

BANCOLOMBIA SA  
Form 20-F  
June 30, 2009

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 30, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 20-F**

(Mark One)

- o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
OR**
- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008  
OR**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
OR**
- o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_  
Commission file number: 001-32535  
BANCOLOMBIA S.A.  
(Exact name of Registrant as specified in its charter)  
N/A  
(Translation of Registrant's name into English)  
**Republic of Colombia**  
(Jurisdiction of incorporation or organization)  
**Carrera 48 # 26-85, Avenida Los Industriales  
Medellín, Colombia**  
(Address of principal executive offices)  
**Juan Esteban Toro Valencia, Investor Relations Manager  
Carrera 48 # 26-85, Medellín, Colombia**  
**Tel. +5744041837, Fax. + 574 4045146, e-mail: juatoro@bancolombia.com**  
(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)  
**Securities registered or to be registered pursuant to Section 12(b) of the Act.****

**Title of each Class**  
*American Depositary Shares*  
*Preferred Shares*

**Name of each exchange on which registered**  
New York Stock Exchange  
New York Stock Exchange\*

\*

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

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

Not applicable  
(Title of Class)

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

Not applicable  
(Title of Class)

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

Common Shares	<b>509,704,584</b>
Preferred Shares	<b>278,122,419</b>

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

Yes  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

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  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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(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

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

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

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

Yes  No

(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 the Annual Report refer to this annual report on Form 20-F.

References to Banagrícola refer to Banagrícola S.A. a company incorporated in Panamá and authorized to operate as a bank holding company 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 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 or we refer to Bancolombia S.A., a banking institution organized under 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 Panamá refer to Bancolombia Panamá S.A., a Subsidiary of Bancolombia organized under the laws of the Republic of Panama that provides a complete line of banking services mainly to Colombian customers.

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

References to billing or billings refer to credit card balances.

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

References to Colombia refer to the Republic of Colombia.

References to peso, pesos or Ps refer to the lawful currency 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 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.

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References to Factoring Bancolombia refer to Factoring Bancolombia S.A., a Subsidiary of Bancolombia organized under the laws of the Republic of Colombia that specializes in accounts receivable financing.

References to Fiduciaria Bancolombia refer to Fiduciaria Bancolombia S.A., a Subsidiary of Bancolombia which is the largest fund manager among its peers, including other fund managers and brokerage firms in Colombia.

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

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

References to Representative Market Rate refer to *Tasa Representativa del Mercado*, the U.S. dollar representative market rate, certified by the Superintendency of Finance. 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 Superintendency of Finance refer to the Colombian Superintendency of Finance (Superintendencia Financiera de Colombia).

References to SMMLV refer to *Salario Mínimo Mensual Legal Vigente*, the effective legal minimum monthly salary in Colombia.

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

References to Sufinanciamiento refer to Compañía de Financiamiento Comercial Sufinanciamiento S.A., a Subsidiary of Bancolombia organized under the laws of the Republic of Colombia that specializes in risk products such as vehicle financing, private brand credit cards and personal loans.

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

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

References to U.S. dollar , U.S. dollars , 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 to over 200,000 clients.

**Table of Contents****PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION****Accounting Principles**

The accounting practices and the preparation of the Bank's consolidated financial statements follow the special regulations of the *Superintendencia Financiera de Colombia* (the Superintendency of Finance) and generally accepted accounting principles in Colombia (collectively Colombian 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 GAAP and U.S. GAAP as they relate to the Bank's audited consolidated financial statements and provides a reconciliation of net income and shareholders' equity for the years and dates indicated herein. References to Colombian GAAP in this Annual Report are to Colombian GAAP as supplemented by the applicable rules of the Superintendency of Finance.

For consolidation purposes under Colombian 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 with regard to investments, loans, leased assets, goodwill and foreclosed assets.

For 2008, the Bank's consolidated financial statements include companies in which it holds, directly or indirectly, 50% or more of outstanding voting shares. The Bank consolidates directly Leasing Bancolombia, Fiduciaria Bancolombia, Banca de Inversión, Sufinanciamiento, Bancolombia Puerto Rico Internacional, Inc., Patrimonio Autónomo Sufinanciamiento, Bancolombia Panamá, Valores Bancolombia, Factoring Bancolombia, and FCP Colombia Inmobiliaria. As described below, some of the Bank's Subsidiaries also consolidate their own subsidiaries. The Bank's Subsidiary Bancolombia Panamá consolidates Bancolombia Cayman S.A., Sistema de Inversiones y Negocios S.A., Sinesa Holding Company Limited, Future Net S.A., Suleasing International USA Inc. and Banagrícola (which in turn consolidates Banco Agrícola Panamá S.A., Inversiones Financieras Banco Agrícola S.A., Banco Agrícola, Arrendadora Financiera S.A., Credibac S.A. de C.V., Bursabac S.A. de C.V., AFP Crecer S.A., Aseguradora Suiza Salvadoreña S.A. and Asesuisa Vida S.A.). The Bank's Subsidiary Banca de Inversión consolidates with Inmobiliaria Bancol S.A., Valores Simesa S.A., Inversiones CFNS Ltda., Todo Uno Colombia S.A. and Inversiones IVL S.A. The Bank's Subsidiary Leasing Bancolombia consolidates Renting Colombia (which in turn consolidates Renting Perú S.A.C., Capital Investments SAFI S.A., Fondo de Inversión en Arrendamiento Operativo Renting Perú, Transportes Empresariales de Occidente Ltda. and RC Rent a Car S.A.). The Bank's Subsidiary Valores Bancolombia consolidates Suvalor Panamá S.A. and the Bank's Subsidiary Fiduciaria Bancolombia consolidates Fiduciaria GBC S.A.

**Currencies**

The Bank maintains accounting records in Colombian pesos. The audited consolidated financial statements of Bancolombia for the years ended December 31, 2006, 2007 and 2008 (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 Ps 2,243.59 per US\$ 1.00, which corresponds to the Representative Market Rate calculated on December 31, 2008 the last business day of the year. The Representative Market Rate is computed and certified by the Superintendency of Finance, 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 Superintendency of Finance 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 Colombian 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 May 31, 2009, the Representative Market Rate was Ps 2,140.66 per US\$ 1.00.

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**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.

**Information included on or accessible through Bancolombia's internet site is not part of this Annual Report**

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](http://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](http://www.bancoagricola.com).

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**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, 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:

changes in general economic, business, political, social, fiscal or other conditions in Colombia, or in any of the countries where the Bank operates;

changes in capital markets or in markets in general that may affect policies or attitudes towards lending;

unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;

inflation, changes in foreign exchange rates and/or interest rates;

sovereign risks;

liquidity risks;

increases in defaults by the Bank's borrowers and other loan delinquencies;

lack of acceptance of new products or services by the Bank's targeted customers;

competition in the banking, financial services, credit card services, insurance, asset management, remittances business and other industries in which the Bank operates;

adverse determination of legal or regulatory disputes or proceedings;

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;

regulatory issues relating to acquisitions; and

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.

Neither the Bank's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures, with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, the prospective financial information.



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**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, 2007 and 2008, and for each of the three fiscal years in the period ended December 31, 2008 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, 2004, 2005 and 2006, and for each of the two fiscal years in the period ended December 31, 2005 set forth below have been derived from the Bank's audited consolidated financial statements for the respective periods, which are not included herein.

The Bank's consolidated financial statements for each period were prepared in accordance with Colombian GAAP. 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.

**NON-GAAP FINANCIAL MEASURES**

A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. We disclose in this Annual Report certain non-GAAP financial measures, including Basic and Diluted net operating income per share, Basic and Diluted net operating income per ADS, Shareholders equity per share and Shareholders equity per ADS. Management has included these measures as it considers that they may help investors to perform calculations and comparisons between Bancolombia's and its peers financial results.

Basic and Diluted net operating income per share for any period is defined as consolidated net operating income divided Weighted average of Preferred and Common Shares outstanding. Basic and Diluted net operating income per share should not be considered as an alternate measure of net operating income, as determined on a consolidated basis using amounts derived from statement of operations prepared in accordance with Colombian GAAP. Basic and Diluted net operating income per ADS for any period is defined as Basic and Diluted net operating income per share multiplied for four preferred shares of Bancolombia (Each ADS is equivalent to four preferred shares of Bancolombia). Basic and Diluted net operating income per ADS should not be considered as an alternate measure of net operating income, as determined on a consolidated basis using amounts derived from statement of operations prepared in accordance with Colombian GAAP.

Shareholders equity per share is equal to Shareholders equity under U.S. GAAP divided Weighted average of Preferred and Common Shares outstanding, Shareholders equity per ADS is equal to Shareholders equity per share multiplied by four preferred shares of Bancolombia (Each ADS is equivalent to four preferred shares of Bancolombia). Shareholders equity per share and Shareholders equity per ADS should not were 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 Annual Report are not a substitute for the GAAP measures of financial performance.

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	<i>As of and for the year ended December 31,</i>					
	<i>2004</i>	<i>2005<sup>(9)</sup></i>	<i>2006</i>	<i>2007<sup>(10)</sup> (12)</i>	<i>2008</i>	<i>2008<sup>(1)</sup></i>
	<i>(In millions of Ps and thousands of US\$<sup>(1)</sup>, except per share and per American Depositary Share<sup>(1)</sup> ( ADS ) amounts)</i>					
<b>UNCONSOLIDATED STATEMENT</b>						
<b>OPERATIONS:</b>						
<b>Colombian GAAP:</b>						
Interest income	Ps 1,803,108	Ps 3,200,084	Ps 3,013,732	Ps 4,810,408	Ps 6,313,743	US\$ 2,814,100
Interest expense	(585,743)	(1,150,274)	(1,246,229)	(2,002,090)	(2,753,341)	(1,227,200)
<b>Interest income</b>	<b>1,217,365</b>	<b>2,049,810</b>	<b>1,767,503</b>	<b>2,808,318</b>	<b>3,560,402</b>	<b>1,586,900</b>
Provisions for loans and accrued interest losses, net of recoveries <sup>(2)</sup>	(61,423)	(123,575)	(195,361)	(617,868)	(1,155,262)	(514,900)
Provision for foreclosed assets and other assets, net of recoveries <sup>(3)</sup>	(5,201)	(7,465)	45,179	20,833	22,095	9,800
<b>Interest income after provisions</b>	<b>1,150,741</b>	<b>1,918,770</b>	<b>1,617,321</b>	<b>2,211,283</b>	<b>2,427,235</b>	<b>1,081,800</b>
Income from services and other operating income, net <sup>(4)</sup>	574,453	962,277	1,139,094	1,510,129	1,964,084	875,400
Operating expenses	(912,421)	(1,654,805)	(1,871,000)	(2,271,418)	(2,639,997)	(1,176,600)
<b>Operating income</b>	<b>812,773</b>	<b>1,226,242</b>	<b>885,415</b>	<b>1,449,994</b>	<b>1,751,322</b>	<b>780,500</b>
Non-operating income excluding minority interest	7,140	4,650	45,346	12,058	31,888	14,200
Minority interest (loss)	(2,425)	(6,496)	(6,352)	(13,246)	(18,511)	(8,200)
<b>Income before income taxes</b>	<b>817,488</b>	<b>1,224,396</b>	<b>924,409</b>	<b>1,448,806</b>	<b>1,764,699</b>	<b>786,500</b>
Income taxes	(238,810)	(277,515)	(174,880)	(361,883)	(474,056)	(211,200)
<b>Income</b>	<b>Ps 578,678</b>	<b>Ps 946,881</b>	<b>Ps 749,529</b>	<b>Ps 1,086,923</b>	<b>Ps 1,290,643</b>	<b>US\$ 575,300</b>
Weighted average of Preferred and Common Shares outstanding <sup>(5)</sup>	576,695,395	652,882,756	727,827,005	758,313,771	787,827,003	
Basic and Diluted net income per share <sup>(5)</sup> (13)	1,003	1,450	1,030	1,433	1,638	0
Basic and Diluted net income per share <sup>(11)</sup> (13)	4,012	5,800	4,119	5,732	6,552	2
Dividends declared per share <sup>(6)</sup>	376	508	532	568	624	



Dividends declared per share <sup>(6)</sup> (in US Dollars)		0.16	0.22	0.24	0.28	0.28						
Dividends declared per ADS <sup>(11)</sup>		1,504	2,032	2,128	2,272	2,496						
Dividends declared per ADS (in US Dollars)		0.63	0.88	0.95	1.13	1.11						
<b>GAAP:<sup>(7)</sup></b>												
Income	Ps	642,126	Ps	891,121	Ps	941,183	Ps	1,015,644	Ps	849,920	US\$	378,8
Basic and Diluted net income per Common share <sup>(8)</sup>		1,445		1,715		1,619		1,683		1,326		0
Basic and Diluted net income per Share <sup>(8) (11)</sup>		5,780		6,860		6,476		6,732		5,304		2

(1) Amounts stated in U.S. dollars have been translated at the rate of Ps 2,243.59 to US\$ 1.00, which is the Representative Market Rate calculated on December 31, 2008 (the last business day of 2008), as reported and certified by the Superintendency of Finance. In this document certain Colombian pesos amounts have been translated into United States dollars at the rate of Ps 2,243.59. Such translations should not be construed as representations that the Colombian pesos amounts represent, or have been or

could be converted into, United States dollars at that or any other rate.

- (2) Represents the provision for loan, accrued interest losses and other receivables, net and recovery of charged-off loans. Includes a provision for accrued interest losses amounting to Ps 4,483 million, Ps 12,379 million, Ps 14,825 million, Ps 35,543 million and Ps 58,721 million for the years ended December 31, 2004, 2005, 2006, 2007 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 the total other operating income.
- (5)

The weighted average of preferred and common shares outstanding for fiscal year 2004, include

178,435,787 preferred shares and 398,259,608 common shares.

For fiscal year 2005, it included 198,261,641

preferred shares and 454,621,115 common shares.

For fiscal years 2006, it included 218,122,421

preferred shares and 509,704,584 common shares.

For fiscal year 2007, it included 248,609,187

preferred shares and 509,704,584 common shares.

For fiscal year 2008, it included 278,122,419

preferred shares and 509,704,584.

- (6) This data is presented on an annualized basis.
- (7) See Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP
- (8) Under U.S. GAAP, these shares are

considered  
outstanding since  
the beginning of  
the earliest  
period presented.

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  
(398,258,607 for  
2004;  
509,704,584 for  
2005, 2006, 2007  
and 2008). See

Note 31.

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

- (9) The consolidated  
statement of  
operations for the  
year ended  
December 31,  
2005, includes  
Conavi and  
Corfinsura s  
results for the  
full year. For  
U.S. GAAP  
purposes, see  
Note 31.  
Differences  
Between  
Colombian  
Accounting  
Principles for  
Banks and U.S.

GAAP (m)  
Business  
combinations .

- (10) The consolidated statement of operations for the year ended December 31, 2007 includes Banagrícola's results for the full year. For U.S. GAAP purposes, see Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP (m) Business combinations .
- (11) Each ADS is equivalent to four preferred shares of Bancolombia.
- (12) The consolidated statement of operations for the year 2007 was modified due to reclassifications made particularly in commissions from banking services and other services, administrative and other expenses and other income, with the purpose of better presenting comparative

information regarding the gains on the sale of mortgage loans. The selected financial data for 2004 through 2006 has not been reclassified to the 2008 presentation because the amounts are insignificant and do not have a material impact on the consolidated statement of operations for each of the respective years.

- (13) Basic and diluted net income per share for any period is defined as consolidated net income divided by weighted average of preferred and common shares outstanding. Basic and diluted net income per share should not be considered as an alternate measure of net income, as determined on a consolidated basis using amounts derived from consolidated statement of operations prepared in

accordance with Colombian GAAP. Basic and diluted net income per ADS for any period is defined as basic and diluted net income per share multiplied by four preferred shares of Bancolombia (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. The non-GAAP financial measures described in this footnote are not a substitute for the GAAP measures of financial performance and should not be considered as an alternate measure of net income, as determined on a consolidated basis using amounts derived from

consolidated  
statement of  
operations  
prepared in  
accordance with  
Colombian  
GAAP.



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	<i>As of and for the year ended December 31,</i>					
	<i>2004</i>	<i>2005<sup>(3)</sup></i>	<i>2006</i>	<i>2007<sup>(4)</sup></i>	<i>2008</i>	<i>2008<sup>(1)</sup></i>
	<i>(In millions of Ps and thousands of US\$<sup>(1)</sup>, except per share and per American Depositary Share ( ADS ) amounts)</i>					
<b>CONSOLIDATED BALANCE SHEET</b>						
<b>Colombian GAAP:</b>						
<b>Assets:</b>						
Cash and due from banks	Ps 768,514	Ps 1,241,435	Ps 1,548,752	Ps 3,618,619	Ps 3,870,927	US\$ 1,725,32
Overnight funds	480,846	488,587	457,614	1,609,768	1,748,648	779,39
Investment securities, net	5,250,211	8,459,703	5,677,761	5,774,251	7,278,276	3,244,03
Leases and financial leases, net	9,600,861	17,920,370	23,811,391	36,245,473	42,508,210	18,946,51
Accrued interest receivable on loans, net	121,276	198,266	255,290	398,560	505,658	225,37
Customers acceptances and derivatives	43,894	133,420	166,395	196,001	272,458	121,43
Accounts receivable, net	173,875	590,313	562,598	716,106	828,817	369,41
Leases and equipment, net	346,243	623,729	712,722	855,818	1,171,117	521,98
Operating leases, net	8,311	143,974	167,307	488,333	726,262	323,70
Preclosed assets, net	12,206	31,360	18,611	32,294	24,653	10,98
Prepaid expenses and deferred charges	15,950	26,898	46,462	137,901	132,881	59,22
Goodwill	73,607	50,959	40,164	977,095	1,008,639	449,56
Other assets	315,394	563,588	675,265	580,642	1,093,850	487,54
Reappraisal of assets	267,941	330,915	348,364	520,788	612,683	273,08
<b>Total assets</b>	<b>Ps 17,479,129</b>	<b>Ps 30,803,517</b>	<b>Ps 34,488,696</b>	<b>Ps 52,151,649</b>	<b>Ps 61,783,079</b>	<b>US\$ 27,537,59</b>
<b>Liabilities and shareholders equity:</b>						
Deposits	Ps 11,862,116	Ps 18,384,982	Ps 23,216,467	Ps 34,374,150	Ps 40,384,400	US\$ 17,999,90
Borrowings <sup>(5)</sup>	1,104,201	3,927,551	3,516,426	4,851,246	5,947,925	2,651,07
Other liabilities	2,422,089	5,113,694	4,109,191	7,726,983	9,333,909	4,160,25
Shareholders equity	2,090,723	3,377,290	3,646,612	5,199,270	6,116,845	2,726,36
<b>Total liabilities and shareholders equity</b>	<b>Ps 17,479,129</b>	<b>Ps 30,803,517</b>	<b>Ps 34,488,696</b>	<b>Ps 52,151,649</b>	<b>Ps 61,783,079</b>	<b>US\$ 27,537,59</b>
<b>U.S. GAAP<sup>(2)</sup>:</b>						
Shareholders equity	Ps 2,267,286	Ps 4,125,996	Ps 4,549,018	Ps 5,937,554	Ps 6,422,815	US\$ 2,862,74
Shareholders equity per share <sup>(6)</sup>	3,932	6,320	6,250	7,830	8,153	3.6
Shareholders equity per ADS <sup>(5)</sup>	15,728	25,280	25,001	31,320	32,612	14.5

(1) Amounts stated in U.S. dollars have been converted at the rate of Ps 2,243.59 to US\$ 1.00, which is the Representative Market Rate

calculated on  
December 31, 2008  
(the last business  
day of 2008) as  
reported and  
certified by the  
Superintendency of  
Finance.

- (2) Refer to Note 31 to the Financial Statements included in this Annual Report for the reconciliation for U.S. GAAP.
  
- (3) The consolidated balance sheet for the year ended December 31, 2005, includes Conavi and Corfinsura s results. For U.S. GAAP purposes, see Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP m) Business combinations .
  
- (4) The consolidated statement of operations for the year ended December 31, 2007 includes Banagrícola s results. For U.S. GAAP purposes, see Note 31. Differences Between Colombian Accounting Principles for

Banks and U.S.  
GAAP m)  
Business  
combinations .

- (5) Includes interbank borrowing and domestic development banks borrowings and other.
- (6) The weighted average (rounded to the nearest million) of preferred and common shares outstanding was 577 million for the fiscal year ended December 31, 2004, 653 million for the fiscal year ended December 31, 2005, 728 million for the fiscal year ended December 31, 2006, 758 million for the fiscal year ended December 31, 2007 and 788 million for the fiscal year ended December 31, 2008. Shareholders equity per share is equal to Shareholders equity under U.S. GAAP divided by the weighted average of preferred and common shares outstanding, shareholders equity per ADS is equal to

shareholders equity  
per share  
multiplied by four  
preferred shares of  
Bancolombia  
(Each ADS is  
equivalent to four  
preferred shares of  
Bancolombia).  
Shareholders  
equity per share  
and shareholders  
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 shareholders  
equity as  
determined on a  
consolidated basis  
using amounts  
derived from  
consolidated  
balance sheet  
prepared in  
accordance with  
Colombian GAAP.



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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 in December 31, 2004, 2005, 2006, 2007 and 2008.

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

The Bank's consolidated financial statements have been prepared in accordance with Colombian GAAP, which are the accounting principles and policies that are summarized in Note 2 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. A reconciliation of net income and shareholders' equity under U.S. GAAP is included in Note 31 to the Financial Statements included in this Annual Report.

Consolidated net income under U.S. GAAP for the year ended December 31, 2008 was Ps 849,920 million (compared with Ps 1,015,644 million for fiscal year 2007 and Ps 941,183 million for fiscal year 2006). The difference in some significant adjustments between Colombian and U.S. GAAP results are described 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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	2004	<i>As of and for the year ended December 31,</i> 2005 <sup>(10)</sup> 2006      2007 <sup>(11)(12)</sup>			2008
	<i>(Percentages, except for operating data)</i>				
<b>SELECTED RATIOS: (1)</b>					
<b>Colombian GAAP:</b>					
<b>Profitability ratios:</b>					
Net interest margin <sup>(2)</sup>	8.75	8.12	6.19	7.60	7.70
Return on average total assets <sup>(3)</sup>	3.62	3.30	2.31	2.52	2.34
Return on average shareholders equity <sup>(4)</sup>	32.14	31.49	22.10	26.13	23.68
<b>Efficiency Ratio:</b>					
Operating expenses as a percentage of interest, fees, services and other operating income	50.92	54.94	64.37	52.60	47.79
<b>Capital ratios:</b>					
Period-end shareholders' equity as a percentage of period-end total assets	11.96	10.96	10.57	9.97	9.90
Period-end regulatory capital as a percentage of period-end risk-weighted assets <sup>(5)</sup>	13.44	10.93	11.05	12.67	11.24
<b>Credit quality data:</b>					
Non-performing loans as a percentage of total loans <sup>(6)</sup>	0.88	1.48	1.36	1.77	2.35
C, D and E loans as a percentage of total loans <sup>(9)</sup>	3.86	3.38	2.54	3.10	4.40
Allowance for loan and accrued interest losses as a percentage of non-performing loans	496.30	259.02	252.87	223.67	224.53
Allowance for loan and accrued interest losses as a percentage of C, D and E loans	113.47	113.59	135.06	127.38	120.21
Allowance for loan and accrued interest losses as a percentage of total loans	4.37	3.84	3.43	3.95	5.29
<b>OPERATING DATA:</b>					
Number of branches <sup>(7)</sup>	377	678	701	888	892
Number of employees <sup>(8)</sup>	8,609	14,562	16,222	24,836	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  
shareholders  
equity.
- (5) For an  
explanation of  
risk-weighted  
assets and  
Technical  
Capital, see  
Item 4.  
Information on  
the Company B.  
Business  
Overview B.7.  
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) Number of  
branches



includes  
branches of the  
Bank s  
Subsidiaries.

- (8) The number of employees includes employees of the Bank s consolidated Subsidiaries.
- (9) 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 .
- (10) Selected ratios for the year ended December 31, 2005, include Conavi and Corfinsura s results. For U.S. GAAP purposes, see Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP m) Business combinations .
- (11) Selected ratios for the year

ended December 31, 2007 include Banagrícola s results. For U.S. GAAP purposes, see Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP m) Business combinations .

- (12) The selected ratios for the year 2007 were modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the

figures for that period, and accordingly, would not be material for comparative purposes.

**Table of Contents****Exchange Rates**

On May 31, 2009, the Representative Market Rate was Ps 2,140.66 per US\$ 1.00. The Federal Reserve Bank of New York does not report a rate for pesos; the Superintendency of Finance calculates the Representative Market Rate based on the weighted averages 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 high and low Representative Market Rate for the last six months:

**Recent exchange rates of U.S. dollars per peso:**

<i>Month</i>	<i>Low</i>	<i>High</i>
December 2008	2,163.14	2,333.54
January 2009	2,197.72	2,420.26
February 2009	2,420.26	2,596.37
March 2009	2,335.29	2,590.97
April 2009	2,283.20	2,544.24
May 2009	2,140.66	2,288.64
June 2009 <sup>(1)</sup>	2,014.91	2,188.50

Source: Superintendency of Finance.

(1) Figures are as of  
June 26, 2009

The following table sets forth the average peso/ U.S. dollar Representative Market Rate for each of the five most recent financial years, calculated by using the average of the exchange rates on the last day of each month during the period.

**Peso/US\$ 1.00**  
**Representative Market Rate**

<i>Period</i>	<i>Average</i>
2004	2,614.79
2005	2,320.77
2006	2,359.13
2007	2,069.21
2008	1,993.80

Source: Superintendency of Finance.

**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 could be materially and adversely affected.



**Table of Contents****Risk factors relating to Colombia and other countries where the Bank operates****Adverse economic and political conditions in Colombia, 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 is a Colombian financial institution and most of the Bank's operations, property and customers are located in Colombia. In addition, the Bank is active in other jurisdictions in Latin America, primarily in El Salvador and also in Panama, Cayman Islands, Puerto Rico and Peru through a network of branches and subsidiaries and, accordingly, its business is subject to a variety of economic, political, market and credit risks in these jurisdictions. As a result, the quality of its assets, financial condition and results of operations significantly depend on macroeconomic and political conditions prevailing in Colombia and the other jurisdictions in which the Bank operates. Colombia and the other jurisdictions in which the Bank operates are subject to political, economic and other uncertainties, including renegotiation, or nullification of existing contracts, currency exchange restrictions, and international monetary fluctuations. Furthermore, changes in monetary, exchange, and trade policies could affect the overall business environment in Colombia and the other jurisdictions in which the Bank operates, which would in turn impact the Bank's financial condition and results of operations. In Colombia, for instance, the Central Bank could raise interest rates, which could negatively affect the Bank's assets and restrict their growth. Increases in exchange rates could negatively affect borrowers' foreign currency position, while setbacks in trade relations with Venezuela and Ecuador, as well as any difficulties with the approval of the Free Trade Agreement with the United States, could affect the financial position of the Bank's larger customers. Any of these events could have a negative impact on the Bank's financial condition.

Furthermore, decreases in the growth rate in the economies where the Bank operates, particularly in Colombia and El Salvador, periods of negative growth, or increases in inflation or interest rates could result in lower demand for the Bank's services and products, lower real pricing of its services and products, or in a shift toward lower margin services and products. Because a large percentage of the Bank's costs and expenses are fixed, it may not be able to reduce costs and expenses upon the occurrence of any of these events, and its profit margins and results of operations could suffer as a result.

**The economies of the countries where the Bank operates remain vulnerable to external shocks 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 their economic growth and their ability to service their public debt.**

Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

In the case of Colombia, a significant decline in the economic growth of any of its major trading partners, such as the United States, Venezuela and Ecuador, could have a material adverse impact on Colombia's balance of trade, and adversely affect Colombia's economic growth. In addition, 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. El Salvador, Panama, Cayman Islands, Peru and Puerto Rico). Lower economic growth or a contagion effect may cause higher ratios of past due loans and a decrease in market prices and liquidity of Bancolombia's securities. In addition, a sustained downturn in the U.S. economy could negatively impact the Bank's international remittance business, which serves a customer base of Salvadorians and Colombians living in the United States.

The current global economic downturn, which began in the U.S financial sector and then spread to different economic sectors and countries around the world, has had, and is expected to continue to have, adverse effects on the economies of the countries where the Bank operates. At the end of 2008, the economies of the United States and some European countries were contracting, and this began to materially impact other economies including those of Colombia and El Salvador. In the case of Colombia, exports have been growing at a lower rate, and this growth is expected to slow or even decline in 2009, while unemployment has increased considerably. In the case of El Salvador, remittances, particularly from the United States, have been affected significantly. The effects of the external shock on the economies where the Bank operates have already resulted in asset quality deterioration and as the impact of the

economic downturn is expected to intensify in 2009, the Bank expects further deterioration in asset quality to occur.

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**Government policies in the jurisdictions where the Bank operates could significantly affect the local economy and, as a result, the Bank's business and financial condition.**

The Bank's business and financial condition could be adversely affected by changes in policy, or future judicial interpretations of such policies, involving exchange controls and other matters such as 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.

In particular, the governments of Colombia and El Salvador have historically exercised substantial influence over 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). On June 1, 2009, a new member of the FMLN party took office as President of El Salvador after 20 years of rule by the ARENA party and accordingly significant changes in Salvadorian laws, public policies and regulations could occur.

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

**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. Colombian and Salvadorian national authorities have levied new taxes in recent years. 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.

Additional tax regulations could be implemented that could require the Bank to make additional tax payments, negatively affecting its financial condition, results of operation, and cash flow. In addition, either 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.

**Instability of 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.

**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 from those other regulations. For example, capital adequacy requirements for banks under Colombian regulations differ from those under U.S. regulations, and may differ from other countries.

The Bank prepares its annual audited financial statements in accordance with Colombian GAAP, which differs in significant respect to 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 main significant differences affecting earnings and shareholders' equity include the accounting treatment for restructuring, loan origination fees and costs, deferred income taxes and the accounting treatment for business combination accounting.



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Moreover, under Colombian GAAP, allowances for non-performing loans are computed by establishing each non-performing loan's individual inherent risk, using criteria established by the Superintendency of Finance that differs from that 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 ).

Although the Colombian government has undertaken a review of present regulations relating to accounting, audit, and information disclosure, with the intention of conforming them to international standards and proposing pertinent modifications to the Colombian congress, current regulations continue to differ in certain respects from those in other countries. Accordingly, there may be less publicly available information about the Bank than is regularly published by or about U.S. issuers or an issuer in another country.

In addition, banking regulations, accounting standards and corporate disclosure in other jurisdictions in which the Bank operates, may also differ from those of the United States.

**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 Colombian banking authorities. These regulatory authorities have broad powers to adopt regulations and other requirements affecting or restricting virtually all aspects of its 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 Colombian banks. In the event of non-compliance with applicable regulation, the Bank could be subject to fines, sanctions or the revocation of licenses or permits to operate its business. In the event the Bank encounters significant financial problems or becomes insolvent or in danger of becoming insolvent, Colombian banking authorities would have the power to take over the Bank's management and operations.

Moreover, Colombian banking and financial services laws and regulations are subject to continuing review and changes, and any such changes in the future may have an adverse impact on the Bank's operations, including making and collecting loans and other extensions of credit, which in turn could materially and adversely affect the Bank's results of operations and financial position.

The Bank is also subject to laws and regulations in other jurisdictions where it operates. Any sanctions, fines and other penalties resulting from non-compliance with such regulations could materially and adversely affect the Bank's business, financial condition, results of operations and reputation.

**The increase of constitutional 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.**

Under the Colombian Constitution, individuals may initiate constitutional or class actions to protect their collective or class rights, respectively. In recent years, Colombian financial institutions, including the Bank, have experienced a substantial increase in the aggregate number of these actions. The great majority of such actions are related to fees, financial services and interest rates, and their outcome is uncertain. Although during 2008 the aggregate number of such actions brought against the Bank remained stable as compared to 2007, the number of such actions might not remain stable in the future. The number of these actions may continue to increase in the future and could significantly affect the Bank's businesses.

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**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. A portion of the Bank's revenues and operating cash flow is generated by its credit services and any such limitations could materially and adversely affect the Bank's results of operations and financial position.

**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. 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, or 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. Moreover, additional 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.

**Risk Factors Relating to the Bank's Business and the Banking Industry**

**The quality of the Bank's loan portfolio and of other assets may decline.**

Unforeseen changes in the income levels of the Bank's borrowers, increases in the inflation rate or an increase in interest rates 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. In particular, the Bank might not be able to maintain its current level of asset quality and credit risk in the future. Furthermore, if the Bank increases the proportion of consumer, mortgage and small business credits in its loan portfolio, it may experience detrimental changes in its credit risk levels.

**The Bank's increasing focus on individuals and small and medium-sized businesses could lead to higher levels of non-performing loans and subsequent charge-offs.**

As part of the Bank's business strategy, it seeks to increase lending and other services to individuals and to small and medium-sized companies. Low to medium income individuals and small and medium-sized companies are, however, more likely to be adversely affected by downturns in the Colombian economy than are large corporations and high-income individuals. Consequently, in the future the Bank may experience higher levels of non-performing loans, which could result in higher provisions for loan losses. The levels of non-performing loans and subsequent charge-offs could be higher in the future.

As of December 31, 2007 and 2008, the Bank's Retail and Small-and Medium-Sized Enterprises (SMEs) loan portfolio represented 31.5% and 30.3%, respectively, of Bancolombia's total loan portfolio.

As a result of an increase in interest rates for loans to individuals in the Colombian market during the 2008, the number of past due loans of this type has increased generally in the Colombian financial system and in Bancolombia's portfolio.

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**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. Risks associated with this market to which the Bank is exposed include the risk of increases in interest rates that may reduce the volume of mortgage loans that the Bank originates. 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 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.**

The aggregate outstanding principal amount of the Bank's 25 largest borrowing relationships represented approximately 8.99% of its total consolidated loan portfolio as of December 31, 2008. Problems with one or more of the Bank's largest borrowers could materially and adversely affect its results of operations and financial position. For more information, see Item 4. Information on the Company E. Selected Statistical Information E.3. Loan Portfolio Borrowing Relationships .

**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.**

The Bank might not be able to effectively control and reduce the level of the impaired loans in its total loan portfolio. In particular, the amount of the Bank's non-performing loans may increase in the future, including loan portfolios that the Bank may acquire through auctions or otherwise, as a result of factors beyond the Bank's control, such as the impact of macroeconomic trends and political events affecting Colombia or events affecting specific industries. In addition, the Bank's current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of its total loan portfolio. As a result, if the quality of its total loan portfolio deteriorates the Bank may be required to increase its loan loss reserves, which may adversely affect its financial condition and results of operations. Moreover, there is no precise method for predicting loan and credit losses, and loan loss reserves might not be sufficient to cover actual losses. If the Bank is unable to control or reduce the level of its non-performing or poor credit quality loans, its financial condition and results of operations could be materially and adversely affected.

**If the Bank is unable to realize the collateral or guarantees securing its loans to cover the outstanding principal and interest balance of its loans, its financial condition and results of operations may be adversely affected.**

The Bank's loan collateral primarily includes real estate, assets given in financial leasing and other assets that are located in Colombia and El Salvador, the value of which may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors and political events affecting the economy. An economic slowdown may lead to a downturn in the Colombian or Salvadorian real estate market, which may in turn result in declines in the value of the collateral, consisting primarily of real estate, securing many of the Bank's loans to levels below the outstanding principal balance of such loans. 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 an adverse impact in 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 provided, and local protectionism, may make foreclosures on collateral and enforcement of judgments in its favor difficult, and hence may result in losses, which could materially and adversely affect its results of operations and financial position.

**Table of Contents****The failure to successfully implement and continue to upgrade the Bank's credit risk management system could materially and adversely affect its business operations and prospects.**

A principal risk inherent in the Bank's business is credit risk. The Bank may not be able to upgrade, on a timely basis, its credit risk management system. For example, an important part of its credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a client. As this process involves detailed analyses of the client's credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, the Bank's employees may not always be able to assign an accurate credit rating to a client or credit risk, which may result in the Bank's exposure to higher credit risks 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 tools available to it, the Bank's employees may not be able to effectively implement its credit risk management system, which may increase its exposure to credit risk. As a result, the Bank's failure to implement effectively, consistently follow or 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.

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

An element of the Bank's business strategy is to identify and pursue growth-enhancing strategic opportunities. As part of that strategy, the Bank acquired interests in various institutions during recent years. For example, in 2007, The Bank acquired 98.9% of all the issued and outstanding shares of Banagrícola. The Bank will continue to actively consider other strategic acquisitions and partnerships from time to time. The Bank must necessarily base any assessment of potential acquisitions and partnerships on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. The Banagrícola acquisition, future acquisitions, significant investments and alliances may not produce anticipated synergies or perform in accordance with the Bank's expectations and could adversely affect its operations and profitability. In addition, new demands on the Bank's existing organization and personnel resulting from the integration of new acquisitions could disrupt the Bank's operations and adversely affect its operations and profitability.

**The Bank and members of its senior management are defendants in several legal proceedings.**

The Bank is a party to lawsuits arising in the ordinary course of business that can be expensive and lengthy. In addition, the Bank and its management, including the Bank's current President and Vice-President, are currently involved in several legal proceedings relating to the acquisition of its predecessor entity. An unfavorable resolution to any of the lawsuits or investigations could negatively affect the Bank's reputation and the price of its outstanding securities. See Item 8. Financial Information A. Consolidated Statements and Other Financial Information A.1. Consolidated Financial Statements A.2. Legal Proceedings in this Annual Report.

**The Bank's financial results are constantly exposed to market and interest rate risk. The Bank is subject to fluctuations in interest rates and other market risks, which may materially and adversely affect its financial condition and results of operations.**

Market risk refers to the probability of variations in the Bank's net interest income or in the market value of its assets and liabilities due to interest rate volatility. Changes in interest rates affect the following areas, among others, of the Bank's business: net interest income, the volume of loans originated, the market value of the Bank's securities holdings; asset quality, and gains from sales of loans and securities.

Changes in short-term interest rates may affect the Bank's interest margins and therefore the Bank's net interest income, which comprises the majority of the Bank's revenue.

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Increases in interest rates may reduce the volume of loans the Bank originates. 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.

Increases in interest rates may reduce the value of the Bank's financial assets. The Bank holds a substantial portfolio of loans and debt securities that have both fixed and floating interest rates. In addition, the Bank may incur costs (which, in turn, will impact its results) as it implements strategies to reduce future interest rate exposure.

Increases in interest rates may reduce gains or require the Bank to record losses on sales of its loans or securities.

**The Bank is subject to trading risks with respect to its trading activities.**

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 substantial amount of its trading income has been derived from alternative investment strategies such as same-day foreign exchange trades and adjustable-rate bond instruments. A significant decline in the Bank's trading income, or incurring a trading loss, could adversely affect its results of operations and financial position.

**The Bank's results could be negatively impacted by the depreciation of sovereign debt securities.**

The Bank's debt securities portfolio is primarily composed of sovereign debt securities, mainly 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, 2008, the Bank's total debt securities represented 11.7% of Bancolombia's total assets, and 39.36% 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. In 2006, for instance, an increase in interest rates in foreign markets significantly and negatively affected the price of securities issued by the Colombian government, which in turn had an adverse impact on the Bank's results.

**The Bank is subject to credit risks with respect to its non-traditional banking businesses such as investing in securities and entering into types of derivatives transactions.**

A portion of the Bank's businesses are not in the traditional banking businesses of lending and deposit-taking and therefore expose it to credit risk. Non-traditional sources of credit risk can arise from: 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 its 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 risk or bankruptcy of any of the counterparties, could materially and adversely affect the Bank's results of operations and financial position.

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**The Bank is subject to market and operational risks associated with its derivative transactions, as well as structuring risks and the risk that its documentation will not incorporate accurately the terms and conditions of its derivatives transactions.**

The Bank enters into derivative transactions primarily for hedging purposes and, to a lesser extent, 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 well developed in the jurisdictions where the Bank operates as compared to other more developed countries, and the court systems in the countries where the Bank operates have limited experience in dealing with issues related to derivative transactions. Given that the derivatives market and related documentation are not yet well developed in the countries where the Bank operates, there are structuring risks and the risk that the Bank's documentation will not incorporate accurately the terms and conditions of derivatives transactions. In addition, the execution and performance of these types of transactions depend on the Bank's ability to develop adequate control and administration 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's concentration in and reliance on short-term deposits may increase its funding costs.**

The Bank's principal sources of funds are short-term deposits, checking accounts and savings accounts, which together represented a share of 72.80%, 73.07% and 72.74% of total funds at the end of 2006, 2007 and 2008, 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 systems and money markets where Bancolombia operates, the Bank might not be able to maintain its current level of funding without incurring higher costs or selling certain assets at prices below their prevailing market value.

**Reductions in the Bank's credit ratings would increase its cost of borrowing funds and make its ability to raise new funds, attract deposits or renew maturing debt more difficult.**

The Bank's credit ratings are an important component of its liquidity profile. Among other factors, its credit ratings are based on the financial strength, credit quality and concentrations in its total loan portfolio, the level and volatility of its earnings, its capital adequacy, the quality of management, the liquidity of its balance sheet, the availability of a significant base of core retail and commercial deposits, and its ability to access a broad array of wholesale funding sources. Adverse changes in the Bank's credit ratings would increase its cost of raising funds in the capital markets or of borrowing funds. The Bank's ability to renew maturing debt may be more difficult and expensive. In addition, its lenders and counterparties in derivative transactions are sensitive to the risk of a rating downgrade.

The Bank's ability to compete successfully in the marketplace for deposits depends on various factors, including its financial stability as reflected by the Bank's credit ratings. A downgrade in its credit ratings may adversely affect perception of the Bank's financial stability and the Bank's ability to raise deposits.

The Bank obtains both consolidated credit ratings and individual credit ratings by local rating institutions. A reduction in the credit rating of one of the Bank's subsidiaries could also affect the financial results of that subsidiary and as a result, have a direct impact on Bancolombia's consolidated results.

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**The Bank's loan portfolio is subject to risk of prepayment, which could negatively affect its net interest income because the Bank would not be able to receive the interest income from the prepayment date to the maturity date.**

The Bank's loan portfolio is subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases which reduces the weighted average lives of the Bank's interest earning assets and adversely affects its operating results. Prepayment risk also has a significant adverse impact on 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 at lower yields.

**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, 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 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 across numerous and diverse markets and products at its various branches, 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 its decision making process, its risk management and internal control systems as well as 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 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, to be lost or to be delivered to the Bank's clients with delays or errors, which could reduce demand for the Bank's services and products and could materially and adversely affect the Bank's results of operations and financial position.

**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 Bank must continually make significant investments and improvements in its information technology infrastructure in order to remain competitive. In particular, as the Bank continues to open new branches, it needs to improve its information technology infrastructure, including maintaining and upgrading its software and hardware systems and its bank-office operations. 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. In addition, the Bank may experience difficulties in upgrading, developing and expanding its information technology systems quickly enough to accommodate its growing customer base. Bancolombia is currently undertaking a project to renovate its IT platform. Any failure to effectively improve or upgrade the Bank's information technology infrastructure and management information systems, including its IT platform renovation in a timely manner could materially and adversely affect its competitiveness, financial condition and results of operations.





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**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 recently adopted 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.

**Increased competition and consolidation in the Colombian financial industry could adversely affect the Bank's market share.**

The Colombian financial system is highly competitive. Since the 1990s, when the Colombian financial market was deregulated and international capital flows resumed, there has been an ongoing process of financial system consolidation. The Bank expects this consolidation to lead to the creation of large local institutions and the possibility of foreign entities banks entering the market, presenting the risk that the Bank could lose a portion of its share in the industry affecting the Bank's results of operations.

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 its 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 its current customers with 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.

**The Bank is exposed to new or increased risks as it expands the range of its products and services.**

As the Bank expands the range of its products and services, some of which are at an early stage of development in the markets where the Bank operates, the Bank will be exposed to new and increasingly complex risks. The Bank's employees and its risk management systems may not be adequate to handle such risks. As a result, the Bank is subject to substantial market, credit and other risks in relation to the expanding scope of its products, services and trading activities, which could cause the Bank to incur substantial losses.

**The Bank may have difficulties competing in the credit card industry, and its success may depend significantly on its ability to grow organically or to strengthen alliances with its strategic partners.**

The credit card business is subject to a number of risks and uncertainties, including the composition and risk profile of credit card customers. The success of the Bank's credit card business will also depend, in part, on the success of the Bank's product development, product rollout efforts and marketing initiatives, including the marketing of credit card products to existing retail and mortgage loan customers, and the Bank's ability to continue to successfully target creditworthy customers.

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As part of its credit card business, the Bank faces risks relating to the price of merchant fees. There has been an ongoing dispute in Colombia, between retailers and banks, regarding merchant fees. For instance, the Superintendency of Commerce and Industry has issued resolutions related to Credibanco and Redeban, the entities that manage the credit card system in Colombia, in order to prevent an agreement on the prices of the merchant fees. As a result, the clearance fees among the banks and the fees collected from the customers have decreased. These types of disputes could result in a decrease in income from credit card merchant fees or could also lead to changes in commercial strategies that could impact the Bank's financial results.

**Minimum profitability coverage requirements imposed by law could negatively affect the profitability of the pension fund business in El Salvador.**

Bancolombia participates in the pension fund business in El Salvador through AFP Crecer S.A. As of December 31, 2008 the assets of its subsidiary in El Salvador AFP Crecer S.A. (whose assets represent 0.14% of Bancolombia's total assets) are subject to minimum profitability coverage requirements that may significantly affect its financial position and that could, in turn, result in adverse effects on the Bank's financial condition.

According to the Pension Saving System Law of El Salvador (SAP), assets under management by pension funds, like AFP Crecer S.A., must have a minimum return based on a pre-determined formula. According to articles 84 and 85 of the SAP, each pension fund must either have a reserve known as *Aporte Especial de Garantía* Special Guarantee Contribution equal to 0.25% of the assets under management or post a bond intended to guarantee the minimum profitability of the pension funds being managed as required by SAP.

If the pension fund's return is lower than the minimum required profitability under SAP, and neither the Special Guarantee Contribution nor the bond are sufficient to cover the difference, the remaining amount must be covered by AFP Crecer S.A. Additionally, any change to the minimum profitability coverage requirements may significantly affect the financial position of AFP Crecer S.A. and could, in turn, result in adverse effects on the Bank's financial condition.

**The Bank's insurance subsidiary is exposed to risks particular to the insurance industry in El Salvador**

Bancolombia participates in the insurance business in El Salvador through its subsidiaries Aseguradora Suiza Salvadoreña S.A. (Asesuisa) and Asesuisa Vida S.A. As of December 31, 2008 the assets of Asesuisa represented 0.23% of Bancolombia's total assets, and the assets of Asesuisa Vida S.A. represented 0.13% of Bancolombia's total assets. Like other insurance companies, Asesuisa is exposed to underwriting risk, and its earnings depend significantly upon the extent to which actual claims experience is consistent with the assumptions used to determine liabilities for future policy benefits and claims. If these assumptions are not realized, Asesuisa's reserves could be insufficient to pay amounts ultimately required to settle liabilities and premium rates charged could be inadequate to cover the costs of underwritten risks. In addition, claims due to catastrophic events, which are inherently unpredictable, can result in unusually high levels of losses. The lack of statistical and actuarial data specific to the insurance market in El Salvador increases these risks. Furthermore, because the insurance market in El Salvador is characterized by a low volume of policies with a high degree of exposure, adequate reinsurance for such risks may not be available or affordable. If Asesuisa is not able to obtain sufficient reinsurance on acceptable terms, its risk of loss could increase and its ability to underwrite future business could be adversely affected. These risks, which are particular to insurance companies operating in El Salvador, may individually or in the aggregate, have a material adverse effect on the results of operations and financial condition of Asesuisa.

**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, wind and hurricanes in the regions where it operates, particularly El Salvador. In the event of a natural disaster, unanticipated problems with the Bank's disaster recovery systems could have a material adverse impact 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. A natural disaster or multiple catastrophic events could have a material adverse effect on the Bank's business in the affected region and could result in substantial volatility in the

Bank's results of operations for any fiscal quarter or year.

**Table of Contents****Risks Relating to the Preferred Shares and the American Depositary Shares (ADSs)****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 regulation 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 .

**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, 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 stocks 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.

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.

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

Pursuant to the Colombian Constitution and Law 31 of 1992, the Central Bank maintains the power to intervene on the exchange market in order to consolidate or dispose of international reserves, as well as to control any volatility in the exchange rate, acting through a variety of mechanisms, including discretionary ones. During the last years, the Central Bank has adopted a floating exchange rate system with sporadic interventions. From time to time, there have been significant fluctuations in the exchange rate between the Colombian peso and the U.S. dollar. For instance, the peso appreciated 4.42% against the U.S. dollar in 2005, 1.99% in 2006, and 10.01% in 2007, and depreciated 11.36% against the U.S. dollar in 2008.

Unforeseen events in the international markets, fluctuations in interest rates or changes in capital flows, may cause exchange rate instability that could in turn depress the value of the Colombian peso thereby decreasing the value of the dividends paid to holders of the Bank's ADRs.

In addition, a portion of our assets and liabilities are denominated in, or indexed to, foreign currencies, specially the U.S. dollar. Therefore, changes in exchange rates may negatively impact the Bank's results. Required Government approvals relating to ownership of the Bank's preferred shares and ADRs may affect the market liquidity of the preferred shares and ADRs.

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Pursuant to Colombian banking regulations, any transaction resulting in an individual or a corporation holding 10% or more of the capital stock of any Colombian financial institution, including, in the case of the Bank, transactions in ADRs representing 10% or more of the Bank's outstanding stock, requires prior authorization from the Superintendency of Finance. Transactions entered into without the prior approval of the Superintendency of Finance are null and void, and cannot be recorded in the relevant institution's stock ledger.

In addition to the above restrictions, pursuant to Colombian securities regulations, any transaction involving the sale of publicly-traded stock of any Colombian company, including any sale of preferred shares (but not a sale of ADRs) or common shares, for the equivalent of 66,000 UVRs or more, must be effected through the Bolsa de Valores de Colombia (the Colombian Stock Exchange).

**The Bank's preferred shares have limited voting rights.**

The Bank's corporate affairs are governed by its by-laws and Colombian law. Under Colombian law, the Bank's preferred shareholders may have fewer rights than shareholders 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, very few 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.

**There are restrictions on foreign investment in Colombia.**

Colombia's International Investment Statute, which has been modified from time to time through related decrees and regulations, regulates the manner in which entities and individuals that are not Colombian residents can invest in Colombia and participate in the Colombian securities markets. Among other requirements, the statute mandates registration of certain foreign exchange transactions with the Central Bank and specifies procedures to authorize and administer certain types of foreign investments.

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Investors who wish to participate in the Bank's ADR facility and hold ADSs will be required to submit to the custodian of the ADR facility certain information and comply with certain registration procedures required under the foreign investment regulations in connection with foreign exchange controls restricting the conversion of pesos into U.S. dollars. Holders of ADRs who wish to withdraw the underlying preferred shares will also have to comply with certain registration and reporting procedures, among other requirements. Under these foreign investment regulations, the failure of a non-resident investor to report or register with the Central Bank foreign exchange transactions relating to investments in Colombia on a timely basis may prevent the investor from obtaining remittance rights, constitute an exchange control infraction and result in a fine. The Central Bank might not reduce restrictions on foreign investments and could implement more restrictive rules in the future.

Colombia currently has a free float exchange rate system; however, other restrictive rules for the exchange rate system could be implemented in the future. In the event that a more restrictive exchange rate system is implemented, financial institutions, including the Bank, may be unable to transfer U.S. dollars abroad to pay their financial obligations.

**ITEM 4. INFORMATION ON THE COMPANY****A. HISTORY AND DEVELOPMENT OF THE COMPANY**

Bancolombia is one of Colombia's leading financial institutions, providing a wide range of financial products and services to a diversified individual and corporate customer base throughout Colombia as well as in other jurisdictions such as Panama, El Salvador, Puerto Rico, the Cayman Islands, Peru, Brazil, the United States and Spain.

The Bank was incorporated in Colombia in 1945, under the name Banco Industrial Colombiano S.A. or BIC. 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. The merger was effective upon the filing of the public deed in the public commercial record of the Chamber of Commerce of Medellín, which took place on August 1, 2005. In May 2007, Bancolombia Panamá acquired Banagrícola which controls several subsidiaries, including Banco Agrícola in El Salvador and Banco Agrícola Panamá S.A. in Panama, dedicated to banking, commercial and consumer activities, insurance, pension funds and brokerage. Bancolombia was originally established for a fifty-year term, starting on December 9, 1944. In 1994, this term was extended for fifty more years, until December 8, 2044. The Bank is domiciled in Medellín, Colombia and operates under Colombian laws and regulations, mainly the Colombian Code of Commerce and Decree 663 of 1993, as a *sociedad comercial por acciones, de la especie anónima*.

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 its common shares have been traded on Colombian Exchanges 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, 2008, Bancolombia had, on a consolidated basis:

Ps 61,783 billion in total assets;

Ps 42,508 billion in total net loans and financial leases;

Ps 40,384 billion in total deposits; and

Ps 6,117 billion in shareholders' equity.

Bancolombia's consolidated net income for the period ended December 31, 2008 was Ps 1,290,643 million, representing an average return on equity of 23.68% and an average return on assets of 2.34%.

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The address and telephone number of the Bank's principal place of business 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.

***KEY RECENT DEVELOPMENTS***

In March 2008 at the annual general shareholders meeting of Bancolombia S.A., Bancolombia's shareholders designated PricewaterhouseCoopers Ltda. as external auditor of Bancolombia to audit financial statements for the year ended December 31, 2008.

In August 2008, the Bank issued and sold ordinary notes with an aggregate principal amount of six hundred billion pesos (Ps 600,000,000,000) in notes. This issuance and offering was the second of multiple and successive issuances of global ordinary notes which are limited to an aggregate principal amount of one trillion five hundred billion pesos (Ps 1,500,000,000,000).

In October 2008, the Bank and the unions Uneb and Sintrabancol reached a new collective bargaining agreement (the Collective Bargaining Agreement). The Collective Bargaining Agreement has a term of three (3) years, beginning on November 1, 2008. Approximately 71% of Bancolombia's employees are covered by the Collective Bargaining Agreement. The most important economic aspects of the Collective Bargaining Agreement are an increase of the salaries and improved benefits for the Bank's covered employees.

In October 2008, the Bank made an in-kind contribution of 38 real estate properties to the private equity fund Colombia Inmobiliaria (Colombia Inmobiliaria). The 38 properties were valued in approximately Ps 23.1 billion. Colombia Inmobiliaria will be managed by Bancolombia's subsidiary Fiduciaria Bancolombia. In exchange for its contribution Bancolombia will receive securities issued by Colombia Inmobiliaria. These securities are expected to be traded in the Colombian Stock Exchange.

In October 2008, the board of directors of the Bank authorized the acquisition of more than 25% of the assets and liabilities of Sufinanciamiento. This transaction is subject to certain regulatory approvals.

In October 2008, the board of directors of the Bank appointed Mr. Mauricio Rosillo Rojas as Legal Vice President and Secretary General. Mr. Rosillo Rojas has held several positions in the public and private sectors.

In December 2008, the Bank announced the sale to CMB S.A. of 67.42% of its interest in a real estate property located in the Chambacú sector in Cartagena, Colombia. The sale price amounted to Ps 22.5 billion and has been already paid to the Bank.

In December 2008, the Bank announced that it made donations totaling Ps 8,676 million which were duly authorized at the general shareholders' meeting and by the board of directors of the Bank.

In March 2009, the Bank completed a local public offering of subordinated ordinary notes for an aggregate principal amount of four hundred billion pesos (Ps 400,000,000,000). This issuance and offering was the first of multiple and successive issuances of subordinated ordinary notes which are limited up to an aggregate principal amount of one trillion Colombian pesos (Ps 1,000,000,000,000).

On June 26, 2009, the board of directors of Bancolombia decided to call an extraordinary shareholders meeting to be held on Wednesday July 8, 2009, at 9:00 a.m. in Bancolombia's headquarters in Medellín, Colombia. The only matter on the agenda for this extraordinary shareholders' meeting will be a proposal to issue non-voting preferred shares of Bancolombia and the delegation of authority to determine the terms of the issuance and offering of such preferred shares to the Bank's board of directors.

On June 29, 2009, the Bank filed an amendment on Form 20-F/A to its annual report on Form 20-F for the year ended December 31, 2007, filed with the SEC on July 8, 2008 to reflect the restatements described below. For the years ended 2006 and 2007, the Bank reviewed certain of its service agreements with vehicles used to securitize the Bank's performing loans and reconsidered the analysis under SFAS 140 and concluded that such vehicles did not meet the definition of a qualified special-purpose entity under SFAS 140. Consequently, the Bank restated the Supplemental Consolidated Condensed Balance Sheets, Supplemental Consolidated Condensed Statements of Operations and the Supplemental Consolidated Condensed Statements of Cash Flows in order to consolidate the vehicles in which the Bank is the primary beneficiary under FIN 46R Consolidation of Variable Interest Entities (Revised). In addition, the Bank restated the Supplemental Consolidated Condensed Statements of Cash Flows to correct errors related to (i) for the fiscal years ended on December 31, 2005, 2006 and 2007, the inappropriate classification of the changes in the

loan portfolio as operating activities rather than investing activities, (ii) for the years ended December 31, 2005 and 2007, clerical errors in the elimination and reclassification of cash flows related to the different accounting treatment for business combinations under Colombian GAAP and U.S. GAAP, (iii) for the fiscal years ended on December 31, 2006 and 2007, the presentation of the effects of exchange rate changes on cash and cash equivalents. In addition, as noted above, the restatement relating to the treatment of vehicles used to securitize the Bank's performing loans also affected the Supplemental Consolidated Condensed Statements of Cash Flows for the years ended December 31, 2006 and 2007.

***PUBLIC TAKEOVER OFFERS***

During 2008, and as of the date of this Annual Report, there have been no public takeover offers by third parties in respect of the Bank's shares or by the Bank in respect to another company's shares.



**Table of Contents*****CAPITAL EXPENDITURES AND DIVESTITURES***

During the past three years, Bancolombia has made significant capital expenditures aimed at increasing the Bank's productivity, accessibility and cost efficiency. These expenditures include the improvements made to the Bank's internet and technology systems, referred to as the IT Platform and those related to new ATMs and branches.

During 2006, total capital expenditures of the Bank, on an unconsolidated basis, amounted to approximately Ps 104.57 billion. Such investments were made mainly in hardware (Ps 55.40 billion), software (Ps 1.05 billion), and furniture and equipment (Ps 18.31 billion).

During 2007, total capital expenditures of the Bank, on an unconsolidated basis, amounted to approximately Ps 192.9 billion. Such investments were made mainly in buildings under construction (Ps 111.5 billion), purchase of lands and buildings (Ps 21.3 billion), technology and data processing equipment (Ps 37.5 billion) and furniture and equipment (Ps 21.5 billion).

During 2008, total capital expenditures of the Bank amounted to Ps 539.9 billion. Investments in land and buildings amounted to Ps 201.6 billion, data processing equipment to Ps 54.7 billion, furniture and fixtures to Ps 48.7 billion, vehicles to Ps 199.6 billion, and investments related to the IT Platform Renewal totaled Ps 35.3 billion. In 2008, the Bank continued the renovation of its IT Platform which is expected to be completed over an additional three year period. Likewise, during the fourth quarter of 2008 the construction of the Bank's new administrative headquarters in Medellín was completed as reflected in the capital expenditures item for land and buildings. With the new headquarters, the Bank centralized most of its Medellín operations in a single location. In addition, capital expenditures related to vehicles are primarily due to the business growth of Renting Colombia S.A., Bancolombia's subsidiary which provides operating lease and fleet management services for individuals and companies.

In 2008, Bancolombia funded its capital expenditures with its own resources and plans to continue to fund those currently in progress in the same way. No assurance can be given, however, that all of such capital expenditures will be made and, if made, that such expenditures will be in the amounts currently expected.

During 2009, the Bank expects to invest an approximate amount of Ps 305 billion. This figure represents only an estimate and may change according to the continuing assessment of the Bank's projects portfolio. The most representative projects are: an estimated investment of Ps 155 billion in connection with an IT Platform renewal project which focuses particularly in the purchase and adaptation of software and hardware, the expansion of the Bank's branch and ATM networks for an estimated investment of Ps 70 billion, purchase of hardware for the expansion, updating, and replacement of the current equipment for an estimated amount of Ps. 55 billion and other investments such as, an anti-fraud project, for an estimated amount of Ps. 12 billion.

The following table summarizes the Bank's capital expenditures and divestitures for the years ending December 31, 2006, 2007 and 2008, as of December 31:

<i>Capital Expenditures (Ps million)</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>Total</i>
Banagrícola S.A.		Ps 1,776,310	Ps 2,503	Ps 1,778,813
Inversiones Financieras Banco Agrícola S.A.		608,365	865	609,230
Banco Agrícola S.A.		94,384	3,951	98,335
Compañía de Financiamiento Comercial Sufinanciamiento S.A.	8	79,981	24,997	104,986
Renting Colombia S.A.		67,043	7,774	74,817
Aseguradora Suiza Salvadoreña S.A.			605	605
Asesuisa, S.A.			605	605
Asesuisa Vida S.A.		11,947		11,947
Suleasing International USA Inc.	8,685	6,446		15,131
Sutecnología S.A.	1,192	3,067		4,259
Suramericana de Inversiones S.A.		1,311		1,311
Leasing Bancolombia S.A.	30,999	1,157		32,156
FCP Colombia Inmobiliaria			26,595	26,595
Fiduciaria Bancolombia S.A.		31		31

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Factoring Bancolombia S.A.	44,238	10	5,000	49,248
Fondo de Inversión en arrendamiento operativo 3001 S.A.	14,551		21,089	21,089
VISA Inc.			5,237	5,237
Transportempo S.A.			2,493	2,493
Renting Peru S.A.C.			4,936	4,936
Inversiones IVL S.A.			4,757	4,757
Others	7,469	3,860	5,076	16,405
<b>Total Expenditures</b>	<b>Ps 107,142</b>	<b>Ps 2,653,912</b>	<b>Ps 115,878</b>	<b>Ps 2,876,932</b>

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<i>Divestitures (Ps million)</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>Total</i>
Acerias Paz del Río			56	56
Banco de Crédito			268	268
Almacénar S.A. <sup>(2)</sup>		14,262		14,262
Inversiones IVL S.A. <sup>(2)</sup>		9,542		9,542
Sociedad Portuaria Regional de Buenaventura S.A. <sup>(2)</sup>		4,917		4,917
Terminal Marítimo Muelles El Bosque S.A. <sup>(2)</sup>		3,320		3,320
Bolsa de Valores de Colombia S.A. <sup>(2)</sup>		2,261		2,261
Carreteras Nacionales del Meta S.A. <sup>(2)</sup>	5,509			5,509
Fideicomiso Devinorte S.A. <sup>(2)</sup>	5,277			5,277
Venrepa C.A. <sup>(1)</sup>	2,535			2,535
3001 S.A. <sup>(3)</sup>	34,873			34,873
Suramericana de Inversiones S.A. <sup>(2)</sup>	67,004		1,675	68,679
Lab Investment & Logistics S.A. <sup>(2)</sup>	17,704			17,704
Multienlace <sup>(2)</sup>			13,710	13,710
Bolsa de Valores de Colombia <sup>(2)</sup>			13,468	13,468
Fundicom S.A. <sup>(2)</sup>			11,789	11,789
Promotora La Alborada <sup>(2)</sup>			14,001	14,001
P.A. Renting Colombia <sup>(2)</sup>			13,296	13,296
Interconexión Eléctrica S.A. <sup>(2)</sup>			1,632	1,632
Valores Simesa S.A. <sup>(2)</sup>			1,248	1,248
Inversiones Valsimesa S.A. <sup>(2)</sup>			1,119	1,119
Others <sup>(1) (2)</sup>	314	2,093	3,129	5,536
<b>Total Divestitures</b>	<b>Ps 133,216</b>	<b>Ps 36,395</b>	<b>Ps 75,391</b>	<b>Ps 245,002</b>

(1) Investments  
Charged-off

(2) Investments  
Sold

(3) Settlement

**B. BUSINESS OVERVIEW****B.1. GENERAL**

Bancolombia is a full service financial institution incorporated in Colombia that offers a wide range of banking products and services to a diversified individual and corporate customer base of more than 6.4 million customers. Bancolombia delivers its product 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 minor operations in Peru, Brazil and Spain. Together, Bancolombia and its subsidiaries provide stock brokerage, investment banking, leasing, factoring, consumer finance, fiduciary and trust services, asset management, pension fund administration, and insurance, among other products and services.



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In connection with its Annual Report for the year ended December 31, 2008, the Bank performed a review of its business segments and has changed the presentation of segment information. The information for 2006 and 2007 has been reclassified to reflect these changes. For an explanation regarding these changes, see Item 4. Information on the Company B. Business Overview B.3 Bancolombia's Business. The following tables set forth Bancolombia's revenues for each operating segment for each of the last three fiscal years:

**Year Ended December 31, 2006<sup>(1)</sup>***(Ps million)*

	<i><b>Retail and Small Business Banking</b></i>	<i><b>Corporate and Governmental Banking</b></i>	<i><b>Treasury</b></i>	<i><b>Offshore Commercial Banking</b></i>	<i><b>Leasing</b></i>	<i><b>All other Segments</b></i>	<i><b>Total</b></i>
Revenues from external customers	Ps 547,311	Ps 169,871		Ps 130	Ps 38,515	Ps 222,699	Ps 978,526
Revenues and expenses from transactions with other operating segments of the Bank		60,861		12,493	12,691	73,058	159,103
Interest income	1,201,392	864,665	343,496	495,222	437,977	274,651	3,617,403
Provision for loans losses	Ps 130,613	Ps (50,742)	Ps (30,134)	Ps 13,316	Ps 51,741	Ps 87,978	Ps 202,772

**Year Ended December 31, 2007<sup>(1)(2)</sup>***(Ps million)*

	<i><b>Retail and Small Business Banking</b></i>	<i><b>Corporate and Governmental Banking</b></i>	<i><b>Treasury</b></i>	<i><b>Offshore Commercial Banking</b></i>	<i><b>Leasing</b></i>	<i><b>All other Segments</b></i>	<i><b>Total</b></i>
Revenues from external customers	Ps 801,924	Ps 179,491	Ps (2,302)	Ps 11,858	Ps 84,086	Ps 261,692	Ps 1,336,749
Revenues and expenses from transactions with other operating segments of the Bank	(10,844)	25,309	10,655	148,783	1,345	317,738	492,986
Interest income	2,019,666	1,385,482	507,934	299,067	624,606	424,687	5,261,442
	Ps 421,576	Ps 187,766	Ps (14,634)	Ps 19,271	Ps 108,538	Ps 26,111	Ps 748,628

Provision for  
loans losses

**Year Ended December 31, 2008** <sup>(1)</sup>

(Ps million)

	<b><i>Retail and Small Business Banking</i></b>	<b><i>Corporate and Governmental Banking</i></b>	<b><i>Treasury</i></b>	<b><i>Offshore Commercial Banking</i></b>	<b><i>Leasing</i></b>	<b><i>All other Segments</i></b>	<b><i>Total</i></b>
Revenues from external customers	Ps 913,333	Ps 206,529	Ps 14,244	Ps 5,303	Ps 245,739	Ps 318,071	Ps 1,703,219
Revenues and expenses from transactions with other operating segments of the Bank	(11,117)	57,992	(5,175)	38,642	8,427	167,611	256,380
Interest income	2,730,204	1,839,523	602,931	260,652	848,623	1,024,001	7,305,934
Provision for loans losses	Ps 802,255	Ps 330,148	Ps (11,261)	Ps 16,001	Ps 143,234	Ps 38,352	Ps 1,318,729

(1) The methodology used for segment disclosure was changed for purposes of comparability. The segments Retail and Small Business Banking were combined in a single segment as part of the new organizational structure defined by the Bank. The segments Corporate Banking and Governmental Banking were

also combined  
in a single  
segment.

- (2) The segment disclosure was modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

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For more information on the segment disclosure, see Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP x) Segment disclosure .

The following table sets forth Bancolombia's geographic revenues and long-term assets distribution as of December 31, 2006, 2007 and 2008:

<i>Geographic Information</i>	<i>2006</i>		<i>As of December 31, 2007<sup>(2)</sup></i> <i>(Ps million)</i>		<i>2008</i>	
	<i>Revenues</i>	<i>Long-Term Term - Assets<sup>(1)</sup></i>	<i>Revenues</i>	<i>Long-Term Term - Assets</i>	<i>Revenues</i>	<i>Long-Term Term - Assets<sup>(1)</sup></i>
Colombia	Ps 3,801,365	Ps 878,917	Ps 5,540,069	Ps 1,202,108	Ps 7,558,997	Ps 1,718,190
Panama and Cayman Islands	512,629	12,285	515,749	10,242	260,282	10,476
Puerto Rico	37,171	141	51,765	164	39,191	238
Perú			357	6,706	8,319	22,453
El Salvador			774,026	143,658	759,587	148,422
USA	31,630	928	48,010	115	42,770	199
<b>Total</b>	<b>4,382,795</b>	<b>892,271</b>	<b>6,929,976</b>	<b>1,362,993</b>	<b>8,669,146</b>	<b>1,899,978</b>
Eliminations of intersegment operations	(159,103)	(13)	(492,986)	11	(256,380)	2,674
<b>Total, net</b>	<b>Ps 4,223,692</b>	<b>Ps 892,258</b>	<b>Ps 6,436,990</b>	<b>Ps 1,363,004</b>	<b>Ps 8,412,766</b>	<b>Ps 1,902,652</b>

(1) Includes foreclosed assets, net, allowances for foreclosed assets and property, plant and equipment, net.

(2) The segment disclosure was modified to reflect certain reclassifications made in commissions from banking services and other services,



administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

The following table summarizes and sets forth Bancolombia's total revenue over the last three fiscal years:

	<i>2006</i>	<i>2007<sup>(4)</sup></i> <i>(Ps million)</i>	<i>2008</i>
<b><i>Revenues</i></b>			
Revenues for reportable segments <sup>(1)</sup>	Ps 4,755,032	Ps 7,091,177	Ps 9,265,533
Non-operating income <sup>(2)</sup>	(372,237)	(161,201)	(596,387)
Elimination of intersegment revenues	(159,103)	(492,986)	(256,380)
<b>Total revenues for reportable segments <sup>(3)</sup></b>	<b>Ps 4,223,692</b>	<b>Ps 6,436,990</b>	<b>Ps 8,412,766</b>

(1) Total revenues for reportable segments includes Revenues from external

customers,  
revenues and  
expenses from  
transactions  
with other  
operating  
segments of the  
same enterprise  
and interest  
income.

- (2) Non-operating  
income  
represents other  
income  
classified as  
revenue for  
segment  
reporting  
purposes.
- (3) Total revenues  
for reportable  
segments  
include interest,  
fees, other  
services and  
other operating  
income.
- (4) The segment  
disclosure was  
modified to  
reflect certain  
reclassifications  
made in  
commissions  
from banking  
services and  
other services,  
administrative  
and other  
expenses and  
other income  
that conform to  
the presentation  
of 2008 figures,  
in order to  
provide a better  
basis of  
comparison with

respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

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The following table lists the main revenue-producing fees along with their variation from the prior fiscal year:

	<i>2006</i>	<i>For the years</i> <i>2007<sup>(1)</sup></i> <i>(Ps million)</i>	<i>2008</i>	<i>Growth</i> <i>2008/2007</i>
<b><i>Main fees and commissions</i></b>				
Commissions from banking services	Ps 162,273	Ps 279,528	Ps 238,918	(14.53)%
Electronic services and ATMs fees	85,049	80,711	86,070	6.64%
Branch network services	62,403	104,601	104,010	(0.57)%
Collections and payments fees	74,708	130,421	157,281	20.59%
Credit card merchant fees	8,150	39,191	32,215	(17.80)%
Credit and debit card annual fees	238,898	293,583	446,647	52.14%
Checking fees	60,083	67,438	67,963	0.78%
Warehouse services	72,494			
Fiduciary activities	62,114	69,200	98,799	42.77%
Pension plan administration		82,453	87,826	6.52%
Brokerage fees	67,034	62,493	54,742	(12.40)%
Check remittance	11,040	22,762	26,148	14.88%
International operations	34,281	43,643	47,962	9.90%
Fees and other service expenses	(70,866)	(116,453)	(134,939)	15.87%
<b>Total fees and income from services, net</b>	<b>Ps 867,661</b>	<b>Ps 1,159,571</b>	<b>Ps 1,313,642</b>	<b>13.29%</b>

(1) The main fees and commissions for the year ended 2007 were modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with

respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

**B.3. BANCOLOMBIA S BUSINESS**

Bancolombia offers traditional banking products and services, such as checking accounts, saving accounts, time deposits (which are tradable certificates of deposits), lending (including overdraft facilities), mortgage loans, credit cards, and cash management services. It also offers nontraditional products and services, such as pension funds services, insurance, bancassurances, international transfers, trust fund services, leasing brokerage services and investment banking.

The principal lines of business of Bancolombia by operating segments are as follows:

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For purposes of this Annual Report, the management of Bancolombia adjusted the method of calculating income and expenses per operating segment in order to better reflect the performance of each of the business segments defined by management. The information for 2006 and 2007 has been reclassified to reflect these changes. Specifically, the following adjustments were made:

Dividends received by the Bank are no longer included in the Treasury segment, but in All Other Segments.

Government accounts for small towns and cities were moved from Corporate and Governmental Banking to Retail and Small Business Banking.

Depreciation and amortization expense for the Retail and Small Business Banking, Corporate and Governmental Banking, and Treasury segments are now distributed proportional to assets and not to administrative expenses.

Time deposits sold by the Treasury division are no longer included in Corporate and Governmental Banking, but in Treasury.

Goodwill is included as an amortization within All Other Segments.

***Retail and Small Business Banking:*** The Bank's Retail Banking segment provides a wide range of financial products and services to individuals and SMEs (firms that are not part of the Corporate and Governmental segment) in Colombia and El Salvador. Bancolombia's Retail and Small Business Banking segments serve a wide range of clients with different needs, goals and lifestyles, and is divided into eight subsegments, as shown below.

Preferential: Serves individuals with monthly income equal or greater than 15 SMMLV.

Personal Plus: Serves individuals with monthly income between 2 and 15 SMMLV.

Personal: Serves individuals with monthly income below 2 SMMLV.

Government (small towns and cities): Serves State-owned and official institutions with annual revenues lower than 32,500 SMMLV.

SME: Serves small and medium enterprises with annual sales between 542 and 32,500 SMMLV.

Entrepreneurial: Serves corporations with annual sales above 542 SMMLV.

Colombians abroad: Serves Colombian citizens living outside of Colombia.

Private Banking: Provides private banking services to clients with assets under management above US\$150,000.

The Bank also offers special programs for its clients according to their respective profile (children, senior citizens and groups) in order to provide clients with value-added products and services that are aligned with their needs and preferences.

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**Corporate and governmental Banking:** This segment provides commercial banking products and services to local and international companies, from both the public and private sectors with annual sales of more than Ps 15,000 million. The Bank's clients include many leaders their respective markets, which makes them highly sophisticated in terms of processes, operations and projects. The Bank's strategy is to grow with these clients based on value-added, long-term relationships. In order to offer specialized services to clients engaged in a diverse spectrum of industries, the Bank's sales force determines the needs and its challenges of each client and specializes in nine economic sectors: Agribusiness, Commerce, Manufacturing of Supplies and Materials, Media, Financial Services, Non-Financial Services, Construction, Government and Natural Resources.

**Treasury:** This segment is responsible for the management of the Bank's proprietary trading activities, liquidity, and distribution of treasury products and services to its client base in Colombia. In addition, Bancolombia's Economic Research Department is included in this division. Additional information on Bancolombia's treasury products can be found in section Item 4. Information on the Company B. Business Overview B.5 Products and Services . In 2008, all of the Bank's capital market operators were accredited by the Autorregulador del Mercado de Valores AMV (a Colombian securities market self-regulatory authority) as certified Derivative and Fixed Income Security Operators . Bancolombia's Treasury Division's market share and innovative products make it a leader in the Colombian capital markets.

**Offshore Commercial Banking:** Bancolombia Panamá S.A., Bancolombia Cayman, Bancolombia Puerto Rico Internacional Inc. and Banco Agrícola (Panama) S.A. provide a complete line of offshore banking services to Colombian and Salvadorian customers, including loans to private sector companies, trade financing, lease financing, financing for industrial projects as well as a complete portfolio of cash management products, such as checking accounts, international collections and payments, and PC Banking. Through these Subsidiaries, the Bank also offers investment opportunities in U.S. dollars, savings and checking accounts, time deposits, and investment funds. to its high net worth clients and private banking customers.

**Leasing:** This segment provides financial and operational leases, including cross-border and international leasing services to clients in Colombia as well as in Central America, Mexico and Brazil. Bancolombia offers these services through its Subsidiaries: Leasing Bancolombia, Renting Colombia, Renting Perú S.A., Tempo Rent a Car S.A., Capital Investment Safi S.A, Suleasing International USA Inc., and Arrendadora Financiera S.A.

**All Other Segments:** This segment provides the following products and services: (i) Investment Banking. Banca de Inversión specializes in providing investment banking services to corporate customers in areas such as mergers and acquisitions, project finance, issuances of debt and equity securities and syndicated loan transactions. (ii) Brokerage and Asset Management. Valores Bancolombia, Suvalor Panama and Bursabac provide brokerage and asset management services. It provides its customers with domestic and international investment alternatives. (iii) Trust, Pension Fund and Insurance. The Bank offers, through its subsidiaries Fiduciaria Bancolombia S.A., and Fiduciaria GBC S.A, investment funds which allow customers with the opportunity to diversify their investments. (iv) Bancassurance. Through their branch network, Bancolombia and Banco Agrícola offer various insurance products. (v) Insurance. Asesuisa and Asesuisa Vida offer insurance products for individuals and corporations, covering a wide range of risks and exposures in El Salvador and (vi) Pension Fund Management. AFP Crecer S.A. is a pension fund manager that manages both voluntary and mandatory contributions through individual savings accounts for the elderly, common disability and surviving pensions.

In addition, the operations of the following subsidiaries are part of the All Other Segments segment: FCP Colombia Inmobiliaria, Inversiones Financieras Banco Agrícola S.A., Bursabac S.A. de C.V., Inmobiliaria Bancol S.A., Valores Simesa S.A., Inversiones CFNS Ltda., Todo Uno Colombia S.A., Inversiones IVL S.A, Transportes Empresariales de Occidente Ltda., and Fiduciaria GBC S.A. The Bank's corporate headquarters are included in this segment as well.

**Table of Contents****B.4. DISTRIBUTION NETWORK**

Bancolombia provides its products and services through a traditional branch network, as well as through mobile branches (or Puntos de Atención Móviles, which consist of commercial advisors who visit small towns on specific days, to offer Bancolombia's products and services to the local population), non-banking correspondents, ATM network, online banking, telephone banking, Bancolombia's website, Facturanet, the payment button, PC Banking, mobile banking service (transactions through mobile phones), and PACs (Point of Sale) and Kiosks, among others.

**B.4.i. Branch Network**

As of December 31, 2008, Bancolombia's consolidated branch network consisted of 892 offices which comprised 717 from Bancolombia, 107 from Banco Agrícola and 68 from other subsidiaries. As of December 2008 Bancolombia had presence in 602 cities and municipalities in Colombia.

<i>Company</i>	<i>Number of branches 2007</i>	<i>Number of branches 2008</i>
Bancolombia (unconsolidated)	719	717
Bancolombia Panamá	1	1
Leasing Bancolombia	10	10
Renting Colombia	4	4
Valores Bancolombia	7	7
Suvalor Panama	1	1
Banca de Inversión Bancolombia	2	2
Fiduciaria Bancolombia	6	6
Bancolombia Puerto Rico International Inc.	1	1
Factoring Bancolombia	5	5
Sufinanciamiento	6	8
Renting Peru S.A.C	1	1
Tempo Rent a Car	5	8
Inversiones CFNS	1	1
Banco Agrícola	107	107
Arrendadora Financiera S.A.	1	1
Bursabac S.A. de C.V	1	1



AFP Crecer S.A.	6	6
Aseguradora Suiza Salvadoreña S.A.	1	1
Asesuisa Vida S.A.	1	1
Multienlace S.A.	2	
<b>Total</b>	<b>888</b>	<b>892</b>

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**B.4.ii. Electronic Distribution Channels**

Bancolombia has a network of alternative electronic distribution channels designed to enable cost-effective transactions and services. In order to make its branch offices more efficient, the Bank has worked to transfer customer transactions from branch offices to electronic distribution channels. Transactions effected through electronic distribution represented approximately 86% of all transactions made by Bancolombia on an unconsolidated basis in 2008.

The following are the electronic distribution channels offered by the Bank:

**B.4.ii.a. Automatic Teller Machines ATM Network**

As of December 31 2008, Bancolombia's ATM network consisted of 2,355 machines, 1,974 in Colombia and 381 in El Salvador. During 2008 a total of 257.5 million transactions were executed through ATMs which corresponds to a 7.8% increase as compared to the figure for 2007.

**B.4.ii.b. Online Banking**

Bancolombia offers the following online banking channels and services.

*Online Banking for Corporations*

This platform allows corporate customers to inquire their account balances, monitor transactions in their deposit accounts, loans and credit cards, make virtual term investments, disburse loans, make payroll and supplier payments, and complete other transactions in real time with the superior level of security that Bancolombia believes its customers require. The number of transactions made through this channel in 2008 was 117.9 million from Bancolombia and 9.7 million from Banagrícola.

*Online Banking for individuals*

This platform allows individual customers to inquire their financial products, make payments and money transfers, and buy financial products. The number of transactions made through this channel in 2008 was 262.6 million, representing a 52.9% increase as compared to 2007.

Bancolombia's Website

A total of 30 content portals, providing interactive information to customers and users, were consolidated on Bancolombia's website in 2008 ([www.grupobancolombia.com](http://www.grupobancolombia.com)).

Facturanet

Facturanet was the first electronic bill payment system introduced in Colombia. It was developed by Todo 1 Services, a company with a business model designed to generate revenue from online banking, e-commerce and e-business. Through Facturanet, Bancolombia's customers can make payments and receive alerts via e-mail when a new bill is submitted for payment from any entity that has signed an agreement with the Bank.

Payment Button

Bancolombia offers two options for making purchases and payments via internet:

E-Pagos, a button exclusively for the Bank's customers through which they can make purchases and payments via the internet.

Electronic Services Supplier (*Proveedor de Servicios Electrónicos*, or PSE), a centralized, standardized system, developed by ACH Colombia S.A. (ACH), an independent company, through which companies may allow their users to purchase and pay for items over the internet, debiting the corresponding amounts from the financial institution where the users have their account and transferring these amounts to the payee accounts. This button accepts payments through banks that are part of the ACH network.

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**B.4.ii.c. PC Banking**

Enlinea Bancolombia, the remote access platform of the Bank (unconsolidated), allows corporate customers to connect to the Bank via modem through an application that is installed on a computer at the customer's location.

**B.4.ii.d. Telephone Banking**

Bancolombia's telephone banking offers customized and convenient advisory services, efficient transactions and the sale of products and services, extending Bancolombia's commercial and service strategy to customers of all segments.

**B.4.ii.e. Electronic Point of Service ( PACs ):**

Through the Electronic Point of Service (*Punto de Atención Cercano Electrónico*) Bancolombia's customers may make balance inquiries and carry out transactions in checking and savings accounts, transfers funds to their own accounts or to those of third parties at Bancolombia or other financial institutions, make payments to public utility services, make credit card payments, make disbursements of loans into accounts and make changes to credit and debit card passwords.

**B.4.iii. Bancolombia's Mobile Banking Service**

This distribution channel allows Bancolombia's clients to conduct various transactions using their mobile phone: transfer of funds between Bancolombia accounts, inquiries of account balances, purchases of prepaid mobile phone air time and payment of mobile phone invoices.

**B.4.iv. Kiosks**

This channel, mainly used in Banco Agrícola, consists of small kiosks located inside the Bank's agencies, shopping malls, and other public places. Through this channel customers may make balance inquiries, carry out transactions and transfer funds. In 2008, the number of transactions made through these channel was 8.9 million, representing a 11.5% increase as compared to the same period in 2007.

**B.4.v. Sales Force**

As of December 31 2008, more than 10,500 employees were part of Bancolombia's consolidated sales and customer service force.

**B.5. PRODUCTS AND SERVICES**

The following are the products and services offered by Bancolombia:

**Savings and Investment:** The Bank offers its customers checking accounts, savings accounts, fixed term deposits and other investment products. Bancolombia is committed to helping its clients to save and invest by providing a wide range of savings plans based on the specific transactional needs of each client and their income bracket.

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**Financing:** Bancolombia offers its customers a variety of financing options including: trade financing, loans funded by domestic development banks, working capital loans, credit cards, personal loans, vehicle loans, overdrafts, among others. Bancolombia is committed to play a central part in the development of the countries where it operates by performing its economic role as an efficient allocator of capital resources. In order to fulfill this objective, the Bank offers a wide range of credit alternatives.

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

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

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

**Treasury:** Bancolombia assists its clients in hedging their market risks through innovative derivative structures. The Bank also performs inter-bank lending, repurchase agreements or repos, sovereign and corporate securities sales and trading, foreign currency forwards, interest rate and cross currency swaps and European options.

**Comprehensive Cash Management:** Bancolombia provides support to its clients in efficiently controlling and managing their cash. Bancolombia offers a portfolio of standard products that allows clients to make their payments and collections.

**Foreign Currency:** Bancolombia offers its clients specialized solutions to satisfy their investment, financing and payment needs with regard to foreign currency transactions.

**Bancassurance and Insurance:** Bancolombia has consolidated a comprehensive portfolio of insurance and pension banking products aimed at new market niches and focusing on building long-term relationships with clients. Through its branch network, Bancolombia offers various insurance products (life insurance, home insurance and personal accident insurance) from Compañía Suramericana de Seguros, one of the major insurance companies in Colombia. With respect to 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).

**Brokerage Services:** Bancolombia offers, through Valores Bancolombia, Suvalor Panama and Bursabac, brokerage and investment advisory services, covering various investment alternatives including equities, futures, foreign currencies, fixed income securities, mutual funds, and structured products.

**Investment Banking:** Bancolombia offers, through Banca de Inversión an ample portfolio of value-added services, that allow it to advise and assist companies from all economic sectors, in areas relating to project finance, capital markets, capital investments, M&A, restructurings and corporate lending.

**Asset Management and Trust Services:** Bancolombia provides, through Fiduciaria Bancolombia, Valores Bancolombia and AFP Crecer S.A, asset management and trust products which include mutual funds, pension funds, administration and payment trusts, public trusts, real estate trusts, securitization and guarantee trusts.

**B.5.i. 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 during 2008.

**Table of Contents*****Integrated Payment and Collection Services***

As part of enhancing its comprehensive cash management services, the Bank launched a technology application that allows its clients to retrieve payment and collection information processed through its network.

***Standardized Derivatives***

With the creation of the *Cámara de Riesgo Central de Contraparte* (CRCC) as central counterparty clearing house for the trading of standardized derivatives in Colombia, Bancolombia added futures on Colombian government bonds to its derivatives product portfolio and is currently participating as clearing member of the CRCC.

***Time Deposit Indexed to the Indicador Bancario de Referencia ( IBR ).***

As part of increasing its Savings and Investment products the Bank introduced a time deposit with variable rate calculated based on a reference interest rate known as the IBR, which acts as a reference of overnight and one-month interbank loans, and is based on quotations to be submitted to the Central Bank on every business day by eight participating banks. Using a weighted average of the quotations submitted, the Central Bank calculates the overnight IBR on every business day. The one-month IBR is calculated each Tuesday.

***Fixed Rate Loan***

In April of 2008, Bancolombia launched a special loan facility directed to corporate clients which allows them to cover their medium and long-term financing needs at an interest rate that will not change during the life of the loan. This product reduces the cash flow uncertainty for the client due to interest rate changes and a prepayment fee provides an additional income for the Bank.

**B.6. COMPETITION****B.6.i. Description of the Colombian Financial System***Overview*

The Colombian financial system was historically composed of specialized institutions operating in market niches that were regulated and delineated by law. However, Law 45 of 1990, Law 35 of 1993 and the *Estatuto Orgánico del Sistema Financiero* (Decree 663 of 1993, as amended) significantly deregulated the Colombian financial system, providing commercial banks with the opportunity to set up subsidiaries to compete in different markets, and permitting other financial institutions to enter markets in the Colombian financial system from which they had previously been excluded. These laws have increased competition among the different types of financial institutions, promoted consolidation of the financial industry and created considerable overlap in the permitted scope of business activities of the various types of financial institutions, particularly with respect to foreign exchange operations. This legal framework also permits foreign investment in all types of financial institutions.

Additional laws have since been promulgated with the purpose of further deregulating the Colombian financial system. Law 510 of 1999, Law 546 of 1999 and Law 795 of 2003 further broadened the scope of activities permitted to financial institutions and set forth general circumstances under which the Colombian government may intervene in the financial sector, as well as the rules governing such intervention.

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In recent years the Colombian banking system has been undergoing a period of readjustment given the series of mergers and acquisitions that have taken place within the sector, reflecting worldwide tendencies towards a greater consolidation on the part of ever growing financial institutions. 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 extending this stake by another 25% by 2012. As of December 31, 2008, and according to the Superintendency of Finance, the principal participants in the Colombian financial system were the Central Bank, 18 commercial banks (ten domestic banks, seven foreign banks, and one state owned bank), three finance corporations and 27 commercial finance companies (10 leasing companies and 17 traditional finance 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.

***Financial System Evolution in 2008***

Despite a restrictive monetary policy and the turbulent conditions in the international financial markets, the Colombian financial system recorded an increase in its activities during 2008, although lower than that experienced in 2007. According to the Superintendency of Finance, the financial system's loan portfolio decreased from a total growth of 24.9% for 2007 to 18.2% for 2008. This slowdown in the credit market mostly affected consumer loans which grew more slowly increasing 11.6% in 2008 compared with 32.4% in 2007. Mortgage loans for Colombia's financial system grew at a lower rate in 2008, going from 17.3% in 2007 to 13.7% in 2008. Commercial loans, however, maintained a similar growth with a year-end growth rate of 21.5% compared with 22.7% recorded at the end of December, 2007. Microcredit loans grew in 2008 by an annual rate of 55.7% driven by the entrance of new banking entities specializing in this type of product.

The trends seen in the Colombian financial system's loan portfolio were consistent with indicators of quality of loan portfolio (past due loans/total loans) of 4.04% and coverage (provisions/past due loans) of 120.54%, as of December 31, 2008, as compared with indicators of 3.26% and 132.62%, respectively as of December 31, 2007.

The tendency towards reorganization in the composition of assets in favor of the loan portfolio remained stable during 2008. The loan portfolio as a percentage of total assets increased from 64.3% as of December 31, 2007 to 64.6% as of December 31, 2008. The investment portfolio as a percentage of total assets decreased from 19.0% as of December 31, 2007 to 18.1% as of December 31, 2008.

At the end of 2008, the Colombian financial sector recorded Ps 213 trillion in total assets, representing a 16.3% increase as compared to the same period in 2007. The Colombian financial system's total composition of assets shows banks with a market share of 87.39%, followed by commercial financing companies with 10.76% and financial corporations with 1.85%.

In terms of profits, the Colombian financial system recorded a total of Ps 4.80 trillion for 2008, an increase of 20.5% compared to Ps 3.99 trillion in 2007. The technical capital ratio for credit institutions was 13.4% (including banks, financing companies and commercial financing companies), as of December 31, 2008, which is well above the minimum legal requirement of 9%.

**B.6.ii. Bancolombia and its Competitors**

In 2008, according to the Superintendency of Finance, Bancolombia led the Colombian finance sector, among 18 different entities, and ranked first in terms of assets according to the Superintendency of Finance. Its main competitors in the corporate sector are Banco de Bogota, Davivienda, BBVA and Banco de Occidente. In the consumer sector Bancolombia's main competitors are Banco Davivienda, BBVA, Popular and Citibank.



**Table of Contents****Indicators for Bancolombia and Its Competitors**

The following table shows the key profitability and loan portfolio quality indicators for Bancolombia and its main competitors as published by the Superintendency of Finance. The table also shows the capital adequacy requirements for Bancolombia and its main competitors as of December 31, 2008 as compared to the previous year.

	<i>ROE</i>		<i>ROA</i>		<i>Past due loan/</i>		<i>Allowances/</i>		<i>Capital Adequacy</i>	
	<i>Dec-07</i>	<i>Dec-08</i>	<i>Dec-07</i>	<i>Dec-08</i>	<i>Total loans</i>	<i>Past due loans</i>	<i>Dec-07</i>	<i>Dec-08</i>	<i>Dec-07</i>	<i>Dec-08</i>
					<i>Dec-07</i>	<i>Dec-08</i>	<i>Dec-07</i>	<i>Dec-08</i>	<i>Dec-07</i>	<i>Dec-08</i>
Bancolombia (unconsolidated)	15.9%	17.7%	2.4%	2.6%	2.39%	3.07%	169.57%	164.36%	17.4%	14.8%
Banco de Bogota	19.1%	23.2%	2.3%	2.6%	2.25%	2.50%	152.90%	137.01%	10.0%	10.3%
Banco de Occidente	18.8%	24.0%	2.2%	2.6%	2.75%	3.99%	160.98%	216.43%	11.6%	10.6%
BBVA	21.2%	20.2%	1.8%	1.8%	2.49%	4.24%	161.41%	102.00%	10.9%	11.0%
Citibank	13.9%	15.5%	2.2%	2.6%	4.33%	6.03%	109.82%	107.69%	12.8%	14.5%
Davivienda	27.3%	17.8%	2.7%	1.9%	4.15%	4.01%	138.01%	147.41%	12.0%	13.3%
Banco Popular	24.2%	26.2%	2.3%	2.6%	2.24%	2.81%	197.09%	158.68%	9.8%	12.9%

Source: Superintendency of Finance.

\* ROE is return on average shareholders equity.

\*\* ROA is return on average assets

The following charts illustrate the market share of Bancolombia (unconsolidated) and its main competitors with respect to various key products, based on figures published by the Superintendency of Finance for the years ended December 31, 2006, 2007 and 2008:

**Total Net Loans  
Market Share**

<i>Total Net Loans</i> <i>Share %</i>	<i>Market</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Bancolombia		20.62	21.70	21.99
Bogotá		14.19	14.09	14.69
Occidente		6.54	6.69	6.52
Citibank		4.33	4.00	3.39
BBVA		10.64	11.11	11.30
Davivienda		7.80	12.22	11.93
Popular		4.72	4.92	4.76

Source: Ratios are calculated by



Bancolombia  
based on figures  
published by the  
Superintendency  
of Finance.

***Checking Accounts  
Market Share***

<b><i>Checking Accounts Market Share %</i></b>	<b><i>2006</i></b>	<b><i>2007</i></b>	<b><i>2008</i></b>
Bancolombia	21.80	22.61	22.12
Bogotá	17.29	19.15	19.28
Occidente	15.00	14.15	13.78
Citibank	2.87	2.56	2.47
BBVA	9.85	9.91	8.97
Davivienda	3.95	9.84	9.38
Popular	4.86	4.76	5.28

Source: Ratios are  
calculated by  
Bancolombia  
based on figures  
published by the  
Superintendency  
of Finance.

**Table of Contents*****Time Deposits  
Market Share***

<b><i>Time Deposits</i></b>	<b><i>Market Share %</i></b>	<b><i>2006</i></b>	<b><i>2007</i></b>	<b><i>2008</i></b>
Bancolombia		13.39	15.09	15.54
Bogotá		9.26	12.95	14.22
Occidente		3.27	3.77	4.25
Citibank		5.83	5.78	4.31
BBVA		11.01	10.73	13.94
Davivienda		11.76	14.57	12.56
Popular		2.91	3.33	4.27

Source: Ratios are calculated by Bancolombia based on figures from the Superintendency of Finance.

***Saving Accounts  
Market Share***

<b><i>Saving Accounts</i></b>	<b><i>Market Share %</i></b>	<b><i>2006</i></b>	<b><i>2007</i></b>	<b><i>2008</i></b>
Bancolombia		20.57	19.95	21.33
Bogotá		12.62	12.26	13.18
Occidente		6.07	6.57	6.86
Citibank		2.89	3.07	2.70
BBVA		13.07	13.88	11.21
Davivienda		9.48	13.24	12.74
Popular		6.80	6.87	7.43

Source: Ratios are calculated by Bancolombia based on figures from the Superintendency of Finance.

**B.6.iii. Description of the Salvadorian Financial System**

As of December 31, 2008, the Salvadorian financial system was composed of 12 institutions; eight commercial banks, two state owned banks and two foreign banks.

The total system assets amounted to U.S. 13.5 billion in 2008, increasing 3.2% as compared to the previous year. As of December 31, 2008, loans represented 66.3% of total assets in the Salvadorian financial system, while investments represented 14.6%, and cash and due from banks represented 14%.

**B.6.iv. Banco Agrícola and its Competitors**

In 2008, Banco Agrícola continued to lead the Salvadorian financial system and ranked first in terms of assets and profits. The following table shows the market share for the main institutions of the financial Salvadorian financial system for the year ended December 31, 2008:

	<b>MARKET SHARE</b>				
	<b>Assets</b>	<b>Shareholder s Equity</b>	<b>Loans</b>	<b>Deposits</b>	<b>Profits</b>
Banco Agrícola	29.3%	30.4%	29.50%	29.5%	48.1%
Citi	21.2%	22.9%	19.50%	21.2%	10.6%
HSBC	16.6%	16.6%	16.20%	16.6%	16.1%
Scotiabank	15.5%	14.8%	17.30%	14.8%	9.2%
BAC	8.3%	7.4%	8.60%	7.6%	11.1%
Others	9.1%	8.0%	8.90%	10.2%	4.9%

Source:

ABANSA

(Asociación

Bancaria

Salvadoreña).

Figures as of

December 31,

2008.

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**B.7. SUPERVISION AND REGULATION**

***Colombian Banking Regulators***

Pursuant to the Colombian Constitution, Colombia's National Congress has the power to prescribe the general framework within which the government may regulate the financial system. The governmental agencies vested with the authority to regulate the financial system are the board of directors of the Central Bank, the Colombian Ministry of Finance and Public Credit ( Ministry of Finance ) and the Superintendency of Finance.

***Central Bank:***

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

Pursuant to the Colombian Constitution of 1991, the Central Bank has autonomy from the government in the formulation of monetary policy and for administrative matters. Specifically, the Constitution of 1991 established administrative, technical, budgetary and legal autonomy for the Central Bank and its board of directors in respect of monetary, credit and foreign exchange matters. The Central Bank reports only to the National Congress. Its board of directors has seven members, one of whom is the Minister of Finance and Public Credit.

***Ministry of Finance and Public Credit:***

This Ministry designs, coordinates, regulates and executes economic policy, guaranteeing an optimum administration of public finances for the economic and social development of the country.

One of the functions of the Ministry of Finance is to regulate in all aspects of finance, securities and insurance activities. It is also responsible for inspecting, supervising and controlling all those entities engaged in such activities, specifically through the Superintendency of Finance.

As part of its duties, the Ministry of Finance issues decrees and regulations related mainly, to financial, taxation, customs, public credit and budgetary matters that may affect banking operations in Colombia.

***Superintendency of Finance:***

The Superintendency of Finance was created as a result of the merger between the Superintendency of Banking and the Superintendency of Securities through Decree 4327 issued by the President of the Republic of Colombia, in November 2005.

All the responsibilities and attributions of the former Superintendency of Banking and Superintendency of Securities set forth in Decree 663 of 1993, as amended, Decree 2739 of 1991, as amended, and Law 964 of 2005, were assigned to the newly created Superintendency of Finance.

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The Superintendency of Finance is a technical branch of the Ministry of Finance that acts as the inspection, supervision and control authority of the financial, insurance and securities exchange sectors and any other activities related to the investment or management of the public's savings. The Superintendency of Finance has been entrusted with the objective of supervising the Colombian financial system with the purpose of preserving its stability and trustworthiness, as well as promoting, organizing and developing the Colombian securities market and protecting the users of financial and insurance services and investors.

Financial institutions must obtain the authorization of the Superintendency of Finance before initiating operations.

Violations to provisions of Colombia's financial system are subject to administrative sanctions and, in some cases, may have criminal consequences. The Superintendency of Finance may inspect Colombian financial institutions on a discretionary basis, and has the authority to impose fines on such institutions, their directors and officers for violations of Colombian laws, regulations, or such financial institutions' own by-laws.

In addition, the Superintendency of Finance continues to make on-site inspections of Colombian financial institutions, including Bancolombia, on a regular basis, as did the Superintendency of Banking.

Both as a financial institution and as an issuer of securities traded in the Colombian Stock Exchange, Bancolombia is subject to the supervision and regulation of the Superintendency of Finance.

Additionally, Bancolombia's subsidiaries located in Colombia, which are financial entities, finance corporations, commercial finance companies, trust companies and its brokerage firms are each subject to the supervision and regulation of the Superintendency of Finance.

### ***Regulatory Framework for Colombian Banking Institutions***

The basic regulatory framework for the operations 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 and Law 964 of 2005. Laws 510 and 795 substantially modified the control, regulation and surveillance powers of the Superintendency of Banking (now Superintendency of Finance). Law 510 also streamlined the procedures for the *Fondo de Garantías de Instituciones Financieras* ( Fogafin ), an agency that assists troubled financial institutions and intervenes on behalf of economically troubled companies. The main purpose of Law 510 was to increase the solvency and stability of Colombia's financial institutions, by establishing rules regarding their incorporation, as well as permitted investments of credit institutions, insurance companies and investment companies. Law 546 of 1999 was enacted in order to regulate the system of long-term home loans. Afterwards, Law 795 was enacted with the main purpose of broadening the scope of activities to be performed by financial institutions and to update Colombian regulations with the latest principles of the Basel Committee. Law 795 also increased the minimum capital requirements in order to incorporate a financial institution (for more information see *Minimum Capital Requirements* below) and authorized the Superintendency of Finance to take precautionary measures, consisting mainly in preventive interventions with respect to financial institutions whose capital falls below certain thresholds. For example, in order to avoid a temporary taking of possession by the Superintendency of Finance, troubled financial institutions must submit to the Superintendency of Finance a restructuring program to restore their financial situation.

In order to implement and enforce the provisions related to Colombia's financial system, the Superintendency of Finance and the board of directors of the Central Bank issue periodic circulars and resolutions. By means of External Circular 007 of 1996, as amended, the Superintendency of Banking (now Superintendency of Finance) compiled all the rules and regulations applicable to financial institutions. Likewise, by means of External Circular 100 of 1995, as

amended ( Basic Accounting Circular ), it compiled all regulations applicable to the accounting and financial treatment of banking financial institutions.

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On April 10, 2008, the Colombian government presented a bill to the Colombian congress which established a bill of rights for customers as well as obligations for financial institutions. The bill seeks to minimize disputes between financial institutions and their customers. The bill was approved by the Colombian congress on June 18 2009, and will become a law once it is signed by the president.

Violations of Laws 510, 795 and 964, as well as of specific provisions of Decree 663 and their relevant regulations, are subject to administrative sanctions and, in some cases, criminal sanctions.

***Key Interest Rates***

Colombian commercial banks, finance corporations and commercial finance companies are required to report to the Central Bank, on a weekly basis, 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 calculates 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 deposit maturities of 90 days. The DTF is the weighted average interest rate paid by finance corporations, commercial banks and commercial finance companies for certificates of deposit with maturities of 90 days. For the week of June 15-21, 2009, the DTF was 5.46% and the TCC was 6.04%.

The Central Bank also calculates the IBR, which acts as a reference of overnight and one-month interbank loans, based on quotations submitted on every business day by eight participating banks to the Central Bank. Using a weighted average of the quotations submitted, the Central Bank calculates the overnight IBR on every business day. The one-month IBR is calculated each Tuesday.

***Capital Adequacy Requirements***

Capital adequacy requirements for Colombian financial institutions (as set forth in Decree 1720 of 2001, as amended) are based on the Basel Committee standards. The regulations establish four categories of assets, which are each assigned different risk weights, and require that a credit institution's Technical Capital (as defined below) be at least 9% of that institution's total risk-weighted assets.

Technical Capital for the purposes of the regulations consists of basic capital ( Primary Capital ) and additional capital ( Secondary Capital ) (collectively, Technical Capital ). Primary Capital consists mainly of:

outstanding and paid-in capital stock;

legal and other reserves;

profits retained from prior fiscal years;

the total value of the revaluation of equity account (*revalorización del patrimonio*) (if positive) and of the foreign currency translation adjustment account (*ajuste por conversión 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;

any shares held as guarantee by Fogafin when the entity is in compliance with a recovery program aimed at bringing the Bank back into compliance with capital adequacy requirements (if the Superintendency of Finance establishes that such recovery program has failed, these shares shall not be taken into account when determining the Primary Capital);

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subordinated bonds issued by financial institutions and subscribed by Fogafin when they comply with the 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;

the value of dividend declared to be paid in shares; and

the value of the liabilities owed by minority interests.

Items deducted from Primary Capital are:

any prior or current period losses;

the total value of the capital revaluation account (if negative);

accumulated inflation adjustment 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 entities (excluding subsidiaries) subject to the supervision of the Superintendency of Finance 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; and

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 foreign currency translation and excludes appraisals.

Secondary Capital consists of other reserves and retained earnings, which are added to the Primary Capital in order to establish the total Technical Capital. Secondary Capital includes:

50% of the accumulated inflation adjustment of non-monetary assets (provided that such assets have not been disposed of);

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 Superintendency of Finance and subject to the conditions set forth by the Superintendency of Finance);

subordinated monetary obligations as long as said obligations do not exceed 50% of Primary Capital and comply with additional requirements stated in the regulations;

the part of the surplus capital account from donations in compliance with the requirements set forth in the applicable regulation; and

general allowances made in accordance with the instructions issued by the Superintendency of Finance.





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The following items are deducted from Secondary Capital:

- 50% of the direct or indirect capital investments (in entities subject to the supervision of the Superintendency of Finance excluding subsidiaries) and mandatory convertible bonds reappraisal, in compliance 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.

In computing Technical Capital, Secondary Capital may not exceed (but can be less than) the total amount of Primary Capital.

The following table sets forth certain information regarding the Bank's consolidated capital adequacy as of December 31, 2008:

	<i>As of December 31, 2007</i>		<i>As of December 31, 2008</i>
	<i>(Ps million, except percentages)</i>		
Subscribed capital	Ps 460,684	Ps	460,684
Legal reserve and other reserves	3,359,604		3,975,021
Unappropriated retained earnings	92,218		135,292
Net Income	1,054,315		594,083
Subordinated bonds subscribed by Fogafin	7,346		4,897
<b>Less:</b>			
Long term investments	(91,730)		(79,678)
Non-monetary inflation adjustment	(153,336)		(118,544)
 Primary capital (Tier I)	 Ps 4,729,101	 Ps	 4,971,755
 Reappraisal of assets	 121,363	 Ps	 162,932
Provision loans	128,087		97,034
Non-monetary inflation adjustment	81,362		63,967
Subordinated bonds	848,404		949,936
 Computed secondary capital (Tier II)	 Ps 1,179,216	 Ps	 1,273,869
 Primary capital (Tier I)	 Ps 4,729,101	 Ps	 4,971,755
Secondary capital (up to an amount equal to primary capital) (Tier II)	1,179,216		1,273,869
 Technical Capital	 Ps 5,908,317	 Ps	 6,245,624
 Capital ratios			
Primary capital to risk-weighted assets (Tier I)	10.14%		8.95%
Secondary capital to risk-weighted assets (Tier II)	2.53%		2.29%

Technical capital to risk-weighted assets	12.67%		11.24%
Risk-weighted assets including market risk	Ps 46,628,036	Ps	55,542,485

As of December 31, 2008, the Bank's technical capital ratio was 11.24%, exceeding the requirements of the Colombian government and the Superintendency of Finance by 224 basis points. As of December 31, 2007, the Bank's technical capital ratio was 12.67%. The year-over-year decrease in the capital adequacy ratio is explained by the growth in risk-weighted assets, as those assets increased 19.1% outpacing the growth of the technical capital which was 5.7%.

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Liquidity risks and market risks are currently governed by the Basic Accounting Circular, issued by the former Superintendency of Banking (now Superintendency of Finance), which defines criteria and procedures for the Bank's exposure to interest rate risk, foreign exchange risk, and market risk. Since January 2002, Colombian Banks have been required to calculate a VaR (value at risk) with a methodology provided by the Superintendency of Finance, which is considered in the Bank's solvency calculation, in accordance with Decree 1720 of 2001. Future changes in VaR requirements could have material impact on the Bank's operations in the future. The Superintendency of Finance, in its External Circular 037 of 2004, provided that financial institutions must maintain a ratio between its Technical Capital and credit/market risk-weighted assets of more than 9%.

Bancolombia's loan portfolio, net of provisions, is 100% weighted as risk-weighted assets. By measuring credit risk, the provisions corresponding to each of Bancolombia's operations is determined. For this purpose, different levels of risk are set up, and ratings are awarded (A, B, C, D and E) to the various credit operations showing the gradual increase in risk. Each of these ratings has a minimum provision level, as established by the Superintendency of Finance in Chapter II of the Basic Accounting Circular, which the Bank complies with in the case of each of its credit transactions.

***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 from time to time. The minimum capital requirement for 2008 was Ps 64,850 million. Failure to meet such requirement can result in a fine by the Superintendency of Finance of 3.5% of the difference between the required minimum capital and the Bank's effective capital for each month in arrears. As of December 31, 2008, the Bank has met all such requirements.

***Capital Investment Limit***

All investments in subsidiaries and other authorized capital investments, other than those carried out in order to fulfill legal provisions, may not exceed 100% of the total aggregate of the capital, equity reserves and the equity reappraisal account of the respective bank, financial corporation or commercial finance company, excluding unadjusted fixed assets and including deductions for accumulated losses.

***Foreign Currency Position Requirements***

According to External Resolution 5 of 2005 issued by the board of directors of the Central Bank, 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), realized or contingent, including those that may be sold in Colombian legal currency.

Resolution 4 of 2007 of the board of directors of the Central Bank provides that the average of a bank's foreign currency position for three business days cannot exceed the equivalent in Colombian pesos of 20% of the bank's Technical Capital. Currency exchange intermediaries such as Bancolombia 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). As of March 31 2009, Bancolombia had an unconsolidated positive foreign currency position of U.S. dollars 121 million, which falls within the aforementioned regulatory guidelines. For further discussion, see Note 3. Transactions in Foreign Currency to the Bank's consolidated financial statements included in this Annual Report.

Resolution 4 of 2007 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 of 2007, the three day average shall be calculated on a daily basis and the foreign currency position in cash cannot be negative.

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Resolution 4 of 2007 also defines the gross position of leverage which is equal to (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; and (iii) the value of the exchange rate risk exposure associated with exchange rate options and derivatives. Resolution 4 of 2007 sets a limit to the gross position of leverage which cannot exceed 550% of the technical capital of a bank.

Resolution 12 of 2007, added a paragraph to Article 3 of Resolution 4 of 2007. Article 1 of Resolution 12 of 2007 excludes from the calculation of the gross position of leverage exchange transactions that intermediaries of the foreign exchange market perform, in their role as local suppliers of liquidity of foreign currency, using the Systems of Compensation and Liquidation of Currencies when there is a breach of payment by a participant. In accordance with certain regulations, the funding in foreign currency that the intermediaries would obtain to perform these exchange transactions is also excluded from the calculation.

**Reserve Requirements**

Commercial banks are required by the Central Bank's board of directors to satisfy reserve requirements with respect to deposits. Such reserves are held by the Central Bank in the form of cash deposits and their required amounts vary. According to the Central Bank's board of directors' Resolution 5 of 2008 and Resolution 11 of 2008, the reserve requirements for Colombian banks as of December 31, 2008 are:

	<i>Ordinary Reserve Requirements %</i>
Private demand deposits	11.0
Government demand deposits	11.0
Other deposits and liabilities	11.0
Savings deposits	11.0
Time deposits <sup>(1)</sup>	4.5

(1) 4.5 % for deposits with maturities under 540 days, and 0% for deposits with maturities above 540 days.

Central Bank's board of directors' Resolution 5, released on June 20, 2008, eliminated the marginal reserve requirements.

**Foreign Currency Loans**

According to regulations issued by the Central Bank every Colombian resident and institution borrowing funds in foreign currency must post with the Central Bank a non-interest bearing deposit for a percentage of the respective indebtedness during a term specified by the Central Bank's board of directors.

Pursuant to Resolution 10 of October 9 of 2008 of the board of directors of the Central Bank, which repealed the External Resolution 8 of 2000 of the board of directors of the Central Bank, the percentage of deposit required for the foreign capital portfolio investments is now zero percent (0%).

**Non-Performing Loan Allowance**

The Superintendency of Finance has issued guidelines on non-performing loan allowances for Colombian credit institutions. See Item 4. Information on the Company E. Selected Statistical Information E.4. Summary of Loan Loss Experience Allowance for Loan Losses .



**Table of Contents*****Lending Activities***

Through the issuance of Decrees 2360 and 2653 of 1993, as amended, the Colombian government set the maximum amounts that each financial institution may lend to a single borrower. These maximum amounts may not exceed 10% of a commercial bank's Technical Capital. The limit is raised to 25% when any amounts lent above 5% of Technical Capital are secured by guarantees that comply with the financial institutions' guidelines, in accordance with the requirements set forth in Decrees 2360 and 2653. Also, according to Decree 1886 of 1994, a bank may not make a loan 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 a bank's capital stock exceed 20% of a bank's Technical Capital. In addition, no loan to a single financial institution may exceed 30% of a bank's Technical Capital, with the exception of loans funded by Colombian development banks which have no limit. As of December 31, 2008, the Bank's lending limit per borrower on an unconsolidated basis was Ps 543,060 million for unsecured loans and Ps 1,357,651 million for secured loans. If a financial institution exceeds these limits, the Superintendency of Finance may impose a fine up to twice the amount by which any such loan exceeded the limit, and at such date, the Bank was in compliance with these limitations.

Also, Decree 2360 set a maximum limit for risk concentrated in one single party, equivalent to 30% of a 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 established by the Superintendency of Finance.

***Ownership Restrictions***

The Bank is organized as a stock company (*sociedad anónima*), and its corporate existence is subject to the rules applicable to commercial companies, principally the Colombian Commerce Code and Law 222 of 1995. 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 capital stock of the Bank.

Pursuant to Decree 663 of 1993 (as amended by Law 795 of 2003) any transaction resulting in an individual or corporation holding 10% or more of any class of capital stock of any Colombian financial institution, including in the case of Bancolombia, transactions resulting in holding ADRs representing 10% or more of the outstanding stock of Bancolombia, is subject to the prior authorization of the Superintendency of Finance. For that purpose, the Superintendency of Finance must evaluate the proposed transaction based on the criteria and guidelines specified in Law 510 of 1999, as amended by Law 795 of 2003. Transactions entered into without the prior approval of the Superintendency of Finance are null and void and cannot be recorded in the institution's stock ledger. These restrictions apply equally to Colombian as well as foreign investors.

In addition, pursuant to Article 1.2.5.6 of Resolution 400 of 1995, as amended, issued by the former Superintendency of Securities (now Superintendency of Finance), any entity or group of entities ultimately representing the same beneficial owner, directly or through one or more intermediaries, may only become the beneficial owner of more than 25% of the outstanding common stock of a company that is publicly traded in Colombia by making a tender offer directed at all holders of the common stock of that company, following the procedures established by the Superintendency of Finance. Moreover, any beneficial owner of more than 25% of the outstanding common stock of a company who wants to acquire additional common stock of the company representing more than 5% of the company's outstanding common stock may only do so by making a tender offer directed at all holders of the company's common stock, following the procedures established by the Superintendency of Finance. These requirements need not be met if the purchase is approved by 100% of the holders of the outstanding capital stock of the company, or if the purchaser acquires the percentages indicated above through a public stock auction made on the Colombian Stock Exchange, the company reacquires its own shares or when the company issues common stock, among others pursuant to Article 1.2.5.7 of Resolutions 400 of 1995, as amended, of the Superintendency of Securities (now Superintendency of Finance). Any transaction involving the sale of publicly-traded stock of any Colombian company, including any sale of the Bank's preferred shares (but not a sale of ADRs) for the peso-equivalent of 66,000 UVRs or more must be effected through the Colombian Stock Exchange.





**Table of Contents*****Intervention Powers of the Superintendency of Finance – Bankruptcy Considerations***

Pursuant to Colombian Banking Law, the Superintendency of Finance 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 Superintendency of Finance may intervene in a bank's business (1) prior to the liquidation of the bank, by taking precautionary measures (*medidas cautelares*) in order to prevent the bank from incurring in a cause for the taking of possession by the Superintendency of Finance, (2) take 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 by the Superintendency 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.

As a result of the Taking of Possession the Superintendency of Finance 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 the bank is ordered to be liquidated.

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 Superintendency of Finance 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.

***Troubled Financial Institutions – Deposit Insurance***

In response to the crisis faced by the Colombian financial system during the early 1980s, in 1985 the Colombian 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. In 1998 and 1999, to address the adverse effects of the economic crisis, Law 550 (*Ley de Reactivación Económica*), Law 546 (*Ley de Vivienda*), External Circular 039 and External Circular 044 were also adopted. These regulations sought to aid the recovery of the Colombian economy, by helping troubled companies and had some influence on the Bank's credit policies for such companies.

To protect the customers of commercial banks and certain financial institutions, Resolution No. 1 of 1988 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 0.5% of total funds received on saving accounts, checking accounts and certificates of deposit. If a bank is liquidated, the deposit insurance will cover 75% of all funds deposited by an individual or corporation with such bank, up to a maximum of Ps 20 million. Thus, the maximum amount that a customer of a liquidated financial institution is entitled to recover under deposit insurance is Ps 15 million.

***Anti-Money Laundering Provisions***

The regulatory framework to prevent and control money laundering is contained among others, in Decree 663 of 1993, Circular 061 of 2007, 062 of 2007, 085 of 2007, 026 of 2008 issued by the Superintendency of Finance, as well as Law 599 of 2000 ( the Colombian Criminal Code ).

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External Circular 061 of 2007, which went into effect on December 14, 2007, repealed previous regulations that had been based on the requirements promulgated by the Financial Task Force on Money Laundering ( FATF ). The former rules emphasized know your customer policies as well as complete knowledge by financial institutions of their users and markets. They also established processes and parameters to identify and monitor a financial institution's customers and to identify unusual operations and to report suspicious operations. The new requirements include procedures to protect financial institutions from being used directly by shareholders and executives in money laundering activities, for channeling funds for terrorist activities, or for the concealment of assets from such activities and set forth detailed requirements for monitoring these risks. The new requirements are applicable to the Bank and its subsidiaries and its affiliates.

Decree 4449 of 2008 introduced new criminal rules and regulations in the Colombian legislation to prevent, control, detect, eliminate and judge all matters related to financing terrorism and money laundering. The new criminal rules and regulations cover the omission of reports on cash transactions, mobilization or storage of cash, and the lack of controls.

***Regulatory Framework for Subsidiaries Who Do Not Belong to the Finance Sector***

All of Bancolombia's Colombian subsidiaries that are not part of the finance sector are governed by the laws and regulations stipulated 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.

***Banking Regulation of El Salvador***

The regulatory banking system of El Salvador establishes the Financial System Superintendency (the Salvadorian Finance Superintendency) as the entity responsible for the surveillance, inspection and control of the banking activity in El Salvador. By means of Decree 628 of the Legislature, this Superintendency is created as an institution integrated into the Central Bank of Reserve of El Salvador, which has autonomy in the administrative, budgetary and the practice of the functions conferred by the Law. (Article 1 of Decree 628).

According to Article 2 of Decree 628, as its main purpose, the Salvadorian Finance Superintendency must supervise the compliance with the applicable provisions by the institutions under its control and it is responsible for the examination of various institutions, including, among others, the Central Bank of El Salvador, commercial banks, savings and loan associations, insurance companies, and the stock and commodities exchange.

The Salvadorian Finance Superintendency has the following functions: a) to fulfill and enforce the laws, regulations and other legal provisions applicable to the Central Bank of El Salvador and the other entities subject to its surveillance; b) to issue the set of laws or regulations, within the powers expressly conferred by law, for the performance of the institutions under its control; c) to authorize the establishment, operation and closure of the banks, savings and loan associations, insurance companies and other entities established by law, d) to supervise and examine the operations of the institutions under its control, and d) Other inspection and surveillance in compliance with law. (Article 3 of Decree 628).

***Banking Law of El Salvador***

The Legislature of the Republic of El Salvador establishes the banking law through Decree 697, which seeks to regulate the financial intermediation and other operations performed by the banks, enabling them to provide the population a transparent, reliable and efficient service that will contribute to the country's development.

That Law stipulates that banks organized in El Salvador should be structured and operate as corporations with fixed capital. It also defines all the requirements related to the organization, administration and operation of the banking entities, their minimum capital, reserves, solvency and liquidity conditions. The assets and liabilities operations, as well as the services that banks can provide, are also subject to this law.

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The banks are required under the provisions of the banking law to establish a liquidity reserve, which must be set by the Salvadorian Finance Superintendency in accordance to the deposits and obligations of such bank. The liquidity reserve of each bank must be established in accordance with the standards and regulations issued by the Salvadorian Finance Superintendency.

The Salvadorian Finance Superintendency will determine the frequency with which the reserve of liquidity is estimated and will establish the period within which a bank can offset the amount of liquidity deficiencies on certain days, with the surplus that would result in other days of the same period. The Salvadorian Finance Superintendency has issued the necessary standards for the implementation of the provisions regarding the liquidity reserve included in the banking law.

Each bank is able to use its reserves for its liquidity needs, in accordance with the provisions of chapter VI of the banking law and the regulations that the Salvadorian Finance Superintendency has issued for this purpose.

***Monetary Integration Law of El Salvador***

Since November 2000, the Monetary Integration Law enacted by the Legislature of El Salvador established that the exchange rate between the colon (then, the legal currency of El Salvador) and the U.S. dollar would have a fixed rate of 8.75 colones per U.S. dollar.

It establishes that the U.S. dollar would have an unrestrictive legal circulation with unlimited power for paying money obligations in the national territory and also defines that bills in colones and its fractional coins issued before the effective date of this law, will continue to have unrestricted legal circulation in permanent form, but the institutions of the banking system must change them for U.S. dollars as they are presented for any transaction.

All financial operations, such as bank deposits, loans, pensions, issuance of securities and any other 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.

**B.8. RAW MATERIALS**

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

**B.9. PATENTS, LICENSES AND CONTRACTS**

Bancolombia is not dependent on patents or licenses, nor is dependent on any industrial, commercial or financial contract individually considered (including contracts with customers or suppliers).

**B.10. SEASONALITY OF DEPOSITS**

Historically, the Bank has experienced some seasonality in its checking account deposits, with higher average balances at the end of the year and lower average balances in the first quarter of the year. Customers move their funds from checking accounts to savings accounts and from savings accounts to checking accounts to adjust to their liquidity needs producing seasonality in the checking account deposits.

As of December 31, 2008 checking account deposits totaled Ps 7,301 billion which represented 13.9% of the Bank's total deposits. In December 2006, the aggregate amount deposited in checking accounts was Ps 5,366 billion, which declined 7.9% to Ps 4,941 billion by March 31, 2007. In December 2007, the aggregate amount deposited in checking accounts was Ps 6,868 billion, which declined 18.2% to Ps 5,619 billion by March 31, 2008.

**Table of Contents****C. ORGANIZATIONAL STRUCTURE**

The following are Bancolombia's main subsidiaries:

The following is a list of Bancolombia's subsidiaries as of December 31, 2008:

**SUBSIDIARIES**

<i>Entity</i>	<i>Jurisdiction of Incorporation</i>	<i>Business</i>	<i>Shareholding directly and indirectly</i>
Leasing Bancolombia S.A.	Colombia	Leasing	100%
Fiduciaria Bancolombia S.A.	Colombia	Trust	98.81%
Fiduciaria GBC S.A.	Peru	Trust	98.82%
Bancolombia Panamá S.A.	Panama	Banking	100%
Bancolombia Caymán	Cayman Islands	Banking	100%
Sistema de Inversiones y Negocios S.A.	Panama	Investments	100%
Sinesa Holding Company Ltd.	British Virgin Islands	Investments	100%
Future Net Inc	Panama	E-commerce	100%
Banca de Inversión Bancolombia S.A.	Colombia	Investment banking	100%
Inmobiliaria Bancol S.A.	Colombia	Real estate broker	99.06%
Valores Simesa S.A.	Colombia	Investments	70.75%
Todo UNO Colombia S.A.	Colombia	E-commerce	89.92%
Compañía de Financiamiento Comercial S.A. Sufinanciamiento	Colombia	Financial services	99.99%
Renting Colombia S.A.	Colombia	Operating leasing	80.50%
Renting Perú S.A.C.	Peru	Operating leasing	80.63%
RC Rent a Car S.A.	Colombia	Car rental	81.51%
Capital Investments SAFI S.A. (CI)	Peru	Trust	80.63%
Fondo de Inversión en Arrendamiento Operativo Renting Perú	Peru	Car rental	80.63%
Transportes Empresariales de Occidente Ltda.	Colombia	Transportation	80.30%
Suleasing Internacional USA Inc	USA	Leasing	100%
Inversiones CFNS Ltda.	Colombia	Investments	100%
Valores Bancolombia S.A.	Colombia	Securities brokerage	100%
Suvalor Panamá S.A.	Panama	Securities brokerage	100%
Bancolombia Puerto Rico Internacional, Inc	Puerto Rico	Banking	100%
Inversiones IVL S.A.	Colombia	Investments	98.25%
Factoring Bancolombia S.A.	Colombia	Financial services	99.99%
Patrimonio Autónomo CV Sufinanciamiento Banagrícola S.A.	Colombia	Loan management	100%
Banco Agrícola Panamá S.A.	Panama	Investments	99.12%
Banco Agrícola Panamá S.A.	Panama	Banking	99.12%
Inversiones Financieras Banco Agrícola S.A.	El Salvador	Investments	98.38%
Banco Agrícola S.A.	El Salvador	Banking	96.72%
Arrendadora Financiera S.A.	El Salvador	Leasing	96.73%
Credibac S.A. de CV	El Salvador	Credit card services	96.72%
Bursabac S.A. de CV	El Salvador	Securities brokerage	98.38%
AFP Crecer S.A.	El Salvador	Pension fund	98.60%
Aseguradora Suiza Salvadoreña S.A.	El Salvador	Insurance company	95.81%
Asesuisa Vida S.A.	El Salvador	Insurance company	95.80%
FCP Colombia Inmobiliaria	Colombia	Real estate broker	64.12%



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The following is a brief description of the most representative subsidiaries:

**Fiduciaria Bancolombia**

Fiduciaria Bancolombia is the largest fund manager among its peers, including other fund managers and brokerage firms in Colombia. On June 24, 2008, Fiduciaria GBC S.A., a subsidiary of Fiduciaria Bancolombia incorporated in Perú began operations.

In May 2008, Fiduciaria Bancolombia obtained from BRC Investor Services a rating of AAA, the highest local rating for the seventh consecutive year for its asset management quality. In its report, BRC Investor Services highlighted Fiduciaria Bancolombia's commercial strategy and the improvement of its risk management tools.

In October 2008, Duff and Phelps of Colombia assigned a rating of AAA, the highest local rating, to Fiduciaria Bancolombia for the ninth consecutive year for its asset management quality, highlighting the quality and effectiveness of its risk management tools and methodologies.

**Leasing Bancolombia**

Leasing Bancolombia specializes in leasing activities, offering a wide range of financial leases, operating leases, loans, time deposits and bonds.

Leasing Bancolombia provides leased assets, usually involving equipment, for a fixed term that is shorter than the asset's useful life. Once the term ends, the customer has the option of acquiring the asset for its commercial value.

The following table illustrates Leasing Bancolombia's number of lease agreements, customers and the corresponding agreement's net value:

<i>Year ended December 31</i>	<i>Number of lease contracts</i>	<i>Number of customers</i>	<i>Net value (Ps million)</i>
2006	23,497	10,380	3,158,717
2007	28,932	13,103	4,190,595
2008	35,663	15,571	5,680,569

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**Renting Colombia**

Renting Colombia, provides operating leases and fleet management services for individuals and companies and offers a wide range of solutions for the transportation and vehicular needs of large companies. In 2008, Renting Colombia finalized the acquisition of the transportation company Transportes Empresariales de Occidente Ltda. which specializes in cargo transportation and logistics services. In addition, Renting Colombia has entered the business of short term auto rental through its subsidiary RC Rent a Car S.A. which is authorized to use the Brazilian franchise Localiza.

Renting Colombia also operates in Peru through its subsidiary Renting Peru SAC.

**Banca de Inversión**

Banca de Inversión specializes in providing investment banking services to corporate customers in areas such as mergers and acquisitions, project finance, syndicated loan transactions, debt and capital markets (bonds, commercial papers, securitization and equity). Banca de Inversión Bancolombia also owns and manages a diversified equity portfolio, which invests in different sectors of the Colombian economy, including telecommunications, real estate, oil and gas, and toll road concessions. As of December 31, 2008, its equity portfolio book value was approximately Ps 227 billion.

**Valores Bancolombia**

Valores Bancolombia, provides brokerage and asset management services to approximately 220,000 clients.

In 2008, Valores Bancolombia maintained its leading position in assets under management and stocks traded volume with 32% and 13% market share, respectively, within brokerage firms in Colombia. As of December 31, 2008, Valores Bancolombia had Ps 17.4 trillion in total assets under management. In April 2008, Duff & Phelps granted Valores Bancolombia a maximum AAA rating, based on the firm's asset management capacity and strength.

**Sufinanciamiento**

Sufinanciamiento (a consumer finance company) targets the personal banking segment that is not traditionally served by commercial banks by specializing in higher risk products such as vehicle financing, private brand credit cards and personal loans to be used at the customers' discretion. Sufinanciamiento also finances payroll loans.

As of December 31, 2008, Sufinanciamiento had 1,405,537 customers representing, a 7.58% increase as compared to 1,306,520 customers as of December 31, 2007. Most of Sufinanciamiento's customers are targeted through retail chains.

According to the figures published by the Superintendency of Finance, in December of 2008, Sufinanciamiento held the first place, in terms of outstanding loans, among Colombian traditional commercial finance companies.

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**Factoring Bancolombia**

Factoring Bancolombia, a consumer finance company, is a credit institution that specializes in accounts receivables financing.

In July 2008, the rating agency Duff & Phelps of Colombia upgraded Factoring Bancolombia's risk rating to AA+ and DP1+ for long-term debt and short-term debt, respectively. In addition, Factoring Bancolombia joined Factor Chain International ( FCI ) in January 2007. FCI is a global network of factoring companies that use each other as correspondents to offer cross-border factoring services.

Factoring Bancolombia is subject to the control and supervision of the Superintendency of Finance and is registered in the Colombian National Guarantee Fund.

**Bancolombia Panamá and Bancolombia Cayman**

Bancolombia Panamá and Bancolombia Cayman, are located in Panama and the Cayman Islands, respectively. Each provides a complete line of banking services mainly to Colombian customers, which includes loans to private sector companies, trade financing, lease financing, financing for industrial projects as well as a complete portfolio of cash management products, such as checking accounts, international collections and payments and PC Banking. Through these subsidiaries, Bancolombia also offers to its high net worth customers and prestige banking customers investments opportunities in U.S. dollars, in savings accounts and checking accounts, CD-Time deposits, and investment funds.

**Bancolombia Puerto Rico Internacional, Inc.**

Located in the financial district of San Juan, Puerto Rico, Bancolombia's subsidiary is an international banking entity under Act 52 of August 11, 1989 and Regulation Number 5356 (International Banking Center Regulatory Act). Bancolombia Puerto Rico Internacional, Inc. offers a portfolio of international products and financial.

**Bancolombia's Miami Agency**

Bancolombia's Miami Agency is an international banking agency that offers a broad range of deposit-taking products and services to non-U.S. residents, mainly Bancolombia customers, including savings, money market and checking accounts, time deposits, trade finance, working capital and personal loans, and funds transfers among others. Through the Miami Agency, the Bank supports its customers in international trade offering cash management services, and processing of import and export letters of credit, standby letters of credit, guarantees, collections and foreign exchange currency transactions. The Agency enhances its products and services portfolio by offering new investment and saving opportunities in the U.S. for both individuals and entities.

**Banco Agrícola (Panamá), S.A.**

Banco Agrícola (Panamá) S.A ( Banco Agrícola Panamá ) is a financial institution with an international license granted by the Superintendency of Banking of the Republic of Panama to perform off-shore banking transactions from Panama.

The board of directors of Banco Agrícola Panamá authorized on January 22, 2008, its liquidation in order to consolidate Bancolombia's international financial licenses issued by the Panamanian government. On March 19, 2008, the Superintendency of Banking of Panama authorized the liquidation by the transfer of assets and liabilities to Bancolombia Panamá, on July 23, 2008.



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On December 15, 2008, the Superintendency of Banking of Panama authorized a liquidation plan for Banco Agrícola Panamá establishing December 15, 2009 as due date for the liquidation. At this time Banco Agrícola (Panama) is in the process of dissolution, and due to this transition it is not offering bank services and products to its clients.

**Banco Agrícola**

Banco Agrícola is the leading financial institution in El Salvador and has offered a wide range of banking products and services to its customers since March 24, 1955.

**Asesuisa and Asesuisa Vida S.A.**

Asesuisa and Asesuisa Vida S.A., hold a leading position in the Salvadorian insurance market. According to the Salvadorian Finance Superintendency. Asesuisa is a market leader in El Salvador in business areas such as auto insurance, with a market share of approximately 27% in terms of net premiums. Asesuisa Vida S.A. is also a leader in life insurance with over 30% of market share in terms of net premiums.

**Bursabac, S.A de C.V.**

Bursabac S.A. de C.V. ( Bursabac ) provides investment banking, brokerage and asset management services. In the area of investment banking, Bursabac assesses its clients' capital raising needs and designs, structures and places the securities on behalf of its clients, which include both private and government institutions in El Salvador.

Bursabac's brokerage business operates in the Salvadorian Securities Exchange ( *Bolsa de Valores de El Salvador* ) which operates as a centralized, regulated, and organized securities market. Bursabac's brokerage clients include individuals, corporations, government and financial institutions in El Salvador.

**AFP Crecer S.A.**

Founded on March 4, 1998, AFP Crecer S.A. is the result of the merger of three companies: AFP Crecer S.A., formerly called AFP Máxima, AFP Porvenir and Previsión. AFP Crecer S.A., the surviving company, is organized under the laws of El Salvador and is regulated by the Pensions Saving System ( *Sistema de Ahorro para Pensiones* ). In 2005 Banagrícola acquired AFP Crecer S.A.

Every year since 2002, Fitch Ratings has granted AFP Crecer S.A. the highest local rating for a company in El Salvador (AAA). According to information provided by Superintendency of Pensions of El Salvador ( *Superintendencia de Pensiones de El Salvador* ), AFP Crecer S.A. leads the Salvadorian pension business with 959,817 customers which represent 52.8% of the market as of December 2008, and as of the same date also had US\$2.1 billion under management, which represented a market share of 45.7%.

**Credibac, S.A. de C.V.**

Credibac, S.A. de C.V. is a consumer finance company, that issues Visa and Mastercard credit cards in El Salvador.

**Table of Contents****D. PROPERTY, PLANT AND EQUIPMENT**

As of December 31, 2008, the Bank owned Ps 1,878 billion in property, plant and equipment (including operating leases). Ps 889.09 billion correspond to land and buildings, of which approximately 83.41% are administrative real estate and branches, located in 84 municipalities in Colombia and in 25 municipalities in El Salvador. Ps 200.56 billion correspond to computer equipment, of which 66.21% corresponds to the central computer and servers and the rest are PCs, ATMs, telecommunications equipment and other equipment.

In addition to its own branches, the Bank occupies 417 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 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, 2008 included in this Annual Report for a summary of the significant differences between Colombian GAAP and U.S. GAAP.

The consolidated selected statistical information as of December 31, 2004 includes the selected statistical information of Bancolombia and its subsidiaries, without reflecting any effect of the Conavi/Corfinsura merger, while consolidated selected statistical information at December 31, 2005 corresponds to the Bank and its Subsidiaries, including all additional subsidiaries acquired as a result of the Conavi/Corfinsura merger; for this reason, selected statistical information for 2004 and 2005 should be read taking into account the impact of the Conavi/Corfinsura merger.

The consolidated selected statistical information as of December 31, 2008 includes the selected statistical information of Bancolombia and its Subsidiaries, including Banagrícola and its subsidiaries acquired as a result of the acquisition of Banagrícola.

**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.

***Real Average Interest Rates***

The real average interest rates set forth in the tables below have been calculated by adjusting the nominal average interest rates on peso-denominated assets and liabilities using the following formula:

$$R(p) = \frac{1+N(p)}{1+I} - 1$$

***Where:***

***R(p)*** = real average interest rate on peso-denominated assets and liabilities for the period.

***N(p)*** = nominal average interest rate on peso-denominated

assets and liabilities for the period.

*I* = the consumer price index rate in Colombia for the period (based on the Colombian inflation rate).

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Under this adjustment formula, assuming positive nominal average interest rates, the real average interest rate on a portfolio of peso-denominated assets or liabilities would be equal to the nominal average interest rate on that portfolio if the inflation rate were zero. The real average interest rate can be negative for a portfolio of peso-denominated interest-earning assets when the inflation rate for the period is higher than the average nominal rate of this interest-earning asset portfolio for the same period. In addition, the real average interest rate would be negative if the inflation rate were greater than the average nominal interest rate. Colombia had, in previous decades, long periods of sustained inflation; therefore, the Bank believes that the use of real average interest rates is appropriate for the assessment of the distribution of assets and liabilities.

***Average balance sheet***

The following tables show for the years ended December 31, 2006, 2007 and 2008, respectively:

- average annual balances calculated using actual month-end balances for all of the Bank's assets and liabilities;
- interest income and expense amounts; and
- nominal and real interest rates for the Bank's interest-earning assets and interest-bearing liabilities.

In the tables below, the nominal interest rate for U.S. dollar-denominated items is considered to be the real interest rate because this activity was originated outside of Colombia and would not be impacted by the inflation and devaluation levels that would impact domestic activity.

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

Table of Contents**Average Balance Sheet and Income from Interest-Earning Assets for the Fiscal Years Ended December 31, 2006 2007<sup>(3)</sup> 2008<sup>(3)</sup>**

	2006				2007 <sup>(3)</sup>				2008 <sup>(3)</sup>	
	Average	Interest	Average	Average	Average	Interest	Interest	Average	Interest	
	Balance	Earned	Nominal	Real	Balance	Earned	Nominal	Real	Balance	Earned
			Interest	Interest			Interest	Interest		
			Rate	Rate			Rate	Rate		
	<i>(Ps million, except percentages)</i>									
ing										
ds <sup>(2)</sup>										
ated	Ps 36,581	Ps 4,695	12.8%	8.0%	Ps 120,768	Ps 8,251	6.8%	1.1%	Ps 428,144	Ps 46,198
minated	261,159	20,504	7.9%	7.9%	828,449	86,761	10.5%	10.5%	649,167	38,869
	297,740	25,199	8.5%		949,217	95,012	10.0%		1,077,311	85,067
ated	5,102,999	144,715	2.8%	-1.6%	3,769,877	302,408	8.0%	2.2%	4,387,502	406,802
minated	1,792,735	128,482	7.2%	7.2%	1,534,254	114,236	7.4%	7.4%	1,705,124	24,787
	6,895,734	273,197	4.0%		5,304,131	416,644	7.9%		6,092,626	431,589
ancial										
ated	17,410,381	2,397,421	13.8%	8.9%	23,450,352	3,453,571	14.7%	8.6%	28,491,159	4,923,704
minated	3,928,500	299,251	7.6%	7.6%	7,291,171	824,869	11.3%	11.3%	10,922,602	852,242
	21,338,881	2,696,672	12.6%		30,741,523	4,278,440	13.9%		39,413,761	5,775,946
ng										
ated	22,549,961	2,546,831	11.3%	6.5%	27,340,997	3,764,230	13.8%	7.6%	33,306,805	5,376,704
minated	5,982,394	448,237	7.5%	7.5%	9,653,874	1,025,866	10.6%	10.6%	13,276,893	915,898
	28,532,355	2,995,068	10.5%		36,994,871	4,790,096	12.9%		46,583,698	6,292,602
ng										
ated	4,071,643				5,025,959				6,277,291	
minated	(166,711)				1,174,093				2,260,525	

	3,904,932		6,200,052		8,537,816	
and						
S						
ated	26,621,604	2,546,831	32,366,956	3,764,230	39,584,096	5,376,704
inated	5,815,683	448,237	10,827,967	1,025,866	15,537,418	915,898
	<b>Ps 32,437,287</b>	<b>Ps 2,995,068</b>	<b>Ps 43,194,923</b>	<b>Ps 4,790,096</b>	<b>Ps 55,121,514</b>	<b>Ps 6,292,602</b>

- (1) Includes performing loans only.
- (2) Overnight funds interest earned includes commissions and therefore differs from the concept in the consolidated statement of operations.
- (3) For the years ended December 31, 2007 and 2008, the Bank includes Banagrícola s results.

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<b>Average Balance Sheet and Interest Paid on Interest-Bearing Liabilities for the Fiscal Years Ended December 31</b>																	
<b>2006</b>																	
<b>2007<sup>(2)</sup></b>																	
<b>2008<sup>(2)</sup></b>																	
<b>(Ps million, except percentages)</b>																	
	Average Balance		Average Nominal Interest Rate		Average Real Interest Rate		Average Balance		Average Nominal Interest Rate <sup>(1)</sup>		Average Real Interest Rate <sup>(1)</sup>		Average Balance		Average Nominal Interest Rate <sup>(1)</sup>		
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	
<b>DEPOSITS AND OTHER FUNDS</b>																	
<b>Term deposits</b>																	
Terminated	Ps 294,062	Ps 6,568	2.2%	-2.2%	Ps 348,131	Ps 7,626	2.2%	-3.3%	Ps 468,000	Ps 16,012	3.0%	3.0%	Ps 468,000	Ps 16,012	3.0%	3.0%	
Renewed	939,789	26,108	2.8%	2.8%	1,410,746	31,450	2.2%	2.2%	1,733,507	23,245	1.3%	1.3%	1,733,507	23,245	1.3%	1.3%	
Total	1,233,851	32,676	2.6%		1,758,877	39,076	2.2%		2,201,507	39,257	1.3%	1.3%	2,201,507	39,257	1.3%	1.3%	
<b>Current deposits</b>																	
Terminated	8,252,173	261,550	3.2%	-1.3%	10,309,007	446,596	4.3%	-1.3%	10,952,894	555,628	5.0%	5.0%	10,952,894	555,628	5.0%	5.0%	
Renewed	136,420	2,831	2.1%	2.1%	1,165,839	14,841	1.3%	1.3%	1,880,546	34,090	1.8%	1.8%	1,880,546	34,090	1.8%	1.8%	
Total	8,388,593	264,381	3.2%		11,474,846	461,437	4.0%		12,833,440	589,718	4.0%	4.0%	12,833,440	589,718	4.0%	4.0%	
<b>Time deposits</b>																	
Terminated	5,275,213	376,919	7.1%	2.6%	6,882,302	560,996	8.2%	2.3%	10,276,935	1,015,373	9.0%	9.0%	10,276,935	1,015,373	9.0%	9.0%	
Renewed	1,796,282	82,594	4.6%	4.6%	4,071,678	255,692	6.3%	6.3%	5,989,037	241,369	4.0%	4.0%	5,989,037	241,369	4.0%	4.0%	
Total	7,071,495	459,513	6.5%		10,953,980	816,688	7.5%		16,265,972	1,256,742	7.5%	7.5%	16,265,972	1,256,742	7.5%	7.5%	
<b>Other funds</b>																	
Terminated	1,086,896	80,413	7.4%	2.8%	1,046,906	104,172	10.0%	4.0%	1,301,213	123,638	9.0%	9.0%	1,301,213	123,638	9.0%	9.0%	
Renewed	397,212	20,463	5.2%	5.2%	401,515	26,955	6.7%	6.7%	1,013,888	42,491	4.0%	4.0%	1,013,888	42,491	4.0%	4.0%	
Total	1,484,108	100,876	6.8%		1,448,421	131,127	9.1%		2,315,101	166,129	7.5%	7.5%	2,315,101	166,129	7.5%	7.5%	
<b>Loans from banks</b>																	
Terminated	2,218,433	174,108	7.8%	3.2%	2,599,267	254,627	9.8%	3.9%	3,036,553	332,747	11.0%	11.0%	3,036,553	332,747	11.0%	11.0%	
Renewed	181,326	6,399	3.5%	3.5%	291,124	13,085	4.5%	4.5%	600,817	12,153	2.0%	2.0%	600,817	12,153	2.0%	2.0%	
Total	2,399,759	180,507	7.5%		2,890,391	267,712	9.3%		3,637,370	344,900	9.0%	9.0%	3,637,370	344,900	9.0%	9.0%	
<b>Borrowings</b>																	
Terminated	1,574,870	94,872	6.0%	6.0%	1,480,150	116,615	7.9%	7.9%	1,578,252	74,792	4.7%	4.7%	1,578,252	74,792	4.7%	4.7%	

ominated	1,574,870	94,872	6.0%	6.0%	1,480,150	116,615	7.9%		1,578,252	74,792	4.
debt											
minated	1,442,367	113,404	7.9%	3.2%	1,258,676	105,526	8.4%	2.5%	1,640,560	191,534	11.
ominated					839,442	63,909	7.6%	7.6%	1,493,208	90,270	6.
	1,442,367	113,404	7.9%	7.9%	2,098,118	169,435	8.1%		3,133,768	281,804	9.



**Table of Contents****Average Balance Sheet and Interest Paid on Interest-Bearing Liabilities for the Fiscal Years Ended December 31**

	2006				2007 <sup>(2)</sup>				2008 <sup>(2)</sup>			
	Average	Average	Average	Average	Average	Average	Average	Average	Average	Average	Average	
	Balance	Interest Paid	Nominal Rate	Real Interest Rate	Balance	Interest Paid	Nominal Rate <sup>(1)</sup>	Real Interest Rate <sup>(1)</sup>	Balance	Interest Paid	Nominal Rate	
	<i>(Ps million, except percentages)</i>											
aring												
ominated	18,569,144	1,012,962	5.5%	0.9%	22,444,289	1,479,543	6.6%	0.9%	27,676,155	2,234,932	8.0%	
ominated	5,025,899	233,267	4.6%	4.6%	9,660,494	522,547	5.4%	5.4%	14,289,255	518,410	3.6%	
	23,595,043	1,246,229	5.3%		32,104,783	2,002,090	6.2%		41,965,410	2,753,342	6.5%	
est and st bearing nd rs equity												
ominated	26,493,304	1,012,962			32,325,570	1,479,543			39,524,490	2,234,932		
ominated	5,943,983	233,267			10,869,353	522,547			15,597,024	518,410		
<b>Liabilities and ers</b>	<b>Ps 32,437,287</b>	<b>Ps 1,246,229</b>			<b>Ps 43,194,923</b>	<b>Ps 2,002,090</b>			<b>Ps 55,121,514</b>	<b>Ps 2,753,342</b>		

(1) See Item 4  
Information on  
the company E.  
Selected  
Statistical  
Information E.1  
Distribution of  
Assets,  
Liabilities and  
Stockholders  
Equity; Interest  
Rates and  
Interest  
Differential .

(2) For the years  
ended

December 31,  
2007 and 2008,  
the Bank  
includes  
Banagrícola s  
results.

**Table of Contents****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, 2008 compared to the fiscal year ended December 31, 2007; and the fiscal year ended December 31, 2007 compared to the fiscal year ended December 31, 2006. 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.

	<i>2006-2007</i>			<i>2007-2008<sup>(1)</sup></i>		
	<i>Increase (Decrease)</i>			<i>Increase (Decrease)</i>		
	<i>Due To Changes in:</i>					
	<i>Volume</i>	<i>Rate</i>	<i>Net</i>	<i>Volume</i>	<i>Rate</i>	<i>Net</i>
			<i>Change</i>			<i>Change</i>
			<i>(Ps million)</i>			
<b><i>Interest-earning assets:</i></b>						
Overnight funds						
Peso-denominated	Ps	5,752	Ps (2,196)	Ps	3,556	Ps 33,167
U.S. Dollar-denominated		59,411	6,846		66,257	(10,735)
Total		65,163	4,650		69,813	22,432
Investment securities						
Peso-denominated		(106,939)	264,632		157,693	57,265
U.S. Dollar-denominated		(19,246)	5,000		(14,246)	2,484
Total		(126,185)	269,632		143,447	59,749
Loans						
Peso-denominated		889,516	166,634		1,056,150	871,128
U.S. Dollar-denominated		380,428	145,190		525,618	283,344
Total		1,269,944	311,824		1,581,768	1,154,472
Total interest-earning assets						
Peso-denominated		788,329	429,070		1,217,399	961,560
U.S. Dollar-denominated		420,593	157,036		577,629	275,093
<b>Total</b>		<b>1,208,922</b>	<b>586,106</b>		<b>1,795,028</b>	<b>1,236,653</b>
<b><i>Interest-bearing liabilities:</i></b>						
Checking deposits						
Peso-denominated		1,184	(126)		1,058	4,101
U.S. Dollar-denominated		10,499	(5,157)		5,342	4,328
Total		11,683	(5,283)		6,400	8,429
Savings deposits						
Peso-denominated		89,104	95,942		185,046	32,664
U.S. Dollar-denominated		13,104	(1,094)		12,010	12,956

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Total	102,208	94,848	197,056	45,620	82,661	128,281
Time deposits						
Peso-denominated	130,998	53,079	184,077	335,394	118,983	454,377
U.S. Dollar-denominated	142,890	30,208	173,098	77,273	(91,596)	(14,323)
Total	273,888	83,287	357,175	412,667	27,387	440,054
Overnight funds						
Peso-denominated	(3,979)	27,738	23,759	24,164	(4,698)	19,466
U.S. Dollar-denominated	289	6,203	6,492	25,664	(10,128)	15,536
Total	(3,690)	33,941	30,251	49,828	(14,826)	35,002
Borrowings from development and other domestic banks						
Peso-denominated	37,307	43,212	80,519	47,918	30,202	78,120
U.S. Dollar-denominated Dollar-denominated	4,935	1,751	6,686	6,264	(7,196)	(932)
Total	42,242	44,963	87,205	54,182	23,006	77,188

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	<b>2006-2007</b>			<b>2007-2008<sup>(1)</sup></b>		
	<b>Increase (Decrease)</b>			<b>Increase (Decrease)</b>		
	<b>Due To Changes in:</b>			<b>Due To Changes in:</b>		
	<i>Volume</i>	<i>Rate</i>	<i>Net Change</i>	<i>Volume</i>	<i>Rate</i>	<i>Net Change</i>
	<i>(Ps million)</i>					
Interbank borrowings						
Peso-denominated						
U.S. Dollar-denominated	(7,463)	29,206	21,743	4,649	(46,472)	(41,823)
<b>Total</b>	<b>(7,463)</b>	<b>29,206</b>	<b>21,743</b>	<b>4,649</b>	<b>(46,472)</b>	<b>(41,823)</b>
Long-term debt						
Peso-denominated	(15,400)	7,522	(7,878)	44,585	41,423	86,008
U.S. Dollar-denominated	63,909		63,909	39,523	(13,162)	26,361
<b>Total</b>	<b>48,509</b>	<b>7,522</b>	<b>56,031</b>	<b>84,108</b>	<b>28,261</b>	<b>112,369</b>
Total interest-bearing liabilities						
Peso-denominated	239,214	227,367	466,581	488,826	266,563	755,389
U.S. Dollar-denominated	228,163	61,117	289,280	170,657	(174,794)	(4,137)
<b>Total</b>	<b>467,377</b>	<b>288,484</b>	<b>755,861</b>	<b>659,483</b>	<b>91,769</b>	<b>751,252</b>

(1) For the years ended December 31, 2007 and 2008, the Bank includes Banagrícola's results.

**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, 2006, 2007 and 2008, respectively.

	<b>Interest-Earning Assets-Yield For the Fiscal</b>		
	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2007<sup>(4)</sup></b>	<b>2008<sup>(4)</sup></b>
	<i>(in millions of pesos, except percentages)</i>		
Total average interest-earning assets			
Peso-denominated	Ps 22,549,961	Ps 27,340,997	Ps 33,306,805
U.S. Dollar-denominated	5,982,394	9,653,874	13,276,893
<b>Total</b>	<b>Ps 28,532,355</b>	<b>Ps 36,994,871</b>	<b>Ps 46,583,698</b>
Net interest earned <sup>(1)</sup>			

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Peso-denominated	Ps 1,533,869	Ps 2,284,687	Ps 3,141,772
U.S. Dollar-denominated	214,970	503,319	397,488
<b>Total</b>	Ps 1,748,839	Ps 2,788,006	Ps 3,539,260
Average yield on interest-earning assets			
Peso-denominated	11.3%	13.8%	16.1%
U.S. Dollar-denominated	7.5%	10.6%	6.9%
<b>Total</b>	10.5%	12.9%	13.5%
Net interest margin <sup>(2)</sup>			
Peso-denominated	6.8%	8.4%	9.4%
U.S. Dollar-denominated	3.6%	5.2%	3.0%
<b>Total</b>	6.1%	7.6%	7.7%
Interest spread <sup>(3)</sup>			
Peso-denominated	5.8%	7.2%	8.1%
U.S. Dollar-denominated	2.9%	5.2%	3.3%
<b>Total</b>	5.2%	6.7%	6.9%

(1) Net interest earned is interest income less interest paid 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 paid on interest-bearing liabilities.

(4) For the years ended December 31,

2007 and 2008,  
the Bank  
includes  
Banagrícola s  
results.

**Table of Contents****E.2. INVESTMENT PORTFOLIO**

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

The Superintendency of Finance 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 they 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, 2008, Bancolombia's investment portfolio was Ps 6,819,669 million.

In accordance with the Chapter 1 of Circular 100 of 1995 issued by the Superintendency of Finance, investments in debt securities are fully reviewed in June and December and partially reviewed every three months for impairment, by considering the related solvency risk, market exposure, currency exchange and country risk. Investments in securities with certain ratings by external agencies recognized by the Superintendency of Finance cannot be recorded on the balance sheet of the Bank for an amount higher than certain percentages of the face value (as shown in the table below), net of the amortizations recorded as of the valuation date.

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

<i>Short-Term Classification</i>	<i>Maximum Face Value (%)</i>
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 fair value of the Bank's investments in Colombian government and corporate securities and certain other financial investments as of the dates indicated:

	<i>2006<sup>(1)(2)</sup></i>	<i>As of December 31, 2007<sup>(1)(2)</sup></i>	<i>2008<sup>(1)(2)</sup></i>
	<i>(in millions of pesos)</i>		
U.S. Dollar-denominated			
Securities issued or secured by the Colombian Government	Ps 840,508	Ps 208,275	Ps 58,942
Securities issued or secured by the El Salvador Central Bank		586,211	670,266
Securities issued or secured by government entities <sup>(3)</sup>		170,093	144,518
Securities issued or secured by other financial entities	383,988	152,968	69,125
Securities issued by foreign governments	66,530	450,484	687,557
Others	58,368	10,720	15,398
Subtotal	1,349,394	1,578,751	1,645,806





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	<b>2006<sup>(1)(2)</sup></b>	<b>As of December 31, 2007<sup>(1)(2)</sup></b>	<b>2008<sup>(1)(2)</sup></b>
	<i>(in millions of pesos)</i>		
<b><i>Peso-denominated</i></b>			
Securities issued or secured by the Colombian Government	2,016,413	2,013,143	2,633,806
Securities issued or secured by the Central Bank	267	153	2
Securities issued or secured by government entities	565,575	445,912	609,129
Securities issued or secured by financial entities	1,385,698	1,414,412	1,849,069
Others	198,688	121,850	81,857
Subtotal	4,166,641	3,995,470	5,173,863
<b>Total</b>	<b>Ps 5,516,035</b>	<b>Ps 5,574,221</b>	<b>Ps 6,819,669</b>

(1) Includes debt securities only. Net investments in equity securities were Ps 161,726 million, Ps 200,030 million and Ps 458,607 million for 2006, 2007 and 2008, respectively.

(2) These amounts are net of allowances for decline in value which were Ps 14,525 million for 2006, Ps 21,830 million for 2007, Ps 20,927 million for 2008, respectively.

(3) For the years 2007 and 2008, 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

FICAFE ). This trust was formed with the transfer of the coffee sector's loan portfolio by a number of banks in El Salvador, including like Banco Agrícola. The purpose of this transaction was to carry out the restructuring of those loans, promoted by the government of El Salvador.

As of December 31, 2006, 2007 and 2008 Bancolombia holds securities issued by foreign governments and in the amounts, describe as follows:

<i>As of December 31,</i>	<i>Issuer</i>	<i>Investment Amount - Book Value - (in million of pesos)</i>	<i>Investment Amount - Book Value - (U.S. dollars)</i>
<b>2006</b>	Republic of Brazil	Ps 58,717	US\$ 26,227,198
	U.S. Treasury	Ps 7,812	US\$ 3,489,830
<b>2007</b>	Republic of El Salvador	Ps 216,389	US\$ 107,402,043
	U.S. Treasury	Ps 142,059	US\$ 70,509,161
	Republic of Brazil	Ps 50,480	US\$ 25,055,174
	Republic of Sweden	Ps 9,816	US\$ 4,871,877
	Republic of Germany	Ps 9,205	US\$ 4,569,001
	Republic of Ireland	Ps 7,092	US\$ 3,519,874
	Republic of Italy	Ps 6,170	US\$ 3,062,423

	Republic of Austria	Ps	2,094	US\$	1,039,193
	Spain	Ps	2,083	US\$	1,033,955
	Republic of Canada	Ps	2,052	US\$	1,018,588
	Republic of Finland	Ps	2,045	US\$	1,014,783
	Republic of Panama	Ps	999	US\$	495,625
<b>2008</b>	Republic of El Salvador	Ps	230,749	US\$	102,847,983
	U.S. Treasury	Ps	405,050	US\$	180,536,473
	Republic of Brazil	Ps	51,981	US\$	23,168,684

The Bank increased the size and decreased the diversification of the U.S. dollar denominated portfolio in response to a less positive environment in the money market, looking to focus in the most liquid assets in the global markets and in order to achieve the liquidity needed to serve increasing portfolio of U.S. dollar denominated.

During 2008, the Bank increased the amount of its peso-denominated portfolio to Ps 5,173 billion, keeping investments in securities issued by the Colombian government at 50.9% of such portfolio. Such strategy is based on the Bank's needs for liquidity to serve the increasing loan portfolio disbursements.

See Item 5. Operating and financial review and prospects B. Liquidity and Capital Resources B.1 Liquidity and Funding for further discussion of the Bank's policies regarding liquidity.

**Table of Contents****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, 2008:

	<i>As of December 31, 2008</i>									
	<i>Maturing in less than 1 year</i>		<i>Maturing between 1 and 5 years</i>		<i>Maturing between 5 and 10 years</i>		<i>Maturing more than 10 years</i>		<i>Total</i>	
	<i>Balance<sup>(1)</sup></i>	<i>Yield %<sup>(2)</sup></i>	<i>Balance<sup>(1)</sup></i>	<i>Yield %<sup>(2)</sup></i>	<i>Balance<sup>(1)</sup></i>	<i>Yield %<sup>(2)</sup></i>	<i>Balance<sup>(1)</sup></i>	<i>Yield %<sup>(2)</sup></i>	<i>Balance<sup>(1)</sup></i>	<i>Yield %<sup>(2)</sup></i>
	<i>(in millions of pesos, except yields)</i>									
<b>U.S.-denominated:</b>										
Securities issued or guaranteed by the Colombian Government			Ps 51,503	5.34%	Ps 7,417	5.90%	Ps 22	6.32%	Ps 58,942	5.4%
Securities issued or guaranteed by El Salvador Central Bank	639,269	0.00%	30,997	2.94%					670,266	0.1%
Securities issued or guaranteed by Government entities	2,482	5.32%	35,749	6%	40,584	6.49%	65,703	5.20%	144,518	5.7%
Securities issued by other financial entities	45,047	5.48%	24,078	5.80%					69,125	5.5%
Securities issued by foreign governments	532,066	1.41%	70,595	5.67%	2,314	5.87%	82,582	10.15%	687,557	2.9%
Others	14,858	3.38%	540	5.76%					15,398	3.4%
<b>Total</b>	<b>1,233,722</b>	<b>0.86%</b>	<b>213,462</b>	<b>5.22%</b>	<b>50,315</b>	<b>6.37%</b>	<b>148,307</b>	<b>7.95%</b>	<b>1,645,806</b>	<b>2.2%</b>
<b>Local-denominated</b>										
Securities issued or guaranteed by the Colombian Government	711,301	9.47%	1,475,623	6.49%	377,114	3.53%	69,768	7.42%	2,633,806	6.8%
Securities issued or guaranteed by the Central Bank	2	26.39%							2	26.3%
Securities issued or guaranteed by Government entities	560,594	6.41%	32,958	8.30%	1,875	14.69%	13,702	11.34%	609,129	6.6%
Securities issued by other financial entities	252,352	11.65%	204,571	12.24%	881,208	8.19%	510,938	9.66%	1,849,069	9.5%
Others	9,537	10.56%	50,094	11.67%	22,175	12.13%	51	4.98%	81,857	11.6%

total	1,533,786	8.72%	1,763,246	7.34%	1,282,372	6.90%	594,459	9.44%	5,173,863	7.8
al	<b>Ps 2,767,508</b>		<b>Ps 1,976,708</b>		<b>Ps 1,332,687</b>		<b>Ps 742,766</b>		<b>Ps 6,819,669</b>	

(1) Amounts are net of allowances for decline in value which amounted to Ps 20,927 million in 2008.

(2) Yield was calculated using the internal return rate (IRR) as of December 31, 2008.

As of December 31, 2008, the Bank had the following investments in securities of issuers that exceeded 10% of its shareholders equity:

	<i>Issuer</i>	<i>Amortized Cost (Ps million)</i>	<i>Fair value</i>
Securities issued or secured by Colombian government	Ministry of Finance	Ps 2,692,748	Ps 2,586,958
Securities issued by other financial entities	Titularizadora Colombiana	1,373,768	1,381,516
Securities issued by El Salvador Central Bank	Dirección General de Tesorería	670,266	669,629
<b>Total</b>		<b>Ps 4,736,782</b>	<b>Ps 4,638,103</b>

**Table of Contents****E.3. LOAN PORTFOLIO**

The following table shows the Bank's loan portfolio classified into corporate, retail, financial leases and mortgage loans:

	2004		2005		As of December 31, 2006 (Ps million)		2007 <sup>(2)</sup>		2008	
<b>Domestic</b>										
<b>Corporate</b>										
Trade financing	Ps	253,632	Ps	783,894	Ps	777,417	Ps	845,810	Ps	640,033
Loans funded by development banks		770,331		948,659		321,263		842,957		970,456
Working capital loans		4,298,354		7,702,420		11,534,148		13,320,319		15,524,940
Credit cards		24,621		42,293		50,803		36,613		33,039
Overdrafts		67,018		62,041		74,218		50,536		55,796
<b>Total corporate</b>		<b>5,413,956</b>		<b>9,539,307</b>		<b>12,757,849</b>		<b>15,096,235</b>		<b>17,224,264</b>
<b>Retail <sup>(1)</sup></b>										
Credit cards		392,900		582,533		796,175		1,855,999		2,317,178
Personal loans		1,111,250		1,556,429		2,281,177		2,305,390		2,369,852
Vehicle loans		381,723		629,326		963,072		1,305,685		1,314,685
Overdrafts		89,867		101,957		119,882		195,063		208,123
Loans funded by development banks		359,494		403,414		386,283		713,007		887,978
Trade financing		54,189		76,643		70,406		93,037		98,344
Working capital loans		1,295,643		1,612,650		2,331,999		3,715,945		4,125,358
<b>Total retail</b>		<b>3,685,066</b>		<b>4,962,952</b>		<b>6,948,994</b>		<b>10,184,126</b>		<b>11,321,518</b>
<b>Financial Leases</b>		<b>880,110</b>		<b>2,660,556</b>		<b>3,553,286</b>		<b>4,698,702</b>		<b>5,406,712</b>
<b>Mortgage</b>		<b>56,107</b>		<b>1,463,437</b>		<b>1,385,445</b>		<b>1,930,742</b>		<b>2,313,864</b>
<b>Total loans</b>		<b>10,035,239</b>		<b>18,626,252</b>		<b>24,645,574</b>		<b>31,909,805</b>		<b>36,266,358</b>
Allowance for loan losses		(434,378)		(705,882)		(834,183)		(1,251,561)		(1,810,577)
<b>Total loans, net</b>	<b>Ps</b>	<b>9,600,861</b>	<b>Ps</b>	<b>17,920,370</b>	<b>Ps</b>	<b>23,811,391</b>	<b>Ps</b>	<b>30,658,244</b>	<b>Ps</b>	<b>34,455,781</b>
<b>Foreign</b>										
<b>Corporate</b>										
Trade financing							Ps	313,736	Ps	1,128,931
Loans funded by development banks								39,758		52,308
Working capital loans								2,779,180		3,807,352
Credit cards								6,546		9,327
Overdrafts								8,610		7,712

Total corporate	3,147,830	5,005,630
<b><i>Retail (1)</i></b>		
Credit cards	164,612	201,813
Personal loans	1,473,168	1,917,663
Vehicle loans	6,711	5,724
Overdrafts	22,943	21,089
Loans funded by development banks	6,204	8,304
Trade financing	4,941	25,482
Working capital loans	13,399	13,015
Total retail	1,691,978	2,193,090
<b><i>Financial Leases</i></b>		
	125	100,030
<b><i>Mortgage</i></b>		
	952,886	1,077,462
<b>Total loans</b>	5,792,819	8,376,212
Allowance for loan losses	(205,590)	(323,783)
<b>Total loans, net</b>	<b>5,587,229</b>	<b>8,052,429</b>
<b>Total Foreign and Domestic Loans</b>	<b>Ps 36,245,473</b>	<b>Ps 42,508,210</b>

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

(2) In 2007 the foreign loan category became material to the Bank due to the acquisition of Banagrícola; because of this, there is not information for previous years.



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The Bank classifies its loan portfolio into the following categories:

- Corporate loans, which include loans to medium and large corporations;
- Retail loans, which include loans to individuals, such as personal lines of credit, vehicle loans and credit card loans, microcredit loans;
- Financial leases; and
- Mortgage loans, for the acquisition and building of new or used housing.

As of December 31, 2008, the Bank's total loan portfolio amounted to Ps 44.64 trillion, increasing 18.41% compared to the Ps 37.70 trillion recorded as of December 31, 2007. This increase is lower than that recorded for the prior year given the prevailing economic slowdown, both in Colombia and the rest of the world, as well as the fact that the increase in the loan portfolio reported in 2007 reflected the acquisition of Banagrícola.

As of December 31, 2007, Bancolombia's total loan portfolio amounted to approximately Ps 37.70 trillion, representing an increase of 52.98% as compared to Ps 24.65 trillion in 2006. This increase was due to the positive performance of the Colombian economy, the better conditions of law and order in Colombia which generated a better business climate that raised the demand for credit in the majority of the economic sectors, and the acquisition of Banagrícola which increased the loan portfolio by Ps 5.80 trillion at December 31, 2007.

In 2006, the Bank's total loan portfolio increased 32.32% to Ps 24.65 trillion from Ps 18.63 trillion in 2005. This increase was due to the positive performance of the Colombian economy and the increase of credit demand during 2006.

Below is a brief explanation of the factors that contributed to the increase in Bancolombia's loan portfolio as of December 31, 2008 in each of the loan portfolio's categories.

*Corporate Loans*

Corporate loans showed a year-over-year increase of 21.8%, going from Ps 18.24 trillion in 2007 to Ps 22.23 trillion in 2008. This was mainly due to an increase of Ps 3.2 trillion in working capital loans and Ps 0.6 trillion in trade financing, representing a growth of 20.07% and a 52.6% respectively.

The sectors registering the highest annual growth rates upon comparing the years 2007 and 2008 were the mining/quarrying, business financial and transportation sectors with rates of 7.3%, 5.6% and 4.0% respectively, based on information published by the *Departamento Administrativo Nacional de Estadística* (the National Administrative Department of Statistics or DANE).

According to figures published by the Superintendency of Finance, the Commercial Loan/GDP ratio showed high growth rates in December 2008 as compared to December 2007, going from 14.88% to 16.38%. On the other hand, the Consumer Loan/GDP ratio decreased in the same period from 7.99% to 7.51%.

As of December 31, 2007, corporate loans amounted to Ps 18.24 trillion, increasing 43.0% as compared to Ps 12.76 trillion as of December 31, 2006, of which 24.7% is related to the acquisition of Banagrícola. Loans funded by domestic development banks represented the highest growth (174.76%) increasing from approximately Ps 0.32 trillion in 2006 to approximately Ps 0.88 trillion in 2007. Working capital loans increased from approximately Ps 11.53 trillion in 2006 to approximately Ps 16.10 trillion in 2007, representing an increase of 39.58%, of which 24.1% is related to the acquisition of Banagrícola.

In 2006, total corporate loans increased 33.74% to Ps 12.76 trillion primarily due to a 49.75% increase in working capital loans, a 20.12% increase in credit cards, and a 19.63% increase in overdrafts, offset by a 66.14% reduction (Ps 667,396 million) in loans funded by domestic development banks. This decrease is explained by the high level of liquidity that Bancolombia had during 2006, which allowed the Bank to fund its loan portfolio with its own funds and not using funds from domestic development banks.

As of December 31, 2006, 2007 and 2008 total corporate loans represented 51.77%, 48.39% and 49.80% respectively, of the Bank's total loan portfolio.

**Table of Contents***Retail Loans*

Growth in retail loans reached 13.8%, increasing from Ps 11.88 trillion in 2007 to Ps 13.41 trillion in 2008. The largest increases corresponded to the lines of personal loans, credit cards and working capital loans which grew 13.5%, 24.7% and 11.0% respectively. This reflects the Bank's efforts to maintain the dynamism of the retail loan portfolio since retail sales for 2008 only grew by 0.5% in comparison to 2007, according to DANE. Strategies such as the Bank's banking expansion initiative, geared at providing greater nationwide coverage through its non-banking correspondent network which increased from 57 in 2007 to 319 correspondents by the end of 2008, allowed the Bank to continue to grow its retail loan portfolio.

In 2007, retail loans increased 70.9% as compared to 2006, increasing from Ps 6.95 trillion in 2006 to Ps 11.88 trillion in 2007, of which 24.3% is related to the acquisition of Banagrícola. This increase was primarily due to a 153.8% increase in credit card billings (20.7% related to the Banagrícola acquisition), 86.19% in loans funded by domestic development banks (1.6% related to the Banagrícola acquisition), 65.6% increase in personal retail loans (64.6% related to the Banagrícola acquisition) and 59.9% increase in working capital loan (0.6% related to the Banagrícola acquisition). On a macroeconomic level, these growth rates were driven by 9.46% growth on retail sales in 2006 (this information is provided by the DANE in the *Encuesta Muestra Mensual de Comercio al Por Menor* or Monthly Survey of Retail Commerce) which encouraged the use of the Bank's products, such as credit cards and personal credit. The increase in retail loans was also driven by the opening of 18 new branches as well as the implementation of new mobile branches together with 57 non-banking correspondents, in different cities within Colombia. Additionally there was an increase in the number of credit cards outstanding.

Total retail loans increased 40.02% in 2006 from approximately Ps 4.96 trillion in 2005 to approximately Ps 6.95 trillion in 2006. This increase was primarily due to a 46.56% increase in personal loans, a 53.03% increase in vehicle loans and a 36.67% increase in credit card billings. This increase in retail loans was driven by the opening of 30 new branches and the implementation of new mobile branches in different cities and towns in Colombia, as well as the increase in the number of outstanding credit cards and the expansion of Sufinanciamiento's business.

As of December 31, 2006, 2007 and 2008, retail loans represented 28.20%, 31.50% and 30.27%, respectively, of the Bank's total loan portfolio.

*Mortgage Loans*

As of December 31, 2008 mortgage loans showed an increase of 17.61%, from Ps 2.88 trillion in 2007 to Ps 3.39 trillion in 2008, which was higher than the average growth rate of 10.41% recorded by the Colombian financial institutions, according to the Superintendency of Finance. Additionally, the Bank sold mortgage loans to Titularizadora Colombiana S.A. amounting to Ps 691 billion in 2008. If the outstanding securitized loans were added to the outstanding loans on the Bank's balance sheet, mortgage loans would total 4.08 billion, representing an increase of 41.6% as compared to 2007.

As of December 31, 2007, mortgage loans amounted to approximately Ps 2.88 trillion, increasing 108.14% as compared to approximately Ps 1.39 trillion in 2006, of which 68.8% is related to the acquisition of Banagrícola. As of December 31, 2007, mortgage loans represented 7.65% of the total loan portfolio, compared with 5.62% of the total loan portfolio for 2006. This increase was mainly driven by the favorable performance of the construction sector as well as the sales strategy adopted by the Bank. Additionally, the Bank sold mortgage loans to Titularizadora Colombiana S.A. amounting to approximately Ps 729 billion in 2007. During 2006, mortgage loans decreased 5.3% as a result of securitizations that totaled Ps 905 billion and which occurred during the third quarter of the year. Those securitizations imply a reallocation of assets as the Bank repurchases some of the securities derived from the securitization transactions.

As of December 31, 2006, 2007 and 2008, mortgage loans represented 5.62%, 7.65% and 7.60%, respectively, of the Bank's total loan portfolio.

**Table of Contents***Financial Leases*

According to information published by the Superintendency of Finance as of December 31, 2008, Bancolombia, through its subsidiaries Leasing Bancolombia and Sufinanciamiento, is the Colombian leader in financial lease contracts origination. Including the Subsidiaries mentioned above, and with Factoring Bancolombia, Suleasing International USA Inc., Bancolombia Puerto Rico Internacional, Inc. and Bancolombia Panamá, compared to the figures as of December 31, 2007, the financial lease loan portfolio increased 17.19% in 2008, from Ps 4.70 trillion in 2007 to approximately Ps 5.51 trillion in 2008, representing approximately 12.34% of the total loan portfolio at the end of the year.

During 2007, financial leases increased 32.24%, from Ps 3.55 trillion in 2006 to Ps 4.70 trillion. The acquisition of Banagrícola had no effect on these numbers as Banagrícola did not have financial leases at the end of 2007. The financial leases as a percentage of Bancolombia's total loan portfolio, decreased from 14.42% in 2006 to 12.46% in 2007 and 12.34% in 2008. This decrease is mainly due to the acquisition of Banagrícola which does not have any financial leases.

In 2008, commercial loans represented 62.87% of the Bank's total loan portfolio. As a percentage of the total loan portfolio, consumer loans represented 16.87%, financial leases 12.34%, mortgage loans 7.60% and Small Business Loans 0.32%. In 2007, commercial loans represented 62.06% of the Bank's total loan portfolio. As a percentage of the total loan portfolio, consumer loans represented 17.49%, financial leases 12.46%, mortgage loans 7.65% and Small Business loans 0.34%.

Past due loans increased from Ps 1,104,933 million in 2007 to Ps 1,624,005 million in 2008, representing an increase of 46.98%. The percentage of past due loans as a percentage of total loans went from 2.93% in 2007 to 3.64% in 2008. In spite of this increase in past due loans, the coverage ratio only decreased from 131.88% in 2007 to 131.43% in 2008.

The total amount of past due loans increased from Ps 569,335 million in 2006 to Ps 1,104,933 million in 2007, representing an increase of 94.07%. The percentage of past due loans as a percentage of the Bank's total loan portfolio increased from 2.31% in 2006 to 2.93% in 2007. The increase was due to higher interest rates in Colombia, Bancolombia's largest market, and the higher participation that the retail and SME's segment reached in the Bank's loan book.

*Borrowing Relationships*

As of December 31, 2008, the aggregate outstanding principal amount of the Bank's 25 largest borrowing relationships, on a consolidated basis, represented approximately 8.99% of the loan portfolio, and no single borrowing relationship represented more than 1.28% of the loan book. Also, 100% of those loans were corporate loans and 97.45% of these relationships were classified as A.

**Table of Contents****Maturity and Interest Rate Sensitivity of Loans**

The following table shows the maturities of the Bank's loan portfolio as of December 31, 2008:

	<i>Due in one year or less</i>	<i>Due from one to five years</i>	<i>Due after five years</i>	<i>Total</i>
		<i>(Ps million)</i>		
<b>Domestic loans and financial leases:</b>				
<b>Corporate</b>				
Trade financing	Ps 520,971	Ps 110,118	Ps 8,944	Ps 640,033
Loans funded by development banks	306,064	524,154	140,238	970,456
Working capital loans	6,203,168	7,339,345	1,982,427	15,524,940
Credit cards	4,877	28,160	2	33,039
Overdrafts	55,796			55,796
<b>Total corporate</b>	<b>Ps 7,090,876</b>	<b>Ps 8,001,777</b>	<b>Ps 2,131,611</b>	<b>Ps 17,224,264</b>
<b>Retail</b>				
Credit cards	Ps 268,140	Ps 2,047,302	Ps 1,736	Ps 2,317,178
Personal loans	268,181	2,084,265	17,406	2,369,852
Vehicle loans	59,246	859,158	396,281	1,314,685
Overdrafts	208,113	10		208,123
Loans funded by development banks	106,780	638,161	143,037	887,978
Trade financing	90,978	7,366		98,344
Working capital loans	1,534,492	2,270,932	319,934	4,125,358
<b>Total retail</b>	<b>2,535,930</b>	<b>7,907,194</b>	<b>878,394</b>	<b>11,321,518</b>
<b>Financial leases</b>	<b>430,331</b>	<b>3,595,922</b>	<b>1,380,459</b>	<b>5,406,712</b>
<b>Mortgage</b>	<b>37,843</b>	<b>163,267</b>	<b>2,112,754</b>	<b>2,313,864</b>
<b>Total domestic loans and financial leases</b>	<b>Ps 10,094,980</b>	<b>Ps 19,668,160</b>	<b>Ps 6,503,218</b>	<b>Ps 36,266,358</b>
<b>Foreign loans and financial leases:</b>				
<b>Corporate</b>				
Trade financing	Ps 427,698	Ps 459,797	Ps 241,436	Ps 1,128,931
Loans funded by development banks	38,357	4,158	9,793	52,308
Working capital loans	1,643,166	1,541,115	623,071	3,807,352
Credit cards		9,327		9,327
Overdrafts	7,712			7,712
<b>Total corporate</b>	<b>Ps 2,116,933</b>	<b>Ps 2,014,397</b>	<b>Ps 874,300</b>	<b>Ps 5,005,630</b>
<b>Retail</b>				
Credit cards	Ps 424	Ps 201,389		Ps 201,813
Personal loans	51,826	501,663	1,364,174	1,917,663
Vehicle loans	319	4,954	451	5,724

Overdrafts	21,089			21,089
Loans funded by development banks	51	1,593	6,660	8,304
Trade financing	3,076	3,763	18,643	25,482
Working capital loans	1,931	7,579	3,505	13,015
<b>Total retail</b>	<b>Ps 78,716</b>	<b>Ps 720,941</b>	<b>Ps 1,393,433</b>	<b>Ps 2,193,090</b>
<b><i>Financial leases</i></b>	<b>1,496</b>	<b>98,475</b>	<b>59</b>	<b>100,030</b>
<b><i>Mortgage</i></b>	<b>4,855</b>	<b>39,035</b>	<b>1,033,572</b>	<b>1,077,462</b>
<b>Foreign loans and financial leases</b>	<b>2,202,000</b>	<b>2,872,848</b>	<b>3,301,364</b>	<b>8,376,212</b>
<b>Total loans</b>	<b>Ps 12,296,980</b>	<b>Ps 22,541,008</b>	<b>Ps 9,804,582</b>	<b>Ps 44,642,570</b>

The following table shows the interest rate sensitivity of the Bank's loan portfolio due after one year and within one year or less as of December 31, 2008:

	<b><i>As of December 31, 2008</i></b> <i>(Ps million)</i>
<b>Loans with term of 1 year or more:</b>	
<b>Variable Rate</b>	
Domestic-denominated	Ps 21,276,345
Foreign-denominated	5,644,333
<b>Total</b>	<b>26,920,678</b>
<b><i>Fixed Rate</i></b>	
Domestic-denominated	4,895,033
Foreign-denominated	529,879
<b>Total</b>	<b>5,424,912</b>
<b><i>Loans with terms of less than 1 year:</i></b>	
Domestic-denominated	10,094,980
Foreign-denominated	2,202,000
<b>Total</b>	<b>12,296,980</b>
<b>Total loans</b>	<b>Ps 44,642,570</b>

**Table of Contents****Loans by Economic Activity**

The following table summarizes the Bank's loan portfolio, for the periods indicated, by the principal activity of the borrower using the primary Standard Industrial Classification (SIC) codes. Where the Bank has not assigned a code to a borrower, classification of the loan has been made based on the purpose of the loan as described by the borrower:

		<b>2004</b>		<b>2005</b>		<b>As of December 31, 2006</b>		<b>2007</b>		<b>2008</b>	
			<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>
Agricultural products	Ps	480,414	4.8%	Ps 844,651	4.5%	Ps 996,091	4.0%	Ps 1,695,451	4.5%	Ps 1,940,328	
Beverage		140,137	1.4%	273,580	1.5%	456,770	1.9%	711,836	1.9%	710,992	
Tobacco		666,602	6.6%	1,371,696	7.4%	1,665,850	6.8%	2,000,330	5.3%	2,496,656	
Chemical		386,434	3.9%	572,000	3.0%	805,900	3.3%	1,213,368	3.2%	1,886,283	
Industrial											
Manufacturing											
Textiles		1,762,447	17.6%	2,982,246	16.0%	3,867,432	15.7%	5,558,371	14.7%	6,558,650	
Food		1,027,009	10.2%	1,226,597	6.6%	602,585	2.4%	772,539	2.1%	659,800	
Chemical and allied products		575,679	5.7%	2,980,173	16.0%	1,534,816	6.2%	2,680,281	7.1%	3,864,585	
Transportation		1,760,120	17.5%	2,693,730	14.5%	2,791,340	11.3%	4,713,417	12.5%	6,967,723	
Communications		720,031	7.2%	1,496,371	8.0%	1,924,129	7.8%	2,340,138	6.2%	2,543,964	
Services		469,658	4.7%	941,975	5.0%	1,183,361	4.8%	1,514,595	4.0%	1,112,110	
Commercial		1,601,132	16.0%	2,134,950	11.5%	5,804,779	23.6%	10,564,706	28.0%	11,912,170	
Other		445,576	4.4%	1,108,283	6.0%	3,012,521	12.2%	3,937,592	10.5%	3,989,309	
<b>Total loans</b>	<b>Ps</b>	<b>10,035,239</b>	<b>100.0%</b>	<b>Ps 18,626,252</b>	<b>100.0%</b>	<b>Ps 24,645,574</b>	<b>100.0%</b>	<b>Ps 37,702,624</b>	<b>100.0%</b>	<b>Ps 44,642,570</b>	<b>100.0%</b>

**Credit Categories**

For the purpose of credit risk evaluation, loans and financial lease contracts are classified as follows:

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

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

**Small Business Loans:** These are issued for the purpose of encouraging the activities of small businesses and are subject to the following requirements: (i) the maximum amount to be lent is equal to twenty-five (25) SMMLV without at any time the balance of one single borrower exceeding such amount (this pursuant to that stipulated in Article 39 of Law 590 of 2000) and that the main source of payment for the corresponding obligation shall be the revenues obtained from the activities of the borrower micro business. The balance of indebtedness on the part of the borrower may not exceed 120 SMMLV as applicable at the moment the credit is approved.

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

**Table of Contents**

The following table shows the Bank's loan portfolio categorized in accordance with the regulations of the Superintendency of Finance in effect for the relevant periods:

	<i>Loan Portfolio by Type of Loan</i>				
	<i>As of December 31,</i>				
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
	<i>(Ps million)</i>				
Commercial Loans	Ps 7,353,956	Ps 11,949,501	Ps 16,028,505	Ps 23,397,058	Ps 28,068,731
Consumer Loans	1,655,066	2,437,727	3,587,260	6,593,211	7,532,649
Small Business Loans	90,000	115,031	91,078	129,900	143,122
Financial Leases	880,110	2,660,556	3,553,286	4,698,827	5,506,742
Mortgage	56,107	1,463,437	1,385,445	2,883,628	3,391,326
<b>Total Loans and Financial Leases</b>	<b>10,035,239</b>	<b>18,626,252</b>	<b>24,645,574</b>	<b>37,702,624</b>	<b>44,642,570</b>
Allowance for Loans and Financial Lease Losses	434,378	705,882	834,183	1,457,151	2,134,360
<b>Total Loans and Financial Leases, Net</b>	<b>Ps 9,600,861</b>	<b>Ps 17,920,370</b>	<b>Ps 23,811,391</b>	<b>Ps 36,245,473</b>	<b>Ps 42,508,210</b>

**Risk categories**

The Superintendency of Finance provides the following minimum risk classifications, according to the financial situation of the debtor or the past due days of the obligation:

Category A or *Normal Risk* : Loans and financial leases in this category are appropriately serviced. The debtor's financial statements or its projected cash flows, as well as all other credit information available to the Bank, reflect adequate paying capacity.

Category B or *Acceptable Risk, Above Normal* : Loans and financial lease in this category are acceptably serviced and guaranty protected, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.

Category C or *Appreciable Risk*": Loans and financial lease in this category represent insufficiencies in the debtors paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations.

Category D or *Significant Risk*": Loans and financial lease in this category have the same deficiencies as loans in category C, but to a larger extent; consequently, the probability of collection is highly doubtful.

Category E or *Risk of Non-Recoverability*": Loans and financial lease in this category are deemed uncollectible.

For further details about this risk categories see Note 2. Summary of significant accounting policies (i) Loans and Financial Lease Evaluation by credit risk categories of Notes to Consolidated Financial Statements.

	<i>As of December 31,</i>									
	<i>2004</i>	<i>%</i>	<i>2005</i>	<i>%</i>	<i>2006</i>	<i>%</i>	<i>2007</i>	<i>%</i>	<i>2008</i>	
	<i>(Ps million, except percentages)</i>									
Normal	Ps 9,327,398	93.0%	Ps 17,359,081	93.2%	Ps 23,310,545	94.6%	Ps 35,397,503	93.9%	Ps 40,650,096	
Abnormal	320,959	3.2%	638,131	3.4%	708,774	2.9%	1,135,022	3.0%	2,216,832	
Inefficient	93,175	0.9%	202,934	1.1%	209,386	0.8%	300,085	0.8%	576,557	
Doubtful	204,344	2.0%	252,635	1.4%	242,763	1.0%	604,034	1.6%	871,892	
Unrecoverable	89,363	0.9%	173,471	0.9%	174,106	0.7%	265,980	0.7%	327,193	



ans and									
l leases	Ps 10,035,239	100.0%	Ps 18,626,252	100.0%	Ps 24,645,574	100.0%	Ps 37,702,624	100.0%	Ps 44,642,570
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ns	3.9%		3.4%		2.5%		3.1%		4.0%

**Table of Contents*****Suspension of Accruals***

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

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

The Bank adopted a policy, in which loans of any type, with the exception of mortgage loans that are more than 30 days past due, cease to accumulate interest on the statement of operations and instead are recorded in the memorandum accounts until such time the client proceeds with their payment. Under this policy, once the accumulation of interest is suspended, the Bank records an allowance equal to the interest that had accrued up to that point. Mortgage loans, on the other hand, cease to accumulate interest on the statement of operations once they are 60 days past due, at which time an allowance is made for 100% of the value of the loan.

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

The following table sets forth the breakdown of the Bank's loans at least one day past due by type of loan in accordance with the criteria of the Superintendency of Finance in effect at the end of each period:

	<b>2004</b>	<b>%</b>	<b>2005<sup>(3)</sup></b>	<b>%</b>	<b>As of December 31,</b>		<b>2007</b>	<b>%</b>	<b>2008</b>	<b>%</b>
					<b>2006</b>	<b>%</b>				
	<i>(Ps million, except percentages)</i>									
<b><i>Performing past due loans:<sup>(1)</sup></i></b>										
Consumer loans past due from 31 to 60 days	Ps 21,987	38.7%	Ps 34,630	19.7%	Ps 62,201	26.4%	Ps 131,824	30.1%	Ps 150,762	22.4%
Small loans past due from 31 to 60 days <sup>(3)</sup>	1,845	3.2%		0.0%		0.0%		0.0%		0.0%
Commercial loans past due from 31 to 90 days	26,398	46.5%	46,485	26.5%	74,577	31.8%	164,163	37.4%	323,185	48.0%
Mortgage loans past due from 31 to 60/90/120 days <sup>(3)</sup>		0.0%	84,156	47.9%	62,919	26.8%	81,523	18.6%	100,785	15.0%
Financial leases past due from 31 to 60/90 days <sup>(2)</sup>	6,593	11.6%	10,301	5.9%	35,150	15.0%	61,055	13.9%	98,644	14.6%
	<b>56,823</b>	<b>100.0%</b>	<b>175,572</b>	<b>100.0%</b>	<b>234,847</b>	<b>100.0%</b>	<b>438,565</b>	<b>100.0%</b>	<b>673,376</b>	<b>100.0%</b>

**Total  
performing  
past due loans  
and Financial  
leases**

*Non-performing  
past due loans:*

Consumer loans past due more than 61 days	40,882	46.2%	66,121	24.0%	114,101	34.1%	234,659	35.2%	296,153	31.2%
Small loans past due more than 31 days <sup>(3)</sup>	3,781	4.3%	5,979	2.1%	10,003	3.0%	14,630	2.2%	17,600	1.9%
Commercial loans past due more than 90 days <sup>(2)</sup>	40,171	45.4%	114,496	41.5%	133,987	40.0%	233,883	35.1%	387,571	40.7%
Mortgage loans past due more than 60/90/120 days <sup>(3)</sup>	37	0.0%	77,394	28.1%	65,187	19.5%	124,251	18.6%	184,597	19.4%
Financial leases past due from 31 to 60/90 days	3,580	4.1%	11,874	4.3%	11,210	3.4%	58,945	8.9%	64,708	6.8%

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	<b>2004</b>	<b>%</b>	<b>2005<sup>(3)</sup></b>	<b>%</b>	<i>As of December 31,</i>			<b>%</b>	<b>2008</b>	<b>%</b>
					<b>2006</b>	<b>%</b>	<b>2007</b>			
					<i>(Ps million, except percentages)</i>					
<b>Total non-performing past due loans Financial assets</b>	<b>88,451</b>	<b>100.0%</b>	<b>275,864</b>	<b>100.0%</b>	<b>334,488</b>	<b>100.0%</b>	<b>666,368</b>	<b>100.0%</b>	<b>950,629</b>	<b>100.0%</b>
<b>Total past due loans and financial leases</b>	<b>Ps 145,274</b>		<b>Ps 451,436</b>		<b>Ps 569,335</b>		<b>Ps 1,104,933</b>		<b>Ps 1,624,005</b>	
<b>Total non-performing past due loans Financial assets</b>	88,451		275,864		334,488		666,368		950,629	
<b>Secured assets</b>	153,071		236,536		193,004		234,116		204,480	
<b>Over accounts receivable more than 180 days past due</b>	5,813		28,980		29,146		38,182		<b>34,486</b>	
<b>Total non-performing assets</b>	<b>Ps 247,335</b>		<b>Ps 541,380</b>		<b>Ps 556,638</b>		<b>Ps 938,666</b>		<b>Ps 1,189,595</b>	
<b>Provision for loan and financial assets losses</b>	(434,378)		(705,882)		(834,183)		(1,457,151)		(2,134,360)	
<b>Provision for estimated losses on foreclosed assets</b>	(140,865)		(205,176)		(174,393)		(201,822)		(179,827)	
<b>Provision for over accounts receivable and accrued interest assets</b>	(18,807)		(40,727)		(34,936)		(69,956)		(114,009)	
<b>Loans at least 30 days past due as a percentage of total loans</b>		1.5%		2.5%		2.3%		2.9%		3.0%
		299.0%		156.4%		146.5%		131.9%		131.4%

allowance for in losses as a percentage of loans at least one past due					
allowance for in losses as a percentage of loans classified C , D and E	112.3%	112.2%	133.2%	124.5%	120.2%
percentage of performing loans total loans	99.1%	98.5%	98.6%	98.2%	97.9%

(1) Performing past due loans are loans upon which the Bank continues to recognize income although interest has not been received for the periods indicated. Once interest is unpaid on accrual loans for a longer period than is specified above, the loan is classified as non-performing. Under Colombian Banking regulations, a loan is past due when it is at least 31 days past the actual due date. Bancolombia (unconsolidated), Sufinanciamiento, Patrimonio Autónomo C.V. Sufinanciamiento, Bancolombia Panamá and Bancolombia Cayman, adopted a policy, in which all loans and financial leasing

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

(2) The Consumer financial leases are due from 31 to 60 days and the commercial financial leases are due from 31 to 90 days.

(3) Effective as of January 1, 2005, External Circular 052 of 2004 of the Superintendency of Finance modified the classification between performing and non performing loans. According to the new regulation mortgage and small business loans are classified as non-performing when they are past due more than 60 and 30 days,

respectively. This change in the regulation applies for fiscal years 2005, 2006, 2007 and 2008. For fiscal years ended on December 31, 2004, mortgage and small business loans are classified as nonperforming when they are past due more than 120 and 60 days, respectively.

The following table sets forth the breakdown of the non-performing past due loans by type of loan in accordance with the criteria of the Superintendency of Finance for domestic and for foreign loans at the end for each period:

	<i>2004</i>	<i>2005</i>	<i>2006</i>		<i>2007<sup>(1)</sup></i>			<i>2008</i>	
	<i>Total</i>	<i>Total</i>	<i>Total</i>	<i>Foreign</i>	<i>Domestic</i>	<i>Total</i>	<i>Foreign</i>	<i>Domestic</i>	<i>Total</i>
				<i>Loans</i>	<i>Loans</i>		<i>Loans</i>	<i>Loans</i>	
<b><i>Non-performing past due loans:</i></b>									
Consumer loans past due more than 61 days	Ps 40,882	Ps 66,121	Ps 114,101	Ps 29,920	Ps 204,739	Ps 234,659	Ps 52,666	Ps 243,487	Ps 296,153
Small loans past due more than 31 days	3,781	5,979	10,003	1,742	12,888	14,630	2,017	15,583	17,600
Commercial loans past due more than 90 days	40,171	114,496	133,987	41,426	192,457	233,883	50,613	336,958	387,571
Mortgage loans past due from 60/90/120	37	77,394	65,187	18,735	105,516	124,251	23,313	161,284	184,597
Financial leases past due from 31 to 60/90 days	3,580	11,874	11,210	43	58,902	58,945	1,548	63,160	64,708
<b>Total non-performing past due loans and financial leases</b>	<b>Ps 88,451</b>	<b>Ps 275,864</b>	<b>Ps 334,488</b>	<b>Ps 91,866</b>	<b>Ps 574,502</b>	<b>Ps 666,368</b>	<b>Ps 130,157</b>	<b>Ps 820,472</b>	<b>Ps 950,629</b>

(1) In 2007 the Foreign loan

category  
becomes  
material to the  
Bank due to the  
acquisition of  
Banagrícola.



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The following table illustrates Bancolombia's past due loan portfolio by type of loan:

	2004		2005		As of December 31, 2006		2007 <sup>(2)</sup>		2008	
	Ps	%	Ps	%	Ps	%	Ps	%	Ps	%
	<i>(Ps million, except percentages)</i>									
<b>Domestic</b>										
<b>Corporate</b>										
Trade financing	Ps 3,862	2.7%	Ps 9,728	2.2%	Ps 18,218	3.2%	Ps 9,073	1.0%	Ps 2,472	0.2%
Loans funded by development banks	1,705	1.2%	7,463	1.7%	6,820	1.2%	6,710	0.7%	22,125	1.6%
Working capital loans	21,211	14.6%	55,354	12.3%	67,267	11.8%	101,613	10.8%	150,795	11.1%
Credit cards	1,273	0.9%	1,616	0.4%	2,669	0.5%	377	0.0%	456	0.0%
Overdrafts	1,668	1.1%	4,177	0.9%	7,716	1.4%	1,835	0.2%	3,032	0.2%
Total corporate	29,719	20.5%	78,338	17.4%	102,690	18.0%	119,608	12.7%	178,880	13.1%
<b>Retail</b>										
Credit cards	13,785	9.5%	25,967	5.8%	40,307	7.1%	144,621	15.3%	172,409	12.7%
Personal loans	43,945	30.2%	63,008	14.0%	113,514	19.9%	128,954	13.7%	144,336	10.6%
Vehicle loans	9,697	6.7%	23,829	5.3%	41,641	7.3%	74,379	7.9%	142,336	10.5%
Overdrafts	8,637	5.9%	10,234	2.3%	11,771	2.1%	27,932	3.0%	33,277	2.5%
Loans funded by development banks	6,382	4.4%	8,391	1.9%	12,166	2.1%	21,168	2.2%	33,530	2.5%
Trade financing	156	0.1%	658	0.1%	1,403	0.2%	3,213	0.3%	8,169	0.6%
Working capital loans	22,743	15.7%	41,000	9.1%	57,976	10.2%	139,307	14.8%	287,587	21.2%
Total retail	105,345	72.5%	173,087	38.3%	278,778	49.0%	539,574	57.2%	821,644	60.6%
<b>Financial</b>										
Leases <sup>(1)</sup>	10,173	7.0%	22,175	4.9%	46,359	8.1%	119,956	12.7%	155,678	11.5%
Mortgage	37	0.0%	177,836	39.4%	141,508	24.9%	164,901	17.4%	201,186	14.8%
<b>Total past due loans</b>	<b>Ps 145,274</b>	<b>100.0%</b>	<b>Ps 451,436</b>	<b>100.0%</b>	<b>Ps 569,335</b>	<b>100.0%</b>	<b>Ps 944,039</b>	<b>100.0%</b>	<b>Ps 1,357,388</b>	<b>100.0%</b>
<b>Foreign</b>										
<b>Corporate</b>										
Trade financing							Ps 5,098	3.2%	Ps 19,157	7.2%

Loans funded by development banks	1,132	0.7%	1,552	0.6%
Working capital loans	64,522	40.1%	106,532	40.0%
Credit cards	130	0.0%	222	0.0%
Overdrafts	137	0.1%	341	0.1%
Total corporate	71,019	44.1%	127,804	47.9%
<b>Retail</b>				
Credit cards	6,901	4.3%	10,692	4.0%
Personal loans	39,739	24.7%	63,172	23.7%
Vehicle loans	116	0.0%	110	0.0%
Overdrafts	321	0.2%	103	0.0%
Loans funded by development banks	96	0.1%	568	0.2%
Trade financing	191	0.1%	243	0.1%
Working capital loans	1,535	1.0%	1,764	0.7%
Total retail	48,899	30.4%	76,652	28.7%
<b>Financial Leases <sup>(1)</sup></b>	43	0.0%	7,674	2.9%
<b>Mortgage</b>	40,933	25.5%	54,487	20.5%
<b>Total past due loans</b>	<b>Ps 160,894</b>	<b>100.0%</b>	<b>Ps 266,617</b>	<b>100.0%</b>

(1) Includes financial leases, according to regulations issued by the Superintendency of Finance and effective as of January 1, 2004.

(2) In 2007 the foreign loan category becomes material

to the Bank due  
to the acquisition  
of Banagrícola.

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The following table presents information with respect to the Bank's loan portfolio at least 31 days past due based on the nature of the collateral for the loan:

	2004		2005		As of December 31, 2006		2007		2008	
	Ps	%	Ps	%	Ps	%	Ps	%	Ps	%
<b>Secured</b>										
Current	Ps 3,950,303	39.4%	Ps 7,947,554	42.7%	Ps 10,762,717	43.7%	Ps 16,923,998	44.9%	Ps 17,779,101	39.8%
Past due loans										
from 31 to										
90 days										
(commercial)	16,295	0.2	30,193	0.2	41,594	0.2	93,309	0.2	147,402	0.3
Past due										
financial										
leases 31 to										
90 days										
(commercial)	6,514	0.1	9,767	0.1	32,993	0.1	57,284	0.2	95,304	0.2
Past due loans										
from 31 to										
60 days										
(consumer)	7,027	0.1	8,946	0.0	11,910	0.1	27,429	0.1	27,621	0.1
Past due										
financial										
leases from										
31 to 60 days										
(consumer)	79	0.0	534	0.0	2,157	0.0	3,771	0.0	3,340	0.0
Past due loans										
from 31 to										
60 days										
(small										
business										
loans)	665	0.0	712	0.0	1,054	0.0	1,895	0.0	2,090	0.0
Past due loans										
from 31 to										
120 days										
(mortgage)		0.0	131,268	0.7	99,885	0.4	122,440	0.3	162,880	0.4
Past due loans										
from 61 to										
90 days										
(consumer)	3,441	0.0	4,336	0.0	5,150	0.0	12,913	0.0	13,276	0.0
Past due										
financial										
leases from										
61 to 90 days										
(consumer)	78	0.0	134	0.0	770	0.0	655	0.0	2,431	0.0
Past due loans	411	0.0	445	0.0	644	0.0	942	0.0	1,208	0.0
from 61 to										
90 days										
(small										

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Past due loans from 91 to 180 days (commercial)	8,730	0.1	14,306	0.1	19,582	0.1	36,358	0.1	71,915	0.2
Past due financial leases from 91 to 180 days (commercial)	1,845	0.0	4,900	0.0	4,143	0.0	43,618	0.1	29,065	0.1
Past due loans from 91 to 180 days (consumer)	6,074	0.1	5,380	0.0	6,938	0.0	16,080	0.0	19,811	0.0
Past due financial leases from 91 to 180 days (consumer)	83	0.0	344	0.0	418	0.0	644	0.0	2,138	0.0
Past due loans from 91 to 120 days (small business loans)	926	0.0	1,130	0.0	2,274	0.0	4,319	0.0	4,877	0.0
Past due loans from 121 to 180 days (mortgage)		0.0	13,631	0.1	11,248	0.0	20,627	0.1	30,896	0.1
Past due loans from 181 to 360 days (commercial)	6,156	0.1	17,938	0.1	21,733	0.1	25,277	0.1	84,551	0.2
Past due financial leases from 181 to 360 days (commercial)	924	0.0	3,304	0.0	3,946	0.0	6,792	0.0	26,182	0.1
Past due loans from 181 days to 360 days (consumer)	3,348	0.0	4,487	0.0	5,118	0.0	16,179	0.0	10,226	0.0
Past due financial leases from 181 to 360 days (consumer)	76	0.0	149	0.0	164	0.0	1,149	0.0	900	0.0

360 days (consumer)										
Past due loans from 121 to 360 days (small business loans)		0.0		0.0		0.0		0.0		0.0
Past due loans from 181 days to 360 days (mortgage)	37	0.0	16,651	0.1	16,973	0.1	24,559	0.1	40,521	0.1
Past due loans more than 360 days	9,661	0.1	24,636	0.1	33,676	0.1	82,105	0.2	71,758	0.2
Past due financial leases more than 360 days	573	0.0	3,043	0.0	1,769	0.0	6,087	0.0	3,992	0.0
<b>Total</b>	<b>Ps 4,023,246</b>	<b>40.2%</b>	<b>Ps 8,243,788</b>	<b>44.2%</b>	<b>Ps 11,086,856</b>	<b>45.0%</b>	<b>Ps 17,528,430</b>	<b>46.4%</b>	<b>Ps 18,631,485</b>	<b>41.8%</b>

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	2004		2005		As of December 31, 2006		2007		2008	
		%		%		%		%		%
	<i>(Ps million, except percentages)</i>									
<b>Unsecured<sup>(1)</sup></b>										
Current	Ps 5,939,662	59.2%	Ps 10,227,262	55.0%	Ps 13,313,522	54.0%	Ps 19,673,693	52.2%	Ps 25,239,464	56.5
Past due loans										
from 31 to										
60 days										
commercial)	10,103	0.1	16,292	0.1	32,983	0.1	70,854	0.2	175,783	0.3
Past due loans										
from 31 to										
60 days										
consumer)	14,960	0.1	25,684	0.1	50,291	0.2	104,395	0.3	123,141	0.3
Past due loans										
from 31 to										
60 days										
small										
business										
loans)	1,180	0.0	923	0.0	1,879	0.0	1,891	0.0	2,991	0.0
Past due loans										
from 61 to										
60 days										
consumer)	7,115	0.1	13,678	0.1	23,495	0.1	49,112	0.1	70,628	0.2
Past due loans										
from 61 to										
60 days										
small										
business										
loans)	557	0.0	664	0.0	943	0.0	1,022	0.0	1,534	0.0
Past due loans										
from 91 to										
60 days										
commercial)	3,980	0.0	27,230	0.1	10,206	0.0	27,896	0.1	60,071	0.1
Past due loans										
from 91 to										
60 days										
consumer)	12,490	0.1	21,809	0.1	36,662	0.2	80,027	0.2	121,453	0.3
Past due loans										
from 91 to										
60 days										
small										
business										
loans)	1,887	0.0	2,105	0.0	3,209	0.0	4,561	0.0	4,900	0.0
Past due loans										
from 181 to										
60 days										
commercial)	6,863	0.1	19,017	0.1	21,957	0.1	60,490	0.2	69,823	0.2
	8,414	0.1	16,431	0.1	36,738	0.2	60,348	0.2	60,759	0.1

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past due loans from 181 days to 60 days (consumer)										
past due loans more than 60 days	4,782	0.0	11,369	0.1	26,833	0.1	39,905	0.1	80,538	0.2
<b>Total</b>	<b>Ps 6,011,993</b>	<b>59.8%</b>	<b>Ps 10,382,464</b>	<b>55.8%</b>	<b>Ps 13,558,718</b>	<b>55.0%</b>	<b>Ps 20,174,194</b>	<b>53.6%</b>	<b>Ps 26,011,085</b>	<b>58.2%</b>
<b>Total current loans and financial leases</b>	<b>Ps 9,889,965</b>	<b>98.6%</b>	<b>Ps 18,174,816</b>	<b>97.7%</b>	<b>Ps 24,076,239</b>	<b>97.7%</b>	<b>Ps 36,597,691</b>	<b>97.1%</b>	<b>Ps 43,018,565</b>	<b>96.3%</b>
past due loans from 31 to 90 days (commercial)	26,398	0.3	46,485	0.2	74,577	0.3	164,163	0.4	323,185	0.7
past due financial leases from 1 to 90 days (commercial)	6,514	0.1	9,767	0.1	32,993	0.1	57,284	0.2	95,304	0.2
past due loans from 31 to 90 days (consumer)	21,987	0.2	34,630	0.2	62,201	0.3	131,824	0.3	150,762	0.3
past due financial leases from 1 to 60 days (consumer)	79	0.0	534	0.0	2,157	0.0	3,771	0.0	3,340	0.0
past due loans from 31 to 90 days (small business loans)	1,845	0.0	1,635	0.0	2,933	0.0	3,786	0.0	5,081	0.0
past due loans from 31 to 90 days (mortgage)		0.0	131,268	0.7	99,885	0.4	122,440	0.3	162,880	0.4
past due loans from 61 to 90 days (consumer)	10,556	0.1	18,014	0.1	28,645	0.1	62,025	0.2	83,904	0.2
past due financial leases from	78	0.0	134	0.0	770	0.0	655	0.0	2,431	0.0



1 to 90 days (consumer) past due loans from 61 to 90 days small business loans)	968	0.0	1,109	0.0	1,587	0.0	1,964	0.0	2,742	0.0
past due loans from 91 to 180 days (commercial) past due financial leases from 91 to 180 days (commercial) past due loans from 91 to 180 days (consumer) past due financial leases from 91 to 180 days (consumer) past due loans from 91 to 120 days small business loans)	12,710	0.1	41,536	0.2	29,788	0.1	64,254	0.2	131,986	0.3
past due loans from 91 to 180 days (commercial) past due loans from 91 to 180 days (consumer) past due financial leases from 91 to 180 days (consumer) past due loans from 91 to 120 days small business loans)	1,845	0.0	4,900	0.0	4,143	0.0	43,618	0.1	29,065	0.1
past due loans from 91 to 180 days (consumer) past due financial leases from 91 to 180 days (consumer) past due loans from 91 to 120 days small business loans)	18,564	0.2	27,189	0.1	43,600	0.2	96,107	0.3	141,264	0.3
past due loans from 91 to 120 days small business loans)	83	0.0	344	0.0	418	0.0	644	0.0	2,138	0.0
past due loans from 121 to 180 days (mortgage)	2,813	0.0	3,235	0.0	5,483	0.0	8,880	0.0	9,777	0.0
		0.0	13,631	0.1	11,248	0.1	20,627	0.1	30,896	0.1

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	<b>2004</b>	<b>%</b>	<b>2005</b>	<b>%</b>	<b>As of December 31,</b>		<b>2007</b>	<b>%</b>	<b>2008</b>	<b>%</b>
					<b>2006</b>	<b>%</b>				
					<i>(Ps million, except percentages)</i>					
past due loans from 181 to 360 days (commercial)	13,019	0.2	36,955	0.2	43,690	0.2	85,767	0.2	154,374	0.4
past due financial assets from 1 to 360 days (commercial)	924	0.0	3,304	0.0	3,946	0.0	6,792	0.0	26,182	0.1
past due loans from 181 days to 360 days (consumer)	11,762	0.1	20,918	0.1	41,856	0.2	76,527	0.2	70,985	0.2
past due financial assets from 1 to 360 days (consumer)	76	0.0	149	0.0	164	0.0	1,149	0.0	900	0.0
past due loans from 181 days to 360 days (mortgage)	37	0.0	16,651	0.1	16,973	0.1	24,559	0.1	40,521	0.1
total past due loans more than 360 days	14,443	0.1	36,005	0.2	60,509	0.3	122,010	0.3	152,296	0.3
total past due financial assets more than 360 days	573	0.0	3,043	0.0	1,769	0.0	6,087	0.0	3,992	0.0
<b>total past due loans and financial assets</b>	<b>Ps 145,274</b>	<b>1.4</b>	<b>Ps 451,436</b>	<b>2.3</b>	<b>Ps 569,335</b>	<b>2.3</b>	<b>Ps 1,104,933</b>	<b>2.9</b>	<b>Ps 1,624,005</b>	<b>3.7</b>
total gross loans and financial assets	10,035,239	100.0	18,626,252	100	24,645,574	100%	37,702,624	100%	44,642,570	100
allowance for loan and financial	Ps (434,378)	(4.3)	Ps (705,882)	(3.8)	Ps (834,183)	(3.4)	Ps (1,457,151)	(3.9)	Ps (2,134,360)	(4.8)

se losses

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ses, net Ps 9,600,861 95.7% Ps 17,920,370 96.2% Ps 23,811,391 96.6% Ps 36,245,473 96.1% Ps 42,508,210 95.2

- (1) Includes loans with personal guarantees.

***Non-performing loans, Accruing loans which are contractually past due 90 days and performing troubled debt restructuring loans***

**Non-performing loans and accruing loans which are contractually past due 90 days**

As of December 31, 2004, 2005, 2006, 2007 and 2008, Bancolombia did not have any performing loans which were past due for 90 days or more.

The following table shows the non-performing loans portfolio classified into foreign and domestic loans, the gross interest income that would have been recorded in the period that ended if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination and the amount of interest income on those loans that were included in net income for the period.

	<i>As of December 31, 2008</i>		
	<i>Amount of Loans</i>	<i>Gross Interest Income (Ps million)</i>	<i>Interest income included in net income for the period</i>
Foreign loans	Ps 130,157	Ps 18,460	Ps 11,906
Domestic Loans	Ps 820,472	Ps 364,720	Ps 265,176
<b>Non-performing loans</b>	<b>Ps 950,629</b>	<b>Ps 383,180</b>	<b>Ps 277,082</b>

**Table of Contents****Performing Troubled Debt Restructuring Loans**

The following table presents a summary of the Bank's Troubled Debt Restructuring loans accounted for on a performing basis in accordance with the criteria of the Superintendency of Finance in effect at the end of each period, classified into foreign and domestic loans:

	<b>2004</b>	<b>2005</b>	<b>As of December 31, 2006 (Ps million)</b>	<b>2007<sup>(1)</sup></b>	<b>2008</b>
Foreign Loans				Ps 111,870	Ps 176,246
Domestic Loans	Ps 537,703	Ps 619,388	Ps 578,099	Ps 521,181	Ps 623,722
<b>Total Performing Troubled Debt Restructuring Loans</b>	<b>Ps 537,703</b>	<b>Ps 619,388</b>	<b>Ps 578,099</b>	<b>Ps 633,051</b>	<b>Ps 799,968</b>

(1) In 2007 the foreign loan category becomes material to the Bank due to the acquisition of Banagrícola.

The following table shows the Bank's Performing Troubled Debt Restructuring loan portfolio classified into foreign and domestic loans, the gross interest income that would have been recorded in the period that ended if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination and the amount of interest income on those loans that was included in net income for the period.

	<b>As of December 31, 2008</b>		
	<b>Amount of Loans</b>	<b>Gross Interest Income (Ps million)</b>	<b>Interest income included in net income for the period</b>
Foreign loans	Ps 176,246	Ps 12,590	Ps 12,462
Domestic Loans	Ps 623,722	Ps 62,940	Ps 62,940
<b>Total Performing Troubled Debt Restructuring loans</b>	<b>Ps 799,968</b>	<b>Ps 75,530</b>	<b>Ps 75,402</b>

**Policies for the granting and review of credit**

The Bank's credit standards and policies aim to achieve a high level of credit quality in the Bank's loan portfolio, efficiency in the processing of loans and the specific assignment of responsibilities for credit risk.

To maintain credit quality and manage the risk arising from its lending activities, the Bank has established general loan policies for the evaluation of credits, the determination of lending limits to customers and the level of

management authority required to approve a loan. In addition, the Bank has established a centralized area for credit analysis, the disbursement process and the management and custody of promissory notes and guarantees.

Bancolombia's policies require every credit to be analyzed using the following factors: the character, reputation and credit history of the borrower, the type of business the borrower engages in, the borrower's ability to repay the loan, the coverage and suitability of the proposed collateral for the loan and information received from the two credit risk bureaus currently operating in Colombia.

In addition to the analysis of the borrower, the Bank engages in the analysis of the different economic sectors to which the Bank makes loans and has established guidelines for financial analysis of the borrower and for participation in investment projects in and outside Colombia.

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The Bank applies the lending limits to borrowers established under Colombian law, which require that:

Uncollateralized loans to a single customer or economic group may not exceed 10% of the Bank's (unconsolidated) Technical Capital

Collateralized loans to a single customer or economic group may not exceed 25% of the Bank's (unconsolidated) Technical Capital;

A loan to a shareholder of the Bank, who owns a position exceeding 20% of the Bank's Capital, may not exceed 20% of the Bank's (unconsolidated) Technical Capital; and

A loan to a financial institution may not exceed 30% of the Bank's (unconsolidated) Technical Capital.

In general, the term of a loan will depend on the type of guarantee, the credit history of the borrower and the purpose of the loan, averaging in length from one to five years.

Loan applications, depending on their amount, are presented for approval to branch managers, the zone or regional managers, the Vice Presidents, the President, the Credit Committee and the board of directors of Bancolombia. In general, loan application decisions are made by the Bank's management in the corresponding committee. Approval at each level also requires the agreement of each lower level of the approval hierarchy. For example, a loan approval by regional managers would also require approval from the branch or zone managers.

Loan applications for the retail portfolio up to a maximum of 200 SMMLV or Ps 86.7 million (approximately US\$ 38,643) are submitted to the Bank's centralized credit area where the approval is done using a credit scoring methodology.

Approval limits are set by senior management, and the actual amounts disbursed are determined by factors such as past experience, risk factors identified, credit policies and regulations, in the judgment of the relevant management members. The amounts to be disbursed are reduced to 60% of the approved total if the loan is unsecured. The following table sets forth the size limits, measured in million of pesos or their equivalent in U.S. dollars, for loan application approval by authorization level as established by the board of directors of Bancolombia:

<i>Authorization level:</i>	<i>Maximum loan approval limits</i>			
	<i>Unsecured loans<sup>(1)</sup></i>		<i>Secured loans</i>	
	<i>(U.S. dollar)</i>	<i>(Ps million)</i>	<i>(U.S. dollar)</i>	<i>(Ps million)</i>
Branch Managers and Zone Managers	There is no pre-established limit. Approval limits are set by senior management, and cannot exceed the limits set for Regional Managers		There is no pre-established limit. Approval limits are set by senior management, and cannot exceed the limits set for Regional Managers	
Regional Managers Corporate Banking Small and Medium Sized Enterprises and Personal Banking Regional Managers	2,338,823	5,247	3,898,038	8,746
Small and Medium Sized Enterprises and Personal Banking Vice Presidents <sup>(2)</sup>	1,604,571	3,600	2,674,285	6,000
Vice Presidents <sup>(2)</sup>	8,079,341	18,127	13,465,568	30,211
Vice President of Mortgage Banking Corporate Banking and Financial Vice Presidents <sup>(2)</sup>	5,386,227	12,084	8,977,045	20,141
Vice Presidents <sup>(2)</sup>	8,079,341	18,127	13,465,568	30,211
Vice President of Human Resources	157,547	353	262,579	589

President	13,041,542	29,260	21,735,903	48,766
Credit Committee	All loans, other than those requiring the approval of the Board of Directors, within the limits established by law		All loans, other than those requiring the approval of the Board of Directors, within the limits established by law	

(1) Includes loans with a personal guarantee.

(2) This approval limit corresponds to a percentage of the Bank's Technical Capital. Vice Presidents approval limits are established depending on the borrower credit risk level. The amounts set in the table above are established to grant loans to borrowers with the lowest credit risk level. The approval limits decrease as the borrower credit risk level increases.

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Loans to managers, directors and affiliates of the Bank must be approved by the board of directors of the Bank, which has the authority to grant loans in any principal amount subject to the Bank's legal lending limit. The Bank has established policies for the valuation of collateral received as well as for the determination of the maximum loan amount that can be granted against the value of the collateral. Periodically, the Bank undertakes a valuation of collateral held as security for loans. In addition, when a loan becomes 60 days past due, the loan is given to a specialized division where various steps are taken to recover the loan.

With respect to monitoring outstanding loans, the Bank, in accordance with the requirements of the Superintendency of Finance, has implemented regional committees and a central qualification office to undertake a biannual evaluation of the loan portfolio, during the months of May and November each year. At least 50% of the outstanding portfolio is evaluated by the Superintendency of Finance. Clients evaluated have, among others, the following characteristics: high exposition, more than 30 days past due, bad record of historical payment behavior either with the Bank or the financial system, restructured loans or are part of the watch list. When monitoring outstanding loans, the Bank examines current financial statements including cash flow and financial indicators.

Additionally, all the Bank's loans are evaluated monthly based on the days they are past due. When reviewing loans, Bancolombia evaluates and updates their risk classification and makes corresponding adjustment in the provision, if needed.

In addition, the Bank keeps track of the loans reviewed every month and carries out a credit audit process that reviews clients with financial weaknesses, early past due loans, clients in sectors that are underperforming, and branches with high records of write offs, among others.

**E.4. SUMMARY OF LOAN LOSS EXPERIENCE**

***ALLOWANCE FOR LOAN LOSSES***

The Bank records allowance for loans and financial leases losses in accordance with the regulation established by the Superintendency of Finance. For further details regarding the regulation and methodologies for the calculation of such allowances please see Note 2.i. of Notes to Financial Statements included in this Annual Report.



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The following table sets forth the changes in the allowance for loan and financial leases losses:

	<i>Year Ended December 31,</i>				
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
	<i>(Ps million)</i>				
Balance at beginning of period	Ps 387,263	Ps 434,378	Ps 705,882	Ps 834,183	Ps 1,457,151
Balance at beginning of period (Factoring Bancolombia)			5,625		
Balance at beginning of period (Conavi, Corfinsura and subsidiaries)		236,013			
Balance at beginning of period (Banagr�colas subsidiaries) <sup>(3)</sup>				147,357	
Allowance for financial leasing reclassification	7,002				
Provisions for loan losses <sup>(1)</sup>	186,480	374,744	568,679	1,203,543	1,986,710
Charge-offs	(55,032)	(115,455)	(136,789)	(186,273)	(547,860)
Effect of difference in exchange rate	(12,751)	(3,955)	(1,210)	(25,441)	45,604
Reclassification-Securitization		(11,947)			
Reversals of provisions	(78,584)	(207,896)	(308,004)	(516,218)	(807,245)
<b>Balance at end of year <sup>(2)</sup></b>	<b>Ps 434,378</b>	<b>Ps 705,882</b>	<b>Ps 834,183</b>	<b>Ps 1,457,151</b>	<b>Ps 2,134,360</b>

(1) The provision for past due accrued interest receivable, which is not included in this item, amounted to Ps 4,483 million, Ps 12,379 million, Ps 14,825 million, Ps 35,543 million and Ps 58,721 million for the years ended December 31, 2004, 2005, 2006, 2007 and 2008,

respectively.

- (2) The allowance past due accrued interest receivable, which is not included in this item, amounted to Ps 4,603 million, Ps 8,655 million, Ps 11,644 million, Ps 33,303 million and Ps 54,323 million for the years ended December 31, 2004, 2005, 2006, 2007 and 2008, respectively.

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

The recoveries of charged-off loans are recorded in the consolidated statement of operations and are not included in provisions for loan losses. See in the Consolidated Statement of Operations on the line: Recovery of Charged-off loans.

The following table sets forth the allocation of the Bank's allowance for loan and financial lease losses by type of loan using the classification of the Superintendency of Finance:

	<i>As of December 31,</i>				
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
	<i>(Ps million)</i>				
Commercial loans	Ps 271,296	Ps 387,473	Ps 356,272	Ps 791,957	Ps 1,202,047
Consumer loans	49,350	88,052	152,842	340,247	502,496

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Small business loans	4,271	4,679	6,365	9,050	12,424
Financial leases	6,529	16,342	49,463	133,837	197,952
Mortgage	37	22,747	23,948	53,973	122,407
General	102,895	186,589	245,293	128,087	97,034
<b>Total allowance for loan losses</b>	<b>Ps 434,378</b>	<b>Ps 705,882</b>	<b>Ps 834,183</b>	<b>Ps 1,457,151</b>	<b>Ps 2,134,360</b>

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The following table sets forth the allocation of the Bank's allowance for loans and financial leases losses by type of loan:

	2004		2005		As of December 31, 2006		2007 <sup>(2)</sup>		2008	
	Ps	%	Ps	%	Ps	%	Ps	%	Ps	%
	<i>(Ps million, except percentages)</i>									
<b>Domestic</b>										
<b>Corporate</b>										
Trade financing	Ps 3,496	0.8%	Ps 23,598	3.3%	Ps 17,154	2.1%	Ps 21,184	1.7%	Ps 13,081	0.7%
Loans funded by development banks	10,057	2.3%	20,886	3.0%	7,057	0.8%	27,612	2.2%	61,430	3.4%
Working capital loans	243,862	56.2%	315,725	44.7%	261,589	31.4%	379,169	30.3%	522,065	28.8%
Credit cards	971	0.2%	1,435	0.2%	2,324	0.3%	1,176	0.1%	1,134	0.1%
Overdrafts	919	0.2%	1,781	0.3%	3,617	0.4%	2,383	0.2%	3,983	0.2%
Total corporate	259,305	59.7%	363,425	51.5%	291,741	35.0%	431,524	34.5%	601,693	33.2%
<b>Retail</b>										
Credit cards	11,965	2.8%	21,815	3.1%	36,062	4.3%	128,523	10.3%	208,323	11.5%
Personal loans	27,718	6.4%	45,955	6.5%	92,625	11.1%	126,297	10.1%	166,880	9.2%
Vehicle loans	6,121	1.4%	13,837	2.0%	30,698	3.7%	68,938	5.5%	115,593	6.4%
Overdrafts	2,791	0.6%	4,186	0.6%	4,274	0.5%	16,451	1.3%	24,002	1.3%
Loans funded by development banks	1,770	0.4%	3,970	0.6%	5,817	0.7%	30,064	2.4%	41,323	2.3%
Trade financing	59	0.0%	430	0.1%	1,254	0.2%	5,111	0.4%	7,616	0.4%
Working capital loans	15,188	3.6%	26,586	3.8%	53,008	6.4%	204,022	16.3%	330,437	18.3%
Total retail	65,612	15.2%	116,779	16.7%	223,738	26.9%	579,406	46.3%	894,174	49.4%
<b>Financial Leases<sup>(1)</sup></b>										
<b>Mortgage</b>	6,529	1.4%	16,342	2.3%	49,463	5.9%	133,757	10.7%	187,514	10.4%
<b>General</b>	37	0.0%	22,747	3.2%	23,948	2.9%	37,863	3.0%	103,133	5.7%
<b>Total allowance for loan losses</b>	<b>Ps 434,378</b>	<b>100.0%</b>	<b>Ps 705,882</b>	<b>100.0%</b>	<b>Ps 834,183</b>	<b>100.0%</b>	<b>Ps 1,251,561</b>	<b>100.0%</b>	<b>Ps 1,810,576</b>	<b>100.0%</b>

<b>Foreign</b>						
<b>Corporate</b>						
Trade financing	Ps	5,155	2.5%	Ps	13,633	4.2%
Loans funded by development banks		432	0.2%		545	0.2%
Working capital loans		76,002	37.0%		132,294	40.9%
Credit cards		97	0.0%		177	0.0%
Overdrafts		323	0.2%		222	0.1%
Total corporate		82,009	39.9%		146,871	45.4%
<b>Retail</b>						
Credit cards		6,258	3.0%		9,469	2.9%
Personal loans		40,388	19.6%		62,409	19.3%
Vehicle loans		142	0.1%		152	0.0%
Overdrafts		625	0.3%		564	0.2%
Loans funded by development banks		108	0.1%		274	0.1%
Trade financing		101	0.1%		525	0.2%
Working capital loans		692	0.3%		838	0.3%
Total retail		48,314	23.5%		74,231	23.0%
<b>Financial Leases <sup>(1)</sup></b>		81	0.0%		10,436	3.1%
<b>Mortgage</b>		16,110	7.8%		19,274	6.0%
<b>General</b>		59,076	28.8%		72,972	22.5%
<b>Total allowance for loan losses</b>	<b>Ps</b>	<b>205,590</b>	<b>100.0%</b>	<b>Ps</b>	<b>323,784</b>	<b>100.0%</b>

(1) The allowance for financial leases is included in the allowance for loans since 2004.

- (2) In 2007 the foreign loan category became material to the Bank due to the acquisition of Banagrícola.

As of December 31, 2008, allowances for loans and financial leases losses reached Ps. 2,134.4 billion (4.8% of loans) increasing 46.5% as compared to the Ps. 1,457.1 billion presented as of December 31, 2007. Despite higher credit cost in 2008, coverage, measured as the ratio of allowances for loans and accrued interest losses to past due loans, 134.8%, remaining stable from the 134.9% presented at the end of 2007.

As of December 31, 2007, the allowance for loan and financial lease losses increased 74.7% from Ps 834,.2 billion as of December 31, 2006, to Ps 1,457.2 billion. Both the acquisition of Banagrícola and the incorporation of its portfolio, together with the Bank's strict compliance with the Commercial Portfolio Reference Model set forth in External Circulars 039 of 2007 and 040 of 2007, of the Superintendency of Finance, gave rise to this substantial growth in provisions. This increase is reflected in each of the portfolio categories.

**Table of Contents****CHARGE-OFFS**

The following table shows the allocation of the Bank's charge-offs by type of loan as of December 31, 2004, 2005, 2006, 2007 and 2008:

	<i>Year ended December 31,</i>				
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007<sup>(1)</sup></i>	<i>2008</i>
	<i>(Ps million)</i>				
<b>Domestic</b>					
Trade financing	Ps 100	Ps 630	Ps 5,507	Ps 151	Ps 2,558
Loans funded by domestic development banks	2,832	4,573		1,320	8,820
Working capital loans	15,350	18,190	49,474	16,068	45,941
Credit cards	9,015	14,960	10,067	28,179	166,067
Personal loans	20,251	37,775	46,095	65,006	138,007
Vehicle loans	1,981	2,508	6,483	10,131	29,088
Overdrafts	3,981	3,808	4,544	3,733	52,822
Mortgage & other	385	31,742	12,795	1,791	509
Financial leases	1,137	1,269	1,824	2,029	27,650
<b>Total charge-offs</b>	<b>Ps 55,032</b>	<b>Ps 115,455</b>	<b>Ps 136,789</b>	<b>Ps 128,408</b>	<b>Ps 471,462</b>
<b>Foreign</b>					
Trade financing					Ps 1,819
Working capital loans				31,240	21,581
Credit cards				5,077	10,734
Personal loans				21,079	39,073
Vehicle loans				59	88
Overdrafts				407	620
Mortgage & other					2,434
Financial leases					49
<b>Total charge-offs</b>				<b>Ps 57,862</b>	<b>Ps 76,398</b>

(1) In 2007 the foreign loan category became material to the Bank due to the acquisition of Banagrícola.

The ratio of charge-offs to average outstanding loans for years ended December 31, 2004, 2005, 2006, 2007 and 2008 was as follows:

	<i>Year ended December 31,</i>				
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>

Ratio of charge-offs to average outstanding loans	0.62%	0.66%	0.63%	0.60%	1.36%
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In June and December, the Bank writes off debtors classified as unrecoverable, based on the following criteria:

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

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

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

All charge-offs must be approved by the board of directors. Even if a loan is charged off, management remains responsible for decisions in respect of the loan, and neither the Bank nor its Subsidiaries in Colombia are released of their obligations to pursue recovery as appropriate.



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

**POTENTIAL PROBLEM LOANS**

In order to carefully monitor the credit risk associated to clients, the Bank has established a committee that meets monthly dedicated to identify potential problem loans which are then included in what is called the watch list. In general these loans are related to clients that could face difficulties in the future in the repayment of their obligations with the Bank but who have had a good record of payment behavior. This situation could be related to internal factors such as economic activity, financial weakness or any other external events that could affect the client's business.

As of December 31 2008, there are 71 clients included in the watch list accounting for Ps 95,855 million.

**CROSS BORDER OUTSTANDING LOANS AND INVESTMENTS**

As of December 31, 2006, 2007 and 2008, total cross-border outstanding loans and investments amounted to approximately US\$ 592 million, US\$ 3,993 million and US\$ 4,386 million, respectively. As of December 31, 2008, total outstanding loans to borrowers in foreign countries amounted to US\$ 3,679 million, and total investments were US\$ 707 million. As of December 31, 2008, total cross-border outstanding loans and investments represented 15.93 % of total assets.

The Bank had no cross-border outstanding acceptances, interest-earning deposits with other banks or any other monetary assets denominated in pesos or other non-local currencies, in which total exceeded 1% of consolidated total assets at December 31, 2006, 2007 and 2008.

The following table presents information with respect to the Bank's cross-border outstanding loans and investments for the years ended on December 31, 2006, 2007 and 2008:

	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>(thousands of U.S. dollars)</i>		
Mexico	US\$ 79,312	US\$ 91,546	US\$ 73,830
Brazil	79,736	73,943	80,383
United States	166,380	192,221	258,665
Chile	85,281	57,234	53,311
British Virgin Island	25,596	59,488	57,594
Peru	7,125	12,211	28,007
Ecuador	6,633	16,430	18,003
Panama	9,144	94,375	54,461
El Salvador	9,300	2,926,703	3,036,433
Cayman Islands	1,690		
Costa Rica	7,255	64,180	205,708
Guatemala	3,533	289,917	400,291
Venezuela	2,000	6,002	7
Germany		4,558	
Guyana	4,000	3,000	2,000
Honduras	4,313	38,430	49,500
United Kingdom	23,209	3,122	32,419
Spain	17,345	1,038	8
Switzerland	40,330	15,462	
Netherlands	20,180		
Uruguay		100	
Canada		1,019	7
Austria		1,034	
Finland		1,003	
Ireland		3,438	



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	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>(thousands of U.S. dollars)</i>		
Sweden		4,859	
Italy		3,049	1
Haiti		2	
Norway		1	2
Nicaragua		28,957	28,062
Dominican Republic			4,639
Curaçao			3,000
France			6
Indonesia			3
Mozambique			2
Puerto Rico			1
Saudi Arabia			2
Trinidad and Tobago			6
<b>Total Cross-Border Outstanding Loans and Investments</b>	<b>US\$ 592,362</b>	<b>US\$ 3,993,322</b>	<b>US\$4,386,351</b>

**E.5. DEPOSITS**

The following table shows the composition of the Bank's deposits for 2006, 2007 and 2008:

	<b>2006</b>	<b>As of December 31, 2007</b>	<b>2008</b>
	<i>(Ps million)</i>		
<b><i>Non-interest bearing deposits:</i></b>			
Checking accounts	Ps 4,121,506	Ps 5,300,864	Ps 5,289,918
Other deposits	459,143	503,860	433,542
Total	4,580,649	5,804,724	5,723,460
<b><i>Interest bearing deposits:</i></b>			
Checking accounts	1,244,348	1,567,411	2,011,132
Time deposits	7,377,586	14,304,727	18,652,738
Savings deposits	10,013,884	12,697,288	13,997,070
Total	18,635,818	28,569,426	34,660,940
<b>Total deposits</b>	<b>Ps 23,216,467</b>	<b>Ps 34,374,150</b>	<b>Ps 40,384,400</b>

The following table shows the time deposits held by the Bank at December 31, 2008, by amount and maturity for deposits:

<b><i>At December 31, 2008</i></b>		
<b><i>Peso-</i></b>	<b><i>U.S. dollar -</i></b>	<b><i>Total</i></b>
<b><i>Denominated</i></b>	<b><i>Denominated</i></b>	
	<i>(Ps million)</i>	

Time deposits higher than US\$ 100,000 <sup>(1)</sup>			
Up to 3 months	Ps 4,657,045	Ps 2,976,841	Ps 7,633,886
From 3 to 6 months	1,323,321	967,520	2,290,841
From 6 to 12 months	1,150,076	511,043	1,661,119
More than 12 months	1,461,520	421,627	1,883,147
Time deposits less than US\$ 100,000 <sup>(1)</sup>	3,212,912	1,970,833	5,183,745
<b>Total</b>	<b>Ps 11,804,874</b>	<b>Ps 6,847,864</b>	<b>Ps 18,652,738</b>

(1) Equivalent to Ps 224 million at the Representative Market Rate as of December 31, 2008.

For a description of the average amount and the average rate paid for deposits, see Item 4. Information on the Company E. Selected Statistical Information E.1. Distribution of Assets, Liabilities and Stockholders Equity; Interest Rates and Interest Differential .

**Table of Contents****E.6. RETURN ON EQUITY AND ASSETS**

The following table presents certain selected financial ratios of the Bank for the periods indicated:

	<i>For the Fiscal Year Ended December 31,</i>		
	<i>2006</i>	<i>2007</i>	<i>2008</i>
	<i>(in percentages)</i>		
Net income as a percentage of:			
Average total assets	2.31	2.52	2.34
Average shareholders' equity	22.10	26.13	23.68
Dividends declared per share as a percentage of consolidated net income per share <sup>(1)</sup>	51.65	39.64	38.09
Average shareholders' equity as a percentage of average total assets	10.46	9.63	9.89
Return on interest-earning assets <sup>(2)</sup>	10.5	12.9	13.5

(1) Dividends are paid based on unconsolidated earnings. Net income per share is calculated using the average number of common and preference shares outstanding during the year.

(2) Defined as total interest earned divided by average interest-earning assets.

**E.7. INTERBANK BORROWINGS**

The following table sets forth the foreign interbank borrowings by the Bank for the periods indicated:

	<i>2006</i>		<i>As of December 31, 2007</i>		<i>2008</i>	
	<i>Amount</i>	<i>Rate<sup>(1)</sup></i>	<i>Amount</i>	<i>Rate<sup>(1)</sup></i>	<i>Amount</i>	<i>Rate<sup>(1)</sup></i>
	<i>(Ps million, except percentages)</i>					
End of period	Ps 1,066,845	9.35%	Ps 1,506,611	7.74%	Ps 2,077,291	3.9% <sup>(5)</sup>
Weighted average during period	1,574,870	6.02%	1,748,523	6.70%	1,578,252	4.7%
	2,111,978 <sup>(2)</sup>		2,291,460 <sup>(3)</sup>		2,077,291 <sup>(4)</sup>	

Maximum amount of borrowing at any month-end			
Interest paid during the year	94,872	116,615	81,178

(1) At the end of the year, the Bank typically increases its U.S. dollar-denominated interbank borrowings, which represent the great majority of interbank borrowings and which have lower interest rates.

(2) February.

(3) April.

(4) December.

(5) Corresponds to the ratio between interest paid by foreign interbank borrowings and capital at the end of the year 2008.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

As of the date of the filing of this Annual Report, the Bank has not received any written comments from the Securities and Exchange Commission (the SEC) staff regarding the Bank's periodical reports required to be filed under the Exchange Act.

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**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. OPERATING RESULTS**

The following discussion should be read in conjunction with Bancolombia's audited consolidated financial statements for the three year periods ended December 31, 2008.

The comparisons between 2007 and 2006 periods presented in this Annual Report are derived from those audited numbers without any pro-forma calculation of the effect of Banagrícola's financial condition on Bancolombia's consolidated financial statements for 2006. Banagrícola was acquired in May 2007, and therefore its results of operations and financial statements were included in Bancolombia's consolidated results beginning in the fiscal year 2007.

Bancolombia's audited consolidated financial statements for the year periods ended December 31, 2007 incorporate Banco Agrícola's operation for the twelve month period ended December 31, 2007. Therefore, any comparison made between 2008 and 2007 operation's results incorporates comparable numbers.

Bancolombia's audited consolidated financial statements for the year periods ended December 31, 2006, 2007 and 2008 are prepared following the accounting practices and the special regulations of the Superintendency of Finance, or, in the absence of such regulations, Colombian GAAP. Together, these requirements differ in certain significant respects from U.S. GAAP. Note 31 to the Bank's audited consolidated financial statements included in this Annual Report provides a description of the significant differences between Colombian GAAP and U.S. GAAP as they relate to the Bank's audited consolidated financial statements and provides a reconciliation of net income and shareholders equity for the years and dates indicated herein.

**Summary**

The year ended December 31, 2008 was a very positive year for Bancolombia in terms of corporate projects, the consolidated and individual results of the Subsidiaries sales performance and innovations introduced in our distribution channels, products and services, this with a view to providing greater financial inclusion in extending banking services to all segments of the population. All this combined with all-encompassing measures to ensure greater transactional security, receiving important recognition, espousing international protocols aimed at the social and environmental sustainability of its business, has placed the bank in a leading position in all these initiatives.

The Bank produced a gratifying level of profits, in spite of the international crisis that impacted the markets during the second half of 2008. The results for the year 2008 were solid; however, 2009 will most likely be a challenging year with regard to maintaining the same levels of growth in terms of profits and loan portfolio. Despite the challenges that 2009 may pose, the Bank is firmly committed to maintaining its profitability and to fulfilling its obligations as a driver of economic development in the jurisdictions where it operates.

With regard to the Bank's projected expansion into other markets within the region, it expects to continue to deploy a strategy aimed at consolidating its regional position, but, as in the past, while maintaining its core objective of creating value. The current times, although full of M&A opportunities, require a great deal of caution so as to ensure that the Bank's businesses continue to run efficiently.

Today the Bank is present mainly in Colombia and El Salvador, handling its businesses so as to satisfy the credit needs of these countries. The Bank believes that its institution and the economies where it operates can withstand the current global economic difficulties. The Bank is committed to strive to achieve this end in order to continue driving the development of all those communities the Bank serves.

**IMPACT OF ECONOMIC, FISCAL AND MONETARY POLICIES AND POLITICAL FACTORS IN BANCOLOMBIA'S RESULTS**

Bancolombia's operations are usually affected by external factors such as: economic growth, interest rates, domestic price levels, exchange rate behaviors, fiscal policy performance, foreign trade activity and competition with other financial institutions. The following discussion summarizes in a brief manner the recent behavior of such variables.

**Table of Contents*****Colombia's economic growth and the dynamics of the financial sector***

In 2006, the Colombian economy expanded, recording a growth of 6.8% as compared to 2005. Likewise, the dynamic growth trend continued during 2007, as the economy expanded at a rate of 7.5%. Recent years of expansion strengthened the structure of the Colombian economy driven by increasing level of gross capital investment (accounting for as much as 26% of the GDP in 2007), rising exports and increased consumption.

The expansion of GDP lowered its pace of growth during 2008 as Colombia's economy recorded an annual GDP growth rate of 2.5%. Although this decline was due largely to the adjustments made by the monetary authorities to ensure the stability of long-term growth, it also responded to the effects of the global economic downturn. Consequently, the Central Bank switched to expansionist monetary policy in December 2008 by cutting its intervention rate, and helped by decreasing inflationary pressures. However, despite the fall in the rate of economic growth, the level of gross capital increased during period accounting for 27.3% of GDP.

***Domestic price levels and interest rates***

As a result of higher economic activity during 2006 and 2007, and of a series of temporary supply shocks during recent years which impacted food prices, inflation rose above levels that were compatible with the obligations and purposes of the Central Bank. During the first half of 2008, inflation pressures in Colombia intensified as a consequence of temporary supply shocks caused by climate effects which increased food prices, augmenting the risk of a more permanent distortion in price expectations. In addition, increased energy and regulated prices kept the Colombian Consumer Price Index above the Central Bank's inflation target. Therefore, in order to bring down inflation to levels consistent with stable economic growth, the Central Bank continued its restrictive monetary policy by further increasing its intervention rate. As of the end of July 2008, the Central Bank's overnight lending rate reached 10%, 400 basis points above the level presented in April 2006, while reserve requirements and restrictions on foreign indebtedness were maintained for most of 2008. However, the Colombian inflation target for 2008 was not met for the second consecutive year, as inflation was 7.67% in 2008, higher than the 5.69% recorded in 2007.

Nonetheless, the inflation outlook is expected to improve for 2009 as inflation expectations seem to be anchored, demand pressures have retracted and commodities prices have recently decreased. As a result, the risk that the inflation target will not be met, which was raised to 4.5%-5.5% from 3.5%-4.5%, is low. If the inflation target is indeed reached, increased economic activity may be expected due to higher disposable income. In the case of El Salvador, higher commodity prices and a devaluated U.S. dollar significantly impacted prices of imported goods and the disposable income of Salvadorians in the first half of 2008. As commodity prices changed their trend in the second half of the year, most of these pressures reverted causing a significant drop in inflation.

The DTF, reached a historic high of 10.33% at the end of 2008. A double digit DTF rate had not been recorded since April 2002. During 2007, DTF was on average 8.01%, while for 2008 it was on average 9.67%. In 2009, the DTF is expected to decrease due to the change in the monetary policy stance. The trend in DTF could impact Bancolombia's financial results as it could negatively affect its net interest margins given that the Bank has more assets than liabilities linked to this index.

***Foreign trade***

Although we cannot as yet be certain of the specific effects of the current global economic environment, the instability of the worldwide financial markets is affecting the performance of the Latin American economies, and will probably continue to do so for the following months. Specifically, Latin American capital markets have been affected by the global financial crisis. However, the Bank believes that the banking and industrial sectors appear to be strong enough to absorb the effects of the worldwide instability, without being affected to the same extent as developed economies. Since March 2008, Latin American currencies devaluated within a range of 20% to 40%. The Colombian peso devaluated 11% in 2008 as compared to the exchange rate by the end of 2007. However, the Bank's exposure to currencies movement tends to remain low as Bancolombia hedged a considerable amount of the exposure during 2008.



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In 2008, Colombian exports grew at a rate of 25.5% and imports at a rate of 20.6%. The Colombian trade balance reported a surplus of U.S. dollars 470.49 million, slightly lower than most reported estimates that expected a surplus above the U.S. dollars 1 billion, due to the windfall of commodities prices in the first part of the year. Growth in consumption imports decreased from 28.4% in 2007 to 11.5% by the end of 2008. Colombian exports to the U.S. increased by 35.5%, exports to the Andean Community increased by 44%, exports to Mexico increased by 24.5%, and export growth to Venezuela decreased from 92.8% in 2007 to 16.9% in 2008. These performances of Colombian trade were driven by a general increase in exports of commodities (40.8%) and an increase of 11.7% in nontraditional exports.

According to the Central Bank, the current account deficit was 2.8% of the Colombian GDP in 2008, less than the 3.4% presented in 2007. This is still higher than the 2.2% of GDP current account deficit registered in 2006. The free trade agreements with Chile, the European Union, El Salvador, Guatemala and Honduras may translate into further opportunities to increase Colombian exports. However, it is important to note that the free trade agreements with El Salvador, Guatemala and Honduras have been signed but remain subject to ratification by the Colombian congress, while the free trade agreement with the European Union is still being negotiated.

***Fiscal policy***

In spite of the fact that over the last years both the Colombian government's deficit and levels of public debt as a proportion of GDP had effectively dropped, financing the national budget continues to be a macroeconomic risk factor.

In 2005, there was no deficit for the consolidated public sector, while for 2006 the deficit was 0.7% of GDP, for 2007 the deficit reached 0.6%, and the deficit for 2008 was 0.1% of GDP. The Colombian government implemented a policy aimed at substituting its foreign debt with domestic debt in order to reduce the exchange rate risk and take advantage of the Colombian peso appreciation that occurred in recent years. Bancolombia is one of the leading brokers of public debt in Colombia, but nevertheless has reduced its portfolio of public debt holdings.

From the income side, tax collection in Colombia experienced a significant increase as measured against GDP. In previous years income growth from taxes was highly related to economic growth and to improved efficiency in the collection of taxes. However, from an expense side, transfers to departments and municipalities, as well as and debt service accounts reached almost 18% of GDP and therefore fiscal accounts were more difficult to improve.

The Colombian central government achieved a primary surplus of 0.8% of GDP in 2008, the same as 2007, recording a surplus for the third consecutive year. Conversely, there is an expectation of a primary deficit of 1% of GDP for 2009. The Colombian central government's deficit is expected to reach 4.2% of GDP, higher than the 2.5% and 3.0% deficit of 2008 and 2007 respectively. The consolidated public sector is expected to register a stronger deterioration with a 2.7% deficit in 2009 and after a negligible deficit in 2008 of 0.1%.

Nonetheless, it is important to note that Bancolombia and some of its subsidiaries benefit from the tax stability regime until December 31, 2010 which protects the Bank from any potential increase in national taxes.

***Economic Outlook for 2009***

With regard to the Colombian economy going forward, the Bank believes that foreign financing(credit and direct foreign investment)could decline in the short term as a result of the uncertainty prevailing worldwide, exercising pressure that would be difficult to alleviate in the current account deficit. The Bank expects that, as a result of the declining economic activity in both the United States and Europe, remittances on the part of Colombian and Salvadorian residents abroad are likely to decrease.

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The Bank believes that, in the specific case of the Colombian financial system, although credit risk levels could rise, and growth in assets could decline, the system seems prepared to weather these challenging times. Specifically, the system's average capital adequacy – the ratio of technical capital to risk-weighted assets, which is almost 14%, the levels of reserves recorded against past-due loans, the absence of toxic assets on the balance sheets of Colombian banks, and the considerable diversification of credit risk, are all factors that evidence the Colombian financial system's strong fundamentals in the face of the upcoming challenges forecast for the immediate future.

Future prospects for the Colombian financial sector in general, and for Bancolombia in particular, shall depend on the factors listed below:

<i><b>Favorable factors for the Colombian economy - mid-term</b></i>	<i><b>Unfavorable factors for the Colombian economy - mid-term</b></i>
Benefits derived from past monetary policies aimed at achieving sustainable growth.	Commodity dependent export activity.
Counter-cyclical policies under a stressed environment that are viable thanks to low currency mismatches and upgraded standards aimed at preventing credit risk exposure.	High exposure to fluctuations in external demand from the U.S., Venezuela and Ecuador.
Stronger local capital markets, with little exposure to toxic assets and with low currency mismatches.	Further deterioration of the global economy and the potential protectionist policies.
A well capitalized banking system.	Possible escalation in activities of guerilla and drug cartels that may hurt investor confidence.
Well-developed supervision and regulation of the financial system.	High public financial needs coupled with a less dynamic economy and less tax revenues, that may hurt investor confidence.
Low levels of mortgage loans (as a percentage of GDP and compared to past years) which makes evident that Colombia does not have the mortgage related problems that have affected countries such as the United States.	Exchange rate uncertainties that could expose the economy to highly volatile markets or build inflation pressures.
Decreased credit to households during 2008 and a well provisioned banking system in the midst of a deteriorating labor market.	Credit market restrictions in more advanced economies that could negatively impact foreign direct investment availability.
Decreased inflation outlook Adequate international reserves to short term debt.	Inefficient budget execution from regional governments that could delay local infrastructure projects, which are a key factor for improving competitiveness and sustaining the labor market.
Limited exposure of corporations to speculation through derivatives.	Decrease in Colombian and Salvadorian remittances due the fast growth unemployment rates mainly in the U.S. and Spain.

**Table of Contents****GENERAL DISCUSSION OF THE CHANGES IN RESULTS****Summary**

Bancolombia delivered strong results in 2008 as it reported a net income of Ps 1,290.6 billion for the year (Ps 1,638.23 per share and US\$ 2.92 per ADR), increasing 18.7% compared to 2007 figures. During 2008, the Bank experienced an expansion in its business areas driven by loan growth of 18.4% over the year while maintaining a strong balance sheet in terms of coverage for loan losses, solid liquidity and capital position, as well as profitable operations with an average return on equity of 23.7% in 2008.

Net income for the year ended December 31, 2007 totaled Ps 1,086.9 billion, increasing 45.0% as compared to Ps 749.5 billion for the year ended December 31, 2006 of which 12.6% is related to the acquisition of Banagrícola.

During 2008, allowances for loan losses increased to Ps 2,134.4 billion (4.8% of gross loans and financial leases), maintaining the level of coverage, measured by the ratio of allowances to past due loans, close to 135%. The delinquencies ratio (loans overdue more than 30 days) increased slightly to 3.6% by the end of the quarter ended December 31, 2008 from 3.5% the previous quarter.

Bancolombia's ratio of past due loans to total loans as of December 31, 2007 was 2.9%, and the ratio of allowances to past due loans was 134.9%, compared with 2.3% and 148.6%, respectively, for 2006.

Driven by the operating results of the Bank in 2008, shareholders' equity totaled Ps 6,117 billion by December 31, 2008, increasing 17.6% as compared to the figure as of December 31, 2007, while the Bank's consolidated ratio of technical capital to risk-weighted assets was 11.24%.

Bancolombia continued experiencing a favorable evolution of deposit growth, strengthening its solid liquidity position. As of December 31, 2008, Bancolombia's deposits reached Ps 40,384 billion, increasing 17.5% as compared to the deposits at the end of 2007, while the ratio of net loans to deposits (including borrowings from development banks) was 96% by the end of 2008, stable as compared to the 96% ratio by the end of 2007.

Net interest income for the year 2008 totaled Ps 3,560.4 billion, increasing 26.8% as compared to the same figure for 2007, driven by the 18.4% loan growth and wider spreads during that period. Net interest margin increased from 6.8% in 2007 to 7.4% in 2008.

For the year ended December 31, 2007, net interest income amounted to Ps 2,808.3 billion, increasing 58.9% as compared to the net interest income recorded in the year ended December 31, 2006 of which 19.5% is related to the acquisition of Banagrícola. The increase was also due to marginal loan portfolio growth, higher interest rates and a better performance of the investment portfolio.

Bancolombia's efficiency ratio, measured as the ratio between operating expenses and net operating income, reached 47.8% in 2008, improving in relation to the 53.0% ratio for 2007.

Efficiency, measured as the ratio between operating expenses and net operating income, reached 53.0% for the year ended December 31, 2007, which was lower than the 64.37% recorded for 2006.

**INCOME STATEMENT**

Net income for the year ended December 31, 2008 totaled Ps 1,290.6 billion, increasing 18.7% as compared to the year ended December 31, 2007. Return on average equity for the year ended December 31, 2008 was 23.7%, decreasing slightly from the 24.4% recorded for the same period in 2007. The performance of the Bank was primarily driven by solid revenue generation and an expanding lending business and was underpinned by its strong franchises. At the same time, the Bank's performance was challenged by a less favorable credit and overall economic environment which impacted credit cost as a result of higher provision charges during the period.

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Net income for the year ended December 31, 2007 totaled Ps 1,086.9 billion, increasing 45.0% as compared to Ps 749.5 billion for the year ended December 31, 2006 of which 12.6% is related to the acquisition of Banagr cola.

***Net Interest Income***

During 2008, interest on loans reached Ps 4,999.5 billion, increasing 34.8% as compared to the Ps 3,707.8 billion recorded in 2007, while interest on financial leases reached Ps 776.4 billion increasing 36.0% as compared to 2007. Interest on investment securities increased 3.6% to Ps 431.6 billion when compared to the figure for 2007. Overall, total interest income reached Ps 6,313.7 billion, increasing 31.2% as compared to 2007. The Interest received from earning assets increased Ps 1,502.5 billion between December 31, 2007, and December 31, 2008, driven primarily by an increase in the average loans during the period (higher volume). Of the Ps 1,502 billion increase in interest received, Ps 1,237 billion corresponded to the increase in volume, and Ps. 265.8 billion corresponded to the increase in interest rates.

Interest on loans amounted to Ps 3,707.8 billion for the year ended December 31, 2007, increasing 60.3% compared to Ps 2,312.5 billion for the year ended December 31, 2006 of which 21.7% is related to the acquisition of Banagr cola. In addition to the impact of the consolidation of Banagr cola's results, the variation in interest on loans is due primarily to the increase in the net loan portfolio. The impact of higher interest rates also contributed to the variation, as Bancolombia captures their effect through its short term interest rate loan portfolio indexing. Despite a lower portfolio investment average, interest on investment securities reached Ps 416.6 billion in 2007, increasing 52.5% as compared to 2006, of which 21.9% is related to the acquisition of Banagr cola, reflecting a more stable year for interest on investment securities as compared to 2006. In 2006, the prices of Colombian public bonds decreased significantly, adversely affecting the mark to market valuation of those securities and the Bank's interest on investments.

On the other hand, interest expenses reached Ps 2,753.3 billion in 2008, up 37.5% compared to the figure for 2007, driven by higher interest paid for deposits and Bonds which grew 43.23% and 66.3% respectively. Interest paid on liabilities increased Ps 751.2 billion during the same period, driven mainly by an increase in the volume of such liabilities, particularly peso denominated time deposits. Of the Ps 751.2 billion increase in interest expense, Ps 659.5 billion correspond to an increase in volume and Ps 92.0 billion correspond to an increase in interest rates.

Interest expense as of December 31, 2007 totaled Ps 2,002.1 billion, representing an increase of 60.7% as compared to Ps 1,246.2 billion in 2006 of which 19.2% is related to the acquisition of Banagr cola. In 2007, the volume of interest-bearing liabilities increased 56.5%, partially contributing to this interest expenses variation, which combined with higher interest rates in Colombia in 2007, affected the interest expense for the period.

In 2007, interest paid out on savings accounts and time deposits experienced an increase of 74.5% and 77.7%, respectively, as compared to 2006 of which 3.8% and 30.3% respectively, are related to the acquisition of Banagr cola. Such increase was mainly as a result of higher interest rates combined with an increasing volume of deposits. On a consolidated basis, the average nominal interest rate paid on savings accounts increased from 3.2% in 2006 to 4.0% in 2007, and the rate paid for time deposits increased from 6.5% in 2006 to 7.5% in 2007. The average total interest paid for interest-bearing liabilities rate increased from 5.3% in 2006 to 6.2% in 2007.

Net interest income for the year 2008 totaled Ps 3,560.4 billion, increasing 26.8% as compared to the same figure for 2007, driven by the 18.4% loan growth and higher margins during the period. Net interest margin increased from 6.8% in 2007 to 7.4% in 2008 due to higher interest spreads in the loan portfolio and a steady income from investment securities despite more volatile bond market conditions.

For the year ended December 31, 2007, net interest income increased 58.9% as compared to the same figure for the year 2006 of which 19.5% is related to the acquisition of Banagr cola. The increase is driven by a higher average loan portfolio for the year, higher interest rates and a better performance of the investment portfolio. As of December 31, 2007, the net interest margin was 7.6%. This number represents an increase when compared to the 6.2% recorded for the year ended as of December 31, 2006.

**Table of Contents*****Fees and Income from Services***

For the year ended December 31, 2008, net fees and income from services totaled Ps 1,313.6 billion, increasing 13.3% as compared to the same period of 2007. Fee revenue performance was driven by credit and debit card fees, which totaled Ps 446.6 billion for the year ended December 31, 2008, increasing 52.1% as compared to the same period last year, fees related to fiduciary activities that totaled Ps 98.8 billion in 2008, increasing 42.8% as compared to 2007 (driven by increasing assets under management), and fees related to collection and payment service which totaled Ps 157.3 billion in 2008, increasing 20.6% as compared to the same period last year. Net fees and income from services performance was impacted by lower credit card merchant fees which totaled Ps 32.2 billion for the year ended December 31, 2008, decreasing 17.8% as compared to the same period last year, and by fees and other services expenses which totaled Ps 134.9 billion in the year ended December 31, 2008, increasing 15.9% as compared to 2007. Net fees and income from services, net, amounted to Ps 1,170 billion during 2007, increasing 34.8% as compared to Ps 868 billion for 2006 of which 24.2% is related to the acquisition of Banagrícola. Fees and other service income increased 37.0% totaling Ps 1,286,202 million in 2007 as compared to Ps 938,527 million in 2006.

This increase was due to the better performance of commissions from banking services and other services, which increased 99.9% during the year 2007, of which 37.8% is related to the acquisition of Banagrícola, the increase of collections and payment fees in 70.6% and an increase of credit and debit card fees of 8.4%. On the other hand, net fees and income from services were affected negatively by the sale in late 2006 of Almacénar S.A., a former subsidiary. Following such sale, the Bank did not have any income from warehouse services in 2007, while such services represented 6.2% of the total fees and other service income for 2006.

***Other Operating Income***

Total other operating income totaled Ps 650.4 billion in 2008, increasing 85.5% compared to the Ps 350.6 billion for 2007.

This result was positively impacted by sales of equity securities, as the Bank recorded gains on sales of investment securities of Ps 92.1 billion driven by the sale of interest in Multienlace S.A., and negatively impacted by rule changes in the rules concerning valuation methodologies for derivative instruments issued by the Superintendency of Finance in 2008.

During 2008, Bancolombia sold 100% of its interest in Multienlace S.A, a company that provides business process outsourcing and call center services to corporate clients.

In 2008, net foreign exchange gains reached Ps 113.6 billion driven by the peso depreciation that took place over the year as this line item aggregates net gains (or losses) of the peso conversion of U.S. dollar denominated assets and liabilities, trading gains, and foreign currency sales profits. Bancolombia usually hedges its currency exposure by establishing an opposite position in its derivative portfolio in order to minimize its exposure to drastic movements in exchange rates. Accordingly, exchange rate movements tend to have an opposite effect on the line item for derivative financial instruments compared to the effect produced on the line item for net foreign exchange gains.

During 2008, the Superintendency of Finance issued external circulars number 025, 030, 044 and 063 (the 2008 External Circulars ) establishing new guidelines for the valuation of derivatives and structured products. Bancolombia adopted a new methodology to value its portfolio of derivatives and structured products, in accordance with the 2008 External Circulars. As a result of this change, Bancolombia's balance sheet and financial results were impacted by a reduction in the carrying value of derivatives totaling Ps 145 billion in the 2008 fiscal year, resulting in a reduction in income of Ps 145 billion in the year 2008. Nevertheless, income from derivative financial instruments amounted to Ps 142.4 billion for the year ended December 31, 2008, a stable outcome as compared to Ps 141.9 billion of income presented in this line item for 2007.

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Total other operating income amounted to Ps 350.6 billion for the year ended December 31, 2007, increasing 29.2% as compared to Ps 271.4 billion for the year ended December 31, 2006 of which 2.2% is related to the acquisition of Banagrícola. In 2007, other operating income was driven by foreign currency forward contracts which had a dynamic year, especially in the Colombian Peso exchange market in which Bancolombia is a leader given its broad customer base and its contract size capacity. On the other hand, revenues from commercial subsidiaries increased, due to the consolidation of Sutechnologia S.A., a company in which Leasing Bancolombia previously had a minor stake and the organic growth at the rest of the Bank's commercial subsidiaries.

***Provisions Charges***

During 2008, Bancolombia adjusted the parameters of the provisioning models used for the calculation of provision charges in Bancolombia (unconsolidated), Sufinanciamiento, and Leasing Bancolombia. The new parameters are stricter than the minimum parameters defined by the Colombian regulators and are aimed at increasing coverage.

As a result, total net provisions charges for the year 2008 amounted to Ps 1,133.2 billion, increasing 89.8% as compared to 2007. The higher level of provision charges during the year were driven by the deterioration in asset quality as shown by increase in past due loans derived from lower economic activity and higher interest rates in the economy. Delinquencies ratio (loans overdue more than 30 days) reached 3.64% by the end 2008, up from the 2.93% ratio recorded by the end of 2007. At the same time, charge-offs of bad loans totaled Ps 547.9 billion during 2008, increasing from the Ps 186.3 billion presented in the year 2007.

These adjustments enabled the Bank to maintain the level of coverage, measured as the ratio of allowances for loans and financial leases losses accrued interest losses to past due loans, close to 135% by the end of 2008, showing the strength of Bancolombia's balance sheet. Allowances for loans and financial leases losses increased to Ps 2,134.4 billion during 2008 (4.8% of gross loans and financial leases), increasing 46.5% compared to the figure presented by the end of 2007. The higher provision charges also reflect the increase in the size of the loan portfolio during the year 2008 as loans increased 18.4% during the period.

Recovery of charged-off loans reached 108.1 billion during 2008, increasing 20.2% as compared to the figure for 2007.

Overall, the Bank faced higher credit cost during the year although some of it is due to a conservative effort to maintain the level of reserves. Given the current challenges of the general economic environment, the Bank expects credit cost to remain high during 2009.

The risk policies implemented by the Bank assisted in preserving the integrity of its balance sheet, although the Bank was impacted by the effects of monetary contraction, the increase in interest rates and the slowdown of the overall economy.

Likewise, its risk policies assisted in protecting the Bank from various unlawful deposit schemes that occurred in Colombia during 2008, which reduced savings capacity of consumers in certain regions of the country, and affecting the payment ability of some of the Bank's clients, whose small businesses were consequently affected. Bancolombia's loan portfolio was not significantly affected by these events.

Net provisions for the year ended December 31, 2007 amounted to Ps 597 billion, increasing 297.5% as compared to Ps 150 billion for the year ended December 31, 2006 of which 82.9% is related to the acquisition of Banagrícola. The variation is due to higher interest rates in Colombia and the corresponding direct effect on past due loans, a higher participation of the retail and SME in the loan portfolio and the impact of adjustments made last year. During 2007, Bancolombia made adjustments to fulfill the current requirements of the Superintendency of Finance regarding provision charges, including the application in the third quarter of 2007 of a new reference model for the calculation of provisions for commercial loans, which resulted in an increase in provision charges. The adjustment includes the following: the partial adjustment of Banagrícola's allowances to Colombia's regulatory framework, causing additional non-recurrent provisions, the application of a new methodology when calculating provisions for commercial loans based on a reference model developed by the Superintendency of Finance and the changes to the applicable allowance percentage formula for consumer loans, which increased these percentages for the loans classified as A and B.



**Table of Contents****Operating expenses**

For the year ended December 31, 2008, total operating expenses amounted to Ps 2,640 billion, increasing 16.2% as compared to the year ended December 31, 2007. The increase in operating expenses was driven by administrative and other expenses that totaled Ps 1,269.0 billion for 2008, increasing 18.5% as compared to the same period last year. Personnel expenses (the sum of salaries and employee benefits, bonus plan payment and compensation) totaled Ps 1,077.9 billion for the year 2008, increasing 14.3% as compared to 2007. Personnel expenses were primarily driven by bonus plan payments which are part of Bancolombia's variable compensation program.

For the year ended December 31, 2008, efficiency, measured as the ratio of operating expenses to net operating income, improved for the second consecutive year falling to 47.8% in 2008, from 53.0% in 2007.

Total operating expenses for the year ended December 31, 2007 amounted to Ps 2,271.7 billion, increasing 21.4% as compared to the Ps 1,871.0 billion for the year ended December 31, 2006 of which 16.9% is related to the acquisition of Banagrícola. This performance is explained mainly by a lower rate of increase in administrative expenses during 2007 due to the implementation of cost control program. In addition, and, to a lesser extent the sale of Almacénar S.A. positively affected this line item as its expenses were no longer consolidated in 2007, due to the sale of this company. In contrast, Personnel expenses (the sum of salaries and employee benefits, bonus plan payment and compensation) recorded in 2007 increased 28.6% as compared to 2006, of which 14.3% is related to the acquisition of Banagrícola. This increase is mainly explained by higher payouts under the bonus plan and variable compensation due to the Bank's improved 2007 results. For further information on the bonus plan see Item 6.B Compensation of Directors and Officers. Administrative and other expenses increased 21.4% compared to the same period of 2006, of which 14.4% is related to the acquisition of Banagrícola. A lower rate of increase for administrative and other expenses compared to the 11.2% increase in the previous year, is the result of a stricter policy concerning expenses implemented in 2007. The Bank's ratio of operating expenses to net operating income improved for the year 2007 reaching 53.0%, a lower ratio than the 64.4% from 2006. The Bank's operating expenses as a percentage of its average total assets, was 5.3% for the year 2007, a decline as compared to the 5.8% for the year 2006.

The following table summarizes the principal components of Bancolombia's operating expenses for the last three fiscal years:

	<i>Year ended December 31,</i>		
	<i>2006</i>	<i>2007<sup>(1)</sup></i>	<i>2008</i>
	<i>(Ps million)</i>		
<b>Operating expenses:</b>			
Salaries and employee benefits	Ps 690,117	Ps 835,150	Ps 928,997
Bonus plan payments	35,771	84,226	125,393
Compensation	6,375	23,463	23,539
Administrative and other expenses	882,182	1,070,845	1,268,982
Deposit security, net	67,813	49,113	52,151
Donation expenses	22,596	15,375	26,653
Depreciation	104,553	122,835	141,133
Merger expenses	35,779		
Goodwill amortization	25,814	70,411	73,149
<b>Total operating expenses</b>	<b>Ps 1,871,000</b>	<b>Ps 2,271,418</b>	<b>Ps 2,639,997</b>

(1) The operating expenses for the year ended 2007



were modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

**Table of Contents****Merger Expenses and Goodwill Amortization**

For the year ended December 31, 2008, goodwill amortization amounted to Ps 73.1 billion, increasing 3.9% as compared to the Ps 70.4 billion presented for the year 2007. For the year ended December 31, 2006, goodwill amortization amounted to Ps 25.8 billion. The higher level of goodwill amortization presented in the periods 2008 and 2007 in comparison with the level in 2006 is explained by the effect of the acquisition of Banagrícola in 2007 and its effect on the amount of goodwill. During 2008, Bancolombia completed the amortization of goodwill recorded in connection with the acquisition of Banco de Colombia S.A. occurred in the year 1998. As of December 31, 2008, outstanding goodwill totaled Ps 1,008.6 billion, which represents 1.8% of the Bank's total assets and primarily comprises the goodwill related to the acquisition of Banagrícola which will be amortized over 20 years beginning in May 2007.

**Non-Operating Income (Expenses)**

Non-operating income (expenses) includes gains/losses from the sale of foreclosed assets, property, plant and equipment and other assets and income (expense) from minority interests.

Net non-operating income at December 31, 2008 totaled Ps 13.4 billion, increasing as compared to net non-operating income of Ps -1.2 billion in 2007, but decreasing as compared to net non-operating income of Ps 38.9 billion in 2006.

The following table summarizes the components of Bancolombia's non-operating income and expenses for the last three fiscal years:

	<i>Year ended December 31,</i>		
	<i>2006</i>	<i>2007<sup>(3)</sup></i>	<i>2008</i>
	<i>(Ps million)</i>		
<b>Non-operating income (expenses), net:</b>			
Other income <sup>(1)</sup>	Ps 194,589	Ps 93,294	Ps 172,550
Minority interest	(6,352)	(13,246)	(18,511)
Other expenses <sup>(2)</sup>	(149,243)	(81,236)	(140,662)
<b>Total non-operating income (expenses), net</b>	<b>Ps 38,994</b>	<b>Ps (1,188)</b>	<b>Ps 13,377</b>

(1) For 2008 and 2007, includes gains on sale of foreclosed assets, property, plant and equipment and other assets, securitization residual benefit, insurance contracts sale and rent. For 2006, includes recovery of deferred tax liability of Ps 98,788 million recorded in 2005

by the Bank.

- (2) Other expenses include operational losses and losses from the sale of foreclosed assets, property, plant and equipment and payments for fines, sanctions, lawsuits and indemnities.
  
- (3) The non-operating income (expenses), net for the year ended 2007 was modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications

would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

***Income Tax Expenses***

Income tax expense for the fiscal year 2008 amounted to Ps 474.1 billion, representing an increase of 31.0% as compared to the Ps 361.9 billion for fiscal year 2007. In fiscal year 2006, such income tax expense amounted to Ps 174.9 billion. Income tax for 2008, as were the cases in 2007 and in 2006, was calculated based on net taxable income.

Law 788 of 2002 established a surcharge tax that increased the income tax rate for corporations from 35% to 38.5% until December 31, 2006. This surcharge tax, however, did not apply to those corporations that had been accepted in the stability regime established by the Colombian law. Bancolombia (unconsolidated), Leasing Bancolombia, Fiduciaria Bancolombia and Banca de Inversión entered into a contract with the Government of Colombia in order to be subject to the tax stability regime for ten years beginning on January 2001. Law 1111 of 2006 established a new income tax rate in Colombia of 34% for the year 2007 and 33% for the year 2008 and beyond.

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However, pursuant to the tax stability regime, Bancolombia (unconsolidated), Leasing Bancolombia, Fiduciaria Bancolombia and Banca de Inversión agreed to be taxed 2 percentage points above the current applicable income tax rate in Colombia. Consequently, Bancolombia (unconsolidated), Leasing Bancolombia, Fiduciaria Bancolombia and Banca de Inversión were taxed at a total income tax rate of 37% for the fiscal year 2006, 36% for the fiscal year 2007, and 35% for the year 2008 and beyond, in exchange for exemption from increases in the income tax rate and from any other new taxes until December 31, 2010 (December 31, 2009 in the case of Fiduciaria Bancolombia).

**RESULTS BY SEGMENT**

The Bank manages its business through six main operating segments: Retail and Small Business Banking, Corporate and Governmental Banking, Treasury, Offshore Commercial Banking, Leasing, and All Other Segments. For a full description of the Bank's operating segments please see Item 4. History and Development of the Company B. Business Overview B.3 Bancolombia's Business .

The following discussion should be read in conjunction with Bancolombia's segment disclosure presented in the notes to the audited consolidated financial statements, see Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP Summary of Significant differences and required U.S. GAAP disclosures x). Segments Disclosure for the year period ended December 31, 2006, 2007 and 2008.

***Retail and Small Business Banking:***

Net income after eliminations of intersegment profit for the Retail and Small Business Banking segment totaled Ps 392.6 billion for the year ended December 31 2008, representing 30.4% of Bancolombia's total net income and increasing 20.7% compared to the Ps 325.3 billion reported for the year ended December 31, 2007.

Operating income for the Retail and Small Business Banking segment after eliminations (which includes revenues from external customers, net interest revenue, and the distribution of treasury funds) reached Ps 2,900.7 billion during 2008, increasing 30.8% as compared to the figures for 2007. This increase was driven mainly by net interest revenue of Ps 2,127.8 billion during the period and also by revenues from external customers, which amounted to Ps 913.3 billion. This change is explained primarily by the growth of the segment's loan portfolio, combined with higher spreads.

The year 2008 was characterized by high credit cost for the segment as provisions for loans losses increased from Ps 421.6 billion in 2007 to Ps 802.2 billion in 2008 (an increase of 90.3%) driven by higher delinquency rates as a result of lower economic activity.

Expenses (which are composed of administrative and other expenses, and depreciation and amortization expense) reached Ps 1,647.2 billion in 2008, increasing 17.3% as compared to the figures for 2007, driven primarily by administrative and other expenses which amounted to Ps 1,595.3 billion during the period.

Net income after eliminations of intersegment profit for the Retail and Small Business Banking segment totaled Ps 325.3 billion for the year ended December 31 2007, representing 29.9% of Bancolombia's total net income for that year and decreasing 4.2% compared to the Ps 339.6 billion reported for the year ended December 31, 2006.

***Corporate and Governmental Banking:***

Net income after eliminations of intersegment profit for the Corporate and Governmental Banking segment totaled Ps 308.0 billion in the year ended December 31, 2008, representing 23.9% of the Bank's total net income and increasing 0.1% compared to the Ps 307.6 billion reported for the year ended December 31, 2007.

Operating income after eliminations reached Ps 1,143.6 billion during 2008, increasing 23.4% as compared to 2007. This increase was mainly driven by higher net interest revenue of Ps 1,165.0 billion during the period, and higher revenues from external customers of Ps 206.5 billion.

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The Corporate and Governmental Banking segment presented high credit cost in 2008. Provisions for loans losses reached Ps 330.1 billion during the year, increasing 75.8% as compared to 2007 driven by increasing past due loans. Additionally, expenses totaled Ps 414.0 billion in 2008, increasing 16.4% compared to 2007. This increase in expenses is explained primarily by administrative expenses totaling Ps 370.4 billion for the year 2008, which were up 18.0% compared to 2007.

Net income after eliminations of intersegment profit for the Corporate and Governmental Banking segment totaled Ps 307.6 billion for the year ended December 31 2007, representing 28.3% of Bancolombia's total net income for that year and increasing 30.5 % compared to the Ps 235.7 billion reported for the year ended December 31, 2006.

***Treasury:***

Net income after eliminations of intersegment profit for the Treasury segment totaled Ps 231.3 billion in the year ended December 31, 2008, representing 17.9% of the Bank's total net income and decreasing 0.5% compared to the Ps 232.4 billion reported for the year ended December 31, 2007.

Operating income reached Ps 370.7 billion in 2008, increasing 17.5% as compared to 2007, driven by distribution of treasury funds of Ps 532.6 billion, and revenues from external customers of Ps 14.2 billion, but offset by a negative net interest revenue of Ps 176.1 billion explained to a large extent by the negative impact caused by the rule changes concerning valuation methodologies for derivative instruments.

Recoveries of provisions for credit losses reached Ps 11.3 billion during 2008. On the other hand, expenses totaled Ps 75.9 billion during the year, increasing 67.7% compared to 2007, driven primarily by administrative and other expenses which amounted to 67.3 in 2008.

Net income after eliminations of intersegment profit for the Treasury segment totaled Ps 232.4 billion for the year ended December 31 2007, representing 21.4% of Bancolombia's total net income and increasing 498.5 % compared to the Ps 38.8 billion reported for the year ended December 31, 2006. This increase is mainly explained by the relatively stable income generated by the debt securities portfolio in 2007 after the poor performance of bond prices in 2006.

***Offshore Commercial Banking:***

The Offshore Commercial Banking segment recorded a net loss after eliminations of intersegment profits of Ps 14.9 billion for the year ended December 31, 2008, decreasing as compared to the Ps 72.3 billion net income reported for the year ended December 31, 2007.

Operating income after eliminations totaled Ps 51.1 billion during 2008, decreasing 51.4% as compared to the figures for 2007. This decrease is explained by a significant fall in net interest revenue which totaled Ps 45.8 billion, a decrease of 50.9% compared to 2007. During 2008, Bancolombia Panamá's results (a significant portion of this segment) were affected by higher interest expenses that produced lower margins, and by lower revenue from dividends as Banco Agrícola did not pay dividends during 2008. The performance of Bancolombia Panamá included in this segment refers only to the results reported by Bancolombia Panamá's offshore commercial banking activities and does not consolidate the results of Banagrícola.

Provisions for loan losses totaled Ps 16.0 billion during 2008, decreasing 17.0% compared to 2007. Additionally, expenses totaled Ps 69.4 billion in 2008, increasing 119.7% compared to 2007. This increase is explained primarily by depreciation and amortization expenses totaling Ps 57.4 billion for the year 2008 of which Ps 43.3 billion (U.S. 22 million) are related to the amortization of the goodwill generated in connection with the acquisition of Banagrícola. Net income after eliminations of intersegment profit for the Offshore Commercial Banking segment totaled Ps 72.3 billion for the year ended December 31 2007, representing 6.7% of Bancolombia's total net income for that year and decreasing 42.4 % compared to the Ps 125.6 billion reported for the year ended December 31, 2006.

**Table of Contents*****Leasing:***

This segment reflects the operations of Bancolombia's subsidiaries that offer financial and operational leases: Leasing Bancolombia, Renting Colombia., Renting Perú S.A., Tempo Rent a Car, Capital Investment Safi S.A, Suleasing International USA Inc., and Arrendadora Financiera S.A.

Net income after eliminations of intersegment profit for the Leasing segment totaled Ps 152.1 billion for the year ended December 31, 2008, representing 11.8% of Bancolombia's total net income and increasing 16.5% compared to the Ps 130.5 billion reported for the year ended December 31, 2007.

Operating income after eliminations totaled Ps 532.6 billion during 2008, increasing 68.6% as compared to 2007. This increase is mainly explained by revenues from external customers totaling Ps 245.7 billion driven by the increasing operating lease business, as well as by higher interest revenue totaling Ps 286.8 billion from the financial lease business.

Provisions for loan losses totaled Ps 143.2 billion during 2008, increasing 32.0% compared to the figure for 2007. Additionally, expenses totaled Ps 256.7 billion in 2008, increasing 151.3% compared to last year. This increase is explained primarily by administrative and other expenses totaling Ps 157.7 billion for the year 2008, and depreciation and amortization expenses which reached Ps 99.0 billion and which were impacted by the dynamic growth of the operating lease business.

Net income after eliminations of intersegment profit for the Leasing segment totaled Ps 130.5 billion for the year ended December 31 2007, representing 12.0% of Bancolombia's total net income and increasing 95.6 % compared to the Ps 66.7 billion reported for the year ended December 31, 2006.

***All Other Segments:***

This segment reflects the remaining operations of Bancolombia, including: Banca de Inversión, Valores Bancolombia, Fiduciaria Bancolombia, Banco Agrícola, Asesuisa, Asesuisa Vida, AFP Crecer S.A, FCP Colombia Inmobiliaria, Inversiones Financieras Banco Agrícola S.A., Bursabac S.A. de C.V., Inmobiliaria Bancol S.A., Valores Simesa S.A., Inversiones CFNS Ltda., Todo Uno Colombia S.A., Inversiones IVL S.A, Transportes Empresariales de Occidente Ltda., and Fiduciaria GBC S.A. The Bank's corporate headquarters are included in this segment as well. In addition, dividends received by the Bank are included in this segment.

Net income after eliminations of intersegment profit for this segment totaled Ps 221.4 billion for the year ended December 31, 2008, representing 17.2% of the Bank's total net income and increasing Ps 202.8 billion compared to the Ps 18.7 billion reported for the year ended December 31, 2007. This increase was driven by higher dividends received by the Bank, higher fees for asset management, trust services and investment banking, higher insurance premiums received by its insurance business in El Salvador, and lower expenses for contact center services (the expenses related to operating this business were no longer consolidated into this segment following the sale of Multienlace S.A. in 2008).

Net income after eliminations of intersegment profit for the All Other Segments segment totaled Ps 18.7 billion for the year ended December 31 2007, representing 1.7% of Bancolombia's total net income for that year and increasing 132.8 % compared to the Ps 56.9 billion loss reported for the year ended December 31, 2006. This increase is explained by the positive impact that the insurance and pension management businesses had on this segment after the acquisition of Banagrícola in 2007.

**Table of Contents****B. LIQUIDITY AND CAPITAL RESOURCES****B.1. LIQUIDITY AND FUNDING**

The policies regarding liquidity and funding are determined by the Bank's asset and liability committee (ALCO) in accordance with the Bank's desired balance sheet structure. Bancolombia uses a variety of funding sources to generate liquidity taking into consideration market conditions, interest rates, liquidity needs and the desired maturity profile of funding instruments. Consequently, policies are set to achieve an optimal match between assets and liabilities profile regarding maturities, interest rates and currency exposure.

One of Bancolombia's main strategies is to maintain a solid liquidity position, thus, ALCO has established a minimum amount of liquid assets, calculated in relative terms to the total assets, in order to guarantee the proper operation of banking activities such as lending and withdrawals of deposits, protect capital and take advantage of market opportunities. ALCO has delegated the short term liquidity assessment task to a smaller committee called the liquidity committee which revises strategies and policies in that respect.

During 2008, the Central Bank undertook several measures to support the proper functioning of Colombia's financial system. On October 24, 2008, ordinary reserve requirements were reduced and modified as follows (i) 11% for demand deposits (previously 11.5%); (ii) 4.5% for time deposits under 540 days (previously 6%). Subsequently, the Central Bank's overnight lending rate was reduced by 50 basis points in December 19, 2008 for the first time since April 2006. This decision was followed by additional reductions which have fixed the Central Bank's overnight lending rate at 4.50% compared to 10% recorded in December 2008. As a result of these measures, the Colombian financial system has been relatively liquid in recent months and interbank lending rates have tended to maintain historical spreads with the Central Bank overnight lending rate.

As of December 31, 2008, Bancolombia's liabilities reached Ps 55,666 billion, increasing 18.6% as compared to the end of 2007. Liabilities denominated in pesos, which represent 69.8% of total liabilities, increased 19.7% as compared to the end of 2007.

Bancolombia's principal sources of funding are short-term deposits, which are primarily composed of time deposits, checking accounts, and savings accounts. The Bank experienced, during 2008, a positive evolution of deposit growth which reached Ps 40,384 billion (65.4% of assets) by the end of the year, increasing 17.5% as compared to the end of 2007. Deposits denominated in pesos, which constituted 72.7% of the total deposits, increased 19.1% as compared to the end of 2007.

The following table sets forth checking accounts, time deposits and saving deposits as a percentage of Bancolombia's overall deposits for the years, 2006, 2007 and 2008:

	<i>2006</i>	<i>2007</i>	<i>2008</i>
Checking deposits	18.4%	15.6%	13.9%
Time deposits	25.3%	32.5%	35.4%
Saving deposits	34.4%	28.7%	26.6%

As a consequence of the Central Bank's restrictive monetary policy and the establishment of higher reserve requirements during 2007 and 2008, the Bank experienced changes in its deposits composition. In fact, time deposits reached 35.4% of total deposits by the end of 2008, increasing their share from 25.3% at the end of 2006.

The Bank also used borrowings from domestic development banks which amounted to Ps 3,871 billion at the end of 2008 and represented a good quality source of funding provided by governmental entities in order to promote lending activities within specific sectors of the Colombian economy. Due to the fact that this funding is fully matched with related loans in terms of maturity and interest rates, the Bank takes into account this line item of funding when calculating the loans to deposit ratio. As of December 31, 2008, the ratio of net loans to deposits (including loans from development banks) was 96%.



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Despite tighter general liquidity conditions for U.S. dollar denominated funds in 2008, Bancolombia continued to have access to sources of funding in U.S. dollars. In fact, U.S. dollar denominated loans from other banks increased 23.8% as compared to 2007.

In addition to the main sources of funding described above, the Bank uses:

Its debt securities portfolio as a source of short-term liquidity by engaging in repurchase agreements transactions, overnight-loan funds and Central Bank's funds.

The issuance of bonds on a regular basis to reduce the maturity mismatch between assets and liabilities, reducing the liquidity risk. During 2008, Bancolombia obtained funds from an issuance of ordinary notes with an aggregate principal amount of Ps 600 billion in a public offering in Colombia. As of December 31, 2008, the total outstanding aggregate principal amount of bonds issued by Bancolombia was Ps 3,643 billion. Additionally, on March 4, 2009, Bancolombia issued subordinated ordinary notes (with maturity of 10-15 years) with an aggregate principal amount of Ps 400 billion.

Overall, the Bank's funding structure did not change substantially in 2008. The Bank still relies on short term deposits as its major source of funds as it has done in the past. The Bank's strategy will continue to focus on maintaining a solid liquidity position, taking advantage of the stable deposits derived from a broad base of customers, ample geographical coverage, and diverse alternative funding sources, which has enabled Bancolombia to fulfill its contractual obligations.

Bancolombia's credit ratings by Moody's investors service improved recently. On May 2009, Moody's Investors Service (Moody's) upgraded from D to D+, Bancolombia S.A.'s financial strength rating (BFSR). The outlook on the BFSR was changed to stable, from positive.

Bancolombia's long-term and short-term local currency deposit ratings of Baa2 and Prime-3, as well as the long-term and short-term foreign currency deposit ratings of Ba2 and Not Prime were affirmed by Moody's. Bancolombia's foreign currency subordinated debt rating of Baa3 was also affirmed with a stable outlook by the rating firm.

On the other hand, Fitch Ratings affirmed on June 2009 Bancolombia's long- and short-term Issuer Default Ratings (IDRs) and outstanding debt ratings as follows: Long-term foreign currency IDR at BB+; Short-term foreign currency IDR at B; Long-term local currency IDR at BB+; Short-term local currency IDR at B; Individual at C/D; Support at Support Floor at BB-. At the same time the rating for Bancolombia's subordinated debt maturing May 2017 was affirmed at BB-. The Rating Outlook is Stable.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating.

Bancolombia's management believes that the current level of liquidity is adequate, and will seek to maintain its solid deposit base and the access to alternative sources of funding such as borrowings from domestic development banks, repurchase agreements, bond issuances, overnight funds, and Central Bank funds, in light of market conditions, interest rates, and the desired maturity profile of liabilities.

Bancolombia S.A. and its subsidiaries comply with the capital adequacy requirements in their respective country of operations. On a consolidated basis, the Bank's technical capital ratio was 11.24%, as of December 31, 2008, exceeding the requirements of the Colombian government and the Superintendency of Finance by 224 basis points.

For a full description of our capital adequacy requirements please see Item 4. History and development of the company B. Business Overview - B.7 supervision and regulation.

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Cash flows for the Bank include net cash provided for operating activities, net cash used in investing activities and net cash provided by financing activities. The following table shows those flows for the years ended December 31, 2006, 2007 and 2008:

<i>Ps million</i>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Operating activities	(973,836)	(912,668)	(7,133)
Investing activities	2,699,518	(271,053)	(1,602,345)
Financial activities	(1,449,338)	4,405,742	2,000,666
Net increase in cash and cash equivalents	276,344	3,222,021	391,188

During fiscal year 2008, operating activities generated an outflow approximately of Ps 7.1 billion of Colombian pesos, significantly lower than the Ps 912.6 billion outflow presented in 2007. In 2008, there was an important decline in cash used to finance growth in the loan portfolio due to a reduction in the demand for credit. On the other hand, cash demanded by asset growth was provided by the combination of deposit growth and the operating results of the Bank reducing the amount of net cash demanded by operating activities. The reduction of purchases in other assets also explains the decline in cash used in operating activities.

The Bank's investing activities demanded net cash of Ps 1,602 billion in 2008 driven by the increase of investment securities, in order to manage the Bank's interest rate and liquidity risks. The increase of property and equipment during the period also explains the cash flow from investing activities.

The financing activities of the Bank include the issuance of long term debt and the issuance of preference and common shares. In 2008, net cash provided by financing activities was Ps 2,001 billion due to an increase in liabilities related to inter-bank borrowings, long term debt and borrowings from domestic development banks. The following table sets forth the components of the Bank's total funding for the years 2006, 2007 and 2008:

The following table sets forth the components of the Bank's total funding for the years 2006, 2007 and 2008:

	<i>As of December 31,</i>					
	<b>2006</b>	<b>% of total funding</b>	<b>2007</b>	<b>% of total funding</b>	<b>2008</b>	<b>% of total funding</b>
	<i>(Ps million, except percentages)</i>					
<b>Checking deposits</b>						
Peso-denominated	Ps 4,473,717	15.3%	Ps 5,143,200	11.7%	Ps 5,365,391	10.2%
U.S. dollar-denominated	892,137	3.1%	1,725,075	3.9%	1,935,659	3.7%
Total	5,365,854	18.4%	6,868,275	15.6%	7,301,050	13.9%
<b>Time deposits</b>						
Peso-denominated	5,513,961	18.9%	8,499,055	19.3%	11,804,875	22.4%
U.S. dollar-denominated	1,863,625	6.4%	5,805,672	13.2%	6,847,863	13.0%
Total	7,377,586	25.3%	14,304,727	32.5%	18,652,738	35.4%
<b>Savings deposits</b>						
Peso-denominated	9,863,370	33.9%	10,652,306	24.1%	11,928,822	22.7%
U.S. dollar-denominated	150,514	0.5%	2,044,982	4.6%	2,068,248	3.9%
Total	10,013,884	34.4%	12,697,288	28.7%	13,997,070	26.6%
<b>Other deposits</b>						
Peso-denominated	369,567	1.3%	360,950	0.8%	272,755	0.5%

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U.S. dollar-denominated	89,576	0.3%	142,910	0.3%	160,787	0.3%
Total	459,143	1.6%	503,860	1.1%	433,542	0.8%

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		<i>As of December 31,</i>				
	<i>2006</i>	<i>% of total funding</i>	<i>2007</i>	<i>% of total funding</i>	<i>2008</i>	<i>% of total funding</i>
			<i>(Ps million, except percentages)</i>			
<b><i>Interbank Borrowings</i></b>						
Peso-denominated		0.0%		0.0%		0.0%
U.S. dollar-denominated	1,066,845	3.7%	1,506,611	3.4%	2,077,291	3.9%
Total	1,066,845	3.7%	1,506,611	3.4%	2,077,291	3.9%
<b><i>Repurchase agreement and interbank funds <sup>(1)</sup></i></b>						
Peso-denominated	716,940	2.5%	1,199,021	2.7%	1,646,924	3.1%
U.S. dollar-denominated	290,105	1.0%	806,469	1.8%	917,284	1.7%
Total	1,007,045	3.5%	2,005,490	4.5%	2,564,208	4.8%
<b><i>Borrowings from development and other domestic banks <sup>(1)</sup></i></b>						
Peso-denominated	2,446,597	8.4%	2,780,971	6.3%	3,210,780	6.1%
U.S. dollar-denominated	2,984	0.0%	563,664	1.3%	659,854	1.3%
Total	2,449,581	8.4%	3,344,635	7.6%	3,870,634	7.4%
<b><i>Bank acceptances outstanding</i></b>						
Peso-denominated	2,419	0.0%	12,957	0.0%		0.0%
U.S. dollar-denominated	61,611	0.2%	42,251	0.1%	56,935	0.1%
Total	64,030	0.2%	55,208	0.1%	56,935	0.1%
<b><i>Long term debt</i></b>						
Peso-denominated	1,302,702	4.5%	1,425,109	3.2%	1,957,310	3.7%
U.S. dollar-denominated		0.0%	1,425,621	3.2%	1,686,176	3.2%
Total	1,302,702	4.5%	2,850,730	6.4%	3,643,486	6.9%
<b><i>Total funding</i></b>						
Peso-denominated	24,689,273	84.8%	30,073,569	68.1%	36,186,857	68.8%
Dollar-denominated	4,417,397	15.2%	14,063,255	31.9%	16,410,097	31.2%
<b>Total</b>	<b>Ps 29,106,670</b>	<b>100.0%</b>	<b>Ps 44,136,824</b>	<b>100.0%</b>	<b>Ps 52,596,954</b>	<b>100.0%</b>

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

**B.2. FINANCIAL INSTRUMENTS AND TREASURY ACTIVITIES**

The Bank's treasury division is able to carry out all transactions in local or foreign currency that are legally authorized in Colombia. These include derivative transactions, purchase and sale of fixed income securities and indexed securities, repurchase or resale transactions, short sales, temporary securities transfers, simultaneous transactions, and transactions on the foreign currency exchange market.

The Bank monitors treasury division activities through policies regarding management of liquidity, market, legal, credit and operational risks. Such policies are monitored by the vice president of risk management.

In order to be able to control market and liquidity risks, the Bank set limits intended to keep its exposure levels and losses within certain ranges as determined by the Bank's board of directors. Bancolombia's investment policies do not include restrictions regarding the maturity of the securities held in the portfolio, but instead target duration for the entire portfolio.

Before taking any additional positions, the Bank's treasury division also verifies, with respect to investments in local and in foreign currencies, the availability of funds for investment and each investment's compatibility with the Bank's liquidity structure.

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As further described in Item 11. Quantitative and Qualitative Disclosure About Market Risk, the market risk stated in the treasury book is measured using methodologies of value at risk (VaR), and the positions limits are based on the results of these methodologies. Bancolombia has defined VaR limits that follow a hierarchical structure, which avoid the concentration of the market risk in certain groups of assets and also take advantage of the portfolio diversification. In addition to VaR limits, Bancolombia also uses stop loss advisories to inform senior management when losses are close to certain established thresholds in the trading book. Moreover, for the options portfolio Bancolombia has set limits based on the sensitivity of the portfolio to the underlying, volatility and interest rates. As part of its operation the Bank's holds cash and cash equivalents primarily in Colombian pesos and U.S. dollars. Nonetheless, those positions, as well as any other currency position, are determined by the treasury division in connection with the Bank's currency risk assessment and management. Specifically, Bancolombia's exposure to currency risk primarily arises from changes in the U.S. dollar/Ps exchange rate. The exposure to currency risk is managed by Bancolombia's treasury division. Bancolombia uses a VaR calculation to limit the exposure to currency risk of its balance sheet. These limits are supervised on a daily basis by Bancolombia's Market Risk Management Office. The Bank's treasury division manages a derivative portfolio which includes forward agreements in foreign currency with the purpose of hedging its currency exposure.

**B.3. COMMITMENT FOR CAPITAL EXPENDITURES**

See Item 4. Information on the Company A. History and Development of the Company Capital Expenditures and Divestitures.

**C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.**

Bancolombia does not have any significant policies or projects relating to research and development.

**D. TREND INFORMATION**

Several factors could affect the Bank's future results of operations and liquidity and capital resources, including: the Colombian and Salvadorian economic environment, the effects of interest rate variation on the Bank's net interest income, behavior of asset quality and provisions, among others. In addition, the weak outlook for the global economy in 2009 could further impact Colombian and Salvadorian economic activities, which could in turn result in a negative effect on Bancolombia's results. Furthermore, if the Central Bank continues lowering its reference interest rate, the Bank's margins could be negatively affected. Lower economic activity in the countries where the Bank operates could put pressure on the asset quality of the loan portfolio, negatively affecting the level of provision charges, as well as the expansion of the Bank's businesses.

Despite the challenging economic environment, Colombia's financial system has kept adequate levels of loan loss reserves, credit availability for firms and households, and ample liquidity. In addition, a countercyclical monetary policy, deeper financial and capital markets, non-existent exposure to toxic assets, sustainable levels of foreign indebtedness (neither at the financial system level nor at the corporate level Colombia has shown either high level of exposure or distorting currency mismatches) and sound leverage of firms and households within the country should contribute to Colombia's ability to weather the economic environment. Nevertheless, recent governmental statistics suggest a faster deterioration of employment rates and industrial activity in the principal jurisdictions where the Bank operates.

Bancolombia expects that the peso will likely remain volatile in 2009. Bancolombia's exposure to currency risk primarily arises from changes in the U.S. dollar/Ps exchange rate. The exposure to currency risk is managed by Bancolombia's treasury division. Bancolombia uses a VaR calculation to limit the exposure to currency risk of its balance sheet. These limits are supervised on a daily basis by Bancolombia's Market Risk Management Office. Bancolombia's income statement was not significantly affected by the peso depreciation presented during 2008, because Bancolombia hedged a significant amount of its currency exposure.

See Item 3. Key Information D. Risk Factors for a discussion of the risks the Bank faces in its business operations, which could affect its business, results of operations or financial condition.

**E. OFF-BALANCE SHEET ARRANGEMENTS**

Standby letters of credit and bank guarantees are conditional commitments issued by us to guarantee the performance of a customer to a third party. Bancolombia typically has recourse to recover from the customer any amounts paid under these guarantees. In addition, Bancolombia may hold cash or other highly liquid collateral to support these

guarantees.

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The following are the off-balance sheet arrangements in which Bancolombia is involved: standby letters of credit, letters of credit and bank guarantees.

At December 31 2006, 2007 and 2008, outstanding letters of credits and bank guarantees issued by Bancolombia totaled Ps 1,833,366 million, Ps 2,613,369 million and Ps 3,524,631 million, respectively.

The table below summarizes at December 31, 2007 and 2008 all of Bancolombia's guarantees where the Bank is the guarantor. The total amount outstanding represents maximum potential amount (notional amounts) that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts bear no relationship to the anticipated losses on these guarantees and greatly exceed anticipated losses.

	<i>Expire within one year</i>		<i>Expire after one year</i>		<i>Total amount outstanding</i>		<i>Maximum potential</i>	
	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>Amount of future</i>	<i>2008</i>
	<i>(Ps millions)</i>							
Financial standby letters of credit	Ps 1,007,038	Ps 1,577,231	Ps 347,883	Ps 313,343	Ps 1,354,921	Ps 1,890,574	Ps 1,354,921	Ps 1,890,574
Bank guarantees	992,467	1,106,968	265,981	527,089	1,258,448	1,634,057	1,258,448	1,634,057
<b>Total</b>	Ps 1,999,505	Ps 2,684,199	Ps 613,864	Ps 840,432	Ps 2,613,369	Ps 3,524,631	Ps 2,613,369	Ps 3,524,631

**F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following table shows Bancolombia's contractual obligations as of December 31, 2008:

<i>Contractual Obligations</i>	<i>Total</i>	<i>Less than</i>	<i>1-3</i>	<i>3-5</i>	<i>After</i>
	<i>(Ps millions)</i>				
Long-term debt obligations	Ps 3,675,613	Ps 32,377	Ps 1,377,474	Ps 563,141	Ps 1,702,621
Time deposits	18,931,213	16,957,259	1,528,260	121,320	324,374
Commitments to originate loans	1,382,560	1,382,560			
Commitments of repurchase of investments					
Employee benefit plans	111,759	12,387	27,695	32,107	39,570
Borrowings from domestic development banks	3,870,634	6,003	1,591,409	1,079,529	1,193,693
<b>Total</b>	Ps 27,971,779	Ps 18,390,586	Ps 4,524,838	Ps 1,796,097	Ps 3,260,258

**G. CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The following are considered critical accounting policies, given their significant impact on the financial condition and operating performance of Bancolombia. This information should be read together with Note 2 of the Consolidated Financial Statements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES UNDER COLOMBIAN GAAP**

**Evaluation of loan portfolio risk and determination of allowances for loan losses:** Under Colombian GAAP, Bancolombia currently evaluates loan portfolio risk according to the rules issued by the Superintendency of Finance, which establish qualitative and quantitative standards for assigning a risk category to individual assets. The qualitative



analysis includes the evaluation of potential weaknesses , deficiencies or serious deficiencies based on the existence and magnitude of the specific factors, according to the judgment of management. For the quantitative evaluation, the Bank first determines whether the loan has become due and then classifies the loan according to the number of days past due.

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The Superintendency of Finance requires minimum allowance levels for each category of credit risk and each type of loan in the Bank's portfolio. In addition, the Superintendency of Finance requires Bancolombia to maintain a general allowance equal to 1% of the gross loan portfolio.

Bancolombia considers the accounting estimates used in the methodology to determine the allowance for loan losses to be critical accounting estimates because: (a) by its nature, the allowance requires the Bank to make judgments and assumptions regarding the Bank's loan portfolio, (b) the methodology used in its determination is based on the existence and magnitude of determined factors that are not necessarily an indication of future losses and (c) the amount of the provision is set using a percentage based on the risk category assigned to the loan and it is impossible to ensure that said percentage will exactly reflect the probability of loss.

**Contingent Liabilities:** The Bank is subject to contingent liabilities, including judicial, regulatory and arbitration proceedings and tax and other claims arising from the conduct of the Bank's business activities. Under Colombian GAAP, allowances are established for legal and other claims by assessing the likelihood of the loss actually occurring as probable, possible, or remote. Contingencies are partially provisioned and are recorded when all the information available indicates that it is probable that the Bank will incur in future disbursements for events that happened before the balance sheet date and the amounts may be reasonably estimated. The Bank involves internal and external experts (lawyers and actuaries) in assessing probability and in estimating any amounts involved.

Throughout the life of a contingency, the Bank's internal experts may learn of additional information that can affect the assessments about probability or the estimates of amounts involved. Changes in these assessments can lead to changes in recorded allowances.

Bancolombia considers the estimates used to determine the allowance for contingent liabilities to be critical accounting estimates because the probability of their occurrence is based on the Bank's judgment, which will not necessarily coincide with the future outcome of the proceedings.

**Pension Plan:** Under Colombian GAAP, the Bank applies the provisions of Decree 1517 of 1998, which requires a distribution of charges to amortize the actuarial calculation by 2010. The distribution is calculated by taking the percentage amortized up to December 1997 and annually adding the minimum percentages needed to complete amortization by 2010. Under the Bank's non-contributory unfunded defined benefit pension plan, benefits are based on length of service and level of compensation.

Bancolombia considers that the accounting estimates related to its pension plan are critical accounting estimates because the determination of the contributions to the plan involves judgments and assumptions made by the actuaries related to the future macroeconomic and employees demographics factors, among others, which will not necessarily coincide with the future outcome of such factors.

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

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

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

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***Goodwill and intangibles recognized upon business combinations:*** The Bank tests goodwill and intangibles recognized upon business combinations for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment, and the second step measures the amount of impairment, if any. However, if certain criteria are met, the requirement to test goodwill for impairment annually can be satisfied without a remeasurement of the fair value of a reporting unit. Fair value is determined by management by reference to market value, if available or by pricing models or with the assistance of qualified evaluator. Determination of a fair value by a qualified evaluator or pricing model requires management to make assumptions and use estimates.

Management believes that the assumptions and estimates used are reasonable and supportable in the existing market environment and commensurate with the risk profile of the assets valued. However, different ones could be used which would lead to different results. The most significant amounts of goodwill and intangibles relate to the acquisition of Conavi and Corfinsura in 2005 and Banagrícola in 2007. The valuation models used to determine the fair value of these companies and the intangibles are sensitive to changes in the assumptions. Adverse changes in any of these factors could lead us to record a goodwill or intangible impairment charge.

Bancolombia considers impairment tests accounting practice are critical accounting estimates because the high level of estimate and assumptions.

***Recognition and measurement of financial instruments at fair value:*** A portion of the Bank's assets is carried at fair value for Colombian GAAP purposes, including equity and debt securities with quotations available or quoted prices for similar assets, derivatives, customers' acceptances and short-term borrowings.

Under Colombian GAAP, the fair value of a financial instrument is defined as the estimated amount at which the instrument could be exchanged in a current transaction between willing and independent parties. The majority of the Bank's assets reported at fair value are based on quoted market prices, which provide the best indication of fair value. If quoted market prices are not available, we discount the expected cash flows using market interest rates which take into account the credit quality and duration of the investment.

The degree of management's judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices. When observable market prices and parameters do not exist, management's judgment is necessary to estimate fair value, in terms of estimating the future cash flows, based on variable terms of the instruments and the credit risk and in defining the applicable interest rate to discount those cash flows.

As of December 31, 2008, our assets that were fair valued using discounted cash flows techniques amounted to Ps. 3,835,828 million and mainly included bonds and notes issued by government or its entities and corporate debt securities.

As of December 31, 2008, derivatives financial instruments were not recognized based on quoted prices, as a consequence, valuation techniques such as discounted cash flows, Black-Scholes and similar methodologies were performed to measure the estimated fair value, using where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates and forward curves based on transactions.

The estimated fair value based upon internally developed valuation techniques could vary if other valuation methods or assumptions were used.

As of December 31, 2008, our financial derivatives that were fair valued using discounted cash flows and Black-Scholes techniques amounted net to Ps. 215,440 million and mainly included market rate and rate swaps and forwards.

In 2008, the Superintendency of Finance issued Resolution 025 related to the estimated fair value measurement of derivatives. See Item 5. Operating and Financial Review and Prospects H) Recent U.S. GAAP Pronouncements Recent Colombian GAAP Pronouncements .

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For the Bank's derivative financial instruments that have optionality, the relevant option model is used. For a further discussion on the effect of a change in interest rates and foreign exchange rates on the Bank's portfolio see Item 11. Quantitative and Qualitative Disclosures About Market Risk, in this Annual Report.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES UNDER U.S. GAAP**

***Allowance of Deferred Tax Assets***

A valuation allowance for deferred tax assets is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Future realization of the tax benefit of existing deductible temporary differences or carryforwards ultimately depends on the existence of sufficient taxable income in future periods.

In determining a valuation allowance, the Bank performs a review of future taxable income (exclusive of reversing temporary differences and carryforwards) and future reversals of existing taxable temporary differences. Due to the continuing weak economic conditions, the determination of the valuation allowance involves difficult judgments to estimate future taxable income.

With regard to state taxes, Bancolombia is subject to Colombian tax legislation. In the case of its companies based in Salvador, it must also calculate the corresponding taxes according to Salvadorian tax legislation.

With regard to municipal and departmental taxes, these must be calculated according to tax legislation applicable in each of the municipal jurisdictions in which the Bank's branch offices are located.

The application of tax legislation is subject to diverse interpretations on the part of both tax payers and the Colombian tax authorities (Dirección de Impuestos y Aduanas Nacionales)

When calculating deferred tax, the Bank considers future estimates, the figures recorded on its financial statements as well as applicable tax legislation.

The Bank believes it will have sufficient taxable net income for future tax periods in order to compensate any excess amounts between presumptive income and net income to be offset.

However, the deferred tax asset is considered as a critical accounting policy, due to tax determinations involve estimates of profits and future taxable incomes that will be settled in future years; said estimations can be affected by changes on the economic conditions. The valuation allowance has been determined based on estimations of taxable income and the applications of the current fiscal laws regarding the amortization period permitted for any excess presumptive taxable income over actual taxable income.

***Evaluation of loan portfolio risk and determination of allowances for loan losses:*** Under U.S. GAAP, the Bank considers loans to be impaired when it is probable that all amounts of principal and interest will not be collected according to the contractual terms of the loan agreement. The allowance for significant impaired loans are assessed based on the present value of estimated future cash flows discounted at the current effective loan rate or the fair value of the collateral in the case where the loan is considered collateral-dependent. An allowance for impaired loans is provided when discounted future cash flows or collateral fair value is lower than book value.

In addition, if necessary, a specific allowance for loan losses is established for individual loans, based on regular reviews of individual loans, recent loss experience, credit scores, the risk characteristics of the various classifications of loans and other factors directly influencing the potential collectability and affecting the quality of the loan portfolio.

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To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical losses. Loss estimates are analyzed by loan type and thus for homogeneous groups of clients. Such historical ratios are updated to incorporate the most recent data reflecting current economic conditions, industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information that may affect the estimation of the allowance for loan losses.

A one percent decrease in the expected cash flows could result in an impairment of the portfolio of approximately Ps 3,587 million. These sensitivity analyses do not represent management's expectations of the decline in risk ratings or the increases in loss rates, but are provided as hypothetical scenarios to assess the sensitivity of the allowance for loan and lease losses to changes in key inputs. We believe the risk ratings and loss severities currently in use are appropriate and represent management's expectations about the credit risk inherent in its loan portfolio.

**Pension Plan:** Under U.S. GAAP, actuarial valuation of its pension plan is performed annually using the projected unit credit method in accordance with SFAS 87 and prepared using actuarial, economic and demographic assumptions about future events.

Bancolombia considers the accounting estimates related to its pension plan to be critical accounting estimates because the determination of the contributions to the plan involves judgments and assumptions made by the actuaries related to the future macroeconomic and employees demographics factors, among others, which will not necessarily coincide with the future outcome of such factors.

**Recognition and measurement of intangibles recognized upon business combinations:** Under U.S. GAAP, we account for the acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions especially concerning the determination of the fair values of the acquired intangible assets and property, plant and equipment as well as the liabilities assumed at the date of the acquisition.

In addition, the useful lives of the acquired intangible assets, property, plant and equipment have to be determined. The judgments made in the context of the purchase price allocation can materially impact our future results of operations. Accordingly, for significant acquisitions, we obtain assistance from third party valuation specialists. The valuations are based on information available at the acquisition date and different methodologies are used for each intangible identified.

Bancolombia considers the measurement of financial instruments at fair value to be critical accounting estimates because the high level of estimate and assumptions.

**Goodwill and intangibles recognised upon business combinations:** For U.S. GAAP, the Bank tests goodwill and intangibles recognised upon business combinations for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment, and the second step measures the amount of impairment, if any. However, if certain criteria are met, the requirement to test goodwill for impairment annually can be satisfied without a remeasurement of the fair value of a reporting unit. Fair value is determined by management by reference to market value, if available or by pricing models or with the assistance of qualified evaluator. Determination of a fair value by a qualified evaluator or pricing model requires management to make assumptions and use estimates.

Management believes that the assumptions and estimates used are reasonable and supportable in the existing market environment and commensurate with the risk profile of the assets valued. However, different ones could be used which would lead to different results. The most significant amounts of goodwill and intangibles relate to the Conavi/Corfinsura Merger in 2005 and the acquisition of Banagrícola in 2007. The valuation models used to determine the fair value of these companies and the intangibles are sensitive to changes in the assumptions. Adverse changes in any of these factors could lead us to record a goodwill or intangible impairment charge.

Bancolombia considers impairment tests accounting practice to be critical accounting estimates because the high level of estimate and assumptions.



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**Recognition and measurement of financial instruments at fair value:** The Bank holds debt and equity securities, derivatives, assets backed securities, loans, short-term borrowings and long term-debt, to meet clients needs, to manage liquidity needs and market risk.

Effective January 1, 2008, for U.S. GAAP purposes, the Bank adopted SFAS 157 Fair Value Measurements ( SFAS 157 ). As a result of the adoption of SFAS 157, the Bank has made some amendments to the techniques used in measuring the fair value in order to include considerations about credit risk.

When available, the Bank generally uses quoted market prices to determine fair value, and classifies such items within Level 1 of the fair value hierarchy established under SFAS 157 (see note 31, t Estimated fair value).

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, and option volatilities.

When an internally developed model is used to price a significant product, it is subject to validation and testing by independent personnel and the item would be classified as Level 3 of the fair value hierarchy established under SFAS 157.

**Credit Valuation Adjustments**

For U.S. GAAP purposes, beginning January 1, 2008 with the adoption of FAS 157 the Bank has measured the effects of the credit risk of its counterparties and its own creditworthiness in determining fair value of certain financial instruments that are measured on a recurring basis.

Counterparty credit-risk adjustments are applied to derivatives, such as over-the-counter derivatives, where the base valuation uses market parameters based on the LIBOR, the COP interest rate curve implicit in the Cross Currency Swap Curve and foreign exchange curves.

The Bank generally calculates the asset s credit risk adjustment for derivatives transacted with international financial institutions by incorporating indicative credit related pricing that is generally observable in the Credit Default Swap ( CDS ) market. The credit risk adjustment for derivatives transacted with all other counterparties is calculated by incorporating unobservable credit data derived from internal credit qualifications to the financial institutions and corporations located in Colombia.

The Bank also considers its own creditworthiness when determining the fair value of an instrument, including OTC derivative instruments if the Bank believes market participants would take that into account when trading the respective instrument. The approach to measuring the impact of the Bank s credit risk on an instrument is done in the same manner as for third party credit risk.

A 1% reduction in the Bank s own credit spreads when determining the fair value of the liabilities associated with derivative contracts, could result in an increase of the associated liability of approximately Ps 4,599 million. This sensitivity analysis does not represent management s expectations of the changes in the Bank s credit risk, but are provided as a hypothetical scenario to assess the sensitivity of the fair value of those liabilities to changes in credit spreads.

A 1% increase in the counterparty credit spreads when determining the fair value of the assets associated with derivative contracts, could result in a reduction of the associated asset of approximately Ps 4,942 million. This sensitivity analysis does not represent management s expectations of the changes in the counterparties credit risk, but are provided as a hypothetical scenario to assess the sensitivity of the fair value of those liabilities to changes in credit spreads.

**Table of Contents***Loans*

The Bank is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements in accordance with U.S. GAAP. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Bank records nonrecurring adjustments for including certain impairment amounts for collateral-dependent loans calculated in accordance with SFAS No. 114 when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Estimates of fair value used for collateral supporting loans generally are based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3. Loans subject to nonrecurring fair value measurement were Ps 200,730 million at December 31, 2008 classified as Level 3. Changes in fair value recognized for loan impairment reserves on loans held by the Bank on December 31, 2008 represented impairment losses for Ps 79,054 million for the year ended December 31, 2008.

**Other than temporary impairment:** The Bank conducts regular reviews to assess whether other than temporary impairment exists, in accordance with FASB Staff Position No. 115-1, The Meaning of Other-Than Temporary Impairment and Its Application to Certain Investments (FSP FAS 115-1). If the Bank determines that unrealized losses are temporary in nature, they are recorded in Accumulated other comprehensive income.

U.S. GAAP requires the recognition in earnings of an impairment loss on investment securities for a decline in fair value that is other than temporary. Determinations of whether a decline is other than temporary often involve estimating the outcome of future events. Management judgment is required in determining whether factors exist that indicate that an impairment loss has been incurred at the balance sheet date. These judgments are based on subjective as well as objective factors. The Bank conducts a review semi-annually to identify and evaluate investment securities that have indications of possible impairment.

The Bank has determined that unrealized losses on investments at December 31, 2008 are temporary in nature based on its ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery and the results of its review conducted to identify and evaluate investments that have indications of possible impairments. The substantial majority of the investments in an unrealized loss position for 12 months or more are primarily securities issued or secured by the Colombian Government, denominated in pesos and *Unidad de Valor Real* (the Real Value Unit or UVR). These securities were issued with a stated interest rate and average mature in less than eight years. All of the unrealized losses on these securities resulted from current economic conditions affecting the international markets, and fluctuations on interest rates. Unrealized losses may decline as interest rates fall below the purchased yield and as the securities approach maturity. Since the Bank has the ability and intent to hold the securities until recovery of the carrying value, which could be maturity, the unrealized loss is considered temporary.

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

Under U.S. GAAP, there are two key accounting determinations that must be made relating to securitizations. A decision must be made as to whether a transfer would be considered a sale under U.S. GAAP, resulting in the transferred assets being removed from our consolidated balance sheet with a gain or loss recognized. Alternatively, the transfer would be considered a secured borrowing, resulting in recognition of a liability in our consolidated balance sheet. The second key determination to be made is whether the securitization vehicle must be consolidated and included in our consolidated balance sheet or whether such securitization vehicle is sufficiently independent that it does not need to be consolidated.

If the trust's activities are sufficiently restricted to meet certain accounting requirements in order to be considered a qualifying special-purpose entity (QSPE), the trust is not consolidated by the seller of the transferred assets. Additionally, under FASB Interpretation No. 46(R), if trusts other than QSPEs meet the definition of a variable interest entity (VIE), we must evaluate whether we are the primary beneficiary of the trust and, if so, must consolidate it.

For U.S. GAAP purposes, since the activities of these vehicles are not sufficiently restricted to meet certain accounting requirements in order to be considered a QSPE, these vehicles were deemed variable interest entities in accordance with FIN 46(R) and therefore, in those cases where the Bank holds the majority of the residual interests in



these vehicles, the Bank concluded to be the primary beneficiary, as the party that expects to absorb the majority of the expected losses of such vehicles.

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The Bank had no significant transfers of loans in securitization transactions accounted for as sales in accordance with U.S. GAAP as of the fiscal years ended December 31, 2007 and 2008, and did not retain any significant interests associated with loans transferred in securitizations for those years.

For this purpose, the Bank's management evaluates the terms of its service agreements with vehicles used to securitize the Bank's loans, in order to conclude that such vehicles meet or do not meet the definition of a qualified special-purpose entity under SFAS 140 is a critical accounting estimates because the determination of the definition of the vehicle like a qualified special-purpose entity involves judgments.

Additionally and in order to consolidate these vehicles used to securitize the Bank's performing loans, the Bank records loans net of allowance for loan losses. For this process, the Bank considers that the evaluation of loan portfolio risk and determination of allowances for loan losses under U.S. GAAP to be critical accounting estimates because is based on estimations (See more details above in Evaluation of loan portfolio risk and determination of allowances for loan losses in this item).

The table below presents the assets and liabilities of vehicles used to securitize the Bank's loans which have been consolidated on the Bank's balance sheet at December 31, 2008, and the Bank's allowance for loan losses resulting from its involvement with consolidated vehicles used to securitize the Bank's loans as of December 31, 2008.

The allowance for loan losses represents the management's estimate of probable losses inherent in the portfolio.

<i>Assets</i>		<i>Liabilities</i>		<i>Allowance for loan losses</i>	
Ps	1,882,256	Ps	873,056	Ps	16,045

**H. RECENT U.S. GAAP PRONOUNCEMENTS**

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets (an amendment of FAS 140) (SFAS 166). SFAS 166 amends the guidance on transfers of financial assets in order to address practice issues highlighted most recently by events related to the economic downturn. The amendments include: (1) eliminating the qualifying special-purpose entity concept, (2) a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, (3) clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale, (4) a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor, and (5) extensive new disclosures. Calendar year-end companies will have to apply SFAS 166 to new transfers of financial assets occurring from January 1, 2010. The Bank is currently analyzing the effect that SFAS No. 166 will have on its U.S. GAAP disclosures and financial information.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 represents a significant change to the previous accounting rules. The standard include: (1) eliminates the scope exception for qualifying special-purpose entities, (2) eliminates the quantitative model for determining which party should consolidate and replaces it with a qualitative model focusing on decision-making for an entity's significant economic activities, (3) requires a company to continually reassess whether it should consolidate an entity subject to FIN 46(R), (4) requires an assessment of whether an entity is subject to the standard due to a troubled debt restructuring, and (5) requires extensive new disclosures. SFAS 167 is effective for the Bank's first reporting period beginning after November 15, 2009. The Bank is currently analyzing the effect that SFAS No. 167 will have on its U.S. GAAP disclosures and financial information.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events (SFAS No. 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS 165 provides (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009

and shall be applied prospectively. The Bank is currently analyzing the effect that SFAS No. 165 will have on its U.S. GAAP disclosure and financial information.

In April 2009, the FASB issued FASB Staff Position (FSP) No. 141R-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies . FSP 141R-1 addresses application issues regarding initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Bank will apply FSP 141R-1 for acquisitions consummated on or after January 1, 2009.

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In April 2009, the FASB issued FSP No. FAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ( FSP FAS 157-4 ). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for the financial statements for interim and annual periods ending after June 15, 2009. The Bank is currently analyzing the effect that FSP FAS 157-4 will have on its U.S. GAAP disclosure and financial information.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments ( FSP FAS 115-2 and FAS 124-2 ). FSP FAS 115-2 and FAS 124-2 amend the other-than-temporary impairment guidance for investments in debt securities to make the guidance more operational and also to improve the presentation and disclosure of other-than-temporary impairments on both debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 are effective for the Bank's financial statements for the year ending December 31, 2009. The Bank is currently analyzing the effect that FSP FAS 115-2 and FAS 124-2 will have on its U.S. GAAP disclosure and financial information.

In February 2009, the FASB issued SFAS No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13. This FSP amends SFAS 157 to exclude FASB Statement No. 13, Accounting for Leases ( SFAS 13 ), and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. This FSP is effective upon the initial adoption of SFAS 157. The adoption of SFAS 157-1 did not have a material impact on the Bank's consolidated statements of income and consolidated balance sheets.

In December 2008, the FASB issued FSP No. FAS 132(R)-1 Employers' Disclosures about Postretirement Benefit Plan Assets ( FSP FAS 132(R)-1 ). FSP FAS 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 is effective for the financial statements for the year ending December 15, 2009. Management is currently evaluating the impact the FSP FAS 132(R)-1 would have on the Bank's financial statement and U.S. GAAP disclosures.

In December 2008, the FASB issued FSP No. SFAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities ( FSP SFAS 140-4 and FIN 46(R)-8 ). FSP SFAS 140-4 and FIN 46(R)-8 amends Statement of Financial Accounting Standards (SFAS) No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125 (SFAS 140) to require public entities to provide additional disclosures about transferors continuing involvements with transferred financial assets. It also amends FASB Interpretation (FIN) No. 46 (revised December 2003) Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46R) to require public enterprises, including sponsors that have a variable interest in a VIE, to provide additional disclosures about their involvement with VIEs. The expanded disclosure requirements for FSP FAS 140-4 and FIN 46(R)-8 are effective for the Bank's financial statements for the year ending December 31, 2008. The adoption of FSP FAS 140-4 and FIN 46(R)-8 did not impact the Bank's financial condition and results of operations.

In October 2008, the FASB issued FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ( FSP 157-3 ). FSP 157-3 clarifies how SFAS No. 157 Fair Value Measurements ( SFAS 157 ) should be applied when valuing securities in markets that are not active. The results of adoption of FSP 157-3, effective September 30, 2008, were included in Note 31 (t) Estimated Fair Value of Financial Instruments.

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In September 2008, the FASB issued FSP No. 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 ( FSP 133-1 ). FSP 133-1 requires expanded disclosures about credit derivatives and guarantees. The expanded disclosure requirements for FSP 133-1 were effective for the Bank's financial statements for the year ending December 31, 2008 and are included in Note 31 (i) Investment securities and derivatives and in Note 31 (r) Guarantees. The adoption of FSP 133-1 did not impact the Bank's financial condition and results of operations.

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

In April 2008, the FASB issued FSP No. SFAS 142-3, Determination of the Useful Life of Intangible Assets. ( FSP SFAS 142-3 ) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), Business Combinations. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years; early adoption is prohibited. The Bank is currently analyzing the effect that FSP SFAS 142-3 will have on its U.S. GAAP disclosures and financial information for acquisitions consummated on or after January 1, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 ) which requires expanded qualitative, quantitative and credit-risk disclosures about derivatives and hedging activities and their effects on the Bank's financial position, financial performance and cash flows. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Bank is currently analyzing the effect that SFAS 161 will have on its U.S. GAAP disclosure and financial information.

In February 2008, the FASB issued FSP No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions ( FSP 140-3 ). FSP 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. FSP 140-3 is effective financial statements issued for fiscal years beginning after November 15, 2008. The Bank is currently analyzing the effect that FSP No. FAS 140-3 will have on its U.S. GAAP disclosure and financial information.

In December 2007, the FASB issued Statement No. 141 R ( SFAS 141 R ) Business Combination - Revised 2007 -.SFAS 141 R replaces FASB Statement No. 141, Business Combinations. SFAS 141 R retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. It requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. SFAS 141 R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with this Statement). This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Bank is currently analyzing the effect that SFAS 141 R will have on its U.S. GAAP disclosure and financial information.



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In December 2007, the FASB issued Statement No. 160 ( SFAS 160 ) Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ,which amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement also changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. SFAS 160 establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation and treats all of those transactions as equity transactions if the parent retains its controlling financial interest in the subsidiary. A parent recognizes a gain or loss in net income when a subsidiary is deconsolidated. A parent deconsolidates a subsidiary as of the date the parent ceases to have a controlling financial interest in the subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends) and earlier adoption is prohibited. The Bank is currently analyzing the effect that SFAS 160 will have on Bancolombia s U.S. GAAP disclosure and financial information.

In November 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 109 Written loan commitments recorded at fair value through earnings ( SAB 109 ). SAB 109 clarifies that consistent with the guidance in SFAS 156 Accounting for servicing of Financial Assets and SFAS 159 The Fair Value Option for Financial Assets and Liabilities , the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that accounted for at fair value through earnings. SAB 109 is effective from January 1, 2008. The adoption of SAB 109 did not impact the Bank s financial condition and results of operations.

In February 2007, the FASB issued Statement No. 159 ( SFAS 159 ) The Fair Value Option for Financial Assets and Financial Liabilities . SFAS 159 creates a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract-by-contract basis, with changes in fair value recognized in earnings as these changes occur. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Bank did not elect to measure to measure eligible items at fair value under SFAS 159 and therefore it did not impact the Bank s financial condition and results of operations.

***Recent Colombian GAAP Pronouncements:***

On June 3, 2009, bill 203/2008 was approved by the Colombian Congress. This bill regulates the accounting, reporting and information assurance principles and standards that are generally accepted in Colombia and describes the procedure by which said principles and standards are to be issued and the oversight authorities. This bill, which is about to be signed by the president, brings the currently generally accepted accounting principles in Colombia in line with International Financial Reporting Standards.

In June 2008, the Colombian Superintendency of Finance published External Circular No. 025 titled Subrogation of instructions regarding derivatives and structured products as contained in Chapter 18 of the Basic Accounting and Financial Circular as well as the issuance of the transition regime applying to said instruments and products , for the purpose of adjusting its rules and regulations as well as issuing instructions as a result of the integral reform made to the rules and regulations governing operations carried out with derivatives and structured products, as promulgated by the National Government by means of Decrees 1796, 1797 and 1121 of 2008. That contained in the External Circular No. 025 is used on a prospective basis for purpose of appraising the value of derivatives and structured products occurring or traded as of July 23, 2008 and all the other rules and regulations therein contained that shall come into full force and effect as of July 1, 2008. The stipulations contained in External Circular 025 affect the appraisal of derivatives and structured products on the Bank s financial statements for the year ending December 31, 2008, and are included in Note 31 (t) Estimated Fair Value of Financial Instruments.

**Table of Contents****I. RELATED PARTY TRANSACTIONS**

See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions .

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. DIRECTORS AND SENIOR MANAGEMENT**

As of December 31, 2008, the following persons acted as directors, alternate directors and senior management of Bancolombia:

***Directors***

*David Emilio Bojanini García* was born in 1956. He has been the President of Suramericana de Inversiones S.A. since September 2006 and was the President of Administradora de Fondos de Pensiones y Cesantías Protección S.A. from 1991 to September 2006. He also worked as Gerente Actuaría in Suramericana de Seguros S.A. Currently, he is the President of the board of directors of Bancolombia and is a member of the board of directors of Grupo Nacional de Chocolates S.A., Inversiones Argos S.A., Almacenes Exito S.A., Inversura S.A and Fundación Suramericana.

*José Alberto Vélez Cadavid* was born in 1950. He has been the President of Inversiones Argos S.A. since August 2003 and of Cementos Argos S.A. since December 2005. He has held several management positions at Suramericana de Seguros S.A. since 1984 including Vice President of Marketing and Sales, Vice President of Investments, Vice President of Enterprise Development and President of Inversura S.A. and Suramericana de Seguros S.A. Currently Mr. Vélez Cadavid is also a member of the board of directors of Suramericana de Inversiones S.A., Grupo Nacional de Chocolates S.A. and Calcetines Crystal S.A.

*Carlos Enrique Piedrahita Arocha* was born in 1954. He has been President of Compañía Nacional de Chocolates S.A. since 2000 and President of Grupo Nacional de Chocolates S.A. (formerly Inversiones Nacional de Chocolates S.A.) since 2003. He was President of Corfinsura from 1993 to 2000, Vice President of Finance of Compañía Suramericana de Seguros S.A. from 1989 to 1993, Vice President of Personal Banking of Banco Industrial Colombiano from 1986 to 1989, National Manager of Credit Cards of Banco Industrial Colombiano from 1984 to 1986, and General Manager of Suleasing S.A. from 1981 to 1984. Mr. Piedrahita Arocha is a member of the board of directors of Suramericana de Inversiones S.A., Consejo Empresario de America Latina (CEAL) and Inversiones Argos S.A. He is also a member of the board of directors of the following not-for-profit organizations: Hospital San Vicente de Paúl, Proantioquia and Consejo Privado de Competitividad.

*Gonzalo Alberto Pérez Rojas* was born in 1958. He is the President of Inversura S.A. He held different management positions at Compañía Suramericana de Seguros since 1981, such as Vice President of Corporate Businesses and Vice President of Insurance and Capitalization. Mr. Pérez Rojas is also a member of the board of directors of Interoceánica de Seguros S.A. (Republic of Panama), Fasecolda (Federación de Aseguradores Colombianos), Fondo de Prevención Vial (entity related to Federación Nacional de Aseguradores Colombianos), Colombiana de Inversiones S.A. and Fundación Suramericana.

*Ricardo Sierra Moreno* was born in 1951. He has been the President of Productora Distrihogar S.A. since 1989. He had previously held positions as Chief Financial Officer of Suramericana de Seguros S.A. from 1982 to 1989 and Regional Manager of Corporación Financiera Suramericana S.A. Corfinsura from 1979 to 1982. Mr. Sierra Moreno is also a member of the board of directors of Concreto S.A., Carulla Vivero S.A., UNE EPM Telecomunicaciones S.A. and Calcetines Crystal S.A. He is also a member of the ANDI's sectional board since 1992.



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*Juan Camilo Restrepo Salazar* was born in 1946. He has served in different public sector positions such as Secretary and adviser of the board of directors of the Central Bank, Banking Superintendent, President of the National Securities Commission (Comisión Nacional de Valores), Commercial Manager of the Federación Nacional de Cafeteros, Minister of Mines and Energy, Minister of Finance, and Ambassador of Colombia in France. He has also held certain positions in the private sector such as President of Fedeleasing, Representative of the Federación Nacional de Cafeteros in the International Coffee Organization in London. He has been member of the board of directors of various companies such as Bansuperior, Seguros Atlas S.A., Seguros Atlas de Vida, Almacafé, Banco Cafetero, BCH, Bancoldex, La Previsora S.A., Caja de Crédito Agrario, and Federación Nacional de Cafeteros. Currently, he is a member of the board of directors of the Empresas Públicas de *Medellín* and Constructora Cusezar. He is the author of various articles and publications, and is an adjunct professor in different universities.

*Alejandro Gaviria Uribe* was born in 1965. Since 2004, he has been a Professor and Researcher at Universidad de los Andes (Bogota, Colombia) and a columnist for the weekly publication *El Espectador*. Previously, he was the Sub-director of the National Planning Department from 2002 to 2004 and the Sub-director of Fedesarrollo from 2000 to 2002. He was an associate researcher for Fedesarrollo from 2000 to 2001, a researcher for the Inter-American Development Bank IABD from 1998 to 2000, and the Head of the National Planning Department of Colombia from 1993 to 1994. He has also held positions as economist in the Federación Nacional de Cafeteros and civil engineer for Suramericana de Seguros S.A. Currently, he is a member of the board of directors of WWB Colombia, and Isagen S.A. E.S.P. He is currently the economics dean at Universidad de los Andes.

*Carlos Raúl Yepes Jimenez* was born in 1964. He is the Legal Vice President of Cementos Argos S.A. Previously he was the Legal Director of Bancolombia and also the Legal Director of CI Unión de Bananeros de Urabá Uniban. He is a member of the board of directors of CI Carbones del Caribe S.A. He is also a member of the board of directors of the non-profit organization Fundación Ximena Rico.

*Alonso Moreno Jaramillo* was born in 1943. He holds degrees in Law and Political Science from the Universidad de Antioquia in Medellín, and has been partner and director of the law firm Morenos y Cía since 1969. He was also a member of the board of directors of Compañía Textil colombiana S.A., SATEXCO, Compañía de Refractarios Colombianos S.A., Hilanderías Medellín S.A., Desarrollo Aeropuerto El Dorado CODAD S.A and Laboratorios Bussie S.A. Mr. Moreno currently serves as a member of the board of directors of BRINSA S.A. (formerly Refisal S.A), Colorquímica S.A., Caribe Motor de Medellín S.A, and Fatelares S.A. Mr. Moreno Jaramillo was appointed member of the Bank's board of directors in the general shareholders meeting held on March 2, 2009. Mr. Moreno Jaramillo occupies the position left vacant after the board of directors of Bancolombia accepted the resignation of Mr. Francisco José Moncaleano Botero in July of 2008.

For additional information regarding the Bank's board of directors and its functions please see Item 10. Additional Information B. Memorandum and Articles of Association Board of Directors.

***Senior Management***

*Jorge Londoño Saldarriaga* was born in 1947. He has been the President of Bancolombia since 1996, and was previously a member of its board of directors for three years. Mr. Londoño was Vice President of Investments (CIO) of Suramericana de Seguros S.A. from 1993 to 1996, President (CEO) of the stockbrokerage firm Suvalor S.A. from 1991 to 1993 and Secretary of Finance of the City of Medellín from 1983 to 1984. Mr. Londoño Saldarriaga holds a degree in Business Administration from Universidad EAFIT in Medellín, and a master degree in Economic Development from the University of Glasgow in Scotland.

*Sergio Restrepo Isaza* was born in 1961. He has been Executive Vice President of Corporate Development of Bancolombia since the Conavi/Corfinsura merger completed on July 30, 2005. Previously, he had been President (CEO) of Corfinsura since 2004 and held various managerial positions at Corfinsura such as Vice President of Investment Banking from 1996 to 2004, Vice President of Investment and International Affairs from 1993 to 1996, and before that, Assistant to the CEO, Regional Manager, International Sub-manager and Project Director. Mr. Restrepo Isaza holds a B.A. degree from Universidad EAFIT in Medellín and an MBA degree from Stanford University.

*Juan Carlos Mora Uribe* was born in 1965. He has been the Risk Management Vice President of Bancolombia since the Conavi/Corfinsura merger completed on July 30, 2005. He served as the Vice President of Operations of

Corfinsura since 2003 and held various positions within the corporation such as Corporate Finance Manager from 1995 to 2003, account executive from 1992 to 1995 and credit analyst from 1991 to 1992. Mr. Mora Uribe holds a B.A. degree from Universidad EAFIT and an MBA degree from Babson College.

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*Santiago Pérez Moreno* was born in 1955. He has been the Vice President of Personal and Medium and Small Business Banking since 1989, and has held different managerial positions at Bancolombia since 1981, such as Personal Banking Manager for the Bogota Region, International Commerce Manager for the Bogota Region, and assistant for the Vice Presidency of International Commerce. Mr. Pérez Moreno holds an Industrial Economics degree from Universidad de los Andes University in Bogota and an MBA from IESE in Barcelona.

*Jaime Alberto Velásquez Botero* was born in 1960. He has been the Vice President of Finance of Bancolombia since 1997. From 1989 through 1997, he held several managerial positions in the Economic Department and Investor Relations Department. Previously, he worked at C.I. Banacol from 1987 to 1989. Mr. Velásquez Botero holds an Economics Degree from Universidad de Antioquia in Medellín.

*Mr. Mauricio Rosillo Rojas* was born in 1969. He has been the Legal Vice President of Bancolombia since December 2008. Mr. Rosillo Rojas has held several positions in the public and private sectors including, secretary general of Fedeleasing, Interim Colombian Superintendent of Banking Cooperatives ( *Superintendente de Economía Solidaria (encargado)* ), director of financial regulation of the Colombian Ministry of Finance, supervisor of the securities market of the Colombian Stock Exchange, and president of Autoregulator del Mercado de Valores (a Colombian self-regulatory organization). Mr. Rosillo Rojas occupies the position left vacant after the board of directors of Bancolombia accepted the resignation of Mrs. Margarita Maria Mesa Mesa. Mr. Rosillo Rojas took office upon receiving authorization by the Superintendency of Finance. Mr. Rosillo Rojas holds a law degree from Pontificia Universidad Javeriana, obtained a post graduate degree in financial law from Universidad de Los Andes, and a master s degree in commercial and economic law from the University of Georgia in the United States.

*Olga Botero Peláez* was born in 1963. She has been the Vice President of Technology of Bancolombia since October 2007. She has held different positions in companies including Hewlett Packard, Suramericana de Seguros S.A., Mecosoft and Orbitel. During her 7 years at Orbitel, she held several positions, including Marketing Operations Manager, Customer Services Manager and National Sales Manager. She has also been a professor at universities including Universidad EAFIT, Universidad Javeriana and Universidad de la Sabana. Mrs. Botero Pelaez is an engineer and has both a bachelor degree and a masters degree in Computer Science from Iowa State University.

*Gonzalo Toro Bridge* was born in 1960. He has been Vice President of Corporate Banking of Bancolombia since 2003. From 1988 until 1994, he was the Assistant of the Vice Presidency of Corporate and International Banking and from 1994 to 2003 he was the Vice President of Corporate and International Banking. Mr. Toro Bridge holds a B.A. degree from Universidad EAFIT in Medellín and a certificate of attendance from the Advanced Management Program for overseas bankers from the University of Pennsylvania.

*Federico Ochoa Barrera* was born in 1947. He has been the Executive and Services Vice President of Bancolombia since 1998. Before the merger of Banco Industrial Colombiano and Banco de Colombia, he held several positions at Banco de Colombia, including National Branches Vice President, Administrative Vice President, Commercial Vice President and Executive Vice President. Mr. Ochoa Barrera holds a B.A. from Harvard College and an attendance certificate for the Executives Program from Carnegie-Mellon University.

*Augusto Restrepo Gómez* was born in 1962. He has been the Administrative Vice President of Bancolombia since August 2007. Mr. Restrepo Gómez has worked in Bancolombia for 27 years holding several positions at different departments of Bancolombia such as analyst, sub-manager, chief of department and regional manager. Most recently he was the head of the Distribution Channels Unit. He is also member of the board of directors of ACH Colombia S.A., Multienlace S.A., Todo 1 Colombia S.A. and Redeban Multicolor S.A.

Mr. Restrepo Gómez holds a B.A. degree from the Universidad Cooperativa de Colombia, and obtained a post graduate degree in Marketing from Universidad EAFIT. His post-graduate education also include among others, courses in Advanced Management from Universidad de los Andes and Universidad de la Sabana.

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*Luis Fernando Montoya Cusso* was born in 1954. He has been the Vice President of Operations since 1998. Since 1983, he has occupied several positions at Bancolombia, including Manager of Cúcuta Region from 1983 to 1985, Northern Region from 1986 to 1991, Bogota Region from 1991 to 1993, and Operations Manager. Mr. Montoya Cusso holds a B.A. degree from Universidad EAFIT in Medellín.

*Jairo Burgos de la Espriella* was born in 1965. He has been the Vice President of Human Resources since 1998. Since 1990, he has held several positions in the Bank's Human Resources Department. Previously, Mr. Burgos de la Espriella held positions as Legal Director of the Compañía del Teleférico a Montserrate S.A. from 1987 to 1989 and of the Fundación San Antonio de la Arquidiócesis de Bogotá from 1989 to 1990. Mr. Burgos de la Espriella graduated from Pontificia Universidad Javeriana (PUJ) Law School in Bogota, obtained post graduate degrees in Corporate Law and Labor Law from the Pontificia Universidad Javeriana, and a Masters degree in Science of Management from the Arthur D. Little School of Management in Boston.

*Luis Fernando Muñoz Serna* was born in 1956. He has been the Vice President of Mortgage Banking since the Conavi/Corfinsura merger that was completed on July 30, 2005. He joined Conavi in 1989 as Regional Manager for Bogota, holding various positions at Conavi such as Vice President of Business Development and Vice President of Corporate Banking since 1994. Previously, Mr. Muñoz Serna worked as Branch Manager for the main office of BIC in Bogota from 1983 to 1989 and Branch Manager for the main office of Banco Real de Colombia in Bogota from April to October 1989. Mr. Muñoz Serna holds an industrial engineering degree from Pontificia Universidad Javeriana in Bogota.

*Luis Arturo Penagos Londoño* was born in 1950. He has been the Vice President of Internal Audit since January of 2006. He had previously been the Internal Auditor of Conavi since 1993 and the Compliance Officer since 1996. He was the CEO of El Mundo newspaper from 1990 to 1991 and the external auditor of Uniban S.A. from 1980 to 1983. He also worked as audit assistant to Coltejer S.A. from 1977 to 1990 and was the Dean of the B.A. Department of Universidad EAFIT from 1983 to 1993. Mr. Penagos Londoño is a CPA from Universidad de Antioquia in Medellín and has an MBA degree and a specialization diploma in Systems Audit from Universidad EAFIT.

*Carlos Alberto Rodríguez López* was born in 1967. He has been the Vice President of Treasury since March of 2008. Among other positions, he has been Director of the Market Transactions Department of the Central Bank, General Manager of Public Credit and National Treasury, Vice President of Development of the Colombian Stock Exchange, and Manager of Corporate Finance at Interconexion Electrica S.A. (ISA). He has also been professor at Universidad de los Andes. Mr. Rodríguez Lopez holds undergraduate and postgraduate degrees in economics from Universidad de los Andes and an MBA from Insead (France).

The board of directors of Bancolombia created a new vice presidency position that will be managing the Bank's treasury products and the investment portfolio. This new position was named Vice President of Treasury. The board of directors designated Mr. Carlos Alberto Rodríguez López to fill this position.

There are no family relationships between the directors and senior management of Bancolombia listed above.

No arrangements or understandings have been made by major shareholders, customers, suppliers or others pursuant to which any of the above directors or members of senior management were selected.

**B. COMPENSATION OF DIRECTORS AND OFFICERS**

During 2008 Bancolombia paid each director a fee of Ps 1,450,000 per month for sitting on the board of directors of Bancolombia, and another fee of Ps 1,450,000 for attending each session of the committees. The members of the board of directors of Bancolombia who belong to other advisory committees are paid additional monthly fees ranging from Ps 1,450,000 to Ps 15,000,000.

The directors received no other compensation or benefit. Consistent with Colombian law, the Bank does not make public, information regarding the compensation of the Bank's individual officers, although shareholders may request that information during the period preceding the annual general shareholder's meeting. The aggregate amount of remuneration paid by Bancolombia and consolidated Subsidiaries to all directors, alternate directors and senior management during the fiscal year ended December 31, 2008 was Ps 51,458 million.



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The board of directors of Bancolombia approves the salary increases for vice presidents and authorizes the CEO to readjust the salary of the remaining employees.

Bancolombia has established an incentive compensation plan that awards bonuses semi-annually to its management employees. In determining the amount of any bonuses, the Bank takes into consideration the overall return on equity of Bancolombia and its executives' achievement of their individual goals. Bancolombia's variable compensation has deferred elements and depending on the amount awarded, the bonuses are payable in cash and as a combination of cash, a right to receive in three years an amount in cash determined with reference to the value of Bancolombia's common or preferred shares and an entitlement to a share in a pool of unvested bonuses. The pool of unvested bonuses is an account of preliminary bonuses, payable once it is established that the results that are the basis of such bonuses have been sustained over time and were not the result of a particular, extraordinary transaction that does not reflect better performance, according to guidelines designed by the Bank. Such elements are solely paid when certain future profits are obtained. As of December 31, 2008, based on internal analysis, there was a provision maintained for future compensation payments in the amount of Ps 21,810 million.

The Bank paid a total of Ps 775,495 million for salaries of personnel employed directly by the Bank and senior management of its affiliates. The sum of Ps 38,479 million that was paid for the incentive compensation plan was included in the total amount.

As of December 31, 2008, the Bank had provisioned the entire actuarial obligation corresponding to retirement pensions payable by the Bank, which amounted to Ps 111,759 million.

**C. BOARD PRACTICES**

At the shareholders meeting held on March 2, 2009, the shareholders of Bancolombia appointed the following individuals to serve as members of the Board of Directors for the April 2009 – March 2011 period:

<i>Name</i>	<i>First Elected to the Board</i>	<i>Term Expires</i>
David Bojanini García	2006	2011
José Alberto Vélez Cadavid	1996	2011
Carlos Enrique Piedrahita Arocha	1994 <sup>(1)</sup>	2011
Gonzalo Alberto Pérez Rojas	2004 <sup>(2)</sup>	2011
Ricardo Sierra Moreno	1996 <sup>(3)</sup>	2011
Juan Camilo Restrepo Salazar	2006	2011
Alejandro Gaviria Uribe	2005	2011
Alonso Moreno Jaramillo	2009	2011
Carlos Raúl Yepes Jiménez	2006	2011

(1) Carlos Enrique Piedrahita Arocha had previously served as Bancolombia's Director during the period 1990-1993.

(2) Gonzalo Alberto Pérez Rojas had previously served as

Bancolombia s  
Director during  
the period  
1990-1994.

- (3) Ricardo Sierra  
Moreno had  
previously  
served as  
Bancolombia s  
Director during  
the period  
1982-1988.

The following are the current terms of office and the period during which the members of senior management have served Bancolombia. There are no defined expiration terms. The members of senior management can be removed by a decision of the board of directors.

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<i>Name</i>	<i>Period Served</i>
<b><i>President</i></b>	
Jorge Londoño Saldarriaga	Since 1996
<b><i>Vice Presidents</i></b>	
Sergio Restrepo Isaza	Since 2005
Federico Ochoa Barrera	Since 1984
Jaime Alberto Velásquez Botero	Since 1997
Juan Carlos Mora Uribe	Since 2005
Mauricio Rosillo Rojas	Since 2008
Santiago Pérez Moreno	Since 1989
Gonzalo Toro Bridge	Since 1998
Luis Fernando Muñoz Serna	Since 2005
Olga Botero Peláez	Since 2007
Luis Arturo Penagos Londoño	Since 2006
Augusto Restrepo Gómez	Since 2007
Luis Fernando Montoya Cusso	Since 1998
Jairo Burgos de la Espriella	Since 1998
Carlos Alberto Rodríguez López	Since 2008

Neither Bancolombia nor its Subsidiaries have any service contracts with Bancolombia's directors providing for benefits upon termination of employment.

For further information about the Bank's corporate governance practices please see Item 16. Reserved 16.B. Corporate Governance and Code of Ethics.

**Corporate Governance Committee**

This committee has duties concerning the directors individually, the Bank's board of directors as a whole, and the Bank in general. Its main responsibilities with regard to the directors are to: (i) develop and review directors' roles and their qualifications for being elected (skills and limitations) and to define policies for appointment of new directors; (ii) encourage the directors' training, as well as their adequate updating in academic and commercial topics; and (iii) encourage the attendance of directors to seminars and events that allow them to develop business relationships with local and international organizations, entities and companies. Regarding the Bank's board of directors, and the Bank in general, the committee's responsibilities are to: (i) set the meetings' date and agenda, supervise the accurate, timely and relevant flow of information to directors. ii. Inspect the annual self-evaluation of the management and the Bank's board of directors, and make suggestions for its best performance, by making use of the available technology and resources and (iii) Recommend the communication channel strategy with shareholders, stakeholders, and the market in general, in order to provide them with access to complete, accurate and timely relevant information of the Bank. iv. Control the trading conducted by members of the Board of Directors with stock issued by the Bank or by other companies of the same group. v. Supervise the compliance with the managers' compensation policies.

**Audit Committee**

In accordance with the requirements of External Circular 007 of 2001, issued by the Superintendency of Banking (now Superintendency of Finance) Bancolombia has an audit committee whose main purpose is to support the Bank's board of directors in supervising the effectiveness of the Bank's internal controls. The committee consists of three independent directors, one of whom must be a financial expert, who are elected by the board of directors for a period of two years. The audit committee is composed of. Mr. Alejandro Gaviria Uribe, Mr. Juan Camilo Restrepo Salazar, and Mr. Ricardo Sierra Moreno. Mr. Gaviria Uribe has been appointed to the audit committee since May 22, 2007. Mr. Restrepo Salazar was appointed to the audit committee on July 28, 2008 by the Bank's board of directors, after accepting the resignation of Mr. Francisco José Moncaleano Botero from the Bank's board of directors and the audit committee. Mr. Sierra Moreno was appointed to the audit committee on September 29, 2008 by the Bank's board of



directors after accepting the resignation of Mr. Carlos Raúl Yepes Jiménez from the audit committee.

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Pursuant to applicable U.S. laws for foreign private issuers, Mr. Alejandro Gaviria Uribe serves as the financial expert of the Audit Committee.

As established by the Superintendency of Finance, the audit committee has a charter approved by Bancolombia's board of directors which establishes its composition, organization, objectives, duties, responsibilities and extension of its activities. Bancolombia's board of directors also establishes the remuneration of the members of the audit committee. The audit committee must meet at least quarterly and must present a report of its activities at the general shareholders meeting.

Bancolombia currently complies with the requirements of the Sarbanes Oxley Act of 2002 and the rules promulgated thereunder, as applicable to foreign private issuers with respect to the composition and functions of its audit committee.

**Designation, Compensation and Development Committee.**

The board of directors of Bancolombia has established a designation, compensation and development committee whose members are elected by the board of directors. There are not defined expiration terms.

The main function of this committee is to determine hiring, compensation and development policies of the Bank's executive officers. The committee also supervises the goals established in the compensation programs and recommends the adoption of new remuneration programs for Bancolombia's executive officers.

The duties of the Designation, Compensation and Development Committee are: (i) setting the administration policies regarding the selection, evaluation, compensation, and development processes for senior management (ii) determining the goals for senior management, (iii) proposing objective criteria under which the Bank hires senior management and designs succession plans, (iv) evaluating the performance of senior management, and (v) the issuance of recommendations for the board of directors of Bancolombia concerning appointments and compensation of the President and senior management.

As of June 29, 2009, the members of the Designation, Compensation and Development committee are Ricardo Sierra Moreno, Carlos Enrique Piedrahita Arocha, David Bojanini Garcia and Jose Alberto Velez Cadavid.

**Risk Committee**

The main function of this committee is to provide assistance in the approval, monitoring and control of strategies and policies for risk management, including the limits to act within different areas. In addition, it assists the board of directors and the president of the Bank in the knowledge and understanding of the risks assumed by the Bank and the capital required to support them.

The Bank's board of directors appoints the members of this committee, which may include certain members of the board of directors, as well as the president, certain vice presidents, and other officers of the Bank.

**Credit Committee**

The duties of this committee involve mainly decisions regarding the credit approval process, the structure and composition of the receivables portfolio, the methodologies and risk management tools concerning credit, as well as the study of the operations approved at lower management levels.

The board of directors appoints the members of the credit committee, which shall include the president of the Bank, the vice president of Risk Management who chairs the Credit Committee, as well as several other vice presidents and officers of the Bank.

**Table of Contents****Assets and Liabilities Committee**

The purpose of this committee is to provide assistance to the board of directors and the president of the Bank in the definition, follow-up and control of the general policies, as well as in the assessment of assets and liabilities management risks.

The Bank's board of directors appoints the members of such committee, which may include the president and certain vice presidents of the Bank.

**Central Committee of Loans Assessment and Rating**

This Committee is mainly responsible for assessing and rating the Bank's loans.

The board of directors appoints the members of such committee, which may include certain vice presidents and other officers of the Bank.

**D. EMPLOYEES**

The following table sets forth the number of employees of Bancolombia for the last three fiscal years:

<i>As of December 31</i>	<i>Total number of employees employed by Bancolombia and its consolidated Subsidiaries</i>	<i>Number of employees employed by Bancolombia and Bancolombia Miami Agency</i>
2006	16,222	12,520
2007	24,836	12,906
2008	19,728	13,479

As of December 31, 2008, Bancolombia and its consolidated Subsidiaries had 19,728 employees, representing a significant decrease compared to the figure for 2007. This decrease in the number of total employees is explained mainly by the sale of Multienlace S.A. in 2008 (Multienlace S.A. had approximately 6,100 employees). Of the 19,728 people employed by the Bank in 2008, 13,479 were employed directly by the Bank. Of the 13,479 employees directly contracted by the Bank, 9,545 are operations personnel and 3,934 are management employees. Of the 13,479 employees, approximately 26.4% are located in the Bogota Region, 13.5% in the South Region, 17.2% in the Antioquia Region, 22.8% in the Medellín headquarters, 10.4% in the Central Region, 9.7% in the Caribbean Region and 0.2% in the Miami Agency. During 2008, the Bank employed an average of 136 employees per month through temporary personnel service companies.

Of the employees directly employed by Bancolombia, approximately 10.4% are part of a labor union called Sintrabancol, 10.6% are members of an industry union called Uneb, and 0.4% belong to an industry labor union called Sintraefi. A collective bargaining agreement was reached with Uneb and Sintrabancol in October, 2008 (the Collective Bargaining Agreement). The Collective Bargaining Agreement has been in effect since November 1, 2008 and is set to expire on October 31, 2011. This agreement applies to approximately 9,532 employees regardless if they are members of a union or not. Sintranefi, which has approximately 55 employees as members, did not take part in the Collective Bargaining Agreement; however, the terms of the agreement apply to its members.

The Collective Bargaining Agreement improves the competitiveness of the salaries of Bancolombia's employees, as well as their income and purchasing power. The Collective Bargaining Agreement also reflects Bancolombia's commitment with the wellbeing of its employees, as a principal component for achieving its strategic goals.

The most important economic aspects of the Collective Bargaining Agreement are:

- A pay increase of 9.87% for the first year. For the second year, the increase will be equal to the variation in the Colombian consumer price index (IPC), as certified by DANE for the period between November 2008 and October 2009, plus 150 basis points. For the third year, the increase will be equal to the IPC variation, for the period between November 2009 and October 2010, plus 100 basis points.
- Improved benefits for Bancolombia's covered employees, including increases in the amounts of individual housing loans, tuition aid fund, health insurance coverage, transportation and food assistance.



**Table of Contents****E. SHARE OWNERSHIP**

The following directors and managers owned common shares in Bancolombia as of December 31, 2008: Ricardo Sierra Moreno, Gonzalo Alberto Pérez Rojas, Jorge Londoño Saldarriaga, Sergio Restrepo Isaza, Olga Botero Peláez, Carlos Alberto Rodríguez Toro and Gonzalo Toro Bridge. None of their shareholdings, individually or in the aggregate, exceeded 1% of Bancolombia's outstanding common shares.

The following managers owned preferred shares in Bancolombia as of December 31, 2008: Jorge Londoño Saldarriaga, Sergio Restrepo Isaza, and Luis Santiago Pérez Moreno. None of their shareholdings exceed 1% of Bancolombia's outstanding preferred shares.

As of December 31, 2008 there were no outstanding options to acquire any of Bancolombia's outstanding common shares or preferred shares.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. MAJOR SHAREHOLDERS**

In accordance with the Bank's by-laws, there are two classes of stock authorized and outstanding: common shares and preferred shares. Each common share entitles its holder to one vote at meetings of the Bank's stockholders, and there are no differences in the voting rights conferred by any of the common shares. 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.

The following table sets forth, solely for purposes of United States securities laws, certain information regarding the beneficial ownership of Bancolombia's capital stock by each person known to Bancolombia to own beneficially more than 5% of each class of Bancolombia's outstanding capital stock as of March 31, 2009. A beneficial owner includes anyone who has the power to receive the economic benefit of ownership of the securities.

<i>Name</i>	<i>Common Shares</i>	<i>Preferred Shares</i>	<i>% Ownership of Common Shares<sup>(1)</sup></i>	<i>% Ownership of Preferred Shares<sup>(1)</sup></i>	<i>% Ownership of Total Shares<sup>(1)</sup></i>
Suramericana de Inversiones and Subsidiaries <sup>(2)</sup>	231,364,770	81,000	45.39%	0.03%	29.38%
Inversiones Argos S.A. <sup>(3)</sup>	62,386,256		12.24%	0.00%	7.92%
ADR Program		178,313,784	0.00%	64.11%	22.63%
Fondo de Pensiones Obligatorias Protección S.A. Fondo de Pensiones	10,250,291	26,094,359	2.01%	9.38%	4.61%
Obligatorias Porvenir	26,949,162	470,640	5.29%	0.17%	3.48%

(1) Common shares have one vote per share; preferred shares have limited voting rights under certain circumstances specified in the by-laws of Bancolombia filed as Exhibit 1 to this Annual Report.

(2) Represents ownership of Suramericana de

Inversiones S.A. directly  
and through its subsidiaries  
Portafolio de Inversiones  
Suramericana S.A.,  
Fideicomiso  
Cititrust-Suramericana-IFC,  
Sociedad Inversionista  
Anónima S.A., Compañía  
Suramericana de  
Construcciones S.A.,  
Cia.Suramericana de  
Seguros S.A., Cía.  
Suramericana de Seguros  
de Vida S.A, Inversiones  
GVCS S.A., SIA  
Inversiones S.A. and  
Suramericana  
Administradora de Riesgos  
Profesionales y Seguros  
SURATEP.

- (3) Represents ownership of  
Inversiones Argos S.A.  
directly and through  
subsidiary Cementos Argos  
S.A.

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As of March 31, 2009, a total of 509,704,584 common shares and 278,122,419 preferred shares were registered in the Bank's shareholder registry in the name of 17,726 shareholders. A total of 178,313,784 representing 64.11% of preferred shares were part of the ADR Program and were held by 40 record holders registered in Bank of New York Mellon's registered shareholder list. Given that some of the preferred shares and ADSs are held by nominees, the number of record holders may not be representative of the number of beneficial owners.

During 2008, the Bank's ADR program changed its percentage ownership of the Bank decreasing from 28.6% as of May 31, 2008 to 22.6% by the end of March 2009, as depositary receipts were cancelled throughout the period. In addition, Inversiones Argos and its subsidiaries decreased their percentage of ownership from 9.2% as of May 31, 2008 to 7.9% as of March 31, 2009. On the other hand, Fondo de Pensiones Obligatorias Protección and Fondo de Pensiones Obligatorias Porvenir, two Colombian private pension fund managers, increased their percentage of ownership reaching 4.6% and 3.5% as of March 31, 2009 compared to the 3.9% and 3.3% held respectively as of May 31, 2008.

There are no arrangements known to the Bank which may at a subsequent date result in a change in control of the company.

To the extent known to the Bank, and in accordance with Colombian law, Bancolombia is not directly or indirectly owned or controlled by any other entity or person.

**B. RELATED PARTY TRANSACTIONS**

Colombian law sets forth certain restrictions and limitations on transactions carried out with related parties, these being understood as principal shareholders, subsidiaries and management. Transactions that are prohibited in the case of credit institutions are described in Decree 663 of 1993, specifically in Articles 119 and 122 thereof, as well as in the Code of Commerce duly amended by Law 222 of 1995, when applicable. Credit and risk concentration limits are regulated by Decree 2360 of 1993, including its respective amendments and addendas.

Colombian laws contain the following main provisions governing transactions with subsidiaries:

subsidiaries must carry out their activities independently and with administrative autonomy, so that they have enough decision-making capacity in order to carry out the transactions that form part of their business purpose.

transactions between the parent company and its subsidiaries must be of a real nature and cannot differ considerably from standard market conditions, nor be in detriment to the Colombian government, shareholders or third parties.

subsidiaries may not acquire any shares issued by their parent company.

subsidiaries dedicated to providing financial services (i.e. brokerage and fiduciary services) may not acquire or negotiate securities issued, endorsed, guaranteed or accepted, or belonging to an issuance that is administered by the parent company or its subsidiaries, except for the transactions undertaken by broker dealers in the ordinary course of business.

subsidiaries dedicated to providing financial services (i.e. brokerage and fiduciary services) may not sell assets to the Bank, nor may the latter purchase these from the subsidiary, unless in the context of the liquidation of the subsidiary.

parent companies may not carry out active credit operations with a subsidiary dedicated to providing financial services.

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parent companies may not grant overdrafts to a subsidiary dedicated to providing financial services (i.e. brokerage and fiduciary services), except when it corresponds to the value of checks that have been deposited but have not been effectively cleared for subsequent payment, the value of which shall be covered on the business day following the date on which the overdraft is issued.

no transaction may be carried out between parent companies and their subsidiaries that implies conflicts of interest as determined by the Superintendency of Finance.

According to the provisions of the Code of Commerce of Colombia, neither the Bank's directors nor the management may directly or indirectly, purchase or sell shares issued by the Bank while they remain in office, except when said transactions are (i) carried out for reasons other than purely speculative and with due authorization from the board of directors, which shall be granted by the affirmative vote of two thirds of its members, excluding that of the person requesting such authorization, or (ii) when the board of directors should consider such transactions to be convenient and the shareholders shall have authorized such transactions with the affirmative vote of its ordinary majority as provided in the Bank's by-laws, excluding the vote of the person requesting such authorization.

The Bank's Corporate Governance Code provides that in any event, any negotiation of shares carried out by any official, director or manager, may not be done for speculative purposes, which would be presumed for example in the case of the following three conditions coinciding: (i) suspiciously short lapses of time existing between the purchase and the sale of shares; (ii) situations arising proving to be exceptionally favorable for the Bank, and (iii) significant profits being obtained from this transaction.

In addition, Circular 28 of 2007 of the Superintendency of Finance, which establishes the Country Code ( *Código País* ), recommends disclosure of the procedures put in place by securities issuers in order to authorize and supervise the acquisition and disposal of shares by directors and officers, including transactions with shares issued by its subsidiaries.

Consequently, the board of directors of the Bank approved the following procedures to authorize the acquisition or disposal of shares by directors and officers:

The officer or director shall request authorization by giving prior notice to the Secretary General of the Bank of: i) his or her intention to dispose of or acquire shares, convertible bonds, or securities representing shares, in each case issued by the Bank or by its subsidiaries; ii) the number of shares; iii) the class of shares; iv) the approximate value of the investment; and v) the reasons that motivate the transaction.

The Secretary General of the Bank shall present the request of such officer or director at the next meeting of the Bank's board of directors. The Bank's board of directors will then decide in accordance with applicable law and the Corporate Governance Code.

If the transaction is authorized, the Secretary General of the Bank will announce the transaction as a material fact ( *Información Relevante* ).

In order to avoid speculation, the authorized transaction should be completed within a term established by the Bank's board of directors. This term shall not exceed two months from the date of the authorization.

The officer or director shall notify the Secretary General of the Bank of the completion of the authorized transaction as well as its terms and conditions.

The Bank's Corporate Governance Committee shall supervise the development of authorized transactions upon notification from the Secretary General of the Bank.



No prior authorization shall be required in connection with the disposal of shares held through the investment fund Fondo de Acciones SVA that have been received as part of variable remuneration. However, a subsequent indirect disposal of shares through instructions to the investment fund requires authorization.

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Moreover, such transactions shall not be consummated during the following periods:

The months of January, April, July and October of each year and during the first ten (10) calendar days of the remaining months.

The period when officers or directors have knowledge of a material transaction or business deal to be entered into by the Bank until such information is made public.

Officers and directors may exercise preemptive rights with respect of shares without prior authorization of the Bank's board of directors. However, the acquisition of additional preemptive rights is subject to prior authorization.

The Bank's board of directors determined that these procedures shall also be applicable to other employees of the Bank who have had access to confidential financial and accounting information of the Bank as have been identified in the annual certification made by all vice-presidents regarding the employees under their supervision.

According to Article 122 of Decree 663 of 1993, transactions that should be determined by the Colombian government as carried out by credit institutions with their shareholders holding 5% or more of the subscribed capital, with their managers, as well as those carried out with spouses and relatives of shareholders and managers with up to a second degree of consanguinity or affinity, or of a single civil status, shall require the unanimous affirmative vote on the part of the members of the board of directors attending the corresponding meeting. In the minutes of this meeting no condition may be agreed upon that is different from that otherwise used by the entity with regard to the public, according to the type of transaction in question, except those transactions that are carried out with managers to address health, education, housing and transport issues according to the rules and regulations that the board of directors should determine in a general fashion for such purpose. To grant this type of credit, Bancolombia must verify that regulations concerning limits of credit and concentration of risks are not violated.

The Bank's internal policies relating to this topic are included in its Corporate Governance Code.

In disclosing transactions with related parties, the Bank shall apply the rules and regulations defined by the Superintendency of Finance, as contained in Circular 100 of 1995 and its respective amendments and addendas, and by that provided in the Corporate Governance Code.

All economic relations that the Bank maintains with its directors, and senior executives shall be conducted within the limitations and conditions established by applicable legislation and regulations governing the prevention, handling and resolution of conflicts of interest.

All relevant information with respect to economic relations existing between the Bank and its directors, officers and senior executives shall be disclosed to the market by means of reports corresponding to each fiscal period. Furthermore, the list of main shareholders, these being understood as the real beneficiaries of more than 5% of the Bank's shares outstanding, as well as all changes occurring with the Bank's equity interest and control as well as any relevant business conducted between the Bank and its main shareholders shall be disclosed on the Bank's web site.

From time to time, Bancolombia makes loans to affiliates and other related parties and engages in other transactions with such parties. Such loans have been made in the ordinary course of business, on substantially the same terms, including interest rates and required collateral, as those prevailing at the time for comparable transactions with other similarly situated persons, and have not involved more than the normal risk of collectability or presented other unfavorable features.

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Other than as described above, during the last three fiscal years and through the date of this Annual Report, we have not been involved in, and we do not currently anticipate becoming involved in, any transactions that are material to us or any of the Bank's related parties and that are unusual in their nature or conditions.

Bancolombia, on a non-consolidated basis, had a total amount of Ps 428,385 million in loans outstanding to related parties as of April 30, 2009. This amount includes the largest amount outstanding as of April 30, 2009 which is a loan to Inversora Argos S.A. outstanding in the amount of Ps 300,000 million (which is represented in ordinary loans) and accrued interest for Ps 86 million. As of April 30, 2009, the average interest rate for this loan is 10.35%.

As of December 31, 2008, significant balances and transactions with related parties were as follows:

	<b>2008</b>		
	<b><i>Enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the company</i></b>		<b><i>Key management personnel</i></b>
	<b><i>and associates</i></b>		
	<b><i>(Ps million)</i></b>		
<b><i>Balance Sheet</i></b>			
Investment securities		54,331	
Loans		318,709	8,020
Customers' acceptances and derivatives		9,496	
Accounts receivable		8,353	136
<b>Total</b>	<b>Ps</b>	<b>390,889</b>	<b>Ps</b> <b>8,156</b>
Deposits		1,356,313	4,176
Bonds		96,614	
<b>Total</b>	<b>Ps</b>	<b>1,452,927</b>	<b>Ps</b> <b>4,176</b>
<b><i>Transactions Income</i></b>			
Dividends received		9,737	
Interest and fees		39,776	3,420
<b>Total</b>	<b>Ps</b>	<b>49,513</b>	<b>Ps</b> <b>3,420</b>
<b><i>Expenses</i></b>			
Interest		141,296	2,923
Fees		5	892
<b>Total</b>	<b>Ps</b>	<b>141,301</b>	<b>Ps</b> <b>3,815</b>

**C. INTEREST OF EXPERTS AND COUNSEL**

Not applicable.

**Table of Contents****ITEM 8. FINANCIAL INFORMATION****A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION****A.1. CONSOLIDATED FINANCIAL STATEMENTS**

Reference is made to pages F 1 through F 120.

**A.2. LEGAL PROCEEDINGS**

The Bank is involved in normal collection proceedings, restructuring proceedings with respect to certain borrowers and other legal procedures in the ordinary course of business. For the purpose of its audited financial statements Bancolombia has various contingent liabilities, including contingent liabilities relating to ordinary commercial and civil litigation outstanding as of December 31, 2008 amounting to Ps 611,003 million. As of December 31, 2008, there are eleven (11) judicial proceedings against the Bank with an individual value exceeding Ps 5,000 million. Among these, only those which were considered as probable received an accounting provision.

As of December 31, 2008, Ps 266 million of these liabilities are covered in a guarantee contract entered into by Fogafin and private investors when the former Banco de Colombia was privatized in 1994. This guarantee contract remains in force in connection with litigation that was commenced before the privatization of former Banco de Colombia.

In the opinion of management, after consultation with its external Colombian legal counsel, the outcome of these contingent liabilities relating to ordinary commercial and civil litigation is not expected to have a material adverse effect on Bancolombia's financial condition or results of operations and the possibility of loss by Bancolombia as a result of such litigation is not likely to exceed the recorded allowance as of December 31, 2008 of Ps 31,917 million.

***OTHER LEGAL PROCEEDINGS***

The legal claims in which the Bank has been linked as defendant are duly provisioned in the cases required, in accordance with Colombian regulations, as shown in the notes to the financial statements. No event has occurred in those legal proceedings that may significantly and negatively impact the regular course of business of the Bank or its results.

The most significant proceedings are the ones related to the Gilinski Case and one other significant claim against Fiduciaria Bancolombia, as follows:

**(i) Criminal Investigation related to the Gilinski Case .*****Criminal Investigation related to fraud, unauthorized transactions with shareholders and improper use of public resources***

On December 26, 2003, the Special Unit of the Attorney General's Office for Crime Against Public Administration delivered an order (a preclusion order) barring the criminal investigation for the alleged crimes of fraud, unauthorized operations with shareholders and improper use of public resources against Jorge Londoño Saldarriaga and Federico Ochoa Barrera, President and Vice-President of Bancolombia, respectively, which was initiated as a result of an accusation filed by the Gilinski family in connection with the events occurred during the acquisition by Bancolombia (formerly Banco Industrial Colombiano S.A.) of Banco de Colombia S.A. and their subsequent merger. This decision was upheld in the second instance by the Attorney General's Delegated Unit before the Supreme Court of Justice on July 8, 2004.

The Attorney General's Office established that the alleged crimes of fraud, unauthorized operations with shareholders and improper use of public funds had not been committed and as a result the Bank was completely exonerated from the claims for damages filed by the plaintiffs.

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In 2005, before the Constitutional Court Messrs. Jaime and Isaac Gilinski filed an action for the protection of rights against the Attorney General's Office, the Delegated Attorney General's Unit before the Supreme Court of Justice (*Fiscal Delegado ante la Corte Suprema de Justicia*) and the National Unit of the Attorney General's Office Specialized in Crimes against Public Administration, in an attempt to reopen the investigation, alleging that certain evidence gathered abroad was not taken into account when deciding on the merits of the case, thereby obstructing due process. The investigation was reopened with a limited scope, only for the purpose of collecting and evaluating evidence that had been requested to be gathered outside of Colombia.

On January 4, 2007 the Attorney General's Office issued a resolution, which authorized the prosecution of Mr. Londoño Saldarriaga and Mr. Ochoa Barrera, and directed the house arrest of these two Bancolombia officers.

The affected officers of Bancolombia appealed the decision of the Attorney General's Office (*Fiscalía Octava Delegada*) arguing the absence of evidence in support of the Attorney General's Office decision, violating due process and most importantly, disregarding the principle of *res judicata*.

The Prosecutor (*Procuraduría General de la Nación*) also appealed this decision requesting the nullification of the Attorney General's Office decision.

On January 10, 2007, the Attorney General's Office revoked the order issued on January 4, 2007, that had directed the house arrest of Mr. Londoño Saldarriaga and Mr. Ochoa Barrera.

On September 24, 2007 the Attorney General's Delegated Unit before the Supreme Court of Justice on second instance, delivered a preclusion order barring the criminal investigation related to unauthorized transactions with shareholders. This decision was not appealed.

On September 25, 2007, the Delegated Attorney General's Unit before the Supreme Court of Justice, in second instance, revoked the decision of first instance, dated January 4, 2007 and decided not to prosecute the two Bancolombia's officers for the events occurred during the acquisition of Banco de Colombia S.A. by Bancolombia (formerly Banco Industrial Colombiano S.A.) and its subsequent merger in 1998. However the investigation continued and the Delegated Attorney General's Unit before the Supreme Court of Justice ordered the Attorney General of first instance to consider the documentary and testimonial evidence in order to comply with the decision of the Constitutional Court.

On June 17, 2009, the Prosecutor filed a motion requesting that the Attorney General's Office deliver a preclusion order barring the criminal investigation against both Mr. Londoño Saldarriaga and Mr. Ochoa Barrera for the alleged crime of improper use of public funds. The motion also requested a preclusion order barring the criminal investigation against Mr. Ochoa Barrera for the alleged crime of fraud but recommends the continuation of such investigation against Mr. Londoño Saldarriaga.

As of June 23, 2009, the termination of the investigation of the crimes of improper use of public resources and fraud was still pending.

*Criminal Investigation related to willful misconduct and willful neglect by a public officer (prevaricato por acción and prevaricato por omisión)*

On September 12, 2007 the Attorney General's Office No. 218 of the First Unit of Crimes against the Public Administration and Justice of Bogotá (*Fiscal Delegada 218 de la Unidad Primera de Delitos contra la Administración Pública y de Justicia de Bogotá*), revoked its July 31, 2006 decision which had ordered the barring of the investigation against the president of Bancolombia, Mr. Jorge Londoño Saldarriaga and decided to initiate a formal investigation of Mr. Jorge Londoño Saldarriaga, the board of directors of the Central Bank, certain officers of the Superintendency of Finance and the board of directors of the former Banco Industrial Colombiano S.A.. This investigation was related to the acquisition by Bancolombia (formerly Banco Industrial Colombiano S.A.) of Banco de Colombia S.A. and their subsequent merger.

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On April 21, 2009, the Delegated Attorney General's Unit before the Supreme Court of Justice delivered a preclusion order barring (i) the investigation of Mr. Jorge Londoño Saldarriaga regarding the alleged aiding and abetting of the crimes of willful misconduct and willful neglect by a public officer and (ii) the investigation of the members of the board of directors of Banco Industrial Colombiano S.A. in office at the time of the merger with Banco de Colombia S.A. regarding the alleged aiding and abetting of the crimes of willful misconduct and willful neglect by a public officer, procedural fraud and fraud. This order also bars the investigation of the members of the board of directors of the Central Bank and certain officers of the Superintendency of Finance. This decision was appealed by the counterparty.

As of June 23, 2009 the appeal filed by the counterparty remains pending.

**(ii) Arbitration Proceeding: The Bank vs. Gilinski.**

In 2004, an arbitration process was initiated by the Bank under the auspices of the Bogota Chamber of Commerce to resolve certain claims related to hidden contingencies and liabilities that the Bank believes are payable by the former owners of Banco de Colombia .

On March 30, 2006, the arbitral tribunal issued an award ordering the defendant to pay Bancolombia Ps 63,216 million, including inflation adjustments and interest. The defendant filed an action for annulment and on February 26, 2008 the Tribunal Superior de Bogotá (the Superior Court ) annulled this decision.

The Bank presented an appeal *recurso de revision* before the Civil Chamber of the Colombian Supreme Court of Justice, to order the Tribunal Superior de Bogotá review the decision issued on February 26, 2008.

As of June 23, 2009, the appeal (*recurso extraordinario de revisión*) filed by Bancolombia remains pending.

**(iii) Arbitration Proceeding: Gilinski vs. The Bank.**

On June 2, 2004, another arbitration was initiated by the Sellers of Banco de Colombia against Bancolombia and some of its administrators, based on charges similar to those previously presented before various administrative and judicial authorities, related to the process of acquisition by BIC of a majority of the stock of the old Banco de Colombia and the later merger of both entities.

On May 16, 2006, the arbitration tribunal issued an award that ruled in favor of Bancolombia on the majority of the claims. However, the tribunal ruled that Bancolombia should pay Ps 40,570 million to the plaintiffs with respect to non-compliance with some secondary obligations in the capitalization process.

The arbitration tribunal denied all the plaintiffs' claims against the senior management and exonerated them of all liability, ordering the plaintiffs to pay the court costs.

In addition, the arbitration tribunal held that plaintiffs had failed to prove that Bancolombia and its senior managers committed any fraudulent operations or fraudulent representations regarding the above-mentioned agreement, and denied any moral damages in favor of the plaintiffs.

On June 7, 2006, the Bank filed an extraordinary annulment action before the Superior Tribunal of Bogota. In the annulment action, the Bank argued that the ruling contained mathematical mistakes, that the arbitration tribunal did not decide issues that were material to the arbitration and that the arbitration tribunal improperly granted more than the requested. This annulment action did not succeed and consequently the May 16, 2007 award by the arbitration tribunal was upheld.

On March 11, 2008, the Bank paid approximately US\$ 33.39 million, including interests on the above mentioned date on account of the arbitral award. Consequently this proceeding is terminated and is not subject to any further appeals.

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

On February 28, 2007, the United States Court for the Southern District of New York (the Court ) dismissed the complaint of the sellers of the former Banco de Colombia against Bancolombia, its President Jorge Londoño Saldarriaga, and some of the officers that were members of the board of directors of Bancolombia at the time of the acquisition and merger.

The lawsuit, which had been initiated on March 24, 1999, had been suspended by the Court on September 28, 1999, pending the resolution of the case before the arbitral tribunal in Colombia, described immediately above.

The Court based its February 28, 2007 ruling on the principle of res judicata. The Court considered that the award of the Colombian arbitral tribunal, dated May 16, 2006, decided the same claims filed before the Court in New York and therefore rejected the liability of Bancolombia and its managers and dismissed plaintiff's complaint in its entirety with prejudice. On March 23, 2007, the plaintiffs filed a notice of appeal of this decision. In February 2008, the Court of Appeals summarily affirmed the February 28, 2007 ruling. The time for further appeal of the judgment has expired.

**(v) Arbitration Proceeding: Ministry of Social Protection vs. Fiduciaria Bancolombia, Fiduciaria la Previsora S.A. and Fiduciaria Cafetera S.A.**

On January 31, 2008, the Colombian Social Protection Ministry (*Ministerio de Protección Social*) filed a complaint against Fiduciaria Bancolombia, Fiduciaria La Previsora S.A. and Fiduciaria Cafetera S.A. (together the Fosalud Consortium ) and requested the Chamber of Commerce of Bogota the installation of an arbitration tribunal. The complaint was filed in connection with an agreement dated December 14, 2000 for the administration of FOSYGA funds alleging unauthorized payments in favor of health care entities (*entidades promotoras de salud*) and health compensation entities (*entidades obligadas a compensar*), and other breaches of contract. The complaint requests the restoration and payment of Ps 173,001,916,480 or such other amounts as may be proved.

The Fosalud Consortium claimed a number of defenses to the plaintiff's claims and additionally Fiduciaria Bancolombia, Fiduciaria La Previsora S.A. and Fiduciaria Cafetera S.A. are requesting the payment of Ps 1,748,134,902.94 in respect of trust fees that were not paid by the Colombian Ministry of Social Protection, plus interest, as well as other damages.

This proceeding has been successively suspended since the August 27, 2008 to allow the parties to reach a settlement. The suspension will expire on October 20, 2009.

**(vi) Arbitration Proceeding: Luis Alberto Durán vs. Bancolombia.**

On February 17, 2004, the Bank filed an extraordinary cancellation action against an award that decided the class action of the minority shareholders of the former Banco de Colombia given as a result of the arbitration proceedings filed by Mr. Luis Alberto Duran and other plaintiffs against Bancolombia before the Superior Tribunal of Bogota.

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



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On April 8, 2008 the Bank sent to the Defensoría del Pueblo, entity in charge of paying to the beneficiaries of the case the amount ordered by the Superior Tribunal of Bogota, a total amount of Ps 3,335 million. This amount will cover the claims from the shareholders of the former Banco de Colombia that were timely brought through the Defensoría del Pueblo.

**(vii) Action for the protection of collective rights: Maximiliano Echeverri Vs. The Bank and Others.**

In a constitutional action filed by the lawyer Maximiliano Echeverri against the Bank and the Colombian Superintendencies of Banking and Securities (now the Superintendency of Finance), the Contentious Administrative Tribunal of Cundinamarca ruled against the plaintiff's claims on August 10, 2005. On June 7, 2006, the Council of State upheld the original decision against the plaintiff on appeal. Nevertheless, the plaintiff requested the nullity of the process before the Contentious Administrative Tribunal of Cundinamarca. On January 24, 2007 the Contentious Administrative Tribunal of Cundinamarca ruled against the plaintiff. The Bank has been subject of negative publicity focusing on these actions. However, this negative publicity has not negatively impacted its solvency, its business and operations, or its obligations with its customers and clients.

**A.3. DIVIDEND POLICY**

The declaration, amount and payment of dividends is based on Bancolombia's unconsolidated earnings. Dividends must be approved at the ordinary annual shareholders' meeting upon the recommendation of the board of directors and the President of Bancolombia. Under the Colombian Commerce Code, after payment of income taxes and appropriation of legal and other reserves, and after setting off losses from prior fiscal years, Bancolombia must distribute to its shareholders at least 50% of its annual net income or 70% of its annual net income if the total amount of reserves exceeds its outstanding capital. Such dividend distribution must be made to all shareholders, in cash or in issued stock of Bancolombia, as may be determined by the shareholders, and within a year from the date of the ordinary annual shareholders' meeting in which the dividend was declared. Pursuant to Colombian law, the minimum dividend per share requirement of 50% or 70% as the case may be, may be waived by an affirmative vote of the holders of 78% of the shares present at the shareholders' meeting.

Under Colombian law, the annual net profits of Bancolombia must be applied as follows:

first, an amount equal to 10% of Bancolombia's net profits to a legal reserve until such reserve is equal to at least 50% of the Bank's paid-in capital;

second, to the payment of the minimum dividend on the preferred shares (for more information, see Item 10. Additional Information - B. Memorandum and Articles of Association ); and

third, as may be determined in the ordinary annual shareholders' meeting by the vote of the holders of a majority of the shares entitled to vote, upon the recommendation of the board of directors, and may, subject to further reserves required by Bancolombia's by-laws, be distributed as a dividend.

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The following table sets forth the annual cash dividends paid on each common share and each preferred share during the periods indicated:

<i>Dividends declared with respect to net Income earned in:</i>	<i>Cash Dividends per share<sup>(1)(2)</sup> (Ps)</i>	<i>Cash Dividends per share<sup>(1)(3)</sup> (U.S. dollars)</i>
2004	376	0.159
2005	508	0.222
2006	532	0.243
2007	568	0.310
2008	624	0.245

(1) Includes common shares and preferred shares.

(2) Cash dividends for 2004 2005, 2006 and 2007 were paid in quarterly installments and cash dividends for 2008 will be paid in quarterly installments, since April 2009 to January 2010.

(3) Amounts have been translated from pesos at the Representative Market Rate in effect at the end of the month in which the dividends were declared (February or March, as applicable).

**B. SIGNIFICANT CHANGES**

There have not been any significant changes since the date of the annual financial statements included in this document.

**ITEM 9. THE OFFER AND LISTING.****A. OFFER AND LISTING DETAILS**

Bancolombia is a New York Stock Exchange ( NYSE ) listed company and its ADSs are listed under the symbol CIB . The Bank s ADSs have been listed on the NYSE since July, 1995. Bancolombia s preferred shares are also listed in the Colombian Stock Exchange. The table below sets forth, for the periods indicated, the reported high and low market prices and share trading volume for the preferred shares on the Colombian Stock Exchange. The table also sets forth the reported high and low market prices and the trading volume of the ADSs on the NYSE for the periods indicated:

<i>Year Ending</i>	<i>Colombia Stock Exchange</i>		<i>New York Stock Exchange</i>		
	<i>Ps Per Preferred Share</i>		<i>US\$ per ADS</i>		<i>Trading Volume</i>
	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>(Number of ADSs)</i>
December 31, 2003	3,800	1,750	5.35	2.32	9,789,400
December 31, 2004	9,030	3,839	14.12	5.30	31,487,800
December 31, 2005	17,000	7,670	29.25	12.40	81,772,000
December 31, 2006	20,700	12,980	36.18	20.00	97,287,628
December 31, 2007	19,360	13,200	39.00	24.00	129,408,200
December 31, 2008	18,960	9,300	44.00	15.00	135,084,078

Source: NYSENet (Composite Index) and Colombia Stock Exchange.

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	<i>Colombia Stock Exchange</i>			<i>New York Stock Exchange</i>		
	<i>Pes Per Preferred Shares</i>		<i>Trading Volume (Number of Shares)</i>	<i>US\$ per ADS</i>		<i>Trading Volume (Number of ADSs)</i>
	<i>High</i>	<i>Low</i>		<i>High</i>	<i>Low</i>	
<b>2007</b>						
First quarter	17,800	14,680	10,694,697	32.00	24.00	17,335,920
Second quarter	15,584	13,320	19,721,707	35.00	26.15	33,393,208
Third quarter	17,940	14,980	31,476,408	37.33	28.42	48,418,900
Fourth quarter	19,360	16,680	23,190,999	39.00	32.88	32,705,772
<b>2008</b>						
First quarter	17,800	13,800	15,322,243	36.15	28.30	32,658,916
Second quarter	18,960	14,200	19,692,336	44.00	31.11	33,723,007
Third quarter	18,000	12,700	19,660,860	36.30	25.36	33,308,846
Fourth quarter	16,520	9,300	59,706,668	29.88	15.00	35,393,309
<b>2009</b>						
First quarter	13,160	10,500	62,193,123	24.33	15.90	32,044,861

Source: NYSENet (Composite Index) and Colombia Stock Exchange.

<i>Month</i>	<i>Colombia Stock Exchange</i>		<i>New York Stock Exchange</i>		<i>Trading Volume (Number of ADSs)</i>
	<i>Pes Per Preferred Share</i>		<i>US\$ per ADS</i>		
	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	
December 2008	13,640	11,380	25.00	19.44	10,580,055
January 2009	13,160	11,240	24.33	20.36	9,296,455
February 2009	12,700	10,500	21.20	15.90	13,321,611
March 2009	12,600	10,580	22.23	16.16	10,136,611
April 2009	13,800	12,160	23.75	18.96	12,365,403
May 2009	16,000	13,500	29.85	22.90	9,833,569
June 2009 <sup>(1)</sup>	16,500	15,520	32.19	29.13	8,042,278

Source: NYSENet (Composite Index) and Colombia Stock Exchange.

(1) Figures are as of June 24, 2009.

ADRs evidencing ADSs are issuable by The Bank of New York, as Depositary, pursuant to the Deposit Agreement, dated as of July 25, 1995, entered into by Bancolombia, the Depositary, the owners of ADRs from time to time and the owners and beneficial owners from time to time of ADRs, pursuant to which the ADSs are issued (as amended, the Deposit Agreement). The Deposit Agreement was amended and restated on January 14, 2008. Copies of the Deposit Agreement are available for inspection at the Corporate Trust Office of the Depositary, currently located at 101 Barclay Street, New York, New York 10286, and at the office of Fiduciaria Bancolombia, as agent of the Depositary, currently located at Carrera 48, No. 26 85, Medellín, Colombia or Calle 30A No. 6-38, Bogotá, Colombia. The

Depository's principal executive office is located at One Wall Street, New York, New York 10286. On September 30, 1998, Bancolombia filed a registration statement on Form F-3 with the SEC to register ADSs evidenced by ADRs, each representing four preferred shares, issued in connection with the merger between BIC and Banco de Colombia for resale by the holders into the U.S. public market from time to time. On January 24, 2005, the Board determined to deregister the unsold ADSs registered under the registration statement on Form F-3. On March 14, 2005, Bancolombia filed an amendment to the registration statement deregistering the remaining unsold ADSs. On August 8, 2005, Bancolombia filed, through the Depository, a registration statement on Form F-6 registering 50,000,000 ADSs evidenced by ADRs in connection with the Conavi/Corfinsura merger. On May 14, 2007, Bancolombia filed an automatic shelf registration statement on Form F-3 with the SEC to register an indeterminate amount of debt securities, preferred shares and rights to subscribe preferred shares in connection with the subsequent offerings which took place in the second and third quarter of 2007. On January 14, 2008, by filing the form F-6 before the SEC, Bancolombia increased the amount of its ADR program up to 400,000,000 American Depository Shares, and registered some amendments to the Depository Agreement of ADS's between Bancolombia and the Bank of New York.

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**B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

The Colombian Stock Exchange is the principal non-U.S. trading market for the preferred shares and the sole market for the common shares. As of December 31, 2008, the market capitalization for Bancolombia's preferred shares based on the closing price in the Colombian Stock Exchange was Ps 3,543.28 billion. There are no official market makers or independent specialists in the Colombian Stock Exchange to assure market liquidity and, therefore, orders to buy or sell in excess of corresponding orders to sell or buy will not be executed. The Colombian Stock Exchange is relatively volatile compared to major world markets. The aggregate equity market capitalization of the Colombian Stock Exchange as of December 31, 2008, was Ps 195,699.2 billion (U.S. dollars 87,600.4 million), with 89 companies listed as of that date.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSES OF THE ISSUE**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

Set forth below is certain information concerning the Bank's capital stock and a brief summary of certain significant provisions of the Bank's by-laws and Colombian corporate law. This description does not purport to be complete and is qualified by reference to the Bank's by-laws (an English translation of which is attached to this Annual Report as Exhibit 1) and to Colombian corporate law.

Bancolombia is publicly held corporation with its principal place of business in the city of Medellín, Colombia, governed mainly by the Bank's by-laws and by Colombian corporate law.

***BANCOLOMBIA'S CORPORATE PURPOSE***

Pursuant to Article Four of its by-laws, Bancolombia's corporate purpose consists of all kinds of banking operations, business, acts and services. Subject to applicable law, Bancolombia may carry out all the activities and investments authorized to banking establishments. Bancolombia is also authorized to participate in the capital stock of other companies, subject to any restrictions imposed by applicable law.

**Table of Contents****BOARD OF DIRECTORS**

As of the date of filing of this Annual Report, Bancolombia's board of directors is composed of nine (9) directors, elected for a two-year term on March 2, 2009, with no alternate directors being provided for. Please see Item 6.A Directors and Senior Management Directors, for more information regarding Bancolombia's current directors. After being designated, all of the members of the Board of Directors need an authorization from the Superintendency of Finance. This entity analyzes if the director has an adequate resume for the position according to the requirements of the Colombian Law.

The directors of Bancolombia must abstain from participating, directly or through an intermediary, on their own behalf or on behalf of a third party, in activities that may compete against the Bank or in conflict-of-interest transactions that may generate a conflict of interest situation, unless the general shareholders meeting expressly authorizes such transactions. For such purposes, the directors shall provide the shareholders meeting with all the relevant information necessary for the shareholders to reach a decision. If the director is a shareholder, his or her vote shall be excluded from the respective decision process. In any case, the general shareholders meeting could only grant its authorization if the act does not adversely affect Bancolombia's interests.

In the general annual shareholders meeting, the shareholders are responsible for determining, the compensation of the members of the board of directors.

Pursuant to the by-laws of Bancolombia, the board of directors has the power to authorize the execution of any agreement, within the corporate purpose of Bancolombia, and to adopt the necessary measures in order for the Bank to accomplish its purpose.

The by-laws of Bancolombia do not provide for: (i) any age limit requirement regarding retirement or non-retirement of directors or (ii) any number of shares required for director's qualification.

**DESCRIPTION OF SHARE RIGHTS, PREFERENCES AND RESTRICTIONS**

Bancolombia's by-laws provide for an authorized capital stock of Ps 500,000,000,000 divided into 1,000,000,000 shares of a par value of Ps 500 each, which may be of the following classes: (i) common shares, (ii) privileged shares, and (iii) shares with preferred dividend and no voting rights (preferred shares). Pursuant to Article 6 of the by-laws, all shares issued shall have the same nominal value.

As of December 31, 2008, Bancolombia had 509,704,584 common shares and 278,122,419 preferred shares outstanding and a capital stock of Ps 460,684 million divided into 787,827,003 shares. No privileged shares have been issued by Bancolombia.

***Voting Rights******Common Shares***

The holders of common shares are entitled to vote on the basis of one vote per share on any matter subject to approval at a general shareholders meeting. These general meetings may be ordinary meetings or extraordinary meetings. Ordinary general shareholder meetings occur at least once a year but no later than three months after the end of the prior fiscal year, for the following purposes:

to consider the approval of Bancolombia's annual report, including the financial statements for the preceding fiscal year;

to review the annual report prepared by the external auditor;

to determine the compensation for the members of the board of directors, the external auditor and the client representative ( *defensor del cliente* ). The client representative acts as spokesman of the clients and users before the Bank, his primary duty is to objectively solve, free of charge and within the terms established by law, the individual complaints submitted by clients.

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to elect directors, the client representative and the external auditor (each for a two-year term); and

to determine the dividend policy and the allocation of profits, if any, of the preceding fiscal year, as well as any retained earnings from previous fiscal years.

According to Decree 3923 of 2006, the election of independent directors must be in a separate ballot from the ballot to elect the rest of the directors, unless the reaching of the minimum number of independent directors required by law or by the by-laws is assured, or when there is only one list that includes the minimum number of independent directors required by law or by the by-laws.

According to Law 964 of 2005, 25% of the members of the board of directors shall be independent. A person who is an independent director is understood to mean a director who is NOT:

An employee or director of the issuer or any of its parent or subsidiary companies, including all those persons acting in said capacity during the year immediately preceding that in which they were appointed, except in the case of an independent member of the board of directors being re-elected.

Shareholders, who either directly or by virtue of an agreement direct, guide or control the majority of the entity's voting rights or who determine the majority composition of the administrative, directing or controlling bodies of this same entity.

A partner or employee of any association or firm that provides advisory or consultancy services to the issuer or to companies who belong to the same economic group to which the issuer in question belongs, in the event that income obtained from such services represent for said association or firm twenty per cent (20%) or more of its total operating income.

An employee or director of a foundation, association or institution that receives significant donations from the issuer. The term significant donations is quantified as being twenty per cent (20%) or more of the total amount of donations received by the respective institution.

An administrator of any entity on whose board of directors a legal representative of the issuer participates.

Any person who receives from the issuer any kind of remuneration different from fees as a member of the board of directors, of the audit committee or any other committee set up by the board of directors.

Both elections are made under a proportional representation voting system. Under that system:

each holder of common shares is entitled at the annual general shareholders' meeting to nominate for election of one or more directors;

each nomination of one or more directors constitutes a group for the purposes of the election;

each group of nominees must contain a hierarchy as to the order of preference for nominees in that group to be elected;



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once all groups have been nominated, holders of common shares may cast one vote for each common share held in favor of a particular group of nominees. Votes may not be cast for particular nominees in a group; they may be cast only for the entire group;

the total number of votes casted in the election is divided by the number of directors to be elected. The resulting quotient is the quota of votes necessary to elect particular directors. For each time that the number of votes cast for a group of nominees is divisible by the quota of votes, one nominee from that group is elected, in the order of the hierarchy of that group; and

when no group has enough remaining votes to satisfy the quota of votes necessary to elect a director, any remaining board seat or seats are filled by electing the highest remaining nominee from the group with the highest number of remaining votes cast until all available seats have been filled.

Extraordinary general shareholders meetings may take place when duly called for a specified purpose or purposes, or, without prior notice, when holders representing all outstanding shares entitled to vote on the issues presented are present at the meeting.

Quorum for both ordinary and extraordinary general shareholders meetings to be convened at first call requires the presence of two or more shareholders representing at least half plus one of the outstanding shares entitled to vote at the relevant meeting. If a quorum is not present, a subsequent meeting is called at which the presence of one or more holders of shares entitled to vote at the relevant meeting constitutes a quorum, regardless of the number of shares represented. General meetings (whether ordinary or extraordinary) may be called by the board of directors, the President or the external auditor of Bancolombia. In addition, two or more shareholders representing at least 20% of the outstanding shares have the right to request that a general meeting be convened. Notice of ordinary general meetings must be published in one newspaper of wide circulation at Bancolombia's principal place of business at least 15 business days prior to an ordinary general shareholders meeting. Notice of extraordinary general meetings, listing the matters to be addressed at such a meeting must be published in one newspaper of wide circulation at Bancolombia's principal place of business at least five calendar days prior to an extraordinary general meeting.

Except when Colombian law or Bancolombia's by-laws require a special majority, action may be taken at a general shareholder's meeting by the vote of two or more shareholders representing a majority of common shares present. Pursuant to Colombian law and/or Bancolombia's by-laws, special majorities are required to adopt the following corporate actions:

a favorable vote of at least 70% of the shares represented at a general shareholders meeting is required to approve the issuance of stock without granting a preemptive right in respect of that stock in favor of the shareholders;

a favorable vote of at least 78% of the holders of common shares present to decide not to distribute as dividend at least 50% of the annual net profits of any given fiscal year as required by Colombian law;

a favorable vote of at least 80% of the holders of common shares and 80% of the holders of subscribed preferred shares to approve the payment of a stock dividend; and

a favorable vote of at least 70% of the holders of common shares and of subscribed preferred shares to effect a decision to impair the conditions or rights established for such preferred shares, or a decision to convert those preferred shares into common shares.

Adoption of certain of the above-mentioned corporate actions also requires the favorable vote of a majority of the preferred shares as specified by Colombian law and Bancolombia's by-laws. If the Superintendency of Finance determines that any amendment to the by-laws fails to comply with Colombian law, it may demand that the relevant provisions be modified accordingly. Under these circumstances, Bancolombia will be obligated to comply in a timely

manner.

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*Preferred Shares*

The holders of preferred shares are not entitled to receive notice of, attend to or vote at any general shareholders meeting of holders of common shares except as described below.

The holders of preferred shares will be entitled to vote on the basis of one vote per share at any shareholders meeting, whenever a shareholders vote is required on the following matters:

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

When voting the anticipated dissolution, merger or transformation of the corporation or change of its corporate purpose.

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

When the general shareholders meeting orders the payment of dividends with issued shares of the Bank.

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

When the registration of shares at the Colombian Stock Exchange or at the National Register of Securities and Issuers which is a registry kept by the Superintendency of Finance, is suspended or canceled. In this event, voting rights shall be maintained until the irregularities that resulted in such cancellation or suspension are resolved.

Bancolombia must cause a notice of any meeting at which holders of preferred shares are entitled to vote to be mailed to each record holder of preferred shares. Each notice must include a statement stating:

the date of the meeting;

a description of any resolution to be proposed for adoption at the meeting on which the holders of preferred shares are entitled to vote; and

instructions for the delivery of proxies.

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***Dividends***

***Common Shares***

Once the shareholders present at the relevant general shareholders meeting have approved the financial statements, then they can determine the allocation of distributable profits, if any, of the preceding year. This is done by a resolution adopted by the vote of the holders of a majority of the common shares at the annual general shareholders meeting pursuant to the recommendation of the board of directors and the President of Bancolombia.

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

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

first, an amount equivalent to 10% of net profits is segregated to build a legal reserve until that reserve is equal to at least 50% of Bancolombia's paid-in capital;

second, payment of the minimum dividend on the preferred shares; and

third, allocation of the balance of the net profits is determined by the holders of a majority of the common shares entitled to vote on the recommendation of the board of directors and the President and may, subject to further reserves required by the by-laws, be distributed as dividends.

Under Colombian law, the dividends payable to the holders of common shares cannot exceed the dividends payable to holders of the preferred shares. Bancolombia's by-laws requires to maintain a reserve fund equal to 50% of paid-in capital. All common shares that are fully paid in and outstanding at the time a dividend or other distribution is declared are entitled to share equally in that dividend or other distribution. Common shares that are only partially-paid in participate in a dividend or distribution in the same proportion than the shares have been paid in at the time of the dividend or distribution.

The general shareholders meeting may allocate a portion of the profits to welfare, education or civic services, or to support economic organizations of the Bank's employees.

***Preferred Shares***

Holders of preferred shares are entitled to receive dividends based on the profits of the preceding fiscal year, after deducting losses affecting the capital and once the amount that shall be legally set apart for the legal reserve has been deducted, but before creating or accruing for any other reserve, of a minimum preferred dividend equal to one per cent (1%) yearly of the subscription price of the preferred share, provided this dividend is higher than the dividend assigned to common shares, if this is not the case, the dividend shall be increased to an amount that is equal to the per share dividend on the common shares. The dividend received by holders of common shares may not be higher than the dividend assigned to preferred shares.

Payment of the preferred dividend shall be made at the time and in the manner established in the general shareholders meeting and with the priority indicated by Colombian law.

In the event that the holders of preferred shares have not received the minimum dividend for a period in excess of two consecutive fiscal years, they will acquire certain voting rights. See Item 10.B Memorandum and Articles of Association Description of Share Rights, Preferences and Restrictions Voting Rights Preferred Shares .

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### *General aspects involving Dividends*

Subject to the decision of the General Meeting of Shareholders, the dividend may be payable in stock. This decision shall be compulsory to the stockholders provided it has been approved by the majority in the manner provided for in number 3 of article 47 of the Bancolombia's By-laws.

The dividend periods may be different from the periods covered by the general balance sheet. In the general shareholders' meeting, shareholders will determine such dividend periods, the effective date, the system and the place for payment of dividends.

Dividends declared on the common shares and the preferred shares will be payable to the record holders of those shares, as they are recorded on Bancolombia's stock registry, on the appropriate record dates as determined in the general shareholders' meeting.

Any stock dividend payable by Bancolombia will be paid in common shares to the holders of common shares and in preferred shares to the holders of preferred shares. Nonetheless, Shareholders at the general shareholders' meeting may authorize the payment in common shares to all shareholders.

Any stock dividend payable in common shares requires the approval of 80% or more of the shares present at a shareholders' meeting, which will include 80% or more of the outstanding preferred shares. In the event that none of the holders of preferred shares is present at such meeting, a stock dividend may only be paid to the holders of common shares that approve such a payment.

### *Liquidation Rights*

Bancolombia will be dissolved if certain events take place, including the following:

- its term of existence, as stated in the by-laws, expires without being extended by the shareholders prior to its expiration date;

- losses cause the decrease of its shareholders' equity below 50% of its outstanding capital stock, unless one or more of the corrective measures described in the Colombian Commerce Code are adopted by the shareholders within six months;

- by decision at the general shareholders' meeting.

- in certain other events expressly provided by law and in the by-laws.

Upon dissolution, a liquidator must be appointed by a general meeting of the shareholders to wind up its affairs. In addition, the Superintendency of Finance has the power to take over the operations and assets of a commercial bank and proceed to its liquidation under certain circumstances and in the manner prescribed in the Estatuto Orgánico del Sistema Financiero Decree 663 of 1993. For more information see Item 4. Information on The Company B. Business Overview B.7. Supervision and Regulation Intervention Powers of the Superintendency of Finance- Bankruptcy Considerations .

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

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Subject to the preferential liquidation rights of holders of preferred shares, all fully paid common shares will be entitled to participate equally in any distribution upon liquidation. Partially paid common shares must participate in a distribution upon liquidation in the same proportion that those shares have been paid at the time of the distribution.

To the extent there are surplus assets available for distribution after full payment to the holders of common shares of the initial subscription price of the common shares, the surplus assets will be distributed among all holders of shares of capital stock pro rata in accordance with their respective holdings of shares.

*Preemptive Rights and Other Anti-Dilution Provisions*

Pursuant to the Colombian Commerce Code, Bancolombia is allowed to have an amount of outstanding capital stock smaller than the authorized capital stock set out in its by-laws. Under Bancolombia's by-laws, the holders of common shares determine the amount of authorized capital stock, and the board of directors has the power to (a) order the issuance and regulate the terms of subscription of common shares up to the total amount of authorized capital stock and (b) regulate the issuance of shares with rights to a preferential dividend but without the right to vote, when expressly delegated at the general shareholders' meeting. The issuance of preferred shares must always be first approved at the general shareholders' meeting, which shall determine the nature and extent of any privileges, according to the by-laws and Colombian law.

At the time a Colombian company is formed, its outstanding capital stock must represent at least 50% of the authorized capital. Any increases in the authorized capital stock or decreases in the outstanding capital stock must be approved by the majority of shareholders required to approve a general amendment to the by-laws. Pursuant to Decree 663, the Superintendency of Finance may order a commercial bank to increase its outstanding capital stock under certain special circumstances.

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 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. See Item 3. Key Information - D. Risk Factors. Preemptive rights may not be available to holders of ADRs.

Shareholders at a general meeting of shareholders may suspend preemptive rights with respect to a particular capital increase by a favorable vote of at least 70% of the shares represented at the meeting. Preemptive rights must be exercised within the period stated in the share placement terms of the increase, which cannot be shorter than 15 business days following the publication of the notice of the public offer of that capital increase. From the date of the notice of the share placement terms, preemptive rights may be transferred separately from the corresponding shares.

The Superintendency of Finance will authorize decreases in the outstanding capital stock decided by the holders of common shares only if:

- Bancolombia has no liabilities;
- Bancolombia's creditors consent in writing; or
- the outstanding capital stock remaining after the reduction represents at least twice the amount of Bancolombia's liabilities.

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*Limits on Purchases and Sales of Capital Stock by Related Parties*

Pursuant to the Colombian Commerce Code, the members of the Bank's board of directors and certain of our principal executive officers may not, directly or indirectly, buy or sell shares of our capital stock while they hold their positions, unless they obtain the prior approval of the board of directors passed with the vote of two-thirds of its members (excluding, in the case of transactions by a director, such director's vote).

*No Redemption*

Colombian law prohibits Bancolombia from repurchasing shares of its capital stock, including the preferred shares.

**C. MATERIAL CONTRACTS**

In May 2007, Bancolombia, through its subsidiary Bancolombia Panamá, acquired Banagrícola, a holding company with several subsidiaries dedicated to banking, commercial and consumer activities, insurance, pension funds and brokerage, among others, which are Banco Agrícola in El Salvador and Banco Agrícola Panamá S.A. in Panama. This transaction included the acquisition of all of Banagrícola's subsidiaries, including the commercial and retail banking, insurance, pension funds and brokerage activities.

On June 6, 2008, Bancolombia announced the execution of an agreement whereby it sold 100% of its direct and indirect interest in Multienlace S.A. to Stratton Spain S.L., equating to approximately 98% of Multienlace S.A. The purchase price was Ps 105,882.6 million. Multienlace S.A. provides business process outsourcing and contact center services to corporate clients.

**D. EXCHANGE CONTROLS**

The Central Bank has consistently made foreign currency available to Colombian private sector entities to meet their foreign currency obligations. Nevertheless, in the event of shortages of foreign currency, foreign currency may not be available to private sector companies and foreign currency needed by the Bank to service foreign currency obligations may not be purchased in the open market without substantial additional cost.

The Foreign Exchange Statute is contained in Law 9 of 1991 and External Resolution No. 8 of 2000, which were implemented by the External Regulating Circular DCIN 83 of 2006 of the board of directors of the Central Bank. The International Investment Statute of Colombia is also contained in Decree 2080 of 2000 and Decree 1844 of 2003, as amended, and regulates the manner in which foreign investors can participate in the Colombian securities markets and undertake other types of investment, prescribes registration with the Central Bank of certain foreign exchange transactions and specifies procedures pursuant to which certain types of foreign investments are to be authorized and administered.

Each individual investor who deposits preferred shares into the ADS deposit facility for the purpose of acquiring ADSs (other than in connection with or reacquisition of the ADSs pursuant to the ADS offerings) will be required, as a condition to acceptance by Fiduciaria Bancolombia, as custodian of such deposit, to provide or cause to be provided certain information to Fiduciaria Bancolombia, to enable it to comply with the registration requirements under the foreign investment regulations relating to foreign exchange. A holder of ADSs who withdraws preferred shares from the ADS deposit facility under certain circumstances may be required to comply directly with certain registration and other requirements under the foreign investment regulations. Under such regulations, the failure of a non-resident investor to report or register foreign exchange transactions relating to investments in Colombia with the Central Bank on a timely basis may prevent the investor from obtaining remittance rights, constitute an exchange control infraction and result in a fine.

Under Colombian law and the Bank's by-laws, foreign investors receive the same treatment as Colombian citizens with respect to the ownership and the voting of ADSs and preferred shares. For a detailed discussion of ownership restrictions see Item 4. Information on the Company B. Business Overview B.7. Supervision and Regulation Ownership Restrictions .

**Table of Contents****E. TAXATION*****Colombian Taxation***

For purposes of Colombian taxation, an individual is a resident of Colombia if he or she is physically present in Colombia for six or more months during the calendar year or six or more consecutive or non consecutive months during fiscal year. For purposes of Colombian taxation, a legal entity is a resident of Colombia if it is organized under the laws of Colombia.

In Colombia, dividends received by foreign companies or other foreign entities, non-resident individuals and successions of non-residents are subject to income taxes.

Foreign companies, foreign investment funds, and individuals that are not Colombian residents are not required by law to file an income tax return in Colombia when dividends that have not been taxed at the corporate level have been subject to withholding taxes.

Pursuant to the International Investment Statute (see Item 10. Additional Information D. Exchange Controls ) the preferred shares deposited under the Deposit Agreement constitute a Foreign Institutional Capital Investment Fund . Under Article 18-1 of the *Estatuto Tributario*, Decree 624 of 1989 as amended (the Fiscal Statute ), dividends paid to foreign institutional capital investment funds are not subject to Colombian income, withholding, remittance or other taxes, provided that such dividends are paid in respect of previously taxed earnings of Bancolombia. Therefore, provided that distributions are made by the Bank to the holders of ADRs through the Depositary, all distributions by the Bank made on account of preferred shares to holders of ADRs evidencing ADSs who are not resident in Colombia, as defined below, will be exempt from Colombian income, withholding and remittance taxes, except when distributions are paid out of non-taxed earnings of the Bank, in which case the applicable tax rate for that distribution dividend is 33%.

Likewise, dividends paid to a holder of preferred shares (as distinguished from the ADSs representing such preferred shares) who is not a resident of Colombia, as defined below, and who holds the preferred shares in his own name, rather than through another institutional or individual fund, will be subject to income tax if such dividends do not correspond to the Bank's profits that have been taxed at the corporate level. For these purposes, the applicable rate is 33%.

Pursuant to article 36-1 of the Fiscal Statute, earnings received by a non-resident of Colombia derived from stock trading are not subject to income, withholding, remittance or other taxes in Colombia when the stock is listed in the Colombian Stock Exchange and the transaction does not involve the sale of 10% or more of the company's outstanding stock by the same beneficial owner in the same taxable year.

In the case of preferred shares trading in Colombia, the seller has to file an income tax return, and, if article 36-1 of the Colombian Fiscal Statute is not applicable, the transaction is subject to income tax at a rate of 33%. The sale of stock by foreign institutional capital investment funds is not subject to income tax pursuant to article 18-1 of the Fiscal Statute.

***Other Tax Considerations***

As of the date of this report, there is no income tax treaty and no inheritance or gift tax treaty in effect between Colombia and the United States. Transfers of ADSs from non-residents or residents to non-residents of Colombia by gift or inheritance are not subject to Colombian income tax. Transfers of ADSs or preferred shares by gift or inheritance from residents to residents or from non residents to residents will be subject to Colombian income tax at the income tax rate applicable for occasional gains obtained by residents of Colombia. Transfers of preferred shares by gift or inheritance from non residents to non residents or from residents to non residents are also subject to income tax in Colombia at a rate of 34% for 2007 and 33% for 2008 and thereafter. There are no Colombian stamp, issue, registration, transfer or similar taxes or duties payable by holders of preferred shares or ADSs.



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***United States Federal Income Taxation Considerations***

***In General***

This section describes the material United States federal income tax consequences generally applicable to ownership by a U.S. holder (as defined below) of preferred shares or ADSs. It applies to you only if you hold your preferred shares or ADSs as capital assets for U.S. federal income tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of the Bank's voting stock;
- a person that holds preferred shares or ADSs as part of a straddle or a hedging or conversion transaction; or
- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions all as currently in effect. These laws are subject to change, possibly on a retroactive basis. There is currently no comprehensive income tax treaty between the United States and Colombia. In addition, this section is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. For United States federal income tax purposes, if you hold ADRs evidencing ADSs, you generally will be treated as the owner of the preferred shares represented by those ADRs. Exchanges of preferred shares for ADRs, and ADRs for preferred shares generally will not be subject to United States federal income tax.

You are a U.S. holder if you are a beneficial owner of preferred shares or ADSs and you are:

- a citizen or resident of the United States;
- a domestic corporation;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

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If a partnership holds the preferred shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the preferred shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of its investment in the preferred shares or ADSs.

You should consult your own tax advisor regarding the United States federal, state and local and the Colombian and other tax consequences of owning and disposing of preferred shares and ADSs in your particular circumstances.

This discussion addresses only United States federal income taxation.

***Taxation of Dividends***

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any dividend the Bank pays out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the preferred shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date or if the dividend is attributable to a period or periods aggregating over 366 days, provided that you hold the preferred shares or ADSs for more than 90 days during the 181-day period beginning 90 days before the ex-dividend date and meet other holding period requirements. Dividends paid with respect to the preferred shares or ADSs generally will be qualified dividend income provided that, in the year that you receive the dividend, the preferred shares or ADSs are readily tradable on an established securities market in the United States. The preferred shares are currently not traded on an established securities market in the United States. Therefore, dividends paid with respect to the preferred shares will not be qualified dividend income and will be taxed as ordinary income. The Bank believes that its ADSs, which are listed on the NYSE, are readily tradable on an established securities market in the United States; however, there can be no assurance that the Bank's ADSs will continue to be readily tradable on an established securities market.

You must include any Colombian tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of preferred shares, or the Depository, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the peso payments made, determined at the spot peso/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the preferred shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the Colombian tax withheld and paid over to Colombia will generally be creditable or deductible against your U.S. federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

For purposes of calculating a U.S. Holder's United States foreign tax credit limitation, dividends will be income from sources outside the United States and, depending on your circumstances, will generally be either passive income or general income. You should consult your own tax advisor regarding the foreign tax credit rules.

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***Taxation of Capital Gains***

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your preferred shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your preferred shares or ADSs. Capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The deductibility of capital losses is subject to limitations. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

***PFIC Rules***

We believe that the Bank's preferred shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change.

In general, if you are a U.S. holder, the Bank will be a PFIC with respect to you if for any taxable year in which you held the Bank's preferred shares or ADSs:

- at least 75% of the Bank's gross income for the taxable year is passive income; or
- at least 50% of the value, determined on the basis of a quarterly average, of the Bank's assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If the Bank is treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your preferred shares or ADSs; and
- any excess distribution that the Bank makes to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the preferred shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the preferred shares or ADSs).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the preferred shares or ADSs,
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

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Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC. If you own preferred shares or ADSs in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your preferred shares or ADSs at the end of the taxable year over your adjusted basis in your preferred shares or ADSs. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your preferred shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the preferred shares or ADSs will be adjusted to reflect any such income or loss amounts.

In addition, notwithstanding any election you make with regard to the preferred shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if the Bank is a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, your preferred shares or ADSs will be treated as stock in a PFIC if the Bank was a PFIC at any time during your holding period in your common shares, even if the Bank is not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your preferred shares or ADSs, you will be treated as having a new holding period in your preferred shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of the Bank's accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

If you own preferred shares or ADSs during any year that the Bank is a PFIC with respect to you, you must file Internal Revenue Service Form 8621.

**F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

**G. STATEMENT BY EXPERTS**

Not applicable.

**H. DOCUMENTS ON DISPLAY**

Bancolombia files periodic reports and other information with the SEC. You may read and copy any document that Bancolombia files at the SEC's public reference room at 100 F Street N.E. Washington DC 20549. Some of the Bank's SEC filings are also available to the public from the SEC's website at <http://www.sec.gov>.

**I. SUBSIDIARY INFORMATION**

Not applicable.

**Table of Contents****ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****Introduction***

The following section describes the market risks to which Bancolombia is exposed and the tools and methodology used to measure these risks as of December 31, 2008. Bancolombia faces market risk as a consequence of its lending, trading and investments businesses. Market risk represents the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates and equity prices and other risk factors, such as sovereign risk.

Bancolombia's risk management strategy, called the Integrated Risk Management Strategy, is based on principles set by international bodies and by Colombian rules and regulations, and is guided by Bancolombia's corporate strategy. The main objective of the Integrated Risk Management Strategy is to identify, measure, coordinate, monitor, report and propose policies for market and liquidity risks of the Bank, which in turn serve to facilitate the efficient administration of Bancolombia's assets and liabilities. Bancolombia's board of directors and senior management have formalized the policies, procedures, strategies and rules of action for market risk administration in its Market Risk Manual. This manual defines the roles and responsibilities within each subdivision of the Bank and their interaction to ensure adequate market risk administration.

The Bank's Market Risks Management Office is responsible for: (a) identifying, measuring, monitoring, analyzing and controlling the market risk inherent in the Bank's businesses, (b) analyzing the Bank's exposure under stress scenarios and confirming compliance with Bancolombia's risk management policies, (c) designing the methodologies for valuation of the market value of certain securities and financial instruments, (d) reporting to senior management and the board of directors any violation of Bancolombia's risk management policies, (e) reporting to the senior management on a daily basis the levels of market risk associated with the trading instruments recorded in its treasury book (the Treasury Book), and (f) proposing policies to the board of directors and to senior management that ensure the maintenance of predetermined risk levels. The Bank has also implemented an approval process for new products across each of its subdivisions. This process is designed to ensure that every subdivision is prepared to incorporate the new product into their procedures, that every risk is considered before the product is incorporated and that approval is obtained from the board of directors before the new product can be sold.

The Bank's assets include both trading and non-trading instruments. Trading instruments are recorded in the Treasury Book and include fixed income securities, foreign exchange (FX) futures, bonds futures and over-the-counter plain vanilla derivatives. Trading in derivatives include forward contracts in foreign currency operations, plain vanilla options on U.S. dollar/Ps currency, foreign exchange swaps and interest rate swaps. Non-trading instruments are recorded in the Bank's banking book (the Banking Book), which includes primarily loans, time deposits, checking accounts and savings accounts.

The Bank uses a value at risk ( VaR ) calculation to limit its exposure to the market risk of its Treasury Book. The board of directors is responsible for establishing the maximum VaR based on its assessment of the appropriate level of risk for Bancolombia. The Asset and Liabilities Committee ( ALCO ) is responsible for establishing the maximum VaR by type of investment (e.g., fixed income in public debt) and by type of risk (e.g., currency risk). These limits are supervised on a daily basis by the Market Risk Management Office.

For managing the interest rate risk from banking activities, the Bank analyzes the interest rate mismatches between its interest earning assets and its interest bearing liabilities. The foreign currency exchange rate exposures arising from the Banking Book are provided to the Treasury Division where these positions are aggregated and managed.

**Table of Contents*****Trading Instruments Market Risk Measurement***

The Bank currently measures the Trading Book exposure to market risk (including over the counter derivatives positions) as well as the currency risk exposure of the Banking Book, which is provided to the Treasury Division, using a VaR methodology established in accordance with Chapter XXI of the Basic Accounting Circular, as amended by External Circular 051 of 2007, each issued by the Superintendency of Finance.

The VaR methodology established by Circular 051 of 2007 is based on the model recommended by the Amendment to the Capital Accord to Incorporate Market Risks of Basel Committee of 2005, which focuses on the Treasury Book and excludes investments classified as hold to maturity and any other investment that comprises the Banking Book, such as non-trading positions. In addition, the methodology eliminates the aggregation of risks by the use of correlations and in the alternative, provides for a new allocation system based on defined zones and bands. The VaR is estimated with a 99% confidence level and ten days time horizon, adjusted by a multiplicative factor equal to three.

The total market risk for the Bank is calculated by the arithmetical aggregation of the VaR calculated for each subsidiary. The aggregated VaR is reflected in the Bank's Capital Adequacy (Solvency) ratio, in accordance with Decree 1720 of 2001. For purposes of VaR calculations, a risk exposure category is any market variable that is able to influence potential changes in the portfolio value. Taking into account a given risk exposure, the VaR model assesses the maximum loss not exceeded at a specified confidence level over a given period of time. The fluctuations in the portfolio's VaR depend on volatility, modified duration and positions changes relating to the different instruments that are subject to market risk.

The relevant risk exposure categories for which VaR is computed by Bancolombia according to the External Circular 051 of 2007 are:

- interest rate risks relating to local currency, foreign currency and UVR;
- currency risk
- stock price risk; and
- fund risk.

***Interest Rate Risk:*** The interest rate risk is the probability of loss of value of a position due to fluctuations in market interest rates. Bancolombia calculates the interest rate risk for positions in local currency, foreign currency and UVR separately; in accordance with Chapter XXI of the Basic Accounting Circular issued by the Superintendency of Finance. The calculation of the interest rate risk begins by determining the net position in each instrument and estimating its sensitivity by multiplying its net present value ( NPV ) by its modified duration and by the interest rate's estimated fluctuation (as defined by the Superintendency of Finance). The interest rate's fluctuations are established by the Superintendency of Finance according to historical market performance, as shown in the following table:

**Table of Contents****Interest Risk Sensitivity by Bands and Zones**

<i>Zone</i>	<i>Band</i>	<i>Modified Duration</i>		<i>Interest rate Fluctuations (basis points)</i>		
		<i>Low</i>	<i>High</i>	<i>Pesos</i>	<i>UVR</i>	<i>USD</i>
<i>Zone 1</i>	1	0	0.08	221	221	100
	2	0.08	0.5	221	221	100
	3	0.25	0.5	221	221	100
	4	0.5	1	221	221	100
<i>Zona 2</i>	5	1	1.9	206	208	90
	6	1.9	2.8	190	195	80
	7	2.8	3.6	175	182	75
<i>Zona 3</i>	8	3.6	4.3	159	168	75
	9	4.3	5.7	144	155	70
	10	5.7	7.3	128	142	65
	11	7.3	9.3	118	142	60
	12	9.3	12	118	142	60
	13	10.6	20	118	142	60
	14	12		118	142	60
	15	20		118	142	60

Once the sensitivity factor is calculated for each position, the modified duration is then used to classify each position within a corresponding band (given by the Superintendency of Finance). A net sensitivity is then calculated for each band, by determining the difference between the sum of all short-positions and the sum of all long-positions. Then a net position is calculated for each zone (which consists of a series of bands) determined by the Superintendency of Finance. The final step is to make adjustments within each band, across bands and within each zone, which result is a number that is the interest rate risk VaR. Each adjustment is performed following the guidelines established by the Superintendency of Finance.

The Bank's exposure to interest risk primarily arises from investments in Colombian government treasury bonds (TES), corporate bonds, and short-term floating notes.

The interest rate risk VaR decreased from Ps 159,444 million as of December 31, 2007 to Ps 134,077 million as of December 31, 2008 due to the reduction in the duration of the debt securities portfolio. During 2008 the Bank's average interest rate risk VaR was Ps 128,262 million, the maximum value was Ps 145,880 million, and the minimum value was Ps 114,922 million.

**Currency, Stock Price and Fund Risk:** The VaR model uses a sensitivity factor to calculate the probability of loss due to fluctuations in the price of stocks, funds and currencies in which the Bank maintains a position. As previously indicated, the methodology used in this Annual Report to measure such risk consists of computing VaR, which is derived by multiplying the position by the maximum probable variation in the price of such positions (  $D_p$  ). The  $D_p$  is determined by the Superintendency of Finance, as shown in the following table:

**Sensitivity Factor for Currency Risks, Fund Risks and Equity Risks**

USD	4.4%
Euro	6.0%
Other currencies	8.0%
Funds	14.7%
Stock Price	14.7%

The Bank's exposure to currency risk primarily arises from changes U.S. dollar/peso exchange rate. The currency risk VaR increased from Ps 5,689 million as of December 31, 2007 to Ps 27,056 million as of December 31, 2008. The significant increase was due to the rise in the net position of foreign currency exposure due to the appreciation trend of the Colombian peso. During 2008 the Bank's average currency risk VaR was Ps 24,554 million, the maximum value was Ps 60,567 million, and the minimum value was Ps 2,875 million.



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The stock price risk decreased from Ps 40,910 million in 2007 to Ps 38,924 million in 2008. During 2008 the Bank's average stock price risk VaR was Ps 36,553 million, the maximum value was Ps 38,924 million, and the minimum value was Ps 34,092 million.

The fund risk which arises from investments in mutual funds increased from Ps 4,768 million in 2007 to Ps 47,904 million in 2008 due to increase in these investments for liquidity purposes. During 2008 the Bank's average fund risk VaR was Ps 12,320 million, the maximum value was Ps 47,904 million, and the minimum value was Ps 5,553 million.

**Total Market Risk VaR**

The total market risk VaR is calculated as the algebraic sum of the interest rate risk, the currency risk, the stock price risk and the fund risk.

As of December 31, 2008, the Total Market Risk VaR amounted to Ps 248,062 million which represents a decrease from Ps 210,811 million in 2007, explained by the increase in fund risk VaR.

**Assumptions and Limitations of VaR Models:** Although VaR models represent a recognized tool for risk management, they have inherent limitations, including reliance on historical data that may not be indicative of future market conditions or trading patterns. Accordingly, VaR models should not be viewed as predictive of future results. The Bank may incur in losses that could be materially in excess of the amounts indicated by the models on a particular trading day or over a period of time, and there have been instances when results have fallen outside the values generated by the Bank's VaR models. A VaR model does not calculate the greatest possible loss. The results of these models and analysis thereof are subject to the reasonable judgment of the Bank's risk management personnel.

The table below provides information about Bancolombia's consolidated VaR for trading instruments by the end of 2007 and 2008.

	<i>31/12/2007</i>	<i>31/12/2008</i>
Interest Rate Risk VaR	159,444	134,077
Currency Risk VaR	5,689	27,056
Equity Risk VaR	40,910	38,924
Fund Risk VaR	4,768	47,904
<b>Total VaR</b>	<b>210,811</b>	<b>248,062</b>

During 2008 the Bank's average Total VaR was Ps 201,690 million, the maximum value was Ps 248,062 million, and the minimum value was Ps 183,339 million.

**Non-Trading Instruments Market Risk Measurement**

The Banking Book relevant risk exposure is interest rate risk, which is the probability of unexpected changes in net interest income as a result of a change in market interest rates. Changes in interest rates affect Bancolombia's earnings as a result of timing differences on the repricing of the assets and liabilities. The Bank manages the interest rate risk arising from banking activities in non trading instruments by analyzing the interest rate mismatches between its interest earning assets and its interest bearing liabilities. The foreign currency exchange rate exposures arising from the Banking Book are provided to the Treasury Division where these positions are aggregated and managed.

As discussed above, External Circular 031 of 2004 was replaced on April 1, 2007 with External Circular 051 of 2007. One of the most significant changes is that financial institutions are no longer required to calculate market risks for positions held in the Banking Book (non-trading positions), except the currency risk which is included in the VaR measurements, and therefore the Bank is no longer required by the Superintendency of Finance to calculate such risks.

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The Bank has performed a sensitivity analysis of market risk sensitive instruments based on hypothetical changes in the interest rates. The Bank has estimated the impact that a change in interest rates would have on the net present value of each position in the Banking Book, using a modified duration model and assuming positive parallel shifts of 50 and 100 basis points.

The following tables provide information about Bancolombia's interest rate sensitivity for the balance sheet items comprising the Banking Book. These tables show the following information for each group of assets and liabilities:

FAIR VALUE: Sum of the original net present value.

+ 50 bps: Net present value change with an increase of 50 bps.

+ 100 bps: Net present value change with an increase of 100 bps.

**Interest Rate Risk (Ps million)**  
**2007**

	<i>FAIR VALUE</i>	<i>+50bps</i>	<i>+100bps</i>
<b>Assets</b>			
Held To Maturity Securities	1,662,108	(22,521)	(44,939)
Loans	38,324,676	(120,644)	(240,740)
Customer's acceptances	12,957	(6)	(11)
<b>Total interest rate sensitive assets</b>	<b>39,999,741</b>	<b>(143,170)</b>	<b>(285,690)</b>
	<i>FAIR VALUE</i>	<i>+50bps</i>	<i>+100bps</i>
<b>Liabilities</b>			
Checking Accounts - Saving Deposits	19,063,969	(67,943)	(135,577)
Time Deposits	14,791,980	(29,189)	(58,245)
Bank acceptances outstanding	12,957	(6)	(11)
Interbank borrowings	4,792,533	(5,521)	(11,016)
Long-term debt	2,778,855	(32,746)	(65,343)
<b>Total interest rate sensitive liabilities</b>	<b>41,440,295</b>	<b>(135,404)</b>	<b>(270,191)</b>
<b>Total net change</b>		<b>(7,767)</b>	<b>(15,498)</b>

A rise in interest rates decreases the fair value of the assets and liabilities of the Bank, therefore, the Bank's market value is negatively affected on the assets side and positively affected on the liabilities side.

**Table of Contents****Interest Rate Risk (Ps million)  
2008**

	<i>FAIR VALUE</i>	<i>+50bps</i>	<i>+100bps</i>
<b>Assets</b>			
Held To Maturity Securities	2,403,824	(24,437)	(48,763)
Loans	46,108,840	(157,444)	(314,172)
<b>Total interest rate sensitive assets</b>	<b>48,512,803</b>	<b>(181,881)</b>	<b>(362,934)</b>
	<i>FAIR VALUE</i>	<i>+50bps</i>	<i>+100bps</i>
<b>Liabilities</b>			
Checking Accounts    Saving Deposits	20,799,643	(67,807)	(135,306)
Time Deposits	18,912,528	(34,385)	(68,615)
Interbank borrowings	6,024,932	(8,181)	(16,324)
Long-term debt	3,587,526	(30,472)	(60,806)
Convertible Bonds	5,877	(15)	(29)
<b>Total interest rate sensitive liabilities</b>	<b>49,330,505</b>	<b>(140,860)</b>	<b>(281,079)</b>
<b>Total net change</b>		<b>(41,021)</b>	<b>(81,855)</b>

A rise in interest rates decreases the fair value of the assets and liabilities of the Bank, therefore, the Bank's market value is negatively affected on the assets side and positively affected on the liabilities side.

Bancolombia's largest assets are loans, which represent 95.04% of the total NPV where the commercial loans portfolio shows the largest increase with a growth rate of 19.97%. The market value's change in assets with a 50 basis points parallel shift of the yield curve has increased from Ps 143,170 million in 2007 to Ps 181,881 million in 2008 due to an increase in the NPV of the loans portfolio of Ps 36,800 million.

On the liabilities side, Bancolombia's largest interest rate sensitive liabilities are checking accounts, saving deposits and time deposits which represent 42% and 38%, respectively of the total NPV. The market value's change in liabilities with a 50 basis points parallel shift of the yield curve increased from Ps 135,404 million in 2007 to Ps 140,860 million in 2008, reflecting the increase of 18% in the time deposits during 2008.

As of December 31, 2008, the net change in the NPV for the market risk sensitive instruments, entered into for other than trading purposes with positive parallel shifts of 50 and 100 basis points, were Ps (41,021) million and Ps (81,855) million respectively. The interest rate risk increase in 2008 is explained in a higher duration in the loans portfolio.

**Assumptions and Limitations of Sensitivity Analysis:** Sensitivity analysis is based on the following assumptions, and should not be relied on as indicative of future results: When computing the NPV of the market risk sensitive instruments and its modified duration we have relied on two key assumptions: (a) a uniform change of interest rates of assets and liabilities and of rates for different maturities (b) modified duration of variable rate assets and liabilities is taken to be the time remaining until the next interest reset date.

Bancolombia's results of operations and financial position have not suffered any direct impact as a consequence of the recent credit market instability in the U.S. resulting from concerns with increased defaults of subprime and certain other mortgage products and loss of liquidity in markets for mortgage related securities. As of December 31, 2008, Bancolombia's investment portfolio did not contain instruments (i) backed by, or otherwise related to, U.S. subprime mortgages or (ii) with exposure to monoline financial guarantors. Moreover, the Bank was not affected by the high cost of funding in the global market, mainly because the liquidity available from the Colombian market enabled Bancolombia to fund its operations and maintain its regular business activities. These market conditions also have not had any material impact on the Bank's Subsidiaries located outside of Colombia.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not Applicable.

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**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

There has not been any default in the payment of dividends, principal, interest, a sinking or purchase fund installment in Bancolombia operation or any of its subsidiaries.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

The Bank carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Bank's disclosure controls and procedures. As a result, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports the Bank files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and regulations of the SEC and to provide reasonable assurance that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Bank's internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of the Bank's management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of internal control over financial reporting as of December 31, 2008 based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. On this assessment, management concluded that the Bank's internal control over financial reporting was effective as of December 31, 2008.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers Ltda, an independent registered public accounting firm, which report is included on page F-4 of this Annual Report.

**ITEM 16. RESERVED**

**ITEM.16.A AUDIT COMMITTEE FINANCIAL EXPERT**

The Bank's audit committee's financial expert is elected every two years. Mr. Alejandro Gaviria Uribe has served as the Bank's audit committee financial expert since May 22, 2007. He was reelected on April 20, 2009 to serve as the audit committee's financial expert for the current two-year period. Mr. Gaviria Uribe does not own any shares of Bancolombia and there is no business relationship between him and the Bank, except for standard personal banking services. Further, there is no fee arrangement between Mr. Gaviria Uribe and the Bank, except in connection with his capacity as a member of the Bank's board of directors and now as a member of the audit committee. Mr. Gaviria Uribe is considered an independent director under Colombian law and the Bank's Corporate Governance Code, as well as under NYSE's director independence standards.

**ITEM.16.B CORPORATE GOVERNANCE AND CODE OF ETHICS**

Under the NYSE's Corporate Governance Standards, Bancolombia, as a listed foreign private issuer, must disclose any significant ways in which its corporate governance practices differ from those followed by U.S. companies under NYSE listing standards. See Item 16. Reserved 16.G Corporate Governance

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Bancolombia has adopted an Ethics Code and a Corporate Governance Code, both of which apply to all employees, officers and directors. English translations of the Ethics Code and the Corporate Governance Code are available at Bancolombia's website at [www.grupobancolombia.com.co](http://www.grupobancolombia.com.co). The Spanish versions of these codes will prevail for all legal purposes.

A phone line called *línea ética* is available for anonymous reporting of any evidence of improper conduct.

**ITEM.16.C PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The aggregate fees billed under the caption audit fees for professional services rendered to Bancolombia for the audit of its financial statements and for services that are normally provided to Bancolombia, in connection with statutory or regulatory filings or engagements totaled Ps 5,444 million (audited by Deloitte & Touche Ltda) and Ps 5,946 million (audited by PricewaterhouseCoopers Ltda.) for the years 2007 and 2008 respectively.

Additionally other audit-related fees totaled Ps 1,256 (audited by Deloitte & Touche Ltda) and Ps 203 million (audited by PricewaterhouseCoopers Ltda) for the years ended December 31, 2007 and 2008 respectively. The year ended December 31, 2007 was audited by Deloitte & Touche Ltda. and the year ended December 31, 2008 was audited by PricewaterhouseCoopers Ltda. Bancolombia had no tax fees or other fees for the years 2007 and 2008.

The Bank's audit committee charter includes the following pre-approval policies and procedures, which are included in the audit committee's charters:

The audit committee approves annually the work plan of the external auditors, which will include all services that may be rendered by the external auditors in accordance with applicable law.

For instances in which additional services are required to be provided by the external auditors, such services must be previously approved by the audit committee. Whenever this approval is not obtained at a meeting held by the audit committee, the approval will be obtained through the vice president of internal audit, who will be responsible for soliciting the consent from each of the audit committee members. The approval will be obtained upon favorable vote of the majority of its members.

Every request for approval of additional services must be adequately substantiated, including complete and effective information regarding the characteristics of the service that will be provided by the external auditors. In all cases, the budget of the external auditors must be approved by the general shareholders meeting.

**Table of Contents****ITEM.16.D EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None

**ITEM.16.E PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Colombian law prohibits the repurchase of shares issued by entities supervised by the Superintendency of Finance. Therefore, neither Bancolombia nor any affiliated purchaser repurchased any shares during fiscal year 2008.

**ITEM.16.F CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable

**ITEM.16.G CORPORATE GOVERNANCE**

Bancolombia, as a listed company that qualifies as a foreign private issuer under the NYSE listing standards in accordance with the NYSE corporate governance rules, is permitted to follow home-country practice in some circumstances in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual that are applicable to U.S. companies. The Bank follows corporate governance practices applicable to Colombian companies and those described in the Bank's Corporate Governance Code (the Corporate Governance Code) which in turn follows Colombian corporate governance rules. An English translation of the Corporate Governance Code is available at Bancolombia's website at [www.grupobancolombia.com.co](http://www.grupobancolombia.com.co). The Spanish version will prevail for all legal purposes.

In Colombia, a series of laws and regulations set forth corporate governance requirements. External Circular 056 of 2007 issued by the Superintendency of Finance, contains the corporate governance standards to be followed by companies issuing securities that may be purchased by Colombian pension funds. Under External Circular 056 of 2007, entities under supervision of the Superintendency of Finance, when taking investment decisions, must take into account the recommendations established by the Country Code and the corporate governance standards followed by the entities beneficiaries of the investment. Additionally, External Circular 055 of 2007 establishes that entities under the supervision of the Superintendency of Finance must adopt mechanisms for the periodic disclosure of their corporate governance standards.

Additionally, Law 964 of 2005 established mandatory corporate governance requirements for all issuers whose securities are publicly traded in the Colombian market, and Decree 3139 of 2006 regulates disclosure and market information for the Colombian securities market SIMEV (Sistema Integral de Información del Mercado de Valores). Bancolombia's corporate governance standards comply with these legal requirements and follow regional recommendations, including the OECD's White Paper on Corporate Governance for Latin America and the Andean Development Corporation's (CAF) Corporate Governance Code.

The following is a summary of the significant differences between the corporate governance practices followed by Bancolombia and those applicable to domestic issuers under the NYSE listing standards:

*Independence of Directors.* Under NYSE corporate governance rules, a majority of a U.S. company's board of directors must be composed of independent directors. Law 964 of 2005 requires that at least 25% of the members of the Bank's board of directors are independent directors, and Decree 3923 of 2006 regulates their election. Additionally, Colombian law mandates that all directors exercise independent judgment under all circumstances. Bancolombia's Corporate Governance Code includes a provision stating that directors shall exercise independent judgment and requires that Bancolombia's management recommends to its shareholders lists of director nominees of which at least 25% are independent directors. For the independence test applicable to directors of Bancolombia see Item 10. Additional Information. B. Memorandum and Articles of Association Board of Directors .



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*Non-Executive Director Meetings.* Pursuant to the NYSE listing standards, non-executive directors of U.S. listed companies must meet on a regular basis without management present. The non-executive directors of Bancolombia do not meet formally without management present. There is no prohibition under Colombian regulations for officers to be members of the board of directors, however it is customary for Colombian companies to maintain separation between the directors and management. Bancolombia's board of directors does not include any management members, however the CEO attends the monthly meetings of the Bank's board of directors (but is not allowed to vote) and committees may have officers or employees as permanent members to guarantee an adequate flow of information between employees, management and directors. In accordance with the Law 964 of 2005 and the Bank's by-laws, no executive officer can be elected as chairman of the Bank's board of directors.

*Committees of the Board of Directors.* Under NYSE listing standards, all U.S. companies listed on the NYSE must have an audit committee, a compensation committee, and a nominating/corporate governance committee and all members of such committees must be independent. In each case, the independence of directors must be established pursuant to highly detailed rules promulgated by the NYSE and, in the case of the audit committee, the NYSE and the SEC. The Bank's board of directors has a *Board Issues Committee*, a *Designation, Compensation and Development Committee*, a *Corporate Governance Committee* and an *Audit Committee*, each of which is composed of both directors and officers, except the audit committee which is composed by three directors but no officers. These committees have their own charters which address various corporate governance subjects, in accordance with NYSE Corporate Governance Standards. Bancolombia's audit committee complies with NYSE Corporate Governance Standards applicable to foreign private issuers. For a description of these committees see Item 6. Directors, Senior Management and Employees C. Board Practices .

*Shareholder Approval of Equity Compensation Plans.* Under NYSE listing standards, shareholders of U.S. companies must be given the opportunity to vote on all equity compensation plans and to approve material revisions to those plans, with limited exceptions set forth in the NYSE rules. Under Colombian laws applicable to Bancolombia, such approval from shareholders is also required.

*Shareholder Approval of Dividends.* While NYSE corporate governance standards do not require listed companies to have shareholders approve or declare dividends, in accordance with the Colombian Code of Commerce, annual dividends must be approved by Bancolombia's shareholders.

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**PART III  
FINANCIAL STATEMENTS**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

Reference is made to pages F 1 through F 120.

**ITEM 19. EXHIBITS**

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

- 1.<sup>(1)</sup> English Translation of Corporate by-laws (estatutos sociales) of the registrant, as amended on March 01, 2007.
- 2.<sup>(3)</sup> The Deposit Agreement entered into between Bancolombia and The Bank of New York, as amended on January 14, 2008.
- 4.1. English Summary of the Stock Purchase Agreement entered into between Bancolombia S.A., the other shareholders named therein and Stratton Spain S.L. on June 6, 2008.
- 7 Selected Ratios Calculation
- 8.1 List of Subsidiaries
- 11.<sup>(2)</sup> English translation of the Ethics Code of the registrant, as amended on June 23, 2008.
- 12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.
- 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.
- 13.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.
- 13.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.
- 15.(a)<sup>(2)</sup> English Translation of Corporate Governance Code (Código de Buen Gobierno) of the registrant, as amended on June 23, 2008.

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

(2) Incorporated by reference to the Bank's Annual Report on Form

20-F for the  
year ended  
December 31,  
2007 filed on  
July 8, 2008.

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

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**SIGNATURE**

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

Dated: June 30, 2009

BANCOLOMBIA S.A.

By: /s/ JAIME ALBERTO VELÁSQUEZ BOTERO

Name: Jaime Alberto Velásquez Botero.

Title: Vice President, Finance.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To The Board of Directors and Shareholders of Bancolombia S. A.**

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Bancolombia S. A. and its subsidiaries (the Bank) at December 31, 2008, and the consolidated results of operations and cash flows for the year then ended in conformity with accounting principles generally accepted in Colombia and the special regulations of the Superintendency of Finance, collectively Colombian GAAP. Also in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on these financial statements and on the Bank's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and auditing standards generally accepted in Colombia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 (d) to the consolidated financial statements, the Bank changed the manner in which it presents increases and decreases in deposits within its consolidated statement of cash flows prepared under Colombian GAAP, effective January 1, 2008.

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**To The Board of Directors and Shareholders of Bancolombia S. A.**

**June 29, 2009**

Accounting principles generally accepted in Colombia and the special regulations of the Superintendency of Finance, collectively Colombian GAAP, vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 31 to the consolidated financial statements.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**/s/ PricewaterhouseCoopers LTDA**

**Medellin, Colombia**

**June 30, 2009**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Bancolombia SA and subsidiaries (the Bank ) as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We did not audit the consolidated financial statements of Banagrícola, S.A. (a consolidated subsidiary acquired by the Bank on May 16, 2007) and its subsidiaries, which statements reflect total assets and income before taxes constituting 16.30% and 15.30%, respectively, of the related consolidated totals for the year ended December 31, 2007. Those statements, prepared in accordance with the accounting standards prescribed by the Superintendence of Financial System of El Salvador, were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Banagrícola, S.A. and its subsidiaries on such basis of accounting, is based solely on the report of the other auditors.

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

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

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

As discussed in Notes 2(d), 2(ab), 31(q) and 31(x) to the consolidated financial statements, the accompanying 2007 and 2006 financial statements have been retrospectively adjusted for the changes in accounting practices relating to presentation of increases and decreases in deposits within its consolidated statements of cash flows and to certain transactions in its statements of operations, operations discontinued in 2008 and disclosures in the composition of reportable segments, respectively.

/s/ Deloitte & Touche Ltda.

Medellin, Colombia

July 7, 2008 (June 25, 2009 for the effects of certain restatements for the correction of errors discussed on Note 31(y) and June 26, 2009 as to the effects of the retrospective adjustments discussed in Notes 2(d), 2(ab), 31(q) and 31(x) to



the consolidated financial statements)

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**Consent of independent public accounting firm**

We hereby consent to the use in this Registration Statement on Form 20-F of Bancolombia S. A. of our report dated June 29, 2008 relating to the financial statements of Banagrícola, S. A. and its subsidiaries as of December 31, 2007 prepared in conformity with accounting standards prescribed by the Superintendence of Financial System of EI Salvador, which appear in such Registration Statement.

/s/ PriceWaterhouseCoopers

June 26, 2009

Panamá, Republic of Panama

**Table of Contents****BANCOLOMBIA S.A. AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2007 and 2008

*(Stated in millions of Colombian pesos and thousands of U.S. Dollars)*

	<i>Notes</i>		<i>2007</i>		<i>2008</i>	<i>2008<sup>(1)</sup></i>
						<i>(Unaudited)</i>
						<i>U.S. Dollar</i>
<b>Assets</b>						
Cash and cash equivalents:						
Cash and due from banks	4	Ps	3,618,619	Ps	3,870,927	US\$ 1,725,328
Overnight funds			1,609,768		1,748,648	779,397
<b>Total cash and cash equivalents</b>			<b>5,228,387</b>		<b>5,619,575</b>	<b>2,504,725</b>
Investment securities:	5					
Debt securities:			5,596,051		6,840,596	3,048,951
Trading			1,916,012		2,385,564	1,063,279
Available for sale			1,954,593		2,000,588	891,691
Held to maturity			1,725,446		2,454,444	1,093,981
Equity securities:			253,747		503,861	224,578
Trading			93,125		331,398	147,709
Available for sale			160,622		172,463	76,869
Allowance			(75,547)		(66,181)	(29,498)
<b>Total investment securities, net</b>			<b>5,774,251</b>		<b>7,278,276</b>	<b>3,244,031</b>
Loans and financial leases:	6					
Commercial loans			23,397,058		28,068,731	12,510,633
Consumer loans			6,593,211		7,532,649	3,357,409
Small business loans			129,900		143,122	63,792
Mortgage loans			2,883,628		3,391,326	1,511,562
Financial leases			4,698,827		5,506,742	2,454,433
Allowance for loans and financial leases losses	7		(1,457,151)		(2,134,360)	(951,315)
<b>Total loans and financial leases, net</b>			<b>36,245,473</b>		<b>42,508,210</b>	<b>18,946,514</b>
Accrued interest receivable on loans and financial leases:						
Accrued interest receivable on loans and financial leases			431,863		559,981	249,592
Allowance for accrued interest losses	7		(33,303)		(54,323)	(24,213)
<b>Total interest accrued, net</b>			<b>398,560</b>		<b>505,658</b>	<b>225,379</b>

Customers' acceptances and derivatives	8	196,001	272,458	121,438
Accounts receivable, net	9	716,106	828,817	369,416
Property, plant and equipment, net	10	855,818	1,171,117	521,984
Operating leases, net	11	488,333	726,262	323,705
Foreclosed assets, net	15	32,294	24,653	10,988
Prepaid expenses and deferred charges	12	137,901	132,881	59,227
Goodwill	14	977,095	1,008,639	449,565
Other assets, net	13	580,642	1,093,850	487,544
Reappraisal of assets	16	520,788	612,683	273,082
<b>Total assets</b>		<b>Ps 52,151,649</b>	<b>Ps 61,783,079</b>	<b>US\$ 27,537,598</b>
Memorandum accounts	25	<b>Ps 182,209,139</b>	<b>Ps 219,171,533</b>	<b>US\$ 97,687,872</b>

**Table of Contents****BANCOLOMBIA S.A. AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2007 and 2008

*(Stated in millions of Colombian pesos and thousands of U.S. Dollars)*

	Notes	2007	2008	2008 <sup>(1)</sup> (Unaudited) U.S. Dollar
<b>Liabilities and Stockholders Equity</b>				
Deposits				
Non-interest bearing:				
Checking accounts		Ps 5,804,724	Ps 5,723,460	US\$ 2,551,028
Other		5,300,864	5,289,918	2,357,792
Interest bearing:				
Checking accounts		503,860	433,542	193,236
Time deposits		28,569,426	34,660,940	15,448,874
Savings deposits		1,567,411	2,011,132	896,390
		14,304,727	18,652,738	8,313,791
		12,697,288	13,997,070	6,238,693
<b>Total deposits</b>		<b>34,374,150</b>	<b>40,384,400</b>	<b>17,999,902</b>
Overnight funds		2,005,490	2,564,208	1,142,904
Bank acceptances outstanding		55,208	56,935	25,377
Interbank borrowings	17	1,506,611	2,077,291	925,878
Borrowings from development and other domestic banks	18	3,344,635	3,870,634	1,725,197
Accounts payable		1,714,418	1,688,402	752,545
Accrued interest payable		286,627	400,902	178,688
Other liabilities	19	503,433	589,501	262,749
Long-term debt	20	2,850,730	3,643,486	1,623,953
Accrued expenses	21	218,860	255,183	113,739
Minority interest		92,217	135,292	60,301
<b>Total liabilities</b>		<b>46,952,379</b>	<b>55,666,234</b>	<b>24,811,233</b>
Stockholders equity	22, 24			
Subscribed and paid in capital:				
Nonvoting preferred shares		460,684	460,684	205,334
Common shares		151,422	151,422	67,492
Retained earnings:				
Appropriated	23	309,262	309,262	137,842
Unappropriated		4,446,527	5,265,664	2,346,981
Reappraisal of assets	16	3,359,604	3,975,021	1,771,723
Gross unrealized net loss on investments		1,086,923	1,290,643	575,258
		319,646	448,511	199,908
		(27,587)	(58,014)	(25,858)
<b>Total stockholders equity</b>		<b>5,199,270</b>	<b>6,116,845</b>	<b>2,726,365</b>

<b>Total liabilities and stockholders equity</b>		<b>Ps 52,151,649</b>	<b>Ps 61,783,079</b>	<b>US\$ 27,537,598</b>
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Memorandum accounts	25	<b>Ps 182,209,139</b>	<b>Ps 219,171,533</b>	<b>US\$ 97,687,872</b>
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The accompanying notes, numbered 1 to 31, form an integral part of these Consolidated Financial Statements.

(1) See note 2 (c).

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**Table of Contents****BANCOLOMBIA S.A. AND SUBSIDIARIES**

## Consolidated Statements of Operations

Years ended December 31, 2006, 2007 and 2008

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

	Note	2006	2007 <sup>(2)</sup>	2008	2008 <sup>(1)</sup> (Unaudited) U.S. Dollar
Interest income:					
Loans		Ps 2,312,525	Ps 3,707,751	Ps 4,999,520	US\$ 2,228,358
Investment securities		273,197	416,644	431,589	192,365
Overnight funds		43,863	115,324	106,208	47,338
Financial leases		384,147	570,689	776,426	346,064
<b>Total interest income</b>		<b>3,013,732</b>	<b>4,810,408</b>	<b>6,313,743</b>	<b>2,814,125</b>
Interest expense:					
Checking accounts		32,676	39,076	39,257	17,497
Time deposits		459,513	816,688	1,256,742	560,148
Saving deposits		264,381	461,437	589,718	262,846
<b>Total interest expense on deposits</b>		<b>756,570</b>	<b>1,317,201</b>	<b>1,885,717</b>	<b>840,491</b>
Interbank borrowings		94,872	109,843	74,792	33,335
Borrowings from development and other domestic banks		180,507	274,484	344,900	153,727
Overnight funds		100,876	131,127	166,129	74,046
Long-term debt		113,404	169,435	281,803	125,604
<b>Total interest expense</b>		<b>1,246,229</b>	<b>2,002,090</b>	<b>2,753,341</b>	<b>1,227,203</b>
<b>Net interest income</b>		<b>1,767,503</b>	<b>2,808,318</b>	<b>3,560,402</b>	<b>1,586,922</b>
Provision for loan, accrued interest losses and other receivables, net	7	(266,107)	(707,865)	(1,263,405)	(563,118)
Recovery of charged-off loans		70,746	89,997	108,143	48,201
Provision for foreclosed assets and other assets		(44,353)	(60,531)	(46,297)	(20,635)
Recovery of provisions for foreclosed assets and other assets		89,532	81,364	68,392	30,483

<b>Total net provisions</b>	<b>(150,182)</b>	<b>(597,035)</b>	<b>(1,133,167)</b>	<b>(505,069)</b>
<b>Net interest income after provisions for loans and accrued interest losses</b>	<b>1,617,321</b>	<b>2,211,283</b>	<b>2,427,235</b>	<b>1,081,853</b>
<b>Fees and other services income:</b>				
Commissions from banking services	162,273	279,528	238,918	106,489
Electronic services and ATMs fees	85,049	80,711	86,070	38,363
Branch network services	62,403	104,601	104,010	46,359
Collections and payments fees	74,708	130,421	157,281	70,102
Credit card merchant fees	8,150	39,191	32,215	14,359
Credit and debit card annual fees	238,898	293,583	446,647	199,077
Checking fees	60,083	67,438	67,963	30,292
Warehouse services	72,494			
Fiduciary activities	62,114	69,200	98,799	44,036
Pension Plan Administration		82,453	87,826	39,145
Brokerage fees	67,034	62,493	54,742	24,399
Check remittance	11,040	22,762	26,148	11,655
International operations	34,281	43,643	47,962	21,377



**Table of Contents****BANCOLOMBIA S.A. AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended December 31, 2006, 2007 and 2008

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

	Note	2006	2007 <sup>(2)</sup>	2008	2008 <sup>(1)</sup> (Unaudited) U.S. Dollar
<b>Total fees and other service income</b>		Ps 938,527	Ps 1,276,024	Ps 1,448,581	US\$ 645,653
<b>Fees and other service expenses</b>		(70,866)	(116,453)	(134,939)	(60,144)
<b>Total fees and income from services, net</b>		<b>867,661</b>	<b>1,159,571</b>	<b>1,313,642</b>	<b>585,509</b>
Other operating income:					
Foreign exchange gains, net		58,008	27,584	113,584	50,626
Forward contracts in foreign currency		45,073	141,930	142,431	63,484
Gains (losses) on sales of investments on equity securities		75,697	(15,034)	92,125	41,061
Gains on sale of mortgage loans		14,371	50,377	41,080	18,310
Dividend income		21,199	18,968	39,586	17,644
Revenues from commercial subsidiaries		40,323	101,148	101,730	45,343
Insurance income			8,013	13,948	6,217
Communication, postage, rent and others		16,762	17,572	105,958	47,226
<b>Total other operating income</b>		<b>271,433</b>	<b>350,558</b>	<b>650,442</b>	<b>289,911</b>
<b>Total operating income</b>		<b>2,756,415</b>	<b>3,721,412</b>	<b>4,391,319</b>	<b>1,957,273</b>
Operating expenses:					
Salaries and employee benefits		690,117	835,150	928,997	414,067
Bonus plan payments		35,771	84,226	125,393	55,889
Compensation		6,375	23,463	23,539	10,492
Administrative and other expenses	27	882,182	1,070,845	1,268,982	565,603
Deposit security, net		67,813	49,113	52,151	23,244

Donation expenses		22,596	15,375	26,653		11,880
Depreciation	10	104,553	122,835	141,133		62,905
Merger expenses		35,779				
Goodwill amortization		25,814	70,411	73,149		32,604
<b>Total operating expenses</b>		<b>1,871,000</b>	<b>2,271,418</b>	<b>2,639,997</b>		<b>1,176,684</b>
<b>Net operating income</b>		<b>885,415</b>	<b>1,449,994</b>	<b>1,751,322</b>		<b>780,589</b>
Non-operating income:						
Other income		194,589	93,294	172,550		76,909
Minority interest		(6,352)	(13,246)	(18,511)		(8,251)
Other expense		(149,243)	(81,236)	(140,662)		(62,695)
<b>Total non-operating (expense) income</b>	28	<b>38,994</b>	<b>(1,188)</b>	<b>13,377</b>		<b>5,963</b>
<b>Income before income taxes</b>		<b>924,409</b>	<b>1,448,806</b>	<b>1,764,699</b>		<b>786,552</b>
Income tax expense	21	(174,880)	(361,883)	(474,056)		(211,294)
<b>Net income</b>		<b>Ps 749,529</b>	<b>Ps 1,086,923</b>	<b>Ps 1,290,643</b>	<b>US\$</b>	<b>575,258</b>
<b>Earnings per share</b>		<b>Ps 1,030</b>	<b>Ps 1,433</b>	<b>Ps 1,638</b>	<b>US\$</b>	<b>0.73</b>

The accompanying notes, numbered 1 to 31, form an integral part of these Consolidated Financial Statements.

(1) See Note 2 (c).

(2) The consolidated statement of operations for the year 2007 was modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to the presentation

of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

**Table of Contents****BANCOLOMBIA S.A. AND SUBSIDIARIES**

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2006, 2007 and 2008

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

<i>Non Voting Preferred Shares</i>		<i>Voting Common Shares</i>		<i>Retained Earnings</i>		<i>Surplus</i>		
<i>Number</i>	<i>Par Value</i>	<i>Number</i>	<i>Par Value</i>	<i>Appro- priated</i>	<i>Unappro- priated</i>	<i>Reappraisal of assets</i>	<i>Gross unrealized gain or loss on investments available for sale</i>	<i>Stock</i>
218,122,421	Ps 121,422	509,704,584	Ps 309,262	Ps 1,765,998	Ps 946,881	Ps 110,479	Ps 123,248	Ps
					749,529			
				946,881	(946,881)			
						30,214	(111,149)	
				(369,736)				
				(29,536)				
218,122,421	121,422	509,704,584	309,262	2,313,607	749,529	140,693	12,099	
					1,086,923			
				749,529	(749,529)			
59,999,998	30,000			897,612				
						178,953	(39,686)	
				(403,164)				
				(197,980)				
278,122,419	151,422	509,704,584	309,262	3,359,604	1,086,923	319,646	(27,587)	

1,290,643

**1,086,923 (1,086,923)**

128,865 (30,427)

(447,486)

(24,020)

**278,122,419 Ps 151,422 509,704,584 Ps 309,262 Ps 3,975,021 Ps 1,290,643 Ps 448,511 Ps (58,014) Ps**

**US\$ 67,492**

**US\$ 137,842 US\$ 1,771,723 US\$ 575,258 US\$ 199,908 US\$ (25,858) US\$**

The accompanying notes, numbered 1 to 31, form an integral part of these Consolidated Financial Statements.

(1) See note 2 (c).

**Table of Contents****BANCOLOMBIA S.A. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2006, 2007 and 2008

*(Stated in millions of Colombian pesos and thousands of U.S. Dollars)*

	2006	2007	2008	2008 <sup>(1)</sup>
Cash flows from operating activities:				
Net income	Ps 749,529	Ps 1,086,923	Ps 1,290,643	US\$ 575,258
Adjustments to reconcile net income to net cash used by operating activities:				
Depreciation	104,553	122,835	193,151	86,090
Amortization	42,905	110,076	120,581	53,745
Minority interest	(251)	43,328	43,075	19,199
Provision for loan, accrued interest and accounts receivable losses	600,273	1,268,241	2,113,431	941,986
Provision for foreclosed assets	22,044	35,783	19,461	8,674
Provision for losses on investment securities and equity investments	12,200	7,313	7,379	3,289
Provision for Property, Plant and Equipment	914	2,925	2,853	1,272
Provision for other assets	1,600	7,914	7,250	3,231
Reversal of provision for investments	(27,593)	(20,722)	(14,125)	(6,296)
Reversal of provision for loans and accounts receivable	(334,082)	(560,241)	(849,166)	(378,485)
Reversal of provision for foreclosed assets	(54,298)	(52,995)	(46,352)	(20,660)
Reversal of provision for other assets	(880)	(244)	(2,308)	(1,029)
Reversal of provision for Property, Plant and Equipment	(6,845)	(7,537)	(6,468)	(2,883)
Realized and unrealized (gain) loss on derivative financial instruments	15,449	(117,653)	(129,689)	(57,804)
Unrealized gain on investment securities	(159,249)	(355,190)	(624,860)	(278,509)
Foreclosed assets donation	20,888	10,708	7,321	3,263
(Increase) decrease in customers acceptances	(47,520)	79,225	54,958	24,496
(Increase) in accounts receivable	(38,311)	(344,052)	(302,521)	(134,838)
(Increase) in other assets	(187,584)	(1,336,181)	(669,543)	(298,425)
(Decrease) Increase in accounts payable	(253,531)	822,201	88,259	39,338
(Decrease) Increase in other liabilities	(72,270)	115,735	86,069	38,362
(Increase) in loans and financial leases	(6,182,386)	(13,087,618)	(7,443,105)	(3,317,498)
Increase in deposits <sup>(2)</sup>	4,831,484	11,157,682	6,010,250	2,678,854
(Decrease) Increase in estimated liabilities and allowances	(10,875)	98,876	36,323	16,190
Net cash used by operating activities	(973,836)	(912,668)	(7,133)	(3,180)

## Cash flows from investing activities:

Proceeds from sales of Property, Plant and Equipment	53,218	15,280	28,827	12,849
Proceeds from sales of foreclosed assets	61,791	71,811	37,326	16,637
(Purchases) of Property, Plant and Equipment	(230,992)	(590,568)	(765,652)	(341,262)
Sales (Purchases) of investment securities	2,815,501	232,424	(902,846)	(402,411)
Net cash provided by (used) investing activities	2,699,518	(271,053)	(1,602,345)	(714,187)

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## Consolidated Statements of Cash Flows

Years ended December 31, 2006, 2007 and 2008

*(Stated in millions of Colombian pesos and thousands of U.S. Dollars)*

	2006	2007	2008	2008 <sup>(1)</sup>
Cash flows from financing activities:				
Dividends declared	(369,736)	(403,163)	(447,486)	(199,451)
Payment of long-term debt	(628,964)	(477,893)	(256,906)	(114,507)
Placement of long-term debt	283,354	2,025,921	1,049,662	467,850
Increase (decrease) in overnight funds	(322,868)	998,445	558,718	249,029
Increase (decrease) in interbank borrowings and borrowings from domestic development banks	(411,124)	1,334,820	1,096,678	488,805
Issuance of preference and common shares		30,000		
Retained earnings		897,612		
 Net cash (Used) provided by financing activities	 (1,449,338)	 4,405,742	 2,000,666	 891,726
 Increase in cash and cash equivalents	 276,344	 3,222,021	 391,188	 174,359
Cash and cash equivalents at beginning of year	1,730,022	2,006,366	5,228,387	2,330,366
 Cash and cash equivalents at end of year	 Ps 2,006,366	 Ps 5,228,387	 Ps 5,619,575	 US\$ 2,504,725
 Supplemental disclosure of cash flows information:				
Cash paid during the year for:				
Interest	Ps 1,238,419	Ps 1,905,585	Ps 2,639,069	US\$ 1,176,271
Income taxes	Ps 161,967	Ps 122,477	Ps 214,679	US\$ 95,686

See accompanying notes to consolidated financial statements.

(1) See note 2 (c).

(2) The consolidated cash flow for the years ended 2006 and 2007 was modified



due to reclassifications made particularly in deposits of the financial activities for operating activities, with the purpose of improving the presentation of comparative information.

Amounts previously presented for operating activities were (5,757,800) and (12,149,575); for investing activities were 2,651,998 and (191,828); for financing activities were 3,382,146, and 15,563,424; for the years ended in 2006 and 2007, respectively.

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

**(I) Organization and Background**

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

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

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

Bancolombia S.A. also has an agency in Miami, Florida, United States of America and a representation office in Madrid, Spain.

In May 2007, Bancolombia S.A. through its subsidiary Bancolombia Panamá S.A. acquired 89.15% of Banagrícola S.A. ( Banagrícola ). Banagrícola's shareholders agreed to sell 16,817,633 of the total 18,865,000 outstanding shares. The purchase price was US\$ 47.044792 per share for a total of US\$ 791,182. Simultaneously with the acquisition, the Bank had signed an agreement with Bienes y Servicios S.A (BYSSA), former major Banagrícola's shareholder, which included a call and written put option. The options were exercised in December 2007 and as a consequence the Bank acquired the shares representing 9.59% of interest in Banagrícola. Bancolombia Panamá S.A. has continued purchasing shares from Banagrícola's minority shareholders and at December 31, 2008 held an interest of 99.12% of Banagrícola's total shareholder's equity.

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

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

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

<b>Entity</b>	<b>Location</b>	<b>Business</b>	<b>Participation percentage Dec-2007</b>	<b>Participation percentage Dec-2008</b>
Leasing Bancolombia S.A.	Colombia	Leasing	100	100
Fiduciaria Bancolombia S.A.	Colombia	Trust	98.81	98.81
Fiduciaria GBC S.A. <sup>(1)</sup>	Peru	Trust		98.82
Bancolombia Panamá S.A.	Panama	Banking	100	100
Bancolombia Caymán	Cayman Islands	Banking	100	100
Sistema de Inversiones y Negocios S.A.	Panama British Virgin Islands	Investments	100	100
Sinesa Holding Company Ltd.	Islands	Investments	100	100
Future Net Inc.	Panama	E-commerce	100	100
Banca de Inversión Bancolombia S.A.		Investment		
Corporación Financiera	Colombia	banking	100	100
Inversiones Valsimesa S.A. <sup>(2)</sup>	Colombia	Investments	71.75	
		Real estate		
Inmobiliaria Bancol S.A.	Colombia	broker	99.09	99.06
		Metals		
Fundicom S.A. <sup>(3)</sup>	Colombia	engineering	79.90	
Valores Simesa S.A.	Colombia	Investments	71.75	70.75
Todo UNO Colombia S.A.	Colombia	E-commerce	89.92	89.92
Compañía de Financiamiento Comercial S.A. Sufinanciamiento	Colombia	Financial services	99.99	99.99
		Operating		
Renting Colombia S.A.	Colombia	leasing	90.30	80.50
		Operating		
Renting Perú S.A.C.	Peru	leasing	90.39	80.63
RC Rent a Car S.A.	Colombia	Car rental	90.80	81.51
Catital Investments SAFI S.A. (CI) <sup>(4)</sup>	Peru	Trust		80.63
Fondo de Inversión en Arrendamiento Operativo Renting Perú <sup>(4)</sup>	Peru	Car Rental		80.63
Transportes Empresariales de Occidente Ltda. <sup>(4)</sup>	Colombia	Transportation		80.30
Patrimonio Autónomo Renting Colombia <sup>(3)</sup>	Colombia	Investments	100	
Suleasing International USA, Inc.	USA	Leasing	100	100
Suleasing Internacional do Brasil Locacao de Bens S.A. <sup>(2)</sup>	Brazil	Leasing	100	
Inversiones CFNS Ltda.	Colombia	Investments	100	100
		Securities		
Valores Bancolombia S.A.	Colombia	brokerage	100	100
		Securities		
Suvalor Panamá S.A.	Panama	brokerage	100	100
Bancolombia Puerto Rico Internacional, Inc	Puerto Rico	Banking	100	100
Multienlace S.A. <sup>(3)</sup>	Colombia	Contact center	98.20	
Inversiones IVL S.A.	Colombia	Investments	98.25	98.25

Factoring Bancolombia S.A	Colombia	Financial services	99.99	99.99
Patrimonio Autónomo CV Sufinanciamiento Banagrícola S.A.	Colombia	Loan management	100	100
Banco Agrícola Panamá S.A.	Panama	Investments	98.90	99.12
Inversiones Financieras Banco Agrícola S.A.	Panama	Banking	98.90	99.12
Banco Agrícola S.A.	El Salvador	Investments	98.08	98.38
Arrendadora Financiera S.A.	El Salvador	Banking	96.00	96.72
Credibac S.A. de CV	El Salvador	Leasing	96.02	96.73
Bursabac S.A. de CV	El Salvador	Credit card services	96.01	96.72
AFP Crecer S.A.	El Salvador	Securities brokerage	98.08	98.38
Aseguradora Suiza Salvadoreña S.A.	El Salvador	Pension fund	98.32	98.60
Asesuisa Vida S.A.	El Salvador	Insurance company	94.70	95.81
FCP Colombia Inmobiliaria <sup>(4)</sup>	Colombia	Insurance company	94.70	95.80
		Real estate broker		64.12

(1) Company created in 2008.

(2) Company liquidated in 2008.

(3) Company sold in 2008.

(4) Company acquired in 2008.

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BANCOLOMBIA S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

**(2) Summary of significant accounting Policies**

**(a) Basis of Presentation**

For the preparation and disclosures of financial statements, the Bank follows generally accepted accounting principles in Colombia and the special regulations of the Superintendency of Finance, collectively Colombian GAAP .

For consolidated purposes, accounting policies relating to the application of adjustments for inflation were aligned with those established by the Superintendency of Finance for the Bank. By means of External Circular 014 issued April 17, 2001 by the Superintendency of Finance, the application of inflation adjustments was discontinued for accounting purposes as of January 1, 2001.

The financial statements of foreign subsidiaries were adjusted in order to adopt uniform accounting practices as required by Colombian GAAP.

Intercompany operations and balances are eliminated upon consolidation.

The Bank holds the majority voting rights in the companies: Prosciol E.U, Forum S.A, Industrias Kapitol S.A, Urbanización Sierras del Chicó Ltda, Chicó Oriental No.2. Ltda. which were not included in the Consolidated Financial Statements due to the fact that these are either being wound up, subject to litigation proceedings or are currently at a non-productive stage.

**(b) Translation of Foreign Currency Transactions and Balances**

*Translation of financial statements in foreign currency*

The balance sheet accounts are translated to pesos using the exchange rate applicable at the end of the year, (except equity accounts which are translated at the historical exchange rate), This at December 31, 2008, December 31, 2007 and December 31, 2006 came to Ps 2,243.59, Ps 2,014.76 and Ps 2,357.98 per US\$ 1, respectively and for the income accounts the average exchange rate was used. Exchange differences originated in the balance sheet accounts are recorded as Cumulative Translation Adjustments in the Stockholders equity and are eliminated in the consolidation process.

*Transactions in foreign currency on the part of the Bank and its local Subsidiaries*

Transactions and balances in foreign currency are translated by the Bank and its Subsidiaries to pesos using the market exchange rates applicable on the corresponding dates, as established by the Superintendency of Finance. The exchange rates at December 31, 2008, December 31, 2007 and December 31, 2006 was that stated above.

Exchange rate differences arising from adjustments remeasurement of assets and liabilities denominated in foreign currency are recorded on the Consolidated Statements of Operations.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

**(c) Convenience Translation to U.S. Dollars**

The Bank maintains its accounting records and prepares its financial statements in Colombian pesos. The U.S. Dollar amounts presented in the financial statements and accompanying notes have been converted from peso figures solely for the convenience of the reader at the exchange rate of Ps 2,243.59 per US\$ 1, which is the exchange rate, calculated on December 31, 2008, the last business day of the year, by the Superintendency of Finance. This translation may not be construed to represent that the Colombian peso represents or has been, or could be converted into, U.S. Dollars at that or any other rate.

**(d) Cash and Cash Equivalents**

The statement of cash flows was prepared using the indirect method. These cash flows were calculated by taking the net differences in the balances shown on the consolidated balance sheet on December 31, 2008 and 2007. Cash and cash equivalents consist of cash and due from banks and all highly liquid investments with an original maturity of three months or less at the date of acquisition.

On January 1, 2008, the Bank modified the manner in which presents increases and decreases in deposits within its consolidated statements of cash flows. Previously classified as cash flows from financing activities, the Bank now presents such increases and decreases in deposits as cash flows from operating activities. This change is permitted under Colombian GAAP and enhances the comparability of the Bank with financial institutions reporting under International Financial Reporting Standards. The Bank elected to retroactively reflect this presentation change and adjust its historical consolidated statements of cash flows for the years ended December 31, 2006 and 2007, for comparative purposes. Amounts previously reported within cash flows from operating activities were (5,757,800) and (12,149,575); and within cash flows from financing activities were 3,382,146 and 15,563,424, for the years ended December 31, 2006 and 2007, respectively.

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

The preparation of financial statements in conformity with Colombian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual losses could differ from those estimated.

**(f) Real Value Unit Rate (UVR)**

The operations that the Bank carries out with regard to mortgage loans linked to the *Unidad de Valor Real* (the Real Value Unit or UVR) are adjusted on a daily basis according to the daily value of the UVR, as published by the Central Bank. The values assigned by the Central Bank to the UVR, in Colombian pesos, on December 31, 2007 and 2008, were Ps 168.4997 and Ps 181.6907, respectively. The UVR rate corresponds to the monthly variance of the IPC (Colombian Consumer Index Price) during the calendar month immediately prior to the month for which the UVR rate is being calculated. In light of the above, the annualized UVR rate increased at December 31, 2007 and 2008 was 2.95% and 3.83%, respectively.

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BANCOLOMBIA S.A. AND SUBSIDIARIES

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**(g) Money Market Operations**

Money market operations include: Interbank funds, securities and under repurchase agreement and securities purchased under agreement to resell.

***Repos***

**Long Position:** These are securities that are acquired by the Bank and its Subsidiaries in exchange for a sum of money (with or without a discount) assuming, at the moment the arrangement is made, the obligation of returning to the counterpart title to securities of the same type and characteristics, the same day or at a later date without at any time exceeding the term of one (1) year and at a pre-determined price or amount.

**Short Position:** These are securities that are transferred in exchange for a sum of money, assuming, at the moment the arrangement is made, the obligation of purchasing from the counterpart title to securities of the same type and characteristics, the same day or at a later date without at any time exceeding the term of one (1) year and at a pre-determined price or amount.

***Simultaneous Operations***

**Long Position:** These are securities that are acquired in exchange for a sum of money assuming at the moment the arrangement is made, the obligation of returning to the counterpart title to securities of the same type and characteristics, the same day or at a later date without at any time exceeding the term of one (1) year and at a pre-determined price or amount.

**Short Position:** The short position with regard to a simultaneous operation is when a person transfers the title to securities in exchange for a sum of money, assuming, at the moment the arrangement is made, the obligation of purchasing from the counterpart title to securities of the same type and characteristics, the same day or at a later date without at any time exceeding the term of one (1) year and at a pre-determined price or amount.

**(h) Investment Securities**

**1. Classification**

The investments are classified as trading , available for sale and held to maturity .

***Trading Securities***

Trading investments are those acquired mainly for obtaining profits from fluctuations in short-term prices and are accounted for at fair value.

***Held to Maturity***

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

***Available for Sale***

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

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

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BANCOLOMBIA S.A. AND SUBSIDIARIES

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**2. Recognition**

Investments are recorded initially at their acquisition cost. Subsequent measurement depends on the classification:

**2.1. Debt Securities**

Debt securities are valued daily and the result is recorded daily. The Bank determines the market value of trading debt securities and available for sale debt securities by using the prices, reference rates and margins that the Infoval (entity created as provider market prices by Bolsa de Valores de Colombia, Stock Exchange) calculates and publishes daily. Investments in debt securities held to maturity are accounted for at amortized cost through measure based on internal rate of return calculated on the purchase date.

**2.2 Equity Securities**

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

High-volume: they are recorded based on the daily weighted average trading price published by Infoval.

Medium-volume: they are recorded based on the average price published by the stock exchange, being the weighted average trading price on the last five days on which securities are traded.

Low volume and unquoted: They are recorded under the intrinsic value method, through investor's equity share value increases or decreases calculated based on the most recent audited financial statements that are not older than three months from the valuation date, or more recent statements, if available.

**2.3 Securities Denominated in Foreign Currency or in UVR**

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

**3. Recording**

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



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**BANCOLOMBIA S.A. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

**3.1 Trading Investments**

The difference between current and previous fair value is adjusted to the value of the investment and is recorded in the consolidated statement of operations.

**3.2 Investments Held to Maturity**

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

Interest accruals are recorded as interest income on investment securities.

**3.3 Investments Available for Sale**

**3.3.1 Debt Securities**

Changes in fair value are accounted for as decrease or increase of investment and are excluded from earnings and reported in other comprehensive income until realized. Changes in present value based on internal return rate are accounted for as earnings.

**3.3.2 Equity Investments**

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

**3.3.2.1 Investments in Securities with Low Volume or Unquoted Securities**

If the value of the investment that is updated with the investor's stake exceeds the recorded value of the investment, the difference primarily affects the provision or the devaluation up until it has been used up and any excess will be recorded as a valuation surplus by making a contra entry to the asset appreciation account.

If the value of the investment that is updated with the investor's stake is less than the recorded value of the investment, the difference primarily affects the investment's valuation surplus until it has been used up and any excess will be recorded as a devaluation of the respective investment in equity and as a balancing entry to the asset devaluation account.

When dividends or earnings are distributed in kind, including those resulting from the capitalization of the equity revaluation account, the portion that was accounted for as valuation surplus should be recorded as income with a charge against the investment, and said valuation surplus should be reversed. When dividends or earnings are distributed in cash, the amount recorded in valuation surplus should be accounted for as income, that valuation surplus should be reversed, and the dividend excess amount should be recorded as a lesser value of the investment.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

**3.3.2.2 Investment in Securities with High or Medium Volume**

The update of the market value of these securities is recorded as unrealized gains or losses on investments, within the equity accounts, crediting or debiting the investment securities.

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

**4. Impairment test**

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

Debt securities issued or guaranteed by the Republic of Colombia or the Colombian Guarantee Fund for Financial Institutions ( Fogafin ) or issued by the Central Bank are not subject to impairment analysis.

**4.1 Securities Issued Abroad or with External Ranking**

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

<i>Long Term Ranking</i>	<i>Max. Amount %</i>	<i>Short Term Ranking</i>	<i>Max. Amount %</i>
BB+, BB, BB-	Ninety (90)	3	Ninety (90)
B+, B, B-	Seventy (70)	4	Fifty (50)
CCC	Fifty (50)	5 and 6	Zero (0)
DD, EE	Zero (0)		

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

Impairment of investments classified as held to maturity, with a determinable fair value, are recorded for the difference between the carrying value and such fair value.

**4.2 Securities from Issuances or Issuers without any External credit and Equity Securities**

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

<i>Category</i>	<i>Max. Registered Amount %<sup>(1)</sup></i>	<i>Investment Characteristics</i>
B Acceptable risk, greater than normal	Eighty (80)	Present factors of uncertainty that could affect the capacity to continue adequately fulfilling debt service and weaknesses that could affect their financial situation.
C Appreciable risk	Sixty (60)	Present medium-high probabilities of non-fulfillment of timely payments of capital and interest in their financial situation that may compromise the recovery of the investment.
D Significant risk	Forty (40)	Present non-fulfillment of agreed terms of the security and material deficiencies in their financial situation, the probability of recovering the investment is highly doubtful.
E Unrecoverable	Zero (0)	Recovery highly improbable.

(1) Based on the net nominal amount as of the valuation date for debt securities or the acquisition cost, net of allowances for equity securities.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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**(i) Loans and Financial Lease**

Loans and financial lease are recorded at their outstanding principal, net of any unearned income. The group grants mortgage, commercial, consumer and small business loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout Colombia.

The Bank has securitized performing housing loans indexed to UVR s and at a fixed rate. The difference between the book value of the securitized portfolio and the value received is recorded in the results for the year at the moment the operation is carried out.

**Suspension of Accruals**

The Superintendency of Finance established that interest, income for UVR, lease payments and other items of income cease to be accrued in the statement of operations and begin to be recorded in memorandum accounts until effective payment is collected, after a loan is in arrears for more than 2 months for mortgage and consumer loans and 3 months for commercial loans. However, the Bank adopted a policy, in which all loans of any type, with the exception of mortgage loans that are more than 30 days past due, cease to accumulate interest on the statement of operations and instead are recorded in the memorandum accounts until such time the client proceeds with their payment. For those interests the Bank has recorded allowance for 100%, since the suspension of accruals.

**Evaluation by credit risk categories**

The Bank analyzes on an ongoing basis the credit risk to which its loan portfolio is exposed considering the terms of the corresponding obligations as well as the level of risk associated with the borrower. This risk evaluation is based on information relating to the historical performance data, the particular characteristics of the borrower, collaterals, debt service with other entities, macroeconomic factors, financial information, etc. For consumer, mortgage and small business loans analysis are performed in basis of the past due days of the loan.

For commercial loans, following minimum credit risk classifications are assigned, according to the financial situation of the debtor and/or the past due days of the obligation; additionally all significant counterparty relationships as well as loans under special supervision are reviewed in detail every six months:

**Category**

A *Normal Risk*

***Qualitative factors***

Loans and financial leases in this category are appropriately serviced. The debtor s financial statements or its projected cash flows, as well as all other credit information available to the Bank, reflect adequate paying capacity.

B *Acceptable Risk, Above Normal*

Loans and financial leases in this category are acceptably serviced and guaranty protected, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor s paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.

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**Category**

***Qualitative factors***

C *Appreciable Risk*

Loans and financial leases in this category represent insufficiencies in the debtors' paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations.

D *Significant Risk*

Loans and financial leases in this category are deemed uncollectible. They are considered default loans.

E *Unrecoverability*

**Allowance for loan losses**

Allowance for loan losses are established based on the parameters issued by the Superintendency of Finance.

The Bank adopted the Reference Models Commercial and Consumer, MRC and MRCO, respectively, issued by the Superintendency of Finance for its commercial and consumer loans, respectively, whose application became mandatory as of July 2007, for commercial loans and as of July 2008, for consumer loans. Those models were not applied for Banagrícola subsidiary, duly approved by Superintendence of Finance, which adopted the guidance effective to December 31, 2006.

According to the reference models the allowance for loan losses is stated through the calculation of the Expected Loss:

Expected Loss= [Probability of default] x [Exposition to default] x [Loss given default]

***Probability of Default (PD)***

This corresponds to the probability of the debtors within a specific portfolio of commercial loans or segment and classification for consumer loans, defaulting on their obligations in a period of twelve (12) months. The probability of default is defined by Superintendency of Finance.

***Exposition to default***

With regard to the MRC and MRCO Reference Models, the exposure value of an asset is understood to mean the current balance of the principal, interest, interest receivable accounts and other receivables regarding consumer and retail loan obligations.

***The Loss Given Default (LGD)***

This is defined as the economic deterioration sustained by a company should any of the events of default. The LGD for debtors classified in the default category depends on the type of collateral and would suffer a gradual increase in the provision according to the amount of days lapsing after being classified in said category. For this purpose 100% of the collateral value is considered to cover the principal amount.

In 2007 the Bank applied the minimal criteria for LGD defined by Superintendency of Finance, for type of collateral, past due days after default and rates. In 2008 the LGD rates used were the same defined by Superintendence of Finance, but the minimal past due days after default became more exigent in order to have a better coverage of the default portfolio.

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The impact caused in June 2008 upon applying the Reference Model on the Bank's Consumer Loan portfolio was to increase individual provisions by Ps 33,030 with respect to the methodology used during the previous year, which required provisions to be maintained based on minimum percentages applied with regard to different portfolio ratings; this increase was partially covered with the general provision which was reversed in the amount of Ps 37,000.

The Bank also sets up other provisions for specific commercial clients besides the minimum provisions required by the Superintendency of Finance bearing in mind specific risk factors affecting clients, including: macroeconomic or industry and any other factors that could indicate early impairment. At December 31, 2008, additional provisions were recorded totaling Ps 186,866 (2007 Ps 79,420).

For mortgage and small business loans in compliance with instructions issued by the Superintendency of Finance, the Bank must maintain at all times individual provisions corresponding to minimum percentages which might differ if the loan has any collateral (up to seventy per cent 70% of the collateral value is considered, to cover the principal). There is no reference models issued for this type of loans.

Similar to the commercial and consumer portfolio, for mortgage and small business, the Bank has adopted a special policy of maintaining an additional provision, for loans pertaining to the credit risk categories C, D and E, regardless of the value of the collateral.

***Valuation of mortgage collateral for allowance purposes***

The value of the collateral posted by the Bank is established based on parameters issued by the Superintendency of Finance:

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

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

***General Allowance***

The Bank sets up a general provision corresponding to one per cent (1%) of the total value of mortgage and small business loans.

By virtue of applying the MRCO and MRC Reference Models during the years 2008 and 2007, current rules and regulations allowed for the general provision pertaining to retail and commercial loans issued up to the moment said models were applied, to be assigned as part of the individual provisions that were initially required.

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

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

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**Charge-Offs**

Biannually in June and December, the Bank writes off debtors classified as unrecoverable, based on the following criteria: Provision of 100% of all amounts past due (capital, interest and other items); 180 days past due for consumer and small business loans, 360 days past due for commercial loans, if they are not restructured, and 1620 days past due for mortgage loans.

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

**Restructured Loans**

Loans are restructured when the Bank, because of economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider.

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

***(j) Derivatives***

**Derivatives**

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

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

Changes in the fair value of such contracts are recognized in the consolidated statement of operations.

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

***Forward Contracts***

Up to December 31, 2007, the fair values of forward contracts were determined based on interest rate differentials obtained from the market between the currencies therein involved.

As of December 31, 2008, the fair value is determined based on forward point quotes (PIPS, stated in Colombian pesos per US dollar) as recorded each day at the close of the forward market, and as published by active market brokers and which represent quoted starting prices.

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***Swap Contracts***

The fair value of swap contracts is determined using the discounted cash flow method at the interest rates applicable for each flow. Interest rate curves are drawn up for each operation based on information sourced from Bloomberg and Infoval.

***Option Contracts***

Options are appraised as stipulated by the Superintendency of Finance using the Black-Scholes/Merton method which is the model commonly used on an international level.

***Spot Transactions***

These are operations that are recorded with a term for their respective clearance equal to the date on which the operation is recorded or up to three (3) business days beginning on the day after the operation was conducted.

***(k) Foreclosed Assets***

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

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

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

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

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

The profits obtained from a credit sale are deferred over the life of the credit, and are realized as the obligation is paid off.

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

Reappraisals of foreclosed assets are recorded as memorandum accounts.



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**Legal term for the sale of Foreclosed Assets**

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

**Provisions for Foreclosed Assets**

The Superintendency of Finance requires a provision equal to 30% for real estate, 35% per other foreclosed assets of the carrying value of the asset at the time of receipt which must be made in proportional monthly installments within the first year following its receipt. This provision will increase an additional 30% and 35%, respectively in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 80% and 100%, respectively of the value upon receipt. In case the term extension is granted, the remaining 20% and 0%, respectively of the provision may be constituted within said term.

Also, it is the Bank's policy, in the case of foreclosed assets that remain for more than 5 years in the Bank's possession to increase the provision up to 100% of its value in books. Foreclosed assets under sale agreement are excluded from this practice.

***(l) Loan Fees***

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

***(m) Property, Plant and Equipment***

This account records tangible assets acquired or leased assets, constructed or in the process of importation or construction and permanently used in the course of the Bank's business which have a useful life exceeding one year. Property and equipment is recorded at the cost of acquisition, including direct and indirect costs and expenses incurred up to the time that the asset is in a usable condition and the inflation adjustment recorded until 2001.

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

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

The individual net book value of buildings (cost less accumulated depreciation) is compared against fair values taken from independent professional appraisals. If the fair value is higher, the difference is recorded as a Reappraisal of Assets with credit on the Surplus for Reappraisal of Assets in the Stockholders' Equity; otherwise, the difference is charged to expenses as provision for other assets of the period. Appraisals must be made at least every three years.

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**(n) Prepaid Expenses, Deferred Charges**

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

***Prepaid Expenses***

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

***Deferred Charges***

Software is amortized over a maximum of three years.

Stationery is expensed when consumed.

The discount on the issuing of long-term debt is amortized over the term of the redemption. of these same and on straight-line basis.

Contributions and affiliations are amortized over the period prepaid.

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

**(o) Intangible Assets****Goodwill**

The value of the goodwill acquired shall be determined once the Bank effectively obtains control over the acquired entity by the difference between the price paid and the book value of the net assets acquired. Goodwill must be allocated to each of the business segments, which must be fully identified in the records.

Up to December 31, 2007 goodwill was amortized using the exponential method. Under this method the charge for amortization is increased exponentially every year.

Since January, 2008, the straight-line method has been used to amortized goodwill, since the Bank considers this method provides a better association between the revenues and expenses corresponding to this investment.

The effect on amortization at December 31, 2008 as a result of using this new method is broken down as follows:

Amortization using the Straight-Line Method	\$ 43,823
Amortization using the Exponential Method	22,269
Greater amortized balance	\$ 21,554

Goodwill allocated to different business segments is tested for impairment annually, comparing fair value with book value of the business segments.

In the case of goodwill acquired by the Bank and its subsidiaries before the date when the new regulation came into full force, the amortization term was maintained in five years and ten years and three years for goodwill recorded in the subsidiaries Banagrícola S.A. and Inversiones Financieras Banagrícola S.A., respectively.

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**(p) Operating Leases**

In the normal course of the operations the subsidiaries Leasing Bancolombia S.A. and Renting Colombia S.A. lease different assets under operating leasing arrangements. These assets are recorded at cost.

Depreciation for these assets is applied over either the asset's useful life or the term of the leasing agreement, whichever period is the shortest.

General provision of 1% of the book value of these assets shall be recorded.

Leased assets by the subsidiary Renting Colombia S.A. are mainly vehicles which depreciation is calculated on a straight-line basis in a five years term, less their residual values.

Since 2008, the net book value of these assets established by homogeneous groups is compared against their relative fair values based on the present value of future rental payments and their residual values discounted by the internal rate return established in the contract. If the fair value is higher, the difference is recorded as a Reappraisal of Assets in the balance sheet with the corresponding credit recorded in Surplus for Reappraisal of Assets in the Stockholders Equity; otherwise, the difference is charged to expenses as provision for other assets.

This treatment is different from that applied during the previous year when the methodology of technical appraisals was used. The change in the accounting estimate reflected a more reasonable value given the conditions of the business. Such change increased the Stockholders Equity by Ps 87,927.

**(q) Reappraisals**

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

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

**(r) Deferred Income**

This account records deferred income and income received in advance in the course of business. Amounts recorded in this account are amortized over the period to which they relate or in which the services are rendered or the money is collected in the case of profits obtained from the sale of goods sold on credit.

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

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**(s) Deferred Tax**

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

**(t) Retirement Pensions**

The Bank applies the provisions in Decree 1517 of 1998, which requires a distribution of charges to amortize the actuarial calculation by 2010. As of December 31, 2008, the Bank has amortized the total actuarial liability.

**(u) Estimated labor liabilities**

Estimated labor liabilities are recorded based on applicable legislation and current labor agreements. Since 2008, the Bank recorded a provision for seniority and service bonuses for a total of Ps 35,350.

**(v) Other Accrued Expenses**

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

The Bank has acquired a right, and therefore has an obligation; and

The provision is probable, justifiable, quantifiable and verifiable.

This account also records estimates for taxes and labor expenses.

**(w) Recognizing financial income, costs and expenses**

Financial income and expenses are recognized on an accrual basis.

The loans origination costs are recorded on the income accounts when these are incurred and the corresponding revenues when these are collected. The Bank does not implement a policy of collecting commissions on the origination of the loans, and those that it collects from credit cards are recorded on the income accounts using the accrual method.

All profits obtained from credit sales of foreclosed assets are recorded as revenues when the value of the credit is collected.

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**(x) Memorandum Accounts**

Contingent accounts record operations in which the Bank acquires rights or assumes obligations conditioned by possible or remote future events. Also include financial income accrued since the moment in the balance sheet cease to accrue on the income accounts with regard to the loan portfolio and financial leasing operations.

Contingencies including fines, sanctions, litigation and lawsuits are evaluated by the Legal Department and its legal counsel. Estimating loss contingencies necessarily implies exercising judgment and is therefore subject to opinion. In estimating loss contingencies regarding pending legal proceedings against the Bank, legal counsel evaluates, among other aspects, the merits of the case, the case law of the courts in question and the current status of the individual proceedings.

If this evaluation reveals the probability that a material loss has occurred and the amount of the liability can be estimated, then this is duly recorded in the financial statements. If the evaluation reveals that a potential loss is not probable however the outcome either is uncertain or probable but the amount of the loss cannot be estimated, then the nature of the corresponding contingency is disclosed in a note to the financial statements along with the probable estimated range of the loss. Loss contingencies that are estimated as being remote are, generally speaking, not disclosed.

Memorandum accounts record third party operations whose nature does not affect the financial situation of the Bank. Contingent and memorandum accounts are included in the caption memorandum accounts of the balance sheet. This also includes tax memorandum accounts that record figures for drawing up tax returns, all those internal control or management information accounts and reciprocal transactions carried out between the Parent Company and its Subsidiaries.

**(y) Net Income per Share**

Under Colombian GAAP to determine net income per share, the Bank uses the weighted average of Preferred and Common Shares outstanding during the accounting period. During years ended on December 31, 2008, 2007 and 2006 the Bank's weighted average of Preferred and Common Shares outstanding was 787,827,003, 758,313,771 and 727,827,005, respectively.

**(z) Insurance reserves**

**Mathematical reserves**

Mathematical reserves on long-term individual life insurance are calculated based on mortality tables, technical interest and actuarial formulas for each type of insurance. In calculating these reserves the mean reserve and deferred premiums are deducted.

The technical rate of interest is an interest rate agreed upon with the insured party as part of the policy, the purpose of which is to recognize a minimum rate of return on the reserves held, which are funds in favor of the insured party. This rate is used for establishing tariffs so that the price to be paid for the insurance covers said rate of return.

This rate does not directly relate to prevailing market conditions with regard to bank borrowing rates, even though these are considered when establishing these rates, thereby ensuring that our life insurance products can compete with other savings plans. This is called a technical rate of interest because it forms part of a technical note and not a market rate.

**Deferred premiums**

In the case of short-duration contracts, the deferred premiums are calculated based on a percentage of the net retained premium for each type insurance contract. .

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**Reserves for incurred but not reported claims**

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

**Underwriter costs**

Underwriter costs on premiums are recorded when are incurred.

**Salvage and recovery**

This item records all those revenues received from salvaging goods subject to claims for which the insurance company has paid its clients the corresponding indemnities.

***(aa) Business Combination***

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

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

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

***(ab) Reclassifications***

The Bank has changed certain accounting policies during the year 2008 in order to provide more relevant information. The changes resulted in reclassification in the statement of operations for the year 2007 for comparative purposes. No such changes were made for 2006 because they were not material for comparative purposes. The changes in accounting policies are as follows:

Certain service fees were reclassified from commissions from banking services to credit and debit card annual fees and gains on sale of mortgage loans.

Certain securitization fees classified in administrative and other expenses and certain expenses on sale of mortgage loan classified in other expenses (Non-operating income) were reclassified to gains on sale of mortgage loans.

The results relating to the residual interest on securitizations were reclassified from other income (Non-operating income) to gains on sale of mortgage loans.

***(3) Transactions in Foreign Currency***

The Colombian Superintendency of Finance defines limits on the amount of foreign-currency assets and liabilities. As of December 31, 2007 and 2008, the Bank was in compliance with these limits.

Substantially all foreign currency holdings are in U.S. Dollars. The consolidated foreign currency assets and liabilities, converted to US\$, of the Bank at December 31, 2007 and 2008 were as follows:

	<i>2007</i>	<i>2008</i>
<b>Assets:</b>		
Cash and due from banks	US\$ 709,099	US\$ 644,166
Overnight funds	746,919	216,416

Investment securities	802,648	778,977
Loans, net	5,116,185	5,458,269
Customers' acceptances and derivatives	(659,910)	(291,705)
Accounts receivable	91,158	94,319
Property, Plant and equipment	68,392	73,337
Other assets	667,486	763,870
<b>Total foreign currency assets</b>	<b>US\$ 7,541,977</b>	<b>US\$ 7,737,649</b>

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	<b>2007</b>	<b>2008</b>
<b>Liabilities:</b>		
Deposits	4,823,721	4,908,454
Bank acceptances outstanding	20,971	25,377
Borrowings from development and other domestic banks	279,768	294,107
Interbank borrowings	747,787	925,878
Other liabilities	1,321,228	1,337,292
<b>Total foreign currency liabilities</b>	<b>7,193,475</b>	<b>7,491,108</b>
<b>Net foreign currency asset position</b>	<b>US\$ 348,502</b>	<b>US\$ 246,541</b>

At December 31, 2007 and 2008, the Bank (unconsolidated) net foreign currency asset position amounted to US\$ 668,030 and US\$ 165,873, respectively; which meet the legal requirements.

At December 31, 2007 and 2008, foreign currency of foreign subsidiaries represents 82.63% and 83.19%, respectively, of the consolidated assets in foreign currency and 80.45% and 78.65%, respectively, of the consolidated liabilities in foreign currency.

**(4) Cash and Due From Banks**

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

	<b>2007</b>	<b>2008</b>
<b>Colombian peso denominated:</b>		
Cash	Ps 1,554,035	Ps 1,933,033
Due from the Colombian Central Bank	521,113	415,617
Due from domestic banks	96,016	63,843
Remittances of domestic negotiated checks in transit	19,019	13,305
Allowance for cash and due from banks	(229)	(116)
<b>Total local currency</b>	<b>2,189,954</b>	<b>2,425,682</b>
<b>Foreign currency:</b>		
Cash	215,124	268,442
Due from the Colombian and El Salvador Central Bank	564,779	658,022
Due from foreign banks	546,012	449,868
Remittances of foreign negotiated checks in transit	102,750	68,978
Allowance for cash and due from banks		(65)
<b>Total foreign currency</b>	<b>1,428,665</b>	<b>1,445,245</b>
<b>Total cash and due from banks</b>	<b>Ps 3,618,619</b>	<b>Ps 3,870,927</b>



The Bank had restricted amounts in cash and time deposits with the Colombian Central Bank amounted to Ps 2,634,108 and Ps 3,628,511 at December 31, 2007 and 2008, respectively. The restriction, which is prescribed by the Colombian Central Bank, is based on a percentage of deposits maintained at the Bank by its customers.

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**(5) Investment Securities**

Investment in trading securities consisted of the following:

	<b>2007</b>	<b>2008</b>
<b>Trading Securities</b>		
<i>Colombian peso denominated:</i>		
Colombian government	Ps 938,768	Ps 1,654,423
Colombian Central Bank	19	1
Government entities	368,419	165,944
Financial institutions	338,693	489,731
Corporate bonds	67,814	50,651
Equity securities <sup>(1)</sup>	69,718	305,606
<b>Total local currency denominated</b>	<b>1,783,431</b>	<b>2,666,356</b>
<i>Foreign currency denominated:</i>		
Colombian government	125,868	3,901
Foreign government	6,087	494
Government entities	12,876	
Financial institutions	49,442	19,815
Corporate bonds	8,026	604
Equity securities <sup>(1)</sup>	23,407	25,792
<b>Total foreign currency denominated</b>	<b>225,706</b>	<b>50,606</b>
<b>Total trading securities</b>	<b>2,009,137</b>	<b>2,716,962</b>
Allowance for trading securities	(8,023)	(8,885)
<b>Total trading securities, net</b>	<b>Ps 2,001,114</b>	<b>Ps 2,708,077</b>

(1) Equity securities include participation in collective portfolios and funds.

The foreign currency denominated securities issued or secured by the Colombian government are bonds denominated in U.S. Dollars, purchased at par value, with annual average interest rates of 5.73% and 5.41% for 2007 and 2008, respectively.

As of December 31, 2007 and 2008, the Bank had pledged investments securities amounting to Ps 1,277,453 and Ps 1,150,798, respectively as collateral to secure lines of credit at international banks, domestic development banks and other financial institutions.

The Bank sold Ps 218,683,534 and Ps 312,587,379 of investment securities during the years ended December 31, 2007 and 2008, respectively.

Investment available for sale securities consisted of the following:

<b>Available for sale - Debt Securities</b>	<b>2007</b>	<b>2008</b>
<i>Colombian peso denominated:</i>		
Colombian government	Ps 549,007	Ps 484,037
Government entities	29,729	20,759
Financial institutions	660,622	661,618
Other	26,185	15,531
<b>Total local currency denominated</b>	<b>1,265,543</b>	<b>1,181,945</b>

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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<b>Available for sale - Debt Securities</b>	<b>2007</b>	<b>2008</b>
<b><i>Foreign currency denominated:</i></b>		
Colombian government	82,408	55,041
El Salvador Central Bank	39,658	26,537
Government entities	156,364	142,936
Foreign government	379,467	594,129
Financial institutions	31,153	
<b>Total foreign currency denominated</b>	<b>689,050</b>	<b>818,643</b>
<b>Total Available for sale Debt securities</b>	<b>1,954,593</b>	<b>2,000,588</b>
<b>Allowance for available for sale securities</b>		<b>(224)</b>
<b>Total available for sale securities, net</b>	<b>Ps 1,954,593</b>	<b>Ps 2,000,364</b>

<b>Available for sale equity securities</b>	<b>Participation percentage at December 31, 2007</b>		<b>2007</b>	<b>Participation percentage at December 31, 2008</b>		<b>2008</b>
Todo Uno Services	47.04%	Ps	47,998	47.04%	Ps	53,449
Bolsa de Valores de Colombia	5.87%		8,578	10.00%		19,784
Sociedad Administradora de Fondos de Pensiones y de Cesantías Protección S.A. Titularizadora Colombiana S.A.	23.44%		19,481	23.44%		19,481
Promotora La Alborada <sup>(1)</sup>	21.25%		17,308	21.25%		17,308
Metrotel Redes	25.81%		14,001	0.00%		
Concesiones Urbanas S.A.	28.42%		10,568	28.42%		10,568
Urbanización Chicó Oriental No. 2 Ltda.	33.33%		8,449	33.33%		8,450
Depósito Centralizado de Valores de Colombia Deceval S.A.	86.45%		7,848	86.45%		7,848
Cadenalco S.A. Titularización	13.58%		4,209	15.78%		4,738
Redeban Red Multicolor	3.33%		4,378	3.33%		4,555
VISA Inc <sup>(2)</sup>	20.36%		4,396	20.36%		4,396
Concesiones CCFC S.A.	0.00%			0.01%		4,377
Banco Latinoamericano de exportaciones	25.50%		4,358	25.50%		4,358
BLADEX S.A.	0.27%		2,618	0.27%		2,813
Other			6,432			10,338
<b>Total equity securities</b>			<b>160,622</b>			<b>172,463</b>

Allowance for equity securities	(53,717)	(45,254)
<b>Total equity securities, net</b>	<b>Ps 106,905</b>	<b>Ps 127,209</b>

(1) These securities were sold during 2008.

(2) During 2007, Visa International Service Association, Visa U.S.A. Inc., Visa Europe Limited and Visa Canada Association, developed a restructuring program, in consequence, Visa International recognized economic rights to Bancolombia for Ps 4,377.

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Dividends received from equity investments amounted to Ps 21,199, Ps 18,968 and Ps 39,586 for the years ended December 31, 2006, 2007 and 2008, respectively.

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

	2007		2008	
	Category	Valuation allowance	Category	Valuation allowance
Todo Uno Services	D	Ps 34,849	D	Ps 36,469
Urbanización Chicó Oriental No. 2 Ltda.	E	7,848	E	7,848
Urbanización Sierras del Chicó Ltda.	E	203	E	203
Industria Colombo Andina Inca S.A.	E	300	E	300
Sociedad Promotora Siderúrgica Colombiana E.U.	D	427	D	427
Promotora La Alborada	E	9,897		
Oikos Títulos de Inversión en Circulación	E	186		
Others		7		7
		<b>Ps 53,717</b>		<b>Ps 45,254</b>

Investment in held to maturity securities consisted of the following:

<b>Held to Maturity Securities</b>	2007	2008
<b><i>Colombian peso denominated:</i></b>		
Colombian government	Ps 525,368	Ps 495,346
Colombian Central Bank	145	
Government entities	47,765	422,427
Financial institutions	423,056	706,356
Corporate bonds	41,710	27,494
<b>Total Colombian-Peso denominated</b>	<b>1,038,044</b>	<b>1,651,623</b>
<b><i>Foreign currency denominated:</i></b>		
El Salvador Central Bank	546,552	643,730
Government entities	853	1,581
Foreign government	64,929	93,157
Financial institutions	72,374	49,310
Other	2,694	15,043
<b>Total foreign currency denominated</b>	<b>687,402</b>	<b>802,821</b>
	<b>1,725,446</b>	<b>2,454,444</b>
Allowance for Maturity securities	(13,807)	(11,818)

**Total Held to Maturity securities, net**

**Ps 1,711,639**

**Ps 2,442,626**

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The maturity and yield of securities issued by Colombian Government Peso-denominated, as of December 31, 2008, were as follow:

<i><b>Maturity</b></i>	<i><b>Balance</b></i>	<i><b>Yield<sup>(1)</sup></b></i>
One year or less	Ps 711,301	9.47%
After one year through five years	1,475,623	6.39%
After five years through ten years	377,114	2.63%
After ten years	69,768	7.42%
<b>Total</b>	<b>Ps 2,633,806</b>	<b>6.71%</b>

(1) Calculated using internal return rate (IRR) as of December 31, 2008.

**(6) Loans and Financial Leases**

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

***December 31, 2007***

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

***December 31, 2008***

<i><b>Classification</b></i>	<i><b>Mortgage</b></i>	<i><b>Commercial</b></i>	<i><b>Consumer</b></i>	<i><b>Small loan</b></i>	<i><b>Financial leases</b></i>	<i><b>Total</b></i>
A Normal Risk	Ps 3,146,863	Ps 25,590,760	Ps 6,799,419	Ps 123,648	Ps 4,989,406	Ps 40,650,096
B Acceptable Risk	123,284	1,464,256	287,316	6,160	335,816	2,216,832
C Appreciable Risk	63,246	304,088	137,291	2,899	69,033	576,557
D Significant Risk	20,269	552,306	193,538	2,396	103,383	871,892
E Unrecoverable	37,664	157,321	115,085	8,019	9,104	327,193



**Total loans and  
financial leases**

**Ps 3,391,326 Ps 28,068,731 Ps 7,532,649 Ps 143,122 Ps 5,506,742 Ps 44,642,570**

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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Promissory notes documenting loans amounting to Ps 1,601,926 and Ps 1,919,046 at December 31, 2007 and 2008, respectively, have been duly endorsed to development banks, as required by applicable laws.

The following table represents a summary of restructured loans:

	<b>2007</b>	<b>2008</b>
Ordinary restructurings	Ps 849,522	Ps 736,391
Extraordinary restructurings	1,265	
Under law 550	72,519	79,980
Under law 617	151,883	133,007
Creditor agreement proceedings	4,092	1,959
Performance Agreement	1,165	918
Interest and other receivables items	16,164	16,224
Restructured loans	1,096,610	968,479
Allowances for loan losses	(211,779)	(370,049)
<b>Restructured loans, net</b>	<b>Ps 884,831</b>	<b>Ps 598,430</b>

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

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

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Balance at beginning of year	Ps 705,882	Ps 834,183	Ps 1,457,151
Balance at beginning of period (Factoring Bancolombia)	5,625		
Balance at beginning of period (Banagrícola s subsidiaries) <sup>(1)</sup>		147,357	
Provision for loan losses	568,679	1,203,543	1,986,710
Charge-offs	(136,789)	(186,273)	(547,860)
Effect of difference in exchange rate	(1,210)	(25,441)	45,604
Reversals of provisions	(308,004)	(516,218)	(807,245)
Balance at end of year	Ps 834,183	Ps 1,457,151	Ps 2,134,360
Ratio of charge-offs to average outstanding loans	0.63%	0.60%	1.36%

(1) Includes allowance for loan losses of Banco Agrícola, Banco Agrícola (Panamá), Arrendadora

Financiera,  
Credibac,  
Aseguradora  
Suiza  
Salvadoreña and  
Asesuisa Vida.

Recoveries of charged-offs loans are recorded separately in the consolidated statement of operations. The following table sets forth the activity in the allowance for accrued interest losses:

	<i>2006</i>		<i>2007</i>		<i>2008</i>	
Balance at beginning of year	Ps	8,655	Ps	11,644	Ps	33,303
Balance at beginning of period (Factoring Bancolombia)		481				
Balance at beginning of period (Conavi, Corfinsura and subsidiaries)						
Provision		14,825		35,543		58,721
Charge-offs		(4,126)		(3,167)		(12,782)
Recoveries		(8,159)		(10,507)		(25,581)
Effect of changes in exchange rate		(32)		(210)		662
Balance at end of year	Ps	11,644	Ps	33,303	Ps	54,323

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)***(8) Customers Acceptances and Derivatives**

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

	<b>2007</b>	<b>2008</b>
<b>Customer Acceptances</b>		
Current	Ps 53,890	Ps 55,925
Overdue	1,319	1,010
<b>Total</b>	<b>55,209</b>	<b>56,935</b>
<b>Derivatives</b>		
<i>(Fair value of derivatives instruments)</i>		
<b>Spot Transactions, net</b>		
Foreign exchange rights contracts bought	15,527	971
Foreign exchange rights contracts sold	10,575	6,880
Investment securities rights bought (local currency)	78,381	
Investment securities rights sold (local currency)	67,322	
Total rights	171,805	7,851
Foreign exchange commitments contracts bought	(15,433)	(974)
Foreign exchange commitments contracts sold	(10,656)	(6,795)
Investment securities commitments bought (local currency)	(77,898)	
Investment securities commitments sold (local currency)	(67,495)	
Total obligations	(171,482)	(7,769)
<b>Total Spot Transactions, net</b>	<b>323</b>	<b>82</b>
<b>Forward Contracts</b>		
Foreign exchange rights contracts bought	3,211,826	3,590,438
Foreign exchange rights contracts sold	4,462,834	4,465,948
Investment securities rights bought (local currency)	643,016	
Investment securities rights sold (local currency)	275,637	10,820
Other rights	300	8,927
Total rights	8,593,613	8,076,133
Foreign exchange commitments contracts bought	(3,243,867)	(3,462,854)
Foreign exchange commitments contracts sold	(4,399,430)	(4,522,433)

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Investment securities commitments bought (local currency)	(643,308)	
Investment securities commitments sold (local currency)	(274,938)	(13,045)
Total obligations	(8,561,543)	(7,998,332)
<b>Total</b> <sup>(1)</sup>	32,070	77,801
 <i><b>Futures Contracts</b></i>		
Foreign exchange rights contracts bought	30,117	42,824
Foreign exchange rights contracts sold	10,036	12,729
Investment securities rights bought (local currency)	863	2,276

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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	<b>2007</b>	<b>2008</b>
Investment securities rights sold (local currency)	5,611	5,654
Other rights	599	7,682
<b>Total rights</b>	<b>47,226</b>	<b>71,165</b>
Foreign exchange commitments contracts bought	(30,117)	(42,824)
Foreign exchange commitments contracts sold	(10,036)	(12,729)
Investment securities commitments bought (local currency)	(863)	(2,067)
Investment securities commitments sold (local currency)	(5,611)	(5,859)
Other commitments	(603)	(7,859)
<b>Total obligations</b>	<b>(47,230)</b>	<b>(71,338)</b>
<b>Total Future Contracts</b>	<b>(4)</b>	<b>(173)</b>
<b>Swaps</b>		
Foreign exchange right contracts	3,129,471	4,465,747
Interest rate rights contracts	155,589	422,005
Foreign exchange commitments contracts	(3,024,895)	(4,338,883)
Interest rate commitments contracts	(153,625)	(399,395)
<b>Total Swaps</b>	<b>106,540</b>	<b>149,474</b>
<b>Options</b>		
Foreign exchange call options	(1,062)	7,070
Foreign exchange put options	(141)	(8,210)
Caps	3,066	(10,521)
<b>Total Options</b>	<b>1,863</b>	<b>(11,661)</b>
<b>Total customer acceptances and derivatives</b>	<b>Ps 196,001</b>	<b>Ps 272,458</b>

(1) Includes  
forward  
contracts known  
in Colombia as  
operaciones

carrusel .

The Bank currently has an investment portfolio in local and foreign currencies that allows it to offer foreign exchange and interest rate coverage to its clients. By using derivatives, the Bank hedges exchange risk protects its foreign-currency investment portfolio. These derivatives help protect the Bank against exchange-rate fluctuation and increases the predictability of the Bank's yield on foreign-currency investments.

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

Under the rules of the Superintendency of Banking, Bancolombia's derivatives portfolio is market to market daily. Unrealized gains and losses are expressed in the statement of operations.

For forwards contracts, the average cost of rights and commitments relating to the purchase of financial instruments is 5.73% with a maturity of 3 days and the average yield from rights and commitments relating to the sale of investment securities is 5.68% with a maturity of 4 days.

The average yield from rights and commitments relating to the sale of foreign currency is 4.19% annually with a maturity of 50 days. The average yield from rights and commitments relating to the purchase of foreign currency is (7.49%) annually with an average maturity of 33 days.

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

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**(9) Accounts Receivable**

Accounts receivable consisted of the following:

	<b>2007<sup>(2)</sup></b>		<b>2008<sup>(2)</sup></b>	
Credit card compensation	Ps	275,765	Ps	258,945
Overnight funds sold		2,394		194
Commissions		46,527		51,064
Sierras del Chicó y Chicó Oriental		4,467		4,584
Sale of Bank's equity investments <sup>(1)</sup>		49,744		
Renting		63		641
Advances to contractors and fees		149,438		241,068
Commitment seller		19,289		33,282
Dividends		2,008		9,084
Treasury operations pending of paid by the customers		2,500		21,878
Services and properties sells		24,017		23,482
Employee advances		5,835		6,803
Deposit security receivable ( Fogafin )		23,342		32,323
Insurance premium receivables		32,525		55,538
Taxes		10,447		19,638
Other credit card receivable		11,219		7,264
International operations		10,234		26,801
Accounts receivables in branches		25,846		4,730
Other receivables		54,850		87,816
<b>Total accounts receivable</b>		<b>750,510</b>		<b>885,135</b>
Allowance for accounts receivable losses		(34,404)		(56,318)
<b>Accounts receivable</b>	<b>Ps</b>	<b>716,106</b>	<b>Ps</b>	<b>828,817</b>

The changes in allowance for accounts receivable are as follows:

	<b>2006</b>		<b>2007</b>		<b>2008</b>	
Balance at beginning of year	Ps	30,984	Ps	22,215	Ps	34,404
Balance at beginning of period (Banagrícola's subsidiaries <sup>(3)</sup> )				2,787		
Provision for uncollectible amounts		17,621		28,536		68,997
Charge-offs		(5,573)		(7,052)		(16,481)
Effect of exchange rate		557		(459)		1,247
Reversal of provision and recoveries		(21,374)		(11,623)		(31,849)
Balance at end of year	Ps	22,215	Ps	34,404	Ps	56,318

(1)



Includes sales of  
Lab Investment  
& Logistic and  
Abocol and  
affiliate.

- (2) Includes all  
accounts  
receivable  
except those  
originated for  
interest loans.
  
- (3) Includes  
allowance for  
accounts  
receivable  
losses of Banco  
Agrícola,  
Aseguradora  
Suiza  
Salvadoreña and  
Asesuisa Vida.

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**(10) Property, Plant and Equipment**

Property, Plant and equipment consisted of the following:

	<b>2007</b>	<b>2008</b>
<b>Property, Plant and Equipment</b>		
Land	Ps 136,369	Ps 152,688
Buildings	421,666	816,547
Furniture, equipment and fixtures	261,029	274,692
Computer equipment	543,041	503,426
Vehicles	13,034	9,773
Construction in progress	122,606	6,604
Machinery and equipment	17,293	
Equipment in transit <sup>(1)</sup>	157,341	180,435
<b>Total</b>	<b>1,672,379</b>	<b>1,944,165</b>
Less accumulated depreciation	(806,567)	(768,592)
Allowance	(9,994)	(4,456)
<b>Property, Plant and equipment, net</b>	<b>Ps 855,818</b>	<b>Ps 1,171,117</b>

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

Property, Plant and equipment depreciation expense for the years ended December 31, 2006, December 31, 2007 and December 31, 2008, amounted to Ps 95,921, Ps 104,442 and Ps 98,301, respectively.

**(11) Operating Leases**

Operating leases where the Bank or any of its subsidiaries act as lessors consisted of the following:

	<b>2007<sup>(1)</sup></b>	<b>2008</b>
<b>Operating Leases</b>		
Machinery and equipment	Ps 5,650	Ps 32,721
Vehicles	482,440	571,669
Furniture, equipment and fixtures	15,271	17,947
Computer equipment	97,259	150,800
Real estate	1,711	126,007
<b>Total</b>	<b>602,331</b>	<b>899,144</b>
Rents	15,690	22,746
Less accumulated depreciation	(126,080)	(189,161)
Allowance	(3,608)	(6,467)

**Operating Leases, net**

**Ps 488,333**

**Ps 726,262**

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

Operating lease depreciation expense for the years ended December 31, 2006, 2007 and 2008, amounted to Ps 8,632, Ps 18,393 and Ps 42,832, respectively.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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**(12) Prepaid Expenses and Deferred Charges**

At December 31, 2007 and 2008 prepaid expenses and deferred charges consisted of the following:

	<b>2007</b>	<b>2008</b>
<b>Prepaid expenses:</b>		
Insurance premiums	Ps 11,636	Ps 11,565
Software licenses	10,499	8,887
Other	1,597	1,554
<b>Total prepaid expenses</b>	<b>23,732</b>	<b>22,007</b>
<b>Deferred charges:</b>		
Studies and projects	10,058	7,391
Computer programs	25,329	38,761
Leasehold improvements	8,898	5,427
Stationery and supplies	1,618	1,852
Discounts on securities sale	12,918	11,544
IT implementation fees and licences		9,102
Banagrícola acquisition costs	38,033	20,751
Facilities	8,082	6,880
Commissions	2,700	5,663
Other	6,533	3,503
<b>Total deferred charges</b>	<b>Ps 114,169</b>	<b>Ps 110,874</b>
<b>Total prepaid expenses and deferred charges</b>	<b>Ps 137,901</b>	<b>Ps 132,881</b>

**(13) Other Assets**

At December 31, 2007 and 2008 other assets consisted of the following:

	<b>2007</b>	<b>2008</b>
<b>Other assets:</b>		
Value added tax deductible and withholding taxes	Ps 14,486	Ps 46,294
Investment in Trust	10,978	6,090
Deposits	23,842	162,174
Assets to place in lease contracts	502,260	831,633
Inventory	7,906	1,841
Joint venture	8,329	10,659
Other	12,841	35,159
<b>Total other assets</b>	<b>Ps 580,642</b>	<b>Ps 1,093,850</b>



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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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**(14) Goodwill**

The movements in goodwill are as follows:

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Balance at beginning of year	Ps 50,959	Ps 40,164	Ps 977,095
Additions derived from the acquisition of Factoring Bancolombia by Bancolombia	15,019		
Additions derived from the acquisition of Banagrícola by Bancolombia Panamá		881,434	1,786
Reclassifications			(1,325)
Other Additions <sup>(1)</sup>		132,154	3,329
Amortization	(25,814)	(70,411)	(73,009)
Effect of change in exchange rate		(6,246)	100,763
Balance at end of year	Ps 40,164	Ps 977,095	Ps 1,008,639

(1) Other Additions as of December 31, 2007, corresponds to: a) The balance at beginning of year of the goodwill derived from the acquisition of Inversiones Financieras Banco Agricola (IFBA) and Banco Agricola by Banagricola and the goodwill derived from the acquisition of Banco Agricola by Inversiones Financieras Banco Agricola in the total amount of Ps 74,521; b) the additions to the goodwill derived from the acquisition of IFBA and Banco

Agricola by Banagricola in the amount of Ps 30,052 and the additions to the goodwill derived from the acquisition of Banco Agricola by IFBA in the amount of Ps 24,436 during the year 2007 and c) the goodwill derived from the acquisition of Sutecnologia by Leasing Bancolombia in the amount of Ps 3,145.

Other Additions as of December 31, 2008, corresponds to: a) the additions to the goodwill derived from the acquisition of IFBA, Banco Agricola and Aseguradora Suiza Salvadoreña by Banagricola in the amount of Ps 704; the additions to the goodwill derived from the acquisition of Banco Agricola by IFBA in the amount of Ps 2,401 and the additions to the goodwill derived from the acquisition of Capital Investment SAFI by Renting Peru in the amount of Ps 224 during the year 2008.

Goodwill derived from acquisition of Banagricola S.A. by segments was as follows:

<i>Segments</i>	<i>Goodwill</i>	<i>Goodwill pending to amortize</i>
-----------------	-----------------	-------------------------------------

Corporate	Ps	216,947	Ps	206,304
Retail		629,340		598,466
Mortgage		130,950		124,526
Insurance		30,172		28,692
Pensions		35,527		33,784
	Ps	1,042,936	Ps	991,772

At December 31, 2008, Goodwill derived from acquisition of Banagricola S.A. was tested for imparment comparing the book value of Ps 1,264,093 with the fair value of Ps 2,385,312 using discounted cash flow and multiples methodology. As a result, the Bank concluded that there was no impairment of goodwill.



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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)***(15) Foreclosed Assets**

Foreclosed assets consisted of the following:

	<b>2007</b>		<b>2008</b>	
Equity securities	Ps	58,906	Ps	54,573
Real estate		166,992		143,181
Other assets		8,218		6,726
<b>Total</b>		<b>234,116</b>		<b>204,480</b>
Allowance		(201,822)		(179,827)
<b>Total foreclosed assets, net</b>	<b>Ps</b>	<b>32,294</b>	<b>Ps</b>	<b>24,653</b>

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

	<b>2007</b>		<b>2008</b>	
Chicó Oriental Número 2 Ltda.	Ps	14,202	Ps	14,202
Urbanización Sierras del Chicó Ltda.		11,703		11,703
Procampo trust		7,044		7,044
Enka de Colombia		6,965		3,366
Lote2C Chisa trust		4,480		4,624
Pizano S.A.		3,663		3,663
Convertible Securities Pizano S.A.		3,221		3,221
Fibra Tolima trust		1,572		1,572
Calima Resort trust		1,485		1,485
Fiduciario ADM-Ceylán trust		1,209		
BIMA trust		675		675
Clinica Shaio trust				456
Líneas Agromar trust		209		209
Other		2,478		2,353
<b>Total</b>	<b>Ps</b>	<b>58,906</b>	<b>Ps</b>	<b>54,573</b>

The changes in allowance for foreclosed assets are as follows:

	<b>2006</b>		<b>2007</b>		<b>2008</b>	
Balance at beginning of year	Ps	205,176	Ps	174,393	Ps	201,822
Balance at beginning of year 2007 (Aseguradora Suiza, Banco Agrícola)				70,612		
Balance at beginning of the year (Factoring Bancolombia, Conavi, Corfinsura and subsidiaries)		2,370				
Provision		22,037		35,298		19,725
Charge-offs		(978)		(23,866)		(128)

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Recovery of provisions	(54,298)	(52,995)	(48,717)
Reclassifications	91	5,244	133
Effect of changes in exchange rates	(5)	(6,864)	6,992
Balance at the end of year	Ps 174,393	Ps 201,822	Ps 179,827

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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**(16) Reappraisal of Assets**

The following table describes reappraisals of assets:

	<b>2007</b>	<b>2008</b>
Asset revaluations, net	Ps 520,788	Ps 612,683
Less: proportional equity revaluations	(167,069)	(116,194)
Less: minority interests	(34,073)	(47,978)
<b>Total equity revaluations</b>	<b>Ps 319,646</b>	<b>Ps 448,511</b>

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

**(17) Interbank Borrowings**

Interbank borrowings, primarily denominated in U.S. Dollars, at December 31, are summarized as follows:

	<b>2007</b>	<b>2008</b>
<b>Foreign banks</b>		
Short-term	Ps 454,878	Ps 489,897
Long-term	1,051,733	1,587,394
<b>Total</b>	<b>Ps 1,506,611</b>	<b>Ps 2,077,291</b>

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

As of December 31, 2007 and 2008, interest rates on U.S. dollar denominated short-term borrowings from foreign banks averaged 5.28% and 4.71%, respectively.

For long-term interbank borrowings, the average interest rate was 5.86% and 4.43% in 2007 and 2008, respectively.

Maturities of interbank borrowings for the end of the year 2008 were as follows:

	<b>2008</b>
2009	Ps 1,491,094
2010	155,070
2011	112,977
2012	2,297
2013 and thereafter	315,853
	<b>Ps 2,077,291</b>



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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)

**(18) Borrowings from Development and other domestic banks**

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

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

As of December 31, 2007 and 2008, borrowings from domestic development banks received from certain Colombian Government Agencies consisted of the following:

	<b>2007</b>	<b>2008</b>
Banco de Comercio Exterior de Colombia ( Bancoldex )	Ps 1,190,028	Ps 1,424,287
Fondo para el Financiamiento del Sector Agropecuario ( Finagro )	631,940	821,490
Findeter	1,035,910	1,112,559
Other	486,757	512,298
<b>Total</b>	<b>Ps 3,344,635</b>	<b>Ps 3,870,634</b>

Interest rates on borrowings from development and other domestic banks averaged 9.8% and 11.0% in 2007 and 2008, respectively, in local currency 4.5% and 2.0% in 2007 and 2008, respectively, in foreign currency. Maturities at December 31, 2008 were as follows:

2009	Ps 970,428
2010	626,984
2011	541,455
2012	538,074
2013 and thereafter	1,193,693
<b>Total</b>	<b>Ps 3,870,634</b>

**(19) Other Liabilities**

Other liabilities consisted of the following:

	<b>2007</b>	<b>2008</b>
Unearned income	Ps 33,779	Ps 40,086
Accrued severance Law 50, net of advances	21,028	22,044
Accrued severance pre-Law 50, net of advances to employees of Ps 10,160 and Ps 11,775 and in 2007 and 2008, respectively	13,669	14,980
Accrued payroll and other severance benefits	48,308	90,517
Accrued pension obligations net of deferred cost	110,669	111,759
Negative goodwill	4,604	758
Deferred interest on restructured loans	45,956	37,026
Deferred tax liability	64,183	120,327

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Advances	52,200	47,232
Insurance reserves	67,229	82,903
Deferred profit on sales of assets	12,787	5,869
Deferred paid standby letters	3,965	310
Other	25,056	15,690
<b>Total</b>	<b>Ps 503,433</b>	<b>Ps 589,501</b>

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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Unearned income fundamentally consists of prepayments of interest by customers.

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

**Pension obligation**

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

	<i>Projected pension liability</i>	<i>Deferred cost</i>	<i>Net</i>
<b>Balance at December 31, 2006</b>	Ps 99,085		Ps 99,085
Adjustment per actuarial valuation	25,736	(25,736)	
Benefits paid	(12,652)		(12,652)
Settlement due to sale of Almacenar	(1,500)		(1,500)
Pension Expense		25,736	25,736
<b>Balance at December 31, 2007</b>	110,669		110,669
Adjustment per actuarial valuation	12,261	(12,261)	
Benefits paid	(11,171)		(11,171)
Pension Expense		12,261	12,261
<b>Balance at December 31, 2008</b>	<b>Ps 111,759</b>		<b>Ps 111,759</b>

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

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Discount rate	16.53%	14.05%	12.43%
Future pension increases	10.55%	8.83%	7.63%

**(20) Long-Term Debt**

Companies are authorized by the Superintendency of Finance to issue or place ordinary bonds or general collateral bonds.

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The scheduled maturities of long term-debt at December 31, 2008 are as follows:

2009	Ps	726,179
2010		659,545
2011		392,489
2012		168,152
2013		470,886
2014 and thereafter		1,226,235
<b>Total</b>	Ps	<b>3,643,486</b>

Long-term debt consists of bonds issued by Bancolombia (unconsolidated), Banco Agrícola S.A., Leasing Bancolombia, Sufinanciamiento S.A. and by Renting Colombia S.A.

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

During 2008, Bancolombia S.A. successfully completed the issuance and offering of Bancolombia Ordinary Notes for an aggregate principal amount of Ps 600,000. This issuance and offering is the second of multiple and successive issuances of global Bancolombia Ordinary Notes which are limited to an aggregate principal amount of Ps 1,500,000.

**(21) Accrued Expenses**

Accrued expenses consisted of the following:

	<i>2007</i>	<i>2008</i>
Income tax payable	Ps 39,548	Ps 45,367
Fines and sanctions <sup>(1)</sup>	92,395	53,641
Labor obligations	24,303	71,933
FICAFE contingency <sup>(2)</sup>	48,772	58,973
Accrued expenses Almacenes Éxito	1,203	4,871
Other	12,639	20,398
<b>Total</b>	<b>Ps 218,860</b>	<b>Ps 255,183</b>

(1) See Note 26(d).

(2) As a result of Banagrícola's acquisition, the Bank for the year ended December 31, 2008, has established an allowance



available to absorb probable losses inherent in the FICAFE investment, booked through its subsidiary, Banco Agrícola S.A. FICAFE investment consists of fiduciary s certifications, issued by the Fund of Enviromental Preservation of Coffee-producing lands established by the Salvadorian government.

***Income tax***

- a.** The basis for determining income tax may not be lower than 3% of the taxpayer s net worth or equity on the last day of the immediately preceding fiscal year.
- b.** Sporadic earnings are separated from ordinary income and these are taxed at the previously mentioned rates. Sporadic earnings include those obtained from divesting fixed assets held for two years or more as well as liquidating companies also held for more than two years.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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c. Income in Colombia is taxed at the following rates:

<b>Company</b>	<b>Income tax rate - 2006</b>	<b>Income tax rate - 2007</b>	<b>Income tax rate - 2008 onwards</b>
<b>Companies governed by tax stability agreements:</b>			
Bancolombia, Leasing Bancolombia, Banca de Inversión, Fiduciaria Bancolombia	37%	36%	35%
Subsidiaries not governed by tax stability agreements	35%	34%	33%

The tax effect for all those companies governed by tax stability agreements consists of being entitled until the year 2010, inclusive, to an exemption with regard to any new national taxes or rates that should apply to these, pursuant to Article 240-1 of the Colombian Tax Statute (which was repealed by Article 134 of Law 633 passed December 20, 2000). For this reason, in 2008 and 2007, the Parent Company as well as all of its subsidiaries who had entered into tax stability agreements did not pay any financial transaction tax, wealth tax or income surtax.

**d.** In the case of companies domiciled in Panama and belonging to the Bancolombia Group (Bancolombia Panama and Subsidiaries, Banagrícola and Banco Agrícola Panama) income tax is governed by the Panamanian Tax Code. Profits obtained by the aforementioned companies are not subject to income tax in Panama.

**e.** Subsidiaries that were incorporated in El Salvador pay income tax on revenues obtained within the country, according to the Income Tax Law of El Salvador, contained in Legislative Decree No. N°134 issued December 18, 1991, which came into full force and effect as of January 1, 1992. The income tax rate in El Salvador is 25%.

**f.** The subsidiary Bancolombia Puerto Rico, according to the law governing the International Banking Center is 100% exempt from income, property and municipal taxes, providing its income is obtained from international banking activities, pursuant to said law.

**g.** A special deduction equal to 40% of all investments made in fixed assets does not represent any taxable income for shareholders or partners. According to applicable legislation, fixed assets subject to this deduction must be depreciated for tax purposes using the straight-line method and are not entitled to any audit benefit even upon complying with all that contained in the tax code. Should these assets cease to be used to produce income or are divested before the end of their useful lives, fiscal revenue should be recorded on recovering the proportion of the deduction corresponding to the asset's remaining useful life when sold or otherwise transferred. Senior Management considers that the assets for which said deduction was obtained shall be used as part of the Bank's normal course of business and therefore shall not be sold off before the end of their useful life. For this reason no provision has been set up for any possible reimbursed deductions.

**h.** The Parent Company has no plans in the short term to bring into Colombia all those accumulated profits, nor reserves obtained through its foreign subsidiaries, Bancolombia Panamá and Bancolombia Puerto Rico, and which were duly recorded in its consolidated financial statements. At December 2008, said profits totaled Ps 641,628 and should these be brought into Colombia, these would be subject to income tax calculated at the rate applicable for this same year.

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**BANCOLOMBIA S.A. AND SUBSIDIARIES**  
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The following is a reconciliation of taxable income before income taxes:

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Income before income taxes	Ps 924,409	Ps 1,448,806	Ps 1,764,699
Adjustments for consolidation purposes, net	159,103	653,554	412,456
Difference between net operating loss carry-forwards and presumed income	20,879	91,947	9,874
Non-deductible provisions, costs and expenses	177,966	236,274	195,190
Non-taxable or exempt income	(636,915)	(1,064,598)	(744,589)
Difference between monetary correction for tax purposes and for financial reporting purposes	(62,776)		
Excess of accrued income over valuation income	6,652	(23,142)	(78,648)
Amortization of excess of presumed income over ordinary income and amortization of net operating loss carry forwards	(102,352)	(65,391)	(15,433)
Difference between profit on sale of assets for tax purposes and for financial reporting purposes		154	(29,847)
Valuation derivatives effect	(33,075)	(35,380)	(86,314)
Special tax deduction for Investment in Real Productive Assets	(21,254)	(177,036)	(203,272)
Other	(66,281)	(57,513)	(10,866)
<b>Taxable income</b>	<b>Ps 366,356</b>	<b>Ps 1,007,674</b>	<b>Ps 1,213,250</b>
Statutory tax rate	37.21%	33.58%	34.32%
Estimated current income tax	Ps 136,307	Ps 338,364	Ps 416,381
Deferred income tax expense (benefit)	38,573	23,519	57,675
<b>Total</b>	<b>Ps 174,880</b>	<b>Ps 361,883</b>	<b>Ps 474,056</b>

Income taxes for the years ended December 31, 2007 and 2008 are subject to review by the tax authorities. The Bank management and its legal advisors believe that no significant liabilities in addition to those recorded will arise from such a review.

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

	<i>Fiscal Losses to amortize</i>									
	<i>Fondo</i>	<i>RC</i>				<i>Todo</i>				
	<i>Capital</i>	<i>Fiduciaria</i>	<i>de</i>	<i>Renting</i>	<i>Inmobiliaria</i>	<i>Inversiones</i>	<i>Rent</i>	<i>Renting</i>	<i>Uno</i>	<i>Total</i>
	<i>Investment</i>	<i>GBC</i>	<i>Inversión</i>	<i>Perú</i>	<i>Banacol</i>	<i>NL</i>	<i>A Car</i>	<i>Colombia</i>	<i>Colombia</i>	<i>Total</i>
2010						Ps 15				Ps 15
2011									28	28
2012					49				126	175

2013  
With no  
maximum  
expiry date

76	505	506	3,088			1,887	100,066		106,128
<b>Ps 76</b>	<b>Ps 505</b>	<b>Ps 506</b>	<b>Ps 3,088</b>	<b>Ps 49</b>	<b>Ps 15</b>	<b>Ps 1,887</b>	<b>Ps 100,066</b>	<b>Ps 154</b>	<b>Ps 106,346</b>

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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	<i>Excess of presumed income over ordinary income</i>								
	<i>Inversiones CFNS</i>	<i>Renting Colombia</i>	<i>Factoring</i>	<i>RC Rent a Car</i>	<i>Banca de Inversión</i>	<i>Bancolombia</i>	<i>Total</i>		
2009	Ps	Ps	1,851	Ps	Ps	Ps	Ps	42,569	Ps 44,420
2010			2,350						2,350
2011			3,012						3,012
2012			1,686	595		282			2,562
2013	104		4,333	72	43	3,570			8,122
	<b>Ps 104</b>	<b>Ps</b>	<b>13,232</b>	<b>Ps 666</b>	<b>Ps 43</b>	<b>Ps 3,852</b>	<b>Ps</b>	<b>42,569</b>	<b>Ps 60,466</b>

**(22) Subscribed and Paid-in Capital**

Subscribed and paid-in capital consisted of the following:

	<i>2006</i>	<i>2007</i>	<i>2008</i>
<i>Authorized shares</i>	1,000,000,000	1,000,000,000	1,000,000,000

**Issued and outstanding:**

Common shares with a nominal value of Ps 500 (in pesos)	509,704,584	509,704,584	509,704,584
Preference shares with a nominal value of Ps 500 (in pesos)	218,122,421	278,122,419	278,122,419

Pursuant to Colombian law, capital adequacy for banks is required to be not less than 9% of their total credit risk weighted assets and credit contingencies. Under Decree 1720 of 2001, the calculation of capital adequacy must incorporate market risk in addition to the credit risk. This risk for capital adequacy requirement was covered 100% in 2007 and 2008. Calculations are made each month on an unconsolidated basis and in June and December on consolidated accounts which include the Bank's financial Subsidiaries in Colombia and abroad.

As of December 31, 2007 and 2008 the Bank's capital adequacy ratio consolidated was 12.67% and 11.24%, respectively.

The consolidated financial statements are prepared for the presentation to the stockholders, but are not taken as a basis for the distribution of dividends or appropriation of profits. Dividends are distributed based on the Bank's non-consolidated financial statements.

**(23) Appropriated Retained Earnings**

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

Appropriated retained earnings consist of the following:

	<i>2006</i>	<i>2007</i>	<i>2008</i>
Legal reserve <sup>(1)</sup>	Ps 1,405,733	Ps 1,172,799	Ps 2,172,068
Additional paid in capital	268,005	1,165,617	1,165,617
Other reserves	639,869	1,021,188	637,336

**Total**

Ps 2,313,607

Ps 3,359,604

Ps 3,975,021

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

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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**Reserve for Country Risk**

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

Reserves for country risk are set up to cover the placement of funds abroad. This risk is attributed to the place of domicile of the debtor or the party who is obliged to pay, from whom a return on the invested funds is to be obtained, except when the controlling company is jointly responsible and/or when the guarantor is domiciled in a country with an investment rating.

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

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

***(24) Dividends Declared***

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

	<b>2007<sup>(2)</sup></b>	<b>2008</b>	<b>2009</b>
Preceding year's unconsolidated earnings	Ps 582,365	Ps 804,261	Ps 1,043,669
Dividends in cash (in Colombian pesos)	Ps 532 per share payable in four quarterly installments of Ps 133 per share from April 2007 on 509,704,584 and 218,122,421 common and preferred shares, respectively	Ps 568 per share payable in four quarterly installments of Ps 142 per share from April 2008 on 509,704,584 and 278,122,419 common and preferred shares, respectively	Ps 624 per share payable in four quarterly installments of Ps 156 per share from April 2009 on 509,704,584 and 278,122,419 common and preferred shares, respectively
	Additionally Ps 266 per share payable on 59,999,998 preferred shares issued in June and July 2007		
Total dividends declared	Ps 403,164	Ps 447,486	Ps 491,604
Dividends payable at December 31 <sup>(1)</sup>	Ps 111,842	Ps 119,701	

- (1) The amount of the dividends payable at December 31, is recorded as accounts payable in the Consolidated Balance Sheets.
  
- (2) The amount disclosed as Total Dividends Declared in the table for 2007 differs from those disclosed in the annual report of 2006, because Bancolombia S.A. paid dividends on 59,999,998 preferred shares issued during 2007.



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Memorandum accounts were composed of the following:

	<b>2007</b>	<b>2008</b>
<b>Trust:</b>		
Investment trusts	Ps 39,609,384	Ps 42,676,646
<b>Commitments:</b>		
Unused credit card limits	Ps 4,703,942	Ps 5,724,199
Civil demands against the Bank	874,107	782,444
Issued and confirmed letters of credit	1,354,921	1,890,574
Uncommitted lines of credit	865,706	628,066
Bank guarantees	1,258,448	1,634,057
Approved credits not disbursed	1,467,745	1,382,560
Nation account payable (546 law)	30,371	28,914
Other	124,195	942,686
<b>Total</b>	<b>Ps 50,288,819</b>	<b>Ps 55,690,146</b>
<b>Other memorandum accounts:</b>		
	<b>2007</b>	<b>2008</b>
<b>Memorandum accounts receivable:</b>		
Tax value of assets	Ps 30,481,070	Ps 41,397,910
Assets and securities given in custody	3,411,382	4,940,276
Assets and securities given as a collateral	3,300,348	2,602,771
Trading investments in debt securities	1,692,960	2,002,743
Written-off assets	1,439,114	1,999,111
Quotas of leasing to receive	5,977,221	7,423,863
Investments held to maturity	1,058,280	1,638,282
Adjustments for inflation of assets	162,724	127,934
Accounts to receive yields trading investments in debt titles	103,286	241,556
Investments available for the sale in debt titles	1,379,980	1,256,763
Remittances sent for collection	26,103	50,919
Amortized debt securities investment	788,610	1,009,394
Other memorandum account receivable	4,304,690	6,897,263
<b>Total</b>	<b>Ps 54,125,768</b>	<b>Ps 71,588,785</b>
<b>Memorandum accounts payable:</b>		
Assets and securities received as collateral	25,815,805	29,553,409
Qualification commercial loans	23,711,631	28,494,632
Assets and securities received in custody	4,816,267	5,395,677

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Tax value of shareholders' equity	4,673,067	6,308,371
Qualification consumer loans	6,573,200	7,513,317
Adjustment for inflation of equity	892,909	891,452
Qualification small business loans	131,913	145,518
Merchandise in owned warehouses	65	
Qualification financial leasing	4,749,309	5,583,028
Qualification operating leasing	491,941	732,768
Qualification mortgage loans	2,803,165	3,324,627
Other memorandum account payable	3,135,280	3,949,803
<b>Total</b>	Ps 77,794,552	Ps 91,892,602
<b>Total memorandum accounts</b>	Ps 182,209,139	Ps 219,171,533

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**(26) Commitments and Contingencies<sup>(1)</sup>**

For the years ended December 31, 2007 and 2008, the Bank registered allowances for probable contingencies of Ps 92,395 and Ps 53,641, respectively. The detail of the contingencies was as follows:

***The Bank***

***a) Contingencies Covered by FOGAFIN:***

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

At December 31, 2007 and 2008, the civil contingencies covered by the guarantee amounted to approximately Ps 997 and Ps 266, respectively, with allowances at the same dates amounting to Ps 166 and Ps 166. Labor contingencies remain the same as 2008: contingencies amounted to Ps 70 and allowances amounted to Ps 35.

***b) Legal Processes***

At December 31, 2007 and 2008, other than the litigation discussed under (a) above, there were labor-related claims against the Bank amounting to approximately Ps 16,590 and Ps 17,168, respectively (the final result of such litigations is not predictable due to the nature of the obligations). The allowances for contingencies on those dates amounted to Ps 8,946 and Ps 8,932, respectively.

At December 31, 2007 and 2008, there were ordinary civil lawsuits, group actions, and civil actions within criminal and executive proceedings against the Bank with total claims for approximately Ps 644,953 and Ps 611,003, respectively and with allowances on the same dates of Ps 30,456 and Ps 31,917, respectively.

Allowances are recorded based on the likelihood of the losses and when proceedings are ruled in the first instance against the Bank or based on the opinion of management the proceedings are not likely to result in an unfavorable ruling.

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Contingencies against the Bank greater to Ps 5,000, as of December 31, 2008, are:

<i>Process</i>	<i>Initial Exposure</i>	<i>Actual Exposure at December 31, 2008</i>	<i>Allowance</i>	<i>Likelihood</i>
Civil Lawsuit from Jaime Gilinski and Others	Ps 357,000	Ps 357,000		Remote
Inversiones C.B. S.A.	12,468	40,806		Remote
Editorial Oveja Negra Ltda. and Jose Vicente Katerain	10,240	9,635		Remote
Costrucc.Rojas Jiménez & CÍA. S. EN C.	6,277	6,277		Remote
Ordinary process Gloria Amparo Zuluaga Arcila	1,400	5,784		Remote
Arbitration process CAJANAL vs Bancolombia	34,026	34,026		Remote
Almacenar S.A.	92,048	30,902	20,000	Probable
Carlos Julio Aguilar and Other	25,232	30,210		Remote
Invico Ltda, Dalia Bibliowicz Kaplan, Bella Bibliowicz Kaplan y Anniel Admiran Bibliowicz Processes	5,000	6,601	3,500	Probable
Class action Maria Elena Urina against Barranquilla City Municipio de Barranquilla and Bancolombia	6,467	6,467		Remote
Ordinary process Ramón Orlando Pardo Osorio and Oceano Films OP Ltda. US 3000000	5,402	6,820		Remote

***Inversiones C.B. S.A.***

In 1997, Conavi granted a loan of Ps 6,000 to Inversiones C.B S.A. for the purpose of building a real estate project. This loan was scheduled to be paid out to the borrower in periodic installments based on the progress of said project, this amongst other terms and conditions.

Given the fact that construction work grounded to a halt and the builder fell into arrears, Conavi suspended the payment of the loan, which in the opinion of the plaintiffs gave rise to consequential damages. The claim filed by the plaintiffs states that the Bank must pay Inversiones C.B S.A. certain sums of money including loss of profits and corresponding interest, the opportunity cost of capital, the value of the project's liabilities as well as monetary correction.

This contingency is considered to be quite remote, since the Parent Company paid out the loan according to the terms and conditions agreed upon, and the plaintiffs were at fault in assigning the funds together with other external causes such as the project's lack of feasibility and the crisis prevailing within the construction sector, all of which contributed to the failure of the project in question.

***Cajanal S.A. EPS (in the process of being wound up)***

On April 26, 2000 Cajanal S.A. EPS and Bancolombia S.A. signed Agreement No 2 for Providing Contribution Collection Services, by virtue of which the Parent Company became responsible for collecting contributions to the Comprehensive Social Healthcare System. According to the claim lodged by the plaintiff, Bancolombia S.A. failed to comply with certain clauses contained in this Agreement and must therefore pay compensation for the consequential damages incurred.



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Both parties have disputed whether Bancolombia acted according to that stipulated both in the agreement as well as according to applicable law, upon complying with certain garnishments ordered by judges of the Republic of Colombia and making available to different administrative offices of the courts the amounts that had been deposited in the checking and savings accounts belonging to Cajanal S.A. EPS, containing social security funds. The Bank considered that such writs of garnishments had to be complied with and without objection. Arguments include the statute of limitations with regard to the case, the absence of causation between the conduct of Bancolombia and the consequential damages claimed, the absence of any damages incurred by Cajanal S.A. EPS and negligence on the part of the plaintiff company.

***Sale of Almacénar***

In December 2006, the Bank's subsidiary Almacenes Generales de Depósito Almacénar S.A. was spun off to create two additional companies, Inversiones IVL S.A. and LAB Investment Logistics S.A. Subsequently in 2007, the Parent Company sold its shares in LAB Investment Logistics S.A. and Almacénar S.A., pledging to cover any contingencies caused before the date on which these were sold, and which would only become apparent after the transaction was completed. In particular, the Parent Company, undertook to cover any losses incurred by Almacénar as a result of a fire that broke out in May 2005 in its warehouse located in the Salomia district in Cali.

As a result of this fire, a lawsuit has been filed against Almacénar by Industrias del Maíz S.A., Cadbury Adams and Pfizer S.A., and/or the insurance companies representing the rights of these.

The legal proceedings filed by Industrias del Maíz S.A. and Pfizer S.A. have now been concluded by the transaction contracts that have been signed, and the corresponding amounts of money have been recognized by the insurance company, Compañía Suramericana de Seguros S.A., based on an all-risk insurance policy in force covering material damage and loss of profits.

The proceedings initiated by Seguros Comerciales Bolívar S.A., in representation of Cadbury Adams. are still pending, in which a total of Ps 30,901 is being claimed. However, the claimed compensation for merchandise based on selling prices or the loss of profits are not the responsibility of the depository. For this contingency, the Parent Company shall have at its disposal the Ps 11,467 that remains from the compensation payable on the part of Suramericana de Seguros as well as a provision of Ps 20,000.

***Sierras del Chicó Ltda. and Chicó Oriental No. 2 Ltda.***

According to the terms and conditions contained in a guarantee agreement for contingent liabilities entered into by the Parent Company and the Fondo Nacional de Garantías FOGAFÍN (the Colombian National Guarantee Fund) on January 18, 1994, said Fund called for an arbitration panel to be set up for the purpose of the Parent Company handing over the rights held by the former Banco de Colombia in the companies Sierras del Chicó Ltda. and Chicó Oriental No. 2 Ltda. at December 31, 1993.

Should the Parent Company be ordered to transfer said rights, the Fund must recognize, based on the existing contract between the parties ...the value of said ownership interest as recorded in the books of the Parent Company at December 31, 1993, together with all applicable adjustments for inflation as provided for by law and that should accrue up to the moment these are transferred to the Fund..... Furthermore, the Parent Company is claiming the payment of all those expenses incurred while said assets were held.

Given the fact that in the event of an unfavorable ruling, this would imply having to sell the asset, it was not considered necessary to set up a provision for such contingency.

As part of these arbitration proceedings, which are being heard by the Center for Arbitration and Conciliation, attached to the Chamber of Commerce of Bogotá, the following arbiters Gilberto Peña Castrillón, Jorge Pinzón Sánchez and Eduardo Zuleta Jaramillo were appointed by mutual agreement.

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

*The Gilinski Case*

See Item 8. Financial Information A.2. Legal Proceedings.

*Arbitration Proceedings HSBC Fiduciary*

In May 2008, HSBC Fiduciary requested the Chamber of Commerce of Bogota the installation of an Arbitration Tribunal in order to settle the disputes arising from the trust guarantee and payment agreement entered on March 30, 1998 between Isaac Gilinski, Jaime Gilinski and other foreign companies as trustors and Bancolombia as beneficiary; the trust guarantee intended to manage and hold in safekeeping all those assets handed over to guarantee and pay the existing amounts; the funds owed by the trustors for compensations for flaws contained in the declarations and guarantees issued by these, enclosed in the promissory bill of sale of shares held by Banco de Colombia and its modifications. The value of the goods as guarantee is US\$ 30 million.

The dispute is a result of the application submitted by the trustors to the HSBC Fiduciary for the purpose of liquidating the trust fund and retribute the funds. This was subsequently objected by the Bank, based on pending claims filed against the sellers and guaranteed by the trust, especially the contingency in favor of the Bank, derived from the decision issued by the Arbitration Tribunal initiated by Bancolombia against Isaac Gilinski and others.

**d) National Tax and Customs Agency ( DIAN )**

*Special Requirement*

On December 27, 2007, the Bank received a special requirement by the Tax Administration of Medellin ( Administracion de Impuestos de Medellin ) regarding the income tax ( impuesto de renta ) of the year 2006, in which Ps 79,013 are discussed.

On September 23, 2008 the aforementioned tax authorities issue an official tax settlement corresponding to Review No. 900005.

The Bank and its tax advisors considered that the procedure of the income tax return of 2006 followed was in compliance with the applicable rules and regulations and on November 20, 2008 it filed for a reconsideration of the official review settlement, which was approved by the Colombian Tax Authorities (DIAN) by means of an official decision given in 2008.

*Industry and Commerce Tax corresponding to 2006*

Special requirement No. 2008EE336858 was issued on September 23, 2008 by the Bogotá District Council for the second two-month period of 2006, stipulating a total of Ps 3,039 in tax owing and a fine of Ps 4,863.

This requirement was contested December 19, 2008, requesting that the requirement be revoked given the lack of grounds and an arithmetic error in the corresponding settlement.

On November 27, 2008 special requirement No.2008EE597337 was received for the third, fourth, fifth and sixth two-monthly periods of 2006. This requirement stated an amount of Ps 5,236 in tax owing and a fine of Ps 8,377. This requirement was subsequently contested requesting that the requirement be revoked given the lack of grounds and an arithmetic error in the corresponding settlement.

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*Pro Senior Citizen Stamp Tax for fiscal years 2005 and 2006*

On June 24, 2008 two official review settlements Nos. 001-08 and 002-08 were received for the third, fourth, fifth and sixth two-monthly periods of 2005 as well as the first, second, third and fourth two-monthly periods of 2006, respectively, from the Barranquilla District Council, claiming stamp tax owing in the amount of Ps 85 and a fine of Ps 137.

On October 23, 2008, proceedings were filed to revoke and re-establish rights with regard to the official review settlements. This claim has yet to be ruled upon. The provision set up for this contingency with regard to the Industry and Commerce tax return come to Ps 149.

*Pro Senior Citizen Stamp Tax for fiscal years 2005 and 2007*

On July 01, 2008 special requirement No. 0123-08 was received for the fifth and sixth two-monthly periods of 2006 and the first, second, third, fifth and sixth two-monthly periods of 2007; from the Barranquilla District Council, claiming tax owing of Ps 119 and a fine of Ps 190.

On September 18, 2008 the Parent Company contested this special requirement based on the same terms on which it filed proceedings to revoke and reestablish the right for the two-monthly periods of 2005 and 2006.

***Fiduciaria Bancolombia S.A.***

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

Two of the aforementioned proceedings were terminated due to the statute of limitations. However, on December 11, 2003, a new ordinary proceeding was initiated against Fiducolombia (currently Fiduciaria Bancolombia S.A.), following a legal action filed during the month of September 2003. One of these proceedings has produced first and second instant rulings in favor of the Fiduciary, and the Fiduciary is currently awaiting the results of an appeal lodged by the plaintiff. The Ninth Civil Circuit Court ordered all those remaining processes relating to the proceedings initiated against Tarazona Bermudez, to be heard following this same procedural vein, and currently there is an expert opinion pending on the part of the Agustin Codazzi Institute in order to proceed to grant a first instance ruling. This process was transmitted to the Court for the corresponding ruling in August 2008.

The legal counsel in charge of this case considers that a favorable ruling is possible.

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



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**c.** Invico Ltda. has a suit pending against the Bank and Fiducolombia S.A. (currently Fiduciaria Bancolombia S.A.) in Civil Circuit Court 6 of Bogota. The plaintiff seeks a ruling declaring that the Bank and Fiducolombia S.A. (now Fiduciaria Bancolombia S.A.) must exercise the alternate right contained in Article 1948 of the Civil Code, in reference to the land lot denominated La Granjita, pursuant to the trust mandate. The claims amounted to Ps 4,000. On January 17, 2002, the court issued a ruling dismissing an exception that was filed and ordered the filing party to pay costs. The discovery stage has finalized and the Trust Company has presented its legal conclusions on September 17, 2007. The judge ruled against the Fiduciary who lodged an appeal within the term legally provided for such. Having been admitted by the Court, this case is still being heard.

The legal counsel in charge of this case considers that a favorable ruling is highly possible.

**d.** With regard to the Fopep Consortium there are two labor proceedings filed by John Freddy Bustos Lombana, who claims that he acted as attorney and assistant manager in two different agreements and therefore demands the payment of salary and other employment benefits. He is also claiming indemnification alleging that his resignation was a consequence of an insinuation made by the Manager of the Consortium. In one of the proceedings, a ruling in the first instance was given in favor of the Trust Company. This was subsequently appealed and a second instance ruling is pending. In the other proceedings, first and second instance rulings were given in favor of the Trust Company, which were subsequently upheld on appeal.

The legal counsel in charge of these proceedings considers that favorable rulings are moderately possible.

**e.** With regard to the Santa Sofía Trust, there are two different types of proceedings being conducted: A class action filed by the co-owners of the Santa Sofia Housing Estate against the Bogota Mayor's Office, Fiducolombia S.A. (now Fiduciaria Bancolombia S.A.) and others, claiming that the deterioration to the property was caused by flaws in the terrain, and therefore no building permit should have been issued. The judge ordered evidence to be heard as requested by the parties. The legal counsel in charge of these proceedings considers that favorable rulings are moderately possible.

Criminal proceedings against the Trust Company's Legal Representative, based on the action filed by the co-owners of the Santa Sofia Housing Estate, claiming alleged Illegal Squatting and Fraud with regard to the urban development of the real estate project. These proceedings are still being heard although the judge has ordered the investigation stage to be wound up Possibilities of success, according to information supplied by legal counsel: Moderate.

Ordinary process of major quantity of extracontractual civil responsibility. The plaintiff claims civilian and jointly responsibly from Fiduciary Bancolombia S.A. and other defendants and, consequently order them to pay the price of the property, including its improvements. The Trust Company answered the complaint and presented as defense the following: the nonexistence of responsibility for corporate purpose different from the invoked and the nonexistence of responsibility for lack of contractual or extracontractual bond. The judge hearing the case has ordered the case to be closed given the tacit withdrawal of the action on the part of the plaintiff. Possibilities of success, according to information provided by legal counsel are: High.

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

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**g.** There is a criminal court case against one of the Trust Company's legal representatives regarding the Chisa Lote 2C Trust filed by Carmela Guardo and Joaquín Atencio Niño claiming misrepresentation of facts in a public deed, procedural fraud, perturbation of ownership and fraud with regard to a court ruling by virtue of a public deed establishing the boundaries of a plot of land, signed by the Trust Company on behalf of the Trust. These proceedings are at a pre-trial stage where evidence is collected.

Previously the joining of actions, the Attorney General's Office No. 19 foreclosure the criminal investigation regarding the crimes of fraud to judicial award, invasion of lands and disturbance to the possession (Attorney General's Office No. 19, Bogotá), and continued for the crimes of fraud in public document and procedural fraud (Attorney General's Office No. 10, Bogotá). This case was concluded given the preclusion of the investigation.

The Trust Company's management considered the contingency that this proceeding represents no liability.

**h.** The Trust Management Agreement No. 255 entered into by the Consorcio Fosalud (made up of Fiduciaria Bancolombia S.A., Fiduciaria La Previsora S.A. and Fiducafe S.A.) and the Colombian Ministry of Social Protection is currently subject to an arbitration award being granted. Three arbiters were appointed and an Arbitration Panel set up. The arbitration hearing was suspended until January 2008 on the grounds of a possible conciliation between the parties. No assessment has been given to the legal counsel in charge of the case. At December, 2008, Fiduciaria Bancolombia had set up a provision in the amount of \$ 4,257 to cover any eventual contingency as a result of these arbitration proceedings as well as for the winding up of the consortium itself.

**i.** A contract lawsuit filed by the Colombian Ministry of Social Protection against the Fidufosyga Consortium on the grounds of 4 events of default: 1. The renewal of a role in a parent company bank on the part of the fiduciaries forming part of the consortium. 2. A compensation process that was never carried out according to that stipulated by applicable law and the terms and conditions of the contract. 3. Claims and recoveries on the part of ECAT. 4. Failure to present a work plan within the term requested. The legal counsel representing the Fiduciary and the Consortium presented a counter-memorial to dismiss the procedure taken since the proper means would be an arbitration hearing. The judge admitted the Fiduciary's arguments and concluded the proceedings.

**j.** Ordinary proceedings filed by Álvaro Navarro T & Cía. S. en C. against Fiduciaria Bancolombia S. A., in which the plaintiff claims that Public Deed No. 5496 drawn up before Notary Public No. 3 of the Circuit of Cartagena should be revoked. According to said Public Deed, title to the ownership of the property held in trust was given over in the form of payment to the beneficiaries: Banco del Pacifico (currently being wound up), BIC S. A. now known as Bancolombia S. A. and Bancafé S. A. As a result of the above, the restitution of the above mentioned property was claimed along with the payment of consequential damages which the plaintiff estimates at Ps 10, per month, as of the date on which the property was given over in the form of payment until it was restituted. The Fiduciary contested this lawsuit and notice of such is to be served on the respondents.

Possibilities of success according to information supplied by legal counsel: High.

**k.** Administrative Action No. 230-11504 filed by the Colombian Superintendency of Companies against the Fiduciary claiming an alleged breach of exchange regulations due to failure to submit Form No. 15, by means of which the companies receiving the foreign investment must update information regarding the recording of these investments for the period beginning January 1st and ending December 31, 2005, date on which the Trust Company Fiduciaria Bancolombia S. A. Sociedad Fiduciaria held no recorded foreign investment. The Fiduciary responded to this requirement within the term legally provided for such and are still pending a decision on the part of the Colombian Superintendency of Companies.

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**I.** Administrative Action No. 230-15875 filed by the Colombian Superintendency of Companies against the Fiduciary claiming an alleged breach of exchange regulations due to failure to submit Form No. 15, by means of which the companies receiving the foreign investment must update information regarding the recording of these investments for the period beginning January 1st and ending December 31, 2006, date on which the Trust Company Fiduciaria Bancolombia S. A. Sociedad Fiduciaria held no recorded foreign investment.

***Leasing Bancolombia S.A.***

According to the opinion of the lawyers involved, claims against the Company do not represent any loss contingency that could affect its future results, except for all those processes filed against EXXON Mobil de Colombia, the Proteger Foundation and Alexandra Milena Díaz for which provisions were set up for the amounts of Ps 1.061, Ps 5 and Ps 5, respectively.

***Compañía de Financiamiento Comercial Sufinanciamiento S.A.***

The Company has proceedings against it, in which the claim is estimated in Ps 5.756, those proceedings are classified as remote.

Additionally, the Company recorded contingencies with tax audit entities which are classified as remote.

***Valores Bancolombia S.A.***

The Company is currently contesting an ordinary contractual civil liability case which is being heard by the Civil Circuit Court No. 2 in Medellin. Evidence is still being heard for this case, as ordered by the Court by means of Court Order issued November 22, 2007. In the opinion of Valores Bancolombia's Company Secretary and the external lawyer in charge of this process, the probability of an unfavorable ruling against this brokerage firm is remote, however, should the court find against Valores Bancolombia this could well represent a maximum value of Ps 20.

***Factoring Bancolombia S.A.***

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

**a.** Three summons by the Central Bank to all the financial entities regarding the lawsuits of debtors of commitments agreed by the Sistema UPAC, before the administrative tribunals of the departments of Nariño, Sucre and Cauca.

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

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

Factoring Bancolombia S.A. was notified of this process, on December 5, 2007. To date, evidence is still being heard.

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**AFP Crecer S.A**

**a.** As of December 31, 2008, the entity has an administrative process PA-337-2004 for a supposed loss of US\$ 34 regarding the liquidation of Eurobonds 2032. Nevertheless, it was presented to the Superintendency of Pensions the arguments and evidence of discharge reject the administrative processes and to justify that the transactions were done with the purpose of preserving the interests of the members. The Superintendence of Pensions issued resolution A-AF-DO-072-2005 imposing a fine for US\$ 1; on February 28, 2005 Crecer S.A filed an appeal, which has been admitted thereby temporarily suspending the effects of the above mentioned resolution, At December 31, 2008 and at the time of publication of these financial statements the status of this appeal remains unchanged.

**b.** According to resolution N ° PA-016-2006 notified on February 13, 2006, the Superintendency of Pensions ( Superintendencia de Pensiones ) impose a fine of US\$ 29 to AFP Crecer S.A, for omitting to gave information regarding some commitments in a term of 5 days. On February 16, 2006, AFP Crecer S.A filed an appeal of rectification before the Superintendency of Pensions arguing that they have given the information required. This appeal was admitted on February 17, 2006, temporarily suspending the effects of the abovementioned resolution, and consequently, opening to the evidence stage. On March 6, 2006 the Superintendency of Pensions declares that there is no place to rectifying the appealed resolution and ordered AFP Crecer S.A to pay the correspondent fine in the term specified on the Ley del Sistema de Ahorro para Pensiones . On March 31, 2006 AFP Crecer S.A filed an action before the Contencious Administrative Court ( Sala de lo Contencioso Administrativo ) of the Supreme Court of Justice against this resolution, which was admitted on May 31, 2006, which order the temporarily suspension of the appealed decisions, which do not making the fin imposed effective until is not a definitive award. On February 26, 2008, the Court gave notice of its ruling dated November 30, 2007 by means of which it declared the legitimacy of the resolutions issued by the Superintendency of Pensions with regard to the fine imposed and the absence of any grounds for an appeal remedy. On March 1, 2008, a fine of US\$ 29 (thousand) was paid and the Superintendency of Pensions was duly informed for the corresponding legal purposes and the consequent conclusion of the proceedings.

**c.** According to resolution N ° A-AF-DO-330-2004 issued on November 9, 2004, the Superintendency of Pensions ordered AFP Crecer S.A to calculate correctly the value of the complementary certificate of transfer, corresponding to the months of October and November of 2003, pursuant to the requirements of the above mentioned resolution, in order to compare the original value and establish the amount to return to the State and effect the corresponding refund with its own funds, without affecting the CIAP of the pensioned members.

On September 27, 2007, AFP Crecer S.A requested the rectification of resolution N ° A-AF-PE-195-2007 and comply the procedure for the complementary payment for insufficient in the amount of the certificate of transfer and refund of payments in excess, established by the *Reglamento para la Emision y Pago del Certificado de Traspaso*. Pursuant to resolution A AF DO 243 2007, of December 10, 2007, the Superintendency of Pensions solved unfounded the request of AFP Crecer S.A. regarding the admission of the rectification request. As of the date of the financial statements, AFP Crecer S.A is studying the further steps.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

On January 28, 2008, Administrative Process PA-008-2008 was initiated, by means of which the Superintendency of Pensions claimed an alleged breach on the part of AFP Crecer, S. A. of the aforementioned resolutions, and a sanction based on Clause 2 of Article 234 of the Law of the Savings System for Pensions. Also, it granted an audience to AFP Crecer, S. A., in order for the latter to exercise its right to a defense and to present any evidence it considered necessary. On February 8 and March 8 2008, AFP Crecer, S. A. filed a request for all charges to be dropped this based on the corresponding legal grounds.. On April 23, 2008, the Board of Directors of AFP Crecer, S. A. voluntarily decided to give back to ISSS and INPEP, using its own funds, the contribution corresponding to the aforementioned complementary transfer certificates dated May 8, 2008. AFP Crecer, S. A. paid ISSS a total of USD 608 (thousand) and on June 11, 2008 paid INPEP USD 266 (thousand) (for a total of USD 874 (thousand) and gave due notice to the Colombian Superintendency of Pensions for the corresponding legal purposes. On September 29, 2008, the Colombian Superintendency of Pensions issued a resolution by means of which it considered that, amongst other matters, all that that stipulated in Resolution A-AF-DO-330-2004 had been duly complied with and therefore there were no grounds for imposing a fine on AFP Crecer, S. A. since it had effectively returned to the aforementioned Pension Institutes both the principal and the interest paid in excess on the transfer certificates issued.

**d.** At December 31, 2008, the Company continues with Administrative Process No. PA-002-2008, notice of which was served on February 2 2008, since it allegedly published pension information without having obtained due authorization from the Colombian Superintendency of Pensions. On March 8, 2008, a hearing was held and AFP Crecer, S.A. requested the Superintendency of Pensions to drop the charges based on the corresponding legal grounds. At December 31, 2008 and at the time these financial statements are published the Company continues to await the corresponding resolution.

**Banco Agrícola S.A**

As of December 31, 2007 and 2008, Banagrícola has the following judicial or administrative litigations:

**a.** At December 31, 2007, a claim for damages had been filed before the Fifth Commercial Court of San Salvador against the Bank for an alleged responsibility in handling executive commercial proceedings on the part of Banco Agrícola, S. A. against a client in 1989. The amount claimed totaled US\$ 220,000 (thousand). The Bank filed an action for the enforcement of rights before the Civil Division of the Supreme Court of Justice, for the purpose of the case being heard before a Civil Court Judge. This action for the enforcement of rights was admitted by the Court thereby giving rise to suspending the previously filed claim. On December 5, 2008, the Supreme Court of Justice ruled that there were grounds for the action for the enforcement of rights as requested by the Bank on December 15, 2008, the Fifth Commercial Court of San Salvador ruled that there was a jurisdiction exception, thereby upholding the right of the plaintiff to file his complaint before a court of competent jurisdiction. Formal notice of this was received by the Bank on January 6, 2009. The Bank's legal counsel believes that this process does not represent any risk for Banco Agrícola, S.A.

**b.** BA has filed two appeals under contentious administrative law against the Internal Tax Authorities before the Supreme Court of Justice, based on the complementary settlement of tax on the transfer of personal property and the providing of services (VAT), corresponding to the fiscal years of 2002 and 2003; the amount being claimed through both proceedings comes to US\$ 4,261 (thousand) plus accrued interest. The Bank's Senior Management together with its legal counsel believe that the final rulings on these two cases shall not have any significant effect on the Bank's financial position or the results of its operations.

- (1) For more information of Commitments, see Note 31. Differences

Between  
Colombian  
Accounting  
Principles for  
Banks and U.S.  
GAAP- r)  
Guarantees .

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)

**(27) Administrative and Other Expenses**

Administrative and other expenses consisted of the following:

	<b>2006</b>	<b>2007<sup>(2)</sup></b>	<b>2008</b>
Public services	Ps 53,512	Ps 69,857	Ps 70,680
Advertising	63,214	68,222	88,003
Industry and trade, property, vehicle and other taxes	129,141	147,684	193,628
Communication, postage and freight	52,403	85,042	104,902
Insurance	29,635	23,366	29,054
Security services	27,292	33,655	31,752
Amortization of deferred charges	40,692	61,143	73,541
Rental expenses	62,182	70,949	61,026
Maintenance and repairs	123,169	164,590	147,441
Contributions and membership fees	17,115	31,971	32,989
Temporary services	31,316	18,379	40,192
Travel expenses	22,840	21,999	22,124
Professional fees	59,506	79,599	155,000
Call center services	26,404	26,617	32,321
Information processes outsourcing	22,731	38,383	46,746
Warehouse expenses	11,777		
Software <sup>(1)</sup>	24,041	32,175	8,804
Joint venture SUFI Almacenes Exito S.A. Expense	10,950	14,333	31,481
Operational expenses related with consortium	9,138	10,198	12,115
Electronic processing data	4,934	3,575	4,663
Public relation	2,052	2,799	2,455
Other <sup>(1)</sup>	58,138	66,309	80,065
<b>Total</b>	<b>Ps 882,182</b>	<b>Ps 1,070,845</b>	<b>Ps 1,268,982</b>

(1) The amount disclosed in the table for 2007 differs from those disclosed in the annual report of 2007, because they were reclassified for comparative purposes with the information of 2008.

(2) The administrative and other expenses were modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes. Amounts reclassified as discussed in Note 2(ab).

**(28) Non-Operating Income (Expenses)**

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



	<i>Year ended December 31,</i>		
	<b>2006</b>	<b>2007<sup>(3)</sup></b>	<b>2008</b>
	<i>(Ps million)</i>		
<b><i>Non-operating income (expenses):</i></b>			
Other income <sup>(1)</sup>	Ps 194,589	Ps 93,294	Ps 172,550
Minority interest	(6,352)	(13,246)	(18,511)
Other expenses <sup>(2)</sup>	(149,243)	(81,236)	(140,662)
<b>Total non-operating income (expenses), net</b>	<b>Ps 38,994</b>	<b>Ps (1,188)</b>	<b>Ps 13,377</b>

(1) For 2008 and 2007, includes gains on sale of foreclosed assets, property, plant and equipment and other assets, securitization residual benefit, insurance contracts sale and rent. For 2006, includes recovery of deferred tax liability of Ps 98,788 million recorded in 2005 by the Bank.

(2) Other expenses include operational losses and losses from the sale of foreclosed assets, property, plant and equipment and payments for fines, sanctions, lawsuits and indemnities.



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BANCOLOMBIA S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

- (3) Non-operating income (expenses), net for the year ended 2007 was modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.  
Amounts

reclassified as  
discussed in  
Note 2(ab).

**(29) Related Party Transactions**

Significant balances and transactions with related parties were as follows:

**2006**

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

Fees						156		
Other						18		
<b>Total</b>	<b>Ps</b>	<b>49</b>	<b>Ps</b>	<b>6,703</b>	<b>Ps</b>	<b>6,816</b>	<b>Ps</b>	<b>22,400</b>

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

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)  
2007

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

2008

	<i>Shareholders with participating stock equal to or higher than 10% of Bank's capital</i>		<i>Non-consolidated investments</i>		<i>Bank's officers and board of directors</i>		<i>Shareholders with participating stock lower than 10% of the Bank's capital and with operations higher than 5% technical equity</i>	
<b>Balance Sheet</b>								
Investment securities				54,331				
Loans	15			21,979		8,020		296,715
Customer's acceptances and derivatives		9,496						
Accounts receivable		8		1,377		136		6,968
<b>Total</b>	Ps	9,519	Ps	77,687	Ps	8,156	Ps	303,683
Deposits		31,766		110,715		4,176		1,213,832
Bonds		1,947						94,667
<b>Total</b>	Ps	33,713	Ps	110,715	Ps	4,176	Ps	1,308,499

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)  
2008

	<i>Shareholders with participating stock equal to or higher than 10% of Bank s capital</i>		<i>Non-consolidated investments</i>		<i>Bank s officers and board of directors</i>		<i>Shareholders with participating stock lower than 10% of the Bank s capital and with operations higher than 5% technical equity</i>	
<b>Transactions</b>								
<b>Income</b>								
Dividends received				9,737				
Interest and fees	9,532		4,004		3,420		26,240	
<b>Total</b>	Ps 9,532		Ps 13,741		Ps 3,420		Ps 26,240	
<b>Expenses</b>								
Interest	455		42,114		2,923		98,727	
Fees			2		892		3	
<b>Total</b>	Ps 455		Ps 42,116		Ps 3,815		Ps 98,730	

**(30) Subsequent Events**

In 2008, the Colombian Superintendency of Finance issued external circulars 025, 030, 044 and 063 (the 2008 External Circulars ) establishing new guidelines for the valuation of derivatives and structured products to be followed by entities under its supervision. External circular 025 amended chapter XVIII of the Circular Básica Contable y Financiera In accordance with the 2008 External Circulars, Bancolombia modified the methodology by which it values its portfolio of derivatives and structured products. As a result of this change, Bancolombia s balance sheet and financial results have been impacted as follows: A reduction of Ps 135,000 (approximately US\$ 56,600) in the carrying value of derivatives will be recorded in 2009, resulting in a reduction on income that will be amortized daily, in equal installments, during the first six months of 2009.

**Bancolombia S.A. announces the public offer of subordinated ordinary notes.**

On March 3, 2009 the Bank announced the local public offering of tranche 1 of Subordinated Ordinary Notes. This offering of Subordinated Ordinary Notes ( the First Subordinated Ordinary Notes Offering ) is the first offering of multiple and successive issuances of Subordinated Ordinary Notes up to an aggregate principal amount of Ps 1,000,000.

Subordinated Ordinary Notes were offered in the First Subordinated Ordinary Notes Offering for an aggregate principal amount of Ps 300,000. The Bank may increase the offering principal amount of Subordinated Ordinary



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Notes by Ps 100,000, for a total amount of up to Ps 400,000.

The First Subordinated Ordinary Notes Offering has been rated AA + by Duff & Phelps de Colombia S.A.

The First Subordinated Ordinary Notes Offering was announced on page 7A of the March 3, 2009 edition of the Colombian newspaper La Republica .

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

***Bancolombia S.A. announces mortgage securization***

On March 5, 2009 Bancolombia S.A. ( The Bank ) (NYSE: CIB) announces that it sold mortgage loans in Pesos, to Titularizadora Colombiana S.A. ( Titularizadora ) amounting to approximately Ps 218,800. These mortgage loans will be secured by Titularizadora through the issuance of mortgage-backed securities. The purpose of this transaction is to continue the transfer of Bank s mortgage loans to the capital markets.

***Bancolombia S.A. announces a decision by the Colombian Attorney general s office***

On April 21, 2009, the Colombian Attorney General s Office (*Fiscal Delegado ante la Corte Suprema de Justicia*) delivered an order ( preclusion order ) barring a criminal investigation of the president of Bancolombia, Mr. Jorge Londoño Saldarriaga, and others. This investigation was related to the acquisition by Bancolombia (formerly Banco Industrial Colombiano S.A.) of Banco de Colombia S.A. and their subsequent merger.

The decision rendered by the Colombian Attorney General s Office bars (i) the investigation of Mr. Jorge Londoño Saldarriaga regarding the alleged aiding and abetting of the crimes of willful misconduct and willful neglect by a public officer (*prevaricato por acción and prevaricato por omisión*) and (ii) the investigation of the members of the board of directors of Banco Industrial Colombiano S.A. in office at the time of the merger with Banco de Colombia S.A. regarding the alleged aiding and abetting of the crimes of willful misconduct and willful neglect by a public officer (*prevaricato por acción and prevaricato por omisión*), procedural fraud and fraud.

This order also bars the investigation of the members of the board of directors of the Central Bank of the Republic of Colombia and certain officers of the Colombian Superintendency of Finance.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)

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

The Bank's financial statements are prepared in accordance with generally accepted accounting principles and practices prescribed by the Superintendency of Finance and other legal provisions ( Colombian GAAP ). These principles and regulations differ in certain significant respects from accounting principles generally accepted in the United States of America ( U.S. GAAP ), the principal differences between Colombian GAAP and U.S. GAAP and the effect on consolidated net income and consolidated stockholders' equity are presented below, with an explanation of the adjustment.

The following is a summary of the adjustments to consolidated net income and consolidated stockholders' equity.

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

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Consolidated net income under Colombian GAAP</b>	Ps 749,529	Ps 1,086,923	Ps 1,290,643
a) Deferred income taxes	(132,003)	(91,280)	83,358
b) Employee benefit plans	10,320	18,127	(18,463)
c) Fixed Assets	(104)	(151)	14,496
e) Allowance for loans losses, financial leases losses, foreclosed assets and other receivables	195,549	(69,809)	(338,799)
f) Loan origination fees and costs	16,798	7,241	(26,942)
g) Interest recognition on non-accrual loans	2,377	6,832	(78)
h) Deferred charges	(3,130)	7,192	24,455
i) Investment securities & derivatives	(36,235)	(9,190)	(141,392)
j) Investments in unaffiliated companies	(1,545)	(968)	(359)
k) Investments in affiliates	6,598	13,321	33,815
l) Lessor accounting	(1,703)	709	(1,294)
m) Business combinations			
m.i) Goodwill	22,642	82,075	55,603
m.ii) Intangible assets	(88,248)	(42,063)	(106,133)
m.iii) Fair value adjustments to assets and liabilities acquired	186,546	(6,860)	18,254
n) Securitization performing and non-performing loans	4,717	19,702	(3,417)
o) Foreign currency translation adjustment	7,853	13,115	(30,370)
p) Minority interest	4,793	(7,965)	(1,638)
r) Guarantees	(3,571)	(2,549)	(4,672)
s) Insurance Contracts		(4,945)	505
u) Equity tax		(3,813)	2,348
<b>Consolidated net income under U.S. GAAP</b>	Ps 941,183	Ps 1,015,644	Ps 849,920
<b>Net income from continuing operations</b>	Ps 988,926	Ps 1,071,031	Ps 772,684
<b>Income (Loss) from operations and disposal of discontinued Operations</b>	Ps (47,743)	Ps (55,387)	Ps 77,236

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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**b) Reconciliation of Stockholders Equity:**

	<b>2007</b>	<b>2008</b>
<b>Consolidated stockholders equity under Colombian GAAP</b>	Ps 5,199,270	Ps 6,116,845
a) Deferred income taxes	(108,876)	(51,897)
b) Employee benefit plans	4,507	(22,131)
c) Fixed assets	38,538	53,034
d) Revaluation of assets	(319,646)	(393,308)
e) Allowance for loans losses, financial leases losses, foreclosed assets and other receivables	561,442	229,439
f) Loan origination fees and costs	77,772	50,830
g) Interest recognition on non-accrual loans	15,217	15,139
h) Deferred charges	(11,291)	(26,690)
i) Investment securities & derivatives	(163,559)	(238,595)
j) Investments in unaffiliated companies	(14,266)	(14,625)
k) Investments in affiliates	50,496	84,311
l) Lessor accounting	937	(357)
m) Business combinations		
m.i) Goodwill	276,217	242,843
m.ii) Intangible assets	487,691	468,546
m.iii) Fair value adjustments to assets and liabilities acquired	(171,222)	(99,314)
n) Securitization performing and non-performing loans	30,270	30,493
p) Minority interest	(6,595)	(8,233)
r) Guarantees	(6,120)	(10,792)
s) Insurance contracts	(3,228)	(2,723)
	738,284	305,970
<b>Consolidated stockholders equity under U.S. GAAP</b>	Ps 5,937,554	Ps 6,422,815

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

The presentation of balance sheet and income statement under U.S. GAAP differs from Colombian GAAP due to the acquisition of Banagrícola in 2007. As a result, we are presenting the summarized consolidated financial statements under U.S.GAAP for years ended December 31, 2006, 2007 and 2008:

**Supplemental Consolidated Condensed Balance Sheets**

	<b>2007</b>	<b>2008</b>
<b>Assets:</b>		
Cash and due from banks	Ps 5,285,089	Ps 5,641,204
Trading account	2,287,673	3,255,259
Investment securities, net	2,361,663	3,266,001
Loans	35,340,990	41,628,902
Financial lease	4,699,764	5,839,524
Allowance for loans, financial leases losses and other receivables	(1,072,307)	(2,188,949)

Premises and equipment, net	1,922,999	2,461,649
Other assets	3,054,437	3,763,132
<b>Total assets</b>	<b>Ps 53,880,308</b>	<b>Ps 63,666,722</b>

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*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

	<b>2007</b>	<b>2008</b>
<b>Liabilities and Stockholders Equity:</b>		
Deposits	34,356,264	40,381,664
Short term debt	1,195,849	1,454,322
Long term debt	7,330,902	9,003,090
Other liabilities	4,996,708	6,257,069
Minority interest	63,031	147,762
Shareholders equity	5,937,554	6,422,815
<b>Total Liabilities and Stockholders equity</b>	<b>Ps 53,880,308</b>	<b>Ps 63,666,722</b>

**Supplemental Consolidated Condensed Statements of Operations**

	<b>2006<sup>(1) (2)</sup></b>	<b>2007<sup>(1)</sup></b>	<b>2008<sup>(1)</sup></b>
Total interest income	Ps 3,261,024	Ps 4,762,967	Ps 6,274,359
Total interest expense	(1,280,932)	(1,986,746)	(2,788,891)
Net interest income	1,980,092	2,776,221	3,485,468
Provision of loans, leases and other receivables	(1,722)	(678,930)	(1,476,368)
Net interest income after provision of loans, leases and other receivables	1,978,370	2,097,291	2,009,100
Other income	1,151,124	1,608,703	2,066,927
Other expenses	(1,940,694)	(2,185,319)	(2,941,328)
Income before income taxes	1,188,800	1,520,675	1,134,699
Income tax expense	(199,874)	(449,644)	(362,015)
Net income from continued operations	988,926	1,071,031	772,684
Discontinued Operations	(47,743)	(55,387)	77,236
<b>Net income</b>	<b>Ps 941,183</b>	<b>Ps 1,015,644</b>	<b>Ps 849,920</b>

(1) Prior periods were reclassified due to discontinued operations of Multienlace S.A., Suinternal do Brasil

Locacao de  
Bens S.A., PA  
Renting  
Colombia,  
Inversiones  
Valsimesa,  
Fundiciones y  
Componentes  
Automotores.

- (2) Prior periods were reclassified due to discontinued operations of Almacenar and their Subsidiaries.

*Supplemental Consolidated Condensed Statements of Cash Flows <sup>(1)</sup>*

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Net income	Ps 941,183	Ps 1,015,644	Ps 849,920
Adjustments to reconcile net income to net cash used by operating activities	2,811,272	2,058,680	569,760
Net cash used by operating activities	3,752,455	3,074,324	1,419,680
Net cash (used) provided in investing activities	(7,121,607)	(9,139,513)	(9,101,689)
Net cash provided by financing activities	3,677,955	9,566,743	7,977,416
Increase in cash and cash equivalents	Ps 308,803	Ps 3,501,554	Ps 295,407
Effect of exchange rate changes on cash and cash equivalents	2,067	(257,357)	60,708
Cash and cash equivalents at beginning of year	1,730,022	2,040,892	5,285,089
Cash and cash equivalents at end of year	<b>Ps 2,040,892</b>	<b>Ps 5,285,089</b>	<b>Ps 5,641,204</b>

- (1) This consolidated statement of cash flow includes the following non cash transactions: Ps 4,050 related to restructured loans that were

transferred to  
foreclosed  
assets and  
foreign  
exchange gain  
of Ps 88,783.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)

**Supplemental Consolidated Condensed Changes in Stockholders' Equity**

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Balance at beginning of year	Ps 4,125,996	Ps 4,549,018	Ps 5,937,554
Shares issued at market value		927,612	
Net income	941,183	1,015,644	849,920
Dividends declared	(369,736)	(403,164)	(447,486)
Other comprehensive income (loss)	(116,229)	(113,681)	53,993
Other movements	(32,196)	(37,875)	28,834
Balance at end of year	Ps 4,549,018	Ps 5,937,554	Ps 6,422,815

**Supplemental Consolidated Statement of Comprehensive Income**

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Net Income	Ps 941,183	Ps 1,015,644	Ps 849,920
<b>Other comprehensive income, net of tax:</b>			
Unrealized gain or (loss) on securities available for sale	(146,925)	(34,731)	23,281
Pension liability	(2,217)	(10,130)	(5,314)
Foreign currency translation adjustments	(7,853)	(68,820)	36,026
Other comprehensive income (loss)	(156,995)	(113,681)	53,993
Comprehensive income	Ps 784,188	Ps 901,963	Ps 903,913

**Other comprehensive income (loss)****2006**

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

**2007**

	<b>Before-Tax Amount</b>	<b>(Tax Expense) or Benefit</b>	<b>Net-of-tax Amount</b>
--	------------------------------	-----------------------------------------	------------------------------

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

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)***2008**

		<i>Before-Tax Amount</i>	<i>(Tax Expense) or Benefit</i>		<i>Net-of-tax Amount</i>
Unrealized gain or (loss) on securities available for sale	Ps	39,570	Ps (16,289)	Ps	23,281
Additional pension liability		(8,175)	2,861		(5,314)
Foreign currency translation adjustment		36,026			36,026
Other comprehensive income (loss)	Ps	67,421	Ps (13,428)	Ps	53,993

**Accumulated other comprehensive income**

		<i>Unrealized Gains (Losses) on Securities, net of taxes</i>		<i>Pension Liability, net of taxes</i>		<i>Foreign Currency Translation Adjustment</i>		<i>Accumulated Other Comprehensive Income</i>
Beginning balance for 2006		68,491		(29,922)		(10,312)		28,257
Current-period change		(146,925)		(2,217)		(7,853)		(156,995)
Effects of adoption FAS 158				40,766				40,766
Ending balance for 2006	Ps	(78,434)	Ps	8,627	Ps	(18,165)	Ps	(87,972)
Beginning balance for 2007	Ps	(78,434)	Ps	8,627	Ps	(18,165)	Ps	(87,972)
Current-period change		(34,731)		(10,130)		(68,820)		(113,681)
Ending balance for 2007	Ps	(113,165)	Ps	(1,503)	Ps	(86,985)	Ps	(201,653)
Beginning balance for 2008		(113,165)		(1,503)		(86,985)		(201,653)
Current-period change		23,281		(5,314)		36,026		53,993
Prior years adjustments		773		(582)				191
Ending balance for 2008		(89,111)		(7,399)		(50,959)		(147,469)

***Summary of significant differences and required U.S. GAAP disclosures******a) Deferred income taxes:***

Under Colombian GAAP, deferred income taxes are generally recognized for timing differences (not temporary differences as in SFAS No. 109) for commercial and manufacturing subsidiaries. For financial institutions, the Superintendency of Finance has restricted the inclusion of timing differences related to the amortization of fiscal tax losses and the excess of presumed income over ordinary income as a deferred tax asset.

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Under U.S. GAAP, deferred tax assets or liabilities must be recorded for all temporary differences between the financial and tax bases of assets and liabilities. A valuation allowance is provided for deferred tax assets to the extent that it is more likely than not that they will not be realized. During 2007 and 2008, the Bank calculated deferred income taxes based on the tax benefits received upon the acquisition of certain property and equipment in accordance to EITF 98-11 Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations.

Income tax expense under U.S. GAAP is comprised of the following components for the years ended at December 31, 2006, 2007 and 2008:

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Current income tax expense	Ps 136,307	Ps 338,364	Ps 416,381
Deferred income tax (benefit) expense	71,788	114,799	(25,683)
<b>Total</b>	Ps 208,095	Ps 453,163	Ps 390,698
	<b>2006</b>	<b>2007</b>	<b>2008</b>
Continuing operation income tax	Ps 199,874	Ps 449,644	Ps 362,015
Discontinued operation income tax	8,221	3,519	28,683
<b>Income tax</b>	Ps 208,095	Ps 453,163	Ps 390,698

Temporary differences between the amounts reported in the financial statements and the tax bases for assets and liabilities result in deferred taxes. Deferred tax assets and liabilities at December 31, 2007 and 2008 were as follows:

	<b>2007</b>	<b>2008</b>
<b>Deferred tax assets and liabilities</b>		
<b>Deferred tax assets:</b>		
Accrual of employee benefits		Ps 7,746
Allowance for loan losses	28,527	90,798
Fixed assets	135,192	117,740
Tax losses and excess of presumed income over ordinary income	23,465	50,939
Allowance for foreclosed assets	17,965	16,574
Accrued expenses	33,779	42,341
Excess of accrued income over valuation income	3,625	533
Business combination	21,971	9,949
Unrealized gain on investment securities	61,909	46,844
Deferred interest on restructured loans	20,421	1,949
Forward, future and swaps effect		465
Other	20,731	46,750
Total gross deferred tax assets	367,585	432,628

Less valuation allowance		(9,491)		(63,114)
<b>Net deferred tax asset</b>	Ps	358,094	Ps	369,514
<b><i>Deferred tax liabilities:</i></b>				
Accrual of employee benefits	Ps	1,577		
Fixed assets		31,978		186,899
Allowance for loan losses		130,448		85,630
Allowance for foreclosed assets		26,308		21,358
Loan origination fees and cost		24,795		17,567
Forward, future and swaps effect		49,994		22,879
Inflation adjustments		76,090		12,818
Business Combination		24,842		23,041
Intangible assets		134,233		123,012
Excess of accrued income over valuation income		11,790		28,119
Securitization		10,595		10,673
Unrealized gain on investment securities				1,538
Other		7,813		7,644
<b>Total deferred liabilities</b>		530,463		541,178
<b>Net deferred asset (liability)</b>	Ps	(172,369)	Ps	(171,664)

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

The valuation allowance for deferred tax assets as of December 31, 2007 and 2008 was Ps 9,491 and Ps 63,114, respectively. The net change in the total valuation allowance for the year ended December 31, 2007 was a decrease of Ps 10,217 and for the year ended December 31, 2008 was an increase of Ps 53,622. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal over an entity level of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2008. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

The 37% income tax nominal rate for years, 2006, 36% for year 2007 and 35% for year 2008 differs from 18.12%, 30.85% and 35.22% effective tax rate for years 2006, 2007 and 2008, due to the following:

	<i>2006</i>	<i>2007</i>	<i>2008</i>
Income before tax U.S. GAAP <sup>(1)</sup>	Ps 1,149,278	Ps 1,468,807	Ps 1,240,619
Income tax as per statutory rate	425,233	528,771	434,217
Foreign profits taxed at other rates		(162,428)	(13,492)
Foreign profits exempt from tax		121,689	(45,544)
Non-deductible items / provisions	77,002	72,868	59,596
Non-taxable income	(197,587)	(139,882)	(114,236)
Other	(111,820)	42,363	16,535
Increase (decrease) in tax valuation allowance	15,267	(10,217)	53,622
Income tax	Ps 208,095	Ps 453,163	Ps 390,698

(1) It represents continuing operation and discontinued operation.

For years ended December 31, 2006, 2007 and 2008, non-taxable income includes off shore subsidiaries income tax, dividend income tax, gain on sales of stocks tax, interest income over mortgage securities tax, interest income on VIS housing loans tax and recoveries of deductible items tax.

As of December 31, 2008, the Bank intended to capitalize the results from its off-shore Subsidiaries. Accordingly, no deferred income tax liability was recorded for the undistributed profits of Bancolombia Panamá and its subsidiaries, Bancolombia Puerto Rico and Suleasing Internacional and its subsidiaries. The undistributed profits in such Subsidiaries were Ps 641,628 at December 31, 2008.



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*FIN 48*

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

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

The adoption of FIN 48 did not have impact on the Bank's financial position, and there are no unrecognized tax benefits. Furthermore, the Bank did not have interest and penalties recognized in the balance sheet as of December 31, 2007 and 2008.

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

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

<i>Company</i>	<i>Open tax year</i>
<b>LOCAL SUBSIDIARIES</b>	
Bancolombia	2006 2008
Leasing Bancolombia	2006 2008
Factoring Bancolombia	2006 2008
Fiduciaria Bancolombia	2006 and 2008
Banca de Inversión	2006 2008
Valores Bancolombia	2006 2008
Sufinanciamiento	2006 2008
Renting Colombia	2006 2008
<b>FOREIGN SUBSIDIARIES</b>	
Banco Agrícola	2006 2008

***b) Employee benefit plans:***

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

There are not plan assets under the employee benefit plan.





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*Pension Plan*

In 1967, the Social Security Institute assumed the pension obligation for the majority of the Bank's employees; however, employees who had more than ten years of service prior to that date, continued participating in the Bank's non-contributory unfunded defined benefit pension plan. Under this plan, benefits are based on length of service and level of compensation. As of December 31, 2008, there were nearly 895 participants covered by the Plan.

The measurement for pension plan obligations differs from Colombian GAAP to U.S. GAAP basically due to the fact that Colombia GAAP requires calculation of the estimated liability using the actuarial methodology and projection rates given by the law, the actuarial assumptions, based on nominal discount, salary and pension increase rates, and the method of computing the net periodic pension costs. For U.S. GAAP purposes, actuarial valuation of pension plan are performed annually using the projected unit credit method in accordance with SFAS 87.

*Severance obligation*

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

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

As of December 31, 2008 there were 1,548 participants remaining in the original severance plan.

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

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

*Retirement Premium Pension Plan*

Under Colombian labor regulations, employers and employees are entitled to negotiate other compensations than benefit plans stated by the law by means of private agreements. As result of the agreement, for employees who are entitled to enjoy their pension assumed by Pension Funds, the Bank recognizes an additional liability as a premium for once and only at the moment of the retirement date. Calculation of premium pension plan varies from Colombian GAAP to U.S. GAAP, because the latter is performed using actuarial valuations over a long-term period, while Colombian GAAP is prepared over the remaining years of the remaining private agreement's extension.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)***Disclosure and calculation of differences under U.S. GAAP**

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Components of net periodic benefit cost</b>			
Service cost	Ps 4,277	Ps 3,447	Ps 5,039
Interest cost	18,477	16,950	21,831
Amortization of prior service cost	135	131	1,217
Amortization of net transition obligation (Assets)	1,017	978	789
Amortization of net (gain) or loss	(401)	(3,470)	(3,412)
Recognition of pension premium <sup>(1)</sup>			23,534
Adjustment to be recognized			
Net periodic pension cost under U.S. GAAP	23,505	18,036	48,998
Net periodic pension cost under Colombian GAAP	33,825	36,163	30,535
Difference to be recognized under U.S. GAAP	Ps 10,320	Ps 18,127	Ps (18,463)

(1) As of December 31, 2008, the Bank recognized accumulated reserves of prior years for pension premium plan using the actuarial methodology required by SFAS 87 and SFAS 106.

The combined costs for the above mentioned benefit plans, determined using U.S. GAAP, for the years ended December 31, 2006, 2007 and 2008, are summarized below:

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Change in project benefit obligation</b>			
Unfunded benefit obligation at beginning of year	Ps 133,498	Ps 111,587	Ps 119,831
Recognition of pension premium <sup>(1)</sup>			25,399
Service cost	4,277	3,447	5,039
Interest cost	18,477	16,950	21,831
Actuarial (gain)/loss	(21,552)	(655)	5,593

Effect of settlements <sup>(2)</sup>			(1,741)			
Cost of plan amendment <sup>(3)</sup>			13,056			
Benefits paid		(23,113)	(22,812)		(23,635)	
Unfunded benefit obligation at end of year	Ps	111,587	Ps	119,832	Ps	154,058
Accrued benefit cost under Colombian GAAP		(112,639)	(124,339)		(131,927)	
<b>Difference to be recognized under U.S. GAAP Stockholders equity</b>	Ps	1,052	Ps	4,507	Ps	(22,131)

- (1) As of December 31, 2008, the Bank recognized reserves for pension premium plan using the actuarial methodology required by SFAS 87 and SFAS 106.
- (2) The effect of curtailment/settlement is related to the sale of Almacén S.A.
- (3) Due to the retroactive effect of sentence 862/2006, Bancolombia was required to recognize pension benefit increases ranging from about 1% to more than 400% to approximately 123 retirees and beneficiaries. The increase in the Project Benefit Obligation as of December 31, 2007 due to this plan amendment is treated as prior service cost.

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Under U.S. GAAP, Bancolombia S.A. applies the provisions of SFAS 87, as amended by SFAS 132, Employers Disclosures about Pensions and Other Post-retirement Benefits and SFAS 132(R), Employers Disclosure about Pension and Other Post-retirement Benefits, an amendment to FASB Statements No. 87, 88 and 106. Bancolombia adopted effective December 31, 2006 SFAS 158, in respect of its defined benefits pension plans, detailed in Note 31 of the Consolidated Financial Statements.

	<i>2007</i>	<i>2008</i>
<b><i>Net Amount Recognized in the Consolidated Balance Sheet at December 31</i></b>		
Statement of Financial Position		
Noncurrent Assets	Ps (6,194)	Ps (2,489)
Current Liabilities	13,441	14,831
Noncurrent Liabilities	112,585	141,716
Amount Recognized in Financial Position	Ps 119,832	Ps 154,058
Accumulated Other Comprehensive Income Net Actuarial Gain (Loss)	Ps 12,452	Ps 2,460
Net Prior Service (Cost)/Credit	(13,350)	(12,118)
Net Transition (Obligation) Asset	(1,415)	(1,412)
Total at December 31, 2008	(2,313)	(11,070)
Deferred income tax	810	3,671
Accumulated other comprehensive Income	Ps (1,503)	Ps (7,399)

The changes in the Accumulated other comprehensive Income taking place during the year 2007 and 2008, are described as follows:

	<i>2007</i>	<i>2008</i>
<b><i>Increase or (decrease) in Accumulated Other Comprehensive Income</i></b>		
Recognized during year Transition Obligation/(Asset)	Ps 979	Ps 789
Recognized during year Prior Service Cost/(Credit)	131	1,217
Recognized during year Net Actuarial Losses/(Gains)	(3,381)	(6,417)
Occurring during year Prior service cost	(13,056)	
Occurring during year Net Actuarial (Losses)/Gains	655	(2,588)
* Recognition of pension premium		(1,176)
Accumulated other comprehensive Income in current year	Ps (14,672)	Ps (8,175)

The Bank expects the following amounts in other comprehensive income to be recognized as components of net periodic pension cost during 2009:

Net transition obligation/(asset)	Ps	304
Net prior service cost		1,217
Net loss/(gain)		(2,587)
<b>Total</b>	<b>Ps</b>	<b>(1,066)</b>

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

	<i>2006</i>	<i>2007</i>	<i>2008</i>
Discount rate	8.68%	9.25%	9.75%
Rate of compensation increases	6.07%	6.00%	7.00%
Rate of pension increases	4.50%	5.00%	5.50%

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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*Estimated Future Benefit Payments*

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

	<i>Pension Benefits</i>	<i>Other Benefits<sup>(1)</sup></i>
2009	12,993	13,591
2010	12,895	7,816
2011	12,572	11,332
2012	12,573	15,285
2013	12,445	19,078
Years 2014 - 2018	65,328	106,545

(1) Includes  
Expected future  
benefit  
payments for  
Retirement  
premium  
pension plan  
and Leaving  
Indemnity plan.

**c) Fixed assets:**

The following table shows the adjustments for each item:

	<i>2006</i>	<i>Net Income 2007</i>	<i>2008</i>
<b>Items</b>			
Inflation adjustment	(104)	(151)	(1,914)
Capitalization of Interest Cost			15,862
Assets available for sale			548
<b>Total</b>	(104)	(151)	14,496

	<i>Stockholders equity</i>	
	<i>2007</i>	<i>2008</i>
<b>Items</b>		
Inflation adjustment	38,538	36,624
Capitalization of Interest Cost		15,862
Assets available for sale		548
<b>Total</b>	38,538	53,034

*Inflation adjustment*

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

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

*Capitalization of Interest Cost*

Under U.S. GAAP, the Bank has capitalized interest costs incurred during the construction of the new headquarters in Medellín. The capitalized interest will be amortized on a straight-line basis over the estimated useful life of the asset starting in January 2009. Under Colombian GAAP, the interest costs were recorded as expenses in the Bank's statement of operations.



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*Real estate in use and for sale*

- Real Estate In Use

In the case of all real estate recorded under Colombian GAAP, their book values are compared with their commercial appraisal values to determine whether a provision should be set up or their values increased. If the appraisal is lower than the corresponding book value, then a provision is recorded, if higher then the corresponding book value is increased to the appraisal value.

Under U.S. GAAP, these assets are subject to recognition of an impairment loss if the book values of those assets is lower than their future undiscounted cash flows and an impairment loss is recorded for the difference between the carrying amount and the fair value of the assets.

- Real estate held for sale

According to Colombian GAAP, these assets are recorded similarly to real estate in use.

Under U.S. GAAP, long held assets classified as held for sale to be recorded at the long of the book value less estimated costs to sell less and are not subject to depreciation.

***d) Revaluation of assets***

In accordance with Colombian GAAP, reappraisals of a portion of the Bank's premises and equipment, equity investments and other non-monetary assets are made periodically and recorded in offsetting accounts which are shown in the balance sheet under the asset caption "reappraisal of assets" and the stockholders' equity in the balance sheet caption "Surplus from reappraisals of assets". The last revaluation was made in December 2008. Under U.S. GAAP, reappraisals of assets are not permitted and thus balances are reversed.

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

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

Under U.S. GAAP, the Bank considers loans to be impaired when it is probable that all amounts of principal and interest will not be collected according to the contractual terms of the loan agreement. The allowance for significant impaired loans including troubled debt restructuring loans are assessed based on the present value of estimated future cash flows discounted at the current effective loan rate or the fair value of the collateral in the case where the loan is considered collateral-dependent. An allowance for impaired loans is provided when future cash flows discounted at their original effective rate or collateral fair value is lower than book value.

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In addition, if necessary, a specific allowance for loan losses is established for individual loans, based on regular reviews of individual loans, recent loss experience, credit scores, the risk characteristics of the various classifications of loans and other factors directly influencing the potential collectibility and affecting the quality of the loan portfolio. To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical losses. Loss estimates are analyzed by loan type and thus for homogeneous groups of clients. Such historical ratios are updated to incorporate the most recent data reflecting current economic conditions, industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information that may affect the estimation of the allowance for loan losses.

Many factors can affect the Bank's estimates of allowance for loan losses, including volatility of default probability, migrations and estimated loss severity.

Credit losses relating to loans, which may be for all or part of a particular loan are deducted from the allowance. The related loan balance is charged off in the year in which the loans are deemed uncollectible. Recoveries of loans and trade receivables previously charged off are credited to the allowance when received.

In addition, for U.S. GAAP purposes, the Bank maintains an allowance for credit losses on off-balance sheet credit instruments, including commitments to extend credit, guarantees granted, standby letters of credit and other financial instruments. The allowance is recorded as a liability. The Bank follows the same methodology described for allowance for loans losses, but including an estimated probability of drawdown by the borrower.

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

	<i>2007</i>	<i>2008</i>
<b><i>Allowance for loans, financial lease losses and foreclosed assets under Colombian GAAP</i></b>		
Allowance for loans and financial lease losses	Ps 1,457,151	Ps 2,134,360
Allowance for accrued interest and other receivables	67,707	110,641
Allowance for foreclosed assets	201,822	179,827
	Ps 1,726,680	Ps 2,424,828
<b><i>Allowance for loan losses under U.S. GAAP</i></b>		
Allowance for loans, financial lease, accrued interest losses and other related receivables <sup>(1)</sup>	1,055,697	2,089,940
Allowance for foreclosed assets	109,541	105,449
	Ps 1,165,238	Ps 2,195,389
<b>Difference to be recognized as an adjustment to Colombian GAAP stockholders' equity</b>	Ps 561,442	Ps 229,439

(1) For 2008, The Allowance for loans, financial

lease, accrued  
interest losses  
and other  
related  
receivables  
under  
U.S.GAAP  
differs in Ps  
99,009 from the  
amount of Ps  
2,188,949  
registered in the  
Supplemental  
Consolidated  
Condensed  
Balance Sheets  
on the line:  
Allowance for  
loans, financial  
leases losses  
and other  
receivables.  
This difference  
corresponds to  
the following  
lines that impact  
the allowance  
for loan losses  
under  
U.S.GAAP and  
are included in  
these  
reconciliation  
lines: Lessor  
accounting Ps  
3,744;  
Securitization  
non-performing  
and performing  
loans Ps 21,928;  
Business  
Combinations  
Ps 59,636 and  
Interest  
recognition on  
non-accrual  
loans Ps 13,701.

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	<b>2006</b>	<b>2007</b>	<b>2008<sup>(1)</sup></b>
<b><i>Difference recognized in net income under U.S.GAAP</i></b>			
Allowance for loans, financial lease losses and other receivables	Ps 193,596	Ps (45,780)	Ps (314,101)
Allowance for foreclosed assets	1,953	(24,029)	(24,698)
	Ps 195,549	Ps (69,809)	Ps (338,799)

(1) For 2008, the difference of Ps 332,003 between the reconciliations for the years 2007, Ps 561,442, and 2008, Ps 229,439, that are recognized as adjustments to Colombian GAAP stockholders equity is different from the difference recognized in net income under U.S.GAAP (Ps 338,799) in the amount of Ps 6,796 due to the comprehensive income derived from the reconciliation of foreclosed assets of Banco Agrícola and Asesuisa.

An analysis of the activity in the allowance for loans and financial lease losses under U.S. GAAP during the year ended December 31, 2006, 2007 and 2008 is as follows:

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	<b>2006</b>	<b>2007</b>	<b>2008</b>
Provision at the beginning of the period	Ps 581,645	Ps 507,641	Ps 1,055,697
Provision for credit losses <sup>(1)</sup>	1,765	678,967	1,466,085
Foreign Currency translation and other adjustments	(685)	(29,129)	47,512
Charge-offs	(145,829)	(191,779)	(577,123)
Recoveries of charged-off loans	70,745	89,997	108,143
Reclassifications			(10,374)
Provision at the end of the period	Ps 507,641	Ps 1,055,697	Ps 2,089,940
Gross Loans and financial leases	24,645,574	37,702,624	44,642,570
Provision at the end of the period as a percentage of gross loans	2.06%	2.80%	4.68%
Provision for credit losses as percentage of gross loans	0.01%	1.79%	3.28%

(1) For 2008, the provision for credit losses differ in Ps 10,283 from the amount of Ps 1,476,368 registered in the Supplemental Consolidated Condensed Statements of Operations on the line: Provision of loans, leases and other receivables. This difference corresponds to:

a) The amount of Ps 16,586 to the following lines that impact the allowance for loan losses under U.S.GAAP and are included in this reconciliations lines: Lessor accounting Ps 1,294;

Securitization  
non-performing  
and performing  
loans Ps 5,318;  
Business  
Combinations Ps  
8,968 and  
Interest  
recognition on  
non-accrual loans  
Ps 1,006. b)  
Reclassifications  
of recoveries of  
charged-offs loan  
in the amounts of  
Ps 13,726 from  
Discontinued  
operations and  
(Ps 20,029) from  
Securitization.

The recorded investments in impaired loans were approximately Ps 1,676,770 and Ps 2,680,199 for the years ended December 31, 2007 and 2008, respectively, and the related allowance for loan losses on those impaired loans totaled Ps 327,980 and Ps 1,069,136, respectively.

The average recorded investments in impaired loans were approximately Ps 1,241,224 and Ps 2,178,484 for the years ended December 31, 2007 and 2008, respectively, and the related allowance for loan losses on those impaired loans totaled Ps 279,559 and Ps 698,558, respectively.

The interest income that would have been recorded for impaired loans in accordance with the original contractual terms amounted to Ps 458,710 for the year ended 2008.

For the years ended December 31, 2006, 2007 and 2008, the Bank recognized interest income of approximately Ps 14,133, Ps 26,592 and Ps 89,917, respectively, on such impaired loans.

The small balances-homogeneous loans evaluated under SFAS 5 methodology amounted to Ps 41,962,372 at December 31, 2008.

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***Foreclosed assets***

Under Colombian GAAP, the Bank must design and adopt its own internal models for the calculation of provisions for foreclosed assets allowing the Bank to estimate the expected loss for all types of assets. For real estate, the provision is equal to 30% of the value of the asset at the time of receipt and must be constituted in proportional monthly installments within the first year following receipt. This provision will increase an additional 30% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 80% of the value upon receipt. In case the term extension is granted, the remaining 20% of the provision may be constituted within said term.

For moveable assets, the provision is equal to 35% of the value of the asset at the time of acquisition and must be constituted in proportional monthly installments within the first year following receipt. Said provision must be increased and additional 35% within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 100% of the book value of the asset prior to provisions. In case the term extension is granted, the remaining 30% of the provision may be constituted within said term.

Under U.S. GAAP, personal and real property received as payment or settlement on a loan is recorded at the lower of its carrying amount or fair value less cost to sell. Gains or losses from the realization of foreclosed assets are included in the statement of operations. Assets received lieu of payment that are not expected to be sold within a year recorded as fixed assets.

***f) Loan origination fees and costs***

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

***g) Interest recognition non-accrual loans***

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

For U.S. GAAP purposes accrual of interest income is discontinued once a loan becomes more than 90 days past due. While the loan is on non-accrual status is generally recognized as income on a cash basis unless collection of principal is doubtful, in which case, cash collections are applied against unpaid principal balance.

***h) Deferred charges***

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

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

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

**i) Investment securities and Derivatives***Investment Securities:*

The Superintendency of Finance requires the Bank to classify investment securities into trading, held to maturity, and available for sale categories. According to this guidance, an investment will be classified as trading when the Bank acquires it for the purpose of selling it in the near term, as held to maturity when the Bank has the intention and ability to hold it to maturity, and as available for sale when the investment is not classified either trading or held to maturity. Under U.S. GAAP, investment in equity securities that have readily determinable market values and debt securities are accounted for as follows:

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

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

The difference between fair value and the amortized cost of these securities is amounted to Ps 16,431 and Ps 10,612 at December 31, 2007 and 2008, respectively.

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

*Foreign Exchange Gains and Losses on Debt Securities Available For Sale*

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



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

	<i>Fair value</i>	<i>Gross unrealized gains</i>	<i>Gross unrealized losses</i>	<i>Cost basis</i>
<b>Available for sale Debt securities</b>				
<b>December 31, 2007</b>				
Securities issued or secured by Colombian government	Ps 1,035,891	Ps 2,216	Ps (158,816)	Ps 1,192,491
Securities issued or secured by the Central Bank	586,284	59	(155)	586,380
Securities issued or secured by government entities	232,840	389	(5,444)	237,895
Securities issued or secured by financial entities	166,920	2,991	(728)	164,657
Securities issued or secured by foreign governments	444,405	3,200	(1,593)	442,798
Other investments	56,946	173	(440)	57,213
<b>Total</b>	<b>Ps 2,523,288</b>	<b>Ps 9,028</b>	<b>Ps (167,176)</b>	<b>Ps 2,681,434</b>

	<i>Fair value</i>	<i>Gross unrealized gains</i>	<i>Gross unrealized losses</i>	<i>Cost basis</i>
<b>Available for sale Debt securities</b>				
<b>December 31, 2008</b>				
Securities issued or secured by Colombian government	Ps 942,994	Ps 1,529	Ps (117,012)	Ps 1,058,477
Securities issued or secured by government entities	435,515	96	(10,868)	446,287
Securities issued or secured by other financial entities	407,369	16,132	(820)	392,057
Securities issued or secured by foreign governments	684,404	7,494	(36,854)	713,764
Securities issued or secured by the El Salvador Central Bank	669,629	4	(723)	670,348
Other investments	47,795	2,686	(446)	45,555
<b>Total</b>	<b>Ps 3,187,706</b>	<b>Ps 27,941</b>	<b>Ps (166,723)</b>	<b>Ps 3,326,488</b>

*Gross  
unrealized*      *Gross  
unrealized*      *Cost*

	<i>Fair value</i>	<i>gains</i>	<i>losses</i>	<i>basis</i>
<i>Available for sale Equity securities</i>				
<b>December 31, 2007</b>				
Inmobiliaria Cadenalco	Ps 4,377	Ps 1,886		Ps 2,491
Bolsa de Valores de Colombia	4,877	174		4,703
<b>Total</b>	<b>Ps 9,254</b>	<b>Ps 2,060</b>		<b>Ps 7,194</b>

	<i>Fair value</i>	<i>Gross unrealized gains</i>	<i>Gross unrealized losses</i>	<i>Cost basis</i>
<i>Available for sale Equity securities</i>				
<b>December 31, 2008</b>				
Inmobiliaria Cadenalco	Ps 4,552	Ps 2,065		Ps 2,487
Bolsa de Valores de Colombia	16,082	2,299		13,783
<b>Total</b>	<b>Ps 20,634</b>	<b>Ps 4,364</b>		<b>Ps 16,270</b>

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The scheduled maturities of debt securities at December 31, 2008 were as follows:

	<i>Available for sale</i>	
	<i>Amortized cost</i>	<i>Fair value</i>
Due in one year or less	Ps 1,734,249	Ps 1,726,937
Due from one year to five years	780,465	738,643
Due from five years to ten years	569,972	501,198
Due more than ten years	241,802	220,928
<b>Total</b>	<b>Ps 3,326,488</b>	<b>Ps 3,187,706</b>

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

**Unrealized Losses Disclosure**

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

	<i>Fair value</i>	<i>Gross unrealized losses</i>	<i>Cost basis</i>
<b>Available for Sale</b>			
<b>December 31, 2008</b>			
Securities issued or secured by Colombian government	Ps 65,155	Ps (2,044)	Ps 67,199
Securities issued or secured by government entities	407,868	(6,213)	414,081
Securities issued or secured by other financial entities	18,294	(220)	18,514
Securities issued or secured by foreign governments	128,832	(24,675)	153,507
Securities issued or secured by the El Salvador Central Bank	649,624	(685)	650,309
Other investments	13,517	(66)	13,583
<b>Total</b>	<b>Ps 1,283,290</b>	<b>Ps (33,903)</b>	<b>Ps 1,317,193</b>

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

	<i>Fair value</i>	<i>Gross unrealized losses</i>	<i>Cost basis</i>
<b>Available for Sale</b>			
<b>December 31, 2008</b>			
Securities issued or secured by Colombian government	Ps 847,474	Ps (114,968)	Ps 962,442
Securities issued or secured by government entities	27,318	(4,655)	31,973
Securities issued or secured by other financial entities	10,970	(600)	11,570
Securities issued or secured by foreign governments	40,565	(12,179)	52,744

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Securities issued or secured by the El Salvador Central Bank	19,146	(38)	19,184
Other investments	10,658	(380)	11,038
<b>Total</b>	<b>Ps 956,131</b>	<b>Ps (132,820)</b>	<b>Ps 1,088,951</b>

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The amount of realized gain or loss on trading securities included in earnings during 2007 and 2008 was Ps 229,725 and Ps 491,879, respectively.

For Colombian GAAP and U.S. GAAP purposes, the Bank conducts regular reviews to assess whether other than temporary impairment exists. A number of factors are considered in performing an impairment analysis of securities. Those factors include:

- a. the length of time and the extent to which the market value of the security has been less than cost;
- b. the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer (such as changes in technology that may impair the earnings potential of the investment, or the discontinuance of a segment of a business that may affect the future earnings potential); or
- c. the intent and ability of the Bank to retain its investment in the issuer for a period of time that allows for any anticipated recovery in market value.

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

The Bank has determined that unrealized losses on investments at December 31, 2008 are temporary in nature based on its ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery and the results of its review conducted to identify and evaluate investments that have indications of possible impairments. The substantial majority of the investments in an unrealized loss position for 12 months or more are primarily securities issued or secured by the Colombian Government, denominated in pesos and *Unidad de Valor Real* (the Real Value Unit or UVR). These securities were issued with a stated interest rate and average mature in less than eight years. All of the unrealized losses on these securities resulted from current economic conditions affecting the international markets, and fluctuations on interest rates. Unrealized losses may decline as interest rates fall below the purchased yield and as the securities approach maturity. Since the Bank has the ability and intent to hold the securities until recovery of the carrying value, which could be maturity, the unrealized loss is considered temporary.

As of December 31, 2008, 730 available for sale securities presented gross unrealized losses.

*Unrealized Losses Disclosure for derivative instruments:*

U.S. GAAP requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Under Colombian GAAP the Bank accounts for a portion of their swaps contracts at their cost basis and the fair value of the asset and liability leg of the derivatives are recorded as rights and commitments separately in the balance sheet see Note 8. Customers Acceptances and Derivatives. As of December 31, 2007 and 2008, the Bank did not apply hedge accounting for any of its derivatives instruments under U.S. GAAP.

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Balance sheet classification:

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

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

Consequently, certain assets and liabilities are presented gross in the U.S. GAAP condensed balance sheet, with no effect on net income or shareholders' equity. See note 31(t) for gross presentation of derivative instruments in accordance with U.S. GAAP and net presentation under Colombian GAAP.

The following table is a summary of the adjustments to consolidated net income and consolidated stockholders' equity as a result of differences between Colombian GAAP and U.S. GAAP:

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Investments	Ps (45,682)	Ps 2,453	Ps 28,978
Derivatives	20,516	(1,627)	(162,055)
Changes in foreign currency exchange rates	(11,069)	(10,016)	(8,315)
	Ps (36,235)	Ps (9,190)	Ps (141,392)
		<b>2007</b>	<b>2008</b>
Investments		Ps (161,777)	Ps (74,759)
Derivatives		(1,782)	(163,837)
		Ps (163,559)	Ps (238,596)

**j) Investment in unaffiliated companies.**

Under Colombian GAAP stock dividends are recorded as income, under U.S. GAAP dividends paid in the form of additional shares of common stock are not recorded as income. Instead, the costs of the shares previously held are allocated equitably to the total shares held after receipt of the stock dividend. When any shares are later disposed of, a gain or loss is determined on the basis of the adjusted cost per share.

**k) Investments in affiliates.**

Under Colombian GAAP, investment in affiliates are recorded as available for sale at cost with changes in fair value recorded in shareholders' equity.

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

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**l) Lessor accounting**

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

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

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

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

The following lists the components of the net investment in direct financial leases as of December 31, 2007 and 2008:

	<b>2007</b>	<b>2008</b>
Total minimum lease payments to be received	Ps 6,057,324	Ps 7,373,767
Less: Allowance for uncollectibles <sup>(1)</sup>	(95,047)	(138,776)
Net minimum lease payments receivable	5,962,277	7,234,991
Estimated residual values of leased property	369,183	605,645
Less: Unearned income	(1,671,907)	(2,139,888)
Net investment in direct financial leases	Ps 4,659,553	Ps 5,700,748

(1) The allowance for uncollectibles is registered in the Supplemental Consolidated Condensed Balance Sheets (See Note 31. Differences Between Colombian Accounting Principles for

Banks and U.S.  
GAAP c)  
Supplemental  
Consolidated  
Condensed  
Financial  
Statements  
under  
U.S.GAAP  
Supplemental  
Consolidated  
Condensed  
Balance Sheets  
Allowance for  
loans, financial  
leases losses  
and other  
receivables ).

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

<i>Year Ended December 31,</i>	<i>Financial leases</i>		<i>Operating Leases</i>	
2009	Ps	478,956	Ps	150,060
2010		863,154		129,197
2011		1,364,750		98,971
2012		1,299,374		49,110
2013		1,306,811		6,442
Later years, through 2014		2,060,722		1,573
<b>Total minimum future lease payments to be received</b>	<b>Ps</b>	<b>7,373,767</b>	<b>Ps</b>	<b>435,353</b>



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**m) Business combinations***Purchase method of accounting*

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

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

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

**Banagrícola S.A.**

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

Simultaneously with the acquisition, the Bank had signed an agreement with Bienes y Servicios S.A (BYSSA), formerly Banagrícola major shareholder, which included a call and written put option. The options were exercised in December 2007 and as a consequence the Bank acquired the shares representing 9.59% of interest in Banagrícola for an aggregate purchase price of approximately US\$ 87,700 (US\$ 0.04845024 per share).

Bancolombia Panamá S.A. continued purchasing shares from Banagrícola s minority shareholders and at December 31, 2007 held an interest of 98.90% of Banagrícola s total shareholder s equity.

During 2008, Bancolombia Panamá S.A. acquired 0.21% of Banagrícola S.A. ( Banagricola ). The purchase price was of approximately US\$ 1,912. The excess of purchase price amounted to US 1,313 was assigned to all other segments.

With this acquisition Bancolombia Panamá S.A. at December 31, 2008 held an interest of 99.12% of Banagrícola s total shareholder s equity.

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

For Colombian GAAP purposes the results of operations of the acquired entities were included in the consolidated statements of operations of Banagrícola S.A. and its subsidiaries since January 1, 2007.

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

		<i><b>Fair value of assets acquired and liabilities assumed under U.S. GAAP from Banagrícola during 2007</b></i>
<b>Total Purchase Price</b>	Ps	1,816,219
Assets acquired		7,072,642
Premises and equipment, net		188,500
Liabilities assumed		6,457,732
<b>Net Assets Acquired</b>	Ps	803,410
Excess of cost over the fair value of acquired net assets		1,012,809
Intangible Assets		365,849
<b>Goodwill</b>	Ps	646,960

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

		<b>2006</b>
U.S. GAAP Net income	Ps	1,114,121
Revenues		2,918,628
Earnings per share	Ps	2,186
		<b>2007</b>
U.S. GAAP Net income	Ps	1,147,510
Revenues		3,822,759
Earnings per share	Ps	2,251

**Factoring Bancolombia acquisition**

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

On June 30, 2006, the Bank acquired an additional stake of 6,868,409 shares of Comercia S.A., equivalent to 38.96% of its outstanding shares, from Textiles Fabricato Tejicóndor S.A. by means of a transaction duly authorized by the Superintendency of Finance. The value paid by the Bank was Ps 17,241.

Under U.S. GAAP, the results of Comercia S.A. s, operations have been included in the consolidated financial statements since that date. For Colombian GAAP purposes the results of operations of the acquired entity were included in the consolidated statements of operations of the combined entity since January 1, 2006.

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

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

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

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

**m.i) Goodwill**

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

Under SFAS 142, the goodwill impairment analysis is done in two steps. The first step requires a comparison of the fair value of the individual reporting unit to its carrying value including goodwill. If the fair value of the reporting unit is in excess of the carrying value, the related goodwill is considered not to be impaired and no further analysis is necessary. If the carrying value of the reporting unit exceeds the fair value, there is an indication of potential impairment and a second step of testing is performed to measure the amount of impairment, if any, for that reporting unit.

When required, the second step of testing involves calculating the implied fair value of goodwill for each of the affected reporting units. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of the net assets and identifiable intangibles as if the reporting unit were being acquired. If the amount of the goodwill allocated to the reporting unit exceeds the implied fair value of the goodwill in the pro forma purchase price allocation, an impairment charge is recorded for the excess. An impairment charge recognized cannot exceed the amount of goodwill allocated to a reporting unit and cannot be reversed subsequently even if the fair value of the reporting unit recovers.



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Under Colombian GAAP, goodwill derived from business combinations effective before October 2006, was amortized over a maximum period of ten years. In business combinations that occurred after October 2006, the resulting goodwill is recorded as a deferred charge and amortized on a monthly basis on the administrative and other expenses account over a term of twenty (20) years, unless the supervised entity voluntarily selects a shorter period of amortization. Up to December 31, 2007 goodwill was amortized using the exponential method. Under this method the charge for amortization is increased exponentially every year. Since January, 2008, the straight-line method has been used to amortized goodwill, since the Bank considers this method provides a better association between the revenues and expenses corresponding to this investment.

Under Colombian GAAP, in the case of goodwill acquired by the Bank and its subsidiaries before the date when the new regulation came into full force in year 2007, the amortization term was maintained in five years, ten years, three years for goodwill recorded in the subsidiaries Banagrícola S.A. and Inversiones Financieras Banagrícola S.A., respectively as permitted by Superintendency of Finance at the acquisition date.

For purposes of the impairment goodwill test under FAS 142, derived from acquisition of Banagricola, management has considered to Banco Agricola, AFP Crecer and Aseguradora Suiza Salvadoreña as single reporting unit each one, taking into account the nature of the products and services of these subsidiaries, the methods used to provide their services, the regulatory environment in El Salvador, and the manner in which the subsidiaries operate their business and their operations.

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

The activity of the goodwill and intangible assets under U.S. GAAP during the years ended December 31, 2006, 2007 and 2008 is as follows:

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Goodwill U.S. GAAP</b>			
Balance at beginning of year	Ps 569,748	Ps 577,535	Ps 1,382,159
Reclassifications		132,243	(40,690)
Additions	7,787	636,186	2,947
Foreign currency adjustment		36,195	77,914
Balance at end of year	Ps 577,535	Ps 1,382,159	Ps 1,422,330
Goodwill under Colombian GAAP	34,371	973,699	1,008,089
Difference to be recognized under U.S. GAAP <sup>(1) (2)</sup>	Ps 543,164	Ps 408,460	Ps 414,241

(1) For 2007 this adjustment is reflected in the line goodwill of the reconciliation of stockholders

equity for Ps  
276,217 and as  
part of the line  
revaluation of  
assets for Ps  
132,243.

- (2) For 2008 this  
adjustment is  
reflected in the  
line goodwill of  
the  
reconciliation of  
stockholders  
equity for Ps  
242,843 and as  
part of the line  
revaluation of  
assets for Ps  
171,398.

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Goodwill under U.S. GAAP by segments was as follows:

	<i>December 31,</i> <i>2006</i>	<i>December 31,</i> <i>2007</i>	<i>December 31,</i> <i>2008</i>
Corporate and Governmental Banking	254,233	333,661	399,583
Retail and Small Business Banking	186,989	657,496	694,508
Treasury		122,446	
Offshore Commercial Banking	31,534	31,534	31,534
Leasing	54,238	54,238	54,238
All other segments <sup>(1)</sup>	50,541	182,784	242,467
Total Goodwill <sup>(2)</sup>	Ps 577,535	Ps 1,382,159	Ps 1,422,330

(1) This segment includes trust, brokerage, insurance, pensions, construction banking and corporate headquarters.

(2) The Bank has modified the distribution of the goodwill by segments in order to be consistent with the segments presented in the note w) Segment Disclosure.

**m.ii) Intangible Assets****m.ii.1) Banagrícola S.A**

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

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



**Customer relationships and contractual agreements**

Corresponds to the relationships that the Bank has established with its customers through contracts, those customer relationships would arise from contractual rights. Therefore, customer contracts and the related customer relationships are intangible assets that meet the contractual-legal criterion.

Intangibles are calculated based on the expected gains to be provided from these relations for a specific period of time.

**Brands**

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

The present value of the brand is determined based on its potential to generate future cash flow.

The royalty stream that the business would hypothetically earn from its brand can be reasonably estimated (it assumes that future royalties can in some way be predicted).

Cash flows are discounted in order to arrive to a present value.

Capital costs and rates of return can be properly estimated.

The royalty stream that the business would hypothetically earn during the final year of the period in question can be considered a perpetuity.

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

**Core Deposit Intangibles (CDI)**

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

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

- Retail banking
- Commercial banking
- Offshore commercial banking.

**m.ii.2) Factoring Bancolombia acquisition**

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

The activity of the Bank's intangible assets during the years ended December 31, 2007 and 2008 is as follows:

	<i>2007</i>	<i>2008</i>
<b>Intangible Assets</b>		
Balance at beginning of year	Ps 142,099	Ps 487,691
Additions	365,849	
Reclassifications <sup>(1)</sup>		45,951
Amortization	(42,063)	(79,578)
Impairment		(26,555)
Foreign currency translation adjustment <sup>(2) (3)</sup>	21,806	41,037
Balance at end of year	Ps 487,691	Ps 468,546

- (1) It corresponds to the recognition of the brand of Banco Agrícola from goodwill to intangible of finite life as a result of the initial decision of the Bank's management.

(2)

The foreign  
currency  
translation  
adjustment for  
the amortization  
expense  
amounts Ps  
4,858.

- (3) The foreign  
currency  
translation  
adjustment  
related to the  
carrying amount  
is Ps 45,620.

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Intangible assets were as follows:

	<i>December 31, 2007</i>			<i>December 31, 2008</i>		
	<i>Gross carrying amount</i>	<i>Accumulated amortization</i>	<i>Impairment</i>	<i>Gross carrying amount</i>	<i>Accumulated amortization</i>	<i>Impairment</i>
Non-Amortizable intangible assets	Ps 30,407			Ps 26,555		26,555
Amortizable intangible assets	Ps 520,781	Ps 63,222		Ps 616,204	Ps 147,658	

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

	<i>December 31, 2008</i>	<i>Weight useful life (months)</i>
Brands	Ps 79,813	60
Service asset	6,206	169
Asset management	30,004	125
Benefit associated to Loans	77,354	201
Core Deposits	135,587	151
Customer relationship Conavi and Corfinsura	22,400	105
Customer relationship Factoring Bancolombia	7,267	48
Customer relationship Conglomerado Banagrícola	199,134	159
Value of business acquired	80,115	120
Others	4,879	105
<b>TOTAL</b>	<b>Ps 642,759</b>	

The estimated aggregate amortization expense for intangible assets for the next five fiscal years is as follows:

<i>Fiscal year ending December 31,</i>	<i>Aggregate amortization expense</i>
2009	Ps 71,798
2010	66,392
2011	61,712
2012	49,040
2013	39,172
<b>Total</b>	<b>Ps 288,114</b>

The Bank has performed the required impairment test of intangible assets, concluding that except for the brands of Asesuisa Vida and Asesuisa S.A., AFP Crecer and Bursabac S.A. de C.V., there was no impairment in the remaining

intangible assets.

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As of December 31, 2008, the Bank has tested for impairment the brands that were no subject to amortization the prior fiscal year (Asesuisa Vida and Asesuisa S.A., AFP Crecer and Bursabac S.A. de C.V.) using the methodology to be applied to indefinite-lived intangible and concluded that was necessary change the estimated useful life of the above mentioned brands from indefinite to finite, because at the end of the fiscal year did not exist the causes and circumstances that support the brands like lived intangible. As a result of this change, the brands registered an impairment loss of Ps 26,555.

***m.iii) Fair value of assets and liabilities acquired***

Under U.S. GAAP the primary financial statements allocate the fair value adjustments to each of the respective assets and liabilities.

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

***Fair value of fixed and foreclosed assets***

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

***Fair value of Time Deposits, long- term debt and loans***

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

***Securitization of non-performing loans***

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

***n) Securitization******Transfers of financial assets***

The Bank securitizes performing and non-performing mortgages loans using different securitization vehicle.

Under Colombian GAAP, the securitization of performing and non-performing mortgage loans, is recorded as sales of financial assets and therefore, securitized loans have been removed from the Bank s balance sheet. Additionally, the Bank recognizes in the income statement at the moment of the operation the difference between the book value of the securitized portfolio and the value received.

Under U.S. GAAP, there are two key accounting determinations that must be made relating to securitizations. A decision must be made as to whether a transfer would be considered a sale under U.S. GAAP, resulting in the transferred assets being removed from our consolidated balance sheet with a gain or loss recognized. Alternatively, the transfer would be considered a secured borrowing, resulting in recognition of a liability in our consolidated balance sheet. The second key determination to be made is whether the securitization vehicle must be consolidated and included in our consolidated balance sheet or whether such securitization vehicle is sufficiently independent that it does not need to be consolidated.

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If the trust's activities are sufficiently restricted to meet certain accounting requirements in order to be considered a qualifying special-purpose entity (QSPE), the trust is not consolidated by the seller of the transferred assets. Additionally, under FASB Interpretation No. 46(R), if trusts other than QSPEs meet the definition of a variable interest entity (VIE), we must evaluate whether we are the primary beneficiary of the trust and, if so, must consolidate it.

For U.S. GAAP purposes, since the activities of these vehicles are not sufficiently restricted to meet certain accounting requirements in order to be considered a QSPE, these vehicles were deemed variable interest entities in accordance with FIN 46(R) and therefore, in those cases where the Bank holds the majority of the residual interests in these vehicles, the Bank concluded to be the primary beneficiary, as the party that expects to absorb the majority of the expected losses of such vehicles.

The Bank had no significant transfers of loans in securitization transactions accounted for as sales in accordance with U.S. GAAP as of the fiscal years ended December 31, 2007 and 2008, and did not retain any significant interests associated with loans transferred in securitizations for those years.

The table below presents the assets and liabilities of VIEs which have been consolidated on the Bank's balance sheet at December 31, 2008, and the Bank's allowance for loan losses resulting from its involvement with consolidated VIEs as of December 31, 2008.

The allowance for loan losses represents the management's estimate of probable losses inherent in the portfolio.

<i>Assets</i>	<i>Liabilities</i>	<i>Allowance for loan losses</i>
<b>Ps 1,882,256</b>	<b>Ps 873,056</b>	<b>Ps 16,045</b>

The Bank did not provide any additional financial support to these VIEs or others during 2008. Further, the Bank does not have any contractual commitments or obligations to provide additional financial support to these VIEs or others.

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*Retained Interests in the Securitization vehicles*

Under Colombian GAAP retained interests in the securitization vehicles are not recognized.

For U.S. GAAP purposes, retained interests in those securitization vehicles that are not subject to consolidation during the fiscal year ended December 31, 2008, as the Bank was not considered to be the primary beneficiary in accordance with FIN 46(R), should be recognized and recorded at fair value, as available-for-sale or trading securities in accordance with FAS 115. To determine their fair values of these securities, the Bank discounted the estimated future cash flows of these securities.

For securities classified as available-for-sale, unrealized gains or losses over the amortized cost basis are charged to equity through Other Comprehensive Income, unless unrealized losses are deemed to be other than temporary, in which case they are charged to the Statement of Operations.

Securities held for the purpose of selling them in the short term are classified as trading and are reported at fair value, with gains and losses included in earnings.

For U.S. GAAP purposes, the amortized cost, unrealized gain/loss and fair value of financial trusts qualifying for sale treatment but are not subject to consolidation as of December 31, 2008, are as follows:

	<i>Amortized Cost</i>		<i>Net Unrealized Gain/(Loss)</i>		<i>Fair Value</i>	
	Ps		Ps		Ps	
<i>Available for Sale Securities</i>		<b>243,502</b>		<b>14,864</b>		<b>258,366</b>
<i>Trading Securities</i>					Ps	<b>30,179</b>

As of December 31, 2007, all the securitization vehicles were consolidated for U.S. GAAP purposes.

*o) Foreign currency translation adjustment*

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

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



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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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**p) Minority Interest**

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

**q) Discontinued Operations**

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

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

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

On July 24, 2008, Bancolombia liquidated 100% of its direct interest held through Suleasing Internacional USA Inc. and Bancolombia Panamá S.A. in Suinternal Do Brasil Locacao de Bens S.A. The Bank registered in 2008 a loss on sale of this investment for Ps 11.

On September 18, 2008, Bancolombia liquidated 71.75% of its direct interest held through Banca de Inversión Bancolombia S.A. in Inversiones Valsimesa S.A. The Bank registered in 2008 a gain on sale of this investment for Ps 5,310.

On November 19, 2008, Bancolombia sold to Mitsubishi Corporation 100% of its direct interest held through Banca de Inversión Bancolombia S.A. in P.A. Renting Colombia. The Bank registered in 2008 a gain on sale of this investment for Ps 2,988.

On December 22, 2008, Bancolombia sold to Corporation Delta Codelta. 80% of its direct interest held through Banca de Inversión Bancolombia S.A., Inmobiliaria Bancol S.A. and Valores Simesa S.A. in Fundiciones y Componentes Automotores. The Bank registered in 2008 a gain on sale of this investment for Ps 13,692.

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

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Profit (losses) from discontinued operations before income taxes	Ps (39,522)	Ps (51,868)	Ps 105,919
Income taxes (benefit) expense	8,221	3,519	28,683
Profit (losses) from discontinued operations	Ps (47,743)	Ps (55,387)	Ps 77,236

**r) Guarantees**

In order to meet the needs of its customers, the Bank issues financial standby letters of credit and bank guarantees. At December 31, 2007 and 2008, outstanding letters of credit and bank guarantees issued by the Bank totaled Ps 2,613,369 and Ps 3,524,631, respectively.

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The table below summarizes, at December 31, 2007 and 2008, all of the Bank's guarantees where the Bank is the guarantor. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts bear no relationship to the anticipated losses on these guarantees and greatly exceed anticipated losses.

	<i>Expire within one year</i>		<i>Expire after one year</i>		<i>Total amount outstanding</i>		<i>Maximum potential amount of future payments</i>	
	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>
Financial standby letters of credit	Ps 1,007,038	Ps 1,577,231	Ps 347,883	Ps 313,343	Ps 1,354,921	Ps 1,890,574	Ps 1,354,921	Ps 1,890,574
Bank guarantees	992,467	1,106,968	265,981	527,089	1,258,448	1,634,057	1,258,448	1,634,057
<b>Total</b>	<b>Ps 1,999,505</b>	<b>Ps 2,684,199</b>	<b>Ps 613,864</b>	<b>Ps 840,432</b>	<b>Ps 2,613,369</b>	<b>Ps 3,524,631</b>	<b>Ps 2,613,369</b>	<b>Ps 3,524,631</b>

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

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

The maximum potential payments represent a worse-case scenario, and do not necessarily reflect expected results. The Bank does not hold collaterals over the guarantees issued.

Under U.S. GAAP, effective January 1, 2003, the Bank adopted FASB interpretation No. 45 Guarantor's Accounting and Disclosures Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. As of December 31, 2007 and 2008, the Bank recognized Ps 12,736, and Ps 10,895 as a liability for the fair value of the obligations assumed at its reception. Such liabilities are being amortized over the expected term of the guarantee.

**s) Insurance contracts**

Under U.S. GAAP reserves for individual and group Life insurance are computed on the basis of interest rates, mortality tables, including a margin for adverse deviations. For the year 2008 and 2007, reserve discount rate was 4.5%, based on the Bank's own profitability experience.

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

**t) Estimated Fair Value of Financial Instruments**

Fair value of financial instruments

Effective January 1, 2008, the Bank adopted SFAS 157 Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair-value measurements. As a result of the adoption of SFAS 157, the Bank has made some amendments to the techniques applied in measuring the fair value in order to include considerations about own credit and counterparty risk.



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The framework for measuring fair value under Colombian GAAP is substantially consistent with SFAS 157, except for considerations about own credit risk, counterparty risk and valuation of collaterals.

**Fair-Value Hierarchy**

SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair-value hierarchy:

**Level 1** Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain bonds issued by government or its entities, corporate debt securities and derivative contracts.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain retained residual interests in securitizations, asset-backed securities (ABS), highly structured or long term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

The Bank considers relevant and observable market prices in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observed prices in those markets.

**Determination of Fair Value**

For assets and liabilities carried at fair value, the Bank measures such value using the procedures set out below. The Bank did not choose to measure financial instruments and certain other items at fair value based on the SFAS 159,

The Fair Value Option for Financial Assets and Financial Liabilities .

When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1. In some cases where a market price is available, the Bank will make use of acceptable practical expedients (mid-market pricing or other pricing conventions) to calculate fair value.

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified as Level 2.

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If quoted market prices are not available, fair value is based upon internally developed valuation techniques such as discounted cash flows, pricing models and similar methodologies that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, option volatilities, etc. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

Fair-value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent price providers or non-bidding brokers. Price providers and non-bidding brokers' valuations may be based on a variety of inputs ranging from observed prices to proprietary valuation models.

The estimated fair value based upon internally developed valuation techniques could vary if other valuation methods or assumptions were used. The bank believes its valuation methods are appropriate and consistent with other market participants. Nevertheless, the use of different valuation methods or assumptions, including imprecision in estimating unobservable market inputs, to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date and the amount of gain or loss recorded for a particular instrument. Most of the valuation models are not significantly subjective, because they can be tested and, if necessary, recalibrated by the internal calculation of and subsequent comparison to market prices of actively traded securities, where available.

Financial instruments that are classified as trading, or available-for-sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which an asset could be sold or a liability transferred in a current transaction between willing parties, other than in a forced or liquidation sale.

The following section describes the valuation methodologies used by the Bank, including an indication of the level in the fair-value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

1. Fair value measurement on a recurring and non-recurring basis (SFAS 157)

**Investment securities*****a) Debt securities:***

When available, the Bank uses quoted market prices to determine the fair value and such items are classified in Level 1 of the fair value hierarchy. For securities not traded or over the counter, the Bank generally determines fair value utilizing internal valuation and standard techniques. These techniques include determination of expected future cash flows which are discounted using curves of the applicable currencies and interest. The interest and foreign exchange curves are generally observable market data and reference yield and exchange curves derived from quoted interest and exchange rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments. Fair-value estimates from internal valuation techniques are verified and tested by independent personnel. Price providers compile prices from various sources and may apply matrix pricing for similar securities where no price is observable. If available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the security. These securities priced using such methods are generally classified as Level 2. However, when less liquidity exists for a security, a quoted price is stale or prices from independent sources vary, a security is generally classified as Level 3.

The Bank has credit linked notes issued by financial institution including embedded derivatives to credit risks relating to the Colombian Government. The Bank has elected to measure these credit linked notes at fair value through income statement based on SFAS 155. The Bank determines the fair value using the appropriate derivative valuation methodology (described below) given the nature of the embedded risk profile. Such instruments are classified in Level 3.

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*b) Equity securities*

When available, the Bank uses quoted market prices to determine the fair value and such items are classified in Level 1 of the fair value hierarchy and in trading category.

Derivatives

Derivatives entered into by the Bank are executed over the counter and so are valued using internal valuation techniques as no quoted market prices exist for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instrument. For over the counter derivatives those trades in liquid markets are valued using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-base observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies. In addition, these estimates consider assumptions for our own credit risk and the respective counterparty credit risk.

The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign exchange rates, the spot price of the underlying volatility, credit curves and correlation of such inputs. The item is placed in either Level 2 or Level 3 depending on the observability of the significant inputs to the model. Correlation and items with longer tenors are generally less observable.

When appropriate, valuations are adjusted for various factors such as liquidity, bid / offer spreads and credit considerations.

Credit Valuation Adjustment

Under Colombian GAAP, the measurement of the fair value of derivatives does not include the credit valuation adjustment CVA. Under US GAAP, beginning January 1, 2008 with the adoptions of FAS 157 the Bank is measuring the effects of the credit risk of its counterparties and its own creditworthiness in determining fair value of the swap derivatives.

Counterparty credit-risk adjustments are applied to derivatives when the Bank's position is an active and own credit risk is incorporated when the position is a liability. The Bank attempts to mitigate credit risk to third parties which are international banks by entering into netting master agreements. When assessing the impact of credit exposure, only the net counterparty exposure is considered at risk; due to the offsetting of certain same-counterparty positions and the application of cash and other collateral. The Bank generally calculates the asset's credit risk adjustment for derivatives transacted with international financial institutions by incorporating indicative credit related pricing that is generally observable in the market (CDS). The credit risk adjustment for derivatives transacted with non-public counterparties is calculated by incorporating unobservable credit data derived from internal credit qualifications to the financial institutions and corporate companies located in Colombia. The Bank has recognised Ps 4,050 earning as an increase of the associated asset as a result of counterparty credit-risk.

A hundred basis points reduction in our own credit spreads when determining the fair value of the liabilities associated with derivative contracts, could result in an increase of the associated liability of approximately Ps 4,599. These sensitivity analyses do not represent management's expectations of the changes in our own credit risk, but are provided as hypothetical scenarios to assess the sensitivity of the fair value of those liabilities to changes in credit spreads.

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A hundred basis points increase in the counterparty credit spreads when determining the fair value of the assets associated with derivative contracts, could result in a reduction of the associated asset of approximately Ps 4,942. These sensitivity analyses do not represent management's expectations of the changes in the counterparties credit risk, but are provided as hypothetical scenarios to assess the sensitivity of the fair value of those liabilities to changes in credit spreads.

The process of determining credit risk spreads requires a high degree of judgment. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions.

Impaired loans measured at fair value

The Bank, as a practical expedient, measured certain impaired loan based on the fair values of the collaterals. The fair values were determined using internal valuation techniques. These techniques include basically a matrix pricing using recent activities of collaterals with similar characteristics. The key inputs to the matrix depend upon the type of collateral and include property price index (per region, size, type etc.), physical conditions and expected selling costs. In certain cases, the Bank may also use experts to validate the prices obtained using the matrix.

Asset-backed securities

The Bank invests in asset-backed securities which the underlying assets correspond to mortgages issued by financial institutions. The Bank does not have a significant exposure to sub-prime securities. The asset-backed securities are denominated Debt Investment Portfolio ( TIPS ) and can be classified either as trading or available for sale. These asset-backed securities have different vintages and are generally classified as AA+ by credit ratings. The Bank does not expect significant changes in those ratings.

Fair values were estimated using discounted cash flow using models which the main key economic assumptions used are estimates of prepayment rates and resultant weighted average lives of the securitised mortgage portfolio, probability of default and interest rate curves. These items are classified as Level 3.

## 2. Fair value disclosures

FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments ( SFAS 107 ) requires entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. The financial instruments below are not recorded at fair value on a recurring and nonrecurring basis:

Short-term financial instruments

Short-term financial instruments are valued at their carrying amounts included in the consolidated balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach was used for cash and cash equivalents, accrued interest receivable, customers' acceptances, accounts receivable, accounts payable, accrued interest payable and bank acceptances outstanding. These instruments would generally be classified as Level 1 or 2 if required.

Deposits

The fair value of Time Deposits was estimated based on the discounted value of cash flows using the appropriate discount rate for the applicable maturity. Fair value of deposits with undefined maturities represents the amount payable on demand as of the balance sheet date. These instruments would generally be classified as Level 2 if required.

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Interbank borrowings and borrowings from development and other domestic banks

Short-term interbank borrowings and borrowings from domestic development banks have been valued at their carrying amounts because of their relatively short-term nature. Long-term and domestic development bank borrowings have also been valued at their carrying amount because they bear interest at variable rates. These instruments would generally be classified as Level 1 or 2 if required.

Long term debt

The fair value of long-term debt, which comprises bonds issued by Bancolombia and its subsidiaries, was estimated substantially based on quoted market prices. Certain bonds which are nonpublic trading, issued basically by Sufinanciamiento S.A., were determined based on the discounted value of cash flows using the rates currently offered for deposits of similar remaining maturities and its own creditworthiness. These instruments would generally be classified as Level 1 or 2 if required.

Items Measured at Fair Value on a Recurring Basis

The following table present for each of the fair-value hierarchy levels the Bank's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2008 based on the supplemental consolidated condensed balance sheets.

*Fair value measurements using*

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Gross inventory</i>	<i>Net balance</i>
<b>Assets</b>					
Trading account	Ps 1,098,091	Ps 1,437,272	Ps 79,391	Ps 2,614,754	Ps 2,614,754
Investment securities					
Debt securities	891,755	1,215,553	967,517	3,074,825	3,074,825
Equity securities	16,082	4,552		20,634	20,634
Derivatives		303,680	4,518,725	4,822,405	4,822,405
<b>Liabilities</b>					
Derivatives		(271,972)	(4,498,747)	(4,770,719)	(4,770,719)
	Ps 2,005,928	Ps 2,689,085	Ps 1,066,886	Ps 5,761,899	Ps 5,761,899
<b>% total</b>	<b>34.81%</b>	<b>46.67%</b>	<b>18.52%</b>		

The Bank's derivative instruments classified in level 3 grouped and presented net, amounts to Ps 19,978.

The table below presents reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2008.

	<i>Trading account</i>	<i>Available for sale</i>	<i>Derivatives</i>
Balance as of January 1, 2008	Ps 112,541	Ps 626,356	Ps 208,874
<b>Total gain or losses (realised / unrealised):</b>			
Included in earnings	12,987	70,979	5,298
Included in other comprehensive income		(1,013)	
Purchase, issuance and settlements	(46,137)	271,195	(192,833)
Transfer in to/(out) of Level 3			(1,361)



Balance as of December 31, 2008	<b>Ps</b>	<b>79,391</b>	<b>Ps</b>	<b>967,517</b>	<b>Ps</b>	<b>19,978</b>
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The following table present for each of the fair-value hierarchy levels the bank's assets and liabilities that are measured at fair value on a nonrecurring basis at December 31, 2008 based on the supplemental consolidated condensed balance sheets.

	<i>Year end</i> <i>31/12/2008</i>	<i>Fair value measurements using</i>			<i>Total gain</i> <i>(losses)</i>
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Collateralized loans				200,730	(79,054)

**SFAS 107 Disclosures**

The table below presents the disclosures required by SFAS 107 to all assets and liabilities based on the supplemental consolidated condensed balance sheets:

	<i>December 31, 2007</i>		<i>December 31, 2008</i>	
	<i>Colombian</i> <i>GAAP</i> <i>Amount</i>	<i>Estimated</i> <i>Fair Value</i>	<i>Colombian</i> <i>GAAP</i> <i>Amount</i>	<i>Estimated</i> <i>Fair Value</i>
<b><i>Financial assets</i></b>				
Cash and due from banks	Ps 5,228,387	Ps 5,228,387	Ps 5,619,575	Ps 5,619,575
Investment securities, net	5,774,251	4,562,689	7,278,276	7,203,517
Loans and accrued interest receivable on loans, net	36,644,033	38,954,179	43,013,868	41,499,564
Customers' acceptances	55,208	55,208	56,935	56,935
Derivatives, net <sup>(1)</sup>	140,797	139,015	215,523	51,686
<b><i>Financial liabilities:</i></b>				
Deposits	Ps 34,558,995	Ps 34,654,832	Ps 18,652,738	Ps 18,872,980
Overnight funds	2,020,366	2,020,366	2,573,591	2,573,591
Bank acceptances outstanding	55,208	55,208	56,935	56,935
Interbank borrowings	1,525,894	1,525,894	2,100,428	2,100,428
Borrowings from development and other domestic banks	3,371,003	3,371,003	3,905,021	3,905,021
Long term debt	2,866,462	3,675,395	3,675,613	3,665,997

(1) Under Colombian GAAP, the Bank's derivative instruments are grouped and presented net. For U.S. GAAP

purposes, the amount presented includes derivative assets for Ps 4,822,405 and Ps 282,953, derivative liabilities Ps. (4,770,719) and (143,398) for years ended in 2008 and 2007, respectively.

***u) Paid-in capital***

In accordance with Colombian GAAP, paid-in capital in excess of par value of shares issued is credited to a legal reserve. Under U.S. GAAP, capital in excess of par value is credited to paid-in capital.

***v) Equity tax***

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

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

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

***w) Earnings per share***

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

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U.S. GAAP requires dual presentation of basic and diluted EPS for entities with complex capital structures, as well as a reconciliation of the basic EPS computation to the diluted EPS computation. Basic EPS is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS assumes the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. For the years ended December 31, 2006, 2007 and 2008, the Bank had a simple capital structure. Therefore, there was no difference between basic or diluted EPS for these years.

The following table summarizes information related to the computation of basic EPS for the years ended December 31, 2006, 2007 and 2008 (in millions of pesos, except per share data):

	<b>2006</b>	<b>2007</b>	<b>2008</b>
U.S. GAAP consolidated net income	Ps 941,183	Ps 1,015,644	Ps 849,920
Less preferred share dividends	116,041	157,974	173,548
Income attributable to common stockholders	825,142	857,670	676,372
Income from continuing operations attributable to common shareholders	872,885	913,057	599,135
Income (loss) from operations and disposal of discontinued operations	(47,743)	(55,387)	77,236
Income attributable to common shareholders	825,142	857,670	676,372
Weighted average number of common shares outstanding used in basic EPS calculation (in millions)	510	510	510
Basic and Diluted earnings per share (U.S. GAAP):			
Income from continuing operations	1,712.53	1,791.35	1,174.77
Income (loss) from operations and disposal of discontinued operations	(93.66)	(108.67)	151.44
Income attributable to common shareholders	Ps 1,618.87	Ps 1,682.68	Ps 1,326.21

**x) Segments Disclosure**

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

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

The Bank does not have any individual external customer which represents 10% or more of the enterprise's revenues. For this Annual Report, the Bank performed a review of its business segments and has changed the presentation of segment information. According to The Chief Operating Decision Maker, the major changes correspond to the aggregation of construction banking, corporate headquarters, brokerage and manufacturing segments into a category called All other Segments. The information for 2007 and 2006 has been restated to reflect these changes.

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

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

	2006 <sup>(2)</sup>							Total
	Retail and Small Business Banking	Corporate and Governmental Banking	Treasury	Offshore Commercial Banking	Leasing	All other Segments		
Revenues from external customers	Ps 547,311	Ps 169,871		Ps 130	Ps 38,515	Ps 222,699	Ps 978,526	
Revenues (expenses) from transactions with other operating segments of the Bank		60,861		12,493	12,691	73,058	159,103	
Interest income	1,201,392	864,665	343,496	495,222	437,977	274,651	3,617,403	
Interest expense	265,393	339,072	246,058	123,286	254,752	123,645	1,352,206	
Net interest revenue	935,999	525,593	97,438	371,936	183,225	151,006	2,265,197	
Depreciation and amortization expense	26,888	29,804	8,956	988	10,237	57,044	133,917	
Provision for loan losses	130,613	(50,742)	(30,134)	13,316	51,741	87,978	202,772	
Administrative and other expense	1,029,375	286,855	65,064	9,099	68,689	280,414	1,739,496	
Income tax expense or benefit	33,707	36,694	6,629		36,475	61,373	174,878	
Other income or expense, net	(568)	(116,209)		(223,056)	12,138	84,564	(243,131)	
Segment profit before distribution of income								
(expense) for treasury funds	262,159	337,505	46,923	138,100	79,427	44,518	908,632	
Distribution of income (expense) for treasury funds <sup>(1)</sup>	77,399	(40,964)	(8,089)			(28,346)		

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Segment profit	Ps 339,558	Ps 296,541	Ps 38,834	Ps 138,100	Ps 79,427	Ps 16,172	Ps 908,632
Segments assets	Ps 10,142,901	Ps 10,858,235	Ps 3,090,780	Ps 4,216,594	Ps 4,528,718	Ps 5,418,802	Ps 38,256,030

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	<i>2007</i> <sup>(2) (3)</sup>							<i>Total</i>
	<i>Retail and Small Business Banking</i>	<i>Corporate and Governmental Banking</i>		<i>Treasury</i>	<i>Offshore Commercial Banking</i>	<i>Leasing</i>	<i>All other Segments</i>	
	Ps	Ps	Ps	Ps	Ps	Ps	Ps	Ps
Revenues from external customers	801,924	179,491	(2,302)	11,858	84,086	261,692	1,336,749	
Revenues (expenses) from transactions with other operating segments of the Bank	(10,844)	25,309	10,655	148,783	1,345	317,738	492,986	
Interest income	2,019,666	1,385,482	507,934	299,067	624,606	424,687	5,261,442	
Interest expense	501,024	449,711	552,969	205,806	392,740	42,497	2,144,747	
Net interest revenue	1,518,642	935,771	(45,035)	93,261	231,866	382,190	3,116,695	
Depreciation and amortization expense	52,538	41,949	10,083	20,819	24,369	85,421	235,179	
Provision for loan losses	421,576	187,766	(14,634)	19,271	108,538	26,111	748,628	
Administrative and other expense	1,351,951	313,805	35,186	10,786	77,778	309,496	2,099,002	
Income tax expense or benefit	109,999	89,947	52,370		35,990	73,577	361,883	
Other income or expense, net	43,610	14,313	21	18,067	61,258	(59,098)	78,171	
Segment profit before distribution of income								
(expense) for treasury funds	417,268	521,417	(119,666)	221,093	131,880	407,917	1,579,909	
Distribution of income (expense) for treasury funds <sup>(1)</sup>	(102,762)	(188,467)	362,750			(71,521)		
Segment profit	Ps 314,506	Ps 332,950	Ps 243,084	Ps 221,093	Ps 131,880	Ps 336,396	Ps 1,579,909	



Segment assets Ps 18,453,289 Ps 16,412,411 Ps 3,806,189 Ps 6,847,345 Ps 5,898,303 Ps 7,745,272 Ps 59,162,809

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	2008 <sup>(2)</sup>							Total
	<i>Retail and Small Business Banking</i>	<i>Corporate and Governmental Banking</i>	<i>Treasury</i>	<i>Offshore Commercial Banking</i>	<i>Leasing</i>	<i>All other Segments</i>		
Revenues from external customers	Ps 913,333	Ps 206,529	Ps 14,244	Ps 5,303	Ps 245,739	Ps 318,071	Ps 1,703,219	
Revenues (expenses) from transactions with other operating segments of the Bank	(11,117)	57,992	(5,175)	38,642	8,427	167,611	256,380	
Interest income	2,730,204	1,839,523	602,931	260,652	848,623	1,024,001	7,305,934	
Interest expense	602,384	674,548	779,047	214,825	561,778	119,748	2,952,330	
Net interest revenue	2,127,820	1,164,975	(176,116)	45,827	286,845	904,253	4,353,604	
Depreciation and amortization expense	51,882	43,625	8,565	57,415	99,022	52,134	312,643	
Provision for loan losses	802,255	330,148	(11,261)	16,001	143,234	38,352	1,318,729	
Administrative and other expense	1,595,323	370,408	67,334	12,035	157,656	369,750	2,572,506	
Income tax expense or benefit	125,978	118,522	74,679		35,553	118,561	473,293	
Other income or expense, net	67,372	27,171	(123)	19,464	54,975	(257,868)	(89,009)	
Segment profit before distribution of income								
(expense) for treasury funds	521,970	593,964	(306,487)	23,785	160,521	553,270	1,547,023	
Distribution of income (expense) for treasury funds <sup>(1)</sup>	(140,439)	(227,935)	532,594			(164,220)		
Segment profit	Ps 381,531	Ps 366,029	Ps 226,107	Ps 23,785	Ps 160,521	Ps 389,050	Ps 1,547,023	

Segment assets Ps 20,533,592 Ps 20,968,208 Ps 3,285,957 Ps 7,508,606 Ps 7,131,928 Ps 10,674,799 Ps 70,103,090

- (1) These costs are calculated based on the funds that segments use or provide. Those do not have an impact in the final result.
- (2) The methodology used for segment disclosure was changed for purposes of comparability. The segments Retail and Small Business Banking were combined in a single segment. The segments Corporate Banking and Governmental Banking were also combined in a single segment.
- (3) The segment disclosure was modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to

the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)

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

	<b>2006</b>	<b>2007<sup>(4)</sup></b>	<b>2008</b>
<b>Revenues</b>			
Revenues for reportable segments <sup>(1)</sup>	Ps 4,755,032	Ps 7,091,177	Ps 9,265,533
Non-operating income <sup>(2)</sup>	(372,237)	(161,201)	(596,387)
Elimination of intersegment revenues	(159,103)	(492,986)	(256,380)
<b>Total revenues for reportable segments <sup>(3)</sup></b>	<b>Ps 4,223,692</b>	<b>Ps 6,436,990</b>	<b>Ps 8,412,766</b>
<b>Profit or Loss</b>			
Segment Profit	Ps 908,632	Ps 1,579,909	Ps 1,547,023
Elimination of inter-segment profits	(159,103)	(492,986)	(256,380)
<b>Net income</b>	<b>Ps 749,529</b>	<b>Ps 1,086,923</b>	<b>Ps 1,290,643</b>
<b>Assets</b>			
Segments Assets	Ps 38,256,030	Ps 59,162,809	Ps 70,103,090
Elimination of inter-segment assets	(3,767,334)	(7,011,160)	(8,320,011)
<b>Consolidated total</b>	<b>Ps 34,488,696</b>	<b>Ps 52,151,649</b>	<b>Ps 61,783,079</b>

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

(2)

Non-operating income represents other income classified as revenue for segment reporting purposes.

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

(4) The segment disclosure for the year ended 2007 was modified to reflect certain reclassifications made in commissions from banking services and other services, administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the

reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

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

<i>Geographic Information</i>	<i>As of December 31,</i>			
	<i>2007<sup>(2)</sup></i>	<i>2007<sup>(2)</sup></i>	<i>2008</i>	<i>2008</i>
	<i>Revenues</i>	<i>Long Term - Assets<sup>(1)</sup></i>	<i>Revenues</i>	<i>Long Term - Assets<sup>(1)</sup></i>
Colombia	Ps 5,540,069	Ps 1,202,108	Ps 7,558,997	Ps 1,718,190
Panama and Cayman Islands	515,749	10,242	260,282	10,476
Puerto Rico	51,765	164	39,191	238
Perú	357	6,706	8,319	22,453
El Salvador	774,026	143,658	759,587	148,422
USA	48,010	115	42,770	199
<b>Total</b>	<b>6,929,976</b>	<b>1,362,993</b>	<b>8,669,146</b>	<b>1,899,978</b>
Eliminations of intersegment operations	(492,986)	11	(256,380)	2,674
<b>Total, net</b>	<b>Ps 6,436,990</b>	<b>Ps 1,363,004</b>	<b>Ps 8,412,766</b>	<b>Ps 1,902,652</b>

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

(2) The segment disclosure for the year ended 2007 was modified to reflect certain reclassifications made in commissions from banking

services and other services, administrative and other expenses and other income that conform to the presentation of 2008 figures, in order to provide a better basis of comparison with respect to 2008 figures regarding the gains on the sale of mortgage loans. No such changes were made for 2006, as the reclassifications would not have a material impact on the figures for that period, and accordingly, would not be material for comparative purposes.

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## BANCOLOMBIA S.A. AND SUBSIDIARIES

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*(Stated in millions of Colombian pesos and thousands of U.S. dollars. Except for the Representative Market Rate)*

The segments reported embrace the following activities:

**Corporate and governmental Banking:** This segment provides commercial banking products and services to local and international companies, from both the public and private sectors with annual sales of more than Ps15,000 million. They lead their own respective markets, which makes them highly sophisticated in terms of processes, operations and projects. The Chief Operating Decision Maker defined Corporate and Governmental banking as operating segment.

**Retail and small business banking:** The Bank's Retail Banking segment provides a wide range of financial products and services to individuals and SMEs. (firms that are not part of the Corporate and governmental segment) in Colombia and El Salvador. Bancolombia's Personal and SME Banking Division attends a wide range of clients with different needs, goals and lifestyles. The Chief Operating Decision Maker defined Retail and Small business banking as operating segment.

**Treasury:** This segment is responsible for the management of the Bank's proprietary trading activities, liquidity, and distribution of products and services to its client base in Colombia. In addition, Bancolombia's Economic Research Department makes part of this division. Additional information on Bancolombia's treasury products can be found in section Item 4. Information on the Company B.5 Products and services .

**Offshore Commercial Banking:** This segment summarizes the operations of the following Bancolombia subsidiaries: Bancolombia Panama S.A., Bancolombia Cayman, Bancolombia Puerto Rico Internacional Inc. and Banco Agrícola (Panama) S.A. provide a complete line of offshore banking services to Colombian and Salvadorian customers, including loans to private sector companies, trade financing, lease financing, financing for industrial projects as well as a complete portfolio of cash management products, such as checking accounts, international collections and payments, and PC Banking. Through these Subsidiaries, the Bank also offers investment opportunities in U.S. Dollars, savings and checking accounts, time deposits, and investment funds to its high net worth clients and private banking customers.

**Leasing:** This segment summarizes the operations of the following Bancolombia subsidiaries offer financial and operational leases: Leasing Bancolombia S.A., Renting Colombia S.A., Renting Perú S.A., Tempo Rent a Car, Capital Investment Safi S.A, Suleasing Internacional Inc, and Arrendadora Financiera S.A.

With our cross border or international leasing operations we provide financial leasing services from abroad offering very special features to our clients in Colombia as well as in Central America, Mexico and Brazil.

**All other segments:** This segment summarizes the following operations:

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

**Brokerage and Asset Management.** Valores Bancolombia, Suvalor Panama and Bursabac provide brokerage and asset management services. It provides its customers with domestic and international investment alternatives.

**Trust, Pension Fund and Insurance.** The Bank offers, through its subsidiaries Fiduciaria Bancolombia S.A., Fiduciara GBC S.A, funds designed to provide customers with the opportunity to diversify their investments.

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Through its branch network, Bancolombia and Banco Agrícola offer various insurance products (Bancassurance). On the other hand, Asesuisa and Asesuisa Vida offer insurance products for individuals and corporations, covering a wide range of risks and exposures in El Salvador.

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

In addition, the operations of the following subsidiaries are part of the other segment: Sistema de Inversiones y negocios S.A., Sinesa Holding Company Limited, Future Net, Inmobiliaria Bancolombia, Valores Simesa, Todo1 Colombia, Inversiones CFNS, Tempo LTDA, Inversiones IVL, Banagricola (The holding), Inversiones Financieras Bancoagricola S.A. and Transportes Empresariales de Occidente Ltda.

**y) Restatement of US GAAP Condensed Financial Information**

On June 29, 2009, the Bank filed an amendment on Form 20-F/A to its annual report on Form 20-F for the year ended December 31, 2007, filed with the SEC on July 8, 2008 to reflect the restatements described below. For the years ended 2006 and 2007, the Bank reviewed certain of its service agreements with vehicles used to securitize the Bank's performing loans and reconsidered the analysis under SFAS 140 and concluded that such vehicles did not meet the definition of a qualified special-purpose entity under SFAS 140. Consequently, the Bank restated the Supplemental Consolidated Condensed Balance Sheets, Supplemental Consolidated Condensed Statements of Operations and the Supplemental Consolidated Condensed Statements of Cash Flows in order to consolidate the vehicles in which the Bank is the primary beneficiary under FIN 46R Consolidation of Variable Interest Entities (Revised). In addition, the Bank restated the Supplemental Consolidated Condensed Statements of Cash Flows to correct errors related to (i) for the fiscal years ended on December 31, 2005, 2006 and 2007, the inappropriate classification of the changes in the loan portfolio as operating activities rather than investing activities, (ii) for the years ended December 31, 2005 and 2007, clerical errors in the elimination and reclassification of cash flows related to the different accounting treatment for business combinations under Colombian GAAP and U.S. GAAP, (iii) for the fiscal years ended on December 31, 2006 and 2007, the presentation of the effects of exchange rate changes on cash and cash equivalents. In addition, as noted above, the restatement relating to the treatment of vehicles used to securitize the Bank's performing loans also affected the Supplemental Consolidated Condensed Statements of Cash Flows for the years ended December 31, 2006 and 2007.

**z) Recent U.S. GAAP Pronouncements**

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets (an amendment of FAS 140) (SFAS 166). SFAS 166 amends the guidance on transfers of financial assets in order to address practice issues highlighted most recently by events related to the economic downturn. The amendments include: (1) eliminating the qualifying special-purpose entity concept, (2) a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, (3) clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale, (4) a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor, and (5) extensive new disclosures. Calendar year-end companies will have to apply SFAS 166 to new transfers of financial assets occurring from January 1, 2010. The Bank is currently analyzing the effect that SFAS No.166 will have on its U.S.GAAP disclosures and financial information.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 represents a significant change to the previous accounting rules. The standard include: (1) Eliminates the scope exception for qualifying special-purpose entities, (2) eliminates the quantitative model for determining which party should consolidate and replaces it with a qualitative model focusing on decision-making for an entity's significant economic activities, (3) requires a company to continually reassess whether it should consolidate an entity subject to FIN 46(R), (4) requires an assessment of whether an entity is subject

to the standard due to a troubled debt restructuring, and (5) requires extensive new disclosures. SFAS 167 is effective for the Bank's first reporting period beginning after November 15, 2009. The Bank is currently analyzing the effect that SFAS No.167 will have on its U.S.GAAP disclosures and financial information.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events (SFAS No.165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS 165 provides (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009 and shall be applied prospectively. The Bank is currently analyzing the effect that SFAS No.165 will have on its U.S.GAAP disclosures and financial information.

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In April 2009, the FASB issued FASB Staff Position (FSP) No. 141R-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies . FSP 141R-1 addresses application issues regarding initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Bank will apply FSP 141R-1 for acquisitions consummated on or after January 1, 2009.

In April 2009, the FASB issued FSP No. FAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ( FSP FAS 157-4 ). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for the financial statements for interim and annual periods ending after June 15, 2009. The Bank is currently analyzing the effect that FSP FAS 157-4 will have on its U.S.GAAP disclosures and financial information.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments ( FSP FAS 115-2 and FAS 124-2 ). FSP FAS 115-2 and FAS 124-2 amend the other-than-temporary impairment guidance for investments in debt securities to make the guidance more operational and also to improve the presentation and disclosure of other-than-temporary impairments on both debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 are effective for the Bank's financial statements for the year ending December 31, 2009. The Bank is currently analyzing the effect that FSP FAS 115-2 and FAS 124-2 will have on its U.S.GAAP disclosures and financial information.

In February 2009, the FASB issued SFAS No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 . This FSP amends SFAS 157 to exclude FASB Statement No. 13, Accounting for Leases ( SFAS 13 ), and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. This FSP is effective upon the initial adoption of SFAS 157. The adoption of SFAS 157-1 did not have a material impact on the consolidated statements of income and consolidated balance sheets.

In December 2008, the FASB issued FSP No. FAS 132(R)-1 Employers' Disclosures about Postretirement Benefit Plan Assets ( FSP FAS 132(R)-1 ). FSP FAS 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 is effective for the financial statements for the year ending December 15, 2009. Management is currently evaluating the impact the FSP FAS 132(R)-1 would have on the Bank's financial statement and U.S.GAAP disclosures.

In December 2008, the FASB issued FSP No. SFAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities ( FSP SFAS 140-4 and FIN 46(R)-8 ). FSP SFAS 140-4 and FIN 46(R)-8 amends Statement of Financial Accounting Standards (SFAS) No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125 (SFAS 140) to require public entities to provide additional disclosures about transferors continuing involvements with transferred financial assets. It also amends FASB Interpretation (FIN) No. 46 (revised December 2003) Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46R) to require public enterprises, including sponsors that have a variable interest in a VIE, to provide additional disclosures about their involvement with VIEs. The expanded disclosure requirements for FSP FAS 140-4 and FIN 46(R)-8 are effective for the Bank's financial statements for the year ending December 31, 2008. The adoption of FSP FAS 140-4 and FIN 46(R)-8 did not impact the Bank's financial condition and results of operations.



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In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ( FSP 157-3 ). FSP 157-3 clarifies how SFAS No. 157 *Fair Value Measurements* ( SFAS 157 ) should be applied when valuing securities in markets that are not active. The results of adoption of FSP 157-3, effective September 30, 2008, were included in Note 31 (t) *Estimated Fair Value of Financial Instruments*.

In September 2008, the FASB issued FSP No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* ( FSP 133-1 ). FSP 133-1 requires expanded disclosures about credit derivatives and guarantees. The expanded disclosure requirements for FSP 133-1 were effective for the Bank's financial statements for the year ending December 31, 2008 and are included in Note 31 (i) *Investment securities and derivatives* and in Note 31 (r) *Guarantees*. The adoption of FSP 133-1 did not impact the Bank's financial condition and results of operations.

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

In April 2008, the FASB issued FSP No. SFAS 142-3, *Determination of the Useful Life of Intangible Assets*. ( FSP SFAS 142-3 ) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), *Business Combinations*. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years; early adoption is prohibited. The Bank is currently analyzing the effect that FSP SFAS 142-3 will have on its U.S.GAAP disclosures and financial information, for acquisitions consummated on or after January 1, 2009.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS 161 ) which requires expanded qualitative, quantitative and credit-risk disclosures about derivatives and hedging activities and their effects on the Bank's financial position, financial performance and cash flows. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Bank is currently analyzing the effect that SFAS 161 will have on its U.S.GAAP disclosures and financial information.

In February 2008, the FASB issued FSP No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ( FSP 140-3 ). FSP 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. FSP 140-3 is effective financial statements issued for fiscal years beginning after November 15, 2008 (for the Bank's financial statements for the year beginning on January 1, 2009). The Bank is currently analyzing the effect that FSP No. FAS 140-3 will have on its U.S.GAAP disclosures and financial information.

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In December 2007, the FASB issued Statement No. 141 R ( SFAS 141 R ) Business Combination Revised 2007. SFAS 141 R replaces FASB Statement No. 141, Business Combinations. SFAS 141 R retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. It requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. SFAS 141 R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with this Statement). This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Bank is currently analyzing the effect that SFAS 141 R will have on its U.S.GAAP disclosures and financial information.

In December 2007, the FASB issued Statement No. 160 ( SFAS 160 ) Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51, which amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement also changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. SFAS 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation and treats all of those transactions as equity transactions if the parent retains its controlling financial interest in the subsidiary. A parent recognizes a gain or loss in net income when a subsidiary is deconsolidated. A parent deconsolidates a subsidiary as of the date the parent ceases to have a controlling financial interest in the subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends) and earlier adoption is prohibited. The Bank is currently analyzing the effect that SFAS 160 will have on the Bank's U.S.GAAP disclosures and financial information.

In November 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 109 Written loan commitments recorded at fair value through earnings ( SAB 109 ). SAB 109 clarifies that consistent with the guidance in SFAS 156 Accounting for Servicing of Financial Assets and SFAS 159 The Fair Value Option for Financial Assets and Liabilities, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that accounted for at fair value through earnings. SAB 109 is effective from January 1, 2008. The adoption of SAB 109 did not impact the Bank's financial condition and results of operations.

In February 2007, the FASB issued Statement No. 159 ( SFAS 159 ) The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 creates a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract-by-contract basis, with changes in fair value recognized in earnings as these changes occur. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Bank did not elect to measure eligible items at fair value under SFAS 159 and therefore it did not impact the Bank's financial condition and results of operations.

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***Recent Colombian GAAP Pronouncements:***

On June 03, 2009, at its last session, bill 203/2008 (initially bill 165/2007, approved by the same commission but in the House of Representative of Colombian Congress) was duly approved, by means of which the accounting, reporting and information assurance principles and standards that are generally accepted in Colombia were regulated, indicating the competent authorities, the procedure by which said principles and standards are to be issued and determining the corresponding oversight authorities. This bill, which is about to be passed, brings the currently generally accepted accounting principles in Colombia in line with International Financial Reporting Standards.

In June 2008, the Colombian Superintendency of Finance published External Circular No. 025 titled Subrogation of instructions regarding derivatives and structured products as contained in Chapter 18 of the Basic Accounting and Financial Circular as well as the issuance of the transition regime applying to said instruments and products , for the purpose of adjusting its rules and regulations as well as issuing instructions as a result of the integral reform made to the rules and regulations governing operations carried out with derivatives and structured products, as promulgated by the National Government by means of Decrees 1796, 1797 and 1121 of 2008. That contained in the External Circular No. 025 is used on a prospective basis for purpose of appraising the value of derivatives and structured products occurring or traded as of July 23, 2008 and all the other rules and regulations therein contained that shall come into full force and effect as of July 1, 2008. The stipulations contained in External Circular 025 affect the appraisal of derivatives and structured products on the Bank's financial statements for the year ending December 31, 2008, and are included in Note 31 (t) Estimated Fair Value of Financial Instruments.



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**EXHIBIT INDEX**

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

- 1.<sup>(1)</sup> English Translation of Corporate by-laws (estatutos sociales) of the registrant, as amended on March 01, 2007.
- 2.<sup>(3)</sup> The Deposit Agreement entered into between Bancolombia and The Bank of New York, as amended on January 14, 2008.
- 4.1. English Summary of the Stock Purchase Agreement entered into between Bancolombia S.A., the other shareholders named therein and Stratton Span S.L. on June 6, 2008.
- 7 Selected Ratios Calculation.
- 8.1 List of Subsidiaries.
- 11<sup>(2)</sup> English translation of the Ethics Code of the registrant, as amended on June 23, 2008.
- 12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.
- 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.
- 13.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.
- 13.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.
- 15.(a)<sup>(2)</sup> English Translation of Corporate Governance Code (Código the Buen Gobierno) of the registrant, as amended on June 23, 2008.

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

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

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