

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

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

Yes 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input 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 the laws of the Republic of Colombia, which may also act under the name of Banco de Colombia S.A., including its Subsidiaries on a consolidated basis, unless otherwise indicated or the context otherwise requires.

References to Bancolombia 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. 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.

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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>					
	2004	2005⁽⁹⁾	2006	2007⁽¹⁰⁾ (12)	2008	2008⁽¹⁾
	<i>(In millions of Ps and thousands of US\$⁽¹⁾, except per share and per American Depositary Share⁽¹⁾ (ADS) amounts)</i>					
UNCONSOLIDATED STATEMENT						
OPERATIONS:						
Colombian GAAP:						
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)
Interest income	1,217,365	2,049,810	1,767,503	2,808,318	3,560,402	1,586,900
Provisions for loans and accrued interest losses, net of recoveries ⁽²⁾	(61,423)	(123,575)	(195,361)	(617,868)	(1,155,262)	(514,900)
Provision for foreclosed assets and other assets, net of recoveries ⁽³⁾	(5,201)	(7,465)	45,179	20,833	22,095	9,800
Interest income after provisions	1,150,741	1,918,770	1,617,321	2,211,283	2,427,235	1,081,800
Income from services and other operating income, net ⁽⁴⁾	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)
Operating income	812,773	1,226,242	885,415	1,449,994	1,751,322	780,600
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)
Income before income taxes	817,488	1,224,396	924,409	1,448,806	1,764,699	786,600
Income taxes	(238,810)	(277,515)	(174,880)	(361,883)	(474,056)	(211,200)
Income	Ps 578,678	Ps 946,881	Ps 749,529	Ps 1,086,923	Ps 1,290,643	US\$ 575,400
Weighted average of Preferred and Common Shares outstanding ⁽⁵⁾	576,695,395	652,882,756	727,827,005	758,313,771	787,827,003	
Basic and Diluted net income per share ⁽⁵⁾ (13)	1,003	1,450	1,030	1,433	1,638	0
Basic and Diluted net income per share ⁽¹¹⁾ (13)	4,012	5,800	4,119	5,732	6,552	2
Dividends declared per share ⁽⁶⁾	376	508	532	568	624	

Dividends declared per share ⁽⁶⁾ (in US Dollars)		0.16	0.22	0.24	0.28	0.28						
Dividends declared per ADS ⁽¹¹⁾		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						
GAAP:⁽⁷⁾												
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 ⁽⁸⁾		1,445		1,715		1,619		1,683		1,326		0
Basic and Diluted net income per Share ^{(8) (11)}		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⁽³⁾</i>	<i>2006</i>	<i>2007⁽⁴⁾</i>	<i>2008</i>	<i>2008⁽¹⁾</i>
	<i>(In millions of Ps and thousands of US\$⁽¹⁾, except per share and per American Depositary Share (ADS) amounts)</i>					
CONSOLIDATED BALANCE SHEET						
Colombian GAAP:						
Assets:						
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
Total assets	Ps 17,479,129	Ps 30,803,517	Ps 34,488,696	Ps 52,151,649	Ps 61,783,079	US\$ 27,537,59
Liabilities and shareholders equity:						
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 ⁽⁵⁾	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
Total liabilities and shareholders equity	Ps 17,479,129	Ps 30,803,517	Ps 34,488,696	Ps 52,151,649	Ps 61,783,079	US\$ 27,537,59
U.S. GAAP⁽²⁾:						
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 ⁽⁶⁾	3,932	6,320	6,250	7,830	8,153	3.6
Shareholders equity per ADS ⁽⁵⁾	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 ⁽¹⁰⁾ 2006 2007 ⁽¹¹⁾⁽¹²⁾			2008
	<i>(Percentages, except for operating data)</i>				
SELECTED RATIOS: (1)					
Colombian GAAP:					
Profitability ratios:					
Net interest margin ⁽²⁾	8.75	8.12	6.19	7.60	7.70
Return on average total assets ⁽³⁾	3.62	3.30	2.31	2.52	2.34
Return on average shareholders equity ⁽⁴⁾	32.14	31.49	22.10	26.13	23.68
Efficiency Ratio:					
Operating expenses as a percentage of interest, fees, services and other operating income	50.92	54.94	64.37	52.60	47.79
Capital ratios:					
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 ⁽⁵⁾	13.44	10.93	11.05	12.67	11.24
Credit quality data:					
Non-performing loans as a percentage of total loans ⁽⁶⁾	0.88	1.48	1.36	1.77	2.35
C , D and E loans as a percentage of total loans ⁽⁹⁾	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
OPERATING DATA:					
Number of branches ⁽⁷⁾	377	678	701	888	892
Number of employees ⁽⁸⁾	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 ⁽¹⁾	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.

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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, fluctuat