16,926		24,842
Intangible assets		50,762		134,233
Excess of accrued income over valuation income				11,790
Securitization		3,804		10,595
Other		3,003		7,813
Total deferred liabilities		250,997		530,463
Net deferred asset (liability)	Ps	26,357	Ps	(172,369)

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The valuation allowance for deferred tax assets as of December 31, 2006 and 2007 was Ps 19,708 and Ps 9,491, respectively. The net change in the total valuation allowance for the year ended December 31, 2006 was an increase of Ps 15,268 and for the year ended December 31, 2007 was a decrease of Ps 10,217. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2007. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

The 37% income tax nominal rate for years 2005, 2006 and 36% for year 2007 differs from 14.94%, 18.12% and 30.85% effective tax rate for years 2005, 2006 and 2007, due to the following:

	2005	***2006***	***2007***
Income before tax U.S. GAAP[(1)]	Ps 1,047,611	Ps 1,149,278	Ps 1,468,807
Income tax as per statutory rate	387,616	425,233	528,771
Effect of foreign profit taxed other rate			(43,757)
Non-deductible items / provisions	48,225	77,002	72,868
Non-taxable income	(136,513)	(197,587)	(139,882)
Others	(141,948)	(111,820)	45,380
Increase (decrease) in tax valuation allowance	(890)	15,267	(10,217)
Income tax	Ps 156,490	Ps 208,095	Ps 453,163

(1) It represents continuing operation and discontinued operation.

For years ended December 31, 2005, 2006 and 2007, non-taxable income includes off shore subsidiaries income tax, dividend income tax, gain on sales of stocks tax, interest income over mortgage securities tax, interest income on VIS housing loans tax and recoveries of deductible items tax.

As of December 31, 2007, the Bank intended to capitalize the results from its off-shore Subsidiaries. Accordingly, no deferred income tax liability was recorded for the undistributed profits of Bancolombia Panamá and its subsidiaries, Bancolombia Puerto Rico and Suleasing Internacional and its subsidiaries. The undistributed profits in such Subsidiaries were Ps 356,666 at December 31, 2007.

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FIN 48

The Bank adopted the provisions of Interpretation 48 Accounting for uncertainty in income taxes (FIN 48) in 2007. The interpretation clarifies the accounting and reporting for uncertainty in income taxes recognized by the Bank and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The Bank records interest and penalties, when necessary, related to the probable losses in Other expenses in the statements of operations.

The adoption of FIN 48 did not have impact on the Bank, and there are no unrecognized tax benefits. Furthermore, the Bank did not have interest and penalties recognized in the balance sheet as of December 31, 2007.

The Bank is not aware of positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will be significantly increased or decreased within 12 months of the reporting date.

The open tax years of the major companies of the Bancolombia Group are as follows:

Company	***Open tax year***
Bancolombia	2006 2007
Fiduciaria Bancolombia	2006 2007
Leasing Bancolombia	2006 - 2007
Sufinanciamiento	2006 2007
Valores Bancolombia	2006 2007
Renting Colombia	2005 2007
Factoring Bancolombia	2005 2007
Banca de Inversión	2007
Banco Agrícola	2004 2007

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b) Employee benefit plans:

U.S. GAAP requires the recognition of pension costs based on actuarial computations under a prescribed methodology which differs from that used under Colombian GAAP. For purposes of U.S. GAAP reconciliation, the transition obligation calculated at the date the Bank adopted SFAS 87 is being amortized from January 1, 1989, for a period of 18 years for the pension plan and 27 years for the severance plan.

There are not plan assets under the employee benefit plan.

Pension Plan

In 1967, the Social Security Institute assumed the pension obligation for the majority of the Bank s employees; however, employees who had more than ten years of service prior to that date, continued participating in the Bank s non-contributory unfunded defined benefit pension plan. Under this plan, benefits are based on length of service and level of compensation. As of December 31, 2007, there were nearly 950 participants covered by the Plan.

The measurement for pension plan obligations differs from Colombian GAAP to U.S. GAAP basically due to the fact that Colombia GAAP requires calculation of the estimated liability using the actuarial methodology given by the law, the actuarial assumptions, based on nominal discount, salary and pension increase rates, and the method of computing the net periodic pension costs.

Severance obligation

Under Colombian labor regulations, employees are entitled to receive one month s salary for each year of service. This benefit accumulates and is paid to the employees upon their termination or retirement from the Bank; however, employees may request advances against this benefit at any time. In 1990, the Colombian government revised its labor regulations to permit companies, subject to the approval of the employees, to pay the severance obligation to their employees on a current basis. Law 50 from 1990, also enabled each worker freely to choose which pension fund would manage the amount accrued during the year of his/her severance pay. This amount must be transferred by headquarters to the pension funds no later than the following period.

Under U.S. GAAP, a curtailment is an event that significantly reduces the expected years of future service of present employees or eliminates, for a significant number of employees, the accrual of defined benefits for some or all of their future services. Consequently, this modification reduces, the projected benefit obligation. Such a reduction is used to reduce any existing unrecognized prior service cost, and the excess, if any, is amortized on the same basis as the cost of benefit increases.

As of December 31, 2007 there were 1,753 participants remaining in the original severance plan.

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Until December 31, 2006, the pension plan and severance obligation included employees from the Bank and Almacenar S.A. As a result of the sale of Almacenar S.A., dated February 2007, 16 of Almacenar s employees who participated in the pension plan and 22 employees who participated in Severance plan were not included in the calculation. The Bank does not maintain any pension or severance obligation with Almacenar s employees after the date of sale.

Upon the Conavi/Corfinsura merger did not have a defined benefit plan for their employees and they were not entitled to join the Bank s defined benefit plan.

Disclosure and calculation of differences under U.S. GAAP

The economic assumptions used in the determination of pension obligations under U.S. GAAP differ from those used under Colombian GAAP because the latter are established annually by the Colombian regulations.

		2005		***2006***		***2007***
Components of net periodic benefit cost						
Service cost	Ps	1,604	Ps	4,277	Ps	3,447
Interest cost		27,504		18,477		16,950
Amortization of prior service cost		143		135		131
Amortization of net transition obligation (Assets)		1,048		1,017		978
Amortization of net (gain) or loss		562		(401)		(3,470)
Adjustment to be recognized						
Net periodic pension cost under U.S. GAAP		30,861		23,505		18,036
Net periodic pension cost under Colombian GAAP		29,128		33,825		36,163
Difference to be recognized under U.S. GAAP	Ps	(1,733)	Ps	10,320	Ps	18,127

The combined costs for the above mentioned benefit plans, determined using U.S. GAAP, for the years ended December 31, 2006 and 2007, are summarized below:

		2006		***2007***
Change in project benefit obligation				
Unfunded benefit obligation at beginning of year	Ps	133,498	Ps	111,587
Service cost		4,277		3,447
Interest cost		18,477		16,950
Actuarial (gain)/loss		(21,552)		(655)
Effect of settlements[(1)]				(1,741)
Cost of plan amendment[(2)]				13,056
Benefits paid		(23,113)		(22,812)
Unfunded benefit obligation at end of year	Ps	111,587	Ps	119,832
Accrued benefit cost under Colombian GAAP		(112,639)		(124,339)
Difference to be recognized under U.S. GAAP Stockholders equity	Ps	1,052	Ps	4,507

(1) The effect of settlement is related to the sale of Almacenar S.A.

(2) Due to the retroactive effect of sentence 862/2006, Bancolombia was required to recognize pension benefit increases ranging from about 1% to more than 400% to approximately 123 retirees and beneficiaries. The increase in the Project Benefit Obligation as of 12/31/2007 due to this plan amendment is treated as prior service cost.

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		2006		***2007***
Net Amount Recognized in the Consolidated Balance Sheet at December 31.				
Statement of Financial Position				
Noncurrent Assets	Ps	(4,208)	Ps	(6,194)
Current Liabilities		11,987		13,441
Noncurrent Liabilities		103,808		112,585
Amount Recognized in Financial Position	Ps	111,587	Ps	119,832
Accumulated Other Comprehensive Income				
Net Actuarial Gain (Loss)	Ps	16,151	Ps	12,452
Net Prior Service (Cost)/Credit		(424)		(13,350)
Net Transition (Obligation) Asset		(3,368)		(1,415)
Total at December 31.		12,359		(2,313)
Deferred income tax		(3,732)		810
Accumulated other comprehensive Income (Loss)	Ps	8,627	Ps	(1,503)

The changes in the Accumulated other comprehensive Income are as follows:

			2007
Increase or (decrease) in Accumulated other comprehensive Income			
Recognized during year	Transition (Obligation)/Asset	Ps	979
Recognized during year	Prior Service (Cost)/Credit		131
Recognized during year	Net Actuarial (Losses)/Gains		(3,381)
Occurring during year	Prior service cost		(13,056)
Occurring during year	Net Actuarial Losses/(Gains)		655
Accumulated other comprehensive Income in current year		Ps	(14,672)

The Bank expects the following amounts in other comprehensive income to be recognized as components of net periodic pension cost during 2008:

Net transition obligation/(asset)	Ps	789
Net prior service cost		1,217
Net loss/(gain)		(3,435)
Total	**Ps**	**(1,429)**

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The economic assumptions adopted are shown below in nominal terms. Those assumptions used in determining the actuarial present value of pension obligation and the projected pension obligations for the plan years were as follows.

	2005	***2006***	***2007***
Discount rate	8.68%	8.68%	9.25%
Rate of compensation increases	6.33%	6.07%	6.00%
Rate of pension increases	4.50%	4.50%	5.00%

Estimated Future Benefit Payments

The benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension Benefits	***Other Benefits***
2008	14,048	12,732
2009	12,727	7,948
2010	12,742	7,520
2011	12,346	10,592
2012	12,268	13,487
Years 2013 - 2017	62,134	79,411

c) Inflation adjustment

The consolidated financial statements under COL GAAP were adjusted for inflation based on the variation in the IPC for middle income-earners, from January 1, 1992, to December 31, 2000. The adjustment was applied monthly to non-monetary assets, equity (except for the revaluation surplus and exchange adjustment), contingent accounts and memorandum accounts.

Financial statements are adjusted for inflation under U.S. GAAP when an entity operates in a hyperinflationary environment. The U.S. GAAP adjustment represents the cumulative inflation adjustment on the Bank s non-monetary assets for inflation occurring prior to January 1, 2001, less depreciation expense.

d) Revaluation of assets

In accordance with Colombian GAAP, reappraisals of a portion of the Bank s premises and equipment, equity investments and other non-monetary assets are made periodically and recorded in offsetting accounts which are shown under the asset caption reappraisal of assets and the stockholders equity caption Surplus from reappraisals of assets . The last valuation was in December 2007. Under U.S. GAAP, reappraisals of assets are not permitted.

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e) Allowance for loan losses, financial leases, foreclosed assets and other receivables

As established by the Superintendency of Finance, the methodology for evaluating loans under Colombian GAAP, as discussed in Note 2 (i), is based on their inherent risk characteristics and serves as a basis for recording loss allowances based on loss percentage estimates. Under both Colombian GAAP and U.S. GAAP, the loan loss allowance is determined and monitored on an ongoing basis, and is established through periodic provisions charged to operations.

Under U.S. GAAP, allowance for loan losses represents the management s estimate of probable losses inherent in the portfolio. Attribution of the allowance is made for analytical purposes only, and the entire allowance is available to absorb probable loan losses inherent in the portfolio including unfunded commitments. Additions to the allowance are made by means of the provision for loan losses. Loan losses are deducted from the allowance, and subsequent recoveries are added. Securities received in exchange for loan claims in debt restructurings are initially recorded at fair value, with any gain or loss reflected as a recovery or charge-off to the allowance, and are subsequently accounted for as securities available-for-sale.

In the corporate portfolio, large-balances, non-homogeneous exposures (representing significant individual credit exposures) are evaluated based upon the borrower s overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. Reserves are established for these loans based upon an estimate of probable losses for individual larger-balance, non-homogeneous loans deemed impaired. This estimate considers all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the loan s contractual effective rate, the secondary market value of the loan and the fair value of collateral. The allowance for loan losses attributed to the remaining portfolio is established by a process that estimates the probable loss inherent in the portfolio based upon various statistical analyses. This analyses considers historical and projected default rates and loss severities; internal risk rating, industry, and other environmental factors. The Bank also considers overall portfolio indicators including trends in internally risk-rated exposures, classified exposures, cash-basis loans, historical and forecasted write-offs, a review of industry, and portfolio concentrations, including current developments within those segments. In addition, the Bank considers the current business strategy and credit process, including credit limit setting and compliance, credit approvals, loan underwriting criteria, and loan workout procedures.

Each portfolio of small-balances, homogeneous loans, including consumer revolving credit, credit cards, and most other consumer loans, is collectively evaluated for impairment. The allowance for credit losses attributed to these loans is established via a process that estimates the probable losses inherent in the portfolio, based upon various statistical analyses. These include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, and analysis that reflects current trends and conditions. The Bank also considers overall portfolio indicators including historical credit losses, delinquent, non-performing and classified loans, and trends in volumes and terms of loans; an evaluation of overall credit quality and the credit process, including lending policies and procedures; and economic, geographical, product and other environmental factors.

In general, commercial loans, which are 91 or more days past due and consumer loans, small business loans, and mortgage loans which are 61 or more days past due, together with certain other loans identified by management, are deemed to be impaired.

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The following summarizes the allowance for loan and financial lease losses under Colombian GAAP and U.S. GAAP:

	2006	***2007***
Allowance for loans, financial lease losses and foreclosed assets under Colombian GAAP		
Allowance for loans and financial lease losses	Ps 834,183	Ps 1,457,151
Allowance for accrued interest and other receivables	33,859	67,707
Allowance for foreclosed assets	174,393	201,822
	Ps 1,042,435	Ps 1,726,680
Allowance for loan losses under U.S. GAAP		
Allowance for loans, financial lease, accrued interest losses and other related receivables	507,641	1,055,697
Allowance for foreclosed assets	118,652	109,541
	Ps 626,293	Ps 1,165,238
Difference to be recognized as an adjustment to Colombian GAAP stockholders equity	Ps 416,142	Ps 561,442

	2005	***2006***	***2007***
Difference recognized in net income under U.S.GAAP			
Allowance for loans, financial lease losses and other receivables	Ps (106,440)	Ps 193,596	Ps (45,780)
Allowance for foreclosed assets	(2,446)	1,953	(24,029)
	Ps (108,886)	Ps 195,549	Ps (69,809)

An analysis of the activity in the allowance for loans and financial lease losses under U.S. GAAP during the year ended December 31, 2005, 2006 and 2007 is as follows:

	2005	***2006***	***2007***
Provision at the beginning of the period	Ps 407,852	Ps 581,645	Ps 507,641
Currency Translation and other adjustments	(4,130)	(685)	(29,129)
Charge-offs	(104,543)	(145,829)	(191,779)
Recoveries of charged-off loans	52,451	70,745	89,997
Charged to profit and loss account	230,015	1,765	678,967
Provision at the end of the period	Ps 581,645	Ps 507,641	Ps 1,055,697

Gross Loans and financial leases	18,626,252	24,645,574	37,702,624
Closing customers provisions as a percentage of gross loans	3.12%	2.06%	2.80%
Customers charges against profits as percentage of gross loans	1.23%	0.01%	1.79%

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At December 31, 2006, and 2007, the carrying value of loans considered to be impaired under SFAS No. 114 (not including restructured loans), was approximately Ps 348,626 and Ps 911,650, respectively, and the related allowance for loan losses on those impaired loans totaled Ps 104,397 and Ps 301,890, respectively.

For the years ended December 31, 2005, 2006 and 2007, the Bank recognized interest income of approximately Ps 10,918, Ps 14,133 and Ps 26,592, respectively, on such impaired loans.

The total amount of loans evaluated under a methodology different than SFAS 114 and SFAS 15 methodology was Ps 36,025,854 at December 31, 2007.

Foreclosed assets

Under Colombian GAAP, the Bank must design and adopt its own internal models for the calculation of provisions for foreclosed assets allowing the Bank to estimate the expected loss for all types of assets. For real estate, the provision is equal to 30% of the value of the asset at the time of receipt and must be constituted 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.

For moveable assets, the provision is equal to 35% of the value of the asset at the time of acquisition and must be constituted in proportional monthly installments within the first year following receipt. Said provision must be increased and additional 35% 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. In case the term extension is granted, the remaining 30% of the provision may be constituted within said term.

Under U.S. GAAP, in order to assess for impairment its foreclosed assets, the Bank applies the methodology described by the SFAS 144 and SFAS 15 with respect to the method to evaluate the recoverability of the assets and to the measurement of the impairment loss. Accordingly, after a troubled debt restructuring, the Bank accounts for assets received in satisfaction of a receivable the same as if the assets had been acquired for cash. The application of SFAS 15 results in the measurement of a new cost basis for the long-lived asset received in full satisfaction of a receivable. A loss is recognized for any initial or subsequent write-down to fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized for a write-down to fair value less cost to sell.

f) Loan origination fees and costs

Under Colombian GAAP, the Bank recognizes commissions (origination fees) on loans, lines of credit and letters of credit when collected and records related direct costs when incurred. For U.S. GAAP, under SFAS No.91, Accounting for Non-refundable Fees and Costs Associated with Origination or Acquiring Loans and Initial Direct Costs of Leases , loan origination fees and certain direct loan origination costs are deferred and recognized over the life of the related loans as an adjustment of yield.

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g) Interest recognition non-accrual loans

For Colombian GAAP purposes, the Bank established that commercial, consumer and small business loans that are past due more than thirty days and mortgages that are past due more than 60 days will stop accruing interest in the statement of operations and their entries will be made in memorandum accounts until such time that the customer does proceed to cancel.

For U.S. GAAP purposes, interest income is not accrued once a loan becomes more than 90 days past due. U.S. GAAP also requires that, if the collectibility of the principal of a non-accrual loan is in doubt, cash payments received should be applied to reduce the principal to the extent necessary to remove such doubt.

For the years 2005, 2006 and 2007, interest income on past due commercial, consumer and small business loans between 31 and 90 days past due, was accounted as accrued interest.

Additionally, for the years 2006 and 2007, interest income on past due mortgage loans between 61 and 90 days past due, was accounted as accrued interest.

h) Deferred charges

The Bank has deferred certain pre-operating expensed, and other charges, which are expenses as incurred under U.S. GAAP.

The cost of issuance of shares and bonds is recorded by the Bank as a deferred charge and amortized on a monthly basis over a term of three (3) years. Nevertheless, under U.S. GAAP, the cost of issuance of bonds must be amortized during the period of maturity of the issue, and the cost of issuance of shares must be recorded as less value of the additional paid in capital.

Under Colombian GAAP, the Bank accounted for improvements on leased property on the statement of operation as expenses. Under U.S. GAAP, leasehold improvements are recorded as a deferred charge and amortized on a monthly basis over the term of the contract.

i) Investment securities and Derivatives

Investment Securities:

The Superintendency of Finance requires the Bank to classify investment securities to trading , held to maturity , and available for sale . According to this norm, an investment will be classified as trading when the Bank acquires it for the purpose of selling it in the near term, as held to maturity when the Bank has the intention and ability to hold it to maturity, and as available for sale when the investment is not classified as trading or held to maturity.

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Under U.S. GAAP, investment securities that have readily determinable market values are accounted for as follows:

Debt and equity securities that are bought and held principally for the purpose of selling them in the short term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in earnings.

Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held to maturity securities and are reported at amortized cost.

Debt and equity securities not classified as either held to maturity or trading securities are classified as available for sale securities and are reported at fair value, with unrealized gains and losses excluded from earnings and reported net of taxes, as a separate component of stockholders equity. Any loss in value of an investment considered other than temporary is recognized in earnings.

Under Colombian GAAP Bancolombia accounts for a portion of their debt securities classified as trading, available for sale and swaps at their cost basis. The difference between fair value and the cost basis of these securities is Ps 18,212.

Foreign Exchange Gains and Losses on Securities Available For Sale

Under Colombian GAAP, movements resulting from changes in foreign currency exchange rates are reflected in consolidated statements of operations. Under U.S. GAAP, EITF 96-15, Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities, the change in value of available for sale debt securities as a result of changes in foreign currency exchange rates is reflected in shareholders equity.

As of December 31, 2006 and 2007, the Bank s portfolio was classified as trading , held to maturity and available fo sale .

The carrying amounts, gross unrealized gains and losses and approximate fair value of debt securities classified as available for sale under U.S. GAAP are shown below:

	Fair value	*Gross unrealized gains*	*Gross unrealized losses*	*Cost basis*
Available for sale Debt securities				
December 31, 2006				
Securities issued or secured by Colombian government	Ps 1,889,064	Ps 13,449	Ps 136,532	Ps 2,012,147
Securities issued or secured by government entities	10,388	42	81	10,427
Securities issued or secured by financial entities	164,642	3,502	5,511	166,651
Other investments	188,116	4,401	2,129	185,844
	Ps 2,252,210	Ps 21,395	Ps 144,253	Ps 2,375,065

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	Fair value	*Gross unrealized gains*	*Gross unrealized losses*	*Cost basis*
Available for sale Debt securities				
December 31, 2007				
Securities issued or secured by Colombian government	Ps 1,035,891	Ps 2,216	Ps 158,816	Ps 1,192,491
Securities issued by the Central Bank	586,284	59	155	586,380
Securities issued or secured by government entities	232,841	389	5,444	237,895
Securities issued or secured by financial entities	166,920	2,991	728	164,657
Securities issued by foreign governments	444,405	3,200	1,593	442,798
Other investments	56,947	173	440	57,213
	Ps 2,523,288	Ps 9,028	Ps 167,176	Ps 2,681,434

	Fair value	*Gross unrealized gains*	*Gross unrealized losses*	*Cost basis*
Available for sale Equity securities				
December 31, 2006				
Inmobiliaria Cadenalco	Ps 3,929	Ps 1,438	Ps	Ps 2,491
	Ps 3,929	Ps 1,438	Ps	Ps 2,491

	Fair value	*Gross unrealized gains*	*Gross unrealized losses*	*Cost basis*
Available for sale Equity securities				
December 31, 2007				
Inmobiliaria Cadenalco	Ps 4,377	Ps 1,886	Ps	Ps 2,491
Bolsa de Valores de Colombia	4,877	174		4,703
	Ps 9,254	Ps 2,060	Ps	Ps 7,194

The scheduled maturities of debt securities at December 31, 2007 were as follows:

	Available for sale	
	Amortized cost	*Fair value*

Due in one year or less	Ps 1,116,331	Ps 1,115,234
Due from one year to five years	841,415	795,740
Due from five years to ten years	578,773	467,303
Due more than ten years	144,915	145,011
Total	Ps 2,681,434	Ps 2,523,288

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Investments classified as Held to maturity for purposes of U.S. GAAP are securities issued or secured by the Colombian government, which the Bank has the intention and ability to hold to maturity.

The cost of available for sale securities was determined based on its carrying amount plus gross unrealized losses minus gross unrealized gains. The cost of securities classified as held to maturity is equal to the carrying amount under Colombian GAAP, as these investments are not accounted for at fair value.

The Bank is not required under Colombian GAAP to disclose the proceeds from the sale of investment securities or the gains or losses resulting from such sales. As a result, it is not feasible to obtain that information in a reasonable manner for disclosure under U.S. GAAP.

In September 2006, the Colombian Government offered to the holders of certain securities issued by the Colombian Government to swap short term by long term securities, as a part of Government s plan to restructure the maturity of its internal debt. The Bank swapped securities, previously classified as held-to-maturity, by securities with a longer term at cost plus accrued and unpaid interest and classified them as trading. The Bank did not intend to hold the new securities until the new maturity date. Under US GAAP, the Bank reclassified the remaining securities previously classified as held-to-maturity, to available-for-sale and recorded the difference between the carrying value and the market value, in other comprehensive income. The swap of the securities was authorized by the Superintendency of Finance and there under Colombian GAAP, the Bank did not have to change the classification as held-to-maturity of the remaining securities.

Unrealized Losses Disclosure

Investments that have been in a continuous unrealized loss position for less than 12 months are:

	Fair value	***Gross unrealized losses***	***Cost basis***
Available for Sale			
December 31, 2007			
Securities issued or secured by Colombian government	Ps 18,576	Ps 104	Ps 18,681
Securities issued or secured by the Central Bank	531,233	149	531,382
Securities issued or secured by government entities	20,107	450	20,557
Securities issued or secured by other financial entities	35,357	165	35,521
Securities issued by foreign governments	162,839	295	163,134
Total	Ps 768,112	Ps 1,163	Ps 769,275

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Investments that have been in a continuous unrealized loss position for 12 months or longer are:

	Fair value	*Gross unrealized losses*	*Cost basis*
Available for Sale			
December 31, 2007			
Securities issued or secured by Colombian government	Ps 997,515	Ps 158,712	Ps 1,156,226
Securities issued or secured by the Central Bank	20,003	6	20,010
Securities issued or secured by government entities	27,862	4,994	32,856
Securities issued or secured by other financial entities	12,916	562	13,479
Securities issued by foreign governments	20,466	1,298	21,764
Other investments	33,362	440	33,802
Total	Ps 1,112,124	Ps 166,012	Ps 1,278,137

Securities issued or secured by Colombian government: The unrealized losses on this category are related to mandatory investments issued by the Ministry of Finance. The unrealized losses were caused by interest rate increases.

As of December 31, 2007, 935 investment securities presented gross unrealized losses.

Available for sale investments that presented gross unrealized losses correspond to mandatory investments.

The amount of unrealized holding gain or loss on trading securities included in earnings during 2006 and 2007 was Ps 74,184 and Ps 229,725, respectively.

The Bank conducts regular reviews to assess whether other than temporary impairment exists. A number of factors are considered in performing an impairment analysis of securities.

Those factors include:

a. the length of time and the extent to which the market value of the security has been less than cost;

b. the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer (such as changes in technology that may impair the earnings potential of the investment, or the discontinuance of a segment of a business that may affect the future earnings potential); or

c. the intent and ability of the Bank to retain its investment in the issuer for a period of time that allows for any anticipated recovery in market value.

The Bank also takes into account changes in global and regional economic conditions and changes related to specific issuers or industries that could adversely affect these values.

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Derivatives:

U.S. GAAP requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Under Colombian GAAP Bancolombia accounts for a portion of their swaps contracts at their cost basis and the fair value of the asset and liability leg of the derivatives are recorded as rights and commitments separatedly in the balance sheet (see note 8). As of December 31, 2007, Bancolombia does not apply hedge accounting.

Balance sheet classification:

Under Colombian GAAP, the Bank s derivative instruments are grouped and presented net as either an asset or a liability.

U.S. GAAP restricts the ability to offset where the right of set-off exists between two parties (that is, where a debtor-creditor relationship exists).

Typically, under U.S. GAAP, financial assets and liabilities can be offset and the net amount reported in the balance sheet when (a) each of two parties owes the other determinable amounts, (b) the reporting party has the right to set off the amount owed with the amount owed by the other party, (c) the reporting party intends to set off and (d) the right to setoff is enforceable by law.

Consequently, the relevant assets and liabilities are increased in the U.S. GAAP condensed balance sheet, with no effect on net income or shareholders equity.

j) Investment in unaffiliated companies. High and Medium Volume quotation investment securities classified as Available for sale under Colombian GAAP

For purposes of Colombian GAAP, an investment in High and Medium volume quotation equity securities of an investee is recorded using the average price published by the exchange. The result of the valuation is recorded as an unrealized gain or loss in shareholders equity. The investee also records common stock dividends as income.

Under U.S. GAAP, an investment in non-marketable equity securities of an investee is recorded at cost if the investor cannot exercise significant influence. However, dividends paid in the form of additional shares of common stock are not recorded as income. Instead, the costs of the shares previously held are allocated equitably to the total shares held after receipt of the stock dividend. When any shares are later disposed of, a gain or loss is determined on the basis of the adjusted cost per share.

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k) Investments in affiliates. Investments in low, minimum exchange or unquoted equity securities classified as Available for sale for purposes of Colombian GAAP

Under Colombian GAAP, low and minimum volume and unquoted equity securities are valued by the shareholders equity comparison method. Under this method, the Bank accounts for increases of shareholders equity of the investee as reappraisal, and decreases as devaluation. If on the valuation date the shareholders equity of the investee is less than its previous value, and the Bank had registered a reappraisal, this reappraisal is affected until it runs out. Once reappraisal runs out, the Bank records a devaluation. Likewise, if on the valuation date the shareholders equity of the investee is greater than its previous value, and the Bank had registered a devaluation, this devaluation is affected until it runs out. Once devaluation runs out, the Bank records a reappraisal.

Under U.S. GAAP, an investment in non-marketable equity securities is recorded using the equity method when the investor can exercise significant influence or the cost method is used when significant influence cannot be exercised.

l) Lessor accounting

Certain of the Bank s Subsidiaries, lease assets to third parties under non-cancelable lease arrangements. These lease arrangements involve machinery and equipment, computer equipment, automobile and furniture and fixtures and their terms range between three and five years.

Under Colombian GAAP, for financial entities, leases are classified as either financial leases or operating leases. Goods provided through in financial lease to third parties with a purchase option are recorded in the loan portfolio. Goods provided through an operating lease are recorded as property, plant and equipment. For both types of leasing, the initial record must represent the value to be financed of the good given in leasing (that is, the acquisition or construction cost) and the value of the improvement and expenses that can be capitalized, which represent a greater value of the lease operation to be financed.

Under U.S. GAAP, a net investment in direct financing leases would be established in an account representing the present value of the minimum lease payments plus the unguaranteed residual value accruing to the benefit of the lessor.

In addition, certain of the Bank s subsidiaries. Renting Colombia, Arrendadora Financiera and Leasing Bancolombia applied a specific provision of Colombian GAAP for leases. Under this regulation, leases are classified as operating leases, even if the contracts were signed with a purchase option. Under U.S. GAAP some of their contracts are classified as financial leasing after applying the criteria established in SFAS 13.

The following lists the components of the net investment in direct financial leases as of December 31, 2006 and 2007:

	2006	***2007***
Total minimum lease payments to be received	Ps 4,232,550	Ps 6,057,324
Less: Allowance for uncollectibles	(49,440)	(95,047)
Net minimum lease payments receivable	4,183,110	5,962,277
Estimated residual values of leased property	238,054	369,183
Less: Unearned income	(985,289)	(1,671,907)
Net investment in direct financial leases	Ps 3,435, 875	Ps 4,659,553

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The following schedule shows the future minimum lease payments to be received on direct financial leases and operating leases for each of the next five years and thereafter.

Year Ended December 31,	***Financial leases***	***Operating Leases***
2008	Ps 312,678	Ps 142,999
2009	748,158	120,573
2010	1,205,664	101,379
2011	992,560	77,512
2012	1,346,859	37,373
Later years, through 2013	1,451,405	2,020
Total minimum future lease payments to be received	Ps 6,057,324	Ps 481,856

m) Business combinations

Purchase method of accounting

In regard to a business combination, the purchase method of accounting under U.S. GAAP requires that (i) the purchase price be allocated to the identifiable acquired assets and liabilities on the basis of fair market value, (ii) the statement of operations of the acquiring company for the period in which a business combination occurs include the income of the acquired company after the date of acquisition, and (iii) the costs directly related to the purchase of a business combination be included as a cost of the acquisition and, therefore, recorded as a component of goodwill.

In regard to a business combination, the purchase method of accounting under Colombian GAAP 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.

Each of the Banagrícola S.A., Conavi and Corfinsura and Factoring Bancolombia acquisitions were accounted for using the pooling of interest method under Colombian GAAP, in accordance with the methodology suggested by the Superintendency of Finance.

Banagrícola S.A.

In May 2007, Bancolombia Panamá S.A. acquired 89.15% of Banagrícola S.A. (Banagricola). Banagrícola s shareholders agreed to sell 16,817,633 of the total 18,865,000 outstanding shares. The purchase price was US$0.04704479 per share for a total of US$ 791,182.

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Simultaneously with the acquisition, the Bank had signed an agreement with Bienes y Servicios S.A (BYSSA), formerly Banagrícola major 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 Banagrícola for an aggregate purchase price of approximately US$ 87,700 (US$ 0.04845024 per share).

In connection with this transaction, BYSSA must also transfer 100% the shares of Banagrícola de El Salvador, Inc. (BESI) for approximately US$ 6,000. BESI is a California corporation that is licensed to engage in the money transmittal business in California, Maryland, Nevada, New Jersey, Texas, Virginia and the District of Columbia. This transaction will be consummated upon receipt of all necessary regulatory approvals, some of which are still pending.

Bancolombia Panamá S.A. 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.

The consolidated statements of operations under U.S. GAAP for the year ended December 31, 2007 includes the operations of Banagrícola S.A. and its subsidiaries since June 1, 2007.

The following tables summarize the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

		Fair value of assets acquired and liabilities assumed under U.S. GAAP from Banagrícola during 2007
Total Purchase Price	Ps	1,745,393
Assets acquired		7,017,890
Premises and equipment, net		188,500
Liabilities assumed		6,457,732
Net Assets Acquired	Ps	748,658
Excess of cost over the fair value of acquired net assets		996,735
Intangible Assets		365,849
Goodwill	Ps	630,886

		Fair value of assets acquired and liabilities assumed under U.S. GAAP from Banagrícola de El Salvador Inc. as of Dec 31, 2007
Total Purchase Price	Ps	11,401
Assets acquired		5,333
Premises and equipment, net		3,218
Liabilities assumed		2,449

Net Assets Acquired	Ps	6,102
Excess of cost over the fair value of acquired net assets		5,299
Intangible Asset		
Goodwill	Ps	5,299

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The following unaudited pro forma information for 2006 and 2007 reflects the consolidated results of operations as if the acquisition of Banagrícola had occurred at the beginning of each year presented and includes the amortization of intangibles, as appropriate. The unaudited pro forma financial information presented is not necessarily indicative of the results of operations that might have occurred had the transaction been completed at the beginning of the year specified, and does not purport to represent what the consolidated results might be for any future period.

	2006
U.S. GAAP Net income	Ps 1,114,121
Revenues	2,918,628
Earnings per share	Ps 2,186

	2007
U.S. GAAP Net income	Ps 1,147,510
Revenues	3,822,759
Earnings per share	Ps 2,251

Factoring Bancolombia acquisition

On May 8, 2006, the Bank acquired 9,803,685 shares of Comercia S.A., (now Factoring Bancolombia S.A. Compañía de Financiamiento Comercial) equivalent to 55.61% of its outstanding shares, from Textiles Fabricato Tejicóndor S.A. by means of a transaction duly authorized by the Superintendency of Finance. The value paid by the Bank was Ps 24,610.

On June 30, 2006, the Bank acquired 6,868,409 shares of Comercia S.A. (now Factoring Bancolombia S.A. Compañía de Financiamiento Comercial), equivalent to 38.96% of its outstanding shares, from Textiles Fabricato Tejicóndor S.A. by means of a transaction duly authorized by the Superintendency of Finance. The value paid by the Bank was Ps 17,241. Under U.S. GAAP, the results of Comercia S.A. s, (now Factoring Bancolombia S.A. Compañía de Financiamiento Comercial) operations have been included in the consolidated financial statements since that date. For Colombian GAAP purposes the results of operations of the acquired entity were included in the consolidated statements of operations of the combined entity since January 1, 2006.

The acquisition of Factoring Bancolombia will allow the Bank to complement its portfolio of products improving commercial financing activities.

The aggregate purchase price was Ps 37,101 paid in cash. The excess of purchase price amounted to Ps 15,054 and Ps 7,267 was assigned to customers relationships intangible asset (the triangular line), while the remaining Ps 7,787 was assigned to goodwill. The resulting goodwill was allocated to the retail segment.

The following tables summarize the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

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		Fair value of assets acquired and liabilities assumed under U.S. GAAP from Comercia as of April 30, 2006
Total Purchase Price, Net of Cash	Ps	37,101
Assets acquired		161,407
Premises and equipment, net		3,756
Liabilities assumed		143,116
Net Assets Acquired	Ps	22,047
Excess of cost over the fair value of acquired net assets		15,054
Intangible Asset		7,267
Goodwill	Ps	7,787

Under Colombian GAAP, the Bank consolidated Factoring Bancolombia s earnings since January 1, 2006, as if the acquisition had occurred at the beginning of the year. Accordingly, virtually all of the amounts for pre-acquisition periods in the primary financial statements are different from the amounts that would be presented under U.S. GAAP. In effect, the financial statements presented as the primary financial statements are of a different reporting entity than would be required under U.S. GAAP.

The following unaudited pro forma information for 2005 and 2006 reflects the consolidated results of operations as if the acquisition of Factoring Bancolombia had occurred at the beginning of each year presented and includes the amortization of intangibles, as appropriate. The unaudited pro forma financial information presented is not necessarily indicative of the results of operations that might have occurred had the transaction been completed at the beginning of the year specified, and does not purport to represent what the consolidated results might be for any future period.

	2005
U.S. GAAP Net income	896,691
Revenues	3,047,037
Earnings per share	1,728.66

	2006
U.S. GAAP Net income	940,738
Revenues	2,921,880
Earnings per share	1,617.99

Bank understands that, in these circumstances, reconciliation of net income and stockholders equity alone will not produce information content substantially similar to U.S. GAAP with respect to the pre-acquisition periods. However, given the insignificance of Factoring Bancolombia s operations, the Bank decided not to present a columnar reconciliation removing the acquired business. The Bank also believes that the differences are not so pervasive that U.S. GAAP condensed income and cash flow statements are necessary.

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Conavi and Corfinsura acquisition

On July 30, 2005, Bancolombia acquired 71.18 percent and 95.39 percent of the outstanding common shares of Conavi and Corfinsura respectively. For purposes of U.S. GAAP, the results of Conavi and Corfinsura s operations have been included in the consolidated financial statements since that date.

Conavi and Corfinsura were leading financial institutions in the Colombian market. Conavi, a bank devoted to raising resources from individuals through savings accounts and to mortgage banking. Conavi was the country s leader in mortgage lending with a market share of 19.3% as of the date of the Conavi/Corfinsura merger, according to the Superintendency of Finance.

Corfinsura was the largest financial corporation in Colombia as of the date of the Conavi/Corfinsura merger with a market share in net loans of 55.9%, according to the Superintendency of Finance. Known for its expertise in handling large and mid-sized corporate credit and financial services through close customer relationships, Corfinsura also has a highly respected investment bank, as well as a modern and diversified treasury department, focused on structured products. As of December 31, 2004, Corfinsura s consolidated total asset value amounted to Ps 6,396,000.

At the time of the Conavi/Corfinsura merger, Corfinsura (after the spin-off) was the holding company of Banco Corfinsura Internacional Inc., a Bank domiciled in Puerto Rico, as well as other important financial institutions in Colombia, such as Suvalor S.A. Comisionista de Bolsa, Colombia s leading security brokerage firm, Suleasing S.A., one of the two leading leasing companies in the country (together with Leasing Colombia S.A., Bancolombia s Subsidiary) as of the date of the Conavi/Corfinsura merger, which was in turn the holding company of leasing companies domiciled in Panama and Florida, United States; Surenting S.A., the leading fleet renting in Colombia at the time of the Conavi/Corfinsura merger and Fiduciaria Corfinsura S.A., a fiduciary trust company.

With this Conavi/Corfinsura merger, the Bank has become the most important financial institution in Colombia and one of the largest in Latin America, obtaining significant advantages such as reducing operating costs in the mid term, greater risk diversification by lessening the degree of concentration of such and providing an integrated portfolio of services, among others. Furthermore, overall equity has been extended with this Conavi/Corfinsura merger, allowing in turn for the financing of larger scale projects, contrary to those that each of our individual companies was able to finance in the past.

The following tables summarize the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Bancolombia is in the process of obtaining third-party valuations of certain intangible assets; thus, the allocation of the purchase price is subject to refinement.

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		Fair value of assets acquired and liabilities assumed under U.S. GAAP from Conavi as of July 31, 2005
Total Purchase Price, Net of Cash Acquired	Ps	316,864
Assets acquired		2,921,925
Premises and equipment, net		209,535
Liabilities assumed		3,006,974
Net Assets Acquired	Ps	124,486
Excess of cost over the fair value of acquired net assets		192,378
Intangible Asset		122,269
Goodwill	Ps	70,109

		Fair value of assets acquired and liabilities assumed under U.S. GAAP from Corfinsura as of July 31, 2005
Total Purchase Price, Net of Cash Acquired	Ps	816,864
Assets acquired		4,969,839
Premises and equipment, net		142,872
Liabilities assumed		4,739,515
Net Assets Acquired	Ps	373,196
Excess of cost over the fair value of acquired net assets		443,668
Intangible Asset		105,294
Goodwill	Ps	338,374

For Colombian GAAP purposes the results of operations of the acquired entities were included in the consolidated statements of operations of the combined entity since January 1, 2005.
In the acquisition agreement for the Conavi/Corfinsura merger there are no specified contingent payments, options, or commitments.
The following unaudited pro forma information for 2004 and 2005 reflects the consolidated results of operations as if the acquisition of Conavi and Corfinsura had occurred at the beginning of each year presented and includes the

amortization of intangibles, as appropriate. The unaudited pro forma financial information presented is not necessarily indicative of the results of operations that might have occurred had the transaction been completed at the beginning of the year specified, and does not purport to represent what the consolidated results might be for any future period.

	2004
U.S. GAAP Net income	Ps 787,778
Revenues	5,446,198
Earnings per share	Ps 1,731.38

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	2005
U.S. GAAP Net income	Ps 996,311
Revenues	7,196,028
Earnings per share	Ps 2,189.70

m.i) Goodwill

Under U.S. GAAP, from January 1, 2002, the Bank no longer amortizes goodwill, but it is subject to an annual impairment test.

Under Colombian GAAP, goodwill derived from business combinations effective before October 2006, was amortized over a maximum period of ten years. In business combinations that occurred after October 2006, the resulting 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 are 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.

The Bank has performed the required impairment test of each reporting segment s goodwill and concluded that there was no impairment of goodwill. Accordingly, the Bank reversed the amortization of goodwill from Colombian GAAP.

The activity of the goodwill and intangible assets during the years ended December 31, 2005, 2006 and 2007 is as follows:

	2005	***2006***	***2007***
Goodwill U.S. GAAP			
Balance at beginning of year	Ps 161,265	Ps 569,748	Ps 577,535
Reclassifications			132,243
Additions	408,483	7,787	636,186
Foreign currency adjustment			36,195
Balance at end of year	Ps 569,748	Ps 577,535	Ps 1,382,159
Goodwill under Colombian GAAP	41,994	34,371	973,699
Difference to be recognized under U.S. GAAP [(1)]	Ps 527,754	Ps 543,164	Ps 408,460

(1) For 2007 this adjustment is reflected in the line goodwill of the reconciliation of stockholders equity for Ps 276,217 and as

part of the line revaluation of assets for Ps 132,243.

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Goodwill by segments was as follows:

	December 31, 2005	***December 31, 2006***	***December 31, 2007***
Commercial Banking	Ps 253,034	Ps 253,034	Ps 303,032
Retail Banking	151,418	159,205	629,712
Small Business Banking	27,784	27,784	27,784
Leasing	54,238	54,238	54,238
Offshore Commercial Banking	31,534	31,534	31,534
Government Banking	1,199	1,199	30,629
Construction Banking	4,326	4,326	4,326
Treasury			122,446
All other segments	46,215	46,215	178,458
Total Goodwill	Ps 569,748	Ps 577,535	Ps 1,382,159

Until December 31, 2004 the total amount of goodwill outstanding was tax deductible in accordance with tax regulations in Colombia. Accordingly, deferred income taxes were recorded for the difference between the unamortized amount of goodwill under Colombian GAAP and the balance under U.S. GAAP. Since January 1, 2005 under Colombian GAAP this amount is no longer deductible and this difference is accordingly treated as permanent under U.S. GAAP and not recorded as deferred tax.

m.ii) Intangible Assets

Banagrícola S.A

Of the Ps 365,849 of acquired intangible assets, Ps 15,092 was assigned to registered brands that are not subject to amortization and Ps 177,451 was assigned to brands, deposits, customers relationship and others. The acquired intangible assets subject to amortization have a weighted-average useful life of approximately 12 years.

The following are the descriptions for each intangible asset valued. A detailed breakdown of intangibles values is showed above in the goodwill and intangible assets section:

Customer relationships and contractual agreements

Customer relationships and contractual agreements intangibles are obtained from the level of repeat clients remaining with the Bank and providing gains for a specific period of time.

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Royalty savings method

The royalty savings method determines the brand value based on the savings a company generates as a result of not having to pay for a license to use such brand. The value of the asset is calculated based on the following assumptions:

- The present value of the brand is determined based on its potential to generate future cash flow.
- The royalty stream that the business would hypothetically earn from its brand can be reasonably estimated (it assumes that future royalties can in some way be predicted).
- Cash flows are discounted in order to arrive to a present value.
- Capital costs and rates of return can be properly estimated.
- The royalty stream that the business would hypothetically earn during the final year of the period in question can be considered a perpetuity.

The value of the brand is equal to the sum of the net present value of the after-tax savings a company generates during the period in question as a result of not having to pay for a license to use such brand plus the net present value of the after-tax savings a company would generate in perpetuity after the last year of the period in question.

Core Deposit Intangibles (CDI)

Core Deposit Intangible (CDI) values were determined by using the alternative funding method, which estimates the net present value of the cost difference or spread between the cost of using the CDI and the cost of an alternative source of funding under current market conditions.

The deposits of Banco Agrícola S.A and Banco Agrícola Panamá S.A include the following categories of checking accounts, saving deposits and time deposits:

- Retail banking
- Commercial banking
- Offshore commercial banking.

Conavi and Corfinsura acquisition

Of the Ps 227,563 of acquired intangible assets, Ps 73,134 was assigned to registered brands that are not subject to amortization and Ps 154,429 was assigned to service asset, asset management and Customers relationships. The acquired intangible assets subject to amortization have a weighted-average useful life of approximately 14 years.

The following are the descriptions for each intangible asset valued. A detailed breakdown of intangibles values is described above in the goodwill and intangible assets section:

Customer relationships and contractual agreements

Customer relationships and contractual agreements intangibles are obtained from the level of repeat clients, remaining with the Bank and providing gains for a specific period of time.

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Brand

In November 2006, the Bank changed its brands and corporate image, in the interest of establishing itself as a customer-oriented financial group based on an universal banking model. This decision result in the discontinuation of Conavi and Suvalor s brands. These brands composed the brand intangible asset, acquired in the Conavi/Corfinsura merger.

As a result of the decision presented previously, the fair value of this intangible asset went to zero and consequently, the Bank recognized impairment loss equivalent to the total carrying amount of the brand intangible asset.

Factoring Bancolombia acquisition

The excess of purchase price amounted to Ps 15,054 and Ps 7,267 was assigned to customers relationships intangible asset (the triangular line), while the remaining Ps 7,787 was assigned to goodwill. The resulting goodwill was allocated to the retail segment.

The activity of the intangible assets during the years ended December 31, 2006 and 2007 is as follows:

	2006	***2007***
Intangible Assets		
Balance at beginning of year	Ps 223,080	Ps 142,099
Additions	7,267	365,849
Amortization	(15,114)	(42,063)
Impairment	(73,134)	
Foreign currency translation adjustment		21,806
Balance at end of year	Ps 142,099	Ps 487,691

Intangible assets were as follows:

	December 31, 2006			***December 31, 2007***		
	Gross carrying amount	***Acummulated amortization***	***Impairment***	***Gross carrying amount***	***Acummulated amortization***	***Impairment***
Non-Amortizable intangible assets	Ps 73,134		Ps 73,134	Ps 30,407		
Amortizable intangible assets	Ps 163,258	Ps 21,159		Ps 520,781	Ps 63,222	

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The following table shows the intangible assets gross carrying amount, detailed with their respective useful lives:

		December 31, 2007	***Weight useful life (months)***
Brand	Ps	30,407	
Service asset		6,206	169
Asset management		30,004	125
Loan		77,354	201
Deposits		123,801	151
Customer relationship Conavi and Corfinsura		22,400	105
Customer relationship Factoring Bancolombia		7,267	48
Customer relationship Conglomerado Banagrícola		178,824	159
Value of business acquired		71,944	120
Others		2,981	105
TOTAL	Ps	551,188	

The Bank has performed the required impairment test of intangible assets, concluding that except for brands, there was no impairment in the remaining intangible assets.

m.iii) Fair value of assets and liabilities acquired

The condensed balance sheet allocate the fair value adjustments to each of the respective assets and liabilities.

The following is a detail of the adjustments to the Stockholders Equity related to Banagrícola S.A., Conavi and Corfinsura and Factoring Bancolombia business combination:

Fair value of fixed and foreclosed assets

The difference between the fair value of fixed and foreclosed assets and their book value is adjusted by the effect of the depreciation and by the effect of sales and written - offs.

Fair value of Time Deposits, long term debt and loans

The difference between the fair value of loans, Time Deposits and long term debt and their book value is adjusted by the effect of the amortization of the discount or the premium during the estimated average life of these assets and liabilities.

Securitization of non performing loans

Under U.S. GAAP securitization of non performing loans carried out by Conavi and Banco Agrícola S.A., does not meets the definition criteria of transfers of financial assets by sale. The adjustment correspond to the recognition of a secured borrowing under U.S. GAAP which under Colombian GAAP is not accounted for.

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Service asset

Under Colombian GAAP Conavi did not recognize any asset or liability associated with the service of the securitizated performing loans. For U.S. GAAP purposes the Bank has recognized a service asset. This asset is adjusted by the effect of the amortization during its estimated average life.

n) Securitization

The Bank has securitized both performing and non-performing mortgage loans which, according to Colombian GAAP, have been accounted for as sales and, as such, said loans have been removed from the Bank s balance sheet.

Under US GAAP, the securitizations of non-performing loans do not comply with the conditions to qualify as a sale in accordance with SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). As a consequence, the securitizations of non-performing loans are accounted for as a secured borrowing.

The securitizations of performing loans comply with the conditions for sale accounting under SFAS 140. However, the securitization vehicles do not meet the strict conditions in SFAS 140 to be considered a qualifying special purpose entity (QSPE) because their activities are not sufficiently restricted. Upon application of FIN 46R Consolidation of Variable Interest Entities (Revised), the Bank consolidates these securitization vehicles.

o) Foreign currency translation adjustment

For Colombian GAAP purposes, the translation adjustments resulting in the conversion of foreign currency financial statements was included in the determination of net income.

Under U.S. GAAP, according to SFAS No. 52 and SFAS No. 130, the translation adjustments shall be reported as a component of stockholders equity, in other comprehensive income.

p) Minority Interest

The minority interest corresponds to the proportional adjustments to the shareholders equity and net income originated by the subsidiaries where the Bank holds less than 100% of participation.

q) Discontinued Operations

In 2005, Bancolombia sold its business Abocol. On November 22, 2005, the Bank entered into a preliminary agreement with Incorbank Banqueros de Inversión, Inversiones en Logística y Seguridad de Transporte Ltda. Inverloset, Equity Investment S.A, Rodríguez Azuero Asociados S.A. and other individuals to begin negotiations relating to a proposed purchase agreement, by which the Bank would sell all of the Almacenar S.A. shares it holds directly (94.33%) and through Colcorp S.A. (3.92%). Both businesses qualify as discontinued operations under U.S. GAAP.

On February 26, 2007, in a transaction duly authorized by the Superintendency of Finance, Bancolombia sold to LAB Investment & Logistics S.A. and Portal de Inversiones S.A. 91.08% of its direct interest and 3.79% of its indirect interest, held through Banca de Inversión Bancolombia S.A. Corporación Financiera, in Almacenar S.A. The transaction price amounted to approximately Ps 11,719.

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On April 30, 2007, in a transaction duly authorized by the Superintendency of Finance, Bancolombia sold to LAB Investment & Logistics S.A. and Portal de Inversiones S.A., 3.57% of its direct interest in Almacenar S.A. The transaction price amounted to approximately Ps 2,050. The Bank registered in 2007 a loss on sale of this investment for Ps 14,064.

On June 9, 2008, Bancolombia sold to Stratton Spain S.L 94.90% of its direct interest and 3.32% of its direct interest held through Banca de Inversión Bancolombia S.A. and Fiduciaria Bancolombia S.A. in Multienlace S.A. The transaction price amounted to Ps 105,882.

The results of the discontinued operations under U.S. GAAP were as follows:

		2005		***2006***		***2007***
Profit (losses) from discontinued operations before income taxes	Ps	(29,893)	Ps	(37,355)	Ps	(53,716)
Income taxes (benefit) expense		9,008		8,224		3,247
Profit (losses) from discontinued operations	Ps	(38,901)	Ps	(45,579)	Ps	(56,963)

The Bank registered in 2007 a loss on sale of Almacenar S.A. of Ps 14,064.

r) Guarantees

In order to meet the needs of its customers, the Bank issues financial standby letters of credit and bank guarantees. At December 31, 2006 and 2007, outstanding letters of credit and bank guarantees issued by the Bank totaled Ps 1,833,366 and Ps 2,613,369, respectively.

The table below summarizes, at December 31, 2006 and 2007, all of the Bank s guarantees where the Bank is the guarantor. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts bear no relationship to the anticipated losses on these guarantees and greatly exceed anticipated losses.

	Expire within one year		***Expire after one year***		***Total amount outstanding***		***Maximum potential amount of future payments***	
	2006	***2007***	***2006***	***2007***	***2006***	***2007***	***2006***	***2007***
Financial standby letters of credit	Ps 702,834	Ps 1,007,038	Ps 350,767	Ps 347,883	Ps 1,053,601	Ps 1,354,921	Ps 1,053,601	Ps 1,354,921
Bank guarantees	550,137	992,467	229,628	265,981	779,765	1,258,448	779,765	1,258,448
Total	Ps 1,252,971	Ps 1,999,505	Ps 580,395	Ps 613,864	Ps 1,833,366	Ps 2,613,369	Ps 1,833,366	Ps 2,613,369

Financial standby letters of credit include guarantees of payment of credit facilities, promissory notes and trade acceptances.

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Bank guarantees are performance guarantees that are issued to guarantee a customer s tender bid on a construction or systems installation project or to guarantee completion of such projects in accordance with contract terms. They are also issued to support a customer s obligation to supply specified products, commodities, or maintenance or warranty services to a third party.

Under U.S. GAAP the amount of the liability recorded by the bank for guarantees is Ps 12,736. Under Colombian GAAP this amount is recorded as commissions in the statement of operations.

As a result of the reconciliation, the net income decreased in Ps 2,549 for 2007 and decreased Ps 3,571 for 2006.

s) Insurance contracts

Under U.S. GAAP reserves for individual and group Life insurance are computed on the basis of interest rates, mortality tables, including a margin for adverse deviations. For the year 2007, reserve discount rate was 4.5%, based on the Bank s own profitability experience.

Under Colombian GAAP, there are no reserves for adverse deviations.

t) Estimated Fair Value of Financial Instruments

As required by U.S. GAAP, the estimated fair value of the Bank s financial instruments, their carrying values and the major assumptions and methodologies used to estimate fair values at December 31, 2006 and 2007 are presented hereunder. The fair value of a financial instrument is defined as the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

For those financial instruments with no quoted market prices available, fair values have been estimated using present value or other valuation techniques. These techniques are inherently subjective and are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows and prepayment assumptions.

In addition, the fair values presented below do not attempt to estimate the value of the Bank s fee generating businesses and anticipated future business activities, that is, they do not represent the Bank s value as a going concern.

	December 31, 2006		***December 31, 2007***	
	Colombian GAAP Amount	***Estimated Fair Value***	***Colombian GAAP Amount***	***Estimated Fair Value***
Financial assets				
Cash and cash equivalents	Ps 2,006,366	Ps 2,006,366	Ps 5,228,387	Ps 5,228,387
Investment securities	5,677,761	4,827,872	5,774,251	4,562,689
Loans and accrued interest receivable on loans, net	24,066,681	25,523,982	36,644,033	38,954,179
Customers acceptances	64,030	64,030	55,208	55,208
Derivatives	102,365	102,210	140,797	139,015

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	December 31, 2006		***December 31, 2007***	
	Colombian GAAP Amount	***Estimated Fair Value***	***Colombian GAAP Amount***	***Estimated Fair Value***
Financial liabilities:				
Deposits	Ps 23,337,874	Ps 23,315,577	Ps 34,558,995	Ps 34,654,832
Overnight funds	1,009,098	1,009,098	2,020,366	2,020,366
Bank acceptances outstanding	64,030	64,030	55,208	55,208
Interbank borrowings	1,079,741	1,079,741	1,525,894	1,525,894
Borrowings from development and other domestic banks	2,467,639	2,467,639	3,371,003	3,371,003
Long term debt	1,313,782	1,768,839	2,866,462	3,675,395

The following notes summarize the methods and assumptions used in estimating the fair values of financial instruments:

Short-term financial instruments

Short-term financial instruments are valued at their carrying amounts included in the consolidated balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach was used for cash and cash equivalents, customers acceptances, accrued interest receivable, accounts receivable, accounts payable, accrued interest payable and bank acceptances outstanding.

Investment securities

The fair value of these financial instruments which include Time Deposits in financial entities are calculated by the Colombian Stock Exchange, except for financial instruments classified held to maturity , for which the fair value was determined using discounted cash flows with actual market rates for similar assets.

Loans

The Bank has estimated the fair value of the loan portfolio using one of three methods depending of the type of loan being analyzed. The estimated fair value of the homogeneous loan portfolio, including consumer, mortgage and small business loans, has been determined based upon various statistical analyses. These include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, and with analysis that reflect current trends and conditions. The estimated fair value of loans with collateral has been calculated using the realizable value of collateral.

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Derivatives

The Bank s derivatives are recorded at fair value on a daily basis by class of instrument (as described below) as prescribed in the rules issued by the Superintendency of Finance:

Foreign exchange forward contracts:

The purchase or sale value of the exchange rate is estimated to obtain the net value in foreign currency at valuation day and calculate the net gain or loss.

Financial instruments forward contracts:

The fair value without yields is estimated to value the agreed amount to present value and calculate the net gain or loss.

Futures Contracts

The fair value of futures contracts and other derivatives traded in stock markets are calculated by the respective stock market where the Bank has conducted its operation.

Deposits

The fair value of Time Deposits was estimated based on the discounted value of contractual cash flows using the rates currently offered for deposits of similar remaining maturities.

Fair value of deposits with undefined maturities represents the amount payable on demand as of the balance sheet date.

Interbank borrowings and borrowings from development and other domestic banks

Short-term interbank borrowings and borrowings from domestic development banks have been valued at their carrying amounts because of their relatively short-term nature. Long-term and domestic development bank borrowings have also been valued at their carrying amount because they bear interest at variable rates.

Long term debt

Long-term debt are bonds issued by the Bank, Leasing Bancolombia S.A., Banco Agrícola S.A., Sufinanciamiento S.A., Renting Colombia, and Fundicom S.A.

The fair value of bonds issued by the Bank, Leasing Bancolombia S.A. and Renting Colombia S.A. were estimated using quoted market prices. Bonds issued by Banco Agrícola S.A, Fundicom S.A. and Sufinanciamiento S.A. are non marketable, and therefore the carrying amounts were used to approximate fair value.

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u) Equity tax

Pursuant the Law 1111 of 2006, for the years 2007 through 2010, companies and individuals, who as of January 1, 2007 possess liquidity equity over Ps 3,000, are subject to equity tax.

Under Colombian GAAP, equity tax is allowed to be recorded as a decrease of Appropriated retained earnings.

Under U.S. GAAP, equity tax is recorded directly on statements of operations.

v) Earnings per share

Under Colombian GAAP, earnings per share (EPS) are computed by dividing net income by the weighted average number of both common and preference shares outstanding for each period presented.

U.S. GAAP requires dual presentation of basic and diluted EPS for entities with complex capital structures, as well as a reconciliation of the basic EPS computation to the diluted EPS computation. Basic EPS is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS assumes the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. For the years ended December 31, 2005, 2006 and 2007, the Bank had a simple capital structure. Therefore, there was no difference between basic or diluted EPS for these years.

The following table summarizes information related to the computation of basic EPS for the years ended December 31, 2005, 2006 and 2007 *(in millions of pesos, except per share data)*:

	2005	***2006***	***2007***
U.S. GAAP consolidated net income	Ps 891,121	Ps 941,183	Ps 1,015,644
Less preferred share dividends	110,806	116,041	157,974
Income attributable to common stockholders	780,315	825,142	857,670
Income from continuing operations attributable to common shareholders	819,216	870,721	914,633
Income (loss) from operations and disposal of discontinued operations	(38,901)	(45,579)	(56,963)
Income attributable to common shareholders	780,315	825,142	857,670
Weighted average number of common shares outstanding used in basic EPS calculation *(in millions)*	455	510	510
Basic and Diluted earnings per share (U.S. GAAP):			
Income from continuing operations	1,800.47	1,708.29	1,794.44
Income (loss) from operations and disposal of discontinued operations	(85.50)	(89.42)	(111.76)
Income attributable to common shareholders	Ps 1,714.97	Ps 1,618.87	Ps 1,682.68

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w) Segments Disclosure

Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly used by the finance vice president (the chief operating decision maker) in deciding how to allocate resources and assessing performance.

The Bank has strategically organized its operations into eight major business segments based on its market segmentation, customer s needs and trading partners. Additionally, the Bank manages and measures the performance of its operations through these business segments using an internal profitability reporting system.

The Bank does not have any individual external customer which represents 10% or more of the enterprise s revenues.

For this Annual Report, the Bank performed a review of its business segments and has changed the presentation of segment information. The major changes correspond to the aggregation of construction banking, corporate headquarters, brokerage and manufacturing segments into a category called All other Segments . The information for 2006 and 2005 has been restated to reflect these changes.

Banagrícola and its subsidiaries were allocated to each segment based on market segmentation, customer s meeds and trading partners. The segments retail banking, commercial banking and off-shore commercial banking include most of the operations of Banagrícola and its subsidiaries.

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The following presents information on reported operating segment profit or loss, and segment assets:

	2005 (restated)							
	Retail Banking	*Commercial Banking*	*Small Business Banking*	*Governmental And Institutional Banking*	*Treasury*	*Offshore Commercial Banking*	*Leasing*	*All other Segment*
rnal customers	Ps 474,916	Ps 32,652	Ps 50,724	Ps 15,092		Ps 12,618	Ps 308,027	Ps 233,0
s) from transactions g segments of the Bank	76,998	145,022	161,358	27,850		10,604	6,654	(391,4
	1,059,092	379,434	375,839	82,570	828,418	178,409	67,845	131,9
	245,978	87,318	127,094	38,579	358,932	75,422	210,411	78,8
e	813,114	292,116	248,745	43,991	469,486	102,987	(142,566)	53,0
mortization expense [(2)]						706	11,871	18,0
osses	77,229	3,497	13,338	1,913	27,560	28,538	19,459	20,5
other expense	697,565	76,472	85,086	36,397	10,895	8,952	57,950	596,4
or benefit [(2)]							32,389	245,1
pense, net	193	5	5			12,346	6,546	(10,1
re distribution of or treasury funds	590,427	389,826	362,408	48,623	431,031	100,359	56,992	(995,7
me (expense) for	102,443	(84,480)	(87,934)	17,486	73,041			(20,5
	Ps 692,870	Ps 305,346	Ps 274,474	Ps 66,109	Ps 504,072	Ps 100,359	Ps 56,992	Ps (1,016,3
	Ps 7,710,861	Ps 3,757,603	Ps 3,730,214	Ps 825,460	Ps 7,375,750	Ps 4,166,424	Ps 3,452,069	Ps 2,503,7

(1) These costs are calculated based on the funds that segments use or

provide. Those do not have an impact in the final result.

(2) It was not practical to quantify these items.

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	2006 (restated)								
	Retail Banking	*Commercial Banking*	*Small Business Banking*	*Governmental And Institutional Banking*	*Treasury*	*Offshore Commercial Banking*	*Leasing*	*All other Segments*	*Tot*
es from l ers	Ps 428,531	Ps 134,992	Ps 117,282	Ps 36,377		Ps 130	Ps 38,515	Ps 222,699	Ps 9
es es) from ions with perating ts of the	69,727	297,645	92,006	54,498		12,493	12,691	(379,957)	1
income	820,398	756,876	387,043	172,830	400,053	495,222	437,977	147,004	3,6
expense	196,432	66,929	51,395	289,709	246,058	123,286	254,752	123,645	1,3
erest e	623,966	689,947	335,648	(116,879)	153,995	371,936	183,225	23,359	2,2
iation ortization e	59,151	14,848	16,898	6,699	4,867	988	10,237	20,229	1
on for sses	86,327	(7,179)	37,829	(37,106)	(30,134)	13,316	51,741	87,978	2
strative er e	662,166	140,453	186,052	73,754	53,590	9,099	68,689	545,693	1,7
tax e or	19,275	25,807	18,319	20,403	12,839		36,475	41,760	1
ncome or e, net	(791)	(116,209)	223			(223,056)	12,138	84,564	(2
t profit	294,514	832,446	286,061	(89,754)	112,833	138,100	79,427	(744,995)	9
tion of									

e) for y funds												
ution of												
e) for y funds[1]	74,518	(304,177)	(44,607)	310,701	(8,089)					(28,346)		
t profit	Ps 369,032	Ps 528,269	Ps 241,454	Ps 220,947	Ps 104,744	Ps 138,100	Ps 79,427	Ps (773,341)	Ps 9			
ts assets	Ps 6,782,548	Ps 8,852,141	Ps 3,137,485	Ps 2,228,962	Ps 3,090,780	Ps 4,216,594	Ps 4,528,718	Ps 5,418,802	Ps 38,2			

(1) These costs are calculated based on the funds that segments use or provide. Those do not have an impact in the final result.

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	2007								
	Retail Banking	*Commercial Banking*	*Small Business Banking*	*Governmental And Institutional Banking*	*Treasury*	*Offshore Commercial Banking*	*Leasing*	*All other Segments*	*To*
s from rs	Ps 628,460	Ps 135,214	Ps 173,465	Ps 44,277	(2,302)	Ps 11,858	Ps 84,086	Ps 261,691	Ps 1,3
s s) from ons with erating s of the	(10,844)	25,309			10,655	148,783	1,345	317,738	4
ncome	1,412,878	1,200,566	606,788	235,607	578,651	299,067	624,606	303,279	5,2
expense	440,436	191,654	70,316	559,077	241,551	205,806	392,740	43,167	2,
rest	972,442	1,008,912	536,472	(323,470)	337,100	93,261	231,866	260,112	3,
tion rtization	92,489	17,001	24,147	7,843	3,059	20,819	24,369	45,452	2
n for es	267,022	164,440	154,554	23,326	(14,634)	19,271	108,538	26,111	7
trative r	1,021,239	187,669	248,945	79,346	32,092	10,786	77,778	441,147	2,(
ax or	58,979	75,439	46,587	45,744	42,381		35,990	56,763	3
come or net	43,472	14,313	138		21	18,067	61,258	(59,098)	
profit	193,801	739,199	235,842	(435,452)	282,576	221,093	131,880	210,970	1,3
ion of									

) for funds									
tion of									
) for funds(1)	(12,920)	(416,221)	(76,737)	617,387	(40,942)			(70,567)	
profit	Ps 180,881	Ps 322,978	Ps 159,105	Ps 181,935	Ps 241,634	Ps 221,093	Ps 131,880	Ps 140,403	Ps 1,
s assets	Ps 12,520,097	Ps 13,863,491	Ps 5,613,853	Ps 2,868,259	Ps 2,586,235	Ps 6,847,345	Ps 5,898,303	Ps 8,965,226	Ps 59,

(1) These costs are calculated based on the funds that segments use or provide. Those do not have an impact in the final result.

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The following is a reconciliation of reportable segment s revenues, profit or loss and assets, to the Banks consolidated totals:

	2005	*2006*	*2007*
Revenues			
Revenues for reportable segments [1]	Ps 4,267,646	Ps 4,755,032	Ps 7,091,177
Non-operating income [2]	(20,166)	(372,237)	(194,096)
Elimination of intersegment revenues	(37,032)	(159,103)	(492,986)
Total revenues for reportable segments [3]	Ps 4,210,448	Ps 4,223,692	Ps 6,404,095
Profit or Loss			
Segment Profit	Ps 983,913	Ps 908,632	Ps 1,579,909
Elimination of inter-segment profits	(37,032)	(159,103)	(492,986)
Net income	Ps 946,881	Ps 749,529	Ps 1,086,923
Assets			
Segment Assets	Ps 33,522,082	Ps 38,256,030	Ps 59,162,809
Elimination of inter-segment assets	(2,718,565)	(3,767,334)	(7,011,160)
Consolidated total	Ps 30,803,517	Ps 34,488,696	Ps 52,151,649

(1) Total revenues for reportable segments include Revenues from external customers, revenues and expenses from transaction with other operating segments of the same enterprise and interest income.

(2) Non-operating income represent other income classified as

revenues for segment reporting purposes.

(3) Total revenues for reportable segments include interest, fees, other services and other operating income.

The following summarizes the Bank s revenues and long-lived assets attributable to Colombia and other foreign countries:

	2006		*2007*	
Geographic Information	***Revenues***	***Long Lived - Assets(1)***	***Revenues***	***Long Lived - Assets(1)***
Republic of Colombia	Ps 3,801,365	Ps 878,917	Ps 5,507,174	Ps 1,202,108
Republic of Panama and Cayman Islands	512,629	12,285	515,749	10,242
Puerto Rico	37,171	141	51,765	164
Perú			357	6,706
El Salvador			774,026	143,658
USA (1)	31,630	928	48,010	115
Total	4,382,795	892,271	6,897,081	1,362,993
Eliminations	(159,103)	(13)	(492,986)	11
Total, net	Ps 4,223,692	Ps 892,258	Ps 6,404,095	Ps 1,363,004

(1) Included foreclosed assets, net, and property, plant and equipment, net.

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The segments reported embrace the following activities:

Retail Banking: The Bank s Retail Banking segment provides a wide range of financial products and services to individuals and SMEs. This segment is important for the Bank s funding and generation of revenues.

Credibac S.A de C.V, offers products for individuals: fixed payment, classic, gold and platinum cards. In addition, it owns a co-branding card with Super Selectos, the largest retailer store in El Salvador. Also offers products for businesses: Assists businesses with working capital needs and corporate purchases, through a range of products. During 2007 Credibac, S.A. de C.V., launched the Visa Business Card, designed for SMEs.

Commercial Banking: The Commercial Banking Segment provides commercial banking products and services to all sectors of the economy. Corporate customers are segmented by their economic activity and by their size. This segmentation assures adequate support and adequate pricing according to their risk level.

Small Business Banking: This segment includes legal entities with annual sales of from Ps 250 to Ps 10,000, as well as individuals who work independently in the retail, cattle-raising and agricultural sectors, among others. In 2005, the structure of this segment changed aiming to enhance competitiveness in the SMEs banking market and the corporate banking market.

Governmental and Institutional Banking: This segment provides services to institutional customers subject to the supervision of the Superintendency of Finance the Superintendency of Health or the Superintendency of Family Subsidy, as well as electric and financial corporations. The governmental customers include public sector entities.

Treasury: The Bank s Treasury Division is responsible for the management of the Bank s treasury products, its proprietary liquidity, and its foreign exchange and securities positions. Additionally the Bank realized operations of treasury with its customers.

Offshore Commercial Banking: Bancolombia Panamá S.A. and Bancolombia Caymán, located in Panama and the Cayman Islands, respectively, and Bancolombia Puerto Rico Internacional, Inc located in Puerto Rico provide a complete line of banking services mainly to Colombian customers. These include loans to private sector companies, trade financing, lease financing, financing for industrial projects as well as a complete portfolio of cash management products, such as checking accounts, international collections and payments and PC Banking. Through these Subsidiaries, the Bank also offers to its high net worth customers and private banking customers investment opportunities in U.S. Dollars, savings accounts and checking accounts, Time Deposits, and investment funds.

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Banco Agrícola (Panamá), S.A., offers savings accounts that are available to clients with interest capitalized quarterly. Savings accounts can be opened with a minimum of US$ 5,000 and offer an unlimited number of withdrawals. Also offers checking accounts that can be opened with a minimum of US$ 1,000 and checks are accepted at Banco Agrícola (Panamá), S.A. CD s are available with terms of 30 to 360 days. Interest can be paid monthly or capitalized until maturity. Banco Agrícola (Panamá), S.A. also offers a certificate of deposit with a two year term and the rate paid is a spread above the 6 month LIBOR. This account can be opened with a minimum of US$ 10,000. In addition, Banco Agrícola (Panamá), S.A. offers commercial loans.

Leasing: Leasing Bancolombia S.A. and its subsidiaries, Renting Colombia S.A., Renting Perú S.A. and Tempo Rent a Car, also Sufinanciamiento S.A., as the Bank s Subsidiaries specialized in lease activities, offer financial and operational leases. The main areas that require lease financing are infrastructure, import of goods, international leases, real estate, vehicles for executives, leasing for suppliers, and cattle raising. Leasing Bancolombia provides leased assets, usually involving equipment, for a fixed term that is shorter than the assets useful life. Once the corresponding term ends, the customer has the option of acquiring the assets for their commercial value. Renting Colombia S.A., a non-financial subsidiary of Leasing Bancolombia, offers broad solutions for large companies transport and vehicle needs. Renting Colombia provides vehicle renting services and fleet management services for individuals and entities.

All other segments: Provide the following products and services:

Banca de Inversión Bancolombia S.A. specializes in providing investment banking services to corporate customers in areas such as mergers and acquisitions, project finance, issues of debt and equity securities and syndicated loan transactions.

Construction Banking, this segment provides services to the professional building construction industry. Construction customers are segmented by the number of construction projects they own.

Valores Bancolombia is a subsidiary of the Bank that provides brokerage and asset management services and channels all its professional experience and efforts into providing solutions and proposing differentiated investment alternatives to its customers.

Valores Bancolombia offers its customers investment alternatives both domestically and internationally.

In El Salvador, Bursabac s brokerage services provide access to securities that include notes issued by *Banco Central de Reserva* (El Salvador s Central Bank), government bonds, Euro bonds, repurchase agreements, stocks, and bank and corporate debt securities known as *Certificados de Inversion*. Bursabac s brokerage services also include the trading of foreign debt securities and international stocks listed in the Salvadorian Stock Exchange.

The manufacturing segment of the Bank provides a wide range of products to individuals and companies such as: metal parts in gray and ductile iron, both wrought and finished, such as brake systems for passenger automobiles and trucks, accessories for aqueducts and agriculture machinery.

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Trust, Pension Fund and Insurance: The Bank offers, through Fiduciaria Bancolombia S.A., five mutual funds and one voluntary retirement fund, all of which are designed to provide customers with the opportunity to diversify their investments.

Through its branch network, Banco Agrícola S.A. offers various insurance products (life insurance and educational) from Asesuisa a subsidiary of Banagrícola. Banco Agrícola S.A. was the first bank in El Salvador to enter the Bancassurance line of business.

Asesuisa offers protection through insurance products for individuals and corporations, covering a wide range of risks and exposures.

AFP Crecer is a pension fund that manages both voluntary and mandatory contributions through individual savings accounts for the elderly, common disability and surviving pensions, as established under the SAP. The SAP and other regulations issued by the Superintendency of Pensions of El Salvador regulate the products and services that AFP Crecer provides.

x) Recent U.S. GAAP Pronouncements

In February 2007, the Financial Accounting Standards Board (the FASB) issued Statement No. 159 (SFAS 159) The Fair Value Option for Financial Assets and Financial Liabilities . SFAS 159 creates a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract-by-contract basis, with changes in fair value recognized in earnings as these changes occur. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. SFAS 159 have no impact on the Bank s U.S.GAAP disclosures.

In December 2007, the FASB issued Statement No. 141 R (SFAS 141 R) Business Combination Revised 2007 -.SFAS 141 R replaces FASB Statement No. 141, Business Combinations . SFAS 141 R retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination.

SFAS 141 R retains the guidance in Statement 141 for identifying and recognizing intangible assets separately from goodwill and it requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement.

SFAS 141 R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with this Statement).

SFAS 141 R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date.

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The Bank is currently analyzing the effect that SFAS 141 R will have on its U.S.GAAP disclosures.

In December 2007, the FASB issued Statement No. 160 (SFAS 160) Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 .SFAS 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements .

SFAS 160 improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require:

The ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent s equity.

The amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income. A non-controlling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent.

Changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. A parent s ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are economically similar, and this Statement requires that they be accounted for similarly, as equity transactions.

When a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any non-controlling equity investment rather than the carrying amount of that retained investment.

Entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners.

SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141(R).

The Bank is currently analyzing the effect that SFAS 160 will have on BC s U.S.GAAP disclosures.

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In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles . Management does not expect that the adoption of SFAS 162 will have a material impact on U.S.GAAP disclosures.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of SFAS 133 (SFAS 161), which amends SFAS 133 and requires enhanced disclosures about derivative instruments and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Management is currently evaluating the impact of the adoption of SFAS 161 on U.S. GAAP disclosures.

In November 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 109 Written loan commitments recorded at fair value through earnings (SAB 109). SAB 109 clarifies that consistent with the guidance in SFAS 156 Accounting for servicing of Financial Assets and SFAS 159 The Fair Value Option for Financial Assets and Liabilities , the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that accounted for at fair value through earnings. SAB 109 is effective from January 1, 2008. Management does not expect that the adoption of SAB 109 will have a material impact on U.S.GAAP disclosures.

In July 2006, the FASB released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. The Bank adopted FIN 48 on January 1, 2007. The effect of adopting FIN 48 is discussed in Note 31.

In March 2006, the FASB issued Statement of Financial Accounting Standards No.156, Accounting for Servicing of Financial Assets-an amendment to FASB Statement No. 140 (SFAS 156), which permits but does not require, an entity to account for one or more classes of servicing rights at fair value, with changes in fair value recorded in the consolidated statement of income. The Bank adopted SFAS 156 on January 1, 2007. The adoption of SFAS 156 did not have a material impact impact on U.S.GAAP disclosures.

In September 2006, the FASB issued Statement No. 157 (SFAS 157) Fair Value Measurement . SFAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157 fair value measurements are disclosed by level within that hierarchy. While the Statement does not add any new fair value measurements, it may change current practice. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Bank is currently evaluating the impact of SFAS 157 on the Company s financial position and results of operations.

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(32) Restatements

Securitization of performing loans

Subsequent to the issuance of the Bank s financial statements for the year ended December 31, 2007, the Bank s management reviewed certain of the Bank s service agreements with vehicles used to securitize the Bank s performing loans and reconsidered the analysis under SFAS 140 and concluded that such vehicles did not meet the definition of a qualified special-purpose entity under SFAS 140. As a result of this, the Bank has restated its Supplemental Consolidated Condensed Balance Sheets, its Supplemental Consolidated Condensed Statement of Operations (while the error has an impact on the individual financial statement line items within the Supplemental Consolidated Condensed Statement of Operations, it does not have an impact on the totals for income before income taxes, net income from continued operations, discontinued operations or net income), and the Supplemental Consolidated Condensed Statements of Cash Flows, prepared in accordance to U.S. GAAP and presented in Note 31, in order to consolidate the vehicles on which the Bank serves as the primary beneficiary under FIN 46R Consolidation of Variable Interest Entities (Revised).

The impact on the balance sheets is:

Supplemental Consolidated Condensed Balance Sheets

	2006		*2007*	
	Previously reported	***Restated***	***Previously reported***	***Restated***
Assets				
Cash an due from banks:	Ps 2,010,120	Ps 2,040,892	Ps 5,239,778	Ps 5,285,089
Trading account	2,926,959	2,926,959	2,287,673	2,287,673
Investment securities,net	2,912,524	2,203,154	3,414,275	2,361,663
Loans	21,358,135	22,456,573	33,482,038	35,340,990
Financial lease	3,553,514	3,553,514	4,699,764	4,699,764
Allowance for loans and financial leases losses	(507,641)	(509,179)	(1,055,697)	(1,072,307)
Premises and equipment, net	1,637,039	1,637,039	1,922,999	1,922,999
Other assets	1,552,684	1,566,111	3,055,923	3,054,437
Total Assets	**Ps 35,443,334**	**Ps 35,875,063**	**Ps 53,046,753**	**Ps 53,880,308**
Liabilities and Stockholders Equity:				
Deposits	23,191,301	23,191,301	34,356,264	34,356,264
Short term debt	1,209,776	1,209,776	1,195,849	1,195,849
Long term debt	3,609,352	4,031,736	6,506,127	7,330,902
Other liabilities	2,836,369	2,848,792	4,986,221	4,996,708
Minority interest	47,518	44,440	64,738	63,031
Sharholders equity	4,549,018	4,549,018	5,937,554	5,937,554
Total Liabilities and Shareholders equity	**Ps 35,443,334**	**Ps 35,875,063**	**Ps 53,046,753**	**Ps 53,880,308**

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The impact on the consolidated statements of operation is:

Supplemental Consolidated Condensed Statements of Operations

	2006		***2007***	
	Previously reported	***Restated***	***Previously reported***	***Restated***
Total interest income	Ps 3,252,850	Ps 3,261,057	Ps 4,695,568	Ps 4,763,632
Total interest expense	(1,272,358)	(1,281,228)	(1,914,902)	(1,987,244)
Net interest income	1,980,492	1,979,829	2,780,666	2,776,388
Provision of loans, leases and other receivables	(1,765)	(1,765)	(678,962)	(678,962)
Net interest income after provision of loans, leases and other receivables	1,978,727	1,978,064	2,101,704	2,097,426
Other income	1,153,643	1,154,306	1,610,168	1,614,446
Other expenses	(1,945,737)	(1,945,737)	(2,189,349)	(2,189,349)
Income before income taxes	1,186,633	1,186,633	1,522,523	1,522,523
Income tax expense	(199,871)	(199,871)	(449,916)	(449,916)
Net income from continued operations	986,762	986,762	1,072,607	1,072,607
Discontinued Operations	**(45,579)**	**(45,579)**	**(56,963)**	**(56,963)**
Net income	**Ps 941,183**	**Ps 941,183**	**Ps 1,015,644**	**Ps 1,015,644**

Supplemental Consolidated Condensed Statement of Cash Flows

We also identified during the preparation of the 2008 financial statements that the Supplemental Consolidated Condensed Statements of Cash Flows, prepared in accordance to U.S. GAAP and presented in Note 31, included errors related to (i) for all years presented, the inappropriate classification of variations in the loan portfolio as operating activities, which has now been reclassified to investing activities, (ii) for all years presented, clerical errors in the elimination and reclassification of cash flows related to the different accounting treatment for business combinations under Colombian GAAP and US GAAP as described in note 31 (m) for the Conavi/Corfinsura merger during the year ended December 31, 2005 and the acquisition of Banagricola during the year ended December 31, 2007 and (iii) for the fiscal years ended on December 31, 2006 and 2007, the presentation of the effects of exchange rate changes on cash and cash equivalents. In addition, as noted above. the restatement relating to the treatment of vehicles used to securitize the Bank s performing loan also affects the Supplemental Consolidated Condensed Statements of Cash Flows for the years ended on December 31. 2006 and 2007.

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The impact on the consolidated statements of cash flows is:

Supplemental Consolidated Condensed Statements of Cash Flows

	2005		*2006*		*2007*	
	Previously reported	**Restated**	**Previously reported**	**Restated**	**Previously reported**	**Restated**
Net income	Ps 891,121	Ps 891,121	Ps 941,183	Ps 941,183	Ps 1,015,644	Ps 1,015,644
Adjustments to reconcile net income to net cash (used in) provided by operating activities:	(5,215,860)	(3,059,351)	(9,485,717)	2,811,272	(13,723,203)	2,058,680
Net cash (used in) provided by operating activities	(4,324,739)	(2,168,230)	(8,544,534)	3,752,455	(12,707,559)	3,074,324
Net cash (used in) provided by investing activities	(6,133,179)	474,247	5,411,530	(7,121,607)	460,615	(9,139,513)
Net cash provided by financing activities	10,938,580	2,174,645	3,413,102	3,677,955	15,476,602	9,566,743
Increase in cash and cash equivalents	Ps 480,662	Ps 480,662	Ps 280,098	Ps 308,803	Ps 3,229,658	Ps 3,501,554
Effect of exchange rate changes on cash and cash equivalents				2,067		(257,357)
Cash and cash equivalents at beginning of year	1,249,360	1,249,360	1,730,022	1,730,022	2,010,120	2,040,892
Cash and cash equivalents at end of year	**Ps 1,730,022**	**Ps 1,730,022**	**Ps 2,010,120**	**Ps 2,040,892**	**Ps 5,239,778**	**Ps 5,285,089**

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EXHIBIT INDEX

12.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.
12.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.
13.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.
13.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.