BANCOLOMBIA SA
Form 20-F
April 30, 2013

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON April 30, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 20-F

(Mark One)

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from .... to……………..
OR

.. 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)

Carrera 48 # 26-85, Avenida Los Industriales
Medellín, Colombia

(Address of principal executive offices)

Alejandro Mejia Jaramillo, Investor Relations Manager

Carrera 48 # 26-85, Medellín, Colombia

Tel. +574 4041837, Fax. + 574 4045146, e-mail: almejia@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*

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* 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 four 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 **342,122,416**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No ¨

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 ¨ No x

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 x No ¨

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "accelerated filer and large, accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

(Do not check if a smaller reporting company)

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	x

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 ¨ Item 18 x

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 ¨ No x

(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 ¨ No ¨

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CERTAIN DEFINED TERMS

Unless otherwise specified or if the context so requires, in this annual report:

References to “ADSs” refer to our American Depositary Shares (one ADS represents four preferred shares).

References to the “Annual Report” refer to this annual report on Form 20-F.

References to “Banagrícola” refer to Banagrícola S.A., a company incorporated in Panama, including its subsidiaries on a consolidated basis, unless otherwise indicated or the context otherwise requires.

References to “Banca de Inversión” refer to Banca de Inversión Bancolombia S.A. Corporación Financiera, a Subsidiary of Bancolombia S.A. organized under the laws of the Republic of Colombia that specializes in providing investment banking services.

References to “Banco Agrícola” refer to Banco Agrícola S.A., a banking institution organized under the laws of the Republic of El Salvador, including its subsidiaries on a consolidated basis, unless otherwise indicated or the context otherwise requires.

References to “Bancolombia”, the “Bank”, “us” , “we” or “our” refer to Bancolombia S.A., a banking institution organized und the laws of the Republic of Colombia, which may also act under the name of Banco de Colombia S.A., including its subsidiaries on a consolidated basis, unless otherwise indicated or the context otherwise requires.

References to “Bancolombia Panama” refer to Bancolombia (Panama) S.A., a Subsidiary of Bancolombia organized under the laws of the Republic of Panama that provides banking services to non-Panamanian customers.

References to “Central Bank” refer to the Central Bank of Colombia.

References to “Colombia” refer to the Republic of Colombia.

References to “Conavi” refer to Conavi Banco Comercial y de Ahorros S.A. as it existed immediately before the Conavi/Corfinsura merger (as defined below).

References to the “Conavi/Corfinsura merger” refer to the merger of Conavi and Corfinsura with and into Bancolombia, with Bancolombia as the surviving entity, which took effect on July 30, 2005 pursuant to a Merger Agreement dated February 28, 2005.

References to “Congress” refer to the national congress of Colombia.

References to “Corfinsura” refer to Corporación Financiera Nacional y Suramericana S.A., as it existed immediately before the Conavi/Corfinsura merger, taking into account the effect of its spin-off of a portion of its investment portfolio effective July 29, 2005.

References to “DTF” refer to the *Depósitos a Término Fijo* rate, the weighted average interest rate paid by finance corporations, commercial banks and financing companies in Colombia for term deposits with maturities of 90 days.

References to “Factoring Bancolombia” refer to Factoring Bancolombia S.A. Compañíía de Financamiento, a Subsidiary of Bancolombia organized under the laws of Colombia that specializes in accounts receivable financing.

References to “Fiduciaria Bancolombia” refer to Fiduciaria Bancolombia S.A. Sociedad Fiduciaria, a Subsidiary of Bancolombia organized under the laws of Colombia which provides trust and fund management services.

References to “Leasing Bancolombia” refer to Leasing Bancolombia S.A. Compañía de Financiamiento, a Subsidiary of Bancolombia organized under the laws of Colombia that specializes in leasing activities, offering a wide range of financial leases, operating leases, loans, time deposits and bonds.

References to “NYSE” refer to the New York Stock Exchange.

References to “preferred shares” and “common shares” refer to our outstanding and paid in preferred and common shares, designated as *acciones con dividendo preferencial sin derecho a voto* and *acciones ordinarias*, respectively.

References to “Renting Colombia” refer to Renting Colombia S.A., a Subsidiary of Bancolombia organized under the laws of Colombia which provides operating lease and fleet management services for individuals and companies.

References to “Superintendency of Finance” or “SFC” refer to the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*), a technical entity under the Ministry of Finance and Public Credit with inspection, supervision and control functions over the entities involved in financial activities, capital markets, insurance and any other services related to the management, use or investment of resources collected from the public.

References to “Representative Market Rate” refer to *Tasa Representativa del Mercado*, the U.S. dollar representative market rate, certified by the SFC. The Representative Market Rate is an economic indicator of the daily exchange rate on the Colombian market spot of currencies. It corresponds to the arithmetical weighted average of the rates of purchase and sale of currencies of interbank transactions of the authorized intermediaries.

References to “Colombian banking GAAP” refer to the generally accepted accounting principles in Colombia and the special accounting regulations of the SFC.

References to “SEC” refer to the U.S. Securities and Exchange Commission.

References to “SMEs” refer to Small and Medium Enterprises.

References to "SMMLV" refer to *Salario Mínimo Mensual Legal Vigente* the effective legal minimum monthly salary in Colombia. In 2012, the effective legal minimum monthly salary in Colombia was COP 566,700.

References to "peso", "pesos" or "COP" refer to the lawful currency of Colombia.

References to "Subsidiaries" refer to subsidiaries of Bancolombia in which Bancolombia holds, directly or indirectly, more than 50% of the outstanding voting shares.

References to "U.S." or "United States" refer to the United States of America.

References to "U.S. dollar", "USD", and "US$" refer to the lawful currency of the United States.

References to "UVR" refer to *Unidades de Valor Real*, a Colombian inflation-adjusted monetary index calculated by the board of directors of the Central Bank and generally used for pricing home-mortgage loans.

References to "Valores Bancolombia" refer to Valores Bancolombia S.A. Comisionista de Bolsa, a Subsidiary of Bancolombia organized under the laws of the Republic of Colombia that provides brokerage and asset management services.

The term "billion" means one thousand million (1,000,000,000).

The term "trillion" means one million million (1,000,000,000,000).

Our fiscal year ends on December 31, and references in this Annual Report to

any specific fiscal year are to the twelve-month period ended December 31 of

such year. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements which may constitute forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are not based on historical facts but instead represent only the Bank's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Bank's control. The words "anticipate", "believe", "estimate", "expect", "intend", "plan", "predict", "target", "forecast", "guideline", "should", "project" and similar words and expressions are intende identify forward-looking statements. It is possible that the Bank's actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements.

Information regarding important factors that could cause actual results to differ, perhaps materially, from those in the Bank's forward-looking statements appear in a number of places in this Annual Report, principally in "Item 3. Key Information – D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects", and include, but are not limited to: (i) changes in general economic, business, political, social, fiscal or other conditions in Colombia, or in any of the other countries where the Bank operates; (ii) changes in capital markets or in markets in general that may affect policies or attitudes towards lending; (iii) unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; (iv) inflation, changes in foreign exchange rates and/or interest rates; (v) sovereign risks; (vi) liquidity risks; (vii) increases in defaults by the Bank's borrowers and other loan delinquencies; (viii) lack of acceptance of new products or services by the Bank's targeted customers; (ix) competition in the banking, financial services, credit card services, insurance, asset management, remittances, business and other industries in which the Bank operates; (x) adverse determination of legal or regulatory disputes or proceedings; (xi) changes in official regulations and the Colombian Government's banking policy as well as changes in laws, regulations or policies in the jurisdictions in which the Bank does business; (xii) regulatory issues relating to acquisitions; and (xiii) changes in business strategy.

Forward-looking statements speak only as of the date they are made and are subject to change, and the Bank does not intend, and does not assume any obligation, to update these forward-looking statements in light of new information or future events arising after the date of this Annual Report.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

The accounting practices used in the preparation of the Bank's consolidated financial statements follow Colombian banking GAAP. Together, these requirements differ in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). Note 31 to the Bank's audited consolidated financial statements included in this Annual Report provides a description of the principal differences between Colombian banking GAAP and U.S. GAAP as they relate to the Bank's audited consolidated financial statements and provides a reconciliation of consolidated net income and consolidated stockholders' equity for the years and dates indicated herein. References to Colombian banking GAAP in this Annual Report are to Colombian GAAP as supplemented by the applicable regulations of the SFC.

For consolidation purposes under Colombian banking GAAP, financial statements of the Bank and its Subsidiaries must be prepared under uniform accounting policies. In order to comply with this requirement, financial statements of foreign Subsidiaries were adjusted as required by Colombian regulations.

In July 2009 Congress approved Law 1314 of 2009, which introduced changes in the accounting, audit and information disclosures with the aim of converging with "International Financial Reporting Standards – IFRS", although current regulations could differ in certain subjects from those in other countries. In accordance with Decree 2784 of 2012, those regulations are effective for annual and interim fiscal years beginning after December 31, 2014.

For 2012, the Bank's consolidated financial statements include entities in which it holds, directly or indirectly, 50% or more of the outstanding voting rights. The Bank consolidates directly Leasing Bancolombia, Fiduciaria Bancolombia. Banca de Inversión, Tuya S.A. Compañía de Financiamiento, Bancolombia Puerto Rico Internacional Inc., Bancolombia Panamá, Valores Bancolombia, Factoring Bancolombia and Patrimonio Autónomo Cartera LBC. Some of the Bank's Subsidiaries also consolidate their own subsidiaries. Bancolombia Panamá consolidates Bancolombia Cayman S.A., Sistema de Inversiones y Negocios S.A. Sinesa, Suleasing International USA, Inc. and Banagrícola (which, in turn, consolidates Inversiones Financieras Banco Agrícola S.A. IFBA, Banco Agrícola, Arrendadora Financiera S.A. Arfinsa, Credibac S.A. de C.V., Valores Banagrícola S.A. de C.V., Banagrícola Guatemala S.A., Bagrícola Costa Rica and UFF Móvil S.A.S.). Banca de Inversión consolidates BIBA Inmobiliaria S.A.S., Valores Simesa S.A., Inversiones CFNS S.A.S., CFNS Infraestructura S.A.S. and Vivayco S.A.S. Leasing Bancolombia consolidates Leasing Perú S.A., Renting Colombia (which, in turn, consolidates Arrendamiento Operativo CIB S.A.C., Capital Investments SAFI S.A., Fondo de Inversión en Arrendamiento Operativo Renting Perú, and Transportempo S.A.S.). Valores Bancolombia consolidates Valores Bancolombia Panamá S.A. and Suvalor Panamá Fondo de Inversión S.A. and Fiduciaria Bancolombia consolidates FiduPerú S.A. Sociedad Fiduciaria. See "Item 4. Information on the Company – C. Selected Organizational Structure" for an organizational chart depicting Bancolombia and its subsidiaries.

Currencies

The Bank maintains accounting records in pesos. The audited consolidated financial statements of Bancolombia as of December 31, 2012, and 2011 and for three years ended December 31, 2012 (collectively, including the notes thereto, the "Financial Statements") contained in this Annual Report are expressed in pesos.

This Annual Report translates certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such peso amounts have been translated at the rate of COP 1,768.23 per USD 1.00, which corresponds to the Representative Market Rate calculated on December 31, 2012 the last business day of the year. The Representative Market Rate is computed and certified by the SFC, the Colombian banking regulator, on a daily basis and represents the weighted average of the buy/sell foreign exchange rates negotiated on the previous day by certain financial institutions authorized to engage in foreign exchange transactions (including Bancolombia). The SFC also calculates and certifies the average Representative Market Rate for each month for purposes of preparing financial statements and converting amounts in foreign currency to pesos. Such conversion should not be construed as a representation that the peso amounts correspond to, or have been or could be converted into, U.S. dollars at that rate or any other rate. On April 29, 2013, the Representative Market Rate was COP 1,833.70 per USD 1.00.

Rounding Comparability of Data

Certain monetary amounts, percentages and other figures included in this Annual Report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

This Annual Report refers to certain websites as sources for certain information contained herein. Information contained in or otherwise accessible through these websites is not a part of this Annual Report. All references in this Annual Report to these and other internet sites are inactive textual references to these URLs, or “uniform resource locators”, and are for your informational reference only.

The Bank maintains an internet site at www.grupobancolombia.com. In addition, certain of the Bank’s Subsidiaries referred to in this Annual Report maintain separate internet sites. For example, Banco Agrícola maintains an internet site at www.bancoagricola.com. Information included on or accessible through Bancolombia’s internet site or the internet site of any of the Subsidiaries of the Bank is not part of this Annual Report.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected consolidated financial data as of December 31, 2012 and 2011, and for each of the three fiscal years in the period ended December 31, 2012 set forth below has been derived from the Bank's audited consolidated financial statements included in this Annual Report. The selected consolidated financial data as of December 31, 2010, 2009 and 2008, and for each of the two fiscal years in the period ended December 31, 2009 set forth below have been derived from the Bank's audited consolidated financial statements for the respective periods, which are not included herein.

The selected consolidated financial data should be read in conjunction with the Bank's consolidated financial statements, related notes thereto, and the reports of the Bank's independent registered public accounting firms.

Differences Between Colombian banking GAAP and U.S. GAAP Results

The Bank's consolidated financial statements have been prepared in accordance with Colombian banking GAAP, which are the accounting principles and policies that are summarized in "Note 2. Summary of Significant Accounting Policies" to the Bank's Financial Statements included in this Annual Report. These accounting principles and policies differ in some significant respects from U.S. GAAP.

Consolidated net income attributable to the controlling interest under U.S. GAAP for the year ended December 31, 2012 was COP 1,633,563 million (compared with COP 1,043,636 million for fiscal year 2011 and COP 1,544,761 million for fiscal year 2010). A reconciliation of consolidated net income and consolidated stockholders' equity under U.S. GAAP is included in "Note 31. Differences between Colombian Accounting Principles for Banks and U.S. GAAP" to the Financial Statements included in this Annual Report.

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	As of and for the year ended December 31,			
	2012[(1)]	***2012***	***2011***	***2010***
	(in millions of COP and thousands of USD [(1)], except per share an			
CONSOLIDATED STATEMENT OF OPERATIONS:				
Colombian banking GAAP:				
Interest income	USD 4,333,081	COP 7,661,883	COP 5,945,594	COP
Interest expense	(1,637,151)	(2,894,860)	(2,042,006)	
Net interest income	**2,695,930**	**4,767,023**	**3,903,588**	
Provisions for loans, finance leases and accrued interest losses, net of recoveries [(2)]	(606,550)	(1,072,520)	(596,417)	
Provision for foreclosed assets and other assets, net of recoveries[(3)]	(21,690)	(38,353)	(2,288)	
Net interest income after provisions	**2,067,690**	**3,656,150**	**3,304,883**	
Fees and income from services and other operating income, net [(4)]	1,493,095	2,640,137	2,359,821	
Operating expenses	(2,353,981)	(4,162,382)	(3,606,348)	
Net operating income	**1,206,804**	**2,133,905**	**2,058,356**	
Net non-operating income excluding minority interest	23,153	40,938	87,406	
Minority interest (loss)	(3,237)	(5,723)	(11,351)	
Income before income taxes	**1,226,720**	**2,169,120**	**2,134,411**	
Income taxes	(264,150)	(467,074)	(470,517)	
Net income	**USD 962,570**	**COP 1,702,046**	**COP 1,663,894**	**COP**
Weighted average of Preferred and Common Shares outstanding[(5)]		845,531,918	787,827,003	
Basic and Diluted net income per share[(5)]	1.14	2,013	2,112	
Basic and Diluted net income per ADS	4.55	8,052	8,448	
Cash dividends declared per share		754	708	
Cash dividends declared per share (stated in U.S. Dollars)		0.43	0.36	
Cash dividends declared per ADS		3,016	2,832	
Cash dividends declared per ADS (stated in U.S. Dollars)		1.71	1.46	
U.S. GAAP:[(6)]				
Net income attributable to the controlling interest	USD 923,841	COP 1,633,563 (6)	COP 1,043,636 (6)	COP
Basic and Diluted net income per common share [(7)]	1.09	1,932	1,325	
Basic and Diluted net income per ADS [(7)] [(8)]	4.37	7,728	5,300	

(1) Amounts stated in U.S. dollars have been converted at the rate of COP 1,768.23 per USD 1.00, which is the Representative Market Rate calculated on December 31, 2012 (the last business day of 2012), as reported by the

SFC. Such translation should not be construed as representations that the Colombian pesos amount represent, or have been or could be converted into, United States at that or any other rate.

(2) Represents the provision for loans, accrued interest losses and other receivables, net and recovery of charged-off loans. Includes a provision for accrued interest losses amounting to COP 48,085 million, COP 31,852 million, COP 33,540 million, COP 46,840 million and COP 58,721 million for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

(3) Represents the provision for foreclosed assets and other assets and the recovery of provisions for foreclosed assets and other assets.

(4) Represents the total fees and income from services, net and total other operating income.

(5) The weighted average of preferred and common shares outstanding for fiscal year 2012 includes 335,827,334 preferred shares and 509,704,584 common shares, and for fiscal years 2011, 2010, 2009 and 2008, includes 278,122,419 preferred shares and 509,704,584 common shares.

(6) Refer to "Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP" of our Financial Statements included in this Annual Report.

(7) Net income per share under U.S. GAAP is presented on the basis of net income available to common stockholders divided by the weighted average number of common shares outstanding (509,704,584 for 2012, 2011, 2010, 2009 and 2008). See "Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP".

(8) Basic and diluted net income per ADS for any period is defined as basic and diluted net income per share multiplied by four as each ADS is equivalent to four preferred shares of Bancolombia. Basic and diluted net income per ADS should not be considered in isolation, or as a substitute for net income, as a measure of operating performance or as a substitute for cash flows from operations or as a measure of liquidity.

CONSOLIDATED BALANCE SHEET

	As of the year ended December 31,				
	2012[(1)]	***2012***	***2011***	***2010***	***2009***
	(in millions of COP and thousands of USD [(1)], except per share and per American I amounts)				
CONSOLIDATED BALANCE SHEET					
Colombian banking GAAP:					
Assets:					
Cash and due from banks	USD 4,040,207	COP 7,144,015	COP 6,818,307	COP 5,312,398	COP 4
Funds sold and securities purchased under agreements to resell	579,722	1,025,082	910,690	842,636	2
Investment securities, net	7,099,931	12,554,311	9,958,191	8,675,762	8
Loans and financial leases, net	37,743,416	66,739,040	58,575,846	46,091,877	3
Accrued interest receivable on loans and financial leases, net	296,364	524,041	439,189	317,532	3
Customers' acceptances and derivatives	442,824	783,014	741,296	784,888	2
Accounts receivable, net	703,112	1,243,263	1,016,985	797,715	8
Premises and equipment, net	758,780	1,341,698	1,622,311	1,174,625	9
Premises and equipment under operating leases, net	1,239,617	2,191,928	1,380,057	1,006,108	8
Foreclosed assets, net	47,968	84,818	53,194	70,277	8
Prepaid expenses and deferred charges, net	437,121	772,930	785,456	319,864	1
Goodwill	323,133	571,373	679,861	750,968	8
Other assets	1,181,377	2,088,947	1,697,648	1,185,977	9
Reappraisal of assets	481,793	851,920	783,989	764,529	7
Total assets	**USD 55,375,365**	**COP 97,916,380**	**COP 85,463,020**	**COP 68,095,156**	**COP 6**
Liabilities and stockholders' equity:					
Deposits	USD 36,284,150	COP 64,158,720	COP 52,434,492	COP 43,538,967	COP 4
Borrowings[(3)]	2,981,235	5,271,508	7,458,926	5,250,587	4
Other liabilities	9,545,815	16,879,197	16,576,242	11,358,462	8
Stockholder' equity	6,564,165	11,606,955	8,993,360	7,947,140	7
Total liabilities and stockholders' equity	**USD 55,375,365**	**COP 97,916,380**	**COP 85,463,020**	**COP 68,095,156**	**COP 6**
U.S. GAAP:					
Stockholders' equity attributable to the controlling interest	USD 6,303,190	COP 11,145,490 (2)	COP 8,589,202 (2)	COP 8,069,346	COP 7
Stockholders' equity per share[(4) (5)]	7,455	13,182	10,902	10,243	9
Stockholders' equity per ADS[(4) (5)]	29,820	52,728	43,608	40,972	3

(1) Amounts stated in U.S. dollars have been converted at the rate of COP 1,768.23 per USD 1.00, which is the Representative Market Rate calculated on December 31, 2012, the last business day of the year, as reported by the SFC. Such conversions should not be construed as representations that the peso amounts represent, or have been or could be converted into, United States dollars at the Representative Market Rate or any other rate.

(2) Refer to "Note 31, Differences between Colombian Accounting Principles for Banks and U.S. GAAP" to the Financial Statements included in this Annual Report.

(3) Includes interbank borrowing, development and other domestic banks.

(4) On February 6, 2012, Bancolombia issued 63,999,997 preferred shares in a public offering, 43,543,793 preferred shares were issued in a local preemptive rights offering, at a price of COP 26,000 per share and in the offering outside of Colombia, 5,114,051 ADSs, representing 20,456,204 preferred shares were issued at a price of USD 60 per ADS.

(5) The weighted average (rounded to the nearest million) of preferred and common shares outstanding was 845 million for the fiscal year ended December 31 2012 and 788 million for the fiscal year ended December 31, 2011, 2010, 2009 and 2008. Stockholders' equity per share is equal to stockholders' equity under U.S. GAAP divided by the weighted average of preferred and common shares outstanding, stockholders' equity per ADS is equal to stockholders' equity per share multiplied by four preferred shares of Bancolombia (each ADS is equivalent to four preferred shares of Bancolombia). Stockholders' equity per share and stockholders' equity per ADS should not be considered in isolation, or as a substitute for net income, as a measure of operating performance or as a substitute for cash flows from operations or as a measure of liquidity. The non-GAAP financial measures described in this footnote are not a substitute for the GAAP measures of financial performance. Should not be considered as an alternate measure of stockholders' equity as determined on a consolidated basis using amounts derived from the consolidated balance sheet prepared in accordance with Colombian banking GAAP.

See "Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – A.3. Dividend Policy", for information about the dividends declared per share in both pesos and U.S. dollars during the fiscal years ended December 31, 2012, 2011, 2010, 2009 and 2008.

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SELECTED RATIOS

	As of and for the year ended December 31,				
	2012	*2011*	*2010*	*2009*	*2008*
	(Percentages, except for operating data)				
SELECTED RATIOS:[1]					
Colombian banking GAAP:					
Profitability ratios:					
Net interest margin[2]	6.49	6.17	6.38	7.22	7.64
Return on average total assets[3]	1.92	2.20	2.27	2.01	2.34
Return on average stockholders' equity[4]	15.97	20.22	19.71	19.59	23.68
Efficiency Ratio:					
Operating expenses as a percentage of interest, fees, services and other operating income	56.19	57.58	56.28	50.89	47.79
Capital ratios:					
Period-end stockholders' equity as a percentage of period-end total assets	11.85	10.52	11.67	11.37	9.90
Period-end regulatory capital as a percentage of period-end risk-weighted assets[5]	15.77	12.46	14.67	13.23	11.24
Credit quality data:					
Non-performing loans as a percentage of total loans[6]	1.76	1.52	1.91	2.44	2.35
"C", "D" and "E" loans as a percentage of total loans[9]	3.96	3.82	4.32	5.11	4.40
Allowance for loan and accrued interest losses as a percentage of non-performing loans	268.96	306.94	274.36	241.08	224.53
Allowance for loan and accrued interest losses as a percentage of "C", "D" and "E" loans[7]	119.30	121.69	121.45	115.25	120.21
Allowance for loan and accrued interest losses as a percentage of total loans	4.72	4.65	5.24	5.89	5.29
OPERATING DATA:					
Number of branches[8]	993	952	921	889	890
Number of employees[9]	24,820	24,126	22,992	21,201	19,728

(1) Ratios were calculated on the basis of monthly averages.

(2) Net interest income divided by average interest-earning assets.

(3) Net income divided by average total assets.

(4) Net income divided by average stockholders' equity.

(5) For an explanation of risk-weighted assets and Technical Capital, see "Item 4. Information on the Company – B. Business Overview – B.8. Supervision and Regulation – Capital Adequacy Requirements".

(6) Non-performing loans are small business loans that are past due 30 days or more, mortgage and consumer loans that are past due 60 days or more and commercial loans that are past due 90 days or more. (Each category includes financial leases.)

(7) The decrease in this coverage ratio is explained by the formation of PDLs during the year, which was faster than the pace of increase in allowances in the balance sheet. See “Item 4. Information on the Company – E. Selected Statistical Information – E.3. Loan Portfolio – Classification of the loan portfolio and Credit Categories for a description of ‘C’, ‘D’ and ‘E’ Loans”.

(8) Number of branches includes branches of the Bank’s Subsidiaries.

(9) The number of employees includes employees of the Bank’s consolidated Subsidiaries.

Exchange Rates

On March 27, 2013, the Representative Market Rate was COP 1,832.20 per USD 1.00. The Federal Reserve Bank of New York does not report a rate for pesos; the SFC calculates the Representative Market Rate based on the weighted average of the buy/sell foreign exchange rates quoted daily by certain financial institutions, including Bancolombia, for the purchase and sale of U.S. dollars.

The following table sets forth the low and high peso per U.S. dollar exchange rates and the peso/U.S. dollar representative market rate on the last day of the month, for each of the last six months:

Recent exchange rates of pesos per U.S. dollars

Month	Low	High	Period-End
March 2013	1,797.28	1,832.20	1,832.20
February 2013	1,776.20	1,818.54	1,814.28
January 2013	1,758.45	1,779.84	1,775.65
December 2012	1,768.23	1,813.73	1,768.23
November 2012	1,813.72	1,828.80	1,813.72
October 2012	1,795.40	1,831.25	1,831.25

Source: SFC.

The following table sets forth the peso/U.S. dollar representative market rate on the last day of the year and the average peso/U.S. dollar representative market rate (calculated by using the average of the Representative Market Rates on the last day of each month during the year) for each of the five most recent financial years.

Peso/USD 1.00
Representative Market Rate

Period	***Period-End***	***Average***
2012	1,768.23	1,798.08
2011	1,942.70	1,852.83
2010	1,913.98	1,901.67
2009	2,044.23	2,179.64
2008	2,243.59	1,993.80

Source: SFC.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Investors should consider the following risks and uncertainties, and the other information presented in this Annual Report. In addition, the factors referred to below, as well as all other information presented in this Annual Report, should be considered by investors when reviewing any forward-looking statements contained in this Annual Report, in any document incorporated by reference in this Annual Report, in any of the Bank’s future public filings or press releases, or in any future oral statements made by the Bank or any of its officers or other persons acting on its behalf. If any of the following risks occur, the Bank’s business, results of operations and financial condition, its ability to raise capital and its ability to access funding could be materially and adversely affected. These risk factors should not be considered a complete list of potential risks that may affect Bancolombia.

Risk Factors Relating to Colombia and Other Countries Where the Bank Operates.

Changes in economic and political conditions in Colombia and El Salvador or in the other countries where the Bank operates may adversely affect the Bank’s financial condition and results of operations.

The Bank’s financial condition, results of operations and asset quality are significantly dependent on the macroeconomic and political conditions prevailing in Colombia, El Salvador, Panama and the other jurisdictions in which the Bank operates. Accordingly, decreases in the growth rate, periods of negative growth, increases in inflation, changes in policy, or future judicial interpretations of policies involving exchange controls and other matters such as (but not limited to) currency depreciation, inflation, interest rates, taxation, banking laws and regulations and other political or economic developments in or affecting Colombia, El Salvador or the other jurisdictions where the Bank operates may affect the overall business environment and may in turn impact the Bank’s financial condition and results of operations.

In particular, the Governments of Colombia and El Salvador have historically exercised substantial influence on their economies, and their policies are likely to continue to have an important effect on Colombian and Salvadorian entities (including the Bank), market conditions, prices and rates of return on securities of local issuers (including the Bank’s securities). Potential changes in laws, public policies and regulations, may cause instability and volatility in Colombia and its markets.

Future developments in Government policies could impair the Bank’s business or financial condition or the market value of its securities.

The economies of the countries where the Bank operates are vulnerable to external effects that could be caused by significant economic difficulties experienced by their major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on such countries economic growth and their ability to service their public debt.

A significant decline in the economic growth or a sustained economic downturn of any of Colombia's or El Salvador's major trading partners (i.e., United States, China, Venezuela and Ecuador for Colombia and the United States for El Salvador) could have a material adverse impact on Colombia's and El Salvador's balance of trade and remittances inflows, resulting in lower economic growth.

Deterioration in the economic and political situation of neighboring countries could affect national stability or the Colombian economy by disrupting Colombia's diplomatic or commercial relationships with these countries. Political tensions between Colombia and Venezuela in recent years have produced lower trade levels that have adversely impacted economic activity. Although relations with Venezuela have improved significantly with the current Government, the possibility of any further resurgence in tensions between the two countries may cause political and economic uncertainty, instability, market volatility, lower confidence levels and higher risk aversion by investors and market participants that may negatively affect economic activity in Colombia and El Salvador.

A contagion effect, in which an entire region or class of investment is disfavored by international investors, could negatively affect Colombia and El Salvador or other economies where the bank operates (i.e., Panama, Cayman Islands, Peru and Puerto Rico), as well as the market prices and liquidity of securities issued or owned by the Bank.

Any additional taxes resulting from changes to tax regulations or the interpretation thereof in Colombia, El Salvador or other countries where the Bank operates, could adversely affect the Bank's consolidated results.

Uncertainty relating to tax legislation poses a constant risk to the Bank. Changes in legislation, regulation and jurisprudence can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting stated expenses and deductions, and eliminating incentives and non-taxed income. Notably, the Colombian and Salvadorian Governments have significant fiscal deficits that may result in future tax increases. Additional tax regulations could be implemented that could require the Bank to make additional tax payments, negatively affecting its results of operations and cash flow. In addition, national or local taxing authorities may not interpret tax regulations in the same way that the Bank does. Differing interpretations could result in future tax litigation and associated costs.

Exchange rate volatility may adversely affect the Colombian economy, the market price of our ADSs, and the dividends payable to holders of the Bank's ADSs.

Colombia has adopted a floating exchange rate system. The Colombian Central Bank maintains the power to intervene in the exchange market in order to consolidate or dispose of international reserves, and to control any volatility in the exchange rate. From time to time, there have been significant fluctuations in the exchange rate between the Colombian peso and the U.S. dollar. Unforeseen events in the international markets, fluctuations in interest rates or changes in capital flows, may cause exchange rate instability that could generate sharp movements in the value of the peso. Given that a portion of our assets and liabilities are denominated in, or indexed to, foreign currencies, especially the U.S. dollar, sharp movements in exchange rates may negatively impact the Bank's results. In addition, exchange rate fluctuations may adversely impact the value of dividends paid to holders of the Bank's ADSs as well as the market price and liquidity of ADSs.

Colombia has experienced several periods of violence and instability, and such instability could affect the economy and the Bank.

Colombia has experienced several periods of criminal violence over the past four decades, primarily due to the activities of guerilla groups and drug cartels. In response, the Colombian Government has implemented various security measures and has strengthened its military and police forces by creating specialized units, and currently is in the process of negotiating a peace treaty with the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*) (FARC). Despite these efforts, drug-related crime and guerilla activity continue to exist in Colombia. These activities, their possible escalation and the violence associated with them may have a negative impact on the Colombian economy or on the Bank in the future. The Bank's business or financial condition and the market value of the Bank's securities and any dividends distributed by it, could be adversely affected by rapidly changing economic and social conditions in Colombia and by the Colombian Government's response to such conditions.

Risk Factors Relating to the Bank’s Business and the Banking Industry

Changes in banking laws and regulations in Colombia and in other jurisdictions where the Bank operates could adversely affect the Bank’s consolidated results.

Changes in banking laws and regulations, or in their official interpretation, in Colombia and in other jurisdictions where the Bank operates, may have a material effect on the Bank’s business and operations. Since banking laws and regulations change frequently, they could be adopted, enforced or interpreted in a manner that may have an adverse effect on the Bank’s business.

Although Bancolombia currently complies with applicable capital requirements, there can be no assurance that future regulation will not change or require Bancolombia or its subsidiaries to seek additional capital. Moreover, regulators in other jurisdictions have not reached consensus as to the appropriate level of capitalization for financial services institutions. Regulators in the jurisdictions where Bancolombia operates may alter the current regulatory capital requirements to which Bancolombia is subject and thereby require equity increases that could dilute existing stockholders, lead to required asset sales or adversely impact the return on stockholders’ equity and/or the market price of the Bank’s common and preferred shares.

In 2012, a new regulation relating to capital adecquacy requirements (Decree 1771 of 2012) was issued. For further details on the changes set forth in the new regulations, see "Item 4. Information on the Company – B. Business Overview - B.8 Supervision and Regulation - capital adecquacy requirements".

Banking regulations, accounting standards and corporate disclosure applicable to the Bank and its subsidiaries differ from those in the United States and other countries.

While many of the policies underlying Colombian banking regulations are similar to those underlying regulations applicable to banks in other countries, including those in the United States, Colombian regulations can differ in a number of material respects. For example, capital adequacy requirements for banks under Colombian regulations differ from those under U.S. regulations and may differ from those in effect in other countries. The Bank prepares its annual audited financial statements in accordance with Colombian banking GAAP, which differs from U.S. GAAP and International Financial Reporting Standards ("IFRS"). Thus, Colombian financial statements and reported earnings may differ from those of companies in other countries in these and other respects. Some of the differences affecting earnings and stockholders' equity include, but are not limited to the accounting treatment for restructuring, loan origination fees and costs, equity tax, securitization, fair value adjustment in debt securities, deferred income taxes and the accounting treatment for business combinations. Moreover, under Colombian banking GAAP, allowances for non-performing loans are computed by establishing each non-performing loan's individual inherent risk using criteria established by the SFC that differ from those used under U.S. GAAP. See "Item 4. Information on the Company – E. Selected Statistical Information – E.4. Summary of Loan Loss Experience – Allowance for Loan Losses".

The Colombian Government is currently undertaking a review of present regulations relating to accounting, audit, and information disclosure, with the intention of seeking convergence with international standards. Nevertheless, current regulations continue to differ in certain respects from those in other countries. In addition, there may be less publicly available information about the Bank than is regularly published by or about U.S. issuers or issuers in other countries and any changes in those regulations would become effective in 2015.

The Bank is subject to regulatory inspections, examinations, inquiries or audits in Colombia and in other countries where it operates, and any sanctions, fines and other penalties resulting from such inspections and audits could materially and adversely affect the Bank's business, financial condition, results of operations and reputation.

The Bank is subject to comprehensive regulation and supervision by the banking authorities of Colombia, El Salvador and the other jurisdictions in which the Bank operates. These regulatory authorities have broad powers to adopt regulations and impose other requirements affecting or restricting virtually all aspects of the Bank's capitalization, organization and operations, including the imposition of anti-money laundering measures and the authority to regulate the terms and conditions of credit that can be applied by banks. In the event of non-compliance with applicable regulations, the Bank could be subject to fines, sanctions or the revocation of licenses or permits to operate its business. In Colombia, for instance, in the event the Bank encounters significant financial problems or becomes insolvent or in danger of becoming insolvent, banking authorities would have the power to take over the Bank's management and operations. Any sanctions, fines and other penalties resulting from non-compliance with regulations in Colombia and in the other jurisdictions where the Bank operates could materially and adversely affect the Bank's business, financial condition, results of operations and reputation.

An increase in constitutional public interest actions (*acciones populares*), class actions (*acciones de grupo*) and other legal actions involving claims for significant monetary awards against financial institutions may affect the Bank's businesses and results of operations.

Under the Colombian Constitution, individuals may initiate constitutional public interest or class actions to protect their collective or class rights, respectively. Colombian financial institutions, including the Bank, have experienced a substantial increase in the aggregate number of these actions. The great majority of such actions have been related to fees, financial services and interest rates, and their outcome is uncertain. Pursuant to law 1425 of 2010, monetary awards for plaintiffs in constitutional actions or class actions were eliminated as of January 1, 2011. Nevertheless, individuals continue to have the right to initiate these actions against the Bank.

Future restrictions on interest rates or banking fees could negatively affect the Bank's profitability.

In the future, regulations in the jurisdictions where the Bank operates could impose limitations regarding interest rates or fees charged by the Bank. Any such limitations could materially and adversely affect the Bank's results of operations and financial situation.

In the past, there have been disputes in Colombia among commercial businesses, payment service providers and banks regarding credit card interbank exchange fees (*tarifa interbancaria de intercambio)*. Although such disputes have been resolved, the Superintendency of Industry and Commerce and may initiate new investigations relating to such fees. This possibility may lead to additional decreases, which in turn could impact the Bank's financial results.

Furthermore, pursuant to article 62 of law 1430 of 2010, Congress granted the Government power and authority to establish and define criteria and formulas applicable to the calculation of banking fees and charges and the authority to define maximum limits to banking fees and charges. On December 20, 2011 the Government used the authority granted by law 1430 of 2010 and enacted Decree 4809 of 2011 in which it set forth caps to bank fees that may be charged on withdrawals through ATMs outside their own networks.

Currently, an initiative regarding banking fees is being discussed in Congress, and has been approved in its first debate out of four needed for it to become a law. If the law were enacted banks would need to cease charging transactional and service fees from those individuals whose income is equal or under two SMMLV, provided that this benefit would only apply to one savings account per individual. However, the likelihood of this initiative becoming a law is uncertain given that there have been two similar unsuccessful initiatives discussed in Congress in recent years.

In addition, recent Law 1555 of 2012 prohibits prepayment penalties for loans worth less than 880 SMMLV (mortgage loans are excluded).

Further limits or regulations regarding banking fees and uncertainties with respect thereto, could have a negative effect on our results of operations and financial condition.

The Bank and most of its subsidiaries are subject to the U.S. Foreign Account Tax Compliance Act of 2010.

Bancolombia and most of its subsidiaries are considered foreign financial institutions ("FFIs") under Foreign Account Tax Compliance Act of 2010 ("FATCA") (see "Item 4. Information on the Company – B. Business Overview – B.8. Supervision and Regulation – International regulations applicable to Bancolombia and its subsidiaries"). Given the size and the scope of our group's international operations, we intend to take all necessary steps to comply with FATCA (including entering into agreements with the U.S. tax authority). However, if the Group cannot enter into such agreements or satisfy the requirements thereunder, certain payments to Bancolombia or its subsidiaries may be subject to withholding under FATCA. The possibility of such withholding and the need for accountholders and investors to provide certain information may adversely affect our results of operations and financial condition. In addition, entering into agreements with the IRS compliance with the terms of such agreements and with FATCA, any regulations or other guidance promulgated thereunder or any legislation promulgated under an intergovernmental agreement ("IGA") may increase our compliance costs. We are currently in the process of estimating the costs and commercial impact of implementing FATCA compliance on a group wide level. Because legislation and regulations implementing FATCA in the countries where we operate and the IGAs remain under development, the future impact of this law on the Bancolombia Group is still uncertain.

The Bank is subject to credit risk, and estimating exposure to credit risk involves subjective and complex judgments.

A number of our products expose the Bank to credit risk, including loans, financial leases, lending commitments and derivatives.

The Bank estimates and establishes reserves for credit risk and potential credit losses. This process involves subjective and complex judgments, including projections of economic conditions and assumptions on the ability of our borrowers to repay their loans. This process is also subject to human error as the Bank's employees may not always be able to assign an accurate credit rating to a client, which may result in the Bank's exposure to higher credit risk than indicated by the Bank's risk rating system. The Bank may not be able to timely detect these risks before they occur, or due to limited resources or available infrastructure, the Bank's employees may not be able to effectively implement its credit risk management system, which may increase its exposure to credit risk. Moreover, the Bank's failure to continuously refine its credit risk management system may result in a higher risk exposure for the Bank, which could materially and adversely affect its results of operations and financial position.

Overall, if the Bank is unable to effectively control the level of non-performing or poor credit quality loans in the future, or if its loan loss reserves are insufficient to cover future loan losses, the Bank's financial condition and results of operations may be materially and adversely affected.

In addition, the amount of the Bank's non-performing loans may increase in the future as a result of factors beyond the Bank's control, such as changes in the income levels of the Bank's borrowers, increases in the inflation rate or an increase in interest rates, the impact of macroeconomic trends and political events affecting Colombia and other jurisdictions where the Bank operates or has exposure, or events affecting specific industries. Any of these developments could have a negative effect on the quality of the Bank's loan portfolio, causing the Bank to increase provisions for loan losses and resulting in reduced profits or in losses.

The Bank is subject to credit risk with respect to its non-traditional banking businesses including investing in securities and entering into derivatives transactions.

Non-traditional sources of credit risk can arise from, among other things: investing in securities of third parties, entering into derivative contracts under which counterparties have obligations to make payments to the Bank, and executing securities, futures, currency or commodity trades from the Bank's proprietary trading desk that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Any significant increases in exposure to any of these non-traditional risks, or a significant decline in credit quality or the insolvency of any of the counterparties, could materially and adversely affect the Bank's results of operations and financial position.

The Bank is exposed to risks associated with the mortgage loan market.

Bancolombia is a leader in the Colombian mortgage loan market. Colombia's mortgage loan market is highly regulated and has historically been affected by various macroeconomic factors. Although during the past years interest rates have decreased, periods of sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased defaults in outstanding loans and deterioration in the quality of assets.

The Bank is subject to concentration of default risks in its loan portfolio. Problems with one or more of its largest borrowers may adversely affect its financial condition and results of operations.

As of December 31, 2012, the aggregate outstanding principal amount of the Bank's 25 largest credit exposures, on a consolidated basis, represented approximately 11.92% of the loan portfolio, and no single exposure represented more than 1% of the loan book. Also, 100% of those loans were corporate loans and 100% of these relationships were classified as "A". However, problems with one or more of the Bank's largest borrowers could materially and adversely affect its results of operations and financial position, see "Item 4. Information on the Company – E. Selected Statistical Information – E.3. Loan Portfolio – Borrowing Relationships".

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The value of the collateral or guarantees securing the outstanding principal and interest balance of the Bank's loans may not be sufficient to cover such outstanding principal and interest. In addition, the Bank may be unable to realize the full value of the collateral or guarantees securing the outstanding principal and interest balance of its loans.

The Bank's loan collateral primarily includes real estate, assets pledged in financial leasing transactions and other assets that are located primarily in Colombia and El Salvador, the value of which may significantly fluctuate or decline due to factors beyond the Bank's control. Such factors include market factors, environmental risks, natural disasters, macroeconomic factors and political events affecting the local economy. Any decline in the value of the collateral securing the Bank's loans may result in a reduction in the recovery from collateral realization and may have an adverse impact on the Bank's results of operations and financial condition. In addition, the Bank may face difficulties in enforcing its rights as a secured creditor. In particular, timing delays and procedural problems in enforcing against collateral and local protectionism may make foreclosures on collateral and enforcement of judgments difficult, and may result in losses that could materially and adversely affect the Bank's results of operations and financial position.

The Bank is subject to market risk.

The Bank is directly and indirectly affected by changes in market conditions. Market risk, or the risk of losses in positions arising from movements in market prices, is inherent in the products and instruments associated with our operations, including loans, deposits, securities, bonds, long-term debt, short-term borrowings, proprietary trading in assets and liabilities and derivatives. Changes in market conditions that may affect our financial condition and results of operations include fluctuations in interest and currency exchange rates, securities prices, changes in the implied volatility of interest rates and foreign exchange rates, among others.

The Bank is subject to fluctuations in interest rates, which may materially and adversely affect its results of operations and financial condition.

The Bank holds a substantial portfolio of loans and debt securities that have both fixed and floating interest rates. Therefore, changes in interest rates could adversely affect our net interest margins as well as the prices of these securities. Increases in interest rates may reduce the market value of the Bank's debt securities, leading to smaller gains or larger losses on these investments. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. On the other hand, decreases in interest rates may cause margin compression and lower net interest income as the Bank usually maintains more assets than liabilities at variable rates. Decreasing interest rates also may trigger loan prepayments which could negatively affect the Bank's net interest income. Generally, in a declining interest rate environment, prepayment activity increases, reducing the weighted average maturity of the Bank's interest earning assets and adversely affecting its operating results. Prepayment risk also has a significant adverse impact on our earnings from our credit card and collateralized mortgage obligations, since prepayments could shorten the weighted average life of these portfolios, which may result in a mismatch in funding or in reinvestment of the prepayment proceeds at lower yields.

The Bank’s income from its proprietary trading activities is highly volatile.

The Bank’s trading income is highly volatile. The Bank derives a portion of its profits from its proprietary trading activities and any significant reduction in its trading income could adversely affect the Bank’s results of operations and financial position. The Bank’s trading income is dependent on numerous factors beyond its control, such as the general market environment, overall market trading activity, interest rate levels, fluctuations in exchange rates and general market volatility. A significant decline in the Bank’s trading income, or the incurrence of a trading loss, could adversely affect the Bank’s results of operations and financial position.

The Bank has significant exposure to sovereign risk, and especially Colombian risk, and the Bank's results could be adversely affected by decreases in the value of its sovereign debt securities.

The Bank's debt securities portfolio is primarily composed of sovereign debt securities, including securities issued or guaranteed by the Colombian Government. Therefore, the Bank's results are exposed to credit, market, and liquidity risk associated with sovereign debt. As of December 31, 2012, the Bank's total debt securities represented 11.66% of its total assets, and 54.27% of these securities were issued or backed by the Colombian Government. A significant decline in the value of the securities issued or guaranteed by the Colombian Government could adversely affect the Bank's debt securities portfolio and consequently the Bank's results of operations and financial position.

The Bank is subject to market, operational and structural risks associated with its derivative transactions.

The Bank enters into derivative transactions for hedging purposes and on behalf of its customers. The Bank is subject to market and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder). In addition, the market practice and documentation for derivative transactions is less developed in the jurisdictions where the Bank operates as compared to other more developed countries, and the court systems in such jurisdictions have limited experience in dealing with issues related to derivative transactions. As a result, there are increased operating and structural risks associated with derivatives transactions in these jurisdictions.

In addition, the execution and performance of derivatives transactions depend on the Bank's ability to develop adequate control and administrative systems, and to hire and retain qualified personnel. Moreover, the Bank's ability to adequately monitor, analyze and report these derivative transactions depends, to a great extent, on its information technology systems. These factors may further increase the risks associated with these transactions and could materially and adversely affect the Bank's results of operations and financial position.

The Bank is subject to operational risks.

The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses can result from fraud, employee errors, technological failures and failure to properly document transactions or to obtain proper internal authorization, failure to comply with regulatory requirements, breaches of conduct of business rules, equipment failures, natural disasters or the failure of external systems. The Bank's currently adopted procedures may not be effective in controlling each of the operational risks faced by the Bank.

The Bank’s businesses rely heavily on data collection, processing and storage systems, the failure of which could materially and adversely affect the effectiveness of its risk management, reputation and internal control system as well as its financial condition and results of operations.

All of the Bank’s principal businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information at its various branches across numerous markets, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to the Bank’s businesses and to its ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect the Bank’s decision-making process, its risk management and internal control systems, the quality of its service, and the Bank’s ability to respond on a timely basis to changing market conditions. If the Bank cannot maintain an effective data collection and management system, its business operations, financial condition, reputation and results of operations could be materially and adversely affected. The Bank is also dependent on information systems to operate its website, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. The Bank may experience operational problems with its information systems as a result of system failures, viruses, computer hackers or other causes. Any material disruption or slowdown of its systems could cause information, including data related to customer requests and other client information, to be lost, compromised, or to be delivered to the Bank’s clients with delays or errors, which could reduce demand for the Bank’s services and products, result in additional costs for the Bank, and could materially and adversely affect the Bank’s results of operations and financial position.

The Bank is subject to cyber security risk.

The bank is subject to cyber security risk which includes the unauthorized access to privileged information, technological assaults on the infrastructure of the Bank with the aim of stealing information, committing fraud or interfering with regular service and the interruption of the Bank's services to some of its clients or users due to the exploitation and materialization of these vulnerabilities.

The risk methodology used by the Bank allows for the evaluation of residual risk, and has resulted in a low level of risk of potential cyber-attacks. The controls that the Bank has implemented in order to anticipate, identify, and offset these threats, have been effective in maintaining cyber security risk at a low level. Any failure by the Bank to detect cyber security risk in a timely manner could result in a negative impact on the Bank's results of operations and financial condition.

Any failure to effectively improve or upgrade the Bank's information technology infrastructure and management information systems in a timely manner could adversely affect its competitiveness, financial condition and results of operations.

The Bank's ability to remain competitive will depend in part on its ability to upgrade the Bank's information technology infrastructure on a timely and cost-effective basis. The information available to and received by the Bank's management through its existing information systems may not be timely and sufficient to manage risks or to plan for and respond to changes in market conditions and other developments in its operations. The Bank is currently undertaking a project to update its information technology platform ("IT platform") that will result in significant changes in the following areas: treasury, credit cards, customer management, products and distribution channels, financial management and accounting and human resources. Any failure to effectively improve or upgrade the Bank's information technology infrastructure and information management systems in a timely manner could materially and adversely affect the Bank's competitiveness, financial condition and results of operations.

The occurrence of natural disasters in the regions where the Bank operates could impair its ability to conduct business effectively and could impact the Bank's results of operations.

The Bank is exposed to the risk of natural disasters such as earthquakes, volcanic eruptions, tornadoes, tropical storms, floods, wind and hurricanes in the regions where it operates. In the event of a natural disaster, unanticipated problems with the Bank's disaster recovery systems could have a material adverse effect on the Bank's ability to conduct business in the affected region, particularly if those problems affect its computer-based data processing, transmission, storage and retrieval systems and destroy valuable data. In addition, if a significant number of the Bank's local employees and managers were unavailable in the event of a disaster, its ability to effectively conduct business could be severely compromised. In addition, the Bank's clients located in the affected region may be severely impacted and may not be able to continue paying the obligations they have with the Bank. A natural disaster or multiple catastrophic events could have a material adverse effect on the Bank's business and results of operations in the affected region.

Acquisitions and strategic partnerships may not perform in accordance with expectations or may disrupt the Bank's operations and adversely affect its profitability.

An element of the Bank's business strategy is to identify and pursue growth-enhancing strategic opportunities. The Bank may base assessments of potential acquisitions and partnerships on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Future acquisitions, investments and alliances, including the pending acquisition of a minority interest in Banco Agromercantil and the pending acquisition of HSBC Bank Panama (see "Item 4. Information on the Company. – A. History and development of the company – Recent Developments"), may not produce anticipated synergies or perform in accordance with the Bank's expectations and could adversely affect its operations and profitability.

The Bank’s concentration in and reliance on short-term deposits may increase its funding costs.

The Bank’s principal source of funds are short-term deposits, which represented a share of 74.3% of total liabilities at the end of 2012 compared to 68.6% and 72.4% at the end of 2011 and 2010, respectively. Because the Bank relies primarily on short-term deposits for its funding, in the event of a sudden or unexpected shortage of funds in the banking system and money markets where the Bank operates, the Bank may not be able to maintain its current level of funding without incurring higher costs or selling assets at prices below their prevailing market value.

The Bank’s policies and procedures may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose the Bank to fines and other liabilities.

The Bank is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations. These laws and regulations require the Bank, among other things, to adopt and enforce “know your customer” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been adopted recently and may not completely eliminate instances where it may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant Government agencies to which it reports have the power and authority to impose fines and other penalties on the Bank. In addition, the Bank’s business and reputation could suffer if customers use the Bank for money laundering or illegal or improper purposes.

The Bank is subject to increasing competition which may adversely affect its results of operations.

The Bank operates in a highly competitive environment and increased competitive conditions are to be expected in the jurisdictions where the Bank operates. Intensified merger activity in the financial services industry produces larger, better capitalized and more geographically diverse firms that are capable of offering a wider array of financial products and services at more competitive prices. The Bank’s ability to maintain its competitive position depends mainly on its ability to fulfill new customers’ needs through the development of new products and services and the Bank’s ability to offer adequate services and strengthen its customer base through cross-selling. The Bank’s business will be adversely affected if the Bank is not able to maintain efficient service strategies. In addition, the Bank’s efforts to offer new services and products may not succeed if product or market opportunities develop more slowly than expected or if the profitability of opportunities is undermined by competitive pressures.

Downgrades in our credit ratings would increase our cost of borrowing funds and make our ability to raise new funds, attract deposits or renew maturing debt more difficult.

Our credit ratings are an important component of our liquidity profile. A downgrade in our credit ratings would increase our cost of raising funds in the capital markets or of borrowing funds. Due to regulatory or internal policies, certain Colombian institutional investors are only permitted to purchase debt securities that are rated “AAA” by Colombian credit rating agencies. Purchase of our securities by these investors could be prohibited if we suffer a decline in our local credit rating. Our ability to renew maturing debt could be restricted and more expensive if our credit rating were to decline. Our lenders and counterparties in derivative transactions are sensitive to the risk of a credit rating downgrade. A downgrade in our credit rating may adversely affect perception of our financial stability and our ability to raise deposits, which could make us less successful when competing for deposits and loans in the market place. Our ability to successfully compete depends on various factors, including our financial stability as reflected by our credit ratings.

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A new insolvency law in Colombia may limit our ability to collect and enforce claims against non-merchants.

On June 12, 2012, Congress enacted Law 1564 of 2012 which provides insolvency protection for non-merchant individuals. In addition, on December 21, 2012, the Ministry of Justice and Law issued Decree 2677 of 2012 to regulate certain aspects set forth in Law 1564. Under the new insolvency regulations, once a non-merchant individual has ceased paying its debts, such individual can initiate a voluntary insolvency proceeding before a notary public or mediator to reach an agreement with its creditors. The terms of any agreement reached with a group of creditors (two or more) that represents more than 50% of the total amount of the claims will be mandatorily applicable to all relevant creditors.

As a result of these agreements, the Bank may not be able to recover the total amount of its claims. The increased debtor protections contemplated by this law, including an automatic stay for a maximum of 90 days, could also make it more difficult for us to enforce debt and other monetary obligations, which could have an adverse impact on our results of operations and financial condition.

The Central Bank may impose requirements on our (and other Colombian residents') ability to obtain loans in foreign currency.

The Central Bank may impose certain mandatory deposit requirements in connection with foreign currency-denominated loans obtained by Colombian residents, including the Bank. Although no mandatory deposit requirement is currently in effect, a mandatory deposit requirement was set at 40% in 2008 after the Colombian peso appreciated against foreign currencies. Although we cannot predict or control future actions by the Central Bank in respect of such deposit requirements, which may involve the establishment of a different mandatory deposit percentage, the use of such measures by the Central Bank may be a disincentive for the Bank and our clients to obtain loans denominated in a foreign currency.

Risks Relating to the Preferred Shares and the American Depositary Shares ("ADSs").

Preemptive rights may not be available to holders of ADRs.

The Bank's by-laws and Colombian law require that, whenever the Bank issues new shares of any outstanding class, it must offer the holders of each class of shares (including holders of ADRs) the right to purchase a number of shares of such class sufficient to maintain their existing percentage ownership of the aggregate capital stock of the Bank. These rights are called preemptive rights. United States holders of ADRs may not be able to exercise their preemptive rights through The Bank of New York Mellon, which acts as depositary (the "Depositary") for the Bank's ADR facility, unless a registration statement under the Securities Act is effective with respect to such rights and class of shares or an exemption from the registration requirement thereunder is available. Although the Bank is not obligated to, it intends to consider at the time of any rights offering the costs and potential liabilities associated with any such registration statement, the benefits to the Bank from enabling the holders of the ADRs to exercise those rights and any other factors deemed appropriate at the time, and will then make a decision as to whether to file a registration statement. Accordingly, the Bank might decide not to file a registration statement in some cases. In connection with its recent rights offering in January, 2012, the Bank did not file such a registration statement.

To the extent holders of ADRs are unable to exercise these rights because a registration statement has not been filed and no exemption from the registration requirement under the Securities Act is available, the Depositary may attempt to sell the holders' preemptive rights and distribute the net proceeds from that sale, if any, to such holders. The Depositary, after consulting with the Bank, will have discretion as to the procedure for making preemptive rights available to the holders of ADRs, disposing of such rights and making any proceeds available to such holders. If by the terms of any rights offering or for any other reason the Depositary is unable or chooses not to make those rights available to any holder of ADRs, and if it is unable or for any reason chooses not to sell those rights, the Depositary may allow the rights to lapse. Whenever the rights are sold or lapse, the equity interests of the holders of ADRs will be proportionately diluted.

The Bank's preferred shares have limited voting rights.

The Bank's corporate affairs are governed by its by-laws and Colombian law. Under the by-laws and Colombian law, the Bank's preferred stockholders may have fewer rights than stockholders of a corporation incorporated in a U.S. jurisdiction. Holders of the Bank's ADRs and preferred shares are not entitled to vote for the election of directors or to influence the Bank's management policies. Under the Bank's by-laws and Colombian corporate law, holders of preferred shares (and, consequently, holders of ADRs) have no voting rights in respect of preferred shares, other than in limited circumstances as described in "Item 10. Additional Information – B. Memorandum and Articles of Association – Description of Share Rights, Preferences and Restrictions – Voting Rights – Preferred Shares".

Holders of the Bank's ADRs may encounter difficulties in the exercise of dividend and voting rights.

Holders of the Bank's ADRs may encounter difficulties in the exercise of some of their rights with respect to the shares underlying ADRs. If the Bank makes a distribution to holders of underlying shares in the form of securities, the Depositary is allowed, in its discretion, to sell those securities on behalf of ADR holders and instead distribute the net proceeds to the ADR holders. Also, under some circumstances, ADR holders may not be able to vote by giving instructions to the depositary in those limited instances in which the preferred shares represented by the ADRs have the power to vote.

Relative illiquidity of the Colombian securities markets may impair the ability of an ADR holder to sell preferred shares.

The Bank's common and preferred shares are listed on the Colombian Stock Exchange, which is relatively small and illiquid compared to stock exchanges in major financial centers. In addition, a small number of issuers represent a disproportionately large percentage of market capitalization and trading volume on the Colombian Stock Exchange. A liquid trading market for the Bank's securities might not develop on the Colombian Stock Exchange. A limited trading market could impair the ability of an ADR holder to sell preferred shares (obtained upon withdrawal of such shares from the ADR facility) on the Colombian Stock Exchange in the amount and at the price and time such holder desires, and could increase the volatility of the price of the ADRs.

American Depositary Receipts ("ADRs") do not have the same tax benefits as other equity investments in Colombia.

Although ADRs represent Bancolombia's preferred shares, they are held through a fund of foreign capital in Colombia which is subject to a specific tax regulatory regime. Accordingly, the tax benefits applicable in Colombia to equity investments, in particular those relating to dividends and profits from sale, are not applicable to ADRs, including the Bank's ADRs. For more information see "Item 10. Additional Information. –E. Taxation –Colombian Taxation".

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Bancolombia is Colombia's leading financial institution, with a presence in other jurisdictions such as Panama, El Salvador, Puerto Rico, Guatemala, the Cayman Islands, Peru and the United States, providing a wide range of financial products and services to a diversified individual, corporate, and Government customer base throughout Colombia, Latin America and the Caribbean region.

Bancolombia is a stock company (*sociedad comercial por acciones, de la especie anónima)* domiciled in Medellín, Colombia and operates under Colombian laws and regulations, mainly the Colombian Code of Commerce and the Financial Statute - Decree 663 of 1993 and Decree 2555 of 2010.

Bancolombia was incorporated in Colombia in 1945, under the name Banco Industrial Colombiano S.A. or “BIC”, and is incorporated until 2044. In 1998, the Bank merged with Banco de Colombia S.A., and changed its legal name to Bancolombia S.A. On July 30, 2005, Conavi and Corfinsura merged with and into Bancolombia, with Bancolombia as the surviving entity. Through this merger, Bancolombia gained important competitive advantages, as Conavi and Corfinsura were two of the top financial institutions in the Colombian market at the time. Conavi, a mortgage bank in Colombia and one of the strongest in retail operations, significantly increased the Bank’s participation and know-how in these specific markets. On the other hand, Corfinsura, then the largest financial corporation in Colombia and highly regarded for its expertise in handling large and mid-sized corporate credit and financial services, its investment bank and its modern and diversified treasury department, materially strengthened Bancolombia’s multi-banking franchise.

In May 2007, Bancolombia Panamá acquired Banagrícola, which controls several subsidiaries, including Banco Agrícola in El Salvador, and is dedicated to banking, commercial and consumer activities and brokerage. Through its first international acquisition, Bancolombia gained a leadership position in the Salvadorian market.

Since 1995, Bancolombia has maintained a listing on the NYSE, where its ADSs are traded under the symbol “CIB”, and on the Colombian Stock Exchange, where its preferred shares are traded under the symbol “PFBCOLOM”. Since 1981 Bancolombia’s common shares have been traded on the Colombian Stock Exchange under the symbol “BCOLOMBIA”. See “Item 9. The Offer and Listing”.

Bancolombia has grown substantially over the years, both through organic growth and acquisitions. As of December 31, 2012, Bancolombia had, on a consolidated basis:

COP 97,916 billion in total asset;

COP 66,739 billion in total net loans and financial leases;

COP 64,159 billion in total deposits; and

COP 11,607 billion in stockholders’ equity.

Bancolombia’s consolidated net income for the year ended December 31, 2012 was COP 1,702 billion, representing an average return on equity of 15.97% and an average return on assets of 1.92%.

The address and telephone numbers of the Bank's headquarters are as follows: Carrera 48 # 26-85, Medellín, Colombia; telephone + (574) 404-1837. Our agent for service of process in the United States is Puglisi & Associates, presently located at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

RECENT DEVELOPMENTS

Notes public offering

On September 11, 2012, Bancolombia issued USD 1.2 billion of its 5.125% Subordinated Notes due 2022 in a U.S. registered public offering. Of the aggregate principal amount, USD 50 million were placed in the Asian market hours, and USD 1.15 billion were placed in the international markets. The 10-year maturity and 5.125% Subordinated Notes priced at 99.421%.

Disposition of Asesuisa

On September 27, 2012, Bancolombia completed the sale of Asesuisa, an insurance company in the Republic of El Salvador. After obtaining all the required authorizations from the regulators in Colombia and El Salvador, Banagrícola S.A. and Inversiones Financieras Banco Agrícola S.A., subsidiaries of Bancolombia, sold to Seguros Suramericana S.A., a Panamanian company linked to Grupo de Inversiones Suramericana, 97.03% of its shares of capital stock of Asesuisa. The total amount received by Banagrícola S.A. and Inversiones Financieras Banco Agrícola S.A. was USD 98 million. This transaction was completed pursuant to the Purchase and Sale agreement entered into in 2011.

Exchange Offer

On October 10, 2012, Bancolombia announced the results of the private offer to exchange any and all of its outstanding Subordinated Notes due 2017 for Subordinated Notes due 2022, pursuant to an offering memorandum dated September 10, 2012. An aggregate principal amount of USD 200 million of subordinated notes due 2017, representing 50.12% of the USD 400 million aggregate outstanding principal amount of such notes, was tendered and accepted pursuant to the offer.

Acquisition of Interbolsa S.A. SCB Contract Positions on Public Bonds

On November 6, 2012 Interbolsa S.A. Sociedad Comisionista de Bolsa, a brokerage firm, assigned to Bancolombia S.A. its outstanding contractual positions linked to the performance of public bonds. The face value of the assigned outstanding contractual positions totaled approximately COP 1.6 trillion. The net market value of the underlying public bonds was COP 113,400 million. Bancolombia is responsible for the settlement of the outstanding buy/sell contracts entered into by Interbolsa's proprietary trading desk. The assignment does not include client positions. This transaction was executed with the prior approval of the SFC which exercises administrative control over the stock brokerage firm as its Colombian regulator, as well as with the consideration of Bancolombia Group's interest in contributing to the stability of the Colombian stock market.

Opening of Branch in Panama

On November 22, 2012, Bancolombia announced the opening of its new branch in Panama. Through this branch Bancolombia will provide Panamanian corporate clients with specialized credit and investment services. The branch in Panama will coexist with Bancolombia's subsidiary, Bancolombia Panamá S.A., which has been operating with an international banking license in Panama for more than 40 years providing certain financial services to non-Panamanian clients.

Acquisition of Grupo Agromercantil Holding

On December 18, 2012, Bancolombia, through its subsidiary Bancolombia Panamá and BAM Financial Corporation (BFC) entered into a stock purchase agreement, pursuant to which Bancolombia Panamá will purchase from BFC a 40% of the capital stock of the Panamanian company Grupo Agromercantil Holding. Grupo Agromercantil Holding owns the financial conglomerate Grupo Financiero Agromercantil of Guatemala, which includes Banco Agromercantil BAM of Guatemala, Mercom Bank Ltd, an offshore bank based in Barbados, and Seguros Agromercantil of

Guatemala, among others. Agromercantil has total assets of approximately USD 2,233 million. Bancolombia Panamá will pay a total of USD 216 million to BFC for the 40% interest. Following the transaction, BFC will continue to hold 60% of the capital stock of Grupo Agromercantil Holding. Completion of the transaction is subject to regulatory approvals in Colombia, Guatemala, Barbados and Panama and the satisfaction of other conditions. Bancolombia Panamá and BFC entered into a shareholders agreement the enforceability of which is subject to the completion of the transaction and that provides, among other things, for the acquisition by Bancolombia Panamá of a controlling interest in Grupo Agromercantil Holding in the medium term.

Legal proceeding against Banco Agrícola in El Salvador

On December 19, 2012 a decision was issued by the courts of El Salvador in a lawsuit against Banco Agrícola granting damages to the plaintiff in an amount of USD 366 million for the alleged failure of Banco Agrícola to return certain assets that were attached in a debt collection lawsuit. The judicial decision was appealed by Banco Agrícola on December 21, 2012 and the request for appeal has been accepted. In the event that the appeal is not favorable to Banco Agrícola it could further appeal the matter through an extraordinary recourse (*recurso de casacion*) to the civil chamber of the Supreme Court of Justice of El Salvador. Management, considering the advice of Banco Agricola's external legal counsel, believes that the appeal will be favorable to Banco Agrícola and any contingency derived from this lawsuit is deemed remote.

Purchase of HSBC Bank (Panama) S.A.

On February 19, 2013 Bancolombia S.A. entered into an agreement with HSBC Holdings plc's Latin American holding company, HSBC Latin America Holdings (UK) Limited ("HSBC"), to acquire HSBC Bank (Panama) S.A. ("HSBC Panama"). The agreement provides for Bancolombia to pay total cash consideration of USD 2.1 billion, subject to certain customary adjustments based upon estimated net asset value at completion of USD 700 million, in exchange for 100% of common shares, and 90.1% of preferred shares of HSBC Panama. The transaction is aligned with Bancolombia's strategy to expand its international operations by investing in the growing, solid and profitable market of Panama, where it has been present for over 40 years. The agreement provides for the acquisition of HSBC Panama's subsidiaries, including its securities, trust, consumer finance businesses and an insurance company. The transaction will not include the subsidiaries of HSBC Panama in Colombia (HSBC Colombia S.A. and HSBC Fiduciaria S.A.), which are being sold to a third party by HSBC as part of a previously announced transaction. The transaction is expected to close during the third quarter of 2013, subject to receipt of required regulatory approvals and other customary closing conditions.

Pursuant to the terms of the agreement, HSBC has agreed to enter into a transitional services agreement to provide certain customary transitional services to Bancolombia for a period of time after closing.

Wind-down of Bancolombia's Miami Agency

On March 5, 2013, Bancolombia announced its decision to wind-down the business and operations of its agency in Miami, Florida. This decision was mainly based on the strategy to focus our international operations on other markets. The wind-down process is expected to be completed by the third quarter of 2013.

PUBLIC TAKEOVER OFFERS

During 2012, and as of the date of this Annual Report, there have been no public takeover offers by third parties with respect to the Bank's shares or by the Bank in respect to another company's shares.

CAPITAL EXPENDITURES AND DIVESTITURES

During the past three years, Bancolombia has made significant capital expenditures aimed at increasing the Bank's productivity, footprint and cost efficiency. These expenditures include the improvements made to the Bank's information technology platform and those related to new ATMs and branches.

During 2012, total capital expenditures amounted to COP 154 billion. Such investments were mainly focused on an IT Platform renewal project (COP 97 billion), the expansion of the Bank's branch and ATM network (COP 12 billion), the purchase of hardware for the expansion, updating and replacing current IT equipment (COP 25 billion), and other investments, such as an anti-fraud system and fixed assets (COP 20 billion).

In September 2010, the Board of Directors authorized Bancolombia to proceed with negotiations with Grupo de Inversiones Suramericana S.A. and Protección S.A. Sociedad Administradora de Fondos de Pensiones y Cesantías regarding the sale of Bancolombia's ownership interests, held through foreign subsidiaries, in AFP Crecer, Asesuisa and Asesuisa Vida in El Salvador. The stock purchase agreements were executed in January 2011. The AFP Crecer transaction was authorized by regulators in El Salvador and Colombia and was closed in the second half of 2011. The Bank recognized a pre-tax gain on sale of investments of equity securities of COP 138 billion in connection with the AFP Crecer transaction. The Asesuisa and Asesuisa Vida transaction was authorized by regulators in El Salvador and Colombia and closed in the second half of 2012. The Bank recognized a pre-tax gain on sale of investments of equity securities of COP 81 billion in connection with the Asesuisa and Asesuisa Vida transaction.

Bancolombia received USD 104 million for the sale of AFP Crecer and USD 98 million for the sale of Asesuisa and Asesuisa Vida**.**

In 2012, Bancolombia invested USD 150 million in Sura Asset Management España S.L., a holding company that owns pension plan management institutions in Latin America. Investments in other companies during 2012 amounted COP 85 billion.

In 2012, Bancolombia funded its capital expenditures with its own resources and plans to continue to fund those currently in progress in the same manner.

During 2011, total capital expenditures amounted to COP 197 billion. Such investments were mainly focused on an IT Platform renewal project (COP 107 billion), the expansion of the Bank's branch and ATM network (COP 41 billion), the purchase of hardware for the expansion, updating and replacing current IT equipment (COP 36 billion), and other investments, such as an anti-fraud system and fixed assets (COP 13 billion).

During 2010, total capital expenditures amounted to COP 297 billion. Such investments were mainly focused on the IT Platform renewal project (COP 124 billion), the expansion of the Bank's branch and ATM network (COP 69 billion), the purchase of hardware for the expansion, updating and replacing of current IT equipment (COP 32 billion), and other investments, such as an anti-fraud system and fixed assets (COP 77 billion).

During 2013, the Bank expects to invest approximately COP 160 billion as follows: COP 99 billion in connection with the IT Platform renewal project, COP 15 billion in connection with the expansion of the Bank's branch and ATM network, COP 7 billion in connection with the purchase of hardware for the expansion, updating and replacement of the current IT equipment and COP 39 billion in connection with other investments, such as an anti-fraud system and fixed assets. These figures represent only an estimate and may change according to the continuing assessment of the Bank's project portfolio. No assurance can be given, however, that all such capital expenditures will be made and, if made, that such expenditures will be in the amounts currently expected.

The following table summarizes the Bank's capital expenditures and divestitures in interests in other companies for the years ending December 31, 2012, 2011 and 2010:

	As of December 31,			
Capital Expenditures (COP million)	***2012***	***2011***	***2010***	***Total***
Sura Asset Management España S.L.	COP 266,772	COP -	COP -	COP 266,772
Inversiones Inmobiliaria Arauco Alameda S.A.	27,645	3,479	-	31,124
UFF Móvil S.A.S.	21,000	-	-	21,000
Avefarma S.A.S.	20,423	-	-	20,423
Panamerican Farmaceutical Holding Inc.	6,846	-	-	6,846
Glassfarma Tech S.A.S.	4,360	-	-	4,360

Construcciones El Cóndor	3,469	-	-	3,469
Grupo Odinsa S.A.	562	190,516	-	191,078
Fondos de Pensiones y de Cesantías Protección S.A.	-	64,891	-	64,891
Enka de Colombia S.A.	-	9,523	-	9,523
Renting Colombia S.A.	-	-	39,104	39,104
Leasing Perú S.A.	-	-	25,741	25,741
Inversiones CFNS S.A.S.	-	-	11,441	11,441
Vivayco S.A.S.	-	-	1,593	1,593
FiduPerú S.A. Sociedad Fiduciaria	-	-	1,561	1,561
Fondo de Inversión en arrendamiento operativo	-	-	1,076	1,076
Banagrícola S.A.	-	-	93	93
Fiduciaria Bancolombia S.A.	-	-	69	69
Inversiones Financieras Banco Agrícola S.A.	-	-	68	68
Others	861	2,034	3,349	6,244
Total Expenditures	**COP351,938**	**COP270,443**	**COP84,095**	**COP706,476**

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Capital Divestitures (COP million)	***2012***	***2011***	***2010***	***Total***
Asesuisa[1]	COP 173,285	COP -	COP -	COP 173,285
Todo Uno Services Inc.[1]	3,161	-	-	3,161
Todo Uno Colombia[1]	228	-	-	228
AFP Crecer[1]	-	203,072	-	203,072
Promotora La Alborada [1]	-	1,124	-	1,124
Promotora de Hoteles Medellín S.A.[1]	-	145	-	145
Banco Agrícola Panamá[2]	-	-	51,677	51,677
Inversiones IVL S.A.[1]	-	-	33,895	33,895
Metrotel Redes S.A.[1]	-	-	30,000	30,000
Bolsa de Valores de Colombia[1]	-	-	5,886	5,886
Valores Simesa S.A.[1]	-	-	5,184	5,184
Others [1]	-	57	4,042	4,099
Total Divestitures	**COP 176,674**	**COP 204,398**	**COP 130,684**	**COP 511,756**

(1) Investments sold

(2) Capital decrease

B. BUSINESS OVERVIEW

B.1. GENERAL

COMPANY DESCRIPTION, PRODUCTS AND SERVICES

Bancolombia is a full service financial institution that offers a wide range of banking products and services to a diversified individual and corporate customer base of more than 7 million customers. Bancolombia delivers its products and services through its regional network comprising Colombia's largest non-Government owned banking network, El Salvador's leading financial conglomerate, off-shore banking subsidiaries in Panama, Cayman and Puerto Rico, as well as an agency in Miami and subsidiaries in Peru.

Bancolombia and its subsidiaries offer the following products and services:

Savings and Investment: Bancolombia offers its customers checking accounts, savings accounts, fixed term deposits and a diverse variety of investment products that fit the specific transactional needs of each client and their income bracket. The Bank also offers its clients and users the service of tax collection in all its branches, and through electronic channels.

- **Debit cards:** A product designed for people to manage their cash, deposited in a savings account. ATM's and electronic payment channels are widely available in Colombia. Different savings accounts are designed for several profiles of customers: "Young" segment, payroll savings, programmed savings, and preferential segment.
- **Checking accounts:** Deposits can be made in cash or checks. This account grants overdraft protection for eventual cash flow needs. All Bancolombia's ATMs and electronic payment systems are available to checking account customers.
- **Fixed term certificates of deposit: (CDT) Certificados de Depósito a Término.** An investment option for individual clients seeking to deposit their capital at a fixed or variable interest rate; the variable interest rate depends on the term of the deposit. Interest can be reinvested in the CDT or disbursed to the owner of the capital at agreed intervals.

Financing: Bancolombia offers its customers a wide range of credit alternatives which include: trade financing, loans funded by domestic development banks, working capital loans, credit cards, personal loans, vehicle loans, payroll loans and overdrafts, among others. It also offers the following financial specialized products:

- **Personal Loan:** Is a credit line of free investment destination that allows an individual earning an income greater than two times the minimum wage to obtain credit from the bank without use limitations
- **Prestanómina:** Is a credit line attached to an authorized individual payrollamount**.**
- **Prestanómina FOPEP:** Is a credit line attached to an authorized individual payroll figure for retired employees in the FOPEP (Public Pension Fund).

- **Auto Loans (new cars):** Loan designed for clients interested in purchasing a new car for private or public use. The vehicle financed is used as collateral for the loan.
- **Auto Loans (used cars):** Loan designed for clients interested in purchasing a used car for private or public use. The vehicle financed is used as collateral for the loan.
- **Credit Cards:** Bancolombia offers several credit cards with three different franchises as well as private brands: MasterCard, Visa, and American Express (American Express is an exclusive franchise in Colombia for Bancolombia). These products are divided in different segments of the market, personal and corporate, designed to satisfy the needs of different customers with different purchase habits and income levels. All the traditional classifications are commercialized: Black, Platinum, Gold, Traditional, among others.

Mortgage Banking: Bancolombia is a leader in the mortgage market in Colombia, providing full financial support to construction firms and mortgages for individuals and companies.

- **Housing Loan:** Is a loan designed for individuals interested in purchasing homes. The loan uses a mortgage on the purchased property as collateral.
- **Commercial Property Loan:** This loan is specialized in providing funds for purchase of properties, the use of which is not related to habitation; such as, commercial properties, offices, lands for construction (restrictions may apply), warehouses, and others.
- **Private General Construction Loan:** This is a general construction loan for individuals and businesses for new construction of properties, the use of which is not related to habitation. Periodic disbursements are given to the client as the project advances. These loans are granted depending on the solicitor's periodic income or cash flow.

Factoring: Bancolombia offers its clients solutions for handling their working capital and maximizing their asset turnover through comprehensive solutions to manage their accounts receivable financing.

- **Factoring for Suppliers:** For corporate clients, this product provides the funds to pay debt with suppliers at a fixed interest rate and with frequent periodic payments.
- **Export and Import Factoring:** Acquire cash flow based on invoices related to international trade at a specific asking price.

Financial and Operating Leases: Bancolombia, primarily through Leasing Bancolombia and its subsidiaries, offers financial and operating leases specifically designed for acquiring fixed assets.

- **Home Leases:** Bancolombia provides an alternative to its clients to acquire their own real estate property. With a low initial payment, clients of the lease pay periodic fees, leaving a portion of the total capital to the end of the term as a possible purchase option.
- **Vehicle Leases:** Bancolombia provides an alternative to its clients to purchase an automobile. With a low initial payment, clients of the lease pay periodic fees, leaving a portion of the total capital to the end of the term as a possible purchase option. It can also help companies, whose activity is connected to the transportation of goods and

people, to acquire new vehicles for their operations.

- **Infrastructure Leases:** Bancolombia provides an alternative to its clients to invest in infrastructure projects needed for the corporate and industrial segment. With a low initial payment, clients of the lease pay periodic fees, leaving a portion of the total capital to the end of the term as a possible purchase option.

Capital Markets: Bancolombia assists its clients in mitigating market risk through hedging instruments such as:

- **Foreign exchange forwards**
- **Interest rate swaps**
- **Cross currency swaps**
- **European style options**.

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The Bank also performs inter-bank lending, repurchase agreements (repos), foreign exchange transactions, as well as sovereign and corporate securities sales and trading. Bancolombia is an active player in the “Market-makers” scheme for trading Colombian sovereign debt (TES bonds).

Valores Bancolombia and Valores Bancolombia Panamá offer direct access to local and international capital markets, through a full range of Brokerage and Investment Advisory Services that cover:

- **Equities**
- **Fixed income**
- **Foreign currencies**
- **Futures**
- **Third party asset management vehicles**
- **Structured products.**

Fiduciaria Bancolombia and Valores Bancolombia also offer a wide range of proprietary asset management products, such as Mutual Funds, Private Equity Funds, and Privately Managed Investment Accounts for institutional, corporate and private bank clients.

Comprehensive Cash Management: Bancolombia provides support to its clients through efficient cash management, offering a portfolio of standard products that allows clients to make payments and collections through different channels. Our payables and receivables services provide solutions to process and reconcile transactions accurately, efficiently and in a timely manner. We also offer a comprehensive Reporting Solution, providing the data that is required by customers’ internal processes. In addition, our Bank designs and creates custom-made products in order to address our clients’ specific payment and collection needs, including a variety of real time web services, straight through processing (STP) and messaging through Swift Net solutions.

Foreign Currency: Bancolombia offers its clients specialized solutions to satisfy their investment, financing and payment needs with regard to foreign currency transactions. The Bank also provides trade finance solutions with products such as Letters of Credit, Standby Letters of Credit and Bills Collection.

Bancassurance and Insurance: Bancolombia distributes diverse insurance products (life, and homeowner’s insurance) offered by Compañía Suramericana de Seguros, one of the main insurance companies in Colombia. In addition, Bancolombia offers unemployment insurance issued by Sure General Cardif Colombia S.A. In El Salvador, Banco Agricola offers a comprehensive portfolio of insurance products from Asesuisa (auto insurance, personal accident and health insurance, fire and associated perils insurance, cargo insurance, among others) and Asesuisa Vida (life insurance).

Investment Banking: Bancolombia offers through its subsidiary Banca de Inversión a wide variety of value-added services that allows it to advise and assist companies from all economic sectors, including in areas relating to project finance, capital markets, capital investments, M&A, restructurings and corporate lending, etc.

Trust and Fiduciary Services: Bancolombia offers through its subsidiary Fiduciaria Bancolombia a broad and diversified portfolio of services for companies and individuals, meeting their needs with tailored services.

NEW PRODUCTS OR SERVICES

Bancolombia continues its efforts to diversify and improve its product portfolio. Below is a brief description of the new products and services introduced in 2012:

Savings Account in Puerto Rico: Savings account in USD offered by Bancolombia Puerto Rico to individuals with a minimum deposit requirement of USD 7,000 and a monthly interest payment.

Automated payments funded by coin and currency collections: Allows customers who use Coin and Currency Collection to use these resources to fund automated and tax payments, uploading payment instructions through their e-banking platform.

Paypass Debit card: Is a new "contactless" payment system attached to both savings and checking accounts. It is unique in the Colombian market, allowing users to pass their cards in special establishments without having to type their passwords for purchases worth less than COP 39,300 per use, and at a maximum of COP 600,000 daily.

Domestic Remittances: improved service designed to offer our customers the possibility to transfer money from branch to branch within the Bancolombia network.

Sector Fund: open-end collective investment fund with compartments, where each compartment invests in a specific sector of the economy such as energy, mining, financial, etc.

IBR and IPC BVC Futures: money market and inflation futures contracts traded on Colombian Stock Exchange (*Bolsa de Valores de Colombia*, "the BVC").

Forward Novado: possibility to settle and clear over-the-counter USD/COP forward contracts through Colombian Central Credit Risk Clearing-House.

Plan Cuenta Pensión: Savings account designed to receive the pension payments made to the customer by a Pension Fund.

Swift Fileact: Allows secure and reliable transfer of files between corporate clients and Bancolombia, exchanging batches of Swift Structured Financial Messages and Bancolombia Proprietary Standard Formats, required for collection and payments processes. Multipayments PSE: Payment Transactional Portal, available on Bancolombia's web site, allows access to several payment agreements and is linked to ACH, Colombia's online payment service. PSE is a standard payment service used to make secure online payments between bank accounts. When billers offer PSE as a payment method in their online stores, a direct link is established with the systems of the payer's bank.

Discount of Account Receivables: Financing line for corporate customers known as "massive holders of account receivables". The line of credit is based on a contract where Bancolombia groups several receivables in just one obligation, and acts as factor between the seller and the buyer, doing all the operational process.

Credit line for Environmental Sustainability: Designed for customers who support new processes to optimize energy efficiency, use renewable energy and implement clean production in their businesses. This line of credit offers technical assistance, where experts evaluate and identify projects for the customer, and give advice regarding applicable tax benefits.

Arithmetic Asian Options: This product is a cash-settled option that pays the difference between the average rates of the underlying asset on a specific set of dates over a period at a predetermined strike rate.

Student Loan: is a credit designed for clients willing to finance graduate and undergraduate education programs in certified universities. The minimum withdrawal amount under the facility is COP 1,000,000, and a maximum of 250 SMMLV. Credit possibilities vary depending on the client's debt capacity.

MAIN LINES OF BUSINESS

The Bank manages its business through eight main operating segments: Banking Colombia, Banking El Salvador, Leasing, Trust, Investment Banking, Brokerage, Off Shore, and All other.

Until 2011 Bancolombia also included "Pension and Insurance" as one of its segments. In 2012, Bancolombia closed the sale of those units and does not report numbers under the "Pension and Insurance" segment anymore.

For a description and discussion of these segments, please see “Item 5. Operating and Financial Review and Prospects – A. Operating Results – Results by Segment”.

B.2. OPERATIONS

See Note 31 – section (y) to the Bank’s consolidated financial statements as of December 31, 2012 included in this Annual Report for a description of the principal markets in which the company competes, including a breakdown of total revenues by category of activity and geographic market for each of the last three financial years.

B.3. SEASONALITY OF DEPOSITS

Historically, the Bank has experienced some seasonality in its demand deposits, with higher average balances at the end of the year and lower average balances in the first quarter of the year. This behavior is explained primarily by the increased liquidity provided by the Central Bank and the Colombian National Treasury at year end, as economic activity tends to be higher during this period resulting in a greater number of transactions. However, we do not consider the seasonality of demand deposits to have a significant impact on our business.

B.4. RAW MATERIALS

The Bank on a consolidated basis is not dependent on sources or availability of raw materials.

B.5. DISTRIBUTION NETWORK

Bancolombia provides its products and services through a traditional branch network, sales and customer representatives as well as through mobile branches (or “*Puntos de Atención Móviles*”), banking correspondents, an ATM network, online and computer banking, telephone banking, mobile phone banking services, and PACs, among others. In addition, as of December 31, 2012, Bancolombia had a sales force of approximately 10,520 employees and transactions performed through electronic channels represented more than 88% of all transactions in 2012.

The following are the distribution channels offered by Bancolombia as of December 31, 2012.

Branch Network

As of December 31, 2012, Bancolombia's consolidated branch network consisted of 992 offices which included 822 from Bancolombia, 101 from Banco Agrícola and 69 from other subsidiaries.

Company*	Number of branches 2012	Number of branches 2011	Number of branches 2010
Bancolombia S.A.(unconsolidated)	822	779	736
Bancolombia Panamá	1	1	1
Bancolombia Miami (Agency)	1	1	1
Bancolombia Panamá (Branch)	1	-	-
Leasing Bancolombia	20	16	17
Renting Colombia	17	16	16
Valores Bancolombia	5	8	9
Valores Bancolombia Panamá S.A.	1	1	1
Banca de Inversión	2	2	2
Fiduciaria Bancolombia	4	6	6
Tuya S.A, Compañía de Financiamiento (previously Sufinanciamiento S.A.)	5	5	6
Bancolombia Puerto Rico International Inc.	1	1	1
Factoring Bancolombia	1	1	1
Arrendamiento Operativo CIB S.A.C. (1)	1	2	5
Fondo Inversión Arrend.Operativo Renting Perú I	1	1	1
Inversiones CFNS S.A.S.	2	2	1
Banco Agrícola	101	101	102
Arrendadora Financiera S.A.	1	1	1
Credibac S.A. de C.V	-	1	1
Valores Banagricola, S.A. de C.V.(2)	1	1	1
AFP Crecer S.A.(3)	-	-	6
Aseguradora Suiza Salvadoreña S.A.(4)	-	1	1
Asesuisa Vida S.A.(4)	-	1	1
Uff Móvil S.A.S.	1	-	-
Capital Investments SAFI S.A.	1	1	1
Transportempo S.A.S	1	1	1
Leasing Perú S.A.	1	1	1
FiduPerú S.A. Sociedad Fiduciaria (previously Fiduciaria GBC S.A.)	1	1	1
Total	993	952	921

*For some subsidiaries, their central office is considered a branch.

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(1) Renting Perú S.A.C. changed its legal name to Arrendamiento Operativo CIB S.A.C. The offices operated for the Localiza franchise in Peru, are included in the total number of branches reported for Arrendamiento Operativo CIB S.A.C.

(2) Bursabac S.A. de C.V changed its legal name to Valores Banagricola, S.A. de C.V.

(3) AFP Crecer S.A. was sold on November 21, 2011, and it is no longer part of the organization.

(4)

Aseguradora Suiza Salvadoreña S.A. and Asesuisa Vida S.A. were sold on September 27, 2012, and are no longer part of the organization.

Banking Correspondents

A banking correspondent is a platform which allows non-financial institutions, such as stores open to the public, to provide financial services and transactions in towns where banks and financial institutions have limited or no presence. As of December 31, 2012, there were a total of 1,143 banking correspondents.

Puntos de Atención Móviles (“PAM”)

PAMs consist of commercial advisors who visit small towns periodically to offer Bancolombia’s products and services. As of December 31, 2012, there were a total of 732 PAMs.

Kiosks

Kiosks, used in El Salvador, are located inside the Bank’s agencies, malls, and other public places and are used to provide the Bank’s clients the possibility of conducting a variety of self-service transactions. As of December 31, 2012, there were a total of 204 kiosks.

Automatic Teller Machines (“ATM”)

Bancolombia has a total of 3,827 ATMs, including 3,333 in Colombia and 494 in El Salvador.

Online/Computer Banking

We offer multiple online and computer-based banking alternatives designed to fit the specific needs of our different client segments. Through a variety of platforms (computer and Internet-based solutions) our clients can review their account balances and monitor transactions in their deposit accounts, loans, and credit cards, make virtual term investments, access funds from pre-approved loans, make payroll and supplier payments, make purchases and bill payments, negotiate stocks, learn about products and services and complete other transactions in real time.

Telephone Banking

We provide customized and convenient advisory services to customers of all segments through automatic interactive voice response (IVR) operations and a 24/7 contact center.

Punto de Atención Cercano ("PAC") or Electronic Funds Transfer at Point of Sale ("EFTPOS")

Through our own network of 8,225 PACs our customers may carry out a variety of transactions including transfer of funds, bill payments, and changes to credit and credit card PINs.

Mobile Phone Banking Service

Our clients can conduct a variety of transactions using their cell phones, including fund transfers between Bancolombia accounts, account balance inquiries, purchase of prepaid cell phone air time and payment of bills and invoices.

B.6. PATENTS, LICENSES AND CONTRACTS

The Bank is not dependent on patents or licenses, nor is it dependent on any industrial, commercial or financial contracts (including contracts with customers or suppliers).

However, there are two material contracts with service providers that have significant relevance to the Bank's business:

As a result of the disposal of Todo1 Services, Inc. in August, 2012, the online banking platform of the Bank is no longer provided by an affiliate, and is currently provided by Todo1 Services Inc., a third party with whom the Bank has entered into a service-level agreement. As of December 31, 2012, Todo 1 Services, Inc. is the sole service provider for the Bank's online banking platform and in the event it ceased to provide such service, the Bank would need to engage a new service provider with whom it would have to negotiate a new service-level agreement.

The Bank's call center and telephone banking services are rendered by Allus Global BPO ("Business Process Outsourcing") Center, a company specialized in providing BPO solutions. If Allus Global BPO Center ceased to provide such services, the Bank would need to engage a new service provider with whom it would have to negotiate a new service-level agreement.

The Bank's check processing and settlement service is provided by IQ Outsourcing S.A., a Colombian company specialized in processing checks issued by customers of the Colombian financial institutions, through the Central Bank. If IQ Outsourcing S.A. ceased to provide such service, the Central Bank could impose fines to the Bank, and the Bank would need to engage a new service provider for such services.

The replacement of Todo1 Services Inc., Allus Global BPO Center or IQ Outsourcing S.A. as service providers of the Bank could be delayed or result in a variation of the costs associated with such services due to negotiations with potential new providers.

B.7. COMPETITION

Description of the Colombian Financial System

Overview

In recent years, the Colombian banking system has been undergoing a period of consolidation given the series of mergers and acquisitions that have taken place within the sector. More specifically, several mergers and acquisitions took place in 2005, including the Conavi/Corfinsura merger, the acquisition of Banco Aliadas by Banco de Occidente, the merger of Banco Tequendama and Banco Sudameris, as well as the merger of the Colmena and the Caja Social banks. The trend towards mergers and acquisitions continued throughout 2006, with the completion of certain transactions first announced during 2005. These include the acquisition of Banco Superior by Davivienda, of Banco Granahorrar by BBVA Colombia and of Banco Unión by Banco de Occidente. Also during 2006, Banco de Bogota acquired Megabanco and Davivienda announced its acquisition of Bancafé. In 2007, HSBC acquired Banitsmo and Bancolombia also completed the acquisition of Banagrícola in El Salvador. For more information on the acquisition of Banagrícola, see “Item 4. Information on the Company – 4.A. History and Development of the Company”. In 2008 the Royal Bank of Scotland (RBS) purchased the Colombian arm of ABN Amro Bank and General Electric (GE) Money acquired a 49.7% stake in Colpatria, with an option of increasing this stake by another 25% by 2012. However, in May of 2010, Group Colpatria repurchased this 49.7% stake and in October of 2011, Canadian Scotiabank purchased Colpatria’s 51% for US$ 1,000 million. Also, in 2010, Banco de Bogotá acquired BAC-Credomatic, which has operations in several countries in Central America, for a reported purchase price of COP 3.53 billion.

In 2012, the Colombian banking system continued its process of internationalization; the most relevant events related to the presence of foreign banking in Colombia were the acquisition by Corpbanca (Chile) of Banco Santander Colombia S.A. in July 2012 for USD 1,225 million and the announcement in October 2012 to purchase Helm Bank for USD 1,300 million. The stock market also showed some changes with the acquisition of 100% of Bolsa y Renta by BTG Pactual, a Brazilian broker-dealer, for USD 52 million. It's also highlighted the arrival of financial company Opportunity from Canada in July 2012, as well as Banco Itaú, the largest of Latin America by assets in November 2012. Grupo Bancolombia was also active in the international markets; it continued its growth in Central America with the purchase of 40% of Grupo Financiero Agromercantil in Guatemala, for USD 216 million and it opened a branch office in Panama (Bancolombia Panamá) in order to offer services to the local Panamanian market. Colombian banks were also active in intenational markets; Davivienda purchased the affiliates of HSBC in Costa Rica, Honduras and El Salvador for USD 801 million and GNB Sudameris completed the purchase of the subsidiaries of HSBC in Colombia, Perú, Paraguay and Uruguay for USD 400 million.

As of December 31, 2012, and according to the SFC, the principal participants in the Colombian financial system were the Central Bank, 23 commercial banks (12 domestic private banks, 10 foreign banks, and 1 domestic state-owned bank), 5 finance corporations and 21 financing companies (6 leasing companies and 15 traditional financing companies). In addition, trust companies, cooperatives, insurance companies, insurance brokerage firms, bonded warehouse, special state-owned institutions, pension and severance pay funds also participate in the Colombian financial system.

The Financial Reform Act of 2009 (Law 1328 passed on July 15, 2009) also made important advances towards a multi-banking framework. This new legislation authorized banks to provide merger and acquisition loans and allowed them to conduct financial leasing operations. As a result, some competitors have absorbed their financial leasing subsidiaries into their banking franchises and some leasing companies are in the process of becoming banks.

Financial System Evolution in 2012

During 2012 the Colombian economy experienced moderate growth compared to 2011 which is primarily explained by low growth in domestic demand and the deep contraction in civil infrastructure investments. These indicators suggest a 2012 growth rate of about 4%, which is lower than market expectations. The credit expansion throughout 2012 was lower than that of 2011. The financial system's loans increased by 14.87 % according to SFC, while the rate was 23.39% and 17.52% in 2011 and 2010, respectively. Monetary policy during the first half of the year was restrictive, and the rate of intervention increased over 50bp. In July 2012, the rate was 5.25%. From the second quarter on, the rate of intervention diminished 100bp to close in December 2012 at 4.25%, due to low economic Colombian growth in the third quarter 2012, low inflation during the year and a moderate growth of credit, which led to higher reference interest rates with a gradual increase of about 125bp. The demand for business loans increased by 12.07% for 2012, compared to 18.26% for the previous year. The rising confidence drove up consumer loans, which grew by 17.54% in 2012, lower than the 28.30% in 2011. Mortgage and small business loans continued to perform well, with increases of 23.94% and 19.92% for 2012.

The financial system's level of past-due loans as a percentage of the total loan portfolio increased throughout the year, from 2.47% in December 2011 to 2.86% for the same month in 2012. In addition, coverage, measured as the ratio of allowances to past-due loans, ended 2012 at 166.79%, compared to 191.53% at the end of 2011.

During 2012, lending increased its percentage of financial system's structure. Loans increased from 62.9% of total assets at the end of 2011 to 63.4% at the end of 2012. The investment portfolio, as a percentage of total assets, decreased from 19.7% at the end of 2011 to 19.6% at the end of 2012.

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As of December 31, 2012, the Colombian financial sector recorded COP 370 trillion in total assets, representing a 14.42% increase as compared to the same period in 2011. The Colombian financial system's total composition of assets shows banks with a market share of 90.84%, followed by financing companies with 5.67% and financial corporations with 3.05%.

As of December 31, 2012, the capital adequacy ratio (tier 1 + tier 2) for credit institutions was 16% (including banks, finance corporations and financing companies), which is well above the minimum legal requirement of 9%.

Bancolombia and its Competitors

The following table shows the key profitability, capital adequacy ratios and loan portfolio quality indicators for Bancolombia and its main competitors, as published by the SFC. It is important to note that, in the case of mortgages, loans used in the calculation shown below incorporate the past-due installments, instead of the complete mortgage balance, whenever a mortgage is due in less than 120 days.

	ROE[(1)]		***ROA***[(2)]		***Past-due loans/ Total loans***		***Allowances/ Past-due loans***		***Capital Adequacy***	
	Dec-12	*Dec-11*	*Dec-12*	*Dec-11*	*Dec-12*	*Dec-11*	*Dec-12*	*Dec-11*	*Dec-12*	*Dec-11*
Bancolombia (unconsolidated)	11.17%	13.56%	1.71%	1.9%	2.16%	1.85%	208.21%	236.23%	17.85%	15.5%
Banco de Bogota	14.37%	13.58%	2.72%	2.5%	2.11%	1.64%	155.97%	198.00%	15.86%	15.7%
Davivienda	13.13%	12.32%	1.79%	1.7%	3.27%	3.07%	158.03%	165.29%	17.52%	12.9%
BBVA	15.55%	18.87%	1.45%	1.9%	1.88%	1.78%	208.03%	226.67%	11.27%	12.3%
Banco de Occidente	14.69%	14.56%	2.16%	2.1%	2.33%	2.23%	172.08%	193.81%	11.15%	10.6%
Banco Popular	17.21%	19.65%	2.46%	2.6%	2.11%	2.01%	175.18%	190.68%	11.22%	11.4%
Citibank	12.35%	10.08%	2.33%	1.8%	4.34%	3.01%	127.30%	153.77%	16.94%	16.3%

Source: SFC.

(1) ROE is return on average stockholders' equity.

(2) ROA is return on average assets.

In 2012, Bancolombia ranked first in Colombia and El Salvador in terms of amount of assets, deposits, stockholders' equity and net income**.**

The following tables illustrate the market share of Bancolombia on an unconsolidated basis and its main competitors with respect to various key products, based on figures published by the SFC for the years ended December 31, 2012, 2011 and 2010:

Total Net Loans
Market Share

Total Net Loans – Market Share %	2012	2011	2010
Bancolombia	23.05	21.93	21.66
Banco de Bogotá	13.71	13.63	14.10
Davivienda	12.39	12.75	13.09
BBVA	9.23	9.44	9.57
Banco de Occidente	7.33	7.31	7.40
Banco Popular	5.10	5.11	5.50
Citibank	2.45	2.53	2.78

Source: Ratios are calculated by Bancolombia based on figures published by the SFC.

Checking Accounts
Market Share

Checking Accounts – Market Share %	2012	2011	2010
Bancolombia	24.00	22.51	22.87
Banco de Bogotá	19.50	19.66	18.06
Banco de Occidente	11.39	12.77	15.09
BBVA	9.14	9.12	9.68
Davivienda	8.96	9.54	9.42
Banco Popular	3.84	4.13	3.86
Citibank	3.15	3.67	2.74

Source: Ratios are calculated by Bancolombia based on figures published by the SFC.

Time Deposits
Market Share

Time Deposits – Market Share %	2012	2011	2010
Bancolombia	18.22	13.32	13.92
Banco de Bogotá	14.36	15.86	14.57
Davivienda	10.00	11.19	14.71
BBVA	9.66	7.66	7.30
Citibank	2.67	3.60	4.34
Banco Popular	2.87	3.77	3.59
Banco de Occidente	5.18	3.66	3.65

Source: Ratios are calculated by Bancolombia based on figures from the SFC.

Saving Accounts
Market Share

Saving Accounts – Market Share %	2012	2011	2010

Bancolombia	22.92	22.33	20.78
Banco de Bogotá	14.39	13.00	14.95
Davivienda	12.23	12.89	11.26
BBVA	12.61	11.69	11.56
Banco Popular	5.37	6.05	7.12
Banco de Occidente	5.75	5.94	5.67
Citibank	2.18	2.20	3.65

Source: Ratios are calculated by Bancolombia based on figures from the SFC.

Description of the Salvadorian Financial System

As of December 31, 2012, the Salvadorian financial system was comprised of 13 institutions (10 commercial banks, 2 state-owned banks and 1 foreign bank).

The total assets of the Salvadorian financial system amounted to USD 13.3 billion in 2012, increasing 3.8% as compared to the previous year. As of December 31, 2012, loans represented 64.9% of total assets in the Salvadorian financial system, while investments represented 14.3% and cash and due from banks represented 13.9%. As of December 31, 2011, loans represented 63.7% of total assets in the Salvadorian financial system, while investments represented 15.0% and cash and due from banks represented 13.7%.

Banco Agrícola and its Competitors

In 2012, Banco Agrícola continued to lead the Salvadorian financial system and ranked first in terms of assets, loans, deposits, stockholders equity and profits. The following table illustrates the market share for the main institutions of the Salvadorian financial system for the year ended December 31, 2012:

	MARKET SHARE				
	Assets	Stockholders' Equity	Loans	Deposits	Profits
Banco Agrícola	29.3 %	32.3 %	30.1 %	28.8 %	43.9 %
Citibank	15.0 %	19.2 %	13.1 %	15.0 %	12.3 %
Davivienda	14.9 %	15.7 %	14.4 %	14.1 %	8.0 %
Scotiabank	15.1 %	13.2 %	16.6 %	14.3 %	15.8 %
BAC	10.6 %	9.1 %	10.4 %	11.2 %	11.0 %
Others	15.1 %	10.5 %	15.4 %	16.6 %	9.1 %

Source: ABANSA (*Asociación Bancaria Salvadoreña*).

The following tables illustrate the market share of Banco Agrícola and its main competitors with respect to various key products, based on figures published by the Salvadorian Banking Association (ABANSA) for the years ended December 31, 2012, 2011 and 2010:

Total Loans
Market Share

Total Loans – Market Share %	2012	2011	2010
Banco Agrícola	30.1%	29.7%	30.4%
Citibank	13.1%	14.4%	15.8%
Davivienda	14.4%	14.6%	14.8%
Scotiabank	16.6%	17.1%	17.2%
BAC	10.4%	9.9 %	9.5 %
Others	15.4%	14.2%	12.3%

Source: Ratios are calculated by Banco Agrícola based on figures published by the Salvadorian Banking Association.

Checking Accounts
Market Share

Checking Accounts – Market Share %	2012	2011	2010
Banco Agrícola	23.9%	24.2%	27.6%
Citibank	23.5%	23.6%	24.7%
Davivienda	11.5%	11.4%	12.0%
Scotiabank	9.1 %	10.5%	10.5%
BAC	16.2%	15.6%	14.3%
Others	15.8%	14.7%	10.8%

Source: Ratios are calculated by Banco Agrícola based on figures published by the Salvadorian Banking Association.

Time Deposits
Market Share

Time Deposits – Market Share %	2012	2011	2010
Banco Agrícola	24.2%	25.4%	26.6%
Citibank	8.2 %	11.2%	12.6%
Davivienda	15.1%	16.8%	16.5%
Scotiabank	17.6%	16.2%	16.4%
BAC	12.0%	10.4%	10.8%
Others	23.0%	20.0%	17.1%

Source: Ratios are calculated by Banco Agrícola based on figures published by the Salvadorian Banking Association.

Saving Accounts
Market Share

Saving Accounts – Market Share %	2012	2011	2010
Banco Agrícola	38.7%	34.7%	34.6%
Citibank	15.7%	19.9%	20.8%
Davivienda	15.1%	15.2%	15.7%
Scotiabank	15.1%	15.0%	15.0%
BAC	5.9 %	5.8 %	5.7 %
Others	9.5 %	9.4 %	8.2 %

Source: Ratios are calculated by Banco Agrícola based on figures published by the Salvadorian Banking Association.

B.8. SUPERVISION AND REGULATION

Colombian Banking Regulators

Pursuant to Colombia's Constitution, the Congress has the power to prescribe the general legal framework within which the Government may regulate the financial system. The agencies vested with the authority to regulate the financial system are the Board of Directors of the Central Bank, the Ministry of Finance, the SFC, the Superintendency of Industry and Commerce (the "SIC") and the Self-Regulatory Organization *(Autoregulador del Mercado de Valores - AMV)* (the "SRO").

Central Bank

The Central Bank exercises the customary functions of a central bank, including price stabilization, monetary policy, regulation of currency circulation, regulation of credit, exchange rate monitoring and management of international reserves. Its board of directors is the regulatory authority for monetary, currency exchange and credit policies, and is responsible for the direction of the Central Bank's duties. The Central Bank also acts as lender of last resort to financial institutions.

Ministry of Finance and Public Credit

One of the functions of the Ministry of Finance is to regulate all aspects of finance and insurance activities.

As part of its duties, the Ministry of Finance issues decrees relating to financial matters that may affect banking operations in Colombia. In particular, the Ministry of Finance is responsible for regulations relating to capital adequacy, risk limitations, authorized operations, disclosure of information and accounting of financial institutions.

Superintendency of Finance

The SFC is the authority responsible for supervising and regulating financial institutions, including commercial banks such as the Bank, finance corporations, financing companies, financial services companies and insurance companies. The SFC has broad discretionary powers to supervise financial institutions, including the authority to impose fines on financial institutions and their directors and officers for violations of applicable regulations. The SFC can also conduct on-site inspections of Colombian financial institutions.

The SFC is also responsible for monitoring and regulating the market for publicly traded securities in Colombia and for monitoring and supervising securities market participants, including the Colombian Stock Exchange, brokers, dealers, mutual funds and issuers.

Financial institutions must obtain the prior authorization of the SFC before commencing operations.

Violations of the financial system rules and regulations are subject to administrative and, in some cases, criminal sanctions.

Other Colombian regulators

Self-Regulatory Organization

The Self-Regulatory Organization is a private entity responsible for the regulation of entities participating in the Colombian capital markets. The Self-Regulatory Organization may issue mandatory instructions to its members and supervise its members' compliance and impose sanctions for violations.

All capital market intermediaries, including the Bank, must become members of the Self-Regulatory Organization and are subject to its regulations.

Superintendency of Industry and Commerce

The SIC is the authority responsible for supervising and regulating competition in several industrial sectors, including financial institutions. The SIC is authorized to initiate administrative proceedings and impose sanctions on banks, including the Bank, whenever the financial entity behaves in a manner considered to be anti-competitive.

Regulatory Framework for Colombian Banking Institutions

The basic regulatory framework of the Colombian financial sector is set forth in Decree 663 of 1993, modified among others, by Law 510 of 1999, Law 546 of 1999, Law 795 of 2003, Law 964 of 2005 and Law 1328 of 2009, as well as in External Resolution 8 of 2000 (foreign exchange regulations) and Resolution 4 (as hereinafter defined) issued by the board of directors of the Central Bank. Decree 663 of 1993 defines the structure of the Colombian financial system and defines several forms of business entities, including: (i) credit institutions (*establecimientos de crédito*) (which are further categorized into banks, finance corporations (*corporaciones financieras*), financing companies (*compañias de financiamiento*) and finance cooperatives (*cooperativas financieras*)); (ii) financial services entities (*sociedades de servicios financieros*); (iii) capitalization corporations (*sociedades de capitalización*); (iv) insurance companies (*entidades aseguradoras*); and (v) insurance intermediaries (*intermediarios de seguros*). Furthermore, Decree 663 of 1993 provides that no financial, banking or credit institution may operate in Colombia without the prior approval of the SFC. Additionally, Decree 2555 of 2010 compiled regulations that were dispersed in separate decrees, including regulations regarding capital adequacy and lending activities.

The main role of banks, finance corporations and financing companies is to receive deposits. Banks place funds back into circulation by means of loans or any active credit operation; finance corporations place funds into circulation by means of active credit operations or investments, with the purpose of promoting the creation or expansion of enterprises; and financing companies place funds back into circulation by means of active credit operations, with the purpose of fostering the sale of goods and services, including the development of leasing operations.

Law 510 of 1999 and Law 795 of 2003 substantially amended the powers of the SFC to control, regulate and supervise financial institutions. Law 510 of 1999 also streamlined the procedures for the *Fondo de Garantías de Instituciones Financieras* (“Fogafin”), the agency that insures deposits in financial institutions and provides credit and support to troubled financial institutions. The main purpose of Law 510 of 1999 was to improve the solvency standards and stability of Colombia’s financial institutions by providing rules for their incorporation and regulating permitted investments of credit institutions, insurance companies and investment companies.

Law 546 of 1999 was enacted to regulate the system of long-term home loans. Law 795 of 2003 was enacted to broaden the scope of activities that financial institutions can engage in, to update regulations with some of the then-latest principles of the Basel Committee and to increase the minimum capital requirements in order to incorporate a financial institution (for more information, see “Minimum Capital Requirements” below). Law 795 of 2003 also provided authority to the SFC to take preventive measures, consisting mainly of preventive interventions with respect to financial institutions whose capital falls below certain thresholds. For example, in order to avoid a temporary take-over by the SFC, such financial institutions must submit to the SFC a restructuring program to restore their financial condition.

Law 1328 of 2009 provides a set of rights and responsibilities for customers of the financial system and a set of obligations for financial institutions in order to minimize disputes. This law also gives foreign banks more flexibility to operate in Colombia. Prior to Law 1328 of 2009, foreign banks were able to operate in Colombia by establishing a Colombian subsidiary authorized by the SFC. Following the enactment of Law 1328 of 2009, as of June 15, 2013, foreign banks will be permitted to operate through their “branches” and will not be required to incorporate a Colombian subsidiary. Law 1328 of 2009 also broadened the scope of permitted business activities by regulated entities. Following its adoption, credit institutions were allowed to operate leasing businesses and banks were allowed to extend loans to third parties so that borrowers could acquire control of other companies. On September 6, 2011, the SFC issued External Regulation 039 of 2011 pursuant to which the SFC is empowered to regulate certain banking practices considered as abusive. The SFC issued the External Circular 038 of 2011 on September 6, 2011, with the purpose to set the necessary instructions that should be followed by the entities that are supervised by the SFC in regards to supplying financial consumers all the information they require in order to allow them to choose the best options in the market, according to their own needs.

On December 20, 2011 the Colombian Government issued Decree 4809 by means of which they: (i) defined the laws and principles that must be observed in the determination, diffusion and publicity of rates and prices of products and financial services, (ii) defined the maximum rate charged for the withdrawal of funds from ATM’s of other financial institutions, (iii) provided that should there be an increase in applicable rates within a standard form contract, the banks must inform the clients of that change within a minimum of 45 days, in which time the client will have the ability to reject the aforementioned increase and terminate the contractual relationship with the bank, (iv) imposed a prohibition on charging for unsuccessful transactions carried out through ATMs when there is no fault attributable to the client, and (v) established that transactions made via the Internet cannot be more expensive than those made via other available channels.

The SFC has authority to implement applicable regulations and, accordingly, issues, from time to time administrative resolutions and circulars. By means of External Circular 007 of 1996 (as amended), the SFC compiled the rules and regulations applicable to financial institutions. Likewise, by means of External Circular 100 of 1995 (the “Basic Accounting Circular”), it compiled all regulations applicable to the accounting rules and regulations.

The exchange control statute defines the different activities that banks, including the Bank, may perform as currency exchange intermediaries, including lending in foreign currency and investment in foreign securities.

Violations of any of the above statutes and their relevant regulations are subject to administrative sanctions and, in some cases, criminal sanctions.

Key interest rates

Colombian commercial banks, finance corporations and consumer financing companies are required to provide the Central Bank, on a weekly basis, with data regarding the total volume (in pesos) of certificates of deposit issued during the prior week and the average interest rates paid for certificates of deposit with maturities of 90 days. Based on such reports, the Central Bank computes the *Tasa de Captaciones de Corporaciones Financieras* ("TCC") and the *Depósitos a Término Fijo* ("DTF") rates, which are published at the beginning of the following week, for use in calculating interest rates payable by financial institutions. The TCC is the weighted average interest rate paid by finance corporations for deposits with maturities of 90 days. The DTF is the weighted average interest rate paid by finance corporations, commercial banks and consumer financing companies for certificates of deposit with maturities of 90 days. For the week of April 29, 2013, the DTF was 4.11% and the TCC was 4.24%.

Article 884 of the Colombian Code of Commerce provides for a limit on the amount of interest that may be charged in commercial transactions. The limit is 1.5 times the current banking interest rate, or *Interés Bancario Corriente*, calculated as the average of the interest ordinarily charged by banks within a set period of time. The current banking interest rate for small business loans and for all other loans is certified by the SFC. As of December 31, 2012, the banking interest rate for small business loans was 35.63% and for all other loans was 20.89%.

Capital adequacy requirements

Capital adequacy requirements for Colombian financial institutions (as set forth in Decree 2555 of 2010, as amended) are based on applicable Basel Committee standards. Decree 2555 of 2010 establishes four categories of assets, which are each assigned different risk weights, and requires that a credit institution's Technical Capital (as defined below) be at least 9% of that institution's total risk-weighted assets. As of the date of this Annual Report, the Technical Capital for the purposes of the regulations consists of the sum of Tier One Capital (basic capital) and Tier Two Capital (additional capital) (Tier One Capital and Tier Two Capital, collectively, "Technical Capital"). Tier Two Capital may not exceed the total amount of Tier One Capital.

However, on August 23, 2012 the Ministry of Finance issued a new regulation (Decree 1771 of 2012) amending the capital adequacy requirements set forth in Decree 2555. Under this new regulation, financial institutions (such as the Bank) will remain subject to the capital adequacy requirements previously in place until August 1, 2013. Some of the highlights of this new regulation are:

- As of August 1, 2013, the technical capital will be the sum of Ordinary Basic Capital (common equity tier one), Additional Basic Capital (additional tier one), and Additional Capital (tier two capital).
- New criteria for debt and equity instruments to be considered basic capital, additional basic capital, and additional capital was established. Additionally, the SFC must review whether a given instrument adequately complies with these criteria in order for an instrument to be considered tier one or tier two capital, upon request of the issuer. Debt and equity instruments that have not been classified by the SFC as basic or additional capital will not be considered tier one or tier two capital for purposes of capital adequacy requirements.
- The total solvency ratio remains at a minimum of 9% of the financial institution's total risk-weighted assets; however, as of August 1, 2013, each entity must also comply with a minimum basic solvency ratio of 4.5%, which is defined as the Ordinary Basic Capital after deductions divided by the financial institution's total risk-weighted assets.

The following chart includes a summary of the items that are considered in the definition of the Technical Capital as set forth in Decree 2555 of 2010, as amended:

Current Definition of Technical Capital

Basic Capital

- Outstanding and paid-in capital stock.
- Legal and other reserves.
- Profits retained from previous fiscal years.
- Net positive result of the cumulative translation adjustment account.
- The total value of the revaluation of equity account (revalorización del patrimonio) (if positive) and of the foreign currency translation adjustment account (ajuste por conversion de estados financieros).
-

Current fiscal year profits in a proportion equal to the percentage of prior fiscal year profits that were capitalized, or allocated to increase the legal reserve, or all profits that must be used to cover accrued losses.

- Shares held as a guarantee by Fogafin when the entity is in compliance with the recovery program aimed at bringing the bank back into compliance with capital adequacy requirements.
- Subordinated bonds held by Fogafin when they comply with certain requirements stated in the regulations.
- Non-controlling interests registered in the consolidated financial statements.
- The total value of paid-in stock dividends.
- The part of the surplus capital account from donations that complies with the requirements set forth in the applicable regulation.

New Definition of Technical Capital (Effective August 1, 2013)

Ordinary Basic Capital

- Ordinary Basic Capital
- Outstanding and paid-in capital stock classified as Ordinary Basic Capital by the SFC subject to the conditions set forth in the regulation.
- Legal reserves.
- Shares held as a guarantee by Fogafin when the entity is in compliance with a recovery program aimed at bringing the financial entity back into compliance with capital adequacy requirements.
- Non-controlling interests registered in the consolidated financial statements, subject to the conditions set forth in the regulations.
- The value of paid-in stock dividends when the relevant class of stock has been classified as part of the Ordinary Basic Capital by the SFC.
- Capital surplus.
- Irrevocable donations.
- Net positive result of the cumulative translation adjustment account.
- Capital stock paid in prior to its issuance by the entity, provided, however, that the stock remains unissued for a maximum term of four (4) months. After such time frame, it will no longer be considered ordinary basic capital.
- Subordinated bonds held by Fogafin when they comply with certain requirements stated in the regulations.
- Any other financial instrument issued by the entity and held by Fogafin, when the subscription is intended to strengthen the financial condition of the financial entity.

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Deductions from Basic Capital

- Any prior or current period losses.
- The total value of the capital revaluation account (*revalorización del patrimonio*) (if negative).
- Accumulated inflation adjustments on non-monetary assets (provided that the respective assets have not been transferred).
- Investments in shares, mandatory convertible bonds, subordinated bonds that may be convertible into shares or subordinated debt instruments issued by other entities (excluding subsidiaries) subject to the supervision of the SFC, excluding appraisals and investments in Finagro credit establishments and investments undertaken pursuant to Article 63 of Decree 663 of 1993, subject to the conditions set forth in the regulation.
- Investments in shares, mandatory convertible bonds, subordinated bonds that may be convertible into shares or subordinated debt instruments issued by foreign financial institutions where the investor directly or indirectly holds at least 20% of the capital of said institution (excluding subsidiaries). This amount includes cumulative translation adjustments and excludes appraisals.

Deductions from Ordinary Basic Capital

- Any prior or current period losses.
- Investments in shares, mandatory convertible bonds, subordinated bonds that may be convertible into shares or subordinated debt instruments issued by other Colombian or foreign financial institutions (excluding subsidiaries), including cumulative translation adjustments and excluding appraisals, subject to the conditions set forth in the regulation.
- Deferred income taxes, if positive.
- Intangible assets registered after August 23, 2012.
- Reacquired stock, subject to the conditions set forth in the regulations.
- Unamortized amount of the actuarial calculation of the pension obligations of the entity.

Additional Basic Capital

- Outstanding and paid-in capital stock classified as Additional Basic Capital by the SFC subject to the conditions set forth in the regulation.
- The value of paid-in stock dividends when the relevant class of stock has been classified as part of the Additional Basic Capital by the SFC.
- Non-controlling interests registered in the consolidated financial statements, subject to the conditions set forth in the regulation.

Additional Capital

- Fifty percent (50%) of the accumulated inflation adjustment of non-monetary assets (provided that such assets have not been disposed of).
- Fifty percent (50%) of asset reappraisal (excluding revaluations of foreclosed assets or assets received as payment of credits).
- Mandatory convertible bonds effectively subscribed and paid, with maturities of up to 5 years, provided that the terms and conditions of their issuance were approved by the SFC and subject to the conditions set forth by the SFC.
- Subordinated payment obligations as long as said obligations do not exceed 50% of Tier One Capital and comply with additional requirements stated in the regulations.
- The part of the surplus capital account from donations that complies with the requirements set forth in the applicable regulation.
- General allowances made in accordance with the instructions issued by the SFC.

Additional Capital

- Fifty percent (50%) of the reappraisal or unrealized profits derived from investments in equity and debt instruments with high or medium trading volumes, subject to conditions set forth in the regulation.
- Mandatory convertible bonds effectively subscribed and paid, subject to the conditions set forth in the regulation.
- Subordinated payment obligations that the SFC classifies as part of the Additional Capital.
- Current period profits, in the amount that the shareholders irrevocably resolve to capitalize or assign to increase the legal reserves once the fiscal year is ended, subject to approval by the SFC.
- Voluntary reserves (reservas ocasionales) with more than five years in the balance sheet and up to an amount no greater than ten percent (10%) of the Technical Capital of the entity.
- Non-controlling interests registered in the consolidated financial statements, subject to the conditions set forth in the regulation.
- Fifty percent (50%) of the tax reserve, as defined by law.
- Thirty percent (30%) of the reappraisal or unrealized profits derived from investments in equity instruments with low or non-existing trading volumes, or not listed in trading platforms, subject to an appraisal by an independent expert, according to the regulations expected to be issued by the SFC, and to conditions set forth in the regulation.
- The value of the general provisions made by the financial entity, in an amount no greater than 1.25% of the risk-weighted assets.

Deductions from Additional Capital

- 50% of the direct or indirect capital investments (in entities subject to the supervision of the SFC, excluding subsidiaries) and mandatory convertible bonds reappraisal that complies with the requirements set forth in the applicable regulation.
- 50% of the direct or indirect capital investments (excluding subsidiaries) and mandatory convertible bonds reappraisal of foreign financial entities with respect to which the bank's share is or exceeds 20% of the entity's subscribed capital.
- The value of the devaluation of equity investments with low exchange volume or which are unquoted.

The following table sets forth certain information regarding the Bank's consolidated capital adequacy as of December 31, 2012 and 2011:

	As of December 31, 2012		As of December 31, 2011	
	(In millions of COP, except percentages)			
Long-term senior indebtedness	**COP** 7,674,213		COP **7,866,678**	
Subscribed capital	425,914		393,914	
Legal reserve and other reserves	7,413,379		5,145,404	
Unappropriated retained earnings	1,348,530		1,143,158	
Minority interest	81,394		73,455	
Net Income	-		421,964	
Less:				
Long-term investments	(147,267	)	(145,238	)
Non-monetary inflation adjustment	(51,463	)	(53,631	)
Primary capital (Tier I)	COP 9,070,487		COP **6,979,026**	
Provisions for loans	62,129		50,910	
Subordinated bonds	4,385,006		2,442,305	
Reappraisal of assets	216,642		171,388	
Non-monetary inflation adjustment	30,426		31,509	
Computed secondary capital (Tier II)	4,694,203		2,696,112	
Technical Capital	COP **13,764,690**		COP 9,675,138	
Capital Ratios				
Primary capital to risk-weighted assets (Tier I)	10.39	%	8.99	%
Secondary capital to risk-weighted assets (Tier II)	5.38	%	3.47	%
Risk-weighted assets including market risk	87,262,916		77,651,096	
Technical capital to risk-weighted assets	15.77	%	12.46	%

As of December 31, 2012, the Bank's technical capital ratio was 15.77%, exceeding the requirements of the Colombian Government and the SFC by 677 basis points. As of December 31, 2011, the Bank's technical capital ratio was 12.46%. Despite the rapid growth in the Bank's loan portfolio during 2012, the increase in the capital adequacy ratio is explained by the issuance of subordinated bonds and shares in 2012 by Bancolombia S.A.

If the new requirements had been applied to the consolidated balance sheet of the Bank and its subsidiaries as of December 31, 2012, and excluding the impact of the agreements for the acquisition of an interest in Banco Agromercatil - "BAM" and HSBC Bank (Panama), the measures adopted by Bancolombia's subsidiaries during 2013, and any additional changes the Bank may make in the future to its businesses or structure as a result of implementing the new rules, the Bank's preliminary estimate is that its consolidated capital adequacy ratio (Tier I plus Tier II) would have been 12.22%, compared with a minimum requirement of 9%, and that its consolidated Basic Capital ratio (basic ordinary capital net of deductions divided by risk weighted assets) would have been 7.00%, compared with a minimum requirement of 4.5%. The preliminary estimates given above are based on the Bank's current understanding of the new regulations, and the Bank continues to analyze the impact of these new regulations on its business.

The following table sets forth a reconciliation of the differences between the current consolidated capital adequacy and the consolidated capital adequacy measure under the new definition provided by Decree 1771 as of December 31, 2012:

	As of December 31, 2012		As of December 31, 2012
	(In millions of COP, except percentages)		
	Current Definition of Technical Capital	Adjustments	New Definition of Technical Capital (Effective August 1, 2013)
Long-term senior indebtedness	**COP** 7,674,213	**COP** -	**COP** 7,674,213
Subscribed capital	425,914		425,914
Legal reserve and other reserves	7,413,379	(1,604,916) (1)	5,808,463
Unappropriated retained earnings	1,348,530	(1,346,346) (2)	2,184
Minority interest	81,394	-	81,394
Net Income	-	-	-
Less:		-	
Long-term investments	(147,267)	-	(147,267)
Intangibles assets acquired after August 23, 2012	-	(20,944) (3)	(20,944)
Treasury stock	-	(36,570) (4)	(36,570)
Non-monetary inflation adjustment	(51,463)	51,463 (5)	-
Primary capital (Tier I)	**COP 9,070,487**	(2,957,313)	**COP 6,113,174**
Provisions for loans	62,129	-	62,129
Subordinated bonds	4,385,006	-	4,385,006
Reappraisal of assets	216,642	(211,805) (6)	4,837
Non-monetary inflation adjustment	30,426	(30,426) (6)	-
Tax reserve		105,440 (5)	105,440
Computed secondary capital (Tier II)	4,694,203	(136,791)	4,557,412
Technical Capital	**COP 13,764,690**	**COP** (3,094,104)	**COP 10,670,586**
Capital Ratios			
Primary capital to risk-weighted assets (Tier I)	10.39%	(3.39)%	7.00%
Secondary capital to risk-weighted assets (Tier II)	5.38%	(0.16)%	5.22%
Risk weighted assets including market risk	87,262,916	(20,944) (3)	87,241,972
Technical capital to risk-weighted assets	15.77%	(3.55)%	12.22%

(1) The decrease is due to the treatment of voluntary reserves and the total value of the revaluation of equity account (*revalorización del patrimonio*), which are no longer part of the computation of Ordinary Basic Capital ("OBC") under the new Definition of Technical Capital.
(2) The decrease is due to the treatment of retained earnings from previous fiscal years, which are no longer part of the computation of OBC under the new Definition of Technical Capital.
(3) Corresponds to the goodwill recognized under Colombian GAAP for the acquisition of Uff Móvil, which is not computed as Risk weighted assets under new definition provided by Decree 1771.
(4) Under new regulation the Treasury stock that is subject to the conditions set forth in the regulations is deducted from OBC.
(5) Under new regulation the Accumulated inflation adjustments on non-monetary assets is not deducted from the OBC.
(6) Decreased in Computed secondary capital (Tier II) of COP 136,791; mostly due to net effect of the withdrawal of the 50% of the accumulated inflation adjustment of non-monetary assets and of the 50% reappraisal of asset and the addition of the 50% of the tax reserve (as defined by law).

Our calculation of our Tier 1 and Tier 2 capital ratios under the new capital regulations as of December 31, 2012 are considered to be non-GAAP financial measures, and other entities may calculate these ratios differently. Since analysts and banking regulators may assess Bancolombia's capital adequacy using the framework of the new rules, Bancolombia believes that it is useful to provide investors information enabling them to assess Bancolombia's capital adequacy on the same basis.

In order to improve the consolidated capital adequacy ratio of Bancolombia, some of its subsidiaries implemented a series of measures, including:

- On February 27, 2013 Valores Bancolombia approved a capitalization of certain reserves and profits for an amount of COP 35,981 million.

- On February 27, 2013, Leasing Bancolombia approved a capitalization of profits for an amount of COP 126,273 million and made an irrevocable commitment to increase the legal reserve with an amount equal to 10% of the net profits of fiscal year 2013.

- On February 28, 2013, Banca de Inversion approved a capitalization of certain reserves and profits for an amount of COP 39,216 million.

- On March 1, 2013, Tuya S.A. Compañía de Financiamiento made an irrevocable commitment to increase the legal reserve in an amount equal to 10% of the net profits of fiscal year 2013.

- On April 2, 2013, Bancolombia Puerto Rico Internacional Inc. allocated a portion of 2012 profits and other retained earnings for the creation of a voluntary reserve account, intended to cover for potential future losses or to make future capitalizations in the amount of USD 71.5 million.

- On March 21, 2013, Banagrícola allocated certain reserves for an amount of USD 376.8 million to create a new voluntary reserve account, intended to cover for potential future losses or to make future capitalizations for an amount of appropriated from other reserve accounts. The restricted reserve will remain in place for a minimum of five years.

- On April 2, 2013, Bancolombia Panama, allocated USD 633 million from 2012 profits and retained earnings to increase its capital reserve.

The implemented measures were adopted considering the impact on the consolidated capital adequacy ratio of Bancolombia; however, these measures did not affect the individual capital or solvency ratios applicable to each subsidiary. Each subsidiary is in compliance with the current regulatory ratios applicable in each jurisdiction.

Minimum Capital Requirements

The minimum capital requirement for banks on an unconsolidated basis is established in Article 80 of Decree 633 of 1993, as amended. The minimum capital requirement for 2012 is COP 73,750 million. Failure to meet such requirement can result in the Taking of Possession (*toma de posesión*) of the Bank by the SFC (see “Colombian Banking Regulations — Bankruptcy Considerations”).

Capital Investment Limit

For entities incorporated in Colombia, all investments in subsidiaries and other authorized capital investments, other than those made in order to abide by legal requirements, may not exceed 100% of the total aggregate of capital, equity reserves and the equity re-adjustment account of the respective bank, financial corporation or commercial finance company excluding unadjusted fixed assets and including deductions for accumulated losses.

Mandatory Investments

Central Bank regulations require financial institutions, including the Bank, to hold minimum mandatory investments in the debt securities issued by Fondo para el Financiamiento del Sector Agropecuario ("Finagro"), a Colombian public financial institution that finances production and rural activities to support the agricultural sector. The amount of these mandatory investments is calculated by applying a fixed percentage (ranging from 4% to 7%, depending on the type of liability) to the quarterly average of the end of day balances of certain liabilities, primarily, deposits and short-term debt. The investment balance is computed at the end of each quarter. Any required adjustment (due to a change in the quarterly average between periods) results in the purchase of additional securities or may result in the optional redemption at par of securities in excess of the requirement. The purchase of additional securities takes place during the month following the date as of which the computation was performed.

Foreign Currency Position Requirements

According to External Resolution 4 of 2007 issued by the board of directors of the Central Bank as amended ("Resolution 4"), a financial institution's foreign currency position (*posición propia en moneda extranjera*) is the difference between such institution's foreign currency-denominated assets and liabilities (including any off-balance sheet items), made or contingent, including those that may be sold in Colombian legal currency.

Resolution 4 provides that the average of a bank's foreign currency position for three business days cannot exceed the equivalent in pesos of 20% of the bank's Technical Capital. Currency exchange intermediaries such as the Bank are permitted to hold a three business days' average negative foreign currency position not exceeding the equivalent in foreign currency of 5% of its Technical Capital (with penalties being payable after the first business day).

Resolution 4 also defines foreign currency position in cash (*posición propia de contado en moneda extranjera*) as the difference between all foreign currency-denominated assets and liabilities. A bank's three business days average foreign currency position in cash cannot exceed 50% of the bank's Technical Capital. In accordance with Resolution 4, the three-day average must be calculated on a daily basis and the foreign currency position in cash cannot be negative.

Finally, Resolution 4 requires banks to comply with a gross position of leverage (*posición bruta de apalancamiento*). Gross position of leverage is defined as (i) the value of term contracts denominated in foreign currency, plus (ii) the value of transactions denominated in foreign currency to be settled within two days in cash, plus (iii) the value of the exchange rate risk exposure associated with exchange rate options and derivatives. Resolution 4 sets a limit on the gross position of leverage, which cannot exceed 550% of the Technical Capital.

Reserve Requirements

Commercial banks are required by the board of directors of the Central Bank to satisfy reserve requirements with respect to deposits and other cash demands. Such reserves are held by the Central Bank in the form of cash deposits. According to Resolution 11 of 2008 issued by the board of directors of the Central Bank, as amended, the reserve requirements for Colombian banks are measured bi-weekly and the amounts depend on the class of deposits.

Credit institutions must maintain reserves of 11% over the following deposits and cash demands:

- Private demand deposits;
- Government demand deposits;
- Other deposits and liabilities; and
- Savings deposits.

In addition, credit institutions must maintain reserves of 4.5% for term deposits with maturities fewer than 540 days and 0% for term deposits with maturities of more than 540 days.

Credit institutions may maintain these reserves in their accounts at the Central Bank.

Marginal reserve requirements were eliminated by the Central Bank in 2008.

Foreign Currency Loans

Residents of Colombia may obtain foreign currency loans from foreign residents, and from Colombian currency exchange intermediaries or by placing debt securities abroad. Foreign currency loans must be either disbursed through a foreign exchange intermediary or deposited in offshore compensation accounts.

According to regulations issued by the Central Bank, every Colombian resident and institution borrowing funds in foreign currency is generally required to post with the Central Bank non-interest bearing deposits for a specified term, although the size of the required deposit is currently zero.

Notwithstanding the foregoing, such deposits would not be required in certain cases established in article 26 of External Resolution 8 of 2000, including in the case of foreign currency loans aimed at financing Colombian investments abroad or for short-term exportation loans, provided that such loan is disbursed against the funds of Banco de Comercio Exterior - Bancoldex. Moreover, Article 59-1(c) of External Resolution 8 of 2000 sets forth a number of restrictions and limitations as to the use of proceeds in the case of foreign currency loans obtained by Colombian currency exchange intermediaries (including the Bank) and also provides that deposits would not be required in the event such restrictions and limitations are observed. Such foreign currency loans may be used, among others, for lending activities in a foreign currency with a tenor equal to, or shorter than, the tenor of the foreign financing.

Finally, pursuant to Law 9 of 1991, the board of directors of the Central Bank is entitled to impose conditions and limitations on the incurrence of foreign currency indebtedness, as an exchange control policy, in order to avoid pressure in the currency exchange market.

Non-Performing Loan Allowance

The SFC maintains guidelines on non-performing loan allowances for financial institutions.

Lending Activities

Decree 2555 of 2010, as amended, sets forth the maximum amounts that a financial institution may lend to a single borrower (including for this purpose all related fees, expenses and charges). These maximum amounts may not exceed 10% of a bank’s Technical Capital. However, there are several circumstances under which the limit may be raised. In general, the limit is raised to 25% when amounts lent above 5% of Technical Capital are secured by guarantees that comply with the financial guidelines provided in Decree 2555 of 2010, as amended. Also, according to Decree 2555 of 2010, a bank may not make loans to any shareholder that holds directly more than 10% of its capital stock for one year after such shareholder reaches the 10% threshold. In no event may a loan to a shareholder holding directly or indirectly 20% or more of the Bank’s capital stock exceed 20% of the Bank’s Technical Capital. In addition, no loan to a single financial institution may exceed 30% of the Bank’s Technical Capital, with the exception of loans funded by Colombian development banks which are not subject to such limit.

Also, Decree 2555 of 2010 sets a maximum limit for risk concentrated in one single party, equivalent to 30% of the Bank's Technical Capital, the calculation of which includes loans, leasing operations and equity and debt investments.

The Central Bank also has the authority to establish maximum limits on the interest rates that commercial banks and other financial institutions may charge on loans. However, interest rates must also be consistent with market terms with a maximum limit certified by the SFC.

Ownership and Management Restrictions

The Bank is organized as a stock company (*sociedad anónima*). Its corporate existence is subject to the rules applicable to commercial companies, principally the Colombian Commerce Code. The Colombian Commerce Code requires stock companies (such as the Bank) to have at least five shareholders at all times and provides that no single shareholder may own 95% or more of the Bank's subscribed capital stock. Article 262 of the Colombian Commerce Code prohibits the Bank's subsidiaries from acquiring the stock of the Bank.

Pursuant to Decree 663 of 1993, as amended, any transaction resulting in an individual or entity holding 10% or more of any class of capital stock of any Colombian financial institution, including, in the case of the Bank, transactions resulting in holding ADRs representing 10% or more of the outstanding stock of the Bank, is subject to the prior authorization of the SFC. For that purpose, the SFC must evaluate the proposed transaction based on the criteria and guidelines specified in Decree 663 of 1993. Transactions entered into without the prior approval of the SFC are null and void and cannot be recorded in the institution's stock ledger. These restrictions apply equally to national as well as foreign investors.

Bankruptcy Considerations

Pursuant to Colombian banking law, the SFC has the power to intervene in the operations of a bank in order to prevent it from, or to control and reduce the effects of, a bank failure. Accordingly, the SFC may intervene in a bank's business, (i) prior to the liquidation of the bank, by taking one of the following preventive measures (*institutos de salvamento*) in order to prevent the bank from entering into a state where the SFC would need to take possession: (a) submit the bank to a special supervision regime; (b) issue a mandatory order to recapitalize the bank; (c) place the bank under the management of another authorized financial institution, acting as trustee; (d) order the transfer of all or part of the assets, liabilities and contracts, as well as certain on-going concerns (*establecimientos de comercio*) of the bank to another financial institution; (e) order the bank to merge with one or more financial institutions that consent to the merger, whether by creating a new institution or by having another institution absorb the bank; (f) order the adoption of a recovery plan by the bank, including adequate measures to reestablish its financial situation, pursuant to guidelines approved by the Government; (g) order the exclusion of certain assets and liabilities by requiring the transfer of such assets and liabilities to another institution designated by the SFC; and (h) order the progressive unwinding (*desmonte progresivo*) of the operations of the bank; or (ii) at any time, by taking possession of the bank (*toma de posesión*) ("Taking of Possession") to either administer the bank or order its liquidation, depending on how critical the situation is found to be by the SFC.

The following grounds for a Taking of Possession are considered to be "automatic" in the sense that, if the SFC discovers their existence, the SFC must step in and take over the respective financial institution: (i) if the financial institution's Technical Capital (*patrimonio adecuado*) falls below 40% of the legal minimum, or (ii) upon the expiration of the term of any then-current recovery plans or the non-fulfillment of the goals set forth in such plans. Additionally, the SFC also conducts periodic visits to financial institutions and, as a consequence of these visits, the SFC can impose capital or solvency obligations on financial institutions without taking control of the financial institution.

Additionally, and subject to the approval of the Ministry of Finance, the SFC may, at its discretion, initiate intervention procedures under the following circumstances: (i) suspension of payments; (ii) failure to pay deposits; (iii) refusal to submit its files, accounts and supporting documentation for inspection by the SFC; (iv) refusal to be interrogated under oath regarding its business; (v) repeated failure to comply with orders and instructions from the SFC; (vi) repeated violations of applicable laws and regulations or of the bank's by-laws; (vii) unauthorized or fraudulent management of the bank's business; (viii) reduction of the bank's net worth below 50% of its subscribed capital; (ix) existence of serious inconsistencies in the information provided to the SFC that, at its discretion, impedes to accurately understand of the situation of the bank; (x) failure to comply with the minimum capital requirements set forth in Decree 663 of 1993; (xi) failure to comply with the recovery plans that were adopted by the bank; (xii) failure to comply with the order of exclusion of certain assets and liabilities to another institution designated by the SFC; and (xiii) failure to comply with the order of progressive unwinding (*desmonte progresivo*) of the operations of the bank.

The SFC may decide to order the Taking of Possession subject to the prior opinion of its advisory council (*Consejo Asesor del Superintendente*) and with the prior approval of the Ministry of Finance.

The purpose of Taking of Possession of a bank is to decide whether the entity should be liquidated, whether it is possible to place it in a position to continue doing business in the ordinary course, or whether other measures may be adopted to secure better conditions so that depositors, creditors and investors may obtain the full or partial payment of their credits.

Within two months from the date when the SFC takes possession of a bank, the SFC must decide which of the aforementioned measures is to be pursued. The decision is subject to the prior opinion of Fogafin, which is the Government agency that insures deposits made in Colombian financial institutions. The two-month term may be extended with the prior consent of Fogafin.

Upon the Taking of Possession of a bank, depending on the financial situation of the bank and the reasons that gave rise to such measure, the SFC may (but is not required to) order the bank to suspend payments to its creditors. The SFC has the power to determine that such suspension will affect all of the obligations of the bank, or only certain types of obligations or even obligations up to or in excess of a specified amount.

As a result of the Taking of Possession, the SFC must appoint as special agent the person or entity designated by Fogafin to administer the affairs of the bank while such process lasts and until it is decided whether to liquidate the bank.

As part of its duties during the Taking of Possession, Fogafin must provide the SFC with the plan to be followed by the special agent in order to meet the goals set for the fulfillment of the measures that may have been adopted. If the underlying problems that gave rise to the Taking of Possession of the bank are not resolved within a term not to exceed two years, the SFC must order the liquidation of the bank.

During the Taking of Possession (which period ends when the liquidation process begins), Colombian banking laws prevent any creditor of the bank from: (i) initiating any procedure for the collection of any amount owed by the bank; (ii) enforcing any judicial decision rendered against the bank to secure payment of any of its obligations; (iii) constituting a lien or attachment over any of the assets of the bank to secure payment of any of its obligations; or (iv) making any payment, advance or compensation or assume any obligation on behalf of the bank, with the funds or assets that may belong to it and are held by third parties, except for payments that are made by way of set-off between regulated entities of the Colombian financial and insurance systems.

In the event that the bank is liquidated, the SFC must, among other measures, provide that all term obligations owed by the bank are due and payable as of the date when the order to liquidate becomes effective.

During the liquidation process bank deposits and other types of saving instruments will be excluded from the liquidation process and, claims of creditors rank as follows: (i) the first class of credits includes the court expenses incurred in the interest of all creditors, wages and other obligations related with employment contracts and tax authorities' credits regarding national and local taxes; (ii) the second class of credits comprises the credits secured by a security interest on movable assets; (iii) the third class of credits includes the credits secured by real estate collateral, such as mortgages; (iv) the fourth class of credits contains some other credits of the tax authorities against the debtor that are not included in the first class of credits and credits of suppliers of raw materials and input to the debtor and (v) finally, the fifth class of credits includes all other credits without any priority or privilege, provided, however, that among credits of the fifth class, subordinated debt shall be ranked junior to the external liabilities (*pasivos externos*) senior only to capital stock. Each category of creditors will collect in the order indicated above, whereby distributions in one category will be subject to completing full distribution in the prior category.

Colombian banks and other financial institutions are not subject to the laws and regulations that generally govern the insolvency, restructuring and liquidation of industrial and commercial companies.

Deposit insurance—Troubled Financial Institutions

In response to the crisis faced by the Colombian financial system during the early 1980s, in 1985 the Government created Fogafin. Subject to specific limitations, Fogafin is authorized to provide equity (whether or not reducing the par value of the recipient's shares) and/or secured credits to troubled financial institutions, and to insure deposits of commercial banks and certain other financial institutions.

To protect the customers of commercial banks and certain financial institutions, Resolution No. 1 of 2012 of the board of directors of Fogafin, as amended, requires mandatory deposit insurance. Under this Resolution No. 1, banks must pay an annual premium of 0.3% of total funds received on saving accounts, checking accounts, certificates of deposit and other deposits, which is paid in four quarterly installments. If a bank is liquidated, the deposit insurance will cover the funds deposited by an individual or corporation with such bank up to a maximum of COP 20 million regardless of the number of accounts held.

Anti-Money Laundering Provisions

The regulatory framework to prevent and control money laundering is contained in, among others, Decree 663 of 1993 and Circulars 26 of 2008 and 019 of 2010 issued by the SFC, as well as Law 599 of 2000, and the Colombian Criminal Code, as amended.

Colombian laws adopt the latest guidelines related to anti-money laundering and other terrorist activities established by the Financial Action Task Force on Money Laundering ("FATF"). Colombia, as a member of the GAFI-SUD (a FATF-style regional body), follows all of FATF's 40 recommendations and eight special recommendations. Circular 26 of 2008 issued by the SFC requires the implementation by financial institutions of a system of controls for money laundering and terrorism financing. These rules emphasize "know your customer" policies and knowledge of customers and markets. They also establish processes and parameters to identify and monitor a financial institution's customers. According to these regulations, financial institutions must cooperate with the appropriate authorities to prevent and control money laundering and terrorism. Finally, the Colombian criminal code introduced criminal rules and regulations to prevent, control, detect, eliminate and adjudicate all matters related to financing terrorism and money laundering. The criminal rules and regulations cover the omission of reports on cash transactions, mobilization or storage of cash, and the lack of controls.

Risk management systems

Commercial banks, including the Bank, must have risk administration systems to meet the SFC minimum standards for compliance and to avoid and mitigate the following risks: (i) credit; (ii) liquidity; (iii) market; (iv) operational; and (v) money laundering and terrorism.

In general, commercial banks, such as the Bank, have several risk measurement methods, including the risk weighted assets measurement which is calculated according to weight percentages assigned to different types of assets, which may be 0%, 20%, 50% and 100%. There are some exceptions in which the weight percentage is higher and is calculated based on the associated risk perception of the evaluated asset. Additionally, provisions, which are calculated on a monthly basis, are another risk measurement method. For commercial and consumer loans, there is a provision's reference model issued by the SFC, according to which a probability of default depends of an assigned rating (AA, A, BB, B, CC and default); and, for mortgage loans and small business loans, provisions are calculated based on ratings (A, B, C, D and E) assigned depending on the time elapsed since the client's default.

With respect to market risks, commercial banks must follow the provisions of the Basic Accounting Circular, which defines criteria and procedures for measuring a bank's exposure to interest rate risk, foreign exchange risk, and market risk. Under such regulations, banks must send the SFC information on the net present value, duration, and interest rate of its assets, liabilities, and derivative positions. Since January 2002, Colombian banks have been required to calculate, for each position on the balance sheet, a volatility rate and a parametric VaR (value at risk), which is calculated based on net present value, modified duration and a risk factor computed in terms of a basis points change. Each risk factor is calculated and provided by the SFC.

With respect to liquidity risks, each financial entity is required to have liquid assets greater than the contractual liquidity accumulative one-month-gap. This contractual gap includes the maturity of assets and liabilities of the current positions and does not include projections of future transactions. The loan portfolio is affected by the historical default indicator and the maturity of deposits is modeled according to the regulation. All of Bancolombia’s Colombian banking subsidiaries met this regulatory limit throughout the year.

With respect to operational risk, commercial banks must qualify, according to principles provided by the Basic Accounting Circular, each of their operative lines (such as corporate finance, issue and negotiation of securities, commercial banking, assets management, etc.) in order to record the risk events that may occur and cause fraud, technology problems, legal and reputational problems and problems associated with labor relations at the bank.

International regulations applicable to Bancolombia and its subsidiaries

FATCA

Under the Foreign Account Tax Compliance Act ("FATCA"), U.S. federal tax legislation enacted in 2010, imposes a 30% withholding tax on 'withholdable payments' made to non-U.S. financial institutions that do not participate in the FATCA program or that fail (or, in some case, that have affiliates in which they hold an interest of more than 50% and which are also non-U.S. financial institutions that fail) to provide certain information regarding their U.S. accountholders and/or certain U.S. investors (such U.S. accountholders and U.S. investors, "U.S. accountholders") to the U.S. Internal Revenue Service ("IRS"). FATCA also requires participating foreign financial institutions ("FFIs") to withhold on "passthru payments" (which include both "withholdable payments" and certain non-U.S.-source payments) made to account holders who don't provide information to the FFIs to determine their U.S. accountholder's status – "recalcitrant accountholders" - and to FFIs that do not sign an FFI Agreement with the IRS (such FFIs, "nonparticipating FFIs"). "Withholdable payments" generally include, among other items, payments of U.S.-source interest and dividends and the gross proceeds from the sale or other disposition of property that may produce U.S.-source interest and dividends. This withholding will take effect on a "phased" schedule, starting in January 2014 with withholding on non-U.S. source payments by non-U.S. financial institutions to start no earlier than January 2017.

Some countries have entered into, and other countries are expected to enter into, agreements ('intergovernmental agreements' or 'IGAs') with the United States to facilitate the type of information reporting required under FATCA. These agreements are expected to reduce that risk for financial institutions and investors in countries that have entered into IGAs. None of the countries where Bancolombia operates have signed IGAs and we do not expect that these countries will sign IGAs before January 2014. We are currently in the process of estimating the costs and commercial impact of implementing FATCA compliance on a group wide level.

Regulatory Framework for Subsidiaries Not Participants in the Financial Sector

All of Bancolombia's Colombian subsidiaries that are not part of the finance sector are governed by the laws and regulations embodied in the Colombian Civil Code and the Colombian Code of Commerce as well as any regulations issued by the Colombian Superintendency of Industry and Commerce and the Superintendency of Corporations or any other type of special regulations that may be applicable to the commercial and industrial activities carried out by said subsidiaries.

Financial Regulation of El Salvador

On January 26, 2011, the Legislature of El Salvador approved Decree 592 "Supervision and Regulation of the financial System" (hereinafter the "Law") (*Ley de Supervisión y Regulación del Sistema Financiero*) in order to fortify the State's organization, adapting all supervision and regulatory institutions to the economic reality of the financial system. Consequently, the Legislature, merged the Superintendency of Pensions and the Superintendency of Securities into the Superintendency of the Financial System, consolidating the technical experience and management that the regulatory institutions have accumulated during the years in every segment of the financial system, in coordination with the macroeconomic and financial experience of the Central Reserve Bank of El Salvador (*Banco Central de Reserva de El Salvador*), to bring stability, efficiency and development to the financial system.

The Law states that the Superintendency of the Financial System and Central Reserve Bank of El Salvador are obliged to supervise all members of the financial system and to approve the necessary regulation for the Law's adequate application.

The Law's main objective is to maintain stability in the Salvadorian financial system, to guarantee efficiency, transparency, security and solidity within the system, and to all its members in compliance with this law, and applicable laws and regulations, all in accordance with best international practices.

The Superintendency of the Financial System is responsible for the surpervision of the individual and consolidated activities of all the members in the system, as well as, the people, operations and entities that the law obliges it to regulate. Article 3 of the Law establishes all the competences of the Superintendency, some of which are detailed below: (i) to fulfill and enforce the laws, regulations and other legal provisions applicable to the entities subject to its supervision and issue all the necessary instructions for compliance of the laws applicable to the system; (ii) to authorize the establishment, function, operation, intervention, suspension, modification, revocation of authorizations and closure of all members of the system, in accordance with laws and regulations. In the event of closure, the Superintendency will coordinate with the entities involved the actions established by the law; (iii) risk prevention through the monitoring and management of the members within the system with an eye toward the prudential management of liquidity and solvency; (iv) to propitiate an efficient, transparent and organized financial system; (v) to require that all supervised entities and institutions be managed in accordance with the best international practices of risk management and corporate governance; and (vi) all other legal requirements.

Banking Law of El Salvador

The Legislature of the Republic of El Salvador established the banking law through Decree 697 of 1999, which regulates the financial intermediation and other operations performed by banks in El Salvador.

The banks are required to establish a reserve requirement, set by the Salvadorian Superintendency of the Financial System in accordance to the deposits and obligations of such bank.

According to the Salvadorian Superintendency of Financial System's regulations, the reserve requirements for Salvadorian banks as of December 31, 2012 are:

	Ordinary Reserve Requirements %	
Checking Accounts	25.0	%
Saving Accounts	20.0	%
Time Deposits	20.0	%
Borrowings from foreign banks	5.0	%
Long-term debt[(1)]	15.0%-20.0	%

(1) 15% for long-term debt with maturity above one year and 20% for long-term debt with maturity less than one year.

An extraordinary reserve requirement of 3.0% over the total amount of deposits applicable to banks is in place as of December 31, 2012.

Monetary Integration Law of El Salvador

Since November 2000, El Salvador has used the U.S. dollar as its legal currency. The transition from the Colon (former currency) was enacted by the Monetary Integration Law. This law established a fixed exchange rate of 8.75 Colones per USD 1. The Colon continues to have unrestricted legal circulation, but the central bank has been replacing it with the U.S. dollar any time Colon bills and coins are presented for transactions.

Since the implementation of the Monetary Integration Law, all financial operations, such as bank deposits, loans, pensions, issuance of securities and any others made through the financial system, as well as the accounting records, must be expressed in U.S. dollars. The operations or transactions of the financial system made or agreed in Colones before the effective date of the Monetary Integration Law are expressed in U.S. dollars at the exchange rate established in such law.

C. ORGANIZATIONAL STRUCTURE

The following are the main subsidiaries of Bancolombia:

The following is a list of subsidiaries of Bancolombia as of December 31, 2012:

SUBSIDIARIES

Entity	Jurisdiction of Incorporation	Business	Shareholding directly and indirectly	
Leasing Bancolombia	Colombia	Leasing	100.00	%
Fiduciaria Bancolombia	Colombia	Trust	98.81	%
Banca de Inversión	Colombia	Investment Banking	100.00	%
Valores Bancolombia	Colombia	Securities brokerage	100.00	%
Tuya S.A. Compañía de Financiamiento	Colombia	Financial services	99.99	%
Factoring Bancolombia	Colombia	Financial services	100.00	%
Patrimonio Autónomo Cartera LBC(1)	Colombia	Loan management	100.00	%
Renting Colombia	Colombia	Operating leasing	100.00	%
Transportempo S.A.S.	Colombia	Transportation	100.00	%
Valores Simesa S.A.	Colombia	Investments	67.54	%
Inversiones CFNS S.A.S.	Colombia	Investments	100.00	%
CFNS Infraestructura S.A.S.	Colombia	Investments	100.00	%
BIBA Inmobiliaria S.A.S. (formely Inmobiliaria Bancol S.A.)	Colombia	Real estate broker	98.96	%
Vivayco S.A.S.	Colombia	Portfolio Purchase	75.00	%
Uff Móvil S.A.S.	Colombia	Mobile network operator	69.42	%
Bancolombia Panamá	Panama	Banking	100.00	%
Valores Bancolombia Panamá S.A.	Panama	Securities brokerage	100.00	%
Suvalor Panamá Fondo de Inversión S.A.	Panama	Holding	100.00	%
Sistema de Inversiones y Negocios S.A. Sinesa	Panama	Investments	100.00	%
Banagrícola	Panama	Investments	99.16	%
Banco Agrícola	El Salvador	Banking	97.35	%
Arrendadora Financiera S.A. Arfinsa	El Salvador	Leasing	97.35	%
Credibac S.A. de C.V.	El Salvador	Credit card services	97.35	%
Valores Banagrícola S.A. de C.V.	El Salvador	Securities brokerage	98.89	%
Inversiones Financieras Banco Agrícola S.A. IFBA	El Salvador	Investments	98.89	%
Arrendamiento Operativo CIB S.A.C.	Peru	Operating leasing	100.00	%
Capital Investments SAFI S.A.	Peru	Trust	100.00	%
Fondo de Inversión en Arrendamiento Operativo Renting Perú	Peru	Car Rental	100.00	%
Leasing Perú S.A.	Peru	Leasing	100.00	%
FiduPerú S.A. Sociedad Fiduciaria	Peru	Trust	98.81	%
Bancolombia Puerto Rico Internacional, Inc.	Puerto Rico	Banking	100.00	%
Suleasing Internacional USA, Inc.	USA	Leasing	100.00	%
Bancolombia Cayman S.A.	Cayman Islands	Banking	100.00	%
Banagrícola Guatemala S.A.	Guatemala	Outsourcing	99.16	%
Banagrícola Costa Rica S.A.	Costa Rica	Outsourcing	99.16	%

(1) See Item 18. Financial Statements, note 1 “Organization of Background”.

D. PREMISES AND EQUIPMENT

As of December 31, 2012, the Bank owned COP 3,533 billion in premises and equipment (including assets that are part of our operating leasing business). COP 1,058 billion corresponds to land and buildings, of which approximately 95% are used for administrative offices and branches in 60 municipalities in Colombia and 25 municipalities in El Salvador. Likewise, COP 309 billion correspond to computer equipment, of which 21.16% relate to the central computer and servers of Bancolombia and the rest relate to personal computers, ATMs, telecommunications equipment and other equipment.

In addition to its own branches, the Bank occupies 699 rented offices.

The Bank does not have any liens on its property.

E. SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with the Bank's consolidated financial statements as well as Item 5. Operating and Financial Review and Prospects. This information has been prepared based on the Bank's financial records, which are prepared in accordance with Colombian banking GAAP and do not reflect adjustments necessary to state the information in accordance with U.S. GAAP. See Note 31 to the Bank's consolidated financial statements as of December 31, 2012 included in this Annual Report for a summary of the significant differences between Colombian banking GAAP and U.S. GAAP.

The consolidated selected statistical information for the year ended December 31, 2008 includes the selected statistical information of Bancolombia and its subsidiaries, without reflecting any pro-forma calculation of the effect of Banagrícola's acquisition, while consolidated selected statistical information for the years ended December 31, 2009, December 31, 2010, December 31, 2011 and December 31, 2012 corresponds to the Bank and its Subsidiaries, including all additional subsidiaries acquired as a result of the Banagrícola acquisition.

E.1. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

Average balances have been calculated as follows: for each month, the actual month-end balances were established. The average balance for each period is the average of such month-end balances. For purposes of the presentation in the following tables, non-performing loans have been treated as non-interest-earning assets.

In addition, the interest rate subtotals are based on the weighted average of the average peso-denominated and U.S. dollar-denominated balances.

Average balance sheet

The following tables show for the years ended December 31, 2012, 2011 and 2010, respectively: (i) average balances for all of the Bank's assets and liabilities; (ii) interest earned and interest paid amounts; and (iii) average nominal interest rates/yield for the Bank's interest-earning assets and interest-bearing liabilities.

Average Balance Sheet and Income from Interest-Earning Assets for the Fiscal Years Ended December 31,		
2012	2011	2010

	Average Balance	Interest Earned	Average Yield / Rate	Average Balance	Interest Earned	Average Yield / Rate	Average Balance	Interest Earned	Avera Yield / Rate
	(COP million, except percentages)								
ASSETS									
Interest-earning assets									
Funds sold and securities purchased under agreements to resell									
Peso-denominated	314,406	20,341	6.5 %	197,731	9,253	4.7 %	907,453	32,472	3.6 %
U.S. Dollar-denominated	837,221	3,837	0.5 %	555,502	9,567	1.7 %	478,224	9,526	2.0 %
Total	1,151,627	24,178	2.1 %	753,233	18,820	2.5 %	1,385,677	41,998	3.0 %
Investment securities									
Peso-denominated	7,393,673	752,081	10.2 %	7,292,601	638,401	8.8 %	6,381,602	422,866	6.9 %
U.S. Dollar-denominated	2,480,742	7,432	0.3 %	2,170,386	(12,842)	(0.6 %)	2,159,867	11,502	0.5 %
Total	9,874,415	759,513	7.7 %	9,462,987	625,559	6.6 %	8,541,469	454,368	5.3 %
Loans and Financial Leases [(1)]									
Peso-denominated	47,397,959	6,029,349	12.7 %	39,020,268	4,495,779	11.5 %	32,808,038	3,763,049	11.5 %
U.S. Dollar-denominated	14,982,937	848,843	5.7 %	14,053,540	805,436	5.7 %	10,361,466	701,225	6.8 %
Total	62,380,896	6,878,192	11.0 %	53,073,808	5,301,215	10.0 %	43,169,504	4,464,274	10.3 %
Total interest-earning assets									
Peso-denominated	55,106,038	6,801,771	12.3 %	46,510,600	5,143,433	11.1 %	40,097,093	4,238,387	10.6 %
U.S. Dollar-denominated	18,300,900	860,112	4.7 %	16,779,428	802,161	4.8 %	12,999,557	722,253	5.6 %
Total	73,406,938	7,661,883	10.4 %	63,290,028	5,945,594	9.4 %	53,096,650	4,960,640	9.3 %
Total non-interest-earning assets									
Peso-denominated	14,789,995			10,794,960			6,957,834		
U.S. Dollar-denominated	459,680			1,674,836			3,300,597		
Total	15,249,675			12,469,796			10,258,431		
Total interest and non-interest-earning assets									
Peso-denominated	69,896,033	6,801,771		57,305,560	5,143,433		47,054,927	4,238,387	
U.S. Dollar-denominated	18,760,580	860,112		18,454,264	802,161		16,300,154	722,253	

Total Assets (COP)	88,656,613	7,661,883	75,759,824	5,945,594	63,355,081	4,960,640

(1) Includes performing loans only.

Average Balance Sheet and Interest Paid on Interest-Bearing Liabilities for the Fiscal Years Ended December 31,

	2012			2011			2010		
	Average Balance	Interest Paid	*Average Yield / Rate*[(1)]	Average Balance	Interest Paid	*Average Yield / Rate*[(1)]	Average Balance	Interest Paid	*Average Yield / Rate*[(1)]
	(COP million, except percentages)								
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Checking deposits									
Peso-denominated	815,018	14,854	1.8%	1,133,887	27,648	2.4%	852,041	24,357	2.9%
U.S. Dollar-denominated	1,552,101	10,077	0.6%	1,761,949	12,278	0.7%	1,679,362	14,501	0.9%
Total	2,367,119	24,931	1.1%	2,895,836	39,926	1.4%	2,531,403	38,858	1.5%
Savings deposits									
Peso-denominated	20,523,024	645,429	3.1%	17,804,695	465,477	2.6%	14,046,068	307,106	2.2%
U.S. Dollar-denominated	2,516,804	13,926	0.6%	2,423,260	13,965	0.6%	2,122,407	14,556	0.7%
Total	23,039,828	659,355	2.9%	20,227,955	479,442	2.4%	16,168,475	321,662	2.0%
Time deposits									
Peso-denominated	15,434,855	948,569	6.1%	11,069,415	547,775	4.9%	11,117,836	537,145	4.8%
U.S. Dollar-denominated	6,254,808	168,866	2.7%	5,720,138	142,682	2.5%	5,835,906	156,601	2.7%
Total	21,689,663	1,117,435	5.2%	16,789,553	690,457	4.1%	16,953,742	693,746	4.1%
Funds purchased and securities sold under agreements to repurchase									
Peso-denominated	1,783,698	95,984	5.4%	2,055,858	82,757	4.0%	1,457,443	38,867	2.7%
U.S. Dollar-denominated	85,580	1,636	1.9%	171,464	2,503	1.5%	119,075	1,584	1.3%
Total	1,869,278	97,620	5.2%	2,227,322	85,260	3.8%	1,576,518	40,451	2.6%
Borrowings from development and other domestic banks[(2)]									
Peso-denominated	3,114,989	216,746	7.0%	2,746,976	157,471	5.7%	2,521,533	133,673	5.3%
U.S. Dollar-denominated	62,503	3,350	5.4%	61,949	2,438	3.9%	127,093	5,359	4.2%
Total	3,177,492	220,096	6.9%	2,808,925	159,909	5.7%	2,648,626	139,032	5.2%
Interbank borrowings[(2) (3)]									
Peso-denominated	-	-		-	-	-	-	-	
	2,488,285	50,209	2.0%	2,949,935	45,840	1.6%	1,449,197	19,537	1.3%

U.S. Dollar-denominated									
Total	2,488,285	50,209	2.0%	2,949,935	45,840	1.6%	1,449,197	19,537	1.3%
Long-term debt									
Peso-denominated	5,113,227	405,946	7.9%	3,849,149	298,847	7.8%	2,759,345	209,542	7.6%
U.S. Dollar-denominated	5,674,347	319,268	5.6%	4,175,142	242,325	5.8%	1,952,604	108,753	5.6%
Total	10,787,574	725,214	6.7%	8,024,291	541,172	6.7%	4,711,949	318,295	6.8%
Total interest-bearing liabilities									
Peso-denominated	46,784,811	2,327,528	5.0%	38,659,980	1,579,975	4.1%	32,754,266	1,250,690	3.8%
U.S. Dollar-denominated	18,634,428	567,332	3.0%	17,263,837	462,031	2.7%	13,285,644	320,891	2.4%
Total	65,419,239	2,894,860	4.4%	55,923,817	2,042,006	3.7%	46,039,910	1,571,581	3.4%
Total interest and non-interest bearing liabilities and stockholders' equity									
Peso-denominated	69,753,379	2,327,528		57,205,647	1,579,975		47,981,394	1,250,690	
U.S. Dollar-denominated	18,903,234	567,332		18,554,177	462,031		15,373,687	320,891	
Total Liabilities and Stockholders' Equity (COP)	88,656,613	2,894,860		75,759,824	2,042,006		63,355,081	1,571,581	

(1) See "Item 4. Information on the Company – E. Selected Statistical Information – E.1 Distribution of Assets, Liablilities and Stockholders' Equity; Interest Rates and Interest Differential".

(2) Includes both short-term and long-term borrowings.

(3) Includes borrowings from banks located outside Colombia.

CHANGES IN NET INTEREST INCOME AND EXPENSES—VOLUME AND RATE ANALYSIS

The following table allocates, by currency of denomination, changes in the Bank's net interest income to changes in average volume, changes in nominal rates and the net variance caused by changes in both average volume and nominal rate for the fiscal year ended December 31, 2012 compared to the fiscal year ended December 31, 2011; and the fiscal year ended December 31, 2011 compared to the fiscal year ended December 31, 2010. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities. Net changes attributable to changes in both volume and interest rate have been allocated to the change due to changes in volume.

	2011-2012 Increase (Decrease) Due To Changes in:			2010-2011 Increase (Decrease) Due To Changes in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(COP million)					
Interest-earning assets:						
Funds sold and securities purchased under agreements to resell						
Peso-denominated	7,548	3,540	11,088	(33,212)	9,993	(23,219)
U.S. Dollar-denominated	1,291	(7,021)	(5,730)	1,331	(1,290)	41
Total	8,839	(3,481)	5,358	(31,881)	8,703	(23,178)
Investment securities						
Peso-denominated	10,281	103,399	113,680	79,750	115,785	195,535
U.S. Dollar-denominated	930	19,344	20,274	(62)	(24,282)	(24,344)
Total	11,211	122,743	133,954	79,688	91,503	171,191
Loans and financial leases						
Peso-denominated	1,065,700	467,870	1,533,570	715,751	16,979	732,730
U.S. Dollar-denominated	52,654	(9,247)	43,407	211,600	(107,389)	104,211
Total	1,118,354	458,623	1,576,977	927,351	(90,410)	836,941
Total interest-earning assets						
Peso-denominated	1,083,529	574,809	1,658,338	762,289	142,757	905,046
U.S. Dollar-denominated	54,875	3,076	57,951	212,869	(132,961)	79,908
Total	1,138,404	577,885	1,716,289	975,158	9,796	984,954
Interest-bearing liabilities:						
Checking deposits						
Peso-denominated	(5,812)	(6,982)	(12,794)	12,406	(4,487)	7,919
U.S. Dollar-denominated	(1,362)	(839)	(2,201)	228	(11,432)	(11,204)
Total	(7,174)	(7,821)	(14,995)	12,634	(15,919)	(3,285)
Savings deposits						
Peso-denominated	85,489	94,463	179,952	153,872	(119,521)	34,351
U.S. Dollar-denominated	518	(557)	(39)	1,550	(7,324)	(5,774)

Total	86,007	93,906	179,913	155,422	(126,845)	28,577
Time deposits						
Peso-denominated	268,284	132,510	400,794	(99,515)	(452,388)	(551,903)
U.S. Dollar-denominated	14,435	11,749	26,184	(41,955)	(92,252)	(134,207)
Total	282,719	144,259	426,978	(141,470)	(544,640)	(686,110)
Funds purchased and securities sold under agreements to repurchase						
Peso-denominated	(14,645)	27,872	13,227	33,910	(25,645)	8,265
U.S. Dollar-denominated	(1,642)	775	(867)	(4,704)	(12,400)	(17,104)
Total	(16,287)	28,647	12,360	29,206	(38,045)	(8,839)
Borrowings from development and other domestic banks						
Peso-denominated	25,607	33,668	59,275	(8,157)	(79,016)	(87,173)
U.S. Dollar-denominated	30	882	912	(14,777)	9,017	(5,760)
Total	25,637	34,550	60,187	(22,934)	(69,999)	(92,933)
Interbank borrowings						
Peso-denominated	-	-	-	-	-	-
U.S. Dollar-denominated	(9,315)	13,684	4,369	26,099	(27,909)	(1,810)
Total	(9,315)	13,684	4,369	26,099	(27,909)	(1,810)
Long-term debt						
Peso-denominated	100,357	6,742	107,099	111,494	(69,368)	42,126
U.S. Dollar-denominated	84,353	(7,410)	76,943	147,343	(8,479)	138,864
Total	184,710	(668)	184,042	258,837	(77,847)	180,990
Total interest-bearing liabilities						
Peso-denominated	459,280	288,273	747,553	204,010	(750,425)	(546,415)
U.S. Dollar-denominated	87,017	18,284	105,301	113,784	(150,779)	(36,995)
Total (COP)	546,297	306,557	852,854	317,794	(901,204)	(583,410)

INTEREST-EARNING ASSETS — NET INTEREST MARGIN AND SPREAD

The following table presents the levels of average interest-earning assets and net interest income of the Bank and illustrates the comparative net interest margin and interest spread obtained for the fiscal years ended December 31, 2012, 2011 and 2010, respectively.

	Interest-Earning Assets Yield For the Fiscal Year Ended December 31,		
	2012	2011	2010
	(*COP million, except percentages*)		
Total average interest-earning assets			
Peso-denominated	55,106,038	46,510,600	40,097,093
U.S. Dollar-denominated	18,300,900	16,779,428	12,999,557
Total	73,406,938	63,290,028	53,096,650
Net interest income(1)			
Peso-denominated	4,474,243	3,563,458	2,987,697
U.S. Dollar-denominated	292,780	340,130	401,362
Total	4,767,023	3,903,588	3,389,059
Average yield on interest-earning assets			
Peso-denominated	12.3 %	11.1 %	10.6 %
U.S. Dollar-denominated	4.7 %	4.8 %	5.6 %
Total	10.4 %	9.4 %	9.3 %
Net interest margin(2)			
Peso-denominated	8.1 %	7.7 %	7.5 %
U.S. Dollar-denominated	1.6 %	2.0 %	3.1 %
Total	6.5 %	6.2 %	6.4 %
Interest spread(3)			
Peso-denominated	7.4 %	7.0 %	6.8 %
U.S. Dollar-denominated	1.7 %	2.1 %	3.1 %
Total	6.0 %	5.7 %	5.9 %

(1) Net interest income is loan interest income less interest accrued and includes interest earned on investments.

(2) Net interest margin is net interest income divided by total average interest-earning assets.

(3) Interest spread is the difference between the average yield on interest-earning assets and the average rate accrued on interest-bearing liabilities.

E.2. INVESTMENT PORTFOLIO

The Bank acquires and holds investment securities, including fixed income debt and equity securities, for liquidity and other strategic purposes, or when it is required by law.

The SFC requires investments to be classified as “trading”, “available for sale” or “held to maturity”. Trading investments are those acquired primarily to obtain profits from fluctuations in short-term prices and are recorded at market value. The difference between current and previous market value is added to or subtracted from the value of the investment and credited or charged to earnings. “Available for sale” investments are those held for at least one year and are recorded at market value with changes to the values of these securities recorded in a separate account in the equity section. “Held to maturity” investments are those acquired to be held until maturity and are valued at amortized cost.

As of December 31, 2012, Bancolombia’s investment portfolio had a value of COP 11,418 billion.

In accordance with Chapter 1 of Circular 100 of 1995 (Basic Accounting Circular) issued by the SFC, investments in debt securities are fully tested for impairment in June and December and partially tested for impairment on a quarterly basis; in each case taking into account the related solvency risk, market exposure, currency exchange and country risk. Investments in securities rated by external agencies recognized by the SFC cannot be recorded on the balance sheet of the Bank for an amount higher than a certain percentage of the face value (as shown in the table below), net of the amortizations recorded as of the valuation date.

Long-Term Classification	***Maximum Face Value (%)***
BB+, BB, BB-	Ninety (90)
B+, B, B-	Seventy (70)
CCC	Fifty (50)
DD, EE	Zero (0)

Short-Term Classification	***Maximum Face Value (%)***
3	Ninety (90)
4	Fifty (50)
5 and 6	Zero (0)

Internal or external debt securities issued or guaranteed by the Republic of Colombia, as well as those issued by the Central Bank and those issued or guaranteed by Fogafin, are not subject to this adjustment.

The following table sets forth the book value of the Bank's investments in Colombian Government and foreign Governments and corporate securities and certain other financial investments as of the dates indicated:

	As of December 31,		
	2012[(1)(2)]	***2011***[(1)(2)]	***2010***[(1)(2)]
	(COP million)		
Foreign currency-denominated			
Securities issued or secured by the Colombian Government	COP 236,890	COP 200,600	COP 111,482
Securities issued or secured by the El Salvador Central Bank	582,418	685,853	751,689
Securities issued or secured by Government entities[(3)]	58,513	72,275	91,798
Securities issued or secured by other financial entities	341,302	321,765	262,361
Securities issued by foreign Governments	693,751	484,272	522,599
Others[(4)]	205,749	212,259	184,800
Subtotal	2,118,623	1,977,024	1,924,729
Peso-denominated			
Securities issued or secured by the Colombian Government	5,959,277	3,405,746	2,157,162
Securities issued or secured by Government entities	1,278,576	1,191,753	1,011,385
Securities issued or secured by financial entities	1,997,260	2,534,782	2,969,900
Others[(4)]	64,319	75,051	117,909
Subtotal	9,299,432	7,207,332	6,256,356
Total, net	**COP 11,418,055**	**COP 9,184,356**	**COP 8,181,085**

(1) Includes debt securities only. Net investments in equity securities were COP 1,136,256 million, COP 773,835 million and COP 494,678 million for 2012, 2011 and 2010.

(2) These amounts are net of allowances for decline in value which were COP 14,159 million for 2012, COP 16,854 million for 2011 and COP 45,726 million for 2010.

(3) This amount includes investments in fiduciary certificates of participation. These certificates were issued for the Environmental Trust for the conservation of the Coffee Forest (*Fideicomiso Ambiental para la Conservación del Bosque Cafetero or "FICAFE"*). This trust was formed with the transfer of the coffee sector's loan portfolio by a number of banks in El Salvador, including Banco Agrícola. The purpose of this transaction was to carry out the restructuring of those loans, promoted by the Government of El Salvador. The Bank has recognized an allowance related to probable losses inherent in the FICAFE investment in an amount of COP 32,297 million and COP 41,926 million at December 31, 2012 and 2011, respectively.

(4) Includes debt securities in corporate bonds.

As of December 31, 2012, 2011 and 2010 Bancolombia held securities issued by foreign Governments in the following amounts:

As of December 31,	Issuer	*Investment Amount–Book Value (in millions of pesos)*[(1)]		*Investment Amount–Book Value (thousands of U.S. dollars)*[(1) (2)]	
2012	Republic of El Salvador	COP	403,541	USD	228,218
	Republic of Chile	COP	76,235	USD	43,114
	Republic of Brazil	COP	74,601	USD	42,189
	U.S. Treasury	COP	52,985	USD	29,965
	Republic of Mexico	COP	48,629	USD	27,501
	Republic of Costa Rica	COP	31,133	USD	17,607
	Republic of Panama	COP	10,761	USD	6,086
	Republic of Peru	COP	6,496	USD	3,674
2011	Republic of El Salvador	COP	310,088	USD	159,617
	U.S. Treasury	COP	113,335	USD	58,339
	Republic of Brazil	COP	46,063	USD	23,711
	Republic of Panama	COP	11,193	USD	5,761
	Republic of Peru	COP	10,406	USD	5,357
	Republic of Chile	COP	171	USD	88
2010	Republic of El Salvador	COP	335,402	USD	175,238
	U.S. Treasury	COP	99,567	USD	52,021
	Republic of Brazil	COP	68,294	USD	35,682
	Republic of Panama	COP	43,446	USD	22,699
	Republic of Peru	COP	10,720	USD	5,601
	Republic of Chile	COP	153	USD	80

(1) These amounts are not net of allowances for decline in value which were COP 10,630 million (USD 6 million) for 2012, COP 6,983 million (USD 3.6 million) for 2011 and COP 34,983 million (USD 18 million) for 2010.

(2) These amounts have been translated at the rate of COP 1,768.23 per USD 1.00 at December 2012, COP 1,942.70 per USD 1.00 at December 2011 and COP 1,913.98 per USD 1.00 at December 2010, which corresponds to the Representative Market Rate, calculated on December 31, the last business day of the year.

As of December 31, 2012, the Bank's peso-denominated debt securities portfolio amounted to COP 9,299 billion, reflecting a 29% increase compared to the level at December 31, 2011. The increase resulted mainly from an increase in holdings of securities issued by the Colombian Government. Peso-denominated debt securities issued by the Colombian Government represented 64% of the Bank's peso-denominated debt securities portfolio in 2012.

On the other hand, as of December 31, 2012, Bancolombia's held securities issued by foreign Governments amounted to COP 693 billion (net of allowances for decline in value), increasing in 43% compared to the end of 2011. This variation is primarily explained by an increase in the Bank's position in Chilean and Mexican sovereign bonds.

INVESTMENT SECURITIES PORTFOLIO MATURITY

The following table summarizes the maturities and weighted average nominal yields of the Bank's investment securities as of December 31, 2012:

	As of December 31, 2012									
	Maturing in less than 1 year		Maturing between 1 and 5 years		Maturing between 5 and 10 years		Maturing in more than 10 years		Total	
	Balance(1)	Yield %(2)	Balance(1)	Yield %(2)	Balance(1)	Yield %(2)	Balance(1)	Yield %(2)	Balance(1)	Yie %(2
(COP million, except yields)										
Securities issued or secured by:										
Foreign currency-denominated:										
Colombian Government	7,599	5.53%	67,512	2.12%	161,755	2.18%	24	6.93 %	236,890	2.2
El Salvador Central Bank	582,418	0.40%	-	-	-	-	-	-	582,418	0.4
Other Government entities	-	-	7,544	4.21%	12,530	4.61%	38,439	3.27 %	58,513	3.6
Other financial entities	14,118	3.70%	157,222	3.97%	169,962	4.87%	-	-	341,302	4.4
Foreign Governments	378,848	4.11%	47,574	1.15%	181,367	2.96%	85,962	4.63 %	693,751	3.6
Others	-	-	98,517	6.88%	99,964	4.04%	7,268	5.01 %	205,749	5.4
Subtotal	982,983	1.91%	378,369	4.05%	625,578	3.48%	131,693	4.25 %	2,118,623	2.9
Securities issued or secured by:										
Peso-denominated										
Colombian Government	534,420	5.03%	3,766,334	5.10%	206,486	5.59%	57,192	6.03 %	4,564,432	5.
Government entities	1,261,441	2.41%	9,583	7.55%	7,552	0.87%	-	-	1,278,576	2.4

Other financial entities	121,895	6.17%	228,600	6.99%	692,450	6.93%	652,639	11.75%	1,695,584	8.
Others	20,138	6.63%	37,390	3.38%	6,791	7.69%	-	-	64,319	4.
Subtotal	1,937,894	3.41%	4,041,907	5.19%	913,279	6.58%	709,831	11.29%	7,602,911	5.
Securities issued or secured by:										
UVR-denominated Colombian Government	1,034,410	1.38%	349,340	0.54%	8,857	2.51%	2,238	2.84 %	1,394,845	1.
Other financial entities	-	-	26,142	5.75%	211,936	4.13%	63,598	9.12 %	301,676	5.
Subtotal	1,034,410	1.38%	375,482	0.90%	220,793	4.06%	65,836	8.90 %	1,696,521	1.
Total (COP)	3,955,287		4,795,758		1,759,650		907,360		11,418,055	

(1) Amounts are net of allowances for decline in value which amounted to COP 14,159 million in 2012.

(2) Yield was calculated using the internal return rate (IRR) as of December 31, 2012.

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As of December 31, 2012, the Bank had the following investments in securities of issuers that exceeded 10% of the Bank's stockholders' equity:

	Issuer (COP million)	Book value	Fair value
Securities issued or secured by:			
Colombian Government	Ministry of Finance	COP6,196,167	COP6,165,857
Other financial entities	Titularizadora Colombiana	1,563,673	1,535,937
Government entities	FINAGRO	1,259,362	1,244,041
Total		COP**9,019,202**	COP**8,945,835**

E.3. LOAN PORTFOLIO

Types of loans

The following table shows the Bank's loan portfolio classified into corporate, retail (including small and medium enterprise loans), financial leases and mortgage loans:

	As of December 31,				
	2012	2011	2010	2009	2008
	(COP million)				
Domestic					
Corporate					
Trade financing	1,994,779	2,338,728	1,704,673	623,084	640,033
Loans funded by development banks	245,241	252,891	300,459	485,754	970,456
Working capital loans	26,274,367	22,234,866	18,360,582	15,003,979	15,524,940
Credit cards	30,008	30,552	31,297	26,947	33,039
Overdrafts	82,981	66,454	38,563	45,072	55,796
Total corporate	28,627,376	24,923,491	20,435,574	16,184,836	17,224,264
***Retail*(1)**					
Credit cards	3,488,787	3,161,273	2,477,808	2,198,127	2,317,178
Personal loans	5,209,423	4,222,015	2,890,095	2,060,776	2,369,852
Vehicle loans	2,154,121	1,991,909	1,332,175	1,218,299	1,314,685
Overdrafts	210,653	168,865	156,244	168,760	208,123
Loans funded by development banks	843,146	676,985	667,299	792,437	887,978
Trade financing	99,596	69,210	27,547	48,955	98,344
Working capital loans	8,380,095	6,330,371	4,702,240	4,346,213	4,125,358
Total retail	20,385,821	16,620,628	12,253,408	10,833,567	11,321,518
Financial Leases	8,405,497	6,977,454	5,737,473	5,390,937	5,406,712

Mortgage	5,164,514	4,017,855	2,516,376	2,556,810	2,313,864
Total loans and leases	62,583,208	52,539,428	40,942,831	34,966,150	36,266,358
Allowance for loan losses	(2,975,616)	(2,455,141)	(2,160,119)	(2,115,161)	(1,810,577)
Total domestic loans, net (COP)	59,607,592	50,084,287	38,782,712	32,850,989	34,455,781
Foreign					
Corporate					
Trade financing	220,834	1,889,668	1,192,349	551,211	1,128,931
Loans funded by development banks	16,460	11,104	18,874	41,969	52,308
Working capital loans	4,219,310	4,001,695	3,644,287	3,509,893	3,807,352
Credit cards	5,611	16,817	6,712	8,462	9,327
Overdrafts	20,453	29,380	5,190	5,530	7,712
Total corporate	4,482,668	5,948,664	4,867,412	4,117,065	5,005,630
***Retail*(1)**					
Credit cards	183,979	168,061	156,895	190,932	201,813
Personal loans	1,611,499	1,597,624	1,649,853	1,713,992	1,917,663
Vehicle loans	1,426	1,905	2,705	3,718	5,724
Overdrafts	12,897	18,248	18,449	19,853	21,089
Loans funded by development banks	19,879	16,718	12,143	9,410	8,304
Trade financing	8,767	17,585	7,516	4,343	25,482
Working capital loans	46,600	63,025	20,705	24,833	13,015
Total retail	1,885,047	1,883,166	1,868,266	1,967,081	2,193,090
Financial Leases	244,446	194,357	96,076	79,064	100,030
Mortgage	793,310	822,813	826,505	912,614	1,077,462
Total loans and leases	7,405,471	8,849,000	7,658,259	7,075,824	8,376,212
Allowance for loan losses	(274,023)	(357,441)	(349,094)	(316,506)	(323,783)
Total foreign loans, net (COP)	7,131,448	8,491,559	7,309,165	6,759,318	8,052,429
Total Foreign and Domestic Loans (COP)	66,739,040	58,575,846	46,091,877	39,610,307	42,508,210

(1) Includes loans to high-income individuals and small companies.

The Bank classifies its loan portfolio into the following categories: (i) corporate loans; (ii) retail and small and medium enterprises loans; (iii) financial leases; and (iv) mortgage loans.

As of December 31, 2012, the Bank's total loan portfolio amounted to COP 69,989 billion, up 14% as compared to COP 61,388 billion in 2011, and 44% higher than the COP 48,601 billion at the end of 2010. Loan volume performance during 2012 is primarily explained by the significantly increased economic activity in Colombia, which led individuals and corporations to demand more credit. For further discussion of some of these trends please see "Item 5. Operating and Financial Review and Prospects – D. Trend information".

As of December 31, 2012, corporate loans amounted to COP 33,110 billion, or 47% of loans, and increased 7% from COP 30,872 billion at the end of 2011.

Retail loans totaled COP 22,271 billion, or 32% of total loans, of which COP 10,494 billion were consumer loans (15% of total loans). Retail loans increased 20% over the year.

Financial leases totaled COP 8,650 billion as of the end of 2012, up 21% from COP 7,172 billion at the end of 2011.

Mortgage lending activity was dynamic during 2012, driven mainly by the Colombian Government's housing subsidy program that was implemented in April 2009 as well as by lower long-term interest rates in Colombia. Taking into account securitized loans, mortgage loans decreased 11% over the year. At the end of 2012, Bancolombia had COP 2,426 billion in securitized mortgages, compared to COP 2,741 billion at the end of 2011.

Borrowing Relationships

As of December 31, 2012, the aggregate outstanding principal amount of the Bank's 25 largest borrowing relationships, on a consolidated basis, represented approximately 11.92% of the loan portfolio, and no single borrowing relationship represented more than 0.86% of the loan book. Also, 100% of those loans were corporate loans and 100% of these relationships were classified as "A".

Maturity and Interest Rate Sensitivity of Loans

The following table shows the maturities of the Bank's loan portfolio as of December 31, 2012:

	Due in one year or less (COP million)	Due from one to five years	Due after five years	Total
Domestic loans and financial leases:				
Corporate				
Trade financing	1,891,687	63,300	39,792	1,994,779
Loans funded by development banks	13,363	105,775	126,103	245,241
Working capital loans	8,583,759	8,985,565	8,705,043	26,274,367
Credit cards	3,229	24,741	2,038	30,008
Overdrafts	82,981	-	-	82,981
Total corporate	10,575,019	9,179,381	8,872,976	28,627,376
Retail				
Credit cards	669,569	2,712,859	106,359	3,488,787
Personal loans	366,113	4,628,049	215,261	5,209,423
Vehicle loans	51,341	1,360,277	742,503	2,154,121
Overdrafts	210,653	-	-	210,653
Loans funded by development banks	52,035	564,983		