

BANCOLOMBIA SA
Form 20-F
April 28, 2015

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON April 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 20-F

(Mark One)

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number: 001 - 32535

BANCOLOMBIA S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Republic of Colombia

(Jurisdiction of incorporation or organization)

Carrera 48 # 26-85, Avenida Los Industriales

Medellín, Colombia

(Address of principal executive offices)

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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.

<u>Title of each Class</u>	<u>Name of each exchange on which registered</u>
<i>American Depositary Shares</i>	New York Stock Exchange
<i>Preferred Shares</i>	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 four preferred shares.

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

Not applicable

(Title of Class)

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

Not applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the

period covered by the annual report.

Common Shares **509,704,584**
Preferred Shares **452,122,416**

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

Yes 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 or 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

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

Large accelerated filer Accelerated filer Non-accelerated filer

(Do not check if a smaller reporting company)

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

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

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

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

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

Yes No

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CERTAIN DEFINED TERMS

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

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

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

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

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

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

References to “Bancolombia”, the “Bank”, “us”, “we” or “our” refer to Bancolombia S.A., a banking institution organized 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 banking services to non-Panamanian customers.

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

References to “Central Bank” refer to the Central Bank of Colombia. (*Banco de la República*).

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

References to “Colombian GAAP” refer to generally accepted accounting principles in Colombia.

References to “Colombian banking GAAP” refer to Colombian GAAP as supplemented by the applicable regulations of the SFC.

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

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

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

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

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

References to “Factoring Bancolombia” refer to Factoring Bancolombia S.A. Compañía de Financiamiento, a Subsidiary of Bancolombia organized under the laws of Colombia specialized in accounts receivable financing that was liquidated on December 23, 2014 after the assignment to, and assumption by Bancolombia, of all its assets, liabilities and commercial agreements.

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

References to “Grupo Agromercantil” refer to Grupo Agromercantil Holding S.A., a company organized under the laws of the Republic of Panama, of which Bancolombia has 40% of its voting shares, and is the parent company of Banco Agromercantil of Guatemala, and its subsidiaries.

References to “IRS” refer to U.S. Internal Revenue Service.

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

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

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

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

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

References to “Representative Market Rate” refer to *Tasa Representativa del Mercado*, the U.S. dollar representative market rate, certified by the SFC. The Representative Market Rate is an economic indicator of the daily exchange rate on the Colombian market spot of currencies. It corresponds to the arithmetical weighted average of the rates for the purchase and sale of currencies by certain financial institutions (including Bancolombia) authorized to engage in foreign exchange transactions in Colombia.

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

References to “SMEs” refer to Small and Medium Enterprises

References to “SMMLV” refer to *Salario Mínimo Mensual Legal Vigente*.

The effective legal minimum monthly salary in Colombia. In 2014, the effective legal minimum monthly salary in Colombia was COP 616,000.

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

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

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

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

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

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

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

Our fiscal year ends on december 31, and references in this annual report to any specific fiscal year are to the twelve-month period ended december 31 of such year.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

The audited Consolidated Financial Statements (the “Consolidated Financial Statements”) are prepared following the accounting practices and the special regulations of the SFC, or, in the absence of such regulations, Colombian banking GAAP. Together, these requirements differ in certain significant respects from generally accepted accounting principles in the United States (“U.S. GAAP”). Note 31 to the Consolidated Financial Statements included in this Annual Report provides a description of the principal differences between Colombian banking GAAP and U.S. GAAP as they relate to the Consolidated Financial Statements and provides a reconciliation of consolidated net income and consolidated stockholders’ equity for the years and dates indicated herein.

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

For 2014, the Consolidated Financial Statements include entities in which it holds, directly or indirectly, a majority of the outstanding voting rights. The Bank consolidates directly Leasing Bancolombia, Fiduciaria Bancolombia, Banca de Inversión, Tuya S.A. Compañía de Financiamiento, Bancolombia Puerto Rico Internacional Inc., Bancolombia Panama, Valores Bancolombia Comisionista de Bolsa, FCP Fondo Colombia Inmobiliario S.A., Patrimonio Autónomo Cartera LBC and Banistmo S.A.. Some of the Bank’s Subsidiaries also consolidate their own subsidiaries. Bancolombia Panama consolidates Bancolombia Cayman S.A., Sistema de Inversiones y Negocios S.A. Sinesa, Suleasing International USA, Inc. and Banagrícola (which, in turn, consolidates Inversiones Financieras Banco Agrícola S.A. IFBA, Banco Agrícola, Arrendadora Financiera S.A. Arfinsa, Credibac S.A. de C.V., Valores Banagrícola S.A. de C.V., Banagrícola Guatemala S.A., and Bagrícola Costa Rica S.A.). Banca de Inversión consolidates BIBA Inmobiliaria S.A.S., Valores Simesa S.A., Inversiones CFNS S.A.S. (which, in turn, consolidates CFNS Infraestructura S.A.S. (currently under winding up process), Vivayco S.A.S. and Uff Móvil S.A.S.). Leasing Bancolombia consolidates Leasing Perú S.A., Renting Colombia (which, in turn, consolidates Arrendamiento Operativo CIB S.A.C., Fondo de Inversión en Arrendamiento Operativo, Renting Perú, Capital Investments SAFI S.A., and Transportempo S.A.S.). Valores Bancolombia consolidates Valores Bancolombia Panama S.A. and Suvalor Panama Fondo de Inversión S.A. Fiduciaria Bancolombia consolidates FiduPerú S.A. Sociedad Fiduciaria and Banistmo consolidates Banistmo Investment Corporation S.A., Financiera Flash S.A., Grupo Financomer S.A., Financomer S.A., Leasing Banistmo S.A., Seguros Banistmo S.A., Securities Banistmo S.A., Banistmo Capital Markets Group Inc., Banistmo Asset Management Inc., Anavi Investment Corporation S.A., Williamsburg International Corp., Van Dyke Overseas Corp., M.R.C. Investment Corp., Inmobiliaria Bickford S.A., Desarrollo del Oriente S.A., Bien Raices Armuelles S.A. , Steens Enterprises S.A. and Ordway Holdings S.A. See “Item 4. Information on the Company – C. Selected Organizational Structure” for an organizational chart depicting Bancolombia and its subsidiaries.

Currencies

The Bank maintains accounting records in pesos. The Consolidated Financial Statements as of December 31, 2014, and 2013 and for the three years ended December 31, 2014 (collectively, including the notes thereto, the “Financial Statements”) contained in this Annual Report are expressed in millions of pesos.

This Annual Report translates certain Colombian pesos amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such peso amounts have been translated at the rate of COP 2,392.46 per USD 1.00, which corresponds to the Representative Market Rate calculated on December 31, 2014 the last business day of the year. The SFC also calculates and certifies the average Representative Market Rate for each month for purposes of preparing financial statements and converting amounts in foreign currency to pesos. Such conversion should not be construed as a representation that the peso amounts correspond to, or have been or could be converted into, U.S. dollars at that rate or any other rate. On April 24, 2015, the Representative Market Rate was COP 2,461.17 per USD 1.00.

Rounding Comparability of Data

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

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

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, 2014 and 2013, and for each of the three fiscal years in the period ended December 31, 2014 set forth below has been derived from the Consolidated Financial Statements included in this Annual Report. The selected consolidated financial data as of December 31, 2012, 2011 and 2010, and for each of the two fiscal years in the period ended December 31, 2011 set forth below have been derived from the Consolidated Financial Statements for the respective periods, which are not included herein.

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

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

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

Consolidated net income attributable to the controlling interest under U.S. GAAP for the year ended December 31, 2014 was COP 1,587,527 million (compared with COP 1,415,635 million for fiscal year 2013 and COP 1,633,563 million for fiscal year 2012). A reconciliation of consolidated net income and consolidated stockholders' equity under U.S. GAAP is included in "Note 31. Differences between Colombian Accounting Principles for Banks and U.S. GAAP" to the Consolidated Financial Statements included in this Annual Report.

*As of and for the year ended December 31,
2014⁽¹⁾ 2014 2013 2012 2011*
(in millions of COP and thousands of USD ⁽¹⁾, except per share and per American Depositary Share (“ADS”))

**CONSOLIDATED
STATEMENT OF
OPERATIONS:
Colombian
banking GAAP:**

Interest income	USD 3,906,276	COP 9,345,608	COP 8,130,684	COP 7,661,883	COP 5,945,594
Interest expense	(1,354,584)	(3,240,787)	(3,122,126)	(2,894,860)	(2,042,006)
Net interest income	2,551,692	6,104,821	5,008,558	4,767,023	3,903,588
Provisions for loans, finance leases and accrued interest losses, net of recoveries ⁽²⁾	(574,194)	(1,373,736)	(1,162,679)	(1,072,520)	(596,417)
Provision for foreclosed assets and other assets, net of recoveries	(13,091)	(31,318)	(67,921)	(38,353)	(2,288)
Net interest income after provisions	1,964,407	4,699,767	3,777,958	3,656,150	3,304,883
Fees and income from services and other operating income, net	1,416,638	3,389,250	2,756,481	2,640,137	2,359,821
Operating expenses	(2,324,994)	(5,562,453)	(4,639,280)	(4,162,382)	(3,606,348)
Net operating income	1,056,051	2,526,564	1,895,159	2,133,905	2,058,356
Net non-operating (expenses) income excluding minority interest	(24,617)	(58,896)	54,427	40,938	87,406
Minority interest (loss)	54	128	(17,364)	(5,723)	(11,351)
Income before income taxes	1,031,488	2,467,796	1,932,222	2,169,120	2,134,411
Income taxes	(246,221)	(589,075)	(417,095)	(467,074)	(470,517)
Net income	USD 785,267	COP 1,878,721	COP 1,515,127	COP 1,702,046	COP 1,663,894
		941,936,589	851,827,000	845,531,918	787,827,003

Weighted average of Preferred and Common Shares outstanding ⁽³⁾					
Basic and Diluted net income per share ⁽³⁾	0.83	COP 1,995	COP 1,779	COP 2,013	COP 2,112
Basic and Diluted net income per ADS	3.34	7,980	7,116	8,052	8,448
Cash dividends declared per share		830	776	754	708
Cash dividends declared per share (stated in U.S. dollars)		0.35	0.40	0.43	0.36
Cash dividends declared per ADS		3,320	3,104	3,016	2,832
Cash dividends declared per ADS (stated in U.S. dollars)		1.39	1.61	1.71	1.46
U.S. GAAP:⁽⁴⁾					
Net income attributable to the controlling interest	USD 663,554	COP 1,587,527	⁽⁶⁾ COP 1,415,635	⁽⁶⁾ COP 1,633,563	⁽⁶⁾ COP 1,043,636 ⁽⁶⁾
Basic and Diluted net income per common share ⁽⁵⁾	0.70	1,685	1,662	1,932	1,325
Basic and Diluted net income per ADS ^{(5) (6)}	2.82	6,740	6,648	7,728	5,300

Amounts stated in U.S. dollars have been converted at the rate of COP 2,392.46 per USD 1.00, which is the Representative Market Rate calculated on December 31, 2014 (the last business day of 2014), as reported by the SFC. Such translation should not be construed as representations that the Colombian pesos amount represent, or have been or could be converted into, United States dollars at that or any other rate.

Represents the provision for loans, accrued interest losses and other receivables, net and recovery of charged-off loans. Includes a provision for accrued interest losses amounting to COP 53,469 million, COP 51,774 million, COP 48,085 million, COP 31,852 million and COP 33,540 million for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 respectively.

The weighted average of preferred and common shares outstanding for the fiscal year ended December 31, 2014 reflects 432,232,005 preferred shares and 509,704,584 common shares, for the fiscal year ended December 31, 2013 reflects 342,122,416 preferred shares and 509,704,584 common shares, for the fiscal year ended December 31, 2012 reflects 335,827,334 preferred shares and 509,704,584 common shares, and for the fiscal years ended December 31, 2011 and 2010 reflects 278,122,419 preferred shares and 509,704,584 common shares.

Refer to “Note 31. Differences between Colombian Accounting Principles for Banks and U.S. GAAP” of the Consolidated Financial Statements included in this Annual Report.

Net income per share under U.S. GAAP is presented on the basis of net income available to common stockholders divided by the weighted average number of common shares outstanding (509,704,584 for 2014, 2013, 2012, 2011 and 2010). See “Note 31. Differences Between Colombian Accounting Principles for Banks and U.S. GAAP”.

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

CONSOLIDATED BALANCE SHEET

	<i>As of the year ended December 31,</i>					
	<i>2014⁽¹⁾</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in millions of COP and thousands of USD ⁽¹⁾, except per share and per American Depositary Share (“ADS”))</i>					
CONSOLIDATED BALANCE SHEET						
Colombian banking GAAP:						
Assets:						
Cash and due from banks	USD 4,678,375	COP 11,192,825	COP 11,427,441	COP 7,144,015	COP 6,818,307	COP 940,164
	940,164	2,249,304	3,981,205	1,025,082	910,690	

Funds sold and securities purchased under agreements to resell

Investment securities, net	5,717,045	13,677,801	13,805,790	12,554,311	9,958,191	
Loans and financial leases, net	42,969,736	102,803,374	85,394,012	66,739,040	58,575,846	
Accrued interest receivable on loans and financial leases, net	278,538	666,390	560,572	524,041	439,189	
Customers' acceptances and derivatives	653,272	1,562,928	602,409	783,014	741,296	
Accounts receivable, net	712,977	1,705,770	1,537,218	1,243,263	1,016,985	
Premises and equipment, net	1,019,365	2,438,790	2,191,677	1,341,698	1,622,311	
Premises and equipment under operating leases, net	1,467,654	3,511,304	2,919,181	2,191,928	1,380,057	
Foreclosed assets, net	37,405	89,491	103,565	84,818	53,194	
Prepaid expenses and deferred charges, net	228,466	546,596	690,932	772,930	785,456	
Goodwill, net	1,659,668	3,970,690	3,589,203	571,373	679,861	
Other assets	1,128,022	2,698,747	2,590,110	2,088,947	1,697,648	
Reappraisal of assets	673,303	1,610,851	1,422,926	851,920	783,989	
Total assets	USD 62,163,990	COP 148,724,861	COP 130,816,241	COP 97,916,380	COP 85,463,020	COP

Liabilities and stockholders' equity:

Deposits	COP 39,849,035	COP 95,337,222	COP 86,556,579	COP 64,158,720	COP 52,434,492	COP
Borrowings ⁽³⁾	5,787,576	13,846,543	12,508,092	5,271,508	7,458,926	
Other liabilities	9,498,064	22,723,742	19,258,724	16,879,197	16,576,242	
Stockholders' equity	7,029,315	16,817,354	12,492,846	11,606,955	8,993,360	
Total liabilities and stockholders' equity	USD 62,163,990	COP 148,724,861	COP 130,816,241	COP 97,916,380	COP 85,463,020	COP

U.S. GAAP: ⁽²⁾

Stockholders' equity attributable to the controlling interest	USD 6,927,811	COP 16,574,510 ⁽²⁾	COP 12,146,554 ⁽²⁾	COP 11,145,490 ⁽²⁾	COP 8,589,202	COP
Stockholders' equity per share ⁽⁴⁾	7,355	17,596	14,259	13,182	10,902	
	29,419	70,384	57,036	52,728	43,608	

Stockholders' equity
per ADS⁽⁴⁾

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Amounts stated in U.S. dollars have been converted at the rate of COP 2,392.46 per USD 1.00, which is the Representative Market Rate calculated on December 31, 2014 (the last business day of 2014), as reported by the SFC. Such translation should not be construed as representations that the Colombian pesos amount represent, or have been or could be converted into, United States dollars at that or any other rate.

Refer to “Note 31, Differences between Colombian Accounting Principles for Banks and U.S. GAAP” to the Consolidated Financial Statements included in this Annual Report.

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

The weighted average (rounded to the nearest million) of preferred and common shares outstanding was 942 million for the fiscal year ended December 31 2014, 852 million for the fiscal year ended December 31 2013 and 845 million for the fiscal year ended December 31, 2012, 788 million for 2011 and 2010. Stockholders’ equity per share is equal to stockholders’ equity under U.S. GAAP divided by the weighted average of preferred and common shares outstanding, stockholders’ equity per ADS is equal to stockholders’ equity per share multiplied by four preferred shares of Bancolombia (Each ADS is equivalent to four preferred shares of Bancolombia). Stockholders’ equity per share and stockholders’ equity per ADS should not be considered in isolation, or as a substitute for net income, as a measure of operating performance or as a substitute for cash flows from operations or as a measure of liquidity. The non-GAAP financial measures described in this footnote are not a substitute for the GAAP measures of financial performance and should not be considered as an alternate measure of stockholders’ equity as determined on a consolidated basis using amounts derived from the consolidated balance sheet prepared in accordance with Colombian banking GAAP.

See “Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – A.3. Dividend Policy”, for information about the dividends declared per share in both pesos and U.S. dollars during the fiscal years ended December 31, 2014, 2013, 2012, 2011 and 2010.

SELECTED RATIOS

	As of and for the year ended December 31,				
	2014	2013	2012	2011	2010
	(Percentages, except for operating data)				
SELECTED RATIOS:⁽¹⁾					
Colombian banking GAAP:					
Profitability ratios:					
Net interest margin ⁽²⁾	5.66	5.48	6.49	6.17	6.38
Return on average total assets ⁽³⁾	1.40	1.37	1.92	2.20	2.27
Return on average stockholders’ equity ⁽⁴⁾	12.50	12.76	15.97	20.22	19.71
Efficiency Ratio:	58.59	59.75	56.19	57.58	56.28

Operating expenses as a percentage of interest, fees, services and other operating income

Capital ratios:

Period-end stockholders' equity as a percentage of period-end total assets	11.31	9.55	11.85	10.52	11.67
Period-end regulatory capital as a percentage of period-end risk-weighted assets ⁽⁵⁾	13.29	10.61	15.77	12.46	14.67
Credit quality data:					
Non-performing loans as a percentage of total loans ⁽⁶⁾	1.86	1.82	1.76	1.52	1.91
"C", "D" and "E" loans as a percentage of total loans	3.97	4.11	3.96	3.82	4.32
Allowance for loan and accrued interest losses as a percentage of non-performing loans	240.57	253.33	268.96	306.94	274.36
Allowance for loan and accrued interest losses as a percentage of "C", "D" and "E" loans	112.73	112.27	119.30	121.69	121.45
Allowance for loan and accrued interest losses as a percentage of total loans	4.48	4.62	4.72	4.65	5.24

OPERATING DATA:

Number of branches ⁽⁸⁾	1,072	1,093	995	954	921
Number of employees ⁽⁹⁾	30,158	28,759	24,820	24,126	22,992

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

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

(3) Net income divided by average total assets.

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

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

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

As of the fiscal year ended December 31, 2013, the decrease in this coverage ratio is explained by the formation of past due loan (“PDLs”) during the year, which was faster than the pace of increase in allowances in the balance sheet.
 (7) During the fiscal year ended December 31, 2014, this coverage ratio remained stable. See “Item 4. Information on the Company – E. Selected Statistical Information – E.3. Loan Portfolio – Classification of the loan portfolio and Credit Categories for a description of “C”, “D” and “E” Loans”.

(8) Number of branches includes branches of the Bank’s Subsidiaries. For some subsidiaries, the central office is considered a branch. Representative offices are included.

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

Exchange Rates

On March 31, 2015, the Representative Market Rate was COP 2,598.36 per USD 1.00. The Federal Reserve Bank of New York does not report a rate for pesos; the SFC calculates the Representative Market Rate based on the weighted average of the buy/sell foreign exchange rates quoted daily by certain financial institutions, including Bancolombia, for the purchase and sale of U.S. dollars.

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

Recent exchange rates of pesos per U.S. dollars			
Month	Low	High	Period-End
March 2015	2,522.03	2,677.97	2,598.36
February 2015	2,371.31	2,500.59	2,496.99
January 2015	2,361.54	2,452.11	2,441.10
December 2014	2,252.36	2,446.35	2,392.46
November 2014	2,076.99	2,206.19	2,206.19
October 2014	2,021.49	2,074.40	2,061.92

Source: SFC.

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

Peso/USD 1.00

Representative Market Rate		
Period	Period-End	Average
2014	2,392.46	2,019.38
2013	1,926.83	1,881.04
2012	1,768.23	1,798.08
2011	1,942.70	1,852.83
2010	1,913.98	1,901.67

Source: SFC.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D.

RISK FACTORS

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

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

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

The Bank's financial condition, results of operations and asset quality are significantly dependent on the macroeconomic and political conditions prevailing in Colombia, El Salvador, Panama and the other jurisdictions in which the Bank operates. Accordingly, decreases in the growth rate, periods of negative growth, increases in inflation, changes in policy, or future judicial interpretations of policies involving exchange controls and other matters such as among others, currency depreciation, inflation, interest rates, taxation, banking laws and regulations and other political or economic developments in such jurisdictions may affect the overall business environment and may in turn impact the Bank's financial condition and results of operations.

In particular, the governments of Colombia and El Salvador have historically exercised substantial influence on their economies, and they are likely to continue to implement policies that will have an important impact on the entities in such countries (including the Bank), market conditions, prices and rates of return on securities of local issuers (including the Bank's securities). Potential changes in laws, public policies and regulations, may cause instability and volatility in Colombia and El Salvador, and their respective markets. Future developments in government policies could impair the Bank's business or financial condition or the market value of its securities.

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

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

Deterioration in the economic and political situation of neighboring countries could affect the national stability or economy of Colombia, Panama or El Salvador by disrupting their diplomatic or commercial relationships with neighboring countries. Any future tensions may cause political and economic uncertainty, instability, market volatility, low confidence levels and higher risk aversion by investors and market participants that may negatively affect economic activity in Colombia, El Salvador and Panama.

A contagion effect, in which an entire region or class of investment is disfavored by international investors, could negatively affect Colombia, El Salvador and Panama or other economies in which the Bank operates, as well as the market prices and liquidity of securities issued or owned by the Bank.

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

Uncertainty relating to tax legislation poses a constant risk to the Bank. Changes in legislation, regulation and jurisprudence can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting stated expenses and deductions, and eliminating incentives and non-taxed income. Notably, the Colombian and Salvadorian governments have significant fiscal deficits that may result in future tax increases. Additional tax regulations, like the tax reform measures discussed under “Item 10. Additional Information – E. Taxation”, could be implemented requiring the Bank to make additional tax payments, negatively affecting its results of operations and cash flow. In addition, national or local taxing authorities may not interpret tax regulations in the same way that the Bank does. Differing interpretations could result in future tax litigation and associated costs.

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

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

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

Colombia has experienced 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 recently has started the process of negotiating a peace treaty with the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia* or “FARC”). Despite these efforts, drug-related crime and guerilla activity continue to exist in Colombia. These activities, their possible escalation and the violence associated with them may have a negative impact on the Colombian economy or on the Bank in the future. The Bank’s business or financial condition and the market value of the Bank’s securities and any dividends distributed by it, could be adversely affected by rapidly changing economic and social conditions in Colombia and by the Colombian government’s response to such conditions.

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

Changes in banking laws and regulations in Colombia and in other jurisdictions in which 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 in which 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.

In August 2013 the regulation relating to capital adequacy requirements (Decree 1771 of 2012) was implemented and Bancolombia currently complies with applicable capital requirements. However, there can be no assurance that future regulation will not change or require Bancolombia or its Subsidiaries to seek additional capital.

Moreover, regulators in other jurisdictions have not reached consensus as to the appropriate level of capitalization for financial services institutions. Regulators in the jurisdictions in which Bancolombia operates may alter the current regulatory capital requirements to which Bancolombia is subject and thereby require equity increases that could dilute existing stockholders, lead to required asset sales or adversely impact the return on stockholders' equity and/or the market price of the Bank's common and preferred shares.

Furthermore, in 2014 Congress enacted Law 1735 of 2014, known as the financial inclusion law. This law creates a new category of financial entities named Specialized Entities in Electronic Deposits and Payments (Sociedades Especializadas en Depósitos y Pagos Electrónicos or “SEDPEs”). These new entities are authorized to receive deposits through electronic systems, but disbursements are not allowed. SEDPEs could be competitors to banks, particularly in the market of products offered for financial inclusion purposes (i.e. savings accounts with simplified procedures), and, therefore, the Bank’s results in this segment may be adversely affected.

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

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

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

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

and other jurisdictions in which the Bank operates could materially and adversely affect the Bank's business, financial condition, results of operations and reputation.

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

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

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

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

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

Furthermore, pursuant to article 62 of Law 1430 of 2010, Congress granted the Colombian government power and authority to establish and define criteria and formulas applicable to the calculation of banking fees and charges define maximum limits to banking fees and charges. On December 20, 2011, the government used the authority granted by Law 1430 of 2010 and enacted Decree 4809 of 2011 in which it set forth caps to the bank fees that may be charged on ATM withdrawals outside of each bank's respective networks.

Additionally, in past years, there have been regulatory initiatives regarding banking fees. Although the latest initiative was not approved by Congress, there could be future initiatives pursuing similar restrictions on banking fees. If a law regarding banking fees is enacted, the Bank could see its ability to charge for certain services or types of transactions to its clients, which could have an impact on its results.

In addition, Law 1555 of 2012 prohibits prepayment penalties for loans worth less than 880 SMMLV, other than in mortgage loans, in which prepayment is allowed with no penalties without regard to the amount of the loan.

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

Colombian tax haven regulation could adversely affect the Bank's business and financial results.

Decree 2193 of 2013 designates 44 jurisdictions as tax havens for Colombian tax purposes. It also temporarily excluded 7 countries (including Panama, where Bancolombia has an important client base) while the Colombian government negotiates tax information exchange agreements with each of them. As a result of the tax haven regulation, the Bank's clients who are residents in such jurisdictions would be subject to (i) higher withholding tax rates including a higher withholding rates over financial yields derived from investments in the Colombian securities market), (ii) the transfer pricing regime and its reporting duties, (iii) enhanced ability on the part of Colombian authorities to qualify a conduct as abusive under tax regulations, (iv) non-deductibility of payments made to residents or entities located in tax havens, unless the required tax amount has been withheld and (v) other additional information disclosure requirements, which could be a negative impact on Bancolombia's business and financial results.

Pursuant to such decree, in order to avoid being labeled as a tax haven, a jurisdiction has to enter into a tax information exchange agreement with the Colombian government. On October 21, 2014 Colombia and Panama signed a memorandum of understanding which establishes that both countries will negotiate a treaty for the avoidance of double taxation, so that Panama is not classified as a tax haven. This treaty is expected to include provisions regarding the exchange of information between Colombian and Panamanian tax authorities. The deadline for execution of the treaty is September 30, 2015, but as of the date there is no known consequence for not executing such treaty within the deadline.

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

Bancolombia and most of its subsidiaries are considered foreign financial institutions (“FFIs”) under the Foreign Account Tax Compliance Act of 2010 (“FATCA”) (see “Item 4. Information on the Company – B. Business Overview – B.8. Supervision and Regulation – International regulations applicable to Bancolombia and its subsidiaries”). Given the size and the scope of the Bank’s international operations, we intend to take all necessary steps to comply with FATCA (including entering into agreements with the U.S. tax authorities and transmitting the reports). However, if the Bank cannot enter into such agreements or satisfy the requirements thereunder, certain payments to Bancolombia or its Subsidiaries may be subject to withholding under FATCA. The possibility of such withholding and the need for accountholders and investors to provide certain information may adversely affect our results of operations and financial condition. In addition, entering into agreements with the IRS, compliance with the terms of such agreements and with FATCA, any regulations or other guidance promulgated thereunder or any legislation promulgated under an intergovernmental agreement (“IGA”) may increase our compliance costs. We are currently in the process of implementing FATCA compliance on a group wide level and preparing our systems for the first report. Legislation and regulations implementing FATCA and the related inter-governmental agreements in the countries in which the Bank operates and the IGAs remain under development and the reporting dates vary depending on the jurisdiction. As a result, the future impact of this law and the accuracy of the first reports of the Bank and its Subsidiaries is still uncertain.

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

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

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

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

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

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

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

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

The Bank is a leader in the mortgage loan markets in which it operates. Colombia's mortgage loan market is highly regulated and has historically been affected by various macroeconomic factors, as have the mortgage loan markets of Panama and El Salvador. Although interest rates have decreased, during recent years, periods of sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased defaults in outstanding loans and deterioration in the quality of assets.

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

As of December 31, 2014, the aggregate outstanding principal amount of the Bank's 25 largest credit exposures, on a consolidated basis, represented approximately 13.63% of the loan portfolio, of the Bank and no single exposure represented more than 3% of the loan book. In addition, 100% of those loans were corporate loans and 100% of these relationships were classified as "A". However, problems with one or more of the Bank's largest borrowers could materially and adversely affect its results of operations and financial position, see "Item 4. Information on the Company – E. Selected Statistical Information – E.3. Loan Portfolio – Borrowing Relationships".

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

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

The Bank is subject to market risk.

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

The Bank's results of operations are sensitive to fluctuations in interest rates.

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

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

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

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

The Bank's debt securities portfolio is primarily composed of sovereign debt securities, including securities issued or guaranteed by the Colombian Government. Therefore, the Bank's results are exposed to credit, market, and liquidity risk associated with sovereign debt. As of December 31, 2014, the Bank's total debt securities represented 7.86% of its total assets, and 55.96% of these securities were issued or backed by the Colombian Government. A significant decline in the value of the securities issued or guaranteed by the Colombian Government could adversely affect the Bank's debt securities portfolio and consequently the Bank's results of operations and financial position.

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

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

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

The Bank is subject to operational risks and losses

The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses can result from fraud, employee errors, technological failures and failure to properly document transactions or to obtain proper internal authorization, failure to comply with regulatory requirements, breaches of conduct of business rules, equipment failures, natural disasters or the failure of external systems. The Bank has adopted procedures to prevent and manage each of the operational risks, but there can be no assurance that our procedures will be sufficient to prevent losses resulting from these risks.

In addition, the Bank's businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of financial institutions have suffered material losses due to the actions of employees and third parties. The precautions the Bank takes to prevent and detect employee and third-party misconduct may not always be effective.

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

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

The Bank is subject to cyber security risk.

The bank is subject to cyber security risk, which includes the unauthorized access to privileged information, technological assaults on the infrastructure of the Bank with the aim of stealing information, committing fraud or interfering with regular service, and the interruption of the Bank's services to some of its clients or users due to the exploitation and materialization of these vulnerabilities. Cyber security risks for financial institutions have significantly increased because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties.

All of the Bank's main businesses are highly dependent on the ability to timely collect and process a large amount of information, at a time when transaction processes have become significantly more complex and their volume has increased dramatically. The Bank's business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of service providers, and others with whom we interact.

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. 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 problems with information, including data related to customer to be lost, compromised, or to be delivered to the Bank's clients with delays or errors, which could reduce demand for the Bank's services and products, resulting in additional costs for the Bank, and could materially and adversely affect the Bank's results of operations and reputation.

The controls that the Bank has implemented in order to anticipate, identify, and offset these threats, have been effective thus far in maintaining cyber security risk at a low level. These controls include the existence of perimeter defenses, security backups, special 24/7 teams and continuous security tests (as ethical hacking between others), However, we can give no assurance that the low level of risk experienced thus far will continue in the future, and any failure by the Bank to detect or present cyber security risk in a timely manner, could result in a negative impact on 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 the Bank's competitiveness, financial condition and results of operations.

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

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

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

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

An element of the Bank's business strategy is to identify and pursue growth-enhancing strategic opportunities. The Bank may base assessments of potential acquisitions and partnerships on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect, and any future acquisitions, investments and alliances may not produce the anticipated synergies or perform in accordance with the Bank's expectations which could adversely affect its operations and profitability.

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

The Bank's principal source of funds is short-term deposits, which on a consolidated basis represented 72.2% of total liabilities at the end of 2014 compared to 72.9% and 74.1% at the end of 2013 and 2012, 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 in which the Bank operates, the Bank may not be able to maintain its current level of funding without incurring higher costs or selling assets at prices below their prevailing market value.

The Bank's policies and procedures may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could damage the Bank's reputation and 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 been adopted only recently and may not completely eliminate the risk that the Bank may be used by other parties to engage in money laundering and other illegal or improper activities. If the Bank fails to fully comply with applicable laws and regulations, it may face fines and other penalties, including restrictions on its ability to conduct business. In addition, the Bank's business and reputation could suffer if customers use the Bank for money laundering or illegal or improper purposes.

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

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

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

Our credit ratings are an important component of our liquidity profile, and our ability to successfully compete depends on various factors, including our financial stability as reflected by our credit ratings. A downgrade in our credit ratings would increase our cost of raising funds from other banks or in the capital markets. Purchase of our securities by institutional investors could be reduced if we suffer a decline in our local credit rating. Our ability to renew maturing debt could become restricted and the terms for such renewal more expensive if our credit rating were to decline. Our lenders and counterparties in derivative transactions are sensitive to the risk of a credit rating downgrade. A downgrade in our credit rating may adversely affect perception of our financial stability and our ability to raise deposits, which could make us less successful when competing for deposits and loans in the market place.

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

The Central Bank may impose certain mandatory deposit requirements in connection with foreign currency denominated loans obtained by Colombian residents, including the Bank, although no such mandatory deposit requirement is currently in effect. We cannot predict or control future actions by the Central Bank in respect of deposit requirements, which may involve the establishment of a mandatory deposit percentage, and the use of such measures by the Central Bank may raise our cost of raising funds and reduce our financial flexibility.

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

Preemptive rights may not be available to holders of American Depositary Receipts (“ADRs”) evidencing ADSs.

The Bank’s by-laws and Colombian law require that, whenever the Bank issues new shares of any outstanding class, it must offer the holders of each class of shares (including holders of ADRs) the right to purchase a number of shares of such class sufficient to maintain their existing percentage ownership of the aggregate capital stock of the Bank. These rights are called preemptive rights. United States holders of ADRs may not be able to exercise their preemptive rights through The Bank of New York Mellon, which acts as depositary (the “Depositary”) for the Bank’s ADR facility, unless a registration statement under the Securities Act is effective with respect to such rights and class of shares or an exemption from the registration requirement thereunder is available. The Bank is obligated to file a registration statement or find a corresponding exemption only if it determines to extend the rights to holders of the ADRs. 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 before it makes a decision as to whether to file a registration statement. Accordingly, the Bank may in some cases decide not to file a registration statement. For example, in connection with its recent rights offering in January 2012, the Bank did not file such a registration statement.

Under the deposit agreement between the Bank and the Depositary, only the Depositary is entitled to exercise preemptive rights, and the Depositary has no obligation to make available preemptive rights to holders of ADRs. If the Bank offers or causes to be offered to the holders of any deposited securities, including preferred shares of the Bank, any rights to subscribe for additional preferred shares of the Bank or any rights of any other nature, the Depositary has discretion as to the procedure to be followed in making such rights available to any holders of ADRs or in disposing of such rights on behalf of any holders of ADRs and making the net proceeds available to such holders of ADRs. If by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any holders of ADRs or dispose of such rights and make the net proceeds available to such holders of ADRs, Then the Depositary will allow the rights to lapse. Whenever the rights are sold or lapse, the equity interests of the holders of ADRs will be proportionately diluted.

The Bank's preferred shares have limited voting rights.

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

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

Holders of the Bank's ADRs may encounter difficulties in the exercise of some of their rights with respect to the shares underlying ADRs. If the Bank makes a distribution to holders of underlying shares in the form of securities, the Depositary is allowed, in its discretion, to sell those securities on behalf of ADR holders and instead distribute the net proceeds to the ADR holders. Also, even in those limited instances in which the preferred shares represented by the ADRs have the power to vote, under some circumstances, ADR holders may not be able to vote by giving instructions to the depositary. This may occur if ADR holders do not receive from the Depositary a notice of meeting sufficiently prior to the instruction date to ensure that the Depositary will vote the preferred shares represented by the ADRs in accordance with instructions received from such holders. There are no circumstances in which holders of ADRs may vote in a way other than providing instructions to the Depositary.

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

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

ADRs do not have the same tax benefits as other equity investments in Colombia.

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

Bancolombia is a stock company (*sociedad comercial por acciones, de la especie anónima*) domiciled in Medellín, Colombia and operates under Colombian laws and regulations, mainly the Colombian Commercial Code, the Financial Statute Decree 663 of 1993 and Decree 2555 of 2010. Bancolombia was incorporated in Colombia in 1945, under the name Banco Industrial Colombiano S.A. or "BIC", and is incorporated until 2044. In 1998, the Bank merged with Banco de Colombia S.A., and changed its legal name to Bancolombia S.A. On July 30, 2005, Conavi and Corfinsura merged with and into Bancolombia, with Bancolombia as the surviving entity. Through this merger, Bancolombia gained important competitive advantages, as Conavi and Corfinsura were two of the top financial institutions in the Colombian market at the time. Conavi, a mortgage bank in Colombia and one of the strongest in retail operations, significantly increased the Bank's participation and know-how in these specific markets. On the other hand, Corfinsura, then the largest financial corporation in Colombia and highly regarded for its expertise in handling large and mid-sized corporate credit and financial services, its investment bank and its modern and diversified treasury department, materially strengthened Bancolombia's multi-banking franchise.

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

In October 2013, Bancolombia Panama paid approximately USD 217 million to acquire a 40% interest in Grupo Agromercantil Holding S.A., the parent company of Banco Agromercantil de Guatemala, and certain other companies dedicated to securities brokerage, insurance, and other financial businesses. Additionally, in the same month, Bancolombia acquired a 100% percent interest in the ordinary voting shares, and 1,325,780 preferred shares of Banistmo, a Panamanian banking entity and its subsidiaries involved in the securities brokerage, trust, consumer finance, leasing, and insurance businesses. Bancolombia paid a purchase price of USD 2,234 million. Since 1995, Bancolombia has maintained a listing on the NYSE, where its ADSs are traded under the symbol "CIB", and on the Colombian Stock Exchange, where its preferred shares are traded under the symbol "PFBCOLOM". Since 1981 Bancolombia's common shares have been traded on the Colombian Stock Exchange under the symbol "BCOLOMBIA". See "Item 9. The Offer and Listing".

Bancolombia has grown substantially over the years, both through organic growth and acquisitions.

As of December 31, 2014, Bancolombia had, on a consolidated basis:

COP 148,725 billion in total assets;

COP 102,803 billion in total net loans and financial leases;

COP 95,337 billion in total deposits; and

COP 16,817 billion in stockholders' equity.

Bancolombia's consolidated net income for the year ended December 31, 2014 was COP 1,879 billion, representing a return on average equity of 12.50% and a return on average assets of 1.40%.

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

RECENT DEVELOPMENTS

Preferred shares public offering

On March 12, 2014, the Bank completed an offering of 110 million preferred shares offered to the public in Colombia at a subscription price of COP 24,200 per preferred share. The net proceeds amounted to approximately COP 2,626 billion.

Senior notes redemption

On September 10, 2014, the Bank completed the redemption process of its USD 520 million senior notes due 2016, pursuant to its option to redeem in full in accordance with the indenture under which the senior notes were issued.

Subordinated notes offering

On September 24, 2014, the Bank issued a total aggregate amount of COP 988,252 million of subordinated notes in a public offering made exclusively in Colombia, of which COP 373,752 million were subordinated notes due 2024, COP 360,000 million were subordinated notes due 2029, and COP 254,500 million were subordinated notes due 2034.

Assignment to, and assumption by, the Bank of all the assets, liabilities and commercial agreements of Factoring Bancolombia

On October 15, 2014, Factoring Bancolombia completed the transfer of all of its assets, liabilities and commercial agreements to Bancolombia S.A., its parent company.

Pursuant to the transaction, Factoring Bancolombia assigned to Bancolombia assets and contracts with an aggregate value of COP 855,831 million, and Bancolombia assumed liabilities of Factoring Bancolombia with an aggregate value of COP 768,791 million. The difference between the value of the assets and contracts assigned and the value of the liabilities assumed, in a total amount of COP 87,040 million, was paid by Bancolombia to Factoring Bancolombia in cash. Also pursuant to the transaction, Factoring Bancolombia assigned to Bancolombia the “Factoring Bancolombia”

trademark, which has thereafter been used to identify a division of Bancolombia.

Disposal of Seguros Banistmo

On February 23, 2015, Banistmo entered into an agreement with Suramericana S.A., whereby Banistmo agreed to sell, and Suramericana S.A. agreed to buy 100% of the outstanding capital of Seguros Banistmo, an insurance company incorporated under the laws of Panama.

Completion of the sale is subject to certain conditions, including, among others, receipt of the required regulatory approvals of the Insurance and Reinsurance Superintendency of Panama (Superintendencia de Seguros y Reaseguros de Panamá) and the Consumer Protection and Competition Defense Authority of Panama (Autoridad de Protección al Consumidor y Defensa de la Competencia de Panamá (ACODECO)).

The purchase price will be determined at the closing and will be calculated on the basis of Seguros Banistmo's equity.

Strengthening of the organizational structure

On April 24, 2015 Bancolombia announced the following changes in its organizational structure:

The Corporate Innovation and Digital Transformation Vice-Presidency was created. Its objective is to project innovation and digital banking at its clients' service. Juan Carlos Mora Uribe, who acted as Vice President of Corporate Services, will be in charge of this Vice-Presidency.

The Corporate Services Vice-Presidency will consolidate under the same management team the corporate procedures, technology services and human resources. Augusto Restrepo Gómez, who acted as Vice President of Human Resources, will be in charge of this Vice-Presidency. The Human Resources Vice-Presidency will be integrated into the Corporate Service Vice-Presidency.

PUBLIC TAKEOVER OFFERS

In 2014, and as of the date of this Annual Report, there have been no public takeover offers by third parties with respect to the Bank's shares or by the Bank in respect to another company's shares.

CAPITAL EXPENDITURES AND DIVESTITURES

During 2014, total capital expenditures amounted to COP 86 billion. Such investments were mainly focused on an IT related projects (COP 15 billion), the expansion of the Bank's branch and ATM network (COP 8 billion), the purchase of fixed assets (COP 20 billion), and other miscellaneous projects (COP 43 billion).

In 2014, Bancolombia funded its capital expenditures with its own resources and plans to continue to fund those currently in progress in the same manner.

During 2013, total capital expenditures amounted to COP 80 billion. Such investments were mainly focused on an IT Platform renewal project (COP 665 million), the expansion of the Bank's branch and ATM network (COP 198 million), the purchase of hardware for the expansion, updating and replacing current IT equipment (COP 9 billion), and other investments, such as an anti-fraud system and fixed assets (COP 70 billion).

In October 2013, Bancolombia completed the acquisition of HSBC Panama's operation and paid USD 2,234 million.

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

During 2015, the Bank expects to invest approximately COP 329 billion as follows: COP 18 billion in connection with the expansion of the Bank's branch and ATM network, COP 35 billion in connection with the purchase hardware for the expansion, updating and replacement of the current IT equipment, COP 78 billion in connection with other fixed assets and COP 198 billion in connection with strategic projects, including a new datacenter for the bank's operation in El Salvador. These figures represent only an estimate and may change according to the continuing assessment of the Bank's project portfolio. No assurance can be given, however, that all such capital expenditures will be made and, if made, that such expenditures will be in the amounts currently expected.

The following table summarizes the Bank's capital expenditures and divestitures in interests in other companies for the years ending December 31, 2014, 2013 and 2012:

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Capital Expenditures (COP million)	As of December 31,			Total
	2014	2013	2012	
Grupo Agromercantil Holding S.A. ⁽¹⁾	COP79,339	COP411,110	COP-	COP490,449
Inversiones Inmobiliarias Arauco Alameda S.A.	15,082	10,755	27,645	53,482
Titularizadora Colombiana S.A	11,902	-	-	11,902
Banistmo S.A. y Filiales	-	4,204,801	-	4,204,801
Sura Asset Management España S.L.	-	-	266,772	266,772
Uff Móvil S.A.S.	-	5,100	21,000	26,100
Avefarma S.A.S.	-	-	20,423	20,423
Panamerican Farmaceutical Holding INC	-	-	6,846	6,846
Glassfarma Tech S.A.S.	-	-	4,360	4,360
Construcciones El Cóndor S.A.	-	-	3,469	3,469
Grupo Odinsa S.A.	-	-	562	562
Others	-	16	861	877
Total Expenditures	COP106,323	COP4,631,782	COP351,938	COP5,090,043

⁽¹⁾ The amount of USD 40 million has been converted at the rate of COP 1,983.48 per USD 1.00, which is the Representative Market Rate calculated on January 23, 2014, as reported by the SFC.

Capital Divestitures (COP million)	2014	2013	2012	Total
SANEAL S.A. ⁽¹⁾	COP992	COP-	COP-	COP992
Prosicol S.A.S. " Into liquidation"	-	565	-	565
Erecos S.A. y Materiales Industriales S.A.	-	2,650	-	2,650
Asesuisa S.A. ⁽²⁾	-	-	173,285	173,285
Todo Uno Services Inc. ⁽²⁾	-	-	3,161	3,161
Todo Uno Colombia S.A. ⁽²⁾	-	-	228	228
Total Divestitures	COP992	COP3,215	COP176,674	COP180,881

(1) Refund of the investment

(2) Investments sold

B. BUSINESS OVERVIEW

B.1. GENERAL

COMPANY DESCRIPTION, PRODUCTS AND SERVICES

Bancolombia is a full service financial institution that offers a wide range of banking products and services to a diversified individual and corporate customer base of more than 9 million customers. Bancolombia delivers its products and services through its regional network comprising Colombia's largest non-Government owned banking network, El Salvador's leading financial conglomerate, Panama's second bank by market share and off-shore banking subsidiaries in Panama, Cayman and Puerto Rico, as well as subsidiaries in Peru.

Bancolombia and its subsidiaries offer the following products and services:

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

Ahorro a la Mano: This is a mobile phone based savings account specially designed to attend low income clients and unbanked people.

Financing: The Bank offers its customers a wide range of credit alternatives which include: trade financing, loans funded by domestic development banks, working capital loans, credit cards, personal loans, vehicle loans, payroll loans and overdrafts, among others.

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

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

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

Capital Markets: The Bank assists its clients in mitigating market risk through hedging instruments such as, futures, forwards, options and swaps.

eTrading: Is an internet-based trading platform, available for retail and institutional clients, which allows them to buy/sell securities in the Colombian Stock Exchange.

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

The Bank offers its clients direct access to local and international capital markets through a full range of Brokerage and Investment Advisory Services that cover equities and fixed income securities, proprietary and third party asset management products, such as Mutual Funds, Private Equity Funds, and Privately Managed Investment Accounts for institutional, corporate and private bank clients.

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

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

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

Investment Banking: The Bank, through its subsidiary Banca de Inversión, offers a wide variety of value-added services, including areas related to project finance, capital markets, capital investments, M&A, restructurings and corporate lending across all economic sectors.

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

NEW PRODUCTS OR SERVICES

Bancolombia continues its efforts to diversify and improve its product portfolio. Below is a brief description of the new products and services introduced in 2014:

Corporate Collections (in house): This service consists of installing on the premises of the Bank's customers a cash-collection unit which will have the capability of receiving different transactions such as payments and/or deposits from their suppliers. The information generated by these transactions will be registered into the client's or the cash handling company portal.

MAIN LINES OF BUSINESS

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

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

B.2.

OPERATIONS

See Note 31 – section (y) to the Consolidated Financial Statements as of December 31, 2014 included in this Annual Report for a description of the principal markets in which the company competes, including a breakdown of total revenues by category of activity and geographic market for each of the last three financial years.

B.3. SEASONALITY OF DEPOSITS

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

B.4. RAW MATERIALS

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

B.5. DISTRIBUTION NETWORK

Bancolombia provides its products and services through a traditional branch network, sales and customer representatives as well as through mobile branches (or “*Puntos de Atención Móviles*”), banking correspondents, an ATM network, online and computer banking, telephone banking, mobile phone banking services, and PACs, among others. In addition, as of December 31, 2014, Bancolombia had a sales force of approximately 12,949 employees and transactions performed through electronic channels represented more than 92.7% of all transactions in 2014.

The following are the distribution channels offered by Bancolombia as of December 31, 2014.

Branch Network

As of December 31, 2014, Bancolombia’s consolidated branch network consisted of 1,072 offices which included 829 from Bancolombia S.A., 100 from Banco Agrícola, 52 from Banistmo and 91 from other subsidiaries.

Company*	Number of branches 2014	Number of branches 2013	Number of branches 2012
Bancolombia S.A.	829	850	822
Bancolombia Panamá	1	1	1
Bancolombia Miami (agency) ⁽¹⁾	-	-	1

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Bancolombia Panama (branch)	1	1	1
Leasing Bancolombia	21	21	20
Renting Colombia S.A.	19	17	17
Valores Bancolombia	11	11	5
Valores Bancolombia Panama S.A.	1	1	1
Banca de Inversión	2	2	2
Fiduciaria Bancolombia	7	7	4
Tuya S.A, Compañía de Financiamiento	4	6	5
Bancolombia Puerto Rico International Inc.	1	1	1
Factoring Bancolombia	0	1	1
Arrendamiento Operativo CIB S.A.C. ⁽²⁾	1	1	1
Fondo Inversión Arrend.Operativo Renting Perú I	1	1	1
Inversiones CFNS S.A.S.	2	2	2
Banco Agrícola	100	100	103
Arrendadora Financiera S.A.	1	1	1
Credibac S.A. de C.V	-	-	-
Valores Banagricola, S.A. de C.V. ⁽³⁾	1	1	1
Uff Móvil S.A.S.	1	1	1
Capital Investments SAFI S.A.	1	1	1
Transportempo S.A.S	1	1	1
Leasing Perú S.A.	1	1	1
FiduPerú S.A. Sociedad Fiduciaria (previously Fiduciaria GBC S.A.)	1	1	1
Banistmo	52	51	-
Financomer S.A.	8	8	-
Seguros Banistmo S.A.	4	4	-
Total	1,072	1,093	995

*For some subsidiaries, the central office is considered a branch. Representative offices are included

- (1) The Bancolombia Miami agency closed its operations on August 30, 2013. Renting Perú S.A.C. changed its legal name to Arrendamiento Operativo CIB S.A.C. The offices operated for the
- (2) Localiza franchise in Peru, are included in the total number of branches reported for Arrendamiento Operativo CIB S.A.C.
- (3) Bursabac S.A. de C.V changed its legal name to Valores Banagricola, S.A. de C.V.
- (4) AFP Crecer S.A. was sold on November 21, 2011, and is no longer part of the Bancolombia group.

Banking Correspondents

A banking correspondent is a platform which allows non-financial institutions, such as stores open to the public, to provide financial services and transactions in towns where banks and financial institutions have limited or no presence. As of December 31, 2014, Bancolombia has a total of 4,202 banking correspondents, including 4,098 in Colombia and 104 in El Salvador.

Mobile Branches (Puntos de Atención Móviles, “PAM”)

PAMs consist of commercial advisors who visit small towns periodically to offer Bancolombia’s products and services. As of December 31, 2014, there were a total of 598 PAMs.

Kiosks

Kiosks, used in El Salvador, are located inside the Bank’s branches, malls, and other public places and are used to provide the Bank’s clients the possibility of conducting a variety of self-service transactions. As of December 31, 2014, there were a total of 206 kiosks.

Automatic Teller Machines (“ATM”)

Bancolombia has a total of 4,554 ATMs, including 3,700 in Colombia, 549 in El Salvador and 305 in Panama.

Online/Computer Banking

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

Telephone Banking

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

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

Through our own network of 7,807 PACs our customers may carry out a variety of transactions including transfer of funds, bill payments, and changes to debit and credit card PINs.

Mobile Phone Banking Service

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

B.6. PATENTS, LICENSES AND CONTRACTS

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

However, the contracts with service providers described below have significant relevance to the Bank's business:

As a result of the disposition of Todo1 Services, Inc. in August, 2012, the online banking platform of the Bank is no longer provided by an affiliate, and is currently provided by Todo1 Services Inc., now a third party with whom the Bank has entered into a service-level agreement. As of December 31, 2014, Todo 1 Services, Inc. is the sole service provider for the Bank's online banking platform.

The Bank's call center and telephone banking services are provided by Allus Global BPO Center, a company specialized in providing business process outsourcing, or BPO solutions.

The Bank's check processing and settlement service is provided by IQ Outsourcing S.A., a Colombian company specialized in processing checks issued by customers of the Colombian financial institutions, through the Central Bank.

As a result of the acquisition of Banistmo by the Bank, Banistmo, as customer, entered into a transitional services agreement with HSBC Servicios S.A. de C.V., for the provision of certain key technological services necessary to day-to-day operation of Banistmo and its subsidiaries for an estimated period of 18 months after closing of the transaction, which is expected to end during the second half of 2015, after which all services will be provided in-house or through third party service providers.

If we were required to replace any of Todo1 Services Inc., Allus Global BPO Center or IQ Outsourcing S.A. as service providers of the Bank, or if any of those service providers or HSBC Servicios S.A. de C.V. were not to fulfill their respective contractual obligations, our business could suffer, and we might be required to incur additional costs to find replacement providers.

B.7. COMPETITION

Description of the Colombian Financial System

Overview

In recent years, the Colombian banking system has been undergoing a period of consolidation, given the series of mergers and acquisitions that have taken place within the sector. More specifically, several mergers and acquisitions took place in 2007, mainly due to the global economic situation. Colombian banks made several investments allowing some entities to become big players in the Latin American market; this is the case of HSBC, which acquired Banistmo; and Bancolombia, which completed the acquisition of Banagrícola in El Salvador (For more information on the acquisition of Banagrícola, see “Item 4. Information on the Company – 4.A. History and Development of the Company”). In 2008 the Royal Bank of Scotland (RBS) acquired the Colombian arm of ABN Amro Bank; in 2010, Banco de Bogotá acquired BAC-Credomatic, which operates in several countries in Central America; and, in October 2011, Canadian Scotiabank purchased a stake in Colpatria. In 2012, the most relevant event regarding the presence of foreign banks in Colombia was the acquisition of Banco Santander Colombia S.A. in July 2012 by Corpbanca (Chile). Also, Davivienda acquired the subsidiaries of HSBC in Costa Rica, Honduras and El Salvador.

During 2013, Bancolombia continued its internationalization process with the acquisition of the banking and insurance operations of HSBC in Panama for USD 2,234 million. In addition, Bancolombia Panama, acquired 40% of the common shares of Agromercantil Group Holding S.A. for USD 217 million. In 2013 Grupo Aval acquired 100% of the Reformador Financial Group, from Guatemala (the transaction was valued at USD 411 million) and acquired BBVA Panama for USD 490 million. In addition, in 2013 some competitors started operations in Colombia. Itau BBA entered the market with an investment bank, BNP Paribas with a trust company, Credicorp with the acquisition of Correval (a local brokerage firm), Brazilian broker-dealer BTG Pactual acquired Bolsa y Renta, Banco Santander returned to the Colombian arena with an investment bank and the Chilean Larrain Vial started operations with a brokerage firm. During 2014 the entry of new entities continued as the financing company Hipotecaria, which specializes in mortgage loans, that began operations in March 2014. In June, 2014, Corpbanca completed the acquisition of Helm Bank, keeping the brand of Corpbanca; additionally. Also in 2014 the bank GNB Sudameris acquired 99.9% of the outstanding capital of HSBC Colombia, in October 2014 acquired GNB Colombia, and now operates as a strong competitor under the brand GNB Colombia.

As of December 31, 2014, according to the SFC, the main participants in the Colombian financial system were the Central Bank, 22 commercial banks (12 domestic private banks, 9 foreign banks, and 1 domestic state-owned bank), 5 financial corporations and 21 financing companies (6 leasing companies and 15 traditional financing companies). In addition, trust companies, cooperatives, insurance companies, insurance brokerage firms, bonded warehouse, special state-owned institutions, pension and severance pay funds also participate in the Colombian financial system.

Financial System Evolution in 2014

During 2014, the Colombian economy showed a greater dynamism. The unemployment rate was among the lowest in the last five years, and the inflation rate was 3.66% within the target range of the Central Bank. In 2014 GDP growth was 4.6%. Credit expansion throughout 2014 was higher than in 2013. The financial system's loan growth for 2014 was 15.50% according to SFC, compared to 13.53% and 14.87% for 2013 and 2012, respectively. After a year of expansionary monetary policy, the intervention rate increased 125 basis points during 2014, ending the year in 4.5%. The growth of commercial loans was 16.28% in 2014, compared to 11.91% in the previous year. The rising confidence drove up consumer loans, which grew by 13.78% in 2014, higher than the 12.07% in 2013. Mortgage and small business loans continued to perform well, with increases of 18.41% and 9.07%, respectively, for 2014.

The financial system's level of past-due loans as a percentage of the total loan portfolio increased from 2.82% in December 2013 to 2.94% in December 2014. In addition, the coverage, measured by the ratio of allowances for loans losses (principal) to PDLs (overdue 30 days), declined to at 151.52%, at the end of 2014, from 161.22% at the end of 2013.

During 2014, the share of lending in the financial system's structure increased. Loans increased from 62.8% of total assets at the end of 2013 to 64.4% at the end of 2014. The securities portfolio, as a percentage of total assets, decreased from 19.7% at the end of 2013 to 18.1% at the end of 2014.

As of December 31, 2014, the Colombian financial system recorded COP 479 trillion in total assets, representing a 12.59% increase as compared to the same period in 2013. The Colombian financial system's total composition of assets shows banks with a market share of 92.38%, followed by financing companies with 5.56% and financial corporations with 2.06%.

The capital adequacy ratio (Tier 1 + Tier 2) for credit institutions was 15.60% in December 2014 (including banks, financial corporations and financing companies), which is well above the minimum legal requirement of 9%. As Decree 1771 of 2012 and the external circular 20 of 2013 of the SFC became effective, a new capital regime for credit institutions, was established in order to increase capital requirements for equity of financial institutions to the discussion of the new rules as applied to Bancolombia.

Bancolombia and its Competitors

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

	<i>ROE</i> ⁽¹⁾		<i>ROA</i> ⁽²⁾		Past-due loans/ Total loans		Allowances/ Past-due loans		Capital Adequacy	
	Dic-14	Dic-13	Dic-14	Dic-13	Dic-14	Dic-13	Dic-14	Dic-13	Dic-14	Dic-13
Bancolombia ⁽³⁾ (unconsolidated)	8.14 %	11.81 %	1.33 %	1.63 %	2.51 %	2.31 %	185.46 %	202.02 %	17.89 %	13.36 %
Banco de Bogota	10.77 %	12.28 %	2.25 %	2.47 %	2.36 %	2.20 %	132.71 %	152.93 %	19.13 %	18.50 %

	<i>ROE</i> ⁽¹⁾		<i>ROA</i> ⁽²⁾		Past-due loans/ Total loans		Allowances/ Past-due loans		Capital Adequacy	
	Dic-14	Dic-13	Dic-14	Dic-13	Dic-14	Dic-13	Dic-14	Dic-13	Dic-14	Dic-13
Davienda	14.43 %	12.17 %	1.83 %	1.56 %	2.74 %	2.87 %	160.39 %	161.51 %	12.96 %	12.62 %
BBVA	13.90 %	16.23 %	1.17 %	1.51 %	2.06 %	1.89 %	168.57 %	179.72 %	10.57 %	11.37 %
Banco de Occidente	29.56 %	11.99 %	3.94 %	1.65 %	2.79 %	2.26 %	143.51 %	171.33 %	12.32 %	13.33 %
Banco Popular	14.56 %	16.61 %	2.24 %	2.40 %	2.07 %	2.05 %	165.39 %	179.03 %	12.21 %	11.40 %
Citibank	14.76 %	9.12 %	2.26 %	1.63 %	2.98 %	3.81 %	160.80 %	144.19 %	13.50 %	14.64 %

Source: SFC.

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

(2) ROA is return on average assets.

(3) All figures are on an unconsolidated basis.

In 2014, Bancolombia ranked first in Colombia and El Salvador in terms of amount of assets, deposits, stockholders' equity and second in net income.

The following tables illustrate the market share of Bancolombia on an unconsolidated basis and its main competitors with respect to various key products, based on figures published by the SFC for the years ended December 31, 2014, 2013 and 2012:

Total Net Loans
Market Share

Total Net Loans – Market Share %	2014	2013	2012
Bancolombia	23.04 %	22.65 %	23.05 %
Banco de Bogotá	13.86 %	13.76 %	13.71 %
Davienda	13.50 %	12.98 %	12.39 %
BBVA	10.29 %	9.95 %	9.23 %
Banco de Occidente	6.91 %	7.45 %	7.33 %
Banco Popular	4.32 %	4.61 %	5.10 %

Citibank 2.12 % 2.20 % 2.45 %

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

Checking Accounts
Market Share

Checking Accounts – Market Share %	2014	2013	2012
Bancolombia	23.72 %	25.16 %	24.00 %
Banco de Bogotá	19.82 %	18.79 %	19.50 %
Banco de Occidente	11.51 %	11.94 %	11.39 %
BBVA	9.89 %	10.03 %	9.14 %
Davienda	10.23 %	9.76 %	8.96 %
Banco Popular	2.68 %	3.31 %	3.84 %
Citibank	3.91 %	3.13 %	3.15 %

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

Time Deposits
Market Share

Time Deposits – Market Share %	2014	2013	2012
Bancolombia	14.59 %	17.93 %	18.22 %
Banco de Bogotá	17.01 %	14.61 %	14.36 %
Davienda	12.58 %	12.35 %	10.00 %
BBVA	12.11 %	10.27 %	9.66 %
Citibank	1.88 %	2.00 %	2.67 %
Banco Popular	2.16 %	1.56 %	2.87 %
Banco de Occidente	5.94 %	5.09 %	5.18 %

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

Saving Accounts
Market Share

Saving Accounts – Market Share %	2014	2013	2012
Bancolombia	23.09%	22.95%	22.92%
Banco de Bogotá	11.67%	14.09%	14.39%
Davivienda	12.54%	11.35%	12.23%
BBVA	11.86%	11.96%	12.61%
Banco Popular	5.29 %	6.48 %	5.37 %
Banco de Occidente	6.67 %	6.41 %	5.75 %
Citibank	2.87 %	2.49 %	2.18 %

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

Description of the Salvadorian Financial System

As of December 31, 2014, the Salvadoran financial system consisted of 13 institutions (10 commercial banks, 2 state-owned banks and 1 foreign bank).

The total assets (excluding contingencies such as guarantees and letters of credit) of the Salvadorian financial system amounted to USD 13.9 billion in 2014, increasing 3.2% as compared to the previous year. As of December 31, 2014, gross loans represented 71.7% of the total assets in the Salvadorian financial system, while investments represented 4.7% and cash and due from banks represented 21.6%.

Banco Agrícola and its Competitors

In 2014, Banco Agrícola continued to lead the Salvadorian financial system and ranked first in terms of assets, loans, deposits, stockholders equity and profits. The following table illustrates the market share for the main institutions of the Salvadorian financial system for the year end December 31, 2014:

MARKET SHARE				
Assets	Stockholders` Equity	Loans	Deposits	Profits

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Banco Agrícola	28.6%	30.3	%	28.7%	28.1	%	47.8%
Citibank	11.3%	14.6	%	10.5%	12.6	%	3.6%
Davivienda	15.0%	15.5	%	15.4%	13.5	%	12.9%
Scotiabank	14.0%	14.3	%	15.1%	13.3	%	8.3%
BAC	12.3%	10.2	%	11.9%	12.5	%	13.1%
Others	18.7%	15.1	%	18.3%	19.9	%	14.3%

Source: ABANSA (*Asociación Bancaria Salvadoreña*).

The following tables illustrate the market share of Banco Agrícola and its main competitors, based on figures published by the Salvadorian Banking Association (ABANSA) as of year-end 2014, 2013 and 2012:

Total Loans
Market Share

Total Loans - Market Share%	2014	2013	2012
Banco Agrícola	28.7%	29.3%	30.1%
Citibank	10.5%	11.7%	13.1%
Davivienda	15.4%	15.3%	14.4%
Scotiabank	15.1%	15.9%	16.6%
BAC	11.9%	11.2%	10.4%
Others	18.3%	16.7%	15.4%

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

Checking Accounts
Market Share

Checking Accounts - Market Share%	2014	2013	2012
Banco Agrícola	23.1%	25.7%	23.9%
Citibank	21.7%	21.0%	23.5%
Davienda	11.0%	11.4%	11.5%
Scotiabank	7.4 %	8.6 %	9.1 %
BAC	18.0%	16.9%	16.2%
Others	18.8%	16.3%	15.8%

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

Time Deposits
Market Share

Time Deposits - Market Share%	2014	2013	2012
Banco Agrícola	24.0%	24.0%	24.2%
Citibank	5.8 %	6.9 %	8.2 %
Davienda	14.6%	15.4%	15.1%
Scotiabank	17.1%	16.4%	17.6%
BAC	11.1%	12.0%	12.0%
Others	27.4%	25.3%	23.0%

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

Saving Accounts
Market Share

Saving Account - Market Share%	2014	2013	2012
Banco Agrícola	38.5%	38.9%	38.7%
Citibank	12.8%	14.9%	15.7%
Davienda	14.4%	14.9%	15.1%
Scotiabank	14.1%	14.3%	15.1%
BAC	9.0 %	6.0 %	5.9 %
Others	11.1%	11.1%	9.5 %

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

B.8.

SUPERVISION AND REGULATION

Colombian Banking Regulators

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

Central Bank

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

Ministry of Finance and Public Credit

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

As part of its duties, the Ministry of Finance issues decrees relating to financial matters that may affect banking operations in Colombia. In particular, the Ministry of Finance is responsible for regulations relating to capital adequacy, risk limitations, authorized operations, disclosure of information and accounting of financial institutions on a high level, which matters are then regulated in detail by the SFC.

Superintendency of Finance

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

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

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

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

Other Colombian regulators

Self-Regulatory Organization

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

All capital market intermediaries, including the Bank, must become members of the AMV and are subject to its regulations.

Superintendency of Industry and Commerce

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

Regulatory Framework for Colombian Banking Institutions

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

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

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

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

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

On December 20, 2011 the Colombian government issued Decree 4809 which: (i) defined the laws and principles that must be observed in the determination, diffusion and publicity of rates and prices of products and financial services, (ii) established the maximum rate charged for the withdrawal of funds from ATM’s of other financial institutions, (iii) requires financial institutions using standard form contracts that provide for rate increases to give at least 45 days’ prior

notice of the increase and a right to reject the increase and terminate the contractual relationship with the financial institution, (iv) prohibits charges for unsuccessful transactions carried out through ATMs when there is no fault attributable to the client, and (v) established that transactions made via the Internet cannot be more expensive than those made via other available channels.

The SFC has authority to implement applicable regulations and, accordingly, issues, from time to time administrative resolutions and circulars. By means of External Circular 029 of 2014, the SFC compiled the rules and regulations applicable to financial institutions and other entities under its supervision. Likewise, by means of External Circular 100 of 1995 (the “Basic Accounting Circular”), it compiled all regulations applicable to the accounting rules and regulations.

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

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

Key interest rates

Colombian commercial banks, finance corporations and consumer financing companies are required to provide the Central Bank, on a weekly basis, with data regarding the total volume (in pesos) of certificates of deposit issued during the prior week and the average interest rates paid for certificates of deposit with maturities of 90 days. Based on such reports, the Central Bank computes the *Tasa de Captaciones de Corporaciones Financieras* (“TCC”) and the *Depósitos a Término Fijo* (“DTF”) rates, which are published at the beginning of the following week, for use in calculating interest rates payable by financial institutions. The TCC is the weighted average interest rate paid by finance corporations for deposits with maturities of 90 days. The DTF is the weighted average interest rate paid by finance corporations, commercial banks and consumer financing companies for certificates of deposit with maturities of 90 days. For the week of April 27, 2015, the DTF was 4.60% and the TCC was 3.29%.

Article 884 of the Colombian Commercial Code provides for a limit on the amount of interest that may be charged in commercial transactions. The limit is 1.5 times the current banking interest rate, or *Interés Bancario Corriente*, calculated as the average of the interest ordinarily charged by banks within a set period of time. The current banking interest rate for small business loans and for all other loans is certified by the SFC. As of December 31, 2014, the banking interest rate for small business loans was 34.81% and for all other loans was 19.17%.

Capital adequacy requirements

Capital adequacy requirements for Colombian financial institutions (as set forth in Decree 2555 of 2010, as amended) are based on applicable Basel Committee standards. On August 23, 2012 the Ministry of Finance issued a new

regulation (Decree 1771 of 2012) amending the capital adequacy requirements set forth in Decree 2555. Some of the highlights of this new regulation are as follows:

The technical capital is calculated as the sum of Ordinary Basic Capital (common equity Tier I), Additional Basic Capital (additional Tier I), and Additional Capital (Tier II capital).

New criteria for debt and equity instruments to be considered ordinary basic capital, additional basic capital, and additional capital were established. Additionally, the SFC must review whether a given instrument adequately complies with these criteria in order for an instrument to be considered Tier I or Tier II capital, upon request of the issuer. Debt and equity instruments that have not been classified by the SFC as basic or additional capital are not be considered Tier I or Tier II capital for purposes of capital adequacy requirements.

The total solvency ratio remains at a minimum of 9% of the financial institution's total risk-weighted assets; however, each entity must comply with a minimum basic solvency ratio of 4.5%, which is defined as the ordinary basic capital after deductions divided by the financial institution's total risk-weighted assets.

In 2014, the Ministry of Finance issued Decree 1648 of 2014 which establishes criteria for hybrid instruments to be considered additional basic capital (Additional Tier I).

As of December 31, 2014, the Bank's technical capital ratio was 13.29%, exceeding the requirements of the Colombian government and the SFC by 429 basis points. As of December 31, 2013, the Bank's technical capital ratio was 10.61%.

On March 12, 2014, the Bank completed an offering of 110 million preferred shares offered to the public in Colombia at a subscription price of COP 24,200 per preferred share. The net proceeds amounted to approximately COP 2,626 billion.

For more information, see “Item 5. Operating and Financial Review and Prospects - B1 Liquidity and Funding. Capital Adequacy”

The minimum capital requirement for banks on an unconsolidated basis is established in Article 80 of Decree 633 of 1993, as amended. The minimum capital requirement for 2014 is COP 77,016 million. Failure to meet such requirement can result in the Taking of Possession (*toma de posesión*) (“taking possession”) of the Bank by the SFC (see “Colombian Banking Regulations — Bankruptcy Considerations”).

Capital Investment Limit

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

Mandatory Investments

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

Foreign Currency Position Requirements

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

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

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

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

Reserve Requirements

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

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

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

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

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

Foreign Currency Loans

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

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

Notwithstanding the foregoing, such deposits would not be required in certain cases established in article 26 of External Resolution 8 of 2000, including in the case of foreign currency loans aimed at financing Colombian

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

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

Non-Performing Loan Allowance

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

Lending Activities

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

Decree 2555 of 2010 also sets a maximum limit of 30% of the Bank's technical capital for single party risk, the calculation of which includes loans, leasing operations and equity and debt investments.

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

Ownership and Management Restrictions

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

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

Bankruptcy Considerations

Pursuant to Colombian banking law, the SFC has the power to intervene in the operations of a bank in order to prevent it from, or to control and reduce the effects of, a bank failure. Additionally, the SFC also conducts periodic visits to financial institutions and can impose capital or solvency obligations on financial institutions without taking control of the financial institution.

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

The following grounds for a taking of possession are considered to be “automatic” in the sense that, if the SFC discovers their existence, the SFC must step in and take over the financial institution: (i) if the financial institution’s Technical Capital falls below 40% of the legal minimum, or (ii) upon the expiration of the term of any then-current recovery plans or the non-fulfillment of the goals set forth in such plans.

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

Within two months from the date in which the SFC takes possession of a bank, the SFC must decide whether the entity should be liquidated, whether it is possible to place the entity in a position to continue doing business in the ordinary course, or whether other measures may be adopted. The decision is to be made with the purpose of permitting depositors, creditors and investors to obtain the full or partial payment of their credits.

The decision is subject to the prior opinion of Fogafin, which is the Government agency that insures deposits made in Colombian financial institutions. The two-month term may be extended with the prior consent of Fogafin.

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

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

As part of its duties following the taking of possession by the SFC, Fogafin must provide the SFC with the plan to be followed by the special agent in order to meet the goals set for the fulfillment of the measures that may have been

adopted. If the underlying problems that gave rise to the taking possession of the bank are not resolved within a term not to exceed two years, the SFC must order the liquidation of the bank.

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

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

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

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

Deposit insurance—Troubled Financial Institutions

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

To protect the customers of commercial banks and certain financial institutions, Resolution 1 of 2012 of the board of directors of Fogafin, as amended, requires mandatory deposit insurance. Under this Resolution 1, banks must pay an annual premium of 0.3% of total funds received on saving accounts, checking accounts, certificates of deposit and other deposits, which is paid in four quarterly installments. If a bank is liquidated, the deposit insurance will cover the funds deposited by an individual or corporation with such bank up to a maximum of COP 20 million regardless of the number of accounts held.

Anti-Money Laundering Provisions

The regulatory framework to prevent and control money laundering is contained in, among others, Decree 663 of 1993 and External Circular 029 of 2014 issued by the SFC, as well as Law 599 of 2000, and the Colombian Criminal Code, as amended.

Colombian laws adopt the latest guidelines related to anti-money laundering and other terrorist activities established by the Financial Action Task Force on Money Laundering (“FATF”). Colombia, as a member of the GAFI-SUD (a FATF-style regional body), follows all of FATF’s 40 recommendations and eight special recommendations. External Circular 029 of 2014 issued by the SFC requires the implementation by financial institutions of a system of controls for money laundering and terrorism financing. These rules emphasize “know your customer” policies and knowledge of customers and markets. They also establish processes and parameters to identify and monitor a financial institution’s customers. According to these regulations, financial institutions must cooperate with the appropriate authorities to prevent and control money laundering and terrorism. Finally, the Colombian Criminal Code introduced criminal rules and regulations to prevent, control, detect, eliminate and adjudicate all matters related to financing terrorism and money laundering. The criminal rules and regulations cover the omission of reports on cash transactions, mobilization or storage of cash, and the lack of controls.

Risk management systems

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

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

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

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

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

Regulatory Framework for Subsidiaries Non Participants in the Financial Sector

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

International regulations applicable to Bancolombia and its subsidiaries

FATCA

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

Some countries have entered into, and other countries are expected to enter into, IGAs with the United States to facilitate the type of information reporting required under FATCA. These agreements are expected to reduce that risk for financial institutions and investors in countries that have entered into IGAs. Among the countries where Bancolombia operates, the Cayman Islands has signed an IGA Model 1, and jurisdictions like Colombia, Panama and Peru have each reached an agreement in substance with the IRS as of June 30, 2014, and consented to be treated as having an IGA in effect. Other than the aforementioned countries, we do not expect the government agencies of other jurisdictions in which the Bank or its subsidiaries operate to sign IGAs during 2015. We are currently in the process of implementing FATCA compliance on a group wide level and preparing our systems for FATCA reporting.

Financial Regulation of El Salvador

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

Decree 592 states that the Superintendency of the Financial System and the Central Reserve Bank of El Salvador are obligated to supervise all members of the financial system and to approve the necessary regulation for the Law’s adequate application of Decree 592.

Decree 592’s main objective is to maintain stability in the Salvadorian financial system, to guarantee efficiency, transparency, security and solidity within the system, and to bring all its members in compliance with this law, and other applicable laws and regulations, all in accordance with best international practices.

The Superintendency of the Financial System is responsible for the supervision of the individual and consolidated activities of all the members in the system, as well as, the people, operations and entities that applicable law requires it to regulate. Article 3 of the Decree 592 establishes all the powers and duties of the Superintendency, some of which are: (i) to fulfill and enforce the laws, regulations and other legal provisions applicable to the entities subject to its supervision and issue all the necessary instructions for compliance of the laws applicable to the system; (ii) to authorize the establishment, function, operation, intervention, suspension, modification, revocation of authorizations and closure of all members of the system, in accordance with laws and regulations. In the event of closure, the Superintendency will coordinate with the entities involved the actions established by the law; (iii) risk prevention through the monitoring and management of the members within the system with view toward the prudential management of liquidity and capital adequacy; (iv) facilitation of an efficient, transparent and organized financial

system; (v) to require that all supervised entities and institutions be managed in accordance with the best international practices of risk management and corporate governance; and (vi) all other legal requirements.

Banking Law of El Salvador

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

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

According to the Salvadorian Superintendency of Financial System's regulations, the reserve requirements⁽¹⁾ for Salvadorian banks as of December 31, 2014 are:

	Ordinary Reserve Requirements %	
Checking Accounts	25.0	%
Saving Accounts	20.0	%
Time Deposits	20.0	%
Borrowings from foreign banks	5.0	%
Long-term debt⁽²⁾	15.0% - 20.0	%

An extraordinary reserve requirement of 3.0% over the total amount of deposits applicable to banks is in place as of December 31, 2013. Additionally, in June, 2013 Central Bank of Reserve of El Salvador approved a second ⁽¹⁾ extraordinary reserve requirement of 2% on all liabilities with ordinary reserve, which shall be valid for a period of a year (said period might be extended by the regulator).

⁽²⁾ 15% for long-term debt with maturity above one year and 20% for long-term debt with maturity less than one year.

Monetary Integration Law of El Salvador

Since November 2000, El Salvador has used the U.S. dollar as its legal currency. The transition from the colón (former currency) to the U.S. dollar was enacted by the Monetary Integration Law. This law established a fixed exchange rate of 8.75 Colones per USD 1.00. The colón continues to have unrestricted legal circulation, but the Central Reserve Bank has been replacing it with the U.S. dollar at each time colón bills and coins are used in transactions.

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

Tax on Financial Transactions Law

In July, 2014, the Legislature of El Salvador enacted the "Tax on Financial Transactions Law" with an impact on the financial sector. This law became effective on September 1, 2014.

As from the effective date of the law financial entities (including Banco Agricola) act as withholding agents for the tax on financial transactions and the tax for the liquidity control, each of which are calculated at the time the customer conducts its financial transactions through the different service channels. The tax on financial transactions is 0.25%, or USD 2.50 per thousand, on taxable transactions exceeding one thousand U.S. Dollars. The tax for the liquidity control is 0.25%, or USD 2.50 per thousand on cash transactions of deposit, withdrawals and payments in excess of an aggregate amount of USD 5,000.

The transactions subject to the tax on financial transactions to depositors (customers) are:

- Payments for goods and services by check or debit card over USD 1,000.
- Payments by wire transfers in excess of USD 1,000.
- Transfers to third parties, in any form or medium, with an amount over USD 1,000.
- Transactions between financial entities, based on any statement of its customers.

Transactions subject to withholding regarding liquidity control for depositors (customers) are deposits, payments and cash withdrawals with a monthly aggregate amount in excess of USD 5,000.

Investment Funds Law

The Investment Funds Law aims to encourage economic activity by providing small investors with access to capital markets, diversification of their investments and channeling savings into productive sectors, in order to generate higher economic growth.

This Law sets forth the regulatory framework for the supervision of investment funds, their share of participation, companies that administer such funds and their operations; as well as other participants to which it refers. Additionally, it regulates the marketing of participation shares in foreign investment funds.

This Law also provides for the creation of Investment Fund Managers, who will have the purpose of managing investment funds. These will be responsible for performing all acts, contracts and operations necessary for the administration and operation of investment funds.

Financial Regulation of Panama

Since the 1970s, Panama has been a major international banking center. There are approximately 80 domestic and foreign banks in Panama. The absence of currency controls, the use of the U.S. dollar as legal tender, a territorial system of income tax, and a stable and adequate banking legislation and regulation are among the country-specific factors that have contributed to this development. The Superintendency of Banks of the Republic of Panama (Superintendencia de Bancos de Panama) is the banking supervisor in Panama.

The banking business in Panama, defined as the fundraising of resources from the public or financial institutions, through the acceptance of money deposits or other means, and the use of such resources on the bank's own account and risk, to provide credits and loans, make investments or carry any other authorized operations, is regulated by the Law Decree No.9 of 1998, subsequently amended by Law- Decree No.2 of 2008. In accordance with the Law Decree as amended, the Superintendency of Banks of the Republic of Panama has the power to issue Agreements and Resolutions to develop the banking regime. The principal aspects of the banking business covered by these Law-Decree, Agreements and Resolutions are the licensing of banks, corporate governance, banking supervision (consolidated and individual or sub consolidated), capital requirements, capital adequacy, liquidity requirements, risk management (credit, market, liquidity, country, asset and liability, operational, information technology, electronic banking), external audit, on-site inspections, reporting, compliance, change of control, mergers and acquisitions, confidentiality, money laundering, voluntary wind up, administrative and operational control, reorganization, bankruptcy, penalties, customers protection and dispute resolution.

In order to implement Basel III capital standards, the Superintendency of Banks of the Republic of Panama, issued, on January, 2015, an Agreement on Capital Adequacy, which sets forth the new composition of a banking institution capital base, as well as the new capital adequacy ratio, including tier 1 core capital ratio and tier 1 capital ratio, all consistent with Basel III standards. The Agreement will become effective on January 2016, and the new standards will be applicable, progressively, from that date until they are fully applicable in January 2019.

The Superintendency of Banks of the Republic of Panama is also in charge of the supervision and oversight of the trust business in Panama. In Panama, trusts are regulated by Law 1 of 1984 and the Executive Decree 16 of 1984, which together set forth aspects such as minimum requirements of trust agreements, characteristics of trusts, rights and responsibilities of grantors, trustees and beneficiaries, licensing of trustees, inspection and reporting of trustees, confidentiality and penalties.

On the other hand, the activities related to the securities market in Panama, such as the registration of securities and funds, the authorization for the public offering of securities, securities investment advisory, securities brokerage, the opening and management of investment and custody accounts, fund administration, the administration of securities trading systems, clearing and settling of securities, are subject to the supervision, control and oversight of the Superintendency of the Securities Market of the Republic of Panama. The activities related to the securities market are primarily regulated by Law Decree No.1 of 1999, subsequently amended by several laws, and most recently amended by Law No.67 of 2011, Law No.12 of 2012 and law No.56 of 2012, which established important changes in order to strengthen the regulatory frame of the Panamanian securities market and increase investors' confidence, for its further development. Amongst the most important changes introduced by these recent amendments are the following:

1. The establishment of a coordination and cooperation system between the financial supervisors in order to promote and facilitate the harmonization within the regulation of financial activities, reducing risks of asymmetries between regulations, therefore preventing arbitrages. This system also enables a more comprehensive supervision of financial conglomerates operating in multiple areas of the financial industry.

2. The establishment of the Superintendency of the Securities Market, as the supervising entity replacing the previous National Securities Commission. As opposed to the National Securities Commission, which operated through a single governing instance integrated by three commissioners, the Superintendency of the Securities Market operates through two levels of governance, a board of directors with administrative powers, and a superintendent with executive powers.

3. The authority given to the Superintendency to carry the consolidated supervision, as home supervisor, of intermediaries having agencies abroad, and to enter into cooperation agreements with foreign supervisors to facilitate the consolidated supervision;

4. The regulation of foreign exchange as an activity reserved to the securities as the regulation of certain actors of the securities market not contemplated in previous brokers, as well regulations, such as securities price suppliers, risk rating agencies and Administrative Service Suppliers of the securities market.

The principal aspects of the securities business covered by the Law – Decree as amended, and the agreements and resolutions issued by the Superintendency of the Securities Market of the Republic of Panama are (i) licensing requirements of securities brokers, investment advisors, fund administrators and self-regulated organizations, (ii) register requirements of risk rating agencies, securities price suppliers, securities, public offerings, funds and administrative service suppliers of the securities market, (iii) authorization for requesting voting powers regarding registered securities, (iv) notification requirements of public offerings for the acquisition of registered shares, (v) options, futures contracts and derivatives, (vi) custody, clearing and settlement of securities, (vii) penalization procedures and penalties, (viii) voluntary wind up, reorganization and bankruptcy of securities brokers, self-regulated organizations, funds, and fund administrators, (ix) reporting of issuers of registered securities, securities brokers, investment advisors, funds, fund administrators, self-regulated organization and other registered entities, (x) on-site inspection of securities brokers, investment advisors, self-regulated organizations, funds, fund administrators, administrative service suppliers of the securities market, securities price suppliers and rating agencies, (xi) capital requirements, liquidity requirements, risk assessment, confidentiality, conflict of interest, suitability, compliance and money laundering of securities brokers, (xii) communication of events of importance by issuers of registered securities.

The insurance activities are subject to the control, supervision, oversight and regulation of the Superintendency of Insurance and Reinsurance of the Republic of Panama. The insurance and reinsurance activities are governed by Law No.12 of 2012, and the agreements and resolutions issued by the Superintendency in accordance with such law, which cover the following principal aspects: licensing requirements for insurance companies, distributions channels, insurance companies tax regime, voluntary wind up, administrative and operational control, reorganization and bankruptcy of insurance companies, minimum requisites of insurance agreements, licensing of insurance brokers, risk management, internal control, technical reserves, authorized investments, reporting and on-site inspection of insurance

companies, rights and responsibilities of insurance companies, insurance brokers and customers, customer protection, dispute resolution and penalties.

C. ORGANIZATIONAL STRUCTURE

The following are the subsidiaries of Bancolombia:

The following is a list of subsidiaries of Bancolombia S.A. as of December 31, 2014:

SUBSIDIARIES

Entity	Jurisdiction of Incorporation	Business	Shareholding directly and indirectly	
Leasing Bancolombia	Colombia	Leasing	100.00	%
Fiduciaria Bancolombia	Colombia	Trust	98.81	%
Banca de Inversión	Colombia	Investment banking	100.00	%
Valores Bancolombia	Colombia	Securities brokerage	100.00	%
Tuya S.A. Compañía de Financiamiento	Colombia	Financial services	99.99	%
Factoring Bancolombia (wound up in 2014) ⁽¹⁾	Colombia	Financial services	0.00	%
Patrimonio Autónomo Cartera LBC	Colombia	Loan management	100.00	%
Renting Colombia S.A.	Colombia	Operating leasing	100.00	%
Transportempo S.A.S.	Colombia	Transportation	100.00	%
Valores Simesa S.A.	Colombia	Investments	68.57	%
Inversiones CFNS S.A.S.	Colombia	Investments	99.94	%
CFNS Infraestructura S.A.S. (in liquidation)	Colombia	Investments	99.94	%
BIBA Inmobiliaria S.A.S. (formerly Inmobiliaria Bancol S.A.)	Colombia	Real estate broker	100.00	%
Vivayco S.A.S. (in liquidation)	Colombia	Portfolio Purchase	74.95	%
Uff Móvil S.A.S.	Colombia	Mobile network operator	75.05	%
FCP Fondo Colombia Inmobiliario S.A.	Colombia	Real estate broker	50.28	%
Bancolombia Panama	Panama	Banking	100.00	%
Valores Bancolombia Panama S.A.	Panama	Securities brokerage	100.00	%
Suvalor Panama Fondo de Inversión S.A.	Panama	Holding	100.00	%
Suvalor Renta Variable Colombia S.A.	Panama	Collective investment fund	100.00	%
Suvalor Renta Fija Internacional Corto Plazo S.A.	Panama	Collective investment fund	100.00	%
Suvalor Renta Fija Internacional Largo Plazo S.A.	Panama	Collective investment fund	100.00	%
Sistema de Inversiones y Negocios S.A. Sinesa	Panama	Investments	100.00	%
Banagrícola	Panama	Investments	99.16	%
Banistmo	Panama	Banking	98.12	%
Banistmo Investment Corporation S.A.	Panama	Trust	98.12	%
Financiera Flash S.A.	Panama	Financial services	98.12	%
Grupo Financomer S.A.	Panama	Financial services	98.12	%
Leasing Banistmo S.A.	Panama	Leasing	98.12	%
Seguros Banistmo S.A.	Panama	Insurance company	98.12	%
Securities Banistmo S.A.	Panama	Purchase and sale of securities	98.12	%
Banistmo Capital Markets Group Inc	Panama	Purchase and sale of securities	98.12	%
Anavi Investment Corporation S.A.	Panama	Real estate broker	98.12	%
Williamsburg International Corp.	Panama	Real estate broker	98.12	%
Van Dyke Overseas Corp.	Panama	Real estate broker	98.12	%

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Desarrollo de Oriente S.A.	Panama	Real estate broker	98.12	%
Bien Raíces Armuelles S.A.	Panama	Real estate broker	98.12	%
Steens Enterprises S.A.	Panama	Portfolio holder	98.12	%
Ordway Holdings S.A.	Panama	Real estate broker	98.12	%
Inversiones Castan S.A. (wound up in 2014) ⁽¹⁾	Panama	Real estate broker	0.00	%
Financomer S.A.	Panama	Financial services	98.12	%
Banistmo Asset Management Inc	Panama	Purchase and sale of securities	98.12	%
M.R. C Investment Corp.	Panama	Real estate broker	98.12	%
Inmobiliaria Bickford S.A.	Panama	Real estate broker	98.12	%
Banco Agrícola	El Salvador	Banking	97.35	%
Arrendadora Financiera S.A. Arfinsa	El Salvador	Leasing	97.36	%
Credibac S.A. de C.V.	El Salvador	Credit card services	97.36	%
Valores Banagricola S.A. de C.V.	El Salvador	Securities brokerage	98.89	%
Inversiones Financieras Banco Agrícola S.A. IFBA	El Salvador	Investments	98.89	%
Arrendamiento Operativo CIB S.A.C.	Peru	Operating leasing	100.00	%

Entity	Jurisdiction of Incorporation	Business	Shareholding directly and indirectly	
Capital Investments SAFI S.A.	Peru	Trust	100.00	%
Fondo de Inversión en Arrendamiento Operativo Renting Perú	Peru	Car Rental	100.00	%
Leasing Perú S.A.	Peru	Leasing	100.00	%
FiduPerú S.A. Sociedad Fiduciaria	Peru	Trust	98.81	%
Bancolombia Puerto Rico Internacional, Inc.	Puerto Rico	Banking	100.00	%
Suleasing International USA, Inc.	USA	Leasing	100.00	%
Bancolombia Caymán S.A.	Cayman Islands	Banking	100.00	%
Banagrícola Guatemala S.A.	Guatemala	Outsourcing	99.16	%
Bagrícola Costa Rica S.A.	Costa Rica	Outsourcing	99.16	%

(1) See Item 18. Note 1 “Organization and Background” to the Financial Statements.

D. PREMISES AND EQUIPMENT

As of December 31, 2014, the Bank owned COP 5,900 billion in premises and equipment (including assets that are part of our operating leasing business). COP 2,457 billion correspond to land and buildings, of which approximately 57.52% are used for administrative offices and branches in 74 municipalities in Colombia, 25 municipalities in El Salvador and 4 municipalities in Panama. Likewise, COP 357 billion correspond to computer equipment, of which 16.05% relate to the central computer and servers of the Bank and the rest relate to personal computers, ATMs, telecommunications equipment and other equipment.

In addition to its own branches, the Bank occupies 714 rented offices.

The Bank does not have any liens on its property.

E. SELECTED STATISTICAL INFORMATION

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

The consolidated selected statistical information for the years ended December 31, 2013, 2012, 2011 and 2010 includes the selected statistical information of Bancolombia and its Subsidiaries, without reflecting any pro-forma calculation of the effect of the acquisition of Banistmo, while consolidated selected statistical information for the year ended December 31, 2014 corresponds to the Bank and its Subsidiaries, including all additional Subsidiaries acquired as a result of the Banistmo acquisition.

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

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

In addition, the interest rate subtotals are based on the weighted average of domestic and foreign assets and liabilities.

Average balance sheet

The following tables show for the years ended December 31, 2014, 2013 and 2012, respectively: (i) average balances for all of the Bank's assets and liabilities; (ii) interest earned and interest paid amounts; and (iii) average nominal interest rates/yield for the Bank's interest-earning assets and interest-bearing liabilities.

Average Balance Sheet and Income from Interest-Earning Assets for the Fiscal Year Ended December 31,

	2014			2013			2012		
	Average Balance	Interest Earned	Average Yield / Rate	Average Balance	Interest Earned	Average Yield / Rate	Average Balance	Interest Earned	Average Yield / Rate

(in millions of COP, except percentages)

ASSETSInterest-earning
assetsFunds sold and
securities purchased
under agreements to
resell

Domestic-activities	750,677	43,927	5.9 %	794,441	18,910	2.4 %	314,406	20,341	6.5 %
Foreign-activities	1,986,953	11,534	0.6 %	1,978,847	7,990	0.4 %	837,221	3,837	0.5 %
Total	2,737,630	55,461	2.0 %	2,773,288	26,900	1.0 %	1,151,627	24,178	2.1 %

Investment
securities⁽¹⁾

Domestic-activities	8,670,580	430,186	5.0 %	9,272,294	328,640	3.5 %	7,393,673	752,081	10.3 %
Foreign-activities	2,893,596	74,972	2.6 %	3,195,398	160,888	5.0 %	2,480,742	7,432	0.3 %
Total	11,564,176	505,158	4.4 %	12,467,692	489,528	3.9 %	9,874,415	759,513	7.7 %

Loans and Financial
Leases ⁽²⁾

Domestic-activities	63,572,355	7,064,637	11.1 %	56,672,928	6,558,299	11.6 %	47,397,959	6,029,349	12.7 %
Foreign-activities	29,936,003	1,720,352	5.7 %	19,524,770	1,055,957	5.4 %	14,982,937	848,843	5.7 %
Total	93,508,358	8,784,989	9.4 %	76,197,698	7,614,256	10.0 %	62,380,896	6,878,192	11.1 %

Total interest-earning
assets

Domestic-activities	72,993,612	7,538,750	10.3 %	66,739,663	6,905,849	10.3 %	55,106,038	6,801,771	12.3 %
Foreign-activities	34,816,552	1,806,858	5.2 %	24,699,015	1,224,835	5.0 %	18,300,900	860,112	4.7 %
Total	107,810,164	9,345,608	8.7 %	91,438,678	8,130,684	8.9 %	73,406,938	7,661,883	10.4 %

Total
non-interest-earning
assets

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Domestic-activities	13,575,926		13,350,698		14,789,995	
Foreign-activities	12,334,910		5,988,108		459,680	
Total	25,910,836		19,338,806		15,249,675	
Total interest and non-interest-earnings assets						
Domestic-activities	86,569,538	7,538,750	80,090,361	6,905,849	69,896,033	6,801,771
Foreign-activities ⁽³⁾	47,151,462	1,806,858	30,687,123	1,224,835	18,760,580	860,112
Total Assets (COP)	133,721,000	9,345,608	110,777,484	8,130,684	88,656,613	7,661,883

⁽¹⁾ Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

⁽²⁾ Includes performing loans only.

⁽³⁾ The percentage of total average assets attributable to foreign activities was 35.3%, 27.7% and 21.2%, respectively, for the fiscal years ended December 31, 2014, 2013 and 2012.

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

	2014			2013			2012		
	Average Balance	Interest Paid	<i>Average Yield / Rate⁽¹⁾</i>	Average Balance	Interest Paid	<i>Average Yield / Rate⁽¹⁾</i>	Average Balance	Interest Paid	<i>Average Yield / Rate⁽¹⁾</i>
(in millions of COP, except percentages)									
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Checking deposits									
Domestic-activities	1,616,494	19,929	1.2%	1,348,965	19,282	1.4%	815,018	14,854	1.8%
Foreign-activities	1,890,807	9,888	0.5%	1,606,145	10,121	0.6%	1,552,101	10,077	0.6%
Total	3,507,301	29,817	0.9%	2,955,110	29,403	1.0%	2,367,119	24,931	1.1%
Savings deposits									
Domestic-activities	27,765,021	442,206	1.6%	25,963,044	622,093	2.4%	20,523,024	645,429	3.1%
Foreign-activities	6,923,048	45,950	0.7%	3,670,815	20,523	0.6%	2,516,804	13,926	0.6%
Total	34,688,069	488,156	1.4%	29,633,859	642,616	2.2%	23,039,828	659,355	2.9%
Time deposits									
Domestic-activities	21,104,588	1,065,774	5.0%	20,622,641	1,114,775	5.4%	15,434,855	948,569	6.1%
Foreign-activities	13,071,400	363,294	2.8%	8,354,777	215,664	2.6%	6,254,808	168,866	2.7%
Total	34,175,988	1,429,068	4.2%	28,977,418	1,330,439	4.6%	21,689,663	1,117,435	5.2%
Funds purchased and securities sold under agreements to repurchase									
Domestic-activities	1,799,733	126,354	7.0%	1,407,385	58,559	4.2%	1,783,698	95,984	5.4%
Foreign-activities	306,987	1,169	0.4%	70,009	2,545	3.6%	85,580	1,636	1.9%
Total	2,106,720	127,523	6.1%	1,477,394	61,104	4.1%	1,869,278	97,620	5.2%
Borrowings from development and other domestic banks ⁽²⁾									
Domestic-activities	4,365,164	236,731	5.4%	3,722,785	221,097	5.9%	3,114,989	216,746	7.0%
Foreign-activities	62,314	2,087	3.3%	56,472	2,096	3.7%	62,503	3,350	5.4%
Total	4,427,478	238,818	5.4%	3,779,257	223,193	5.9%	3,177,492	220,096	6.9%
Interbank borrowings ^{(2) (3)}									
Domestic-activities	-	-	-	-	-	-	-	-	-
Foreign-activities	7,482,450	139,633	1.9%	4,764,809	77,995	1.6%	2,488,285	50,209	2.0%
Total	7,482,450	139,633	1.9%	4,764,809	77,995	1.6%	2,488,285	50,209	2.0%
Long-term debt									
Domestic-activities	4,852,573	353,473	7.3%	4,876,452	338,078	6.9%	5,113,227	405,946	7.9%
Foreign-activities	7,654,587	434,299	5.7%	7,493,170	419,298	5.6%	5,674,347	319,268	5.6%
Total	12,507,160	787,772	6.3%	12,369,622	757,376	6.1%	10,787,574	725,214	6.7%

Total interest-bearing liabilities										
Domestic-activities	61,503,573	2,244,467	3.6%	57,941,272	2,373,884	4.1%	46,784,811	2,327,528	5.0%	
Foreign-activities	37,391,593	996,320	2.7%	26,016,197	748,242	2.9%	18,634,428	567,332	3.0%	
Total	98,895,166	3,240,787	3.3%	83,957,469	3,122,126	3.7%	65,419,239	2,894,860	4.4%	
Total interest and non-interest bearing liabilities and stockholders' equity										
Domestic-activities	85,973,148	2,244,467		79,325,965	2,373,884		69,753,379	2,327,528		
Foreign-activities ⁽⁴⁾	47,747,852	996,320		31,451,519	748,242		18,903,234	567,332		
Total Liabilities and Stockholders' Equity (COP)	133,721,000	3,240,787		110,777,484	3,122,126		88,656,613	2,894,860		

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

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

⁽³⁾ Includes borrowings from banks located outside Colombia.

⁽⁴⁾ The percentage of total average liabilities attributable to foreign activities was 38.5%, 29.9% and 22.9%, respectively, for the fiscal years ended December 31, 2014, 2013 and 2012.

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

The following table allocates, for domestic and foreign activities, changes in the Bank's net interest income to changes in average volume, changes in nominal rates and the net variance caused by changes in both average volume and nominal rate for the fiscal year ended December 31, 2014 compared to the fiscal year ended December 31, 2013; and the fiscal year ended December 31, 2013 compared to the fiscal year ended December 31, 2012. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities. Net changes attributable to changes in both volume and interest rate have been allocated to the change due to changes in volume.

	2013-2014			2012-2013		
	Increase (Decrease) Due To Changes in:			Increase (Decrease) Due To Changes in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(COP million)					
Interest-earning assets:						
Funds sold and securities purchased under agreements to resell						
Domestic-activities	(2,561)	27,578	25,017	11,426	(12,857)	(1,431)
Foreign-activities	47	3,497	3,544	4,610	(457)	4,153
Total	(2,514)	31,075	28,561	16,036	(13,314)	2,722
Investment securities⁽¹⁾						
Domestic-activities	(29,854)	131,400	101,546	66,584	(490,025)	(423,441)
Foreign-activities	(7,820)	(78,096)	(85,916)	35,983	117,473	153,456
Total	(37,674)	53,304	15,630	102,567	(372,552)	(269,985)
Loans and financial leases						
Domestic-activities	766,716	(260,378)	506,338	1,073,317	(544,367)	528,950
Foreign-activities	598,309	66,086	664,395	245,636	(38,522)	207,114
Total	1,365,025	(194,292)	1,170,733	1,318,953	(582,889)	736,064
Total interest-earning assets						
Domestic-activities	734,301	(101,400)	632,901	1,151,327	(1,047,249)	104,078
Foreign-activities	590,536	(8,513)	582,023	286,229	78,494	364,723
Total	1,324,837	(109,913)	1,214,924	1,437,556	(968,755)	468,801
Interest-bearing liabilities:						
Checking deposits						
Domestic-activities	3,298	(2,651)	647	7,632	(3,204)	4,428
Foreign-activities	1,489	(1,722)	(233)	341	(297)	44
Total	4,787	(4,373)	414	7,973	(3,501)	4,472
Savings deposits						
Domestic-activities	28,700	(208,587)	(179,887)	130,347	(153,683)	(23,336)
Foreign-activities	21,586	3,841	25,427	6,452	145	6,597
Total	50,286	(204,746)	(154,460)	136,799	(153,538)	(16,739)

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Time deposits						
Domestic-activities	24,338	(73,339)	(49,001)	280,430	(114,224)	166,206
Foreign-activities	131,089	16,541	147,630	54,207	(7,409)	46,798
Total	155,427	(56,798)	98,629	334,637	(121,633)	213,004
Funds purchased and securities sold under agreements to repurchase						
Domestic-activities	27,546	40,249	67,795	(15,658)	(21,767)	(37,425)
Foreign-activities	902	(2,278)	(1,376)	(566)	1,475	909
Total	28,448	37,971	66,419	(16,224)	(20,292)	(36,516)
Borrowings from development and other domestic banks						
Domestic-activities	34,837	(19,203)	15,634	36,097	(31,746)	4,351
Foreign-activities	196	(205)	(9)	(224)	(1,030)	(1,254)
Total	35,033	(19,408)	15,625	35,873	(32,776)	3,097
Interbank borrowings						
Domestic-activities	-	-	-	-	-	-
Foreign-activities	50,715	10,923	61,638	37,264	(9,478)	27,786
Total	50,715	10,923	61,638	37,264	(9,478)	27,786

	2013-2014			2012-2013		
	Increase (Decrease)			Increase (Decrease)		
	Due To Changes in:			Due To Changes in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(COP million)					
Long-term debt						
Domestic-activities	(1,739)	17,134	15,395	(16,415)	(51,453)	(67,868)
Foreign-activities	9,158	5,843	15,001	101,777	(1,747)	100,030
Total	7,419	22,977	30,396	85,362	(53,200)	32,162
Total interest-bearing liabilities						
Domestic-activities	116,980	(246,397)	(129,417)	422,433	(376,077)	46,356
Foreign-activities	215,135	32,943	248,078	199,251	(18,341)	180,910
Total (COP)	332,115	(213,454)	118,661	621,684	(394,418)	227,266

⁽¹⁾ Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

INTEREST-EARNING ASSETS — NET INTEREST MARGIN AND SPREAD

The following table presents the levels of average interest-earning assets and net interest income of the Bank and illustrates the comparative net interest margin and interest spread obtained for the fiscal years ended December 31, 2014, 2013 and 2012, respectively.

	Interest-Earning Assets-Yield For the Fiscal					
	Year Ended December 31,					
	2014	2013	2012			
	<i>(COP million, except percentages)</i>					
Total average interest-earning assets						
Domestic-activities	72,993,612	66,739,663	55,106,038			
Foreign-activities	34,816,552	24,699,015	18,300,900			
Total	107,810,164	91,438,678	73,406,938			
Net interest income ⁽¹⁾						
Domestic-activities	5,294,283	4,531,965	4,474,243			
Foreign-activities	810,538	476,593	292,780			
Total	6,104,821	5,008,558	4,767,023			
Average yield on interest-earning assets						
Domestic-activities	10.3	% 10.3	% 12.3			
Foreign-activities	5.2	% 5.0	% 4.7			
Total	8.7	% 8.9	% 10.4			

Net interest margin ⁽²⁾					
Domestic-activities	7.3	%	6.8	%	8.1
Foreign-activities	2.3	%	1.9	%	1.6
Total	5.7	%	5.5	%	6.5
Interest spread ⁽³⁾					
Domestic-activities	6.7	%	6.3	%	7.4
Foreign-activities	2.5	%	2.1	%	1.7
Total	5.4	%	5.2	%	6.0

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

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

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

E.2.

INVESTMENT PORTFOLIO

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

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

As of December 31, 2014, Bancolombia’s debt securities investment portfolio net of allowances had a value of COP 11,684 billion.

In accordance with Chapter 1 of Circular 100 of 1995 issued by the Superintendency of Finance, investments in debt securities are fully reviewed for impairment in June and December and partially reviewed for impairment every three months; in each case taking into account the related solvency risk, market exposure, currency exchange and country risk.

For investments in securities with market prices or defined by agencies recognized by the Superintendency of Finance like “Price Vendors” no adjustment is required for Credit Risk.

Investments in securities with no market price but rated by external agencies recognized by the Superintendency of Finance cannot be recorded on the balance sheet of the Bank for an amount higher than a certain percentage of the face value (as shown in the table below), net of the amortizations recorded as of the valuation date.

Long-Term Rating Maximum Face Value (%)

BB+, BB, BB-	Ninety (90)
B+, B, B-	Seventy (70)
CCC	Fifty (50)
DD, EE	Zero (0)

Short-Term Rating Maximum Face Value (%)

3	Ninety (90)
4	Fifty (50)
5 and 6	Zero (0)

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

The following table sets forth the book value of the Bank's investments in Colombian government foreign governments and corporate securities and certain other financial investments as of the dates indicated ⁽¹⁾:

	As of December 31,		
	2014⁽²⁾⁽³⁾	2013⁽²⁾⁽³⁾	2012⁽²⁾⁽³⁾
	(in millions of COP)		
Foreign currency-denominated			
Securities issued or secured by the Colombian Government	COP205,302	COP166,180	COP236,890
Securities issued or secured by the El Salvador Central Bank	23,638	605,036	582,418
Securities issued or secured by Government entities ⁽⁴⁾	58,273	59,276	58,513
Securities issued or secured by other financial entities	397,278	209,439	341,302
Securities issued by foreign Governments ⁽⁵⁾	1,786,419	1,632,921	693,751
Others ⁽⁶⁾	147,296	87,555	205,749
Subtotal	2,618,206	2,760,407	2,118,623
Colombian peso-denominated			
Securities issued or secured by the Colombian Government	6,333,216	5,878,685	5,959,277
Securities issued or secured by Government entities	1,423,000	1,788,336	1,278,576
Securities issued or secured by financial entities	1,277,463	1,606,328	1,997,260
Others ⁽⁶⁾	32,312	93,478	64,319
Subtotal	9,065,991	9,366,827	9,299,432
Total ⁽⁷⁾	COP11,684,197	COP12,127,234	COP11,418,055

⁽¹⁾ For further information about the disclosures required by ASC 320, see Note 31, i) "Investment securities, derivatives and REPOS", to the Financial Statements.

(2) Includes debt securities only. Net investments in equity securities were COP 1,993,604 million, COP 1,678,556 million and COP 1,136,256 million for 2014, 2013 and 2012, respectively.

(3) These amounts are net of allowances for decline in value which were COP 6,785 million for 2014, COP 8,945 million for 2013 and COP 14,159 million for 2012, respectively.

This amount includes investments in fiduciary certificates of participation. These certificates were issued for the Environmental Trust for the conservation of the Coffee Forest (Fideicomiso Ambiental para la Conservación del Bosque Cafetero or FICAFE). This trust was formed with the transfer of the coffee sector's loan portfolio by a number of banks in El Salvador, including Banco Agrícola. The purpose of this transaction was to carry out the restructuring of those loans, promoted by the Government of El Salvador. The Bank has recognized an allowance related to probable losses inherent in the FICAFE investment in an amount of COP 32,296 million and COP 28,841 million at December 31, 2014 and 2013, respectively.

(5) Due to the acquisition of Banistmo in 2013, the Bank has increased significantly its position in securities issued by Panama, which reached COP 809,981 million and COP 781,964 million for the years 2014 and 2013.

(6) Includes debt securities in corporate bonds.

(7) For further information about the investment portfolio by classification, see Note 5 Investment Securities.

As of December 31, 2014, 2013 and 2012 Bancolombia held securities issued by foreign governments in the following amounts:

As of December 31, Issuer		<i>Investment Amount–Book Value - (in millions of pesos)⁽¹⁾</i>		<i>Investment Amount–Book Value (thousands of U.S. dollars)^{(1) (2)}</i>	
2014	Republic of Panama	COP	809,981	USD	338,556
	Republic of Mexico	COP	449,443	USD	187,858
	U.S. Treasury	COP	203,119	USD	84,900
	Republic of El Salvador	COP	184,159	USD	76,975
	Republic of Costa Rica	COP	74,942	USD	31,324
	Republic of Brazil	COP	57,292	USD	23,947
	Republic of Chile	COP	9,237	USD	3,861
2013	Republic of Panama	COP	781,964	USD	405,829
	Republic of El Salvador	COP	347,470	USD	180,333
	Republic of Mexico	COP	313,037	USD	162,462
	Republic of Costa Rica	COP	76,001	USD	39,443
	U.S. Treasury	COP	64,816	USD	33,639
	Republic of Brazil	COP	45,736	USD	23,736
	Republic of Chile	COP	6,912	USD	3,587
2012	Republic of El Salvador	COP	403,541	USD	228,218
	Republic of Chile	COP	76,235	USD	43,114
	Republic of Brazil	COP	74,601	USD	42,189
	U.S. Treasury	COP	52,985	USD	29,965
	Republic of Mexico	COP	48,629	USD	27,501
	Republic of Costa Rica	COP	31,133	USD	17,607
	Republic of Panama	COP	10,761	USD	6,086
Republic of Peru	COP	6,496	USD	3,674	

(1) These amounts are not net of allowances. Provision charges account for COP 1,755 million (USD 0.7 million) for 2014, COP 3,014 million (USD 1.6 million) for 2013 and COP 10,630 million (USD 6 million) for 2012.

(2) These amounts have been translated at the rate of COP 2,392.46 per USD 1.00 at December 2014, COP 1,926.83 per USD 1.00 at December 2013 and COP 1,768.23 per USD 1.00 at December 2012, which corresponds to the Representative Market Rate calculated on December 31, the last business day of the year.

As of December 31, 2014, the Bank's peso-denominated debt securities portfolio amounted to COP 9,065 billion, reflecting a 3.21% decrease compared to December 31, 2013. The decrease resulted mainly from a reduction in holdings of Securities issued or secured by Government and financial entities. Peso-denominated debt securities issued by the Colombian government represented 70% of the Bank's peso-denominated debt securities portfolio as of December 31, 2014.

On the other hand, as of December 31, 2014, Bancolombia's held securities issued by foreign governments amounted to COP 1,786 billion (net of allowances for decline in value), increasing in 9% compared to December 31, 2013. This variation is primarily explained by an increase in the Bank's position in Mexican and U.S. sovereign bonds.

INVESTMENT SECURITIES PORTFOLIO MATURITY

The following table summarizes the maturities and weighted average nominal yields of the Bank's investment securities as of December 31, 2014:

	As of December 31, 2014								Total Balance ⁽¹⁾
	Maturity of less than year		Maturity of 1 to 5 years		Maturity of 5 to 10 years		Maturity of more than 10 years		
	Balance ⁽¹⁾	Yield %	Balance ⁽¹⁾	Yield %	Balance ⁽¹⁾	Yield %	Balance ⁽¹⁾	Yield % ⁽²⁾	
(in millions of pesos (COP), except yields)									
Securities issued or secured by:									
Foreign currency-denominated⁽³⁾:									
Colombian Government	-	-	164,269	1.94 %	41,033	3.18 %	-	-	205,302
El Salvador Central Bank	23,638	5.74 %	-	-	-	-	-	-	23,638
Other Government entities	-	-	8,072	3.43 %	6,951	5.28 %	43,250	3.58 %	58,273
Other financial entities	100,927	4.68 %	252,055	3.04 %	44,296	4.72 %	-	-	397,278
Foreign Governments	722,672	2.93 %	633,503	2.68 %	404,720	3.86 %	25,524	4.52 %	1,786,419
Others	-	-	111,893	4.14 %	19,639	5.25 %	15,764	5.74 %	147,296
Subtotal	847,237	3.21 %	1,169,792	2.80 %	516,639	3.95 %	84,538	4.27 %	2,618,206
Securities issued or secured by:									
Peso-denominated⁽³⁾:									
Colombian Government	1,485,076	4.71 %	2,683,442	5.18 %	946,970	6.44 %	45,528	7.16 %	5,161,016
Other Government entities	1,413,758	0.73 %	1,577	5.46 %	7,665	7.33 %	-	-	1,423,000
Other financial entities	209,450	4.55 %	126,846	6.08 %	479,148	8.32 %	312,859	13.08 %	1,128,303
Others	2,620	3.66 %	11,858	5.69 %	13,089	6.35 %	4,745	7.20 %	32,312
Subtotal	3,110,904	2.89 %	2,823,723	5.22 %	1,446,872	7.07 %	363,132	12.27 %	7,744,631
Securities issued or secured by:									
UVR-denominated⁽³⁾:									
Colombian Government.	695,330	1.86 %	409,140	1.76 %	67,730	2.81 %	-	-	1,172,200
Other financial entities	6,932	6.65 %	-	-	91,186	5.22 %	51,042	9.69 %	149,160
Subtotal	702,262	1.91 %	409,140	1.76 %	158,916	4.20 %	51,042	9.69 %	1,321,360
Total (COP)	4,660,403		4,402,655		2,122,427		498,712		11,684,197

(1) Amounts are net of allowances for decline in value which amounted to COP 6,785 million in 2014.

(2) Yield was calculated using the internal rate of return (IRR) as of December 31, 2014.

(3) Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

As of December 31, 2014, the Bank had the following investments in securities of issuers that exceeded 10% of the Bank's stockholders' equity:

	Issuer (in millions of COP)	Amortized Cost	Fair value
Securities issued or secured by:			
Colombian Government	Ministry of Finance	COP 6,436,713	COP6,434,160
Total		COP 6,436,713	COP6,434,160

E.3.

LOAN PORTFOLIO

Types of loans

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

	As of December 31,				
	2014	2013	2012	2011	2010
	(in millions of COP)				
Domestic					
Corporate					
Trade financing	2,890,528	2,152,173	1,994,779	2,338,728	1,704,673
Loans funded by development banks	697,528	481,862	245,241	252,891	300,459
Working capital loans	35,624,081	28,450,758	26,274,367	22,234,866	18,360,582
Credit cards	37,329	35,102	30,008	30,552	31,297
Overdrafts	66,682	77,171	82,981	66,454	38,563
Total corporate	39,316,148	31,197,066	28,627,376	24,923,491	20,435,574
Retail⁽¹⁾					
Credit cards	4,448,368	4,012,940	3,488,787	3,161,273	2,477,808
Personal loans	6,638,820	6,169,273	5,209,423	4,222,015	2,890,095
Vehicle loans	2,369,489	2,335,860	2,154,121	1,991,909	1,332,175
Overdrafts	206,047	205,865	210,653	168,865	156,244
Loans funded by development banks	770,690	1,290,747	843,146	676,985	667,299
Trade financing	423,725	135,370	99,596	69,210	27,547
Working capital loans	11,671,634	9,620,582	8,380,095	6,330,371	4,702,240
Total retail	26,528,773	23,770,637	20,385,821	16,620,628	12,253,408
Financial Leases	10,773,336	9,290,115	8,405,497	6,977,454	5,737,473
Mortgage	7,352,637	6,564,929	5,164,514	4,017,855	2,516,376
Total loans and leases	83,970,894	70,822,747	62,583,208	52,539,428	40,942,831
Allowance for loan losses	(3,994,277)	(3,415,728)	(2,975,616)	(2,455,141)	(2,160,119)
Total domestic loans, net	79,976,617	67,407,019	59,607,592	50,084,287	38,782,712
Foreign					
Corporate					
Trade financing	6,097,012	4,554,142	220,834	1,889,668	1,192,349
Loans funded by development banks	6,208	7,936	16,460	11,104	18,874
Working capital loans	6,149,036	5,542,013	4,219,310	4,001,695	3,644,287
Credit cards	9,992	7,304	5,611	16,817	6,712
Overdrafts	7,138	2,852	20,453	29,380	5,190
Total corporate	12,269,386	10,114,247	4,482,668	5,948,664	4,867,412

Retail⁽¹⁾

Credit cards	746,007	535,730	183,979	168,061	156,895
Personal loans	4,277,637	3,403,868	1,611,499	1,597,624	1,649,853
Vehicle loans	377,997	241,844	1,426	1,905	2,705
Overdrafts	53,212	45,859	12,897	18,248	18,449
Loans funded by development banks	41,262	28,498	19,879	16,718	12,143
Trade financing	124,744	98,775	8,767	17,585	7,516
Working capital loans	47,365	45,652	46,600	63,025	20,705
Total retail	5,668,224	4,400,226	1,885,047	1,883,166	1,868,266
Financial Leases	478,696	391,321	244,446	194,357	96,076
Mortgage	5,166,347	3,731,001	793,310	822,813	826,505
Total loans and leases	23,582,653	18,636,795	7,405,471	8,849,000	7,658,259
Allowance for loan losses	(755,896)	(649,802)	(274,023)	(357,441)	(349,094)
Total foreign loans, net	22,826,757	17,986,993	7,131,448	8,491,559	7,309,165
Total Foreign and Domestic Loans	102,803,374	85,394,012	66,739,040	58,575,846	46,091,877

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

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

As of December 31, 2014, the Bank's total loan portfolio amounted to COP 107,554 billion, up 20% as compared to COP 89,460 billion in 2013, and 54% higher than the COP 69,989 billion at the end of 2012. Loan volume performance during 2014 is explained by a significant growth in economic activity in Colombia, which led individuals and corporations to request more credit and by the acquisition of Banistmo in October 2013. For further discussion of some of these trends please see Item 5. "Operating and Financial Review and Prospects-D. Trend information".

As of December 31, 2014, corporate loans amounted to COP 51,586 billion, or 48% of loans, and increased 25% from COP 41,311 billion at the end of 2013. In 2014, corporations demanded loans for expanding production facilities and for working capital purposes. This demand caused the stock of loans to increase in the Bank's books.

Retail loans totaled COP 32,197 billion, or 30% of total loans, of which COP 19,117 billion were consumer loans (18% of total loans). Retail loans increased 14.3% over the year. In 2014, individuals demanded credit card loans, to finance vehicles and for personal purposes.

Financial leases totaled COP 11,252 billion as of December 31, 2014, up 16.2% from COP 9,681 billion in 2013.

Mortgage lending activity was dynamic during 2014, driven mainly by the Colombian government's housing subsidy program implemented in April 2009 as well as by lower long-term interest rates in Colombia. Mortgage loans increased 22% over the year.

Borrowing Relationships

As of December 31, 2014, the aggregate outstanding principal amount of the Bank's 25 largest credit exposures, on a consolidated basis, represented approximately 13.63% of the loan portfolio, of the Bank and no single exposure represented more than 3% of the loan book. In addition, 100% of those loans were corporate loans and 100% of these relationships were classified as "A".

Maturity and Interest Rate Sensitivity of Loans

The following table shows the maturities of the Bank's loan portfolio as of December 31, 2014:

	Maturity of one year or less (COP million)	Maturity of one to five years	Maturity of more than five years	Total
Domestic loans and financial leases:				
Corporate				
Trade financing	2,823,330	17,043	50,155	2,890,528
Loans funded by development banks	22,193	98,173	577,162	697,528
Working capital loans	13,497,755	9,813,806	12,312,520	35,624,081
Credit cards	13,379	22,318	1,632	37,329
Overdrafts	66,682	-	-	66,682
Total corporate	16,423,339	9,951,340	12,941,469	39,316,148
Retail				
Credit cards	825,112	3,562,861	60,395	4,448,368
Personal loans	946,070	5,337,917	354,833	6,638,820
Vehicle loans	546,317	1,773,633	49,539	2,369,489
Overdrafts	206,047	-	-	206,047
Loans funded by development banks	83,387	448,881	238,422	770,690
Trade financing	422,432	1,293	-	423,725
Working capital loans	3,362,874	6,812,387	1,496,373	11,671,634
Total retail	6,392,239	17,936,972	2,199,562	26,528,773
Financial leases	305,480	4,070,413	6,397,443	10,773,336
Mortgage	128,232	290,116	6,934,289	7,352,637
Total domestic loans and financial leases	23,249,290	32,248,841	28,472,763	83,970,894

	Maturity of one year or less (COP million)	Maturity of one to five years	Maturity of more than five years	Total
Foreign loans and financial leases:				
Corporate				
Trade financing	1,546,910	3,200,937	1,349,165	6,097,012
Loans funded by development banks	93	1,155	4,960	6,208
Working capital loans	4,179,961	1,417,975	551,100	6,149,036
Credit cards	3	9,763	226	9,992
Overdrafts	7,138	-	-	7,138
Total corporate	5,734,105	4,629,830	1,905,451	12,269,386
Retail				
Credit cards	8,522	736,955	530	746,007
Personal loans	137,854	983,308	3,156,475	4,277,637
Vehicle loans	2,873	126,746	248,378	377,997
Overdrafts	52,191	1,001	20	53,212
Loans funded by development banks	65	5,252	35,945	41,262
Trade financing	39,860	24,355	60,529	124,744
Working capital loans	16,460	22,869	8,036	47,365
Total retail	257,825	1,900,486	3,509,913	5,668,224
Financial leases	94,485	266,256	117,955	478,696
Mortgage	16,744	92,838	5,056,765	5,166,347
Total foreign loans and financial leases	6,103,159	6,889,410	10,590,084	23,582,653
Total loans	29,352,449	39,138,251	39,062,847	107,553,547

In general, the term of a loan will depend on the type of guarantee, the credit history of the borrower and the purpose of the loan. Approximately 64% of the Bank's loan portfolio has a maturity of five years or less as of December 31, 2014.

The following table shows the interest rate sensitivity of the Bank's loan portfolio due after one year and within one year or less as of December 31, 2014:

		As of December 31, 2014 (COP million)
Loans with term of 1 year or more:		
Variable Rate		
Domestic-denominated	COP	44,235,436
Foreign-denominated		13,252,248
Total		57,487,684
Fixed Rate		
Domestic-denominated		16,486,168

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Foreign-denominated	4,227,246
Total	20,713,414
Loans with term of less than 1 year:	
Domestic-denominated	23,249,290
Foreign-denominated	6,103,159
Total	29,352,449
Total loans	COP 107,553,547

Loans by Economic Activity

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

	<i>As of December 31,</i>											
	2014	%	2013	%	2012	%	2011	%	2010	%		%
	<i>(COP million, except percentages)</i>											
Domestic												
Agricultural	3,221,095	3.8 %	2,954,514	4.2 %	2,648,064	4.2 %	2,102,923	4.0 %	1,810,415	4.0 %		
Mining products and oil	2,335,153	2.8 %	1,806,379	2.6 %	2,324,822	3.7 %	1,583,513	3.0 %	1,863,052	4.0 %		
Food, beverage and Tobacco	3,906,579	4.7 %	2,879,766	4.1 %	1,885,953	3.0 %	1,710,015	3.3 %	2,922,405	7.0 %		
Chemical production	2,611,772	3.1 %	1,629,282	2.3 %	2,526,802	4.0 %	2,464,222	4.7 %	2,727,045	6.8 %		
Other industrial and Manufacturing products	5,614,673	6.7 %	4,409,656	6.2 %	3,857,788	6.2 %	3,993,961	7.6 %	3,124,519	7.7 %		
Government	2,204,247	2.6 %	1,929,053	2.7 %	1,554,722	2.5 %	1,223,563	2.3 %	1,310,226	3.3 %		
Construction	11,474,943	13.7 %	10,366,851	14.6 %	8,461,594	13.5 %	6,199,270	11.8 %	4,092,951	10.2 %		
Trade and tourism	12,168,263	14.5 %	10,316,629	14.6 %	9,904,717	15.8 %	8,439,099	16.1 %	5,614,774	14.0 %		
Transportation and Communications	5,775,728	6.9 %	5,342,742	7.5 %	4,415,162	7.1 %	3,432,027	6.5 %	2,803,387	6.9 %		
Public services	3,647,991	4.3 %	2,222,410	3.1 %	2,387,679	3.8 %	2,028,122	3.9 %	2,220,108	5.5 %		
Consumer services	21,497,059	25.6 %	19,092,585	27.0 %	17,136,487	27.4 %	13,613,317	25.9 %	9,353,171	23.1 %		
Commercial services	9,513,391	11.3 %	7,872,880	11.1 %	5,479,418	8.8 %	5,749,396	10.9 %	3,100,778	7.7 %		
Total domestic loans (COP)	83,970,894	100 %	70,822,747	100 %	62,583,208	100 %	52,539,428	100 %	40,942,831	100 %		
Foreign												
Agricultural	845,083	3.6 %	428,258	2.3 %	166,159	2.2 %	272,334	3.0 %	327,430	4.0 %		
Mining products and oil	235,950	1.0 %	373,487	2.0 %	192,566	2.6 %	265,689	3.0 %	133,052	1.6 %		
Food, beverage and Tobacco	1,569,045	6.7 %	122,903	0.6 %	387,775	5.3 %	150,692	1.7 %	138,252	1.7 %		
Chemical production	9,966	0.0 %	13,393	0.1 %	9,915	0.1 %	24,197	0.3 %	12,850	0.0 %		
	1,322,354	5.6 %	1,979,668	10.6 %	895,532	12.1 %	2,147,936	24.3 %	1,836,483	24.3 %		

Other industrial and Manufacturing products										
Government	307,954	1.3 %	356,536	1.9 %	4,362	0.1 %	92	0.0 %	4	0.0 %
Construction	3,789,528	16.1 %	2,826,996	15.2 %	1,037,806	14.0 %	1,281,568	14.5 %	1,231,658	14.5 %
Trade and tourism	3,392,041	14.4 %	2,522,710	13.5 %	803,196	10.9 %	595,938	6.7 %	594,213	7.0 %
Transportation and Communications	63,655	0.3 %	532,086	2.9 %	198,131	2.7 %	136,281	1.5 %	149,698	2.0 %
Public services	2,588	0.0 %	5,178,659	27.8 %	306,685	4.1 %	402,896	4.6 %	514,250	6.0 %
Consumer services	11,397,483	48.3 %	3,435,926	18.4 %	1,905,249	25.7 %	1,839,468	20.8 %	1,946,188	22.0 %
Commercial services	647,006	2.7 %	866,173	4.7 %	1,498,095	20.2 %	1,731,909	19.6 %	774,181	10.0 %
Total foreign loans (COP)	23,582,653	100 %	18,636,795	100 %	7,405,471	100 %	8,849,000	100 %	7,658,259	100 %
Total Foreign and Domestic Loans (COP)	107,553,547	100 %	89,459,542	100 %	69,988,679	100 %	61,388,428	100 %	48,601,090	100 %

Credit Categories

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

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

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

Small Business Loans: These are issued for the purpose of encouraging the activities of small business and are subject to the following requirements: (i) the maximum amount to be lent is equal to 25 SMMLV and at any time the balance of any single borrower may not exceed such amount (as stipulated in article 39 of Law 590 of 2000) and (ii) the main source of payment for the corresponding obligation shall be the revenues obtained from activities of the borrower's small business. The balance of indebtedness on the part of the borrower may not exceed 120 SMMLV, as applicable, at the time the loan is approved.

Commercial Loans and Financial Leases: These are granted to individuals or companies in order to carry out organized economic activities and are not classified as small business loans.

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

	Loan Portfolio by Type of Loan				
	As of December 31,				
	2014	2013	2012	2011	2010
	(COP million)				
Commercial Loans	64,479,202	52,363,519	42,465,660	38,212,997	30,992,403
Consumer Loans	18,654,801	16,601,890	12,580,661	10,846,046	8,177,175
Small Business Loans	648,528	516,767	334,591	316,906	255,082
Financial Leases	11,252,032	9,681,436	8,649,943	7,171,811	5,833,549
Mortgage	12,518,984	10,295,930	5,957,824	4,840,668	3,342,881
Total Loans and Financial Leases	107,553,547	89,459,542	69,988,679	61,388,428	48,601,090
Allowance for Loans and Financial Lease Losses	4,750,173	4,065,530	3,249,639	2,812,582	2,509,213
Total Loans and Financial Leases, Net (COP)	102,803,374	85,394,012	66,739,040	58,575,846	46,091,877

Risk categories

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

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

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

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

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

Category E or “unrecoverable”: Loans and financial leases in this category are deemed uncollectible.

For further details about these risk categories see “Note 2. Summary of significant accounting policies – (i) Loans and Financial Leases – Evaluation by credit risk categories” to the Financial Statements.

	As of December 31,											
	2014	%	2013	%	2012	%	2011	%	2010	%		%
	(COP million, except percentages)											
“A” Normal	98,588,245	91.7 %	82,576,481	92.3 %	65,453,223	93.5 %	57,095,160	93.0 %	44,914,187	92.3 %		
“B” Subnormal	4,692,274	4.4 %	3,205,115	3.6 %	1,766,262	2.5 %	1,946,067	3.2 %	1,588,798	3.3 %		
“C” Deficient	1,821,084	1.7 %	1,590,505	1.8 %	1,179,600	1.7 %	913,893	1.4 %	606,901	1.3 %		
“D” Doubtful												
Recover	1,354,293	1.2 %	1,213,257	1.3 %	948,051	1.4 %	848,682	1.4 %	1,014,289	2.1 %		
“E”												
Unrecoverable	1,097,651	1.0 %	874,184	1.0 %	641,543	0.9 %	584,626	1.0 %	476,915	1.0 %		
Total loans and financial leases	107,553,547	100 %	89,459,542	100 %	69,988,679	100 %	61,388,428	100 %	48,601,090	100 %		
Loans classified as “C”, “D” and “E” as a percentage of total loans			4.1%		4.0%		3.8%		4.3%			

Suspension of Accruals

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

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

However, the Bank adopts a stricter policy for every credit category, except for mortgages. According to this policy loans are placed in non-accrual status once they are 30 days or more overdue. Under this policy, once the accumulation of interest is suspended, the Bank records an allowance equal to the interest that had accrued up to that point. Mortgage loans, on the other hand, are placed in non-accrual status once they are 60 days past-due, at which time an allowance is made for 100% of the interest accrued up to that point.

Amounts due on loans that become past-due and that at some point have stopped accruing interest, UVR, lease payments or other items of income are recorded in memorandum accounts until such amounts are actually collected.

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

	As of December 31,										
	2014	%	2013	%	2012	%	2011	%	2010	%	
	(COP million, except percentages)										
<i>Performing past-due loans:</i> ⁽¹⁾											
Consumer loans ⁽²⁾	310,094	29.0 %	264,759	27.3 %	194,062	32.1 %	107,790	26.3 %	117,787	23.0 %	23.0 %
Commercial loans ⁽³⁾	320,049	29.8 %	324,657	33.6 %	194,001	32.1 %	152,297	37.1 %	197,895	40.0 %	40.0 %
Mortgage loans ⁽⁴⁾	348,866	32.5 %	299,805	31.0 %	146,648	24.3 %	110,474	26.9 %	107,639	22.0 %	22.0 %
	93,380	8.7 %	77,973	8.1 %	69,664	11.5 %	39,591	9.7 %	43,819	9.0 %	9.0 %

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Financial leases ⁽⁵⁾										
Total perf. PDLs	1,072,389	100.0%	967,194	100.0%	604,375	100.0%	410,152	100%	467,140	100%
Non-performing PDLs:										
Consumer loans ⁽⁶⁾	588,295	29.3 %	520,815	32.0 %	410,112	33.4 %	245,077	26.4%	180,668	19.1%
Small business loans ⁽⁷⁾	55,145	2.8 %	51,102	3.1 %	31,188	2.5 %	27,319	2.9 %	22,193	2.4%
Commercial loans ⁽⁸⁾	818,506	40.9 %	593,166	36.4 %	435,582	35.5 %	365,910	39.3%	450,161	48.5%
Mortgage loans ⁽⁹⁾	396,047	19.8 %	340,309	20.9 %	262,250	21.4 %	206,730	22.3%	195,631	21.3%
Financial leases ⁽¹⁰⁾	144,354	7.2 %	124,635	7.6 %	89,195	7.2 %	85,504	9.1 %	80,106	8.6%
Total non-perf. PDLs	2,002,347	100.0%	1,630,027	100.0%	1,228,327	100.0%	930,540	100%	928,759	100%
Total PDLs	3,074,736		2,597,221		1,832,702		1,340,692		1,395,899	
Total non-perf. PDLs	2,002,347		1,630,027		1,228,327		930,540		928,759	
Foreclosed assets	372,770		373,876		270,935		231,066		257,603	
Other accounts receivable (overdue > 180 days)	88,123		110,364		40,517		20,645		19,190	
Total non performing assets	2,463,240		2,114,267		1,539,779		1,182,251		1,205,552	
Allowance for loan and finance leases losses	(4,750,173)		(4,065,530)		(3,249,639)		(2,812,582)		(2,509,213)	
Allowance for estimated losses on foreclosed assets	(283,279)		(270,311)		(186,117)		(177,872)		(187,326)	
Allowance for accounts receivable and accrued interest losses	(172,707)		(159,836)		(139,994)		(105,521)		(111,848)	

	As of December 31,				
	2014 %	2013 %	2012 %	2011 %	2010 %
	(COP million, except percentages)				
PDLs/ Total loans	2.9 %	2.9 %	2.6 %	2.2 %	2.9 %
Allowance for loan losses/ PDLs	154.5 %	156.5 %	177.3 %	209.8 %	179.8 %
Allowance for loan losses/ Loans classified as "C", "D" and "E"	111.2 %	110.5 %	117.3 %	119.8 %	119.6 %
Perf. Loans/Total loans	98.1 %	98.2 %	98.2 %	98.5 %	98.1 %

(1) Performing past-due loans are loans upon which the Bank continues to recognize income although interest has not been received for the periods indicated.

(2) Past-due from 31 to 60 days.

(3) Past-due from 31 to 90 days.

(4) Past-due from 31 to 60 days.

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

(6) Past-due more than 60 days.

(7) Past-due more than 30 days.

(8) Past-due more than 90 days.

(9) Past-due more than 60 days.

(10) The Consumer financial leases are more than 60 days past-due and the commercial financial leases are more than 90 days past-due.

The following table sets forth the breakdown of the non-performing past-due loans by type of loan classified as domestic or foreign in accordance with the criteria of the SFC at the end of each period:

	As of December 31,				
	(COP million)				
	2014	2013	2012	2011	2010
Non-performing past-due loans:					
Consumer loans⁽¹⁾					
Domestic	COP424,352	COP401,714	COP367,392	COP199,276	COP124,149
Foreign	163,943	119,101	42,720	45,801	56,519
Total Consumer Loans	588,295	520,815	410,112	245,077	180,668
Small Business loans⁽²⁾					
Domestic	44,474	38,381	27,306	22,866	20,602
Foreign	10,671	12,721	3,882	4,453	1,591
Total Small Business Loans	55,145	51,102	31,188	27,319	22,193
Commercial loans⁽³⁾					
Domestic	680,295	508,987	412,231	312,950	378,380
Foreign	138,211	84,179	23,351	52,960	71,781

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Total Commercial Loans	818,506	593,166	435,582	365,910	450,161
<i>Mortgage loans</i> ⁽⁴⁾					
Domestic	300,910	263,645	226,350	164,808	151,975
Foreign	95,137	76,664	35,900	41,922	43,656
Total Mortgage Loans	396,047	340,309	262,250	206,730	195,631
<i>Financial leases</i> ⁽⁵⁾					
Domestic	134,725	113,222	87,396	85,504	80,106
Foreign	9,629	11,413	1,799	-	-
Total Financial leases	144,354	124,635	89,195	85,504	80,106
Total non-perf. PDLs (domestic)	1,584,756	1,325,949	1,120,675	785,404	755,212
Total non-perf. PDLs (foreign) ⁽⁶⁾	417,591	304,078	107,652	145,136	173,547
Total non-perf. PDLs	COP2,002,347	COP1,630,027	COP1,228,327	COP930,540	COP928,759

(1) Past-due more than 60 days.

(2) Past-due more than 30 days.

(3) Past-due more than 90 days.

(4) Past-due more than 60 days.

⁽⁵⁾ Past-due financial leases includes consumer financial leases that are more than 60 days past due and commercial financial leases that are more than 90 days past-due.

⁽⁶⁾ As of December 31, 2013, includes COP 205,920 million from Banistmo S.A.

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

	As of December 31,									
	2014	%	2013	%	2012	%	2011	%	2010	%
	(COP million, except percentages)									
Domestic										
Corporate										
Trade financing	464	0.0 %	10,917	0.6 %	943	0.1 %	1,140	0.1 %	1,685	0.2 %
Loans funded by development banks	4,087	0.2 %	5,419	0.3 %	2,657	0.2 %	20,270	1.8 %	22,497	1.9 %
Working capital loans	288,921	12.6 %	192,933	10.1 %	204,864	12.2 %	110,121	9.6 %	189,833	16.4 %
Credit cards	903	0.0 %	626	0.0 %	624	0.0 %	417	0.0 %	351	0.0 %
Overdrafts	3,249	0.1 %	431	0.0 %	1,222	0.1 %	1,125	0.1 %	1,975	0.2 %
Total corporate	297,624	12.9 %	210,326	11.1 %	210,310	12.6 %	133,073	11.6 %	216,341	18.7 %
Retail										
Credit cards	273,768	12.0 %	236,101	12.5 %	272,057	16.1 %	151,078	13.2 %	137,649	11.9 %
Personal loans	221,257	9.7 %	204,576	10.9 %	179,170	10.7 %	95,678	8.3 %	62,392	5.4 %
Vehicle loans	133,295	5.8 %	129,303	7.0 %	97,767	5.8 %	72,954	6.4 %	68,194	5.9 %
Overdrafts	23,970	1.0 %	22,532	1.2 %	21,654	1.3 %	15,285	1.3 %	15,368	1.3 %
Loans funded by development banks	35,875	1.6 %	41,093	2.2 %	26,154	1.6 %	33,666	2.9 %	31,752	2.7 %
Trade financing	1,193	0.1 %	1,378	0.1 %	3,791	0.2 %	732	0.1 %	947	0.1 %
Working capital loans	639,967	28.0 %	476,352	25.3 %	358,950	21.3 %	263,968	23.0 %	272,522	23.5 %
Total retail	1,329,325	58.2 %	1,111,335	59.1 %	959,543	57.0 %	633,361	55.2 %	588,824	50.8 %
Financial Leases	223,584	9.8 %	183,512	9.6 %	156,705	9.3 %	125,094	10.8 %	123,925	10.7 %
Mortgage	436,414	19.1 %	380,640	20.2 %	356,466	21.1 %	256,624	22.4 %	230,018	19.8 %
Total domestic past-due loans	2,286,947	100 %	1,885,813	100 %	1,683,024	100 %	1,148,152	100 %	1,159,108	100 %
Foreign Corporate	95,646	12.2 %	138,112	19.4 %	4,201	2.8 %	9,004	4.7 %	9,535	4.0 %

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Trade financing										
Loans funded by development banks	-	0.0 %	910	0.1 %	-	0.0 %	147	0.1 %	376	0.2 %
Working capital loans	73,978	9.4 %	62,681	8.7 %	29,388	19.7%	56,627	29.3%	76,559	32.3 %
Credit cards	170	0.0 %	84	0.0 %	124	0.1 %	264	0.1 %	434	0.2 %
Overdrafts	36	0.0 %	148	0.0 %	172	0.1 %	349	0.2 %	775	0.3 %
Total corporate	169,830	21.6%	201,935	28.2%	33,885	22.7%	66,391	34.4%	87,679	37.0%
Retail										
Credit cards	37,417	4.8 %	23,834	3.4 %	6,628	4.4 %	5,925	3.1 %	7,615	3.2 %
Personal loans	220,890	28.0%	175,053	24.6%	49,692	33.3%	54,410	28.2%	65,749	27.8%
Vehicle loans	22,312	2.8 %	15,857	2.2 %	29	0.0 %	138	0.1 %	203	0.1 %
Overdrafts	1,772	0.2 %	2,899	0.4 %	354	0.2 %	96	0.1 %	134	0.1 %
Loans funded by development banks	1,249	0.2 %	539	0.1 %	621	0.4 %	440	0.2 %	569	0.2 %
Trade financing	7,144	0.9 %	8,102	1.1 %	216	0.1 %	387	0.2 %	199	0.1 %
Working capital loans	4,096	0.5 %	4,619	0.7 %	3,667	2.5 %	4,173	2.2 %	1,391	0.6 %
Total retail	294,880	37.4%	230,903	32.5%	61,207	40.9%	65,569	34.1%	75,860	32.1%
Financial Leases	14,174	1.8 %	19,096	2.7 %	2,154	1.4 %	-	0.0 %	-	0.0 %
Mortgage	308,905	39.2%	259,474	36.6%	52,432	35.0%	60,580	31.5%	73,252	30.9%
Total foreign past-due loans (COP)	787,789	100 %	711,408	100 %	149,678	100 %	192,540	100 %	236,791	100 %
Total Foreign and Domestic past-due loans (COP)	3,074,736	100 %	2,597,221	100 %	1,832,702	100 %	1,340,692	100 %	1,395,899	100 %

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

	As of December 31,									
	2014	%	2013	%	2012	%	2011	%	2010	%
	(COP million, except percentages)									
Secured										
Current	46,390,982	43.1 %	38,715,313	43.3 %	28,630,768	40.8 %	25,932,056	42.2 %	20,970,409	4
Past-due										
Commercial loans	530,404	0.5 %	495,371	0.6 %	363,054	0.5 %	277,746	0.5 %	327,323	0
Past-due Consumer loans	173,156	0.2 %	167,978	0.2 %	124,323	0.2 %	78,924	0.1 %	73,476	0
Past-due Small business loans	39,236	0.0 %	35,123	0.1 %	23,116	0.1 %	17,423	0.0 %	11,415	0
Past-due Mortgage loans	744,913	0.7 %	640,114	0.6 %	408,898	0.6 %	317,204	0.5 %	303,270	0
Past-due Financial leases	237,734	0.2 %	202,608	0.2 %	158,859	0.2 %	125,095	0.2 %	123,925	0
Total (COP)	48,116,425	44.7 %	40,256,507	45.0 %	29,709,018	42.4 %	26,748,448	43.5 %	21,809,818	4
Unsecured⁽¹⁾										
Current	58,087,829	54.0 %	48,147,008	53.8 %	39,525,209	56.5 %	34,115,680	55.6 %	26,234,778	5
Past-due										
Commercial loans	608,151	0.6 %	422,452	0.5 %	266,529	0.4 %	240,461	0.4 %	320,738	0
Past-due Consumer loans	725,233	0.7 %	617,596	0.7 %	479,851	0.7 %	273,943	0.5 %	224,978	0
Past-due Small business loans	15,909	0.0 %	15,979	0.0 %	8,072	0.0 %	9,896	0.0 %	10,778	0
Total (COP)	59,437,122	55.3 %	49,203,035	55.0 %	40,279,661	57.6 %	34,639,980	56.5 %	26,791,272	5
Total current loans and financial leases COP	104,478,811	97.1 %	86,862,321	97.1 %	68,155,977	97.3 %	60,047,736	97.8 %	47,205,191	9
Past-due Commercial	1,138,555	1.1 %	917,823	1.1 %	629,583	0.9 %	518,207	0.9 %	648,061	1

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loans										
Past-due Consumer loans	898,389	0.8 %	785,574	0.9 %	604,174	0.9 %	352,867	0.6 %	298,454	0
Past-due Small business loans	55,145	0.1 %	51,102	0.1 %	31,188	0.1 %	27,319	0.0 %	22,189	0
Past-due Mortgage loans	744,913	0.7 %	640,114	0.6 %	408,898	0.6 %	317,204	0.5 %	303,270	0
Past-due Financial leases	237,734	0.2 %	202,608	0.2 %	158,859	0.2 %	125,095	0.2 %	123,925	0
Total past-due loans and financial leases (COP)	3,074,736	2.9 %	2,597,221	2.9 %	1,832,702	2.7 %	1,340,692	2.2 %	1,395,899	2
Total gross loans and financial leases	107,553,547	100 %	89,459,542	100 %	69,988,679	100 %	61,388,428	100 %	48,601,090	1
Allowance for loan and financial lease losses	(4,750,173)	(4.4)%	(4,065,530)	(4.5)%	(3,249,639)	(4.6)%	(2,812,582)	(4.6)%	(2,509,213)	(
Total loans and financial leases, net (COP)	102,803,374	95.6 %	85,394,012	95.5 %	66,739,040	95.4 %	58,575,846	95.4 %	46,091,877	9

(1) Includes loans with personal guarantees.

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

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

As of December 31, 2014, 2013, 2012, 2011, and 2010, Bancolombia did not have any performing loans which were past-due for 90 days or more.

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

	As of December 31, 2014		Gross Interest Income		Interest income included in net income for the period
	Amount of Loans (COP million)				
Foreign loans	COP417,591	COP	37,536	COP	23,288
Domestic loans	1,584,756		616,492		454,974
Non –performing loans	COP2,002,347	COP	654,028	COP	478,262

	As of December 31, 2013		Interest income included in net income for the period	
	Amount of Loans (COP million)	Gross Interest Income		
Foreign loans	COP304,078	COP 11,206	COP	1,636
Domestic loans	1,325,949	533,027		327,591
Non –performing loans	COP1,630,027	COP 544,233	COP	329,227

Performing Troubled Debt Restructuring Loans

The following table presents a summary of the Bank’s troubled debt restructuring loans accounted for on a performing basis in accordance with the criteria of the SFC in effect at the end of each period, classified into foreign and domestic loans:

	As of December 31,				
	2014	2013	2012	2011	2010
	(COP million)				
Foreign loans	356,417	224,134	224,385	270,803	266,173
Domestic loans	519,118	375,769	208,405	441,055	1,088,117
Total Performing Troubled Debt Restructuring loans (COP)	875,535	599,903	432,790	711,858	1,354,290

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

	As of December 31, 2014		Interest income included in net income for the period	
	Amount of Loans (COP million)	Gross Interest Income		
Foreign loans	356,417	33,497		33,497
Domestic loans	519,118	68,857		68,857
Total Performing Troubled Debt Restructuring loans	COP875,535	COP 102,354	COP	102,354

As of December 31,

	2013		
	Amount of Loans	Gross Interest Income	Interest income included in net income for the period
	(COP million)		
Foreign loans	224,134	19,741	19,741
Domestic loans	375,769	45,802	45,802
Total Performing Troubled Debt Restructuring loans	COP 599,903	COP 65,543	COP 65,543

Policies for the granting and review of credit

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

To maintain credit quality and manage the risk arising from its lending activities, the Bank has established general loan policies for the evaluation of credit, the determination of lending limits to customers and the level of management authority required to approve a loan. In addition, the Bank has established a centralized area for credit analysis, the disbursement process and the management and custody of promissory notes and guarantees.

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

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

The Bank applies the lending limits established under Colombian law, which require that: (i) uncollateralized loans to a single customer or economic group may not exceed 10% of the Bank's (unconsolidated) Technical Capital; (ii) collateralized loans to a single customer or economic group may not exceed 25% of the Bank's (unconsolidated) Technical Capital; (iii) a collateralized loan to a stockholder of the Bank, who owns a position exceeding 20% of the Bank's capital, may not exceed 20% of the Bank's (unconsolidated) Technical Capital; (iv) an uncollateralized loan to a stockholder of the Bank who owns a position exceeding 20% of the Bank's capital, may not exceed 10% of the Bank's (unconsolidated) Technical Capital; and (v) a loan to a financial institution may not exceed 30% of the Bank's (unconsolidated) Technical Capital.

In general, the term of a loan will depend on the type of guarantee, the credit history of the borrower and the purpose of the loan. Almost 64% of the Bank's loan portfolio has a maturity of five years or less.

Loan applications, depending on their amount, are presented for approval to branch managers, the zone or regional managers, the vice presidents, the president, the credit committee and the board of directors of Bancolombia (the "Board of Directors"). In general, loan application decisions are made by the Bank's management in the corresponding committee. Approval at each level also requires the agreement of each lower level of the approval hierarchy.

Loans to managers, directors and affiliates of the Bank must be approved by the Board of Directors, which has the authority to grant loans in any principal amount subject to the Bank's legal lending limit.

The Bank has established policies for the valuation of collateral received as well as for the determination of the maximum loan amount that can be granted against the value of the collateral. Periodically, the Bank undertakes a valuation of collateral held as security for loans, and the valuation frequency varies depending on the type of collateral. In any event, the collateral cannot be used to mitigate risk if its valuation is not updated on a periodic basis. For retail and mortgage loans that are between five and 60 days past-due, responsibility for collecting payments is outsourced to an external collection company; for commercial loans this procedure is always carried out by internal employees. When a loan becomes 60 days past-due, management of the loan will be transferred to an independent and specialized division within the Bank where various steps will be taken to recover the loan.

In October 2011, the SFC issued the External Circular 043 of 2011 with the purpose of setting forth the necessary instructions to be followed by financial institutions in determining the fair value of collateral securing loans, as well as the frequency of valuations of collateral. In accordance with these new regulations, all collateral must be valued at

least every three years, except those which support mortgage and automobile loans, which must be valued annually. When the current valuation is overdue, the fair value is not considered as a mitigating factor in the measurement of certain required allowances for loan losses.

With respect to monitoring outstanding loans, the Bank, in accordance with the requirements of the SFC, has implemented regional committees and a central qualification process to undertake a biannual evaluation of the loan portfolio, during the months of May and November. When monitoring outstanding loans, the Bank examines current financial statements including cash flow and financial indicators, industry analysis and historical payment behavior.

Additionally, all of the Bank's loans are evaluated monthly based on the days they are past-due. When reviewing loans, Bancolombia evaluates and updates their risk classification and makes corresponding adjustments to their provisions, if needed.

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

E.4. SUMMARY OF LOAN LOSS EXPERIENCE

ALLOWANCE FOR LOANS AND LOSSES

The Bank records an allowance for loans and financial leases losses in accordance with the regulations established by the SFC. For further details regarding the regulation and methodologies for the calculation of such allowances please see Item 5, “Operating and Financial Review and Prospects - “Allowance for credit losses” and Note 2.i. to the Financial Statements.

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

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(COP million)				
Balance at beginning of period	4,065,530	3,249,639	2,812,582	2,509,213	2,431,667
Domestic	3,415,728	2,975,616	2,455,141	2,160,119	2,115,161
Foreign	649,802	274,023	357,441	349,094	316,506
Allowance for loan losses for Banistmo and its subsidiaries at October 31, 2013⁽¹⁾	-	327,877	-	-	-
Foreign	-	327,877	-	-	-
Deconsolidation of Asesuisa S.A. and Asesuisa Vida S.A.⁽²⁾	-	-	(688)	-	-
Foreign	-	-	(688)	-	-
Provisions for loan losses, net⁽³⁾	1,536,390	1,326,520	1,152,198	824,622	757,195
Domestic	1,432,118	1,228,690	1,144,162	741,483	609,585
Foreign	104,272	97,830	8,036	83,139	147,610
Charge-offs	(1,044,152)	(877,318)	(678,506)	(531,682)	(658,151)
Domestic	(853,569)	(788,578)	(623,687)	(446,461)	(564,627)
Foreign	(190,583)	(88,740)	(54,819)	(85,221)	(93,524)
Effect of difference in exchange rate	192,405	38,812	(35,947)	10,429	(21,498)
Foreign	192,405	38,812	(35,947)	10,429	(21,498)
Balance at end of year⁽⁴⁾	4,750,173	4,065,530	3,249,639	2,812,582	2,509,213
Domestic	3,994,277	3,415,728	2,975,616	2,455,141	2,160,119
Foreign	755,896	649,802	274,023	357,441	349,094

(1) See Note 1 “Organization and Background” to the Financial Statements.

(2)

On February 5, 2011, Banagrícola and Inversiones Financieras Banco Agrícola S.A., subsidiaries of Bancolombia, and Seguros Suramericana S.A., a Panamanian company affiliated to Grupo de Inversiones Suramericana signed an agreement pursuant to which Banagrícola and Inversiones Financieras Banco Agrícola S.A. agreed to sell to Suramericana S.A. 97.03% of their shares of the capital stock of Asesuisa, an insurance company in the Republic of El Salvador. The transactions closed on September 27, 2012, after all the required authorizations were obtained from the authorities of Colombia and El Salvador. The total amount received by Banagrícola and Inversiones Financieras Banco Agrícola S.A. was USD 97,999.

The provision for past due accrued interest receivable, net, which is not included in this item, amounted to COP ⁽³⁾21,661 million, COP 23,889 million, COP 26,018 million, COP 13,719 million, and COP 11,422 million for the years ended December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

The allowance for past due accrued interest receivable, which is not included in this item, amounted to COP 66,929 ⁽⁴⁾million, COP 63,745 million, COP 54,026 million, COP 43,644 million, and COP 38,952 million, for the years ended December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

Recoveries of charged-off loans are recorded in the consolidated statement of operations and are not included in provisions for loan losses. (See “Recovery of charged-off loans” in the Consolidated Statement of Operations).

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

	As of December 31,				
	2014	2013	2012	2011	2010
	(COP million)				
Commercial loans	2,349,572	2,027,000	1,661,705	1,472,657	1,465,318
Consumer loans	1,459,949	1,262,981	988,391	804,321	559,789
Microcredit loans	49,260	44,436	28,191	24,528	21,719
Financial leases	449,681	365,403	310,443	283,665	269,634
Mortgage	351,422	287,775	198,780	176,501	157,459
General	90,289	77,935	62,129	50,910	35,294
Total allowance for loan losses (COP)⁽¹⁾	4,750,173	4,065,530	3,249,639	2,812,582	2,509,213

- (1) For mortgage and small business loans, the Bank sets up a general allowance, which corresponds to one percent (1%) of the outstanding principal. By virtue of applying the standardized models supplied by the SFC for commercial and consumer loans, general allowances are no longer assigned to commercial and consumer loans.

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

	As of December 31,									
	2014	%	2013	%	2012	%	2011	%	2010	%
	(COP million, except percentages)									
Domestic										
Corporate										
Trade financing	44,057	1.1 %	41,952	1.2 %	31,939	1.1 %	42,797	1.7 %	36,857	1.7 %
Loans funded by development banks	12,825	0.3 %	79,979	2.3 %	17,659	0.6 %	36,944	1.5 %	39,189	1.8 %
Working capital loans	1,100,028	27.5 %	891,666	26.1 %	893,522	30.0 %	728,313	29.7 %	687,038	31.8 %
Credit cards	1,634	0.0 %	1,293	0.0 %	1,166	0.0 %	1,122	0.1 %	898	0.0 %
Overdrafts	3,938	0.1 %	5,858	0.2 %	4,525	0.2 %	2,091	0.1 %	2,892	0.1 %
Total corporate	1,162,482	29.0 %	1,020,748	29.8 %	948,811	31.9 %	811,267	33.1 %	766,874	35.4 %
Retail										

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Credit cards	543,588	13.6 %	471,243	13.8 %	426,535	14.3 %	385,481	15.7 %	285,248	13.2 %
Personal loans	409,047	10.2 %	383,829	11.2 %	327,009	11.0 %	199,464	8.1 %	124,912	5.8 %
Vehicle loans	167,673	4.2 %	150,739	4.4 %	122,604	4.1 %	106,379	4.3 %	95,308	4.4 %
Overdrafts	22,415	0.6 %	20,295	0.6 %	18,304	0.6 %	13,824	0.6 %	13,341	0.6 %
Loans funded by development banks	43,571	1.1 %	56,131	1.6 %	38,843	1.3 %	46,021	1.9 %	45,927	2.1 %
Trade financing	9,968	0.2 %	3,444	0.1 %	5,230	0.2 %	2,026	0.1 %	1,333	0.1 %
Working capital loans	899,404	22.5 %	691,673	20.3 %	535,946	18.0 %	413,364	16.8 %	393,285	18.2 %
Total retail	2,095,666	52.4 %	1,777,354	52.0 %	1,474,471	49.5 %	1,166,559	47.5 %	959,354	44.4 %
Financial Leases	430,567	10.8 %	349,778	10.3 %	320,855	10.8 %	287,615	11.7 %	273,556	12.7 %
Mortgage	227,774	5.8 %	198,884	5.9 %	177,308	6.0 %	147,087	6.0 %	133,101	6.2 %
General allowance	77,788	2.0 %	68,964	2.0 %	54,171	1.8 %	42,613	1.7 %	27,234	1.3 %
Total domestic allowance for loan losses (COP)	3,994,277	100 %	3,415,728	100 %	2,975,616	100 %	2,455,141	100 %	2,160,119	100 %

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	As of December 31,									
	2014	%	2013	%	2012	%	2011	%	2010	%
	(COP million, except percentages)									
Foreign Corporate										
Trade financing	71,098	9.4 %	106,924	16.5 %	5,664	2.1 %	14,078	3.9 %	26,344	7.6 %
Loans funded by development banks	213	0.0 %	304	0.1 %	340	0.1 %	222	0.1 %	554	0.2 %
Working capital loans	165,473	21.9 %	154,882	23.8 %	114,041	41.6 %	142,416	39.8 %	174,348	49.9 %
Credit cards	318	0.0 %	205	0.0 %	245	0.1 %	406	0.1 %	344	0.1 %
Overdrafts	95	0.0 %	298	0.1 %	302	0.1 %	457	0.1 %	513	0.2 %
Total Corporate	237,197	31.3 %	262,613	40.5 %	120,592	44.0 %	157,579	44.0 %	202,103	58.0 %
Retail										
Credit cards	58,091	7.7 %	35,358	5.4 %	12,484	4.6 %	13,550	3.8 %	10,991	3.2 %
Personal loans	274,539	36.3 %	207,321	31.9 %	101,010	36.8 %	137,574	38.5 %	97,239	27.9 %
Vehicle loans	14,377	1.9 %	18,353	2.8 %	76	0.0 %	167	0.1 %	220	0.1 %
Overdrafts	10,682	1.4 %	4,082	0.6 %	1,066	0.4 %	2,795	0.8 %	2,403	0.7 %
Loans funded by development banks	2,092	0.3 %	1,586	0.2 %	1,098	0.4 %	1,681	0.5 %	708	0.2 %
Trade financing	3,400	0.5 %	4,198	0.7 %	152	0.1 %	414	0.1 %	303	0.1 %
Working capital loans	3,181	0.4 %	2,685	0.4 %	2,170	0.8 %	2,427	0.7 %	1,025	0.3 %
Total retail	366,362	48.5 %	273,583	42.0 %	118,056	43.1 %	158,608	44.5 %	112,889	32.5 %
Financial Leases	16,188	2.1 %	15,746	2.4 %	5,947	2.2 %	3,576	1.0 %	1,685	0.5 %
Mortgage	123,648	16.4 %	88,889	13.7 %	21,470	7.8 %	29,381	8.2 %	24,357	7.0 %
General allowance	12,501	1.7 %	8,971	1.4 %	7,958	2.9 %	8,297	2.3 %	8,060	2.0 %
Total foreign allowances for loan losses (COP)	755,896	100 %	649,802	100 %	274,023	100 %	357,441	100 %	349,094	100 %
Total Foreign and Domestic allowance for loan losses (COP)	4,750,173	100 %	4,065,530	100 %	3,249,639	100 %	2,812,582	100 %	2,509,213	100 %

As of December 31, 2014, allowances for loans and financial lease losses amounted to COP 4,750 billion (4.4% of total loans), up 16.8% as compared to COP 4,066 billion (4.5% of loans) at the end of 2013, and up 46.2% as compared to COP 3,250 billion (4.6% of loans) at the end of 2012.

Coverage, measured by the ratio of allowances for loan losses to past-due loans (overdue 30 or more days), was 154% at the end of 2014, down from 157% at the end of 2013 and 177% at the end of 2012. The decrease in the coverage ratio is explained by the rate of formation of PDLs during the year, which was faster than the pace of increase in allowances in the balance sheet. For further information regarding asset quality and provision charges see Item 5. "Operating and Financial Review and Prospects".

CHARGE-OFFS

The following table shows the allocation of the Bank's charge-offs of domestic and foreign loans by type of loan as of December 31, 2014, 2013, 2012, 2011 and 2010:

	Year ended December 31,				
	2014	2013	2012	2011	2010
	(COP million)				
Domestic					
Trade financing	12,250	612	452	706	2,165
Loans funded by development banks	9,453	8,112	15,133	11,000	22,368
Working capital loans	224,725	178,651	131,165	172,572	202,241
Credit cards	296,621	309,992	293,507	131,553	172,804
Personal loans	192,489	179,189	98,253	44,561	69,808
Automobile loans	77,927	76,232	35,846	25,227	55,711
Overdrafts	10,206	9,619	7,224	8,345	15,052
Mortgage and other	345	5,064	11,693	30,833	679
Financial leases	29,553	21,107	30,414	21,664	23,799
Total domestic charge-offs (COP)	853,569	788,578	623,687	446,461	564,627

	Year ended December 31,				
	2014	2013	2012	2011	2010
	(COP million)				
Foreign					
Trade financing	72	1,289	249	44	3,999
Loans funded by development banks	-	32	46	28	6
Working capital loans	19,806	27,838	11,554	37,312	31,207
Credit cards	40,462	(1) 10,971	6,268	6,672	10,969
Personal loans	113,596	(1) 44,927	31,445	38,305	45,898
Automobile loans	5,186	(1) 712	10	75	167
Overdrafts	3,736	1,650	3,720	1,110	947
Mortgage and other	7,725	1,321	1,527	1,675	331
Financial leases	-	-	-	-	-
Total foreign charge-offs (COP)	190,583	88,740	54,819	85,221	93,524
Total Foreign and Domestic charge-offs (COP)	1,044,152	877,318	678,506	531,682	658,151

(1) The increase in the level of charges-offs loans in this line is explained by Banistmo, as effect of the acquisition that took place in October 2013.

The ratio of charge-offs to average outstanding loans for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 was as follows:

	Year ended December 31,				
	2014	2013	2012	2011	2010
Ratio of charge-offs to average outstanding loans	1.10%	1.13%	1.07%	0.99%	1.49%

The Bank charges off loans that are classified as “unrecoverable” once they become overdue as follows: (i) after 180 days for consumer and small business loans; (ii) after 360 days for commercial loans; and (iii) after 54 months for mortgage loans.

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

The recovery of charged-off loans is accounted for as income in the consolidated statement of operations on a cash receipts basis.

POTENTIAL PROBLEM LOANS

In order to carefully monitor the credit risk associated with clients, the Bank has established a committee that meets monthly to identify current situations or anticipate future situations that might generate a possible deterioration in the client's ability to pay. In general, the clients are placed on this watch list when they could face difficulties in the future in the repayment of their obligations with the Bank but who have had a good record of payment behavior. The reasons for placing a client on the watch list could be related to internal factors such as economic activity, financial weakness or any other external or internal events that could affect the client's business.

As of December 31 2014, 3,485 loans amounting to COP 3.1 billion were performing and were on the watch list.

The increase from COP 2.6 billion at December 31, 2013, was driven by some loans to customers with an exposure of approximately COP 400 million that were catalogued as high risk – level 3 at December 31, 2013 and subsequently included on the watch list during 2014.

Watch List 2014				Watch List 2013			
Level	Amount (COP million)	%	Allowance (COP million)	Level	Amount (COP million)	%	Allowance (COP million)
Level 1 - Low Risk	1,645,555	53%	35,715	Level 1 - Low Risk	1,689,887	64%	65,117
Level 2 - Medium Risk	500,842	16%	71,040	Level 2 - Medium Risk	445,788	17%	73,876
Level 3 - High Risk	949,458	31%	286,537	Level 3 - High Risk	500,115	19%	235,550
Total	3,095,855		393,292	Total	2,635,790		374,543

CROSS-BORDER OUTSTANDING LOANS AND INVESTMENTS

As of December 31, 2014, 2013 and 2012, total cross-border outstanding loans and investments amounted to approximately USD 11,777 million, USD 11,891 million and USD 5,298 million, respectively. As of December 31, 2014, total outstanding loans to borrowers in foreign countries amounted to USD 10,823 million, and total investments were USD 954 million. As of December 31, 2014, total cross-border outstanding loans and investments represented 18.94% of total assets.

The Bank had no cross-border outstanding acceptances, interest-earning deposits with other banks or any other monetary assets denominated in pesos or other non-local currencies, in which the total exceeded 1% of consolidated total assets as of December 31, 2014, 2013 and 2012.

The following table presents information with respect to the Bank's cross-border outstanding loans and investments as of December 31, 2014, 2013 and 2012:

	As of December 31,		
	2014	2013	2012
	(thousands of U.S. dollars)		
Governments and official institutions			
Panama	USD447,254	USD590,867	USD6,086
Mexico	187,858	162,462	-
El Salvador	107,939	525,102	586,588
United States	84,900	33,639	29,965
Guatemala	40,000	-	-
Costa Rica	32,587	41,970	19,632
Brazil	23,947	23,736	42,189

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Chile	3,861	3,587	43,114
Peru	-	-	3,674
<i>Banks and other financial institutions</i>			
Panama	USD 59,246	USD 200,844	USD 277,648
El Salvador	30,975	6,093	2,798
Brazil	27,537	27,814	80,904
Venezuela	27,204	37,857	33,615
Costa Rica	26,600	20,341	25,530
Peru	20,192	6,322	17,762
Chile	15,485	12,871	23,264
Mexico	3,036	3,032	6,625
Guatemala	2,051	2,740	-
Puerto Rico	-	302	302
Spain	-	-	142,800
<i>Commercial and industrial Loans</i>			
Panama	USD 2,921,161	USD 2,547,712	USD 63,125
El Salvador	1,161,737	2,136,535	860,363
Peru	458,314	387,733	197,042
Guatemala	333,698	479,108	72,043
United States	264,577	293,595	28,250
Costa Rica	122,577	200,339	416,248
British Virgin Island	77,229	102,348	37,000
Uruguay	69,424	79,850	-
Marshall Islands	45,454	54,545	-
Luxembourg	40,652	-	-
Chile	30,288	14,283	16,905
Guyana	22,300	2,500	3,700
Nicaragua	13,773	10,110	5,761
Brazil	12,904	9,580	14,495
New Zealand	11,998	12,000	-
Mexico	10,311	22,160	35,649
Honduras	9,684	12,701	14,470
Barbados	4,878	5,804	-
Dominican Republic	4,126	4,280	4,938
Ecuador	4,000	2,004	2,901
Belize	1,767	-	-
Spain	-	143,445	484
Canada	-	33,413	29,535
England	-	4,894	-
Saint Vincent and the Grenadines	-	-	2,760
Russia	-	-	2,432
Others	1,955	1,036	1,360

	As of December 31,		2012
	2014	2013	
	(thousands of U.S. dollars)		
<i>Other Loans</i>			
Panama	USD2,912,664	USD2,622,762	USD 14,262
El Salvador	1,635,406	667,210	1,808,547
United States	150,296	25,547	17,542
Costa Rica	94,950	76,472	74,673
Guatemala	85,207	33,454	6,229
Peru	47,702	42,372	13,494
Spain	19,044	8,042	152,992
Nicaragua	18,637	104,969	-
Mexico	10,830	1,048	1,579
Brazil	8,424	8,306	26,783
England	7,139	6,363	6,266
Chile	5,489	7,036	14,569
Luxembourg	3,865	-	-
Canada	3,645	1,096	1,076
Venezuela	1,931	-	645
Australia	1,607	-	-
France	1,248	-	-
Dominican Republic	1,037	4,045	-
British Virgin Island	-	17,958	-
Bahamas	-	2,663	4,448
Honduras	-	-	1,095
Others	4,285	2,151	1,619
Total Cross-Border Outstanding Loans and Investment	USD 11,776,885	USD 11,891,048	USD 5,297,776

E.5. DEPOSITS

The following table presents information regarding the composition of the Bank's deposits for 2014, 2013 and 2012:

	As of December 31,		
	2014	2013	2012
	(COP million)		
Non-interest bearing deposits:			
Checking accounts	COP 14,594,736	COP 13,617,057	COP 8,820,458
Other deposits	1,390,158	1,063,430	978,416
Total	15,984,894	14,680,487	9,798,874
Interest bearing deposits:			
Checking accounts	3,548,221	3,167,876	2,478,443
Time deposits	36,628,915	34,058,452	24,767,489

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Savings deposits	39,175,192	34,649,764	27,113,914
Total	79,352,328	71,876,092	54,359,846
Total deposits	COP95,337,222	COP86,556,579	COP64,158,720

The following table shows the time deposits held by the Bank as of December 31, 2014 and 2013, respectively, classified by amount and maturity:

	At December 31, 2014		Total
	Domestic Operations (COP million)	Foreign Operations	
Time deposits higher than USD 100,000 ⁽¹⁾			
Up to 3 months	5,412,106	5,717,013	11,129,119
From 3 to 6 months	2,235,250	1,862,923	4,098,173
From 6 to 12 months	2,637,415	3,074,057	5,711,472
More than 12 months	5,779,550	3,167,408	8,946,958
Time deposits less than USD 100,000 ⁽¹⁾	4,762,969	1,980,224	6,743,193
Total	20,827,290	15,801,625	36,628,915

	At December 31, 2013		Total
	Domestic Operations (COP million)	Foreign Operations	
Time deposits higher than USD 100,000 ⁽²⁾			
Up to 3 months	6,553,140	3,364,803	9,917,943
From 3 to 6 months	2,695,991	1,695,879	4,391,870
From 6 to 12 months	1,858,652	2,238,283	4,096,935
More than 12 months	6,728,343	2,817,005	9,545,348
Time deposits less than USD 100,000 ⁽²⁾	4,440,859	1,665,497	6,106,356
Total	22,276,985	11,781,467	34,058,452

(1) Approximately COP 239 million at the Representative Market Rate as of December 31, 2014.

(2) Approximately COP 193 million at the Representative Market Rate as of December 31, 2013.

As of December 31, 2014, the time deposits greater than USD 100,000 collected by foreign subsidiaries amounted to COP 13,821,401 million.

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

E.6. RETURN ON EQUITY AND ASSETS

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

	Year		
	Ended December 31,		
	2014	2013	2012
	(in percentages)		
Net income as a percentage of:			
Average total assets	1.40	1.37	1.92
Average stockholders' equity	12.50	12.76	15.97
Dividends declared per share as a percentage of consolidated net income per share ⁽¹⁾	41.61	43.62	37.46
Average stockholders' equity as a percentage of average total assets	11.24	10.72	12.02
Return on interest-earning assets ⁽²⁾	8.67	8.89	10.44

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

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

E.7. SHORT TERM BORROWINGS

The following table sets forth certain information regarding the short-term borrowings by the Bank as of the dates indicated:

	As of December 31,				2012	
	2014		2013		Amount	Rate ⁽³⁾
	Amount	Rate ⁽³⁾	Amount	Rate ⁽³⁾		
	(COP million, except percentages)					
End of period	7,589,557	2.35 %	6,168,522	2.02 %	1,803,665	2.78 %
Weighted average during period	6,091,925	2.93 %	4,108,709	3.03 %	2,488,285	2.02 %
Maximum amount of borrowing at any month-end	7,589,557 ⁽¹⁾		6,168,522 ⁽¹⁾		3,693,395 ⁽²⁾	
Interest paid during the year	178,624		124,352		50,209	

(1) December

(2) January

(3) Corresponds to the ratio of interest paid to short-term borrowings.

ITEM 4 A. UNRESOLVED STAFF COMMENTS

As of the date of the filing of this Annual Report, there are no unresolved written comments from SEC staff regarding the Bank's periodic reports required to be filed under the Exchange Act of 1934.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion should be read in conjunction with Bancolombia's audited consolidated financial statements for the years ended December 31, 2014, 2013 and 2012.

The Consolidated Financial Statements are prepared following the accounting practices and the special regulations of the SFC, or, in the absence of such regulations, Colombian banking GAAP. Together, these requirements differ in certain significant respects from U.S. GAAP. Note 31 to the Consolidated Financial Statements provides a description of the significant differences between Colombian banking GAAP and U.S. GAAP as they relate to the Consolidated Financial Statements and provides a reconciliation of net income and stockholders' equity for the years and dates indicated herein.

IMPACT OF ECONOMIC AND MONETARY POLICIES ON BANCOLOMBIA'S RESULTS

Bancolombia's operations are affected by external factors such as economic activity in Colombia, interest rates, inflation and exchange rates. The following discussion summarizes the trends of such variables.

Economic activity

Although Colombia's GDP growth was 4.6% in 2014, lower than the 4.9% reached in 2013, this figure nonetheless indicates a sound economic pace of growth in the Colombian economy, while household consumption and investment remain solid and are driving the economic expansion.

Key GDP components performed as follows in 2014 compared to 2013: investment grew 11.7%, consumption increased 4.7% and exports decreased 1.7%.

In 2014, gross capital formation represented 29.5% of GDP, household consumption represented 64.7%, government consumption 17.4%, exports 16.2% and imports 29.0%.

The activities that led growth during the year were construction (9.9% increase) and non-financial services (5.5% increase).

Interest Rates

In April 2014 and in each of the subsequent four meetings in May, June, July and August the Central Bank increased its benchmark rate 25 basis points to 4.5% in order to keep inflation under control. The rate remained at 4.5% for the rest of the year.

The Central Bank expects to maintain inflation rates over time within the long-term targeted range (between 2% and 4%) while permitting the economy to grow close to GDP estimates. In order to do so, the Central Bank may change the interest rate to promote economic activity, credit expansion and consumption.

Inflation

Year-end inflation rate for 2014 was 3.66%, higher than the 1.94% recorded for 2013.

The components that led inflation in 2014 were food (4.7% increase), education (4.1% increase) and housing (3.7% increase).

The 12-month core inflation rate for 2014 came at 3.26%, which was within the Central Bank's targeted inflation range of 2% to 4%. The price increase in regulated goods and services, such as utilities, urban transportation and gasoline was 4.84%.

Exchange rate

The Colombian Peso depreciated 24.2% versus the U.S. dollar during 2014, compared to a depreciation of 9% during 2013.

Foreign Direct Investment flows out Colombia and oil prices have been one of the main drivers of the depreciation of the Colombian peso against the U.S. dollar during the last twelve months. In 2014, FDI totaled USD 16,054 million, of which 40% was related to oil, gas and mining.

The weakening of the Colombian Peso mainly benefited Colombian companies that focus on exporting and that gained competitiveness given that a large portion of their expenses was denominated in Colombian Pesos.

Outlook

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

Favorable factors for the Colombian economy – mid-term

Benefits derived from past monetary policies aimed at achieving sustainable growth.

Positive inflationary outlook.

Investment grade rating given to Colombia by Standard and Poor's, Moody's and Fitch.

The approval by Congress of the Fiscal Rule, which will further contribute to the country's fiscal sustainability.

Stronger local capital markets, with little exposure to "toxic assets" and with low currency mismatches.

A well-capitalized banking system.

Well-developed supervision and regulation of the financial system.

Adequate international reserves to short term debt.

Limited exposure of corporations to speculation through derivatives.

Unfavorable factors for the Colombian economy – mid-term

Underdeveloped infrastructure that translates into a constraint for growth.

Oil and gas dependent export activity.

Despite successful efforts to diversify export markets, there is still concentration in specific export destinations, particularly the United States.

Exchange rate uncertainties that could expose the economy to highly volatile markets or build inflation pressures.

Risk of new fiscal measures.

Possible escalation in activities of guerilla and drug cartels that may hurt investor confidence.

Higher tax burden on enterprises and individuals

GENERAL DISCUSSION OF THE CHANGES IN RESULTS FOR 2014 VERSUS 2013

Summary

During 2014, Bancolombia strengthened its competitive position and full-service financial model, and benefited from the diversity of its leading franchises. For the year 2014, net income totaled COP 1,879 billion (COP 1,995 per share – USD 3.34 per ADR), which represents an increase of 24% as compared to COP 1,515 billion of net income for the fiscal year 2013, and an increase of 10% as compared to COP 1,702 billion of net income for the fiscal year 2012.

Bancolombia's return on average stockholders' equity for 2014 was 12.50%, down from 12.76% in 2013 and 15.97% in 2012.

The net interest margin increased in 2014 and reached 5.66% for the year, up from 5.48% in 2013 and down from 6.49% in 2012.

Provision charges, net of recoveries, totaled COP 1,405 billion for 2014, up 14.18% from COP 1,231 billion in 2013 and 26.5% from COP 1,111 billion in 2012. The higher amount of provisions was the result of loan deterioration and counter cyclical provisions. The majority of the new past due loans are related to commercial and consumer segments and are responsible for most of the provision charges for the year.

Loans and financial leases grew 20% during the year. This performance was driven primarily by credit and mortgage demand from individuals and corporate loans.

Reserves for loan losses and accrued interest represented 4.4% of total loans and 154% of past-due loans at the end of 2014 compared with 4.5% of total loans and 157% of past-due loans at December 31, 2013. Capital adequacy was 13.3% (Tier 1 ratio of 7.71%), higher than the 10.6% (Tier 1 ratio of 5.81%) reported at the end of 2013.

Deposits increased 10% during 2014, while the ratio of net loans to deposits (including borrowings from development banks) was 103% at the end of the year, up from 94% at December 31, 2013.

Net Interest Income

For 2014, net interest income totaled COP 6,105 billion, up 22% as compared to COP 5,009 billion in 2013 and 28% as compared to COP 4,767 billion in 2012. This performance is explained by the combined effect of the growth in the loan portfolio during the year and an increase in interest margins. During 2014, the Central Bank increased its reference rate from 3.25% to 4.50% in response to higher inflation, decreasing the money supply and reducing the availability of credit in the economy. Although interest rates on the Banks' borrowings augmented during 2014, the Bank was able to keep the funding costs low, in a manner that expanded the spreads, in spite of the addition of US dollar denominated loans from the Banistmo operation, whose assets present lower yields as compared to the Bank's assets prior to the acquisition. Net interest margin was 5.66% for the year, up from 5.48% in 2013. Net interest income represented 64% of net revenues in 2014, compared to 65% for 2013 and 64% for 2012.

Interest income, which is the sum of interest on loans, financial leases, overnight funds and income from investment securities, totaled COP 9,346 billion in 2014, up 15% as compared to COP 8,131 billion in 2013 and up 22% as compared to COP 7,662 billion in 2012.

Interest on loans and financial leases reflected a decrease in the loan portfolio in 2014. The weighted average nominal interest rate on loans and financial leases ended at 9.4% in 2014 down from 10% in 2013 and down from 11% in 2012. As a result, interest on loans and financial leases totaled COP 8,785 billion (94% of interest income) and increased by 15% as compared to COP 7,614 billion (94% of interest income) in 2013 and 28% as compared to COP 6,878 billion (90% of interest income) in 2012.

Interest on investment securities, which includes, among other items, the interest paid or accrued on debt securities and mark-to-market valuation adjustments, totaled COP 505 billion in 2014, up 3% as compared to 2013 and down 33% as compared to 2012.

The decline from 2012 to 2013 is primarily explained by [mark to market losses] in May and June 2013, in the wake of the announcement by the U.S. Federal Reserve regarding the tapering of its program of quantitative easing. Regarding interest expenses, interest incurred on liabilities totaled COP 3,241 billion in 2014, up 4% as compared to COP 3,122 billion in 2013, and up 12% as compared to COP 2,895 billion in 2012. The increase in interest expenses is explained by the increase in volumes of deposits and bonds. Overall, the average interest rate paid on interest-bearing liabilities decreased to 3.3% in 2014 from 3.7% in 2013 and from 4.4% in 2012.

Net Fees and Income from Financial Services

For the year 2014, net fees and income from services totaled COP 2,237 billion, up 17% as compared to COP 1,916 billion in 2013 and 24% as compared to COP 1,807 billion in 2012. This increase was driven primarily by the performance of commission from banking services, credit and debit cards fees, collections and payments fees and trust activities.

The following table lists the main revenue-producing fees for the years 2014, 2013 and 2012 along with the corresponding year-to-year variations:

	Year			Growth		Growth	
	2014	2013	2012	2014/2013		2013/2012	
	<i>(COP million)</i>						
Main fees and commissions							
Commissions from banking services	713,453	536,983	449,452	32.86	%	19.48	%
Electronic services and ATM fees	103,387	80,773	73,887	28.00	%	9.32	%
Branch network services	149,568	135,474	126,356	10.40	%	7.22	%
Collections and payments fees	341,509	283,760	256,503	20.35	%	10.63	%
Credit card merchant fees	15,128	8,295	9,684	82.37	%	(14.34))%
Credit and debit card annual fees	800,066	690,065	654,900	15.94	%	5.37	%
Checking fees	66,890	70,261	72,636	(4.80)	)%	(3.27))%
Trust activities	208,156	207,994	208,583	0.08	%	(0.28))%
Brokerage fees	57,158	62,615	63,631	(8.72)	)%	(1.60))%
Check remittance	44,898	25,082	22,120	79.00	%	13.39	%
International operations	86,563	62,921	71,932	37.57	%	(12.53))%
Fees and other service expenses	(349,881)	(247,867)	(202,644)	19.52	%	22.32	%
Total fees and income from services, net	2,236,895	1,916,356	1,807,040	16.73	%	6.05	%

Other Operating Income

For 2014, total other operating income was COP 1,152 billion, 37% higher than the COP 840 billion reported in 2013, and 38% higher than the COP 833 billion obtained in 2012.

Foreign exchange net gains had a significant impact in the other operating income line of COP 393 billion in 2014, 314% higher than the COP 95 billion reported in 2013, and 278% higher than the COP 104 billion obtained in 2012. The Bank recorded losses on forward contracts in foreign currency of COP 103 billion in 2014, compared to gains of COP 27 billion in 2013 and COP 59 billion in 2012. The depreciation of the Colombian Peso against the US Dollar during 2014 cause the foreign exchange gains and gains on forward contracts in foreign currency to have significant variations.

Revenue from communication, postage, rent and others increased 26% to COP 587 billion in 2014, from COP 466 billion in 2013 and 68% from COP 350 billion in 2012. This line includes the rents received from operating leasing contracts. The increase is explained by higher volumens of operating leases.

The Bank recorded insurance income in 2014 generated by the Banistmo's insurance operations acquired in 2013, these activities contributed COP 23 billion in income during the year. In 2013, insurance income accounted for COP 10 billion.

Operating expenses, including goodwill amortization

For 2014, operating expenses totaled COP 5,562 billion, up 20% as compared to COP 4,639 billion in 2013 and 34% up as compared to COP 4,162 billion in 2012.

Personnel expenses (the sum of salaries and employee benefits, bonus plan payments and indemnities totaled COP 1,938 billion in 2014, up 17% as compared to 2013. This performance was primarily driven by the combined effect of a slight increase in headcount and wage increments during 2014. Salaries rose 3.74% in 2014, 180 basis points above 2013 inflation rate, which was 1.94%.

Administrative and other expenses totaled COP 2,514 billion in 2014, up 8% as compared to 2013 and 23% as compared to 2012, driven by increased taxes other than income tax and expenses incurred in connection with software development and IT upgrades. Expenditures associated with IT upgrades increased at a smaller rate in 2014, however.

Depreciation expenses totaled COP 537 billion in 2014, increasing by 25% as compared to COP 429 billion in 2013 and 68% as compared to COP 320 billion in 2012. This increase was driven by the growth in the operating lease business of Bancolombia.

Goodwill amortization for the year ended December 31, 2014 amounted to COP 398 billion, up 404% from COP 79 billion in 2013 and up 771% from COP 46 billion in 2012. As of December 31, 2014, outstanding goodwill totaled COP 3,971 billion, which represents an 11% increase from COP 3,589 billion at the end of 2013. Goodwill relates primarily to the acquisition of Banistmo in 2013 and Banagrícola in May 2007. Both transactions originated goodwills denominated U.S. dollars and are being amortized over 10 years and 20 years, respectively. The depreciation of the peso against the U.S. dollar results in higher recorded goodwill in pesos and consequently higher amortization charges.

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

	Year ended December 31,		
	2014	2013	2012
	(COP million)		
Operating expenses			
Salaries and employee benefits	1,646,478	1,467,780	1,394,027
Bonus plan payments	241,831	154,550	204,201

Indemnities benefits	49,466	33,965	39,452
Administrative and other expenses	2,514,411	2,327,908	2,040,223
Insurance on deposits, net	160,629	135,816	105,675
Donation expenses	14,711	11,525	13,512
Depreciation	537,129	428,856	319,602
Goodwill amortization	397,798	78,880	45,690
Total operating expenses	5,562,453	4,639,280	4,162,382

Provision Charges and Credit Quality

For the year 2014, provision charges (net of recoveries) totaled COP 1,405 billion (or 1.5% of average loans), which represents an increase of 14% as compared to COP 1,231 billion in 2013 (or 1.6% of average loans) and an increase of 26% as compared to COP 1,111 billion in 2012 (or 1.7% of average loans). The higher level of provisions was driven by the formation of past due loans and the growth of the loan portfolio.

Net loan charge-offs totaled COP 1,044 billion in 2014, up 19% from COP 877 billion in 2013 and 54% from COP 679 billion in 2012. Past-due loans amounted to COP 3,075 billion in 2014, up 18% as compared to COP 2,597 billion in 2013, and 68% higher than COP 1,832 billion in 2012.

The delinquencies ratio (loans overdue more than 30 days divided by total loans) reached 2.86% as of the end of 2014, down from 2.90% at the end of 2013 and up from 2.62% at the end of 2012.

Allowance for credit losses

Under Colombian banking GAAP and according to the rules established by the SFC, banking institutions in Colombia must follow minimum standards for establishing allowances for loan losses. Such minimum standards require banks to analyze, on an ongoing basis, the credit risk to which their loan portfolio is exposed, taking into account the terms of the corresponding obligations as well as the level of risk associated with the borrowers. The risk evaluation is based on information relating to historical performance data, particular characteristics of the borrower, collateral, the borrower's debt to other entities, macroeconomic factors and financial information, among other data. The standards for provisioning vary for each credit category.

Commercial and consumer loans are provisioned following standard models developed by the SFC. According to the models the allowance for loan losses is calculated as follows:

$$\text{Expected Loss} = [\text{Probability of default}] \times [\text{Exposure at default}] \times [\text{Loss given default}]$$

The probability of default is calculated and provided by the SFC based on historical data. Exposure at default is defined as the current balance of the principal, interest, interest receivable accounts and other receivables regarding consumer and commercial loan obligations at the moment of default. The Loss Given Default ("LGD") is defined as the expected loss occurred after default and is calculated and provided by the SFC. The LGD varies according to the type of collateral and would increase progressively depending on the number of days the loan has been in default. Bancolombia applies stricter parameters than those required by the Colombian regulator in the estimation of the LGD of its loan portfolio by reducing the number of the past-due days that are used in such calculation and adjusting some percentages. Therefore, allowances produce higher provision charges that reflect a higher coverage ratio for loan losses. In June 2012, due to the significant increase in the consumer loan portfolio of the Colombian financial institutions, the SFC issued the External Circular 026 of 2012, with the purpose of setting forth the requirements to be followed by financial institutions, in order to establish a new additional allowance for covering the consumer loan's individual inherent risk. In addition to the allowances calculated by the reference models, the Bank also sets up incremental allowances for certain clients who are considered to present an increased inherent risk due to determined risk factors such as macroeconomic or industry deterioration trends or any other factors that could indicate early impairment. For further details see Note 2 to the Financial Statements, "Summary of significant accounting policies".

For mortgage and small business loans, the Bank must maintain at all times individual allowances equal to or greater than the minimum percentages provided by the SFC. The minimum percentages vary depending on the risk category

assigned to every loan within the mortgage and small business loans categories (the higher the risk, the higher the allowance percentage), as well as the presence of collateral. The Bank also has adopted, for its Colombian business, more rigorous policies in the calculation of allowances for mortgage and small business loans than those required by the SFC. Under such policies, the Bank has established higher allowance percentages for loans classified in the C, D and E risk categories.

For mortgage and small business loans, the Bank also sets up a general allowance which corresponds to 1% of the outstanding principal. Because the Bank applies standardized models supplied by the SFC to compute the allowance for commercial and consumer loans, the Bank is no longer required to establish general allowances for commercial and consumer loans.

The allowance for loans, financial leases and accrued interest losses amounted to COP 4,750 billion or 4.4% of total loans at the end of 2014, an increase of 16.8% from COP 4,066 billion, or 4.5% of total loans, as of December 31, 2013. Coverage for loan losses, measured by the ratio of allowances to PDLs (overdue 30 days), declined to 154% at the end of 2014, down from 157% at the end of 2013. The decrease in this coverage ratio is explained by the formation of PDLs during the year, which was faster than the pace of increase in allowances in the balance sheet. However, management believes, this coverage continues to reflect the Bank's prudent approach toward credit risk management, which is stricter than that required by the SFC. As of December 31, 2014, allowances in the amount of COP 813 billion were recorded in excess of the minimum allowances required by the SFC as compared with COP 674 billion as of December 31, 2013.

The Bank's management considers that the Bank's allowances for loans and financial leases losses adequately reflect the credit risk associated with its loans portfolio given the current economic environment and the available information upon which the credit assessments are made. Nonetheless, the methodology used in the allowance and provision charges determination is based on the existence and magnitude of determined factors that are not necessarily an indication of future losses and, accordingly, no assurance can be given that current allowances and provision charges will be sufficient to cover actual losses.

For further details regarding the regulation and methodologies for the calculation of allowances following the accounting practices and the special regulations of the SFC, please see "Note 2.i. to the Financial Statements included in this Annual Report. "Loans and Financial Leases".

For a description of the loan portfolio, the summary of loan experience, potential problem loans and charge-offs see "Item 4. Information on the Company – E. Selected Statistical Information – E.3. Loan Portfolio" and "Item 4. Information on the Company – E. Selected Statistical Information – E.4. Summary of loan loss experience".

Loan loss allowances calculated following practices and special regulations of the SFC differ in certain significant respects from those determined in accordance with U.S. GAAP. Note 31- e) to the Consolidated Financial Statements, "Allowance for loan losses, financial leases, foreclosed assets and other receivables" provides a description of the significant differences between Colombian banking GAAP and U.S. GAAP in this respect and a reconciliation of allowances following U.S. GAAP.

Non-Operating (Expenses) Income

Net non-operating expense, which includes gains/losses from the sale of foreclosed assets, premises and equipment and other assets and income from minority interest, totaled expenses of COP (59) billion in 2014, compared with income of COP 37 billion in 2013. The previous periods line corresponds to the correction of non-material mistakes for the periods 2012 and 2013, for a total amount of COP 89,075 million, resulting from the double recording of certain securities provided as guarantee by the Bank's proprietary trading desk. This operational risk was caused error resulted by a design flaw, which has been remediated in a software created for the purpose of managing the Bank's securities portfolio.

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

	Year ended December 31,		
	2014	2013	2012
	(COP million)		
Non-operating (expenses) income, net:			
Other income ⁽¹⁾	COP220,188	COP233,721	COP148,751
Minority interest	128	(17,364)	(5,723)
Other expenses ⁽²⁾	(190,009)	(179,294)	(107,813)
Previous periods ⁽³⁾	(89,075)	-	-
Total non-operating (expenses) income , net	COP(58,768)	COP37,063	COP35,215

(1) Includes gains on sale of foreclosed assets, premises and equipment, reimbursement of the provisions.

(2) Include fraud-related losses, losses from the sale of foreclosed assets, premises and equipment and payments for fines, sanctions, lawsuits and indemnities.

(3) Correction of non-material mistakes for the periods 2012 and 2013, for a total amount of COP 89,075 million, resulting from the double recording of certain securities provided as guarantee by the Bank's proprietary trading desk. This operational risk was caused by a design flaw in a software created for the purpose of managing the Bank's securities portfolio. The flaw was duly corrected by the Bank.

Income Tax Expenses

Income tax expense for the fiscal year 2014 totaled COP 589 billion, up 41% from COP 417 billion in 2013 and 26% from COP 467 billion in 2012.

The income tax increase was mainly explained by the higher income tax rate for CREE. Also, the effect of the difference in foreign exchange derivatives implies the recognition of future taxes and finally, the difference between the book value and market value of debt securities implies a future tax.

Since January 1, 2012, subsidiaries in the fiscal jurisdiction of El Salvador pay a 30% income tax, with the exception of entities with taxable income of less than USD 150 thousand per year, which pay 25%. Dividends received by those entities are subject to a 5% tax rate.

In the case of Bancolombia Panama and its subsidiary, Banagrícola, which are domiciled in Panama and permitted to operate through an international banking license, income tax is governed by the Panamanian tax law. Pursuant to Panamanian tax law the profits of these companies are not subject to income tax in Panama. For further details about the income tax expense calculation, see “Note 21. Accrued Expenses – Income Tax Expense” of Notes to the Consolidated Financial Statements.

Banistmo and its subsidiaries incorporated in Panama pay an income tax on the profits obtained in the country equivalent to 25% from 2014 onwards. According to existing fiscal regulation, profits from foreign operations, interest paid on term deposits by local banks, debt securities issued by the Panamanian Government and from securities listed in the Securities Exchange Superintendency (Superintendencia del Mercado de Valores) are exempt from income taxes.

GENERAL DISCUSSION OF THE CHANGES IN RESULTS FOR 2013 VERSUS 2012

Summary

In 2013, Bancolombia strengthened its competitive position and full-service financial model, and benefited from the diversity of its leading franchises. For 2013, net income totaled COP 1,515 billion (COP 1,779 per share – USD 3.69 per ADR), which represents a decrease of 11% as compared to 2012, when net income totaled COP 1,702 billion, and

a decrease of 9% as compared to 2011, when net income totaled COP 1,664 billion.

Bancolombia's return on average stockholders' equity for 2013 was 12.76%, down from 15.97% in 2012 and 20.22% in 2011.

The net interest margin decreased in 2013 and reached 5.48%, down from 6.49% in 2012 and 6.17% in 2011.

Provision charges, net of recoveries, totaled COP 1,231 billion for 2013, up 11% from COP 1,111 billion in 2012 and 106% from COP 599 billion in 2011. The higher amount of provisions was the result of loan deterioration and countercyclical provisions. The majority of the new past due loans are related to consumer clients and are responsible for most of the provision charges for the year.

Loans and financial leases grew 28% during the year. This performance was driven primarily by credit and mortgage demand from individual corporations and the incorporation of Banistmo, which contributed with 15.8% to the overall growth in loans.

Reserves for loan losses and accrued interest represented 4.5% of total loans and 157% of past-due loans at the end of 2013 compared with 4.7% of total loans and 177% of past-due loans at December 31, 2012. Capital adequacy was 10.6% (Tier 1 ratio of 5.8%), lower than the 15.8% (Tier 1 ratio of 10.4%) reported at the end of 2012.

Deposits increased 35% during 2013, driven by greater liquidity in the Colombian economy and as a result of the acquisition of Banistmo, which explained 16.6% of growth in deposits. The ratio of net loans to deposits (including borrowings from development banks) was 94% at the end of the year, down from 99% at December 31, 2012.

Banistmo

On October 28, 2013, Bancolombia completed the acquisition of 100% of common shares, and 90.1% of preferred shares of Banistmo. After having obtained the required regulatory approvals, and satisfied certain other conditions for completion of this transaction, Bancolombia acquired a controlling interest in the Panamanian entity.

Bancolombia paid a consideration amount of USD 2,234 million to HSBC Latin America Holdings (UK) Limited, a subsidiary of HSBC Holdings plc.

Banistmo has the second largest market share of loans and deposits in Panama, and it has USD 8,000 million in assets, USD 5,542 million in deposits and USD 676 million in equity on a consolidated basis, as of December 2013.

Additionally, Banistmo and its subsidiaries have more than 450 thousand clients, 2,500 employees, 62 branches and 274 ATMs.

The strategy with Banistmo in the near future is to consolidate its relationships with clients, implement its own IT platform and processes and continue growing along with the Panamanian economy, which is one of the more dynamic in Central America.

REVENUE PERFORMANCE

Net Interest Income

For 2013, net interest income totaled COP 5,009 billion, up 5% from COP 4,767 billion in 2012 and 28% from COP 3,904 billion in 2011. This performance is explained by the combined effect of the growth in the loan portfolio during the year and a decrease in interest margins. In 2013, the Central Bank decreased its reference rate from 4.25% to 3.25% which increased money supply and expanded the availability of credit in the economy. The reasons for these cuts in the reference rate were the slower pace of growth in the economy and the reduction of inflation. Although rates declined during 2013, the Bank was able to manage its funding costs, in a manner that mitigate the compression of spreads. The addition of U.S. dollar denominated loans from the Banistmo operation also impacted the net interest margin as, since those assets present lower yields as compared to the assets prior to the acquisition. Net interest margin was 5.48% for 2013, down from 6.49% in 2012. Net interest income represented 65% of net revenues in 2013,

compared to 64% for 2012 and 62% for 2011.

Interest income, which is the sum of interest on loans, financial leases, overnight funds and income from investment securities, totaled COP 8,131 billion in 2013, up 6% from COP 7,662 billion in 2012 and up 37% from COP 5,946 billion in 2011.

Interest on loans and financial leases reflected an increase in the loan portfolio in 2013. The weighted average nominal interest rate on loans and financial leases ended at 10% in 2013 down from 11% in 2012 and equal to the 10% rate in 2011. As a result, interest on loans and financial leases totaled COP 7,614 billion (94% of interest income), an increase of 11% compared to COP 6,878 billion (90% of interest income) in 2012 and 44% compared to COP 5,301 billion (89% of interest income) in 2011.

Interest on investment securities, which includes, among other items, the interest paid or accrued on debt securities and mark-to-market valuation adjustments, totaled COP 490 billion in 2013, down 36% as compared to 2012 and 22% as compared to 2011. This decline is primarily explained by loss in value of securities in May and June 2013, caused by the announcement of the U.S. Federal Reserve regarding the tapering of the monetary stimulus.

Regarding interest expenses, interest incurred on liabilities totaled COP 3,122 billion in 2013, up 8% as compared to COP 2,895 billion in 2012, and up 53% as compared to COP 2,042 billion in 2011. The increase in interest expenses is explained by the increase in volumes of deposits and bonds. Overall, the average interest rate paid on interest-bearing liabilities decreased to 3.7% in 2013 from 4.4% in 2012 and remained stable compared to 3.7% in 2011.

Net Fees and Income from Financial Services

For 2013, net fees and income from services totaled COP 1,916 billion, up 6% as compared to COP 1,807 billion in 2012 and up 15% as compared to COP 1,669 billion in 2011. This increase was driven primarily by the performance of commissions received from banking services, collections and payments fees and check remittances.

Bancolombia's distribution channels completed an increased number of transactions in 2013 compared to 2012. In particular, our banking operation in Colombia completed about 1.60 billion transactions in 2013, which represents an increase of 16% as compared to the 1.38 billion transactions in 2012. The Bank achieved these higher transaction levels, despite fee increases and the elimination of fee exemptions for certain payment instruments for some segments (such as debit cards and credit cards).

The following table lists the main revenue-producing fees for the years ended December 31 2013, 2012 and 2011 along with year-to-year variations:

	Year Ended December 31,			Variation		Variation	
	2013	2012	2011	2013/2012		2012/2011	
	<i>(COP million)</i>						
Main fees and commissions							
Commissions from banking services	469,896	449,452	383,984	4.55	%	17.05	%
Electronic services and ATM fees	87,516	73,887	67,267	18.45	%	9.84	%
Branch network services	135,474	126,356	125,835	7.22	%	0.41	%
Collections and payments fees	283,788	256,503	224,878	10.64	%	14.06	%
Credit card merchant fees	8,295	9,684	16,725	(14.34)	)%	(42.10))%
Credit and debit card annual fees	731,095	654,900	617,526	11.63	%	6.05	%
Checking fees	70,261	72,636	74,514	(3.27)	)%	(2.52))%
Trust activities	207,994	208,583	188,340	(0.28)	)%	10.75	%
Brokerage fees	62,615	63,631	65,943	(1.60)	)%	(3.51))%
Check remittance	44,368	22,120	19,626	100.58	%	12.71	%
International operations	62,921	71,932	71,293	(12.53)	)%	0.90	%
Fees and other service expenses	(247,867)	(202,644)	(187,347)	22.32	%	8.17	%
Total fees and income from services, net	1,916,356	1,807,040	1,668,584	6.05	%	8.30	%

Other Operating Income

For 2013, total other operating income was COP 840 billion, 1% higher than the COP 833 billion reported in 2012, and 22% higher than the COP 691 billion reported in 2011.

Revenue from communication, postage, rent and others had a significant impact on the “Other operating income” line of COP 466 billion in 2013, 33% higher than the COP 350 billion reported in 2012, and 107% higher than the COP 225 billion recorded in 2011. This item includes the rents received from operating leasing contracts.

The Bank recorded insurance income generated by Banistmo’s insurance operations during the months of November and December, these activities contributed COP 10 billion in income.

Net foreign exchange gain (loss) decreased by 9% to COP 95 billion in 2013, from COP 104 billion in 2012 and decreased by 15% from COP 112 billion in 2011. Gains on forward contracts in foreign currency decreased by 54% to COP 27 billion in 2013, from COP 59 billion in 2012 and increased by 148% from COP 11 billion in 2011.

Operating expenses

For 2013, operating expenses totaled COP 4,639 billion, up 11% as compared to COP 4,162 billion in 2012 and up 29% as compared to COP 3,606 billion in 2011.

Personnel expenses (salaries and employee benefits, bonus plan payments and indemnities) totaled COP 1,656 billion in 2013, up 1% from 2012. This performance was primarily driven by the combined effect of a slight increase in headcount and wage increments during 2013. Salaries in 2013 were raised in line with the 2012 inflation rate of 2.44%.

Administrative and other expenses totaled COP 2,327 billion in 2013, up 14% as compared to 2012 and up 31% as compared to 2011, driven by increased taxes different than income tax and expenses incurred in connection with software development and IT upgrades.

Depreciation expenses totaled COP 429 billion in 2013, increasing 34% as compared to COP 320 billion in 2012 and 92% as compared to COP 223 billion in 2011. This increase was driven by the growth in the operating lease business of Bancolombia.

Provision Charges and Credit Quality

For the year 2013, provision charges (net of recoveries) totaled COP 1,231 billion (or 1.6% of average loans), which represents an increase of 11% as compared to COP 1,111 billion in 2012 (or 1.7% of average loans) and an increase of 106% as compared to COP 599 billion in 2011 (or 1% of average loans). The higher level of provisions was driven by the formation of past-due loans and the growth of the loan portfolio, which implied higher countercyclical provisions.

Net loan charge-offs totaled COP 877 billion in 2013, up 29% from COP 679 billion in 2012 and up 65% from COP 532 billion in 2011. Past-due loans amounted to COP 2,597 billion in 2013, up 42% as compared to COP 1,832 billion in 2012, and 94% higher than COP 1,341 billion in 2010.

The delinquencies ratio (the ratio of loans overdue more than 30 days to total loans) reached 2.90% as of the end of 2013, up from 2.62% at the end of 2012 and up from 2.18% at the end of 2011.

Merger Expenses and Goodwill Amortization

For the year ended December 31, 2013, goodwill amortization amounted to COP 79 billion, up 72% from COP 46 billion in 2012 and up 55% from COP 51 billion in 2011.

As of December 31, 2013, outstanding goodwill totaled COP 3,589 billion, which represents a 529% increase from COP 571 billion at the end of 2012. Outstanding goodwill represented 2.7% of the Bank's total assets and primarily comprises the goodwill related to the acquisition of Banagrícola in May 2007 and Banistmo in 2013. Both transactions originated goodwill denominated in U.S. dollars and are being amortized over 20 years.

Non-Operating Income (Expenses)

Net non-operating income, which includes gains/losses from the sale of foreclosed assets, premises and equipment and other assets and income from minority interest, totaled COP 37 billion in 2013, a 6% increase from COP 35 billion in 2012.

Income Tax Expenses

Income tax expense for the fiscal year 2013 totaled COP 417 billion, down 11% from COP 467 billion in 2012 and down 11% from COP 471 billion in 2011.

Since January 1, 2012, subsidiaries in the fiscal jurisdiction of El Salvador will pay a 30% income tax, with the exception of entities with taxable income of less than USD 150 thousand per year, which will pay 25%. Dividends received by those entities will be subject to a 5% tax rate.

In the case of Bancolombia Panama and its subsidiary, Banagrícola, which are domiciled in Panama and permitted to operate through an international banking license, income tax is governed by the Panamanian tax law. Pursuant to Panamanian tax law the profits of these companies are not subject to income tax in Panama. For further details about the income tax expense calculation, see “Note 21. Accrued Expenses – Income Tax Expense” of Notes to the Consolidated Financial Statements.

Banistmo and its subsidiaries incorporated in Panama pay an income tax on the profits obtained in the country equivalent to 27.5% for 2013 and 25% from 2014 onwards. According to existing fiscal regulation, profits from foreign operations, interest paid on term deposits by local banks, debt securities issued by the Panamanian Government and from securities listed in the Securities Exchange Superintendency (Superintendencia del Mercado de Valores) are exempt from income taxes.

RESULTS BY SEGMENT

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

In 2013, Bancolombia included “Insurance” and “Banking Panama” as new segments because of the acquisition of Banistmo and its subsidiaries, which includes an insurance operation.

Banking Colombia: This segment provides retail and corporate banking products and services to individuals, companies and national and local governments in Colombia. The Bank’s strategy in Colombia is to grow with these clients based on value-added, long-term relationships. In order to offer specialized services to individuals and small and medium size enterprises (SMEs), the Bank’s retail sales force targets the clients classified as: Personal, Private, Entrepreneurs, Foreign Residents and SMEs. The Bank’s corporate and government sales force targets and specializes in companies with more than COP 16,000 million in revenue.

This segment is also responsible for the management of the Bank’s proprietary trading activities, liquidity and distribution of treasury products and services to its client base in Colombia.

	<i>Year ended December 31,</i>						
	2014	2013	2012	Change		Change	
	<i>(COP in million)</i>			2014-2013		2013-2012	
Net Interest income	4,880,934	4,274,577	4,010,434	14.19	%	6.59	%
Net provisions	(1,243,036)	(1,074,009)	(1,057,745)	15.74	%	1.54	%
Net commissions	1,660,897	1,517,679	1,445,429	9.44	%	5.00	%
Other net revenues	356,055	553,367	490,755	(35.66	)%	12.76	%
Total operating income	5,654,850	5,271,614	4,888,873	7.27	%	7.83	%
Operating expenses	3,932,526	3,531,379	3,296,266	11.36	%	7.13	%
Non-operating income (expense)	(37,727)	(8,913)	18,153	323.28	%	(149.10)%
Income before income taxes	1,684,597	1,731,322	1,610,760	(2.70	)%	7.48	%
Income tax expense	(333,521)	(248,182)	(318,158)	34.39	%	(21.99)%
Segment net income	1,351,076	1,483,140	1,292,602	(8.90	)%	14.74	%
Segment assets	90,553,871	83,818,769	71,566,337	8.04	%	17.12	%

Analysis of 2014 versus 2013.

In 2014, net income for Banking Colombia declined by 8.9% to COP 1,351 billion.

Net interest income increased 14.2% to COP 4,881 billion, explained by the growth in the loan portfolio and the expansion of the net interest margin. Consumer loans grew 7.4%, mortgages 26.7% and corporate loans grew 20.9%. Demand in consumer loans was mainly driven by car loans, personal loans and payroll loans and commercial loans were mainly driven by large corporations.

Net provision charges increased by 15.7% to COP 1,243 billion. This increase resulted from growth of the loan portfolio, in particular loan growth in the consumer segment, as well as some deterioration in credit quality. The credit quality of the loan portfolio in the Banking Colombia segment was healthy and the formation of new past due loans was lower than in previous year.

Net commissions increased by 9.4% to COP 1,661 billion mainly due to greater fees from banking services, which include distribution of insurance premiums, debit and credit cards and electronic and ATM-based transaction fees. In 2014, Banking Colombia experienced a greater number of transactions, which contributed to a higher fee revenue. Prices for these services increased in line with inflation.

Other net revenues decreased 35.7% during 2014 because of the reduction of dividends received by Bancolombia from other subsidiaries during 2013. These transaction is eliminated in the consolidation process.

Operating expenses increased by 11.4% to COP 3,933 billion, due to increases in administrative expenses and labor costs and increased deposit insurance premiums paid in connection to the growth of deposits.

Non-operating expenses increased 323.3% due to the correction of prior-periods errors.

Assets attributable to Banking Colombia grew by 8% during the year, mainly driven by the growth in loans.

Analysis of 2013 versus 2012.

In 2013, net income for Banking Colombia grew by 14.7% to COP 1,483 billion.

Net interest income increased 6.6% to COP 4,275 billion, explained by the growth in the loan portfolio. Consumer loans grew 15%, mortgages 27% and corporate loans grew 9%. Demand in consumer loans was mainly driven by car loans, personal loans and payroll loans and commercial loans were mainly driven by large corporations.

Net provision charges increased by 1.5% to COP 1,074 billion. This increase resulted from growth of the loan portfolio, in particular loan growth in the consumer segment, as well as some deterioration in credit quality. The credit

quality of the loan portfolio in the Banking Colombia segment was healthy and the deterioration was lower than in previous year, nevertheless, the counter cyclical component of provisions, attributable to new loans that do not necessarily become past due, explained a portion of the provision charges.

Net commissions increased by 5% to COP 1,518 billion mainly due to greater fees from banking services, which include distribution of insurance premiums, debit and credit cards and electronic and ATM-based transaction fees. In 2013, Banking Colombia experienced a greater number of transactions, which contributed to a higher fee revenue. Prices for these services increase in line with inflation.

Operating expenses increased by 7% to COP 3,531 billion, due to increases in administrative expenses and labor costs and increased deposit insurance premiums paid in connection to the growth of deposits. During 2013, Banking Colombia was focused in growing labor cost in line with inflation, keeping the headcount stable.

Assets attributable to Banking Colombia grew by 17% during the year, mainly driven by the growth in loans.

Banking El Salvador through Banco Agrícola S.A.: This segment provides retail and commercial banking products and services to individuals, companies and national and local governments in El Salvador. Banking El Salvador also includes operations of the following subsidiaries Arrendadora Financiera S.A., Credibac S.A. de CV, Valores and Banagricola S.A. de C.V.

This segment is also responsible for the management of the Bank's proprietary trading activities, liquidity and distribution of treasury products and services to its client base in El Salvador.

	Year ended December 31,			Change 2014-2013		Change 2013-2012	
	2014	2013	2012				
	(COP in million)						
Net Interest income	408,713	363,079	333,789	12.57	%	8.78	%
Net provisions	(41,970)	(41,611)	16,775	0.86	%	(348.05)%
Net commissions	131,263	132,464	129,226	(0.91	)%	2.51	%
Other net revenues	28,313	4,959	(2,788)	470.94	%	277.87	%
Total operating income	526,319	458,891	477,002	14.69	%	(3.80)%
Operating expenses	268,762	234,463	217,291	14.63	%	7.90	%
Non-operating income (expense)	(515)	6,051	4,290	(108.51	)%	41.05	%
Income before income taxes	257,042	230,479	264,001	11.53	%	(12.70)%
Income tax expense	(72,064)	(70,325)	(66,473)	2.47	%	5.79	%
Segment net income	184,978	160,154	197,528	15.50	%	(18.92)%
Segment assets	9,511,944	7,596,257	6,699,690	25.22	%	13.38	%

Analysis of 2014 versus 2013.

In 2014, net income for Banking El Salvador increased by 15.5% to COP 185 billion.

Net interest income increased by 12.6% to COP 408.7 billion, due to a growth in the loan portfolio. Net interest margins remained stable during the year as the loan portfolio mix did not change and funding costs remained flat.

Net provisions were COP 41.9 billion, compared with COP 41.6 billion for 2013, due to lower non performing loans as a percentage of gross loans. In banking operations in El Salvador, we maintained strict discipline in credit standards in order to prevent any significant deterioration of the loan book due to weak economic performance. Allowances for bad loan losses as a percentage of past-due loans at the end of 2014 were 223% and past-due loans as a percentage of gross loans were 1.5% for Banking El Salvador.

Operating expenses grew by 14.6% to COP 268.8 billion, mainly due to increased in personnel expenses, which grew because of inflation and headcount. Also, the appreciation of the US dollar versus the Colombian Peso during 2014 contributed to the increase.

Assets attributable to Banking El Salvador increased by 25% during the year, mainly driven by the appreciation of the US dollar versus the Colombian Peso and the growth of the loan portfolio of Banco Agrícola. The loan portfolio denominated in USD grew 4% during 2014. Consumer and Mortgage loans lead the growth in 2014 and at the end of the period, accounted for 56% of the loan portfolio. Corporate loans represented 44% of the portfolio.

Analysis of 2013 versus 2012.

In 2013, net income for Banking El Salvador decreased by 19% to COP 160 billion.

Net interest income increased by 8.8% to COP 363 billion, due to a growth in the loan portfolio. Net interest margins remained stable during the year as the loan portfolio mix did not change and funding costs remained flat.

Net provisions were COP 42 billion, compared with net recoveries of COP 17 billion for 2012, due to higher non performing loans. In banking operations in El Salvador, we maintained strict discipline in credit standards in order to prevent any significant deterioration of the loan book due to weak economic performance. Allowances for bad loan losses as a percentage of past-due loans at the end of 2013 were 186% and past-due loans as a percentage of gross loans were 2.6% for Banking El Salvador.

Operating expenses grew by 8% to COP 234 billion, mainly due to increased in personnel expenses.

Assets attributable to Banking El Salvador increased by 13% during the year, mainly driven by the growth of the loan portfolio of Banco Agrícola. Consumer and small and medium enterprises loans lead the growth in 2013 and at the end of the period, accounted by about 57% of the loan portfolio. Corporate loans represented 43% of the portfolio.

Leasing: This segment provides financial and operational leases, including cross-border and international leasing services to clients in Colombia, Central America, Mexico and Brazil. Bancolombia offers these services mainly through the following Subsidiaries: Leasing Bancolombia, Renting Colombia S.A., Arrendamiento Operativo CIB S.A.C., Leasing Perú S.A., Transportempo S.A.S., Capital Investment Safi S.A., Fondo de Inversión en Arrendamiento Operativo Renting Perú and Patrimonio Autónomo Cartera LBC.

	Year ended December 31,			Change 2014-2013	Chenge 2013-2012		
	2014	2013	2012				
	(COP in million)						
Net Interest income	679,278	591,086	533,725	14.92	%	10.75	%
Net provisions	(112,048)	(97,035)	(91,389)	15.47	%	6.18	%
Net commissions	61,616	51,626	36,528	19.35	%	41.33	%
Other net revenues	97,492	114,702	111,121	(15.00)	)%	3.22	%
Total operating income	726,338	660,379	589,985	9.99	%	11.93	%
Operating expenses	364,329	332,714	314,999	9.50	%	5.62	%
Non-operating income (expense)	(74,059)	(76,424)	(52,761)	(3.09)	)%	44.85	%
Income before income taxes	287,950	251,241	222,225	14.61	%	13.06	%
Income tax expense	(51,906)	(23,857)	(3,106)	117.57	%	668.09	%
Segment net income	236,044	227,384	219,119	3.81	%	3.77	%
Segment assets	17,028,978	15,358,140	13,179,545	10.88	%	16.53	%

Analysis of 2014 versus 2013.

In 2014, net income for Leasing increased by 3.8% to COP 236 billion.

Net interest income increased by 14.9% to COP 679 billion, explained mainly by the growth in the balance of financial leases.

Net provision charges increased by 15.5% to COP 112 billion, due to the formation of new past due loans. Allowances for bad loan losses, as a percentage of gross loans, were 199%; and past-due loans as a percentage of gross loans were 1.75% at end of 2014.

Net commissions grew by 19.4% to COP 61.6 billion due to higher fees from arrangements of operational leasing structures and imports.

Operating expenses increased by 9.5% to COP 364.3 billion, due to higher labor costs and administrative expenses.

Assets attributable to Leasing grew by 10.9% to COP 17,029 billion, driven by the increase in financial and operating leases demanded by corporations and small and medium enterprises.

Analysis of 2013 versus 2012.

In 2013, net income for Leasing increased by 4% to COP 227 billion.

Net interest income increased by 11% to COP 591 billion, explained mainly by the growth in the balance of financial leases.

Net provision charges increased by 6% to COP 97 billion, due to some deterioration of the leasing portfolio. Allowances for bad loan losses, as a percentage of gross loans, were 176%; and past-due loans as a percentage of gross loans were 2.1% at end of 2013.

Net commissions grew by 41% to COP 52 billion due to higher fees from arrangements of operational leasing structures.

Operating expenses increased by 5.6% to COP 333 billion, due to increased labor costs and administrative expenses.

Assets attributable to Leasing grew by 16.5% to COP 15,358 billion, mainly driven by the increase in financial and operating leases demanded by corporations and small and medium enterprises.

Trust: This segment provides trust services and asset management to clients in Colombia and Peru through Fiduciaria Bancolombia and FiduPerú S.A. The main products offered by this segment include money market accounts, mutual and pension funds, private equity funds, payment trust, custody services, and corporate trust.

	<i>Year ended December 31,</i>						
	2014	2013	2012	Change		Change	
	(COP in million)			2014-2013		2013-2012	
Net Interest income	904	896	12,635	0.89	%	(92.91)%
Net provisions	(642)	(532)	(831)	20.68	%	(35.98)%
Net commissions	202,526	198,582	198,987	1.99	%	(0.20)%
Other net revenues	(30,820)	(49,477)	(28,287)	(37.71	)%	74.91	%
Total operating income	171,968	149,469	182,504	15.05	%	(18.10)%
Operating expenses	68,090	61,100	63,165	11.44	%	(3.27)%
Non-operating income (expense)	(5,211)	698	1,106	(846.56	)%	(36.89)%
Income before income taxes	98,667	89,067	120,445	10.78	%	(26.05)%
Income tax expense	(37,915)	(29,452)	(38,827)	28.73	%	(24.15)%
Segment net income	60,752	59,615	81,618	1.91	%	(26.96)%
Segment assets	231,819	56,107	79,579	313.17	%	(29.50)%

Analysis of 2014 versus 2013.

In 2014, net income for the Trust segment increased by 1.9% to COP 60.8 billion.

Net interest income increased by 0.9% to COP 0.9 billion. Commissions grew 2% to COP 202.5 billion driven by higher value of assets under management and corporate trust fees.

Assets attributable to the Trust segment increased by 313% during the year to COP 231.8 billion, mainly driven by the increase in cash of Fiduciaria Bancolombia S.A.

Analysis of 2013 versus 2012.

In 2013, net income for the Trust segment decreased by 27% to COP 60 billion.

Net interest income decreased by 93% to COP 0.9 billion, due to the losses on investment securities. Commissions remained stable due to the unchanged value of assets under management.

Assets attributable to the Trust segment decreased by 30% during the year to COP 56 billion, mainly driven by the reduction of the investment securities portfolio of Fiduciaria Bancolombia S.A., which were reallocated to the Banking Colombia segment.

Investment Banking: This segment provides corporate and project finance advisory, underwriting, capital markets services and private equity management through Banca de Inversion. Its customers include private and publicly-held corporations as well as Government institutions.

	<i>Year ended December 31,</i>						
	2014	2013	2012	Change		Change	
	(COP in million)			2014-2013		2013-2012	
Net Interest income	297	132	2,391	125.00	%	(94.48)%
Net provisions	(263)	454	(137)	(157.93	)%	431.39	%
Net commissions	22,985	21,860	38,415	5.15	%	(43.10)%
Other net revenues	25,933	26,513	25,894	(2.19	)%	2.39	%
Total operating income	48,952	48,959	66,563	(0.01	)%	(26.45)%
Operating expenses	20,718	17,457	19,381	18.68	%	(9.93)%
Non-operating income (expense)	828	996	491	(16.87	)%	102.85	%
Income before income taxes	29,062	32,498	47,673	(10.57	)%	(31.83)%
Income tax expense	(4,708)	(1,570)	(8,653)	199.87	%	(81.86)%
Segment net income	24,354	30,928	39,020	(21.26	)%	(20.74)%
Segment assets	169,732	164,361	165,326	3.27	%	(0.58)%

Analysis of 2014 versus 2013.

In 2014, net income for the Investment Banking segment decreased by 21% to COP 24.3 billion.

Net interest income increased by 125% to COP 297 million, due to lower interest expenses. Net commissions, which is the main revenue line, increased by 5% to COP 23 billion, led by high fees generated by corporate finance advisory services and capital markets related fees.

Other revenues decreased by 2.2% to COP 25.9 billion mainly due to transactions with other segments, which are eliminated in the consolidation process.

Operating expenses grew by 18.7% to COP 20.7 billion, due to higher labor costs.

Assets attributable to Investment Banking increased by 3.3% during the year to COP 169.7 billion, mainly driven by the gains of the investment securities portfolio.

Analysis of 2013 versus 2012.

In 2013, net income for the Investment Banking segment decreased by 21% to COP 31 billion.

Net interest income decreased by 94% to COP 132 million, due to the reduction of the investment securities portfolio. Net commissions, which are the main revenue line, decreased by 43% to COP 22 billion, led by lower fees generated by corporate finance advisory services and lower capital markets related fees.

Other revenues increased by 2.4% to COP 26 billion mainly due to transaction with other segments, which are eliminated in the consolidation process.

Operating expenses declined by 10% to COP 17 billion, due to lower labor costs.

Assets attributable to Investment Banking decreased by 0.6% during the year to COP 164 billion, mainly driven by the reduction of the investment securities portfolio which were reallocated to the Banking Colombia segment.

Brokerage: This segment provides brokerage, investment advisory and private banking services to individuals and institutions through Valores Bancolombia, Valores Bancolombia Panama S.A. and Suvalor Panama Fondo de Inversión S.A. It sells and distributes equities, futures, foreign currencies, fixed income securities, mutual funds and structured products.

	<i>Year ended December 31,</i>			Change 2014-2013	Change 2013-2012
	2014	2013	2012		
	(COP in million)				
Net Interest income	14,726	14,948	20,284	(1.49)%	(26.31)%
Net provisions	(920)	(1,160)	(68)	(20.69)%	1605.88 %
Net commissions	82,022	70,315	70,511	16.65 %	(0.28)%
Other net revenues	52,405	67,281	38,421	(22.11)%	75.12 %
Total operating income	148,233	151,384	129,148	(2.08)%	17.22 %
Operating expenses	107,155	101,748	102,199	5.31 %	(0.44)%
Non-operating income (expense)	7,874	(2,428)	4,333	(424.30)%	(156.04)%
Income before income taxes	48,952	47,208	31,282	3.69 %	50.91 %
Income tax expense	(12,630)	(15,881)	(5,962)	(20.47)%	166.37 %
Segment net income	36,322	31,327	25,320	15.94 %	23.72 %
Segment assets	265,307	294,435	224,811	(9.89)%	30.97 %

Analysis of 2014 versus 2013.

In 2014, net income for the Brokerage segment increased by 15.9% to COP 36.3 billion.

Net interest income decreased by 1.5% to COP 14.7 billion, due to a reduction in gains on securities.

Net commissions, which are the most important component of revenues, presented an increase of 16.6% to COP 82 billion, due to higher fees related to distribution and intermediation of securities and asset management.

Other net revenues decreased by 22% to COP 52.4 billion, due mainly to operations with other segments, which are eliminated in the consolidation process.

Operating expenses increased by 5.3% to COP 107.2 billion, due to labor cost increases and higher taxes different than income taxes.

Assets attributable to the Brokerage segment decreased by 9.9% during the year, mainly driven by the reduction of the proprietary securities portfolio.

Analysis of 2013 versus 2012.

In 2013, net income for the Brokerage segment increased by 24% to COP 31 billion.

Net interest income decreased by 26% to COP 15 billion, due to a reduction in gains on securities.

Net commissions, which are the most important component of revenues, presented a slight reduction to COP 70 billion, due to lower fees related to distribution and intermediation of securities.

Other net revenues increased by 75% to COP 67 billion, due mainly to operations with other segments, which are eliminated in the consolidation process.

Operating expenses decreased by 0.4% to COP 101.7 billion, due to labor cost decreases.

Assets attributable to the Brokerage segment increased by 31% during the year, mainly driven by the growth of the size of the proprietary securities portfolio.

Off Shore: This segment provides a complete line of offshore banking services to Colombian and Salvadorian customers through Bancolombia Panamá, Bancolombia Cayman S.A., and Bancolombia Puerto Rico International, Inc. It offers loans to private sector companies, trade financing, lease financing, financing for industrial projects as well as a complete portfolio of cash management products, such as checking accounts, international collections and payments. Through these subsidiaries, the Bank also offers investment opportunities in U.S. dollars, savings and checking accounts, time deposits, and investment funds to its high net worth clients and private banking customers.

The performance of Bancolombia Panama, which has a significant weight in this segment, refers only to the results reported by Bancolombia Panama's offshore commercial banking activities and does not consolidate the results of Banco Agrícola, which are reflected in the results for the segment Banking El Salvador.

	<i>Year ended December 31,</i>			Change 2014-2013	Change 2013-2012		
	2014	2013	2012				
	(COP in million)						
Net Interest income	63,427	32,644	95,963	94.30	%	(65.98)%
Net provisions	(26,127)	(25,410)	5,268	2.82	%	(582.35)%
Net commissions	19,724	19,837	15,461	(0.57	)%	28.30	%
Other net revenues	249,683	346,655	109,111	(27.97	)%	217.71	%
Total operating income	306,707	373,726	225,803	(17.93	)%	65.51	%
Operating expenses	80,409	77,331	57,500	3.98	%	34.49	%
Non-operating income (expense)	1,712	3,305	(195)	(48.20	)%	1,794.87	%
Income before income taxes	228,010	299,700	168,108	(23.92	)%	78.28	%
Income tax expense	-	-	-	-		-	
Segment net income	228,010	299,700	168,108	(23.92	)%	78.28	%
Segment assets	8,938,392	6,131,448	5,215,286	45.78	%	17.57	%

Analysis of 2014 versus 2013.

In 2014, net income for the Off Shore segment decreased by 23.9% to COP 228 billion.

Net interest income increased by 94% to COP 63.4 billion, driven by higher revenues from commercial loans. Other net revenues decreased by 28% to COP 249.7 billion, mostly due to a reduction in dividends received from Banagrícola (part of the Banking El Salvador segment). These dividends are eliminated in the consolidation process that generates the Consolidated Financial Statements.

Operating expenses increased by 4% to COP 80.4 billion, due to the growth of labor expenses.

Assets attributable to the Off Shore segment increased by 45.8% during the year, mainly driven by the strengthening of the US dollar versus de Colombian peso and the organic growth of loans.

The jurisdictions where operations of the Off Shore segment are conducted have no corporate income taxes.

Analysis of 2013 versus 2012.

In 2013, net income for the Off Shore segment increased by 78% to COP 300 billion.

Net interest income decreased by 66% to COP 33 billion, driven by lower revenues from commercial loans that were transferred to the Banking Colombia segment at the end of 2012. Other net revenues increased by 218% to COP 347 billion, mostly due to an increase in dividends received from Banagrícola (part of the Banking El Salvador segment). These dividends are eliminated in the consolidation process that generates the Consolidated Financial Statements.

Operating expenses increased by 34% to COP 77 billion, due to higher rent expenses in Bancolombia Panama.

Assets attributable to the Off Shore segment increased by 18% during the year, mainly driven by the organic growth of loans.

The jurisdictions where operations of the Off Shore segment are conducted have no corporate income taxes.

Insurance: This segment commenced in November 2013 and provides insurance services to individuals and companies in Panama.

	<i>Year ended December 31,</i>					
	2014	2013	2012	Change	Change	
	(COP in million)			2014-2013	2013-2012	
Net Interest income	7,986	819	-	875	%	-
Net provisions	(276)	(287)	-	(4)	%	-
Net commissions	8,757	1,294	-	577	%	-
Other net revenues	13,382	9,548	-	40	%	-
Total operating income	29,849	11,374	-	162	%	-
Operating expenses	20,733	3,140	-	560	%	-
Non-operating income (expense)	(2,004)	(1,194)	-	68	%	-
Income before income taxes	7,112	7,040	-	1	%	-
Income tax expense	(1,352)	(448)	-	202	%	-
Segment net income	5,760	6,592	-	(13)	%	-
Segment assets	415,602	261,587	-	59	%	-

The Insurance segment started in November 2013; its contribution to the results of year 2013 is for two months only. Therefore, the results of 2014 are not comparable with the results 2013.

On February 23, 2015, Banistmo entered into an agreement with Suramericana S.A., whereby Banistmo agreed to sell, and Suramericana S.A. agreed to buy 100% of the outstanding capital of Seguros Banistmo, an insurance company incorporated under the laws of Panama.

Completion of the sale is subject to certain conditions, including, among others, receipt of the required regulatory approvals of the Insurance and Reinsurance Superintendency of Panama (Superintendencia de Seguros y Reaseguros de Panamá) and the Consumer Protection and Competition Defense Authority of Panama (Autoridad de Protección al Consumidor y Defensa de la Competencia de Panamá (ACODECO)).

The purchase price will be determined at the closing and will be calculated on the basis of Seguros Banistmo's equity.

As a result of this transaction, the Insurance segment will no longer be reported once the sale is completed.

Banking Panama: This segment provides retail and commercial banking products and services to individuals and companies in Panama through the Banistmo operation. This segment includes all the operations of Banistmo and its subsidiaries (except Insurance operations) as they are managed and monitored by the chief operating decision maker on a consolidated basis.

	Year ended December 31,			Change 2014-2013	Change 2013-2012
	2014	2013	2012		
	(COP in million)				
Net Interest income	486,561	58,954	-	725.32 %	-
Net provisions	3,564	(21,719)	-	(116.41)%	-
Net commissions	134,267	20,310	-	561.09 %	-
Other net revenues	32,138	21,029	-	52.83 %	-
Total operating income	656,530	78,574	-	735.56 %	-
Operating expenses	387,031	68,825	-	462.34 %	-
Non-operating income (expense)	9,963	(456)	-	(2,284.87)%	-
Income before income taxes	279,462	9,293	-	2,907.23 %	-
Income tax expense	(59,972)	(13,628)	-	340.06 %	-
Segment net income	219,490	(4,335)	-	(5,163.21)%	-
Segment assets	19,403,209	15,153,154	-	28.05 %	-

The Banking Panamá segment started in November 2013; its contribution to the results of year 2013 is for two months only. Therefore, the results of 2014 are not comparable with the results 2013.

Assets attributable to Banking Panamá increased by 28% during the year. This increase is explained by the organic growth of the loan portfolio and the strengthening of the US dollar versus de Colombian peso wich caused that dollar denominated assets represented more pesos when converted

All Other: This segment includes results from the operation of particular investment vehicles of Bancolombia: Valores Simesa S.A., BIBA Inmobiliaria S.A.S., Inversiones CFNS S.A.S., CFNS Infraestructura S.A.S., Sistema de Inversiones y Negocios S.A. Sinesa, Vivayco S.A.S., Banagrícola, Inversiones Financieras Banco Agrícola S.A., Fondo Inmobiliario Colombia and others.

	Year ended December 31,			Change 2014-2013	Change 2013-2012
	2014	2013	2012		
	(COP in million)				
Net Interest income	(32,741)	(4,714)	1,353	594.55 %	(448.41)%
Net provisions	(1,417)	(33)	15,434	4,193.94 %	(100.21)%

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Net commissions	(6,896)	(2,895)	(979)	138.20 %	195.71 %
Other net revenues	264,538	221,041	380,476	19.68 %	(41.90)%
Total operating income	223,484	213,399	396,284	4.73 %	(46.15)%
Operating expenses	88,160	59,287	40,994	48.70 %	44.62 %
Non-operating income (expense)	42,331	(5,906)	(2,882)	(816.75)%	104.93 %
Income before income taxes	177,655	148,206	352,408	19.87 %	(57.94)%
Income tax expense	(15,004)	(13,752)	(25,895)	9.10 %	(46.89)%
Segment net income	162,651	134,454	326,513	20.97 %	(58.82)%
Segment assets	2,206,008	1,981,982	785,806	11.30 %	152.22 %

Analysis of 2014 versus 2013.

In 2014, net income for All Other increased by 21% to COP 162.7 billion.

Other net revenue, which is the most significant revenue line, increased by 19.7% to COP 264 billion, driven by the growth in revenues of the real estate investment trust.

Assets attributable to All Other increased by 11.3% during the year driven by the increase in value of investments.

Analysis of 2013 versus 2012.

In 2013, net income for All Other decreased by 59% to COP 134 billion.

Other net revenue, which is the most significant revenue line, decreased by 42% to COP 221 billion. The decrease is explained by lower dividends received by the companies that compose the segment.

Assets attributable to All Other increased by 152% during the year. This increase is explained by the consolidation of assets of the Fondo Colombia Inmobiliario in October 2013.

B. LIQUIDITY AND CAPITAL RESOURCES

B.1. LIQUIDITY AND FUNDING

Market Environment in 2014

The Central Bank started to raise gradually its reference rate, 25 basis points each month from April to August, for a total 125 basis points by year end, when the rate reached 4.50%. The change in the macroeconomic policy was due to higher observed inflation, satisfactory economic growth and lower unemployment rates. Due to the high liquidity of the system, the transmission of the contractionary monetary policy to other reference rates was incomplete. The Bank continued to have a strong liquidity position and internal and regulatory limits were assured.

Liquidity Management

The Asset and Liability Management Committee (“ALCO”), defines the main policies of liquidity and funding of the Bank in accordance with the Bank’s desired balance sheet structure.

The Bank uses a variety of funding sources to generate liquidity taking into consideration market conditions, interest rates, liquidity needs and the desired maturity profile of funding instruments. Consequently, policies are designed to achieve an optimal match between assets and liabilities profile regarding maturities, interest rates and currency

exposure.

One of the Bank's main strategies is to maintain a solid liquidity position, thus, the ALCO has established a minimum amount of liquid assets, based on calculations of maximum expected withdrawals of deposits, disbursements, and other obligations in order to guarantee the proper operation of banking activities and protect capital. The ALCO has delegated the short term liquidity assessment task to the Liquidity Committee, which revises strategies and policies regarding liquidity.

Stress tests scenarios are simulated periodically to guarantee the Bank has sufficient time to raise funds under adverse market conditions. In addition, the Bank has defined a contingency liquidity plan that allows the organization to raise funds under stress market scenarios.

Liquid Assets

During 2014, the Bank maintained a solid liquidity position. As mentioned above, the Bank seeks the optimum level of liquid assets to assure not only the proper daily operation of banking activities but to operate under stress market scenarios.

The following table shows the composition of the liquid assets in the last three years:

	As of December 31; (in millions of COP)		
	2014	2013	2012
Cash	3,907,079	3,292,223	3,103,537
Cash at major Central Bank	3,182,375	4,624,637	2,005,573
Cash financial institutions	3,976,670	3,357,484	1,930,000
Debt securities			
Government debt			
Trading	6,754,819	6,121,765	5,915,567
Available for sale	1,416,938	1,334,055	677,238
Held to maturity	1,607,650	2,615,339	2,158,107
Financial Institutions			
Trading	211,629	306,086	429,244
Total Liquid Assets	21,057,160	21,651,589	16,219,266

The Bank measures liquid assets on a daily basis and compares this result to an objective target of minimum requirements defined by the ALCO. Under this rule, daily liquid assets must be equal to or higher than this target. In the event the limit is not reached, there is a 5-day period to increase liquidity levels.

Cash is important to guarantee branch and ATM operations. The Bank's expansion across the Colombian territory requires considerable levels of cash; however, cash levels are daily monitored in order to minimize opportunity costs. Additionally, cash is taken into account in the mandatory bank reserve established by the Central Bank.

The levels of cash at major Central Banks have a relationship with mandatory bank reserves associated with the growth of demand and time deposits.

Debt securities in the table shown are not affected by haircuts. Securities that comprise liquid assets are reviewed by the ALCO in light of the Bank's liquidity objective. Even though available for sale and held to maturity debt securities cannot be sold, they can be pledged as collateral in repurchase agreements. Some of them are mandatory investments that are received by Central Banks as collateral.

The SFC requires financial entities to have liquid assets greater than the contractual liquidity accumulative one-month gap. This contractual gap reflects the maturity of assets and liabilities of the current positions and does not reflect projections of future operations. The loan portfolio is affected by the historical default indicator and the maturity of deposits is modeled according to the regulation. All of Bancolombia's Colombian banking subsidiaries met this regulatory limit throughout the year.

The Bank's management believes that the current level of liquidity is adequate and will seek to maintain its solid deposit base and the access to alternative sources of funding such as borrowings from domestic development banks, repurchase agreements, bond issuances, overnight funds and Central Bank funds, in light of market conditions, interest rates and the desired maturity profile of liabilities.

Funding Structure

As of December 31, 2014, the Bank's liabilities reached COP 131,907 billion, an 11.5% increase as compared to the end of 2013. The funding composition changed, with liabilities denominated in U.S. dollars increasing, and liabilities denominated in pesos decreasing, by almost 10 percentage points. This change was explained by a devaluation of the COP against USD of more than 24%, the issuance of equity denominated in pesos which substituted for liability growth as a funding source and the derivative position that at year end increased the liabilities denominated in USD and decreased liabilities denominated in COP to a negative position. (See Item 18. Financial Statements, see note (8) Customers' Acceptances and Derivatives.)

	2014 (COP million)	2013	2012
Total funding			
Peso-denominated	73,470,456	77.556.779	70,999,782
Dollar-denominated	58,437,051	40.766.616	15,309,643
Total Liabilities	COP 131,907,507	COP 118,323,395	COP 86,309,425

In 2014, the Bank experienced a growth in deposits which reached COP 95,337 billion at year end, an increase of COP 8,781 billion, and 10% as compared to 2013. COP denominated deposits had a slightly growth near to 1% while USD denominated deposits increased 35% where, as explained above, devaluation contributed to this growth. The ratio of deposits to total assets was 64%, decreasing by 2.06% compared to 2013.

	2014 (COP million)	2013	2012
Total Deposits	COP 95,337,222	COP 86,556,579	COP 64,158,720

The following table sets forth checking accounts, savings accounts and time deposits as a percentage of the Bank's total liabilities for the years 2014, 2013 and 2012:

	2014	2013	2012
Checking deposits	13.7%	14.2%	13.0%
Time deposits	27.8%	28.6%	28.5%
Saving deposits	29.6%	29.2%	31.4%
Other deposits	1.1 %	0.9 %	1.2 %
Percentage of Total Liabilities	72.2%	72.9%	74.1%

The Bank's principal sources of funding are deposits, which are mainly composed of checking accounts, time deposits and savings accounts.

Deposits as a percentage of the Bank's total liabilities in 2014 were 72.2%, decreasing from 72.9% of total liabilities at year end 2013.

The ratio of net loans to deposits (including borrowings from development banks and other domestic banks) was 103% at the end of 2014, increasing from 94% as compared to 2013. This change is primarily explained by the equity issuance that replaced deposit growth.

	2014	2013	2012
Net Loans to Deposits	103 %	94 %	99 %

The Bank also used borrowings from domestic development banks which amounted to COP 4,261 billion at the end of 2014 and represented a good quality source of funding provided mainly by governmental entities in order to promote lending activities within specific sectors of the Colombian economy.

In addition to the main sources of funding described above, the Bank uses: (i) its debt securities portfolio as a source of short-term liquidity by engaging in repurchase agreements transactions, overnight-loan funds and the Central Bank's funds and (ii) the issuance of bonds on a regular basis to reduce the maturity mismatch between assets and liabilities, reducing the liquidity risk.

Long Term Debt

In 2014, the Bank issued subordinated long term notes in the local market in Colombian pesos, in a total amount of COP 988 billion. The Bank also exercised its early redemption option on its senior debt due January 2016 issued in U.S. dollars with an outstanding amount of USD 520 million, at a price of USD 1,048.56 (per USD 1,000); investors were paid a total amount of USD 549 million which included USD 3 million of accrued and unpaid interest.

Leasing Bancolombia, Tuya and Banco Agrícola issued notes, in amounts of COP 400 billion, COP 8.5 billion, and USD 62 million respectively.

As of December 31, 2014, the total outstanding aggregate principal amount of bonds issued by the Bank was COP 13,683 billion.

The following table shows Bancolombia's consolidated long term debt maturity profile (in millions of COP):

	2015	2016	2017	2018	2019	2020 and thereafter
Long Term Debt	COP499,872	COP310,318	COP805,668	COP774,953	COP616,546	COP10,675,498

The following table sets forth the components of the Bank's liabilities for the years 2014, 2013 and 2012:

As of December 31,

	2014	% of total funding	2013	% of total funding	2012	% of total funding
	(COP millions, except percentages)					
Checking deposits						
Peso-denominated	11,787,015	8.9 %	11,744,684	9.9 %	9,185,435	10.6 %
Dollar-denominated	6,355,942	4.8 %	5,040,249	4.3 %	2,113,466	2.4 %
Total	18,142,957	13.7 %	16,784,933	14.2 %	11,298,901	13.0 %
Time deposits						
Peso-denominated	20,248,636	15.4 %	22,113,215	18.5 %	18,550,309	21.3 %
Dollar-denominated	16,380,279	12.4 %	11,945,237	10.1 %	6,217,180	7.2 %
Total	36,628,915	27.8 %	34,058,452	28.6 %	24,767,489	28.5 %
Savings deposits						

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Peso-denominated	30,795,055	23.3	%	28,526,416	24.0	%	24,251,374	28.1	%
Dollar-denominated	8,380,137	6.3	%	6,123,348	5.2	%	2,862,540	3.3	%
Total	39,175,192	29.6	%	34,649,764	29.2	%	27,113,914	31.4	%
Other deposits									
Peso-denominated	882,444	0.7	%	716,938	0.6	%	577,613	0.7	%
Dollar-denominated	507,714	0.4	%	346,492	0.3	%	400,803	0.5	%
Total	1,390,158	1.1	%	1,063,430	0.9	%	978,416	1.2	%
Interbank Borrowings									
Peso-denominated	-	0.0	%	-	0.0	%	-	0.0	%
Dollar-denominated	9,584,922	7.3	%	7,876,792	6.7	%	1,803,665	2.1	%
Total	9,584,922	7.3	%	7,876,792	6.7	%	1,803,665	2.1	%
Repurchase agreement and Interbank funds									
Peso-denominated	1,777,275	1.3	%	881,295	0.7	%	44,935	0.1	%
Dollar-denominated	337,829	0.3	%	243,507	0.2	%	-	0.0	%
Total	2,115,104	1.6	%	1,124,802	0.9	%	44,935	0.1	%
<i>Domestic development banks</i>									
<i>Borrowings and other⁽¹⁾</i>									
Peso-denominated	4,157,478	3.2	%	4,595,230	3.9	%	3,410,476	4.0	%
Dollar-denominated	104,143	0.1	%	36,070	0.0	%	57,367	0.1	%
Total	4,261,621	3.3	%	4,631,300	3.9	%	3,467,843	4.1	%

As of December 31,

	2014	% of total funding	2013	% of total funding	2012	% of total funding
(COP millions, except percentages)						
Bank acceptances outstanding and derivatives						
Peso-denominated	(5,640,394)	(4.3 %)	305,048	0.3 %	6,350,706	7.4 %
Dollar-denominated	6,960,877	5.3 %	159,466	0.1 %	(5,725,074)	(6.6 %)
Total	1,320,483	1.0 %	464,514	0.4 %	625,632	0.8 %
Long term debt						
Peso-denominated	5,393,677	4.1 %	4,677,309	4.0 %	4,981,776	5.8 %
Dollar-denominated	8,289,178	6.3 %	7,650,966	6.5 %	7,077,443	8.2 %
Total	13,682,855	10.4 %	12,328,275	10.5 %	12,059,219	14.0 %
Other liabilities						
Peso-denominated	4,069,269	3.1 %	3,996,643	3.4 %	3,647,157	4.2 %
Dollar-denominated	1,536,031	1.1 %	1,344,490	1.1 %	502,254	0.6 %
Total	5,605,300	4.2 %	5,341,133	4.5 %	4,149,411	4.8 %
Total funding						
Peso-denominated	73,470,456	55.7 %	77,556,779	65.5 %	70,999,782	82.2 %
Dollar-denominated	58,437,051	44.3 %	40,766,616	34.5 %	15,309,643	17.8 %
Total Liabilities	COP 131,907,507	100 %	COP 118,323,395	100 %	COP 86,309,425	100 %

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

Consolidated Statement of Cash Flows

Cash flows for the Bank include net cash provided by (used in) operating activities, net cash provided by (used in) investing activities and net cash provided by (used in) financing activities. The following table shows those flows for the years ended December 31, 2014, 2013 and 2012:

	2014 (COP million)	2013	2012
Operating activities	COP(5,753,188)	COP5,266,085	COP1,800,704
Investing activities	57,243	(3,674,064)	(594,310)
Financing activities	1,606,641	5,301,691	(497,002)
Net increase/decrease in cash and cash equivalents	COP(4,089,304)	COP6,893,712	COP709,392

During 2014, the Bank reported a negative net cash flow that decreased cash and equivalents available by COP 4,089 billion. This result is explained by COP 5,753 billion used in operating activities and COP 1,606 billion and COP 57 billion provided by financing and investing activities, respectively.

Operating Activities

In 2014, operating activities used liquidity; deposits and other liabilities increased by COP 2,882 billion, while the loan portfolio increased by COP 12,249 billion, and trading investments decreased by COP 147 billion. Amortization and depreciation as well provision for loan, accrued interest and accounts receivable losses increased by COP 1,212 billion and COP 1,599 billion, respectively.

Net income has been positive; COP 1,879 billion, COP 1,515 billion and COP 1,702 billion for 2014, 2013, and 2012, respectively.

Investing Activities

In 2014, investing activities provided cash; purchase of premises and equipment increased by COP 1,395 billion, held to maturity debt securities decreased by COP 1,280 billion, available for sale debt securities decreased by COP 301 billion and available for sale equity securities increased by COP 115 billion, while the technological renewal program used COP 14 billion.

The Bank classifies part of its investments as available for sale and held to maturity; a portion of these investments are mandatory, others are securitizations. Held to maturity and available for sale debt securities decreased during 2014, 2013 and 2012 by COP 1,581 billion COP 512 billion and COP 666 billion respectively. This diminution is associated mainly with the maturity of securitizations and the redemption of mandatory investments in Colombia and of CEDEL (liquidity certificates issued by El Salvador Central Bank) according to regulation.

Net purchases of premises and equipment for 2014, 2013 and 2012, including operating leases which are part of the leasing business line, increased by COP 1,395 billion, COP 1,518 billion and COP 951 billion respectively.

The Bank has made investments related to the technological renewal program. During 2014, 2013 and 2012, COP 14 billion, COP 53 billion and COP 94 billion, were invested.

Financing Activities

Financing activities provided cash during 2014; overnight funding and interbank borrowing increased by COP 12 billion, long term issuance placement net of payment decreased by COP 307 billion. Cash was used in paying dividends to stockholders in the amount of COP 714 billion. The bank issued preferred shares in the amount of COP 2,656 billion.

Overnight and interbank borrowings are used to complement the Bank's funding strategy. The Bank raised COP 12 billion, decreasing significantly this source of funding as compared to 2013 where the growth was COP 5,950 billion.

Long term debt is part of the Bank's funding structure. During 2014, the Bank paid net long term debt of COP 307 billion, even though there were important placements. The Bank also exercised its early redemption option on its senior debt due January 2016 issued in U.S. dollars with an outstanding amount of USD 520 million; investors were paid a total amount of USD 549 million, which included USD 3 million of accrued and unpaid interest.

Payments of dividends to stockholders have increased according to the net income; in 2014, 2013 and 2012, COP 714 billion, COP 632 billion and COP 583 billion respectively were distributed, representing 38%, 42%, and 34% of the Bank's net income.

Capital Adequacy

The Bank and its subsidiaries comply with the capital adequacy requirements in their respective countries of operation.

Stockholders' equity amounted to COP 16,817 billion at the end of 2014, up 34.62% from COP 12,493 billion at the end of 2013. This increase is the net effect of paying out dividends, generating earnings during the year 2014 and all the other transactions that directly affect the stockholders' equity.

The Bank's capital adequacy ratio on a consolidated basis was 13.29% as of December 31, 2014, up from 10.61% in 2013 and down from 15.77%, in 2012. The Bank's capital adequacy ratio exceeded the requirements of the Colombian government and the SFC by 429 basis points. The basic capital ratio (Tier 1) was 7.71% and the tangible capital ratio, which is equal to the ratio of the difference between stockholders' equity and goodwill and intangible assets to tangible assets, was 8.53% at the end of 2014. For a full description of our capital adequacy requirements, please see Item 4. "Information on the Company – B. Business Overview – B.7 –Supervision and Regulation".

The following table sets forth certain information regarding the Bank's consolidated capital adequacy as of December 31, 2014 and 2013:

	(In millions of COP, except percentages)			
	As of December 31, 2014		As of December 31, 2013	
	COP		COP	
Long-term senior indebtedness	7,129,312		7,637,316	
Subscribed capital	480,914		425,914	
Legal reserve	13,674,305		9,237,594	
Unappropriated retained earnings	(527,007)		-	
Minority interest	240,681		223,201	
Less:				
Long-term investments	(806,501)		(586,952)	
Intangible assets acquired after August 23, 2012	(3,324,174)		(3,013,899)	
Treasury stock	(17,770)		(36,570)	
Deferred Income Taxes	-		(42,238)	
Translation of financial statements of foreign operations	(23)		-	
Primary capital (Tier I)	9,720,425		6,207,050	
Provisions for loans	90,289		77,935	
Subordinated bonds	6,553,543		4,690,959	
Reappraisal of assets	(28,846)		(37,975)	
Minority interest	253,671		222,247	
Legal reserve	154,601		171,398	
Computed secondary capital (Tier II)	7,023,258		5,124,564	
Technical Capital ⁽¹⁾	COP 16,743,683		COP 11,331,614	
Capital Ratios				
Primary capital to risk-weighted assets (Tier I)	7.71	%	5.81	%
Secondary capital to risk-weighted assets (Tier II)	5.58	%	4.80	%
Risk-weighted assets including market risk	126,020,585		106,826,579	
CAPITAL ADEQUACY ⁽²⁾	13.29	%	10.61	%

- (1) Technical capital is the sum of basic and additional capital.
(2) Capital adequacy is technical capital divided by risk weighted assets.

B.2. FINANCIAL INSTRUMENTS AND TREASURY ACTIVITIES

The Bank's treasury division is able to carry out all transactions in local or foreign currencies that are legally authorized in Colombia. These include derivative transactions, purchase and sale of fixed income securities and

indexed securities, repurchase or resale transactions, short sales, temporary securities transfers, simultaneous transactions and transactions on the foreign currency exchange market.

The Bank monitors treasury division activities through policies regarding management of liquidity, market, legal, credit and operational risks. Such policies are monitored by the Vice President of Risk Management. In order to be able to control market and liquidity risks, the Bank sets limits intended to keep its exposure levels and losses within certain ranges determined by the Bank's Board of Directors. The Bank's investment policies do not include restrictions regarding the maturity of the securities held in the portfolio, except those related to the liquidity portfolio and over the counter ("OTC") derivatives transactions.

Before taking any additional positions, the Bank's treasury division also verifies, with respect to investments in local and in foreign currencies, the availability of funds for investment and each investment's compatibility with the Bank's liquidity structure.

As further described in Item 11. "Quantitative and Qualitative Disclosure About Market Risk", the market risk stated in the treasury book is measured using methodologies of VaR, and the position limits are based on the results of these methodologies. The Bank has defined VaR limits that follow a hierarchical structure, which avoids the concentration of market risk in certain groups of assets and also take advantage of portfolio diversification. In addition to VaR limits, the Bank also uses stop loss advisories to inform senior management when losses are close to certain established thresholds in the trading book. Moreover, for the options portfolio, the Bank has set limits based on the sensitivity of the portfolio to the underlying volatility, underlying foreign currency and interest rates.

As part of its operations, the Bank holds cash and cash equivalents primarily in Colombian pesos and U.S. dollars. Those positions, as well as any other currency position, are determined by the treasury division in connection with the Bank's currency risk assessment and management. Specifically, the Bank's exposure to currency risk primarily arises from changes in the U.S. dollar/COP exchange rate. The exposure to currency risk is managed by the Bank's treasury division. The Bank uses a VaR calculation to limit the exposure to currency risk of its balance sheet. These limits are supervised on a daily basis by the Bank's Market Risk Management Office. The Bank's treasury division manages a derivative portfolio which includes forward agreements in foreign currency with the purpose, among others, of hedging its currency exposure.

B.3.COMMITMENT FOR CAPITAL EXPENDITURES

See "Item 4. Information on the Company - A. History and Development of the Company – Capital Expenditures and Divestitures".

C.RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

Not Applicable

D.TREND INFORMATION

During 2014, net interest income grew 22% as credit volumes increased. Credit cost in 2014 was lower than in 2013. Future levels of loan volumes, interest margins and cost of credit will be key drivers of the Bank's performance. The following is a brief discussion of recent trends with regard to those three elements.

Loan Volume Performance

Gross loans and financial leases (*i.e.*, before allowance for loans and financial lease losses) increased 20% during 2014.

Economic activity in Colombia and consumer confidence remained strong. As a result, demand in mortgages and consumer loans picked up vigorously and commercial loans kept growing. During 2014, commercial loans grew 23%, consumer loans grew 12%, small business loans grew 26%, financial leases grew 16% and mortgages increased 22%.

Economic growth in El Salvador was slow in 2014 and Banco Agrícola's loan book expanded only 4.0% as there was weak demand from corporate and individuals. This slow growth generated a lagging effect in the Bank's overall book.

USD-denominated loans increased 10% during 2014. Corporations in Colombia and off shore financing, particularly in Central America demanded this type of loan the Banistmo's loans, all of them denominated in USD, contributed to the growth in this line.

Credit demand is expected to be moderate in 2015 as the economy in Colombia is also expected to grow at a more moderate pace, individuals and corporations demand consumer and commercial loans, and as the economy in El Salvador recovers from the crisis of 2008 - 2010.

Net Interest Margins

The majority of the Bank's loan book has a variable rate (53% of loans have a maturity of more than one year and earn interest at variable rates) and the re-pricing pace of our assets tends to be faster than that of our liabilities. The interest rate increases in Colombia during 2014 contributed to the Bank's net interest margins. As a result, the net interest margin increased from 5.3% in the fourth quarter of 2013 to 5.9% in the fourth quarter of 2014.

The bank's strategy during the year was to support the net interest margin by changing the mix of deposits and increasing the proportion of average demand deposits (savings and checking accounts) which are less expensive than time deposits and also maintaining funding costs as low as possible on each type of deposits.

Ample liquidity, a more favorable deposit mix (one with a greater proportion of average demand deposits) and potential increases in interest rates in the economy point toward stability in interest margins in 2015.

Cost of credit

For the year 2014, the cost of credit was 1.5% of average loans, lower than the 1.6% experienced in 2013 and higher than the 1.7% in 2012. This lower credit cost was driven by lower deterioration in our loan portfolio.

E. OFF-BALANCE SHEET ARRANGEMENTS

The following are the off-balance sheet arrangements in which Bancolombia is involved: standby letters of credit, letters of credit and bank guarantees.

Standby letters of credit and bank guarantees are conditional commitments issued by us to guarantee the performance of a customer to a third party. Bancolombia typically has recourse to recover from the customer any amounts paid under these guarantees. In addition, Bancolombia may hold cash or other highly liquid collateral to support these guarantees.

At December 31, 2014, 2013 and 2012, outstanding letters of credits and bank guarantees issued by Bancolombia totaled COP 7,139,914 million, COP 5,756,789 million and COP 4,440,515 million, respectively.

The table below summarizes at December 31, 2014 and 2013 all of the Bank's guarantees issued by the Bank. The total amount outstanding represents maximum potential amount (notional amounts) for which the Bank could be liable under the guarantees if all the guaranteed parties defaulted in full, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts greatly exceed actual anticipated losses.

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Commissions received from these arrangements amounted to COP 19,476 million, COP 21,322 million and COP 27,751 million for 2014, 2013 and 2012, respectively. Unused credit lines amounted to COP 9,438,002 million and COP 5,318,016 million at December 31, 2014 and 2013.

	Expire within one year At December 31,		Expire after one year At December 31,		Total amount outstanding At December 31,		Maximum potential amount of future losses At December 31,	
	2014	2013	2014	2013	2014	2013	2014	2013
	(COP million)							
Letters of credit	2,139,240	2,304,073	549,603	301,503	2,688,843	2,605,576	2,688,843	2,605,576
Bank guarantees	2,774,692	1,817,472	1,676,379	1,333,741	4,451,071	3,151,213	4,451,071	3,151,213
Total (COP)	4,913,932	4,121,545	2,225,982	1,635,244	7,139,914	5,756,789	7,139,914	5,756,789

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table shows the Bank's contractual obligations as of December 31, 2014:

Contractual Obligations	Total	Less than 1 year (COP millions)	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	13,875,313	692,330	1,115,986	1,391,499	10,675,498
Time deposits	37,009,841	27,631,692	6,911,940	1,431,605	1,034,604
Commitments to originate loans	9,438,002	9,438,002	-	-	-
Employee benefit plans	288,965	23,612	51,392	58,330	155,631
Finance Leases Obligations	62,212	16,361	42,578	3,273	-
Operating Lease Obligations	1,156	294	862	-	-
Interbank Borrowings	9,584,922	6,689,863	2,110,959	738,928	45,172
Borrowings from domestic development banks	4,261,621	899,738	873,161	825,277	1,663,445
Total	74,522,032	45,391,892	11,106,878	4,448,912	13,574,350

The amounts shown in the table include interest costs on debt. At December 31, 2014, the Bank has unrecognized tax benefits. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 31 a) Deferred income tax, in the notes to the Condensed Consolidated Financial Statements in Item 18 of this Report for additional information.

G. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following are considered critical accounting policies, given their significant impact on the financial condition and operating performance of the Bank. This information should be read together with Note 2. to the Financial Statements, "Summary of Significant Accounting Policies of the Consolidated Financial Statements".

CRITICAL ACCOUNTING POLICIES AND ESTIMATES UNDER COLOMBIAN BANKING GAAP

Evaluation of loan portfolio risk and determination of allowances for loan losses: Under Colombian banking GAAP, the Bank currently evaluates loan portfolio risk according to the rules issued by the SFC, which establishes qualitative and quantitative standards for assigning a risk category to individual assets. The qualitative analysis includes the evaluation of "potential weaknesses", "deficiencies" or "serious deficiencies" based on the existence and magnitude of specific factors, according to the judgment of management. For the quantitative evaluation, the Bank first determines whether the loan has become due and then classifies the loan according to the number of days

past-due.

Commercial and consumer loans are provisioned following standard models developed by the SFC. According to the models, the allowance for loan losses is stated through the calculation of the Expected Loss.

Small business loans and mortgage loans are provisioned considering a minimum allowance level for each credit category. In addition, a general allowance equal to 1% of the outstanding loan balance is required.

The Bank considers the accounting estimates used in the methodology to determine the allowance for loan losses to be “critical accounting estimates” because: (a) by its nature, the allowance requires the Bank to make judgments and assumptions regarding the Bank’s loan portfolio, (b) the methodology used in its determination is based on the existence and magnitude of determined factors that are not necessarily an indication of future losses and (c) the amount of the provision that is based on reference models for commercial and consumer portfolios and a percentage based on the risk category for small business loans and mortgage portfolios, although it is impossible to ensure that this percentage will exactly reflect the probability of loss.

Contingent Liabilities: The Bank is subject to contingent liabilities, including judicial, regulatory and arbitration proceedings and tax and other claims arising from the conduct of the Bank’s business activities. Under Colombian banking GAAP, reserves are established for legal and other claims by assessing the likelihood of the loss actually occurring as probable, reasonably possible or remote. Contingencies are partially provisioned and are recorded when all the information available indicates that it is probable that the Bank will be required to make disbursements in the future for events that happened before the balance sheet date and the amounts may be reasonably estimated. The Bank engages internal and external experts (lawyers and actuaries) in assessing probability and in estimating any amounts involved.

Throughout the life of a contingency, the Bank may learn of additional information that can affect assessments regarding probability or the estimates of amounts involved. Changes in these assessments can lead to changes in recorded reserves.

The Bank considers the estimates used to determine the reserves for contingent liabilities to be “critical accounting estimates” because the probability of their occurrence and the amounts that the Bank may be required to pay are based on the Bank’s judgment and its advisers, which will not necessarily coincide with the future outcome of the proceedings.

Pension Plan: Under Colombian banking GAAP, the Bank applies the provisions of Decree 4565 of 2010, which requires a distribution of charges to amortize the actuarial calculation by 2029. The distribution is calculated by taking the percentage amortized up to December 2009 and annually adding the minimum percentages needed to complete amortization by 2029. As of December 31 2014, the Bank has completed the amortization of the total amount resulting from the calculation performed in accordance with Decree 4565. Under the Bank’s non-contributory unfunded defined benefit pension plan, benefits are based on length of service and level of compensation.

The Bank considers that the accounting estimates related to its pension plan are “critical accounting estimates” because the determination of the contributions to the plan involves judgments and assumptions made by the actuaries related to the future macroeconomic and employee demographic factors, among others, which will not necessarily coincide with the future outcome of such factors.

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

The pooling of interests method of accounting requires the aggregate of the stockholders’ equity of the entities included in the business.

The Conavi/Corfinsura Merger was accounted for using the pooling of interests method in accordance with the methodology suggested by the SFC. The Sufinanciamiento (now Tuya S.A. Compañía de Financiamiento), Banagrícola and Banistmo (formerly HSBC Bank Panama) acquisitions were accounted for using the purchase method under Colombian banking GAAP.

Goodwill Recognized Upon Business Combinations: The Bank tests goodwill recognized upon business combinations for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment, and the second step measures the amount of impairment, if any. However, if certain criteria are met, the requirement to test goodwill for impairment annually can be satisfied without a re-measurement of the fair value of a reporting unit. Fair value is determined by management by reference to market value, if available, or by pricing models or with the assistance of a qualified evaluator. Determination of a fair value by a qualified evaluator or pricing model requires management to make assumptions and uses estimates.

The most significant amounts of goodwill and intangibles relate to the acquisition of Conavi and Corfinsura in 2005, Banagrícola in 2007 and Banistmo (formerly HSBC Bank Panama) in 2013. The valuation models used to determine the fair value of these companies and the intangibles are sensitive to changes in the assumptions. Adverse changes in any of the factors underlying these assumptions could lead the Bank to record a goodwill or intangible impairment charge. Management believes that the assumptions and estimates used are reasonable and supportable in the existing market environment and commensurate with the risk profile of the assets valued. However, different assumptions and estimates could be used which would lead to different results.

Under Colombian banking GAAP, financial entities have to amortize goodwill. According to the guidelines issued by the SFC, goodwill should be amortized using the exponential method, however, other methods which provide a better association between revenues and expenses are permitted. Since January, 2008, the straight-line method has been used to amortize goodwill, since the Bank considers this method to provide a better association between revenues and expenses corresponding to this investment. Under Colombian banking GAAP the Bank performs impairment testing using a discounted cash flow technique.

The Bank considers amortization and impairment tests to be “critical accounting estimates” because of the importance of assumptions used in the testing and the sensitivity of the results to the assumptions used.

Recognition and Measurement of Financial Instruments at Fair Value: A portion of the Bank’s assets is carried at fair value for Colombian banking GAAP purposes, including equity and debt securities with quotations available or where quoted prices are available for similar assets, derivatives, customers’ acceptances and short-term borrowings.

Under Colombian GAAP, the fair value of a financial instrument is defined as the estimated amount at which the instrument could be exchanged in a current transaction between willing and independent parties. A large proportion of the Bank’s assets reported at fair value are based on quoted market prices, which provide the best indication of fair value. If quoted market prices are not available, the Bank discounts the expected cash flows using market interest rates which take into account the credit quality and maturity of the investment.

As of December 31, 2014, the Bank’s assets that were fair-valued using discounted cash flow techniques amounted to COP 1,375 billion and mainly included bonds and notes issued by the Colombian government or its entities and corporate debt securities.

As of December 31, 2014, OTC derivative financial instruments were not recognized based on quoted prices and as a consequence, valuation techniques such as discounted cash flows, Black-Scholes and similar methodologies were performed to measure the estimated fair value, using where possible current market-based or independently sourced market parameters, such as interest rates, currency rates and forward curves based on transactions.

The estimated fair value of instruments based upon internally developed valuation techniques could vary if other valuation methods or assumptions were used.

As of December 31, 2014, our financial derivatives that were fair-valued using discounted cash flows and Black-Scholes techniques amounted net to COP 141,981 million and mainly included cross currency and interest rate

swaps, forwards and options.

For a further discussion on the effect of a change in interest rates and foreign exchange rates on the Bank's portfolio see "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

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

As of 2009, when External Circular 047 of 2008 became effective was issued, assets subject to portfolio securitizations could be derecognized as firm transfers or disposals providing the following conditions were fulfilled:

Assets assigned to securitizations and transferred exclusively to securitization firms in order to set up Special-Purpose Vehicles (SPVs).

In the case of securitizations carried out by securitization firms or directly by credit establishments, the disposal of the corresponding assets must be carried out by separating the equity value of the securitized assets and creating the corresponding SPV.

The disposal or transfer of securitized assets shall not be subject to any type of express or implicit cancellation clause or provision.

In transferring or disposing of these securitized assets, the total benefits and risks inherent or accruing from such assets must also have been totally transferred.

Under no circumstance shall the originator conserve discretionary rights to dispose of, control, limit, encumber, substitute, reacquire or use the assets thus transferred or disposed of.

Also, this new regulation provided that in cases where the transferor retains a positive residual interest, it may record as an investment the fair value of the residual interest subject to the conditions defined for this purpose in the applicable rules and regulations of the issue in question, with a balancing entry in the investment valuation income account. This value must be updated at least every year, on the anniversary of the date on which the SPV was set up and in any case on the closing date of the fiscal period in question. As a result of the above, the Bank has recognized retained interest as held to maturity debt securities in the amount of COP 238,444 million and COP 194,375 million as of December 31, 2014 and 2013 respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES UNDER U.S. GAAP

Valuation Allowance for Deferred Tax Assets

A valuation allowance for deferred tax assets is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Future realization of the tax benefit of existing deductible temporary differences or carry forwards ultimately depends on the existence of sufficient taxable income in future periods.

In determining a valuation allowance, the Bank performs a review of future taxable income (required for reversing temporary differences and carry forwards) and future reversals of existing taxable temporary differences. Due to the continuing weak economic conditions, the determination of the valuation allowance involves difficult judgments to estimate future taxable income.

With regard to state taxes, Bancolombia is subject to Colombian tax legislation. In the case of its companies based in El Salvador, Panama (only applicable to Banistmo and its subsidiaries) and Peru, it must also calculate the corresponding taxes according to Salvadorian, Panamanian and Peruvian tax legislations.

With regard to municipal and departmental taxes, these must be calculated according to tax legislation applicable in each of the municipal jurisdictions in which the Bank's branch offices are located.

The application of tax legislation is subject to diverse interpretations on the part of both taxpayers and the Colombian tax authorities (Dirección de Impuestos y Aduanas Nacionales).

When calculating deferred tax, the Bank considers future estimates, the figures recorded on its consolidated financial statements.

However, the deferred tax asset is considered as a critical accounting policy, due to tax determinations involving estimates of profits and future taxable incomes that will be settled in future years; such estimates can be affected by changes on the economic conditions. The valuation allowance has been determined based on estimations of taxable income and the applications of the current fiscal laws.

Evaluation of Loan Portfolio Risk and Determination of Allowances for Loan Losses: Under U.S. GAAP, the Bank considers loans to be impaired when it is probable that all amounts of principal and interest will not be collected according to the contractual terms of the loan agreement. The allowance for significant impaired loans are assessed based on the present value of estimated future cash flows discounted at the effective loan rate or the fair value of the collateral in the case where the loan is considered collateral-dependent. An allowance for impaired loans is provided when discounted future cash flows or the fair value of collateral is lower than book value.

In addition, if necessary, a specific allowance for loan losses is established for non-impaired individual loans, based on statistic modeling, recent back testing results, expectations about the economy's behavior, credit scores, the risk characteristics of the various classifications of loans and other factors directly influencing potential collectability and affecting the quality of the loan portfolio.

Determining the allowance for loan losses requires a significant amount of management judgment and estimates including, among others, identifying impaired loans, determining customers' ability to pay and estimating the fair value of underlying collateral or the expected future cash flows to be received.

To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical losses. Loss estimates are analyzed by loan type (commercial and consumer, microcredit and mortgage) and thus for homogeneous groups of clients depending on their scoring and portfolio segment. Such historical ratios are updated to incorporate the most recent data reflecting current economic conditions, industry performance trends, geographic or obligor concentrations within each portfolio segment and any other pertinent information that may affect the estimation of the allowance for loan losses.

Allowances on homogeneous loan portfolios are established based on probability of default, which is defined as the probability that the debtor within a specific loan portfolio or segment and rating, will default on its obligations within the next twelve (12) months. Under U.S. GAAP, this probability of default is determined by analyzing estimated defaults or foreclosures based on portfolio trends, historical losses, client's payment behavior with past-due loans greater than 90 days, delinquencies, bankruptcies, economic conditions and credit scores.

Another parameter associated to the client's allowance under homogeneous groups is the Loss Given Default ("LGD"), which is a function of the guarantee and the number of days that each loan is on default. Under U.S. GAAP, this loss given default is determined as follows:

- Loss was quantified in terms of the recoveries that have been made in cash of all defaulted loans.

Defaulted loans for 5 years before the minimum recovery period (3 years) were considered, defaulted loans between 2007 and 2011.

The presence of collateral in the likely trading period and sale value minus the selling and administrative expenses was considered.

- The estimates were made by portfolio and type of collateral, in some cases by product such as credit card.

A 1% decrease in the expected cash flows could result in an impairment of the portfolio of approximately COP 11,582 million. These sensitivity analyses do not represent management's expectations of the decline in risk ratings or the increases in loss rates, but are provided as hypothetical scenarios to assess the sensitivity of the allowance for loan and lease losses to changes in key inputs. The Bank believes the risk ratings and loss severities currently in use are appropriate and represent management's expectations about the credit risk inherent in its loan portfolio.

The Bank considers accounting estimates related to provisions for loans and advances "critical accounting estimates" because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses (as reflected in the provisions) and actual losses would require the Bank to take provisions which, if significantly different, could have a material impact on its future financial condition and results of operations. The Bank's assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Uncertain tax positions: A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of benefit that is greater than 50% likely to be realized upon settlement. For tax positions not meeting the “more likely than not” test, no benefit is recorded. The Bank records interest and penalties related to the income tax in other expenses in the Consolidated Statements of Operations; however, as of the date, the tax position adopted by the Bank has not accrued any interest or penalties.

Pension Plan: Under U.S. GAAP, actuarial valuation of its pension plan is performed annually using the projected unit credit method in accordance with ASC 715 Compensation-Retirement Benefits and prepared using actuarial, economic and demographic assumptions about future events.

The Bank considers the accounting estimates related to its pension plan to be “critical accounting estimates” because the determination of the contributions to the plan involves judgments and assumptions made by the actuaries related to the future macroeconomic and employee demographic factors, among others, which will not necessarily coincide with the future outcome of such factors.

Recognition and Measurement of Intangibles Recognized Upon Business Combinations: Under U.S. GAAP, the Bank accounts for acquired businesses using the acquisition purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the acquisition method requires certain estimates and assumptions, especially concerning the determination of fair values of the acquired intangible assets and property, plant and equipment, as well as the liabilities assumed at the date of the acquisition.

In addition, the useful lives of acquired intangible assets, property, plant and equipment have to be determined. The judgments made in the context of the purchase price allocation can materially impact the Bank’s future results of operations. Accordingly, for significant acquisitions, the Bank obtains assistance from third-party valuation specialists. The valuations are based on information available at the acquisition date and different methodologies are used for each intangible identified.

Goodwill and Intangibles Recognized Upon Business Combinations: Under U.S. GAAP, for business acquisitions that occurred before January 1, 2009, goodwill was measured as the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. Since January 1, 2009, goodwill has been measured as the excess of the sum of the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. The Bank tests goodwill recognized upon business combinations for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit. A reporting unit is defined as an operating segment or one level below an operating segment; which is a business component that earns revenues and incurs expenses, whose operating

results are regularly reviewed by management to assess performance and allocate resources. The first step is a screen for potential impairment, and the second step measures the amount of impairment, if any. However, if certain criteria are met, the requirement to test goodwill for impairment annually can be satisfied without a re-measurement of the fair value of a reporting unit. Fair value is determined by management by reference to market value, if available, by pricing models, or with the assistance of a qualified evaluator. Determination of fair value by a qualified evaluator or pricing model requires management to make assumptions and use estimates to forecast cash flow for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the reporting unit; estimation of the fair value of reporting units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

The amount of goodwill allocated to the reporting unit and the key assumptions used by management in determining the fair value are:

Reporting segments	Reporting Unit	Goodwill 2014 (COP million)	Valuation Methodology	Key Assumptions	Discount Rate (real)	Growth rate (real)
Banking El Salvador	Banco Agrícola	709,313	Cash flow	10 years plan	13.03	% -
Banking Colombia	Bancolombia and Tuya	428,040	Cash flow	10 years plan	9.99	% 4.40 %
Banking Panama ⁽¹⁾	Banistmo (Formerly HSBC Bank Panama)	2,590,037	Cash flow	5 years plan	12.10	% 6.70 %
Leasing	Leasing Bancolombia	54,238	Cash flow	10 years plan	9.99	% 4.40 %
Insurance ⁽¹⁾⁽²⁾	Banistmo Seguros	64,315	Cash flow	5 years plan	13.30	% 2.50 %
Trust	Fiduciaria Bancolombia	2,493	Cash flow	10 years plan	9.99	% 4.40 %
Investment Banking	Banca de Inversión	132,273	Cash flow	10 years plan	9.99	% 4.40 %
Brokerage	Valores Bancolombia	43,722	Cash flow	10 years plan	9.99	% 4.40 %
Off Shore	Bancolombia Puerto Rico	31,534	Cash flow	10 years plan	9.99	% 4.40 %
All Other Segments	Inversiones CFNS	1,330	Cash flow	10 years plan	9.99	% 4.40 %
All Other Segments ⁽³⁾	Uff Móvil	14,711	Cash flow	10 years plan	11.50	% -

On October 28, 2013, the Bank acquired 100% of common shares, and 90.1% of preferred shares of HSBC Bank (Panama) S.A. and its subsidiaries, which are involved in the securities, trust services, leasing, and banking services businesses, as well as an insurance company, and certain other companies. Bancolombia acquired a controlling interest in the Panamanian entity, which, from the date hereof, shall operate under the name Banistmo.

(2)

See Note 30 Subsequent events.

In 2014 and 2013, the Bank performed the impairment test of Uff Móvil's goodwill and concluded there was impairment. The impairment loss amounted to COP 5,782 million and COP 1,502 million, respectively. There are no other reporting units close to failing the first step of the impairment test performed during 2014.

The long-term growth rates have been based on respective country GDP rates adjusted for inflation. The risk discount rates are based on observable market long-term Government bond yields and average industry betas adjusted for an appropriate risk premium.

The most significant amounts of goodwill and intangibles relate to the Conavi/Corfinsura Merger in 2005 (allocated to Bancolombia and Tuya Reporting Unit), the acquisition of Banagrícola in 2007 and the acquisition of Banistmo (formerly HSBC Bank Panama) in 2013. The valuation models used to determine the fair value of these companies and the intangibles are sensitive to changes in the assumptions. Significant adverse changes in discount rate or growth rate could lead the Bank to record a goodwill or intangible impairment charge. Management believes that the

assumptions and estimates used are reasonable and supportable in the existing market environment and commensurate with the risk profile of the assets valued. However, different assumptions and estimates could be used which would lead to different results.

Recognition and Measurement of Financial Instruments at Fair Value: For U.S. GAAP purposes, the Bank adopted ASC 820 – Fair Value Measurements and Disclosures. As a result, the Bank has made amendments to the techniques used in measuring the fair value in order to include considerations about credit risk, as described below.

The Bank holds debt and equity securities, derivatives, assets-backed securities, loans, short-term borrowings and long term-debt, to meet clients' needs and to manage liquidity needs and market risk.

a. Overall Valuation Methodology

When available, the Bank generally uses quoted market prices to determine fair value, and classifies such items within Level 1 of the fair value hierarchy established under ASC 820. Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates and option volatilities. Financial instruments valued in this manner are classified within level 2 of the fair-value hierarchy under ASC 820.

When an internally developed model is used to price a significant product, it is subject to validation and testing by independent personnel and the item would be classified as Level 3 of the fair-value hierarchy established under ASC 820.

b. Credit Valuation Adjustments

For U.S. GAAP purposes, with the adoption of fair-value measurement guidance, the Bank has measured the effects of the credit risk of its counterparties and its own creditworthiness in determining fair value of certain financial instruments that are measured on a recurring basis.

Counterparty credit-risk adjustments are applied to derivatives, such as over-the-counter derivatives, where the base valuation uses market parameters based on the LIBOR, the COP interest rate curve implicit in the Cross Currency Swap Curve and foreign exchange curves.

The Bank generally calculates the asset's credit risk adjustment for derivatives transacted with international financial institutions by incorporating indicative credit related pricing that is generally observable in the Credit Default Swap ("CDS") market. The credit risk adjustment for derivatives transacted with all other counterparties is calculated by incorporating unobservable credit data derived from internal credit qualifications to the financial institutions and corporations located in Colombia.

The Bank also considers its own creditworthiness when determining the fair value of an instrument, including OTC derivative instruments if the Bank believes market participants would take that into account when trading the respective instrument. The approach to measuring the impact of the Bank's credit risk on an instrument is in the same

as for third-party credit risk.

As of December 31, 2014, a hundred basis points increase in our own credit spreads when determining the credit valuation adjustment of our derivative portfolio, could result in a decrease of the associated adjustment of approximately COP 2,649 million. On the other hand, a hundred basis points increase in the counterparty credit spreads when determining the credit valuation adjustment of our derivative portfolio, could result in an increase of the associated adjustment of approximately COP 6,942 million. These sensitivity analysis do not represent management's expectations of the changes in the counterparties' credit risk, but are provided as hypothetical scenarios to assess the sensitivity of the fair value of our derivative portfolio to changes in credit spreads.

c.

Loans

The Bank is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair-value measurements in accordance with U.S. GAAP. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Bank records nonrecurring adjustments for including certain impairment amounts for collateral-dependent loans calculated in accordance with ASC 450 Contingencies when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Estimates of fair value used for collateral supporting loans generally are based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3. Loans subject to nonrecurring fair value measurement were COP 404,651 million and COP 276,421 million at December 31, 2014 and 2013, respectively, classified as Level 3. Changes in fair value recognized for loan impairment reserves on loans held by the Bank on December 31, 2014 and 2013, represented impairment losses for COP 110,865 million and COP 77,093 million, for the period ended December 31, 2014 and 2013, respectively.

d. Other than Temporary Impairment

The Bank conducts regular reviews to assess whether other than temporary impairment exists, in accordance with ASC 320. If the Bank determines that unrealized losses are temporary in nature, they are recorded in Accumulated Other Comprehensive Income.

U.S. GAAP requires, when an entity intends to sell an impaired debt security or it is more likely than not that it will be required to sell prior to recovery of its amortized cost basis, the recognition in earnings of the impairment loss on investment securities for decline in fair value. Determinations of whether a decline is other than a temporary decline often involve estimating the outcome of future events. Management judgment is required in determining whether factors exist that indicate that an impairment loss has been incurred at the balance sheet date. These judgments are based on subjective as well as objective factors. The Bank conducts a review semi-annually to identify and evaluate investment securities that have indications of possible impairment.

The Bank has determined that unrealized losses on investments as of December 31, 2014 are temporary in nature because it does not intend to sell an impaired debt security and it is not more likely than not it will be required to sell the debt security before the recovery of its amortized cost.

The substantial majority of the investments in an unrealized loss position for 12 months or more are primarily securities issued by Titularizadora Colombiana, denominated in Unidad de Valor Real (the “Real Value Unit” or “UVR”). Unrealized losses may decline as interest rates fall below the purchased yield and as the securities approach maturity. Since the Bank does not intend to sell an impaired debt security and it is not more likely than not it will be required to sell the debt security before the recovery of its amortized cost, which could be maturity, the unrealized loss is considered temporary.

The Bank considers that the accounting estimate related to the valuation of financial assets and financial liabilities, including derivatives where quoted market prices are not available to be a ‘critical accounting estimate’ because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific features of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its balance sheet as well as its net profit/(loss) could be material.

Securizations: Before 2010, if the SPE activities were sufficiently restricted to meet certain accounting requirements in order to be considered a qualifying special-purpose entity (QSPE), the trust was not consolidated by the seller of the transferred assets. Additionally, under ASC 810 Consolidation, if trusts other than QSPEs met the definition of a variable interest entity (VIE), the Bank evaluated whether the Bank was the primary beneficiary of the trust and, if so, consolidate it. According to ASC 810 the condition of “primary beneficiary” is met whether the Bank has the power to

direct the activities that most significantly impact the VIE's economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to it. Furthermore, under ASC 810 the Bank shall consider any involvement of related parties in the consolidation assessment, and when no single party meets both conditions aforementioned, but members of a related party would meet both of those criteria, then the most closely associated party with the VIE shall consolidate it. To determine which party within the related party group is most closely related the Bank analyzes which one is most exposed to the variability associated with the anticipated economic performance of the VIE.

Under U.S. GAAP, the Bank applies the requirements established in ASC 810 "Accounting for transfers of financial assets". Under this standard, there are two key accounting determinations that must be made relating to securitizations. A decision must be made as to whether a transfer would be considered a sale under U.S. GAAP, resulting in the transferred assets being removed from the Bank's consolidated balance sheet with a gain or loss recognized. Alternatively, the transfer would be considered a secured borrowing, resulting in recognition of a liability in our consolidated balance sheet. The second key determination to be made is whether the securitization vehicle must be consolidated and included in the Bank's consolidated balance sheet or whether such securitization vehicle is sufficiently independent that it does not need to be consolidated.

In order to consolidate these vehicles used to securitize the Bank's performing loans, the Bank records loans net of allowance for loan losses. For this process, the Bank considers the evaluation of loan portfolio risk and determination of allowances for loan losses under U.S. GAAP to be "critical accounting estimates" because it is based on estimations. (See more details above in this item under "Evaluation of Loan Portfolio Risk and Determination of Allowances for Loan Losses in this item").

The table below presents a summary of the assets and liabilities of VIEs of securitization performing which have been consolidated on the Bank's balance sheet at December 31, 2014 and 2013:

	2014	2013
Assets	COP826,658	COP1,151,020
Liabilities	250,998	442,340
Allowance for loans losses	79,459	99,707

The allowance for loan losses represents the management's estimate of probable losses inherent in the portfolio.

H. RECENT U.S. GAAP PRONOUNCEMENTS

In January 2015, FASB issued ASU 2015-01, "*Income Statement—Extraordinary and Unusual Items*" to simplify the income statement presentation requirements in Subtopic 225-20 by eliminating the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. Management is currently evaluating the impact the amendments would have on the Bank's financial statement and U.S. GAAP disclosures.

In November 2014, FASB issued ASU 2014-17, "*Pushdown Accounting a consensus of the FASB Emerging Issues Task Force*" to provide guidance for determining whether and at what threshold pushdown accounting should be established in an acquired entity's separate financial statements. According to ASU 2014-17, an acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. The amendments in this Update are effective on November 18, 2014. Management has concluded that the adoption

has no impact on the Bank's U.S. GAAP disclosures and financial information as of December 31, 2014.

In August 2014, FASB issued ASU 2014-15, "*Presentation of Financial Statements-Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*" to provide guidance about management's responsibility to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. Management is currently evaluating the impact the amendments would have on the Bank's financial statement and U.S. GAAP disclosures.

In August 2014, FASB issued ASU 2014-13, “*Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*”. To define the term collateralized financing entity as a variable interest entity with no more than nominal equity that holds financial assets and issues beneficial interests in those financial assets; the beneficial interests have contractual recourse only to the related assets of the collateralized financing entity and are classified as financial liabilities. This amendment permits a reporting entity that is the primary beneficiary of a collateralized financing entity and consolidated it (in accordance with the guidance in Topic 810), and accounts for all the financial assets and financial liabilities of that collateralized financing entity at fair value, to use either the measurement alternative included in this amendment or the guidance provided in Topic 820 in fair value measurement. The measurement alternative consists of measuring both the financial assets and the financial liabilities of that collateralized financing entity, in the consolidated financial statements of the reporting entity, using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. This method could apply when the reporting entity includes the financial assets and financial liabilities of the collateralized financing entity at fair value in the consolidated financial statements based on other Topics, and the changes in the fair value of those financial assets are reflected in earnings.

The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Although the VIE’s derived from securitization process complied with the definition of “collateralized financing entity”, the Bank measures the financial assets and liabilities assets of those VIEs at amortized cost for the purpose of preparing its consolidated financial statements, due to the fact that the Bank has identified amortized cost as the most reasonable measure for those entities.

In June 2014, FASB issued ASU 2014-11, “*Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*” to provide guidance in the accounting of the different types of repurchase agreements, specifically for Repurchase-to-maturity transactions and repurchase financing secured borrowing accounting, which is consistent with the accounting of other repurchase agreements. Formerly, repurchase-to-maturity transactions (repurchase agreements that mature at the same time as the transferred financial asset) were generally accounted for as a sale and a forward repurchase agreement when they are not considered to maintain the transferor’s effective control and they satisfied the other conditions for derecognition. According with the amendments in this update, repurchase-to-maturity transactions must be accounted for as secured borrowings.

On the other hand, a repurchase financing executed contemporaneously with an initial transfer with the same counterparty generally was accounted for as a derivative if the two transactions were required to be linked in their accounting. The amendments in this update require the repurchase agreement be accounted for as a secured borrowing separately from the initial transfer of the financial asset, that is accounted for as a sale.

Besides, the amendments require two additional disclosures about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, and the type of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The accounting changes in this Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. Management does not expect any significant impact on the Bank’s financial statement and U.S. GAAP disclosures as a result of the

amendments introduced by ASU 2014-11.

In May 2014, FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” to provide a more robust framework for addressing revenue issues and remove inconsistencies and weaknesses in revenue requirements. The amendments clarify how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, considering the following steps: (1) Identify the contract(s) with a customer.; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract.; (5) Recognize revenue when (or as) the entity satisfies a performance obligation. The new accounting guidance, which does not apply to financial instruments, is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. Management is currently evaluating the impact the amendments would have on the Bank’s consolidated financial statements.

In April 2014, FASB issued ASU 2014-08, “*Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*” to change the criteria for reporting discontinued operations. The amendments clarify that a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results when any of the following occurs: (1) The component of an entity or group of components of an entity meets the criteria in paragraph 205-20-45-1E to be classified as held for sale; (2) The component of an entity or group of components of an entity is disposed of by sale; (3) The component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff). The new accounting guidance is effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The adoption had no impact on the U.S. GAAP disclosures and financial information released by the Bank for the reporting period ending on December 31, 2014.

In January 2014, FASB issued ASU 2014-04, “*Receivables—Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*” to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. According to new guidance physical possession has been received upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. Those amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Management is currently evaluating the impact the amendments would have on the Bank’s financial statement and U.S. GAAP disclosures.

In July 2013, FASB issued ASU 2013-11, “*Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists*” to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. Formerly, three approaches were used to be considered for the financial statement presentation of an unrecognized tax benefit, when a net operating loss carry forward, a similar tax loss, or a tax credit carry forward exists. A) Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carry forward for that year and the net operating loss or tax credit carry forward has not been utilized. B) Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss carry forward or tax credit carry forward in certain circumstances, and C) The entity can to make an accounting policy election to apply one of the other two approaches to all unrecognized tax benefits. The amendments in this update reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013.

The adoption had no impact on the U.S. GAAP disclosures and financial information released by the Bank for the reporting period ending on December 31, 2014 and 2013.

In April 2013, FASB issued ASU 2013-07, “*Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting*” to require a statement of changes in net assets in liquidation instead of a statement of comprehensive income in order to provide more relevant information to users of the financial statements of an entity that is in liquidation. The requirements will be effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, although early adoption is permitted. The amendments have no impact on the Bank’s U.S. GAAP disclosures and financial information.

RECENT COLOMBIAN BANKING GAAP PRONOUNCEMENTS

Convergence of accounting standards by Colombian financial institutions.

In July 2009 Congress approved Law 1314 of 2009, which introduced changes in the accounting, audit and information disclosures with the aim of converging with “International Financial Reporting Standards – IFRS”, although current regulations could differ in certain respects from those in other countries. On December 29, 2012, the Colombian government issued regulation regarding the technical framework to be applied by public entities and issuers of securities.

The technical framework is based on the IFRS and the related interpretations issued by the IFRS Interpretations Committee (“IFRS-IC”) and by the Standing Interpretations Committee (SIC) related interpretations, as translated to Spanish on December 1, 2014, by the International Accounting Standard Board (IASB).

In such technical framework, as amended, the Government established that the transition period had to take place during 2014, and all the entities were required to prepare the opening balance sheet under IFRS as of January 1, 2014.

In 2013, the Bank prepared an implementation program approved by the Board of Directors, specifying the major milestones and the key personal required for running and overseeing the convergence process. During 2014, the transition period, the Bank had to keep records of its financial situation under the new regulation as well as under Colombian GAAP. Financial statements based on accounting regulations under the new framework must be presented for annual and interim periods beginning after December 31, 2014.

The Bank is also required to prepare the comparative financial statements under the new regulation from the year ending at December 31, 2015 onwards.

Some highlights of the main changes in the accounting policies and practices arising from the transition to IFRS are presented below:

Presentation of Financial Statements

Colombian banking GAAP: the generally accepted accounting principles and practices prescribed by the SFC and other legal provisions comprise a balance sheet, a statement of operations, a statement of Stockholders' equity and a statement of Cash Flows and the accompanying notes.

IFRS: International Accounting Standard ("IAS") 1 "Presentation of Financial Statements" sets out the overall requirements for the presentation of financial statements, including how they should be structured. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows and the accompanying notes.

Business combinations and past acquisitions

Colombian banking GAAP: the purchase method of accounting is applied as follows: (i) the assets acquired and the liabilities assumed are recorded at book value, (ii) the consolidated statements of operations of the acquiring company for the period in which a business combination occurs includes the income of the acquired company arising subsequent to the date of combination, and (iii) the costs directly related to the purchase business combination are not considered as a cost of the acquisition, but deferred and amortized over a reasonable period as determined by the management. The goodwill resulting from a business combination is amortized over a term of twenty (20) years, unless the entity voluntarily selects a shorter period of amortization using an exponential method.

IFRS: under IFRS 3 "Business combination", when an acquirer obtains control of a business (an acquisition or merger), the purchase method of accounting under IFRS requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date and the allocation of any intangible asset identified. The goodwill is not amortized during a period of time specified, but the management annually performs the required impairment test required by IAS 36 "Impairment of assets".

Additionally, IFRS 1 “First time adoption” permits companies that are first-time adopters of IFRS to maintain the accounting treatment adopted in the prior accounting practices (Colombian banking GAAP in the case of the Bank) with respect to business combinations and acquisition of investments in associates that were recognized before the transition date or an earlier date. Such transactions are not restated, retrospectively, by applying IFRS 3 (Reviewed).

Property, plant and equipment

Colombian banking GAAP: Premises and equipment are recorded at the cost of acquisition, including direct and indirect costs and expenses incurred in their construction plus the inflation adjustment recorded until 2001 for premises and equipment purchased before that year. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset: buildings over a term of twenty (20) years, Equipment, furniture and fittings over a term of ten (10) years and Vehicles and Computer equipment over a term of five (5) years, not considering a residual value related to the asset.

IFRS: In accordance with IAS 16 “Property, Plant and Equipment”, fixed assets are recognized at the cost of acquisition less accumulated depreciation, calculated using the straight-line method and rates based on the estimated useful lives of these assets. The residual values and useful lives of assets are reviewed and adjusted, if appropriate, at the end of each year.

Moreover, in accordance with IFRS 1, an entity may, on the transition date to IFRS, measure an item of property, plant and equipment at its fair value and this amount will be considered the deemed cost of this asset, from such date.

Lease operations

Colombian banking GAAP: for financial entities involved in lease arrangements as lessor, the leases must be classified as either financial leases or operating leases, according to the terms of the lease agreements. Assets provided through leases to third parties with a purchase option are recorded in the loan portfolio. Assets provided through operating leases are recorded as property, plant and equipment.

IFRS: According to IAS 17 “Leases”, leases are required to be classified as either (i) finance leases, when the lessor entity transfers substantially all the risks and rewards of ownership, and an asset and a liability must be recognized by the lessee and the present value of lease payments must be recognized as a receivable or (ii) operating leases, which result in expense recognition by the lessee, with the asset remaining recognized by the lessor.

An entity that applies IFRS for the first time may opt to apply the specific transition rules of IFRIC 4 - “Determining Whether an Arrangement Contains a Lease”, and it may determine if there is a lease agreement on the transition date to IFRS based on the facts and circumstances existing on the transition date.

Deferred income taxes

Colombian banking GAAP: Deferred tax assets or liabilities must be recorded for all temporary differences raised in the current period based on the consolidated statement of operations when comparing the amount of recognized income and expenses for accounting and tax purposes. However, loss carry-forwards and excess of presumed income over ordinary income are restricted by the SFC.

IFRS: IAS 12 “Income tax” prescribes that deferred tax assets or liabilities should be measured using substantively enacted tax rates. IAS 12 also prescribes that deferred tax assets should be recognized when the generation of future taxable income is probable, allowing the realization of the assets.

Compound financial instruments

Colombian banking GAAP: Bancolombia’s subscribed preferred shares are fully recognized as issued and outstanding capital.

IFRS: IAS 32 “Financial Instruments: Presentation” requires that the components of compound financial instruments, as defined by IAS 32, be separated and classified as debt instruments and equity instruments. This classification is made based on circumstances, economic substance and specific terms of these instruments on the date they are issued.

Employee benefit plans

Colombian banking GAAP: Under Colombian law, employee pension obligations are managed as a defined contribution. Retirement pension liabilities are calculated on an actuarial basis, considering economic and demographic assumptions such as salary increases, cost of living adjustment, mortality and disability. The discount rate is based on the DTF average rate computed during the last 10 ten years at the moment of the actuarial valuation process.

IFRS: According to IAS 19 “Employee benefits” (amended 2011), the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable. For IFRS purposes, actuarial valuations of pension plans must be performed annually using the projected unit credit cost method and the discount rates must be based on a review of market bond yields with maturities approximating the remaining life of the projected benefit obligation, and the actuarial gains/ losses are recognized in the statement of other comprehensive income and within equity and are not reclassified to the statement of income at a later date.

Likewise, IFRS 1 provides an exemption related to employee benefit plans under which all actuarial gains and losses accrued to the transition date, related to defined benefit plans sponsored by the Banks and its subsidiaries could be recognized in retained earnings at the transition date.

Allowance for loan losses and financial leases losses

Colombian banking GAAP: the methodology for evaluating loans and financial leases is based on their inherent risk characteristics and serves as a basis for recording loss allowances based on loss percentages estimated or established by the SFC according to past due days. Under Colombian banking GAAP, the loan loss allowance is determined and monitored on an ongoing basis.

IFRS: IAS 39 “Financial instruments: recognition and measurements” determines that the entity should assess, at least on each reporting date, whether there is objective evidence that the loan or group of loan is impaired. A loan or group of loans is impaired if there is objective evidence of impairment as a consequence of one or more events (e.g., the economic performance and trends in the client’s industry) that occurred after the initial recognition of the loan, and that

event or events impact the likelihood of receiving all principal and interest according to the contractual terms of the loan agreement and it can be reliably estimated.

The amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate of the loan.

Firstly, it is necessary to assess, on an individual basis, if there is objective evidence of impairment for exposures that are individually significant (impaired loans that exceed a specific threshold), or individually and collectively significant for exposures that are not individually significant. If there is no objective evidence for an exposures individually assessed, be it significant or not, it should be included in a group of exposures with similar characteristics and assessed collectively. The exposures that are individually assessed and for which a loss has been recorded should not be included in the collective assessment.

Measurement of financial instruments

Colombian banking GAAP: External Circular 100 of 1995 issued by the SFC provides guidance related to the measurement of financial instruments, considering the purchase cost as the initially recognition amount for investment securities and requires that traded securities must be valued using inputs and prices provided by the price provider authorized by the SFC. Nonetheless, some debt securities classified as either trading or available for sale are not recognized at fair value, but are recognized at amortized cost using a discounted cash flow methodology.

On the other hand, loans are recorded at the principal outstanding less allowance for impairment, except in cases of purchases of portfolios, which are recorded at the acquisition cost on day one. The SFC requires that interest income, lease payments and other items of income cease to be accrued in the consolidated statements of operations after a loan is in arrears for more than two months for mortgage and consumer loans, three months for commercial loans and one month for small business loans.

IFRS: determines that all financial instruments at amortized cost are initially recognized at fair value, plus transaction costs, and subsequently measured at amortized cost, using the effective interest rate method. The interest income recognized in the consolidated statement of operations includes the amortization of premiums and discounts. IFRS requires that valuation techniques of financial assets and liabilities at fair value incorporate all factors that a market participant would consider in setting a price when using consistent and accepted economic methodologies for pricing such financial instruments.

Investments in associates

Colombian banking GAAP: investments in associates where the investor has the ability to exercise significant influence are recorded at cost and classified as available for sale. The difference between the cost and equity participation is recorded as reappraisal of assets in assets and stockholders' equity.

IFRS: IAS 28 'Investments in Associates and Joint Ventures' (amended in 2011) requires that investments where the investor has the ability to exercise significant influence are recorded using the equity method.

Non-controlling interest

Colombian banking GAAP: the non-controlling interest is presented as minority interest outside stockholders' equity.

IFRS: the non-controlling interest in subsidiaries must be classified as a separate component of stockholders' equity in the consolidated financial statements.

Property held to earn rentals

Colombian banking GAAP: the property held to earn rentals are recognized at cost of acquisition and the depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Any reappraisal of a portion of the entity's properties are recognized as an increase or decrease in the Balance Sheet under the assets caption "Reappraisal of assets" and in the stockholders' equity caption "Surplus from reappraisals of assets".

IFRS: IAS 40 'Investment property' provides guidance related to the accounting for property held to earn rentals or for capital appreciation (or both). Investment properties are initially measured at cost and subsequently measured using a cost model or fair value model. The changes in the fair value under the fair value model are recognized in profit or loss.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

As of March 31, 2015, the following persons acted as directors and senior management of the Bank:

Directors

David Emilio Bojanini García was born in 1956. Mr. Bojanini holds a degree in industrial engineering from Universidad de los Andes and an MBA with emphasis on actuary from University of Michigan. He has held several positions in the private sector such as CEO of Administradora de Fondos de Pensiones y Cesantías “Protección S.A.” from 1991 to 2006, and Gerente Actuaría in Suramericana de Seguros S.A. where he worked for 11 years. He has been CEO of Grupo de Inversiones Suramericana S.A. since 2006. Mr. Bojanini is a member of the following boards of directors: Grupo Nutresa S.A., Bancolombia S.A., Grupo Argos S.A., Suramericana S.A. and SURA Asset Management. In Colombia he is the CEO of Consejo Privado de la Competitividad, and he is member the boards of entities social purpose entities as Fundación para el Desarrollo de Antioquia Proantioquia, Fundación de Empresarios por la Educación and Corporación Colombiana Internacional.

José Alberto Vélez Cadavid was born in 1950. Mr. Vélez holds a degree in administrative engineering from Universidad Nacional de Colombia and a Masters degree in Science in Engineering from the University of California in Los Angeles (UCLA). He has also taken several specialized courses at Harvard University, Northwestern University and Massachusetts Institute of Technology (MIT). He is also an Honoris Causa Engineer from The National School of Engineers of Metz, France (ENIM). He has been the CEO of Grupo Argos S.A. since August, 2003. He has held several management positions at Suramericana de Seguros S.A. including Vice President of Marketing and Sales, Vice President of Investments, Vice President of Enterprise Development and CEO of Suramericana S.A. and Suramericana de Seguros S.A. Currently Mr. Vélez is a member of the board of directors of Grupo de Inversiones Suramericana S.A., Celsia S.A. E.S.P., Cementos Argos S.A., Sítum S.A.S. and Arcos Dorados (McDonald’s franchise for Latin America). He is also part of the management team of Proantioquia, Codesarrollo, Consejo Empresarial Colombiano para el Desarrollo and Fundación Fraternidad de Medellín. He is a member of the America’s Society/Council of the Americas, located in New York as well as a member of the Administrative Council of Universidad EAFIT.

Roberto Ricardo Steiner Sampedro was born in 1959. Mr. Steiner holds a Masters degree in economics from the Universidad de los Andes and with a PhD from Columbia University. Within his professional trajectory Mr. Steiner has held several positions in the Central Bank, such as Director of the Investigation Department and Associate Investigator; he also served as Subdirector and Executive Director of Fedesarrollo, Director of the Economic Development Studies Center of the Universidad de los Andes and as an Alternate Executive Director of the IMF. He is currently an Associate Investigator for Fedesarrollo, a position he has held since March 2013. Mr. Steiner has been

a Professor at Universidad de los Andes, Columbia University, Universidad Javeriana and Universidad Nacional; he has also been a guest Visting Researcher for the IMF and a Visting Professor for the NASDAQ's program in then Lehigh Univerisity. He was also a government representative for the Audit Committee for the Coffee Sector Policies. He has been member of the board of directors of the Bogotá Stock Exchange and Ecopetrol. He has been a consultant for IDB, the World Bank, the IMF and the ECLAC. He is a member of the Latin American and Caribbean Economic Association, and of the American Economic Association. He was a member of the editing committee for the Latin American Economic Policy Review and for Cuadernos de Economía of Universidad Católica de Chile. He has published several books and articles at a nationally and international level.

Gonzalo Alberto Pérez Rojas was born in 1958. Mr. Pérez holds a law degree from Universidad de Medellín and a post graduate degree in insurance from Swiss Re- Zurich and a CEO management program certificate from the Kellogg School of Management. He is CEO of Suramericana S.A. and has held different management positions at Compañía Suramericana de Seguros S.A. since 1981, such as Vice President of Corporate Businesses and Vice President of Insurance and Capitalization. Mr. Pérez Rojas is currently a member of the boards of directors of Grupo Nutresa S.A., Celsia S.A., Federación Nacional de Aseguradores Colombianos- FASECOLDA, Fundación Suramericana and Fundación Nutresa. He also is a member of the board of directors of Suramericana Panamá.

Ricardo Sierra Moreno was born in 1951. Mr. Sierra holds a degree in business administration from Universidad EAFIT. He has been the CEO of Productora Distrihogar S.A. since 1989. He was CFO of Suramericana de Seguros S.A. and Regional Manager of Corporación Financiera Suramericana S.A. Corfinsura. Mr. Sierra Moreno is also a member of the board of directors of Crystal Vestimundo S.A., Cusezar S.A., Cadena S.A. and Proantioquia. He has been an independent member of the Bank's Board of Directors since 2004.

Rafael Martinez Villegas was born in 1942. Mr. Martinez has a degree in business administration from Universidad EAFIT and a Masters degree of Science in accounting from Texas Tech University. Over the course of his career, he has been Auditor of Peat Marwick, Mitchell & Co, General Manager of Prebel, CEO of Inversiones Aliadas S.A. and Corporación Financiera Aliadas S.A. He is member of the board of directors of the Philharmonic Orchestra of Medellín. Today he is dedicated to his personal businesses.

Hernando José Gómez Restrepo was born in 1957. Mr. Gómez holds a cum laude degree in economics from Universidad de los Andes. He is a PhD candidate in economics, holds Master's in philosophy and arts, and a post graduate degree in currency, banking and international economics from Yale University. Mr. Gómez has been a Professor at Universidad de los Andes, and an Assistant Professor at Yale University. He has held the position of Assesment Director the Central Bank, CEO of Consejo Privado de Competitividad, and Chief of the Colombian Government Negotiation Team for the Free Trade Agreement with the United States of America, the National Planning Director of Colombia, among other positions. Mr. Gómez is an independent member of the Bank's Board of Directors since his appointment in 2013.

For additional information regarding the Board of Directors and its functions, see "Item 10.B Additional Information – Memorandum and Articles of Association – Board of Directors".

Senior Management

Carlos Raúl Yepes Jimenez was born in 1964. He has been the President of Bancolombia since February, 2011 and had been previously a member of its Board of Directors for five years. Mr. Yepes was Corporate Vice President of Cementos Argos S.A. from 2003 to 2011, Legal Director of Bancolombia from 1994 to 2003 and also Legal Director of CI Unión de Bananeros de Urabá ("Uniban") from 1991 to 1994.

Mr. Yepes holds a degree in law from Universidad Pontificia Bolivariana and a degree in business law from Universidad Externado de Colombia.

Juan Carlos Mora Uribe was born in 1965. He is the Vice President of Corporate Services. Previously he was the Risk Management Vice President of Bancolombia between July 2005 and March 2011 when he was appointed as Technology and Innova Vice President. He served as the Vice President of Operations of Corfinsura since 2003 and held various positions within the corporation such as Corporate Finance Manager from 1995 to 2003, account executive from 1992 to 1995 and credit analyst from 1991 to 1992. Mr. Mora Uribe holds a B.A. degree from Universidad EAFIT and an M.B.A. degree from Babson College.

Santiago Pérez Moreno was born in 1955. He has been the Vice President of Personal and SMEs Banking since 1989, and has held different managerial positions at Bancolombia since 1981, such as Personal Banking Manager for the Bogota Region, International Commerce Manager for the Bogota Region and assistant for the Vice Presidency of International Commerce. Mr. Pérez Moreno holds an industrial economics degree from Universidad de los Andes and an M.B.A. from IESE in Barcelona.

Jaime Alberto Velásquez Botero was born in 1960. He has been the Vice President of Strategy and Finance since April 2012. Previously, he held the position of Vice President of Finance of Bancolombia from 1997 to 2012. From 1989 through 1997, he held several managerial positions in the Economic Department and Investor Relations Department of the Bank. Previously, he worked at C.I. Banacol from 1987 to 1989. Mr. Velásquez Botero holds an economics degree from Universidad de Antioquia.

Mauricio Rosillo Rojas was born in 1969. He has been the Legal Vice President of Bancolombia since December 2008. Mr. Rosillo Rojas holds a law degree from Pontificia Universidad Javeriana, obtained a post-graduate degree in financial law from Universidad de Los Andes, and a Master's degree in commercial and economic law from the University of Georgia. Mr. Rosillo Rojas has held several positions in the public and private sectors, including secretary general of Fedeleasing, Interim Colombian Superintendent of Cooperatives (“*Superintendente de Economía Solidaria (encargado)*”), director of financial regulation of the Colombian Ministry of Finance, supervisor of the securities market of the Colombian Stock Exchange and president of AMV.

Gonzalo Toro Bridge was born in 1960. He has been Vice President of Corporate Banking of Bancolombia since 2003. From 1988 to 1994, he was the Assistant of the Vice Presidency of Corporate and International Banking and from 1994 to 2003 he was the Vice President of Corporate and International Banking. Mr. Toro Bridge holds a B.A. degree from Universidad EAFIT and a certificate of attendance from the Advanced Management Program for overseas bankers of the University of Pennsylvania.

Augusto Restrepo Gómez was born in 1962 He was appointed by the Board of Directors as Vice President of Human Resources, position he held before from April 2011 to April 2013. He was previously appointed as Vice President in charge of the acquisition and integration of HSBC Bank (Panama) on April 22, 2013. Previously he held the position of Administrative Vice President of Bancolombia between August 2007 and 2011. Mr. Restrepo Gómez has worked in Bancolombia for 27 years holding several positions at different departments of Bancolombia such as analyst, sub-manager, chief of department and regional manager. Most recently he was the Administrative Vice President of Bancolombia. He is also a member of the board of directors of ACH Colombia S.A., Multienlace S.A., and Redeban Multicolor S.A. Mr. Restrepo Gómez holds a B.A. degree from the Universidad Cooperativa de Colombia, and obtained a post-graduate degree in marketing from Universidad EAFIT. His post-graduate education also includes, among others, courses in advanced management from Universidad de los Andes and Universidad de la Sabana.

Carmenza Henao Tisnes was born in 1960. She was appointed Vice President of Internal Audit in April 2011. Mrs. Henao has worked at Bancolombia for 28 years holding several positions at different departments of Bancolombia such as analyst and manager of audit technology. Most recently she was the Audit National Manager of Bancolombia branches. She has also been a professor various universities including Universidad EAFIT, Universidad Pontificia Bolivariana, Universidad de Medellin and Universidad San Buenaventura. Mrs. Henao is a system engineer and has a post-graduate degree in Finance from Universidad EAFIT.

Rodrigo Prieto Uribe was born in 1973. He was appointed as Vice President of Risk Management in March 2011. Mr. Prieto has worked at Bancolombia for 12 years holding several positions at different departments of Bancolombia such as analyst, manager of risk administration, planning manager and manager of Capital allocation and risk quantification. Most recently he was the director of planning and projects. He has also been a professor at several universities including Universidad EAFIT, Escuela de Ingeniería de Antioquia and Universidad de los Andes. Mr. Prieto Uribe is a civil engineer and has a Master's degree in Economics from Universidad de los Andes and a Master's degree in finance from Instituto Tecnológico y de Estudios Superiores de Monterrey.

There are no family relationships between the directors and senior management of Bancolombia listed above.

No arrangements or understandings have been made by major shareholders, customers, suppliers or others pursuant to which any of the above directors or members of senior management were selected.

B. COMPENSATION OF DIRECTORS AND OFFICERS

In 2014 the Bank paid each director a fee of approximately COP 5.5 million per month for sitting on the Board, and another fee of approximately COP 5.5 million for attending each session of the committees.

The directors received no other compensation or benefits. There is no stock option plan for directors. Consistent with Colombian law, the Bank does not publish information regarding the compensation of the Bank's individual officers. The Bank's stockholders may request that information during the period preceding the annual general stockholders' meeting. The aggregate amount of remuneration paid by the Bank and consolidated subsidiaries to all directors, alternate directors and senior management during the fiscal year ended December 31, 2014 was COP 48.17 billion. A total of COP 5.4 billion was paid by the Bank in 2014 to senior managers who retired from the company during the year.

The Board of Directors approves the salary increases for vice presidents and authorizes the Chief Executive Officer to readjust the salary of the remaining employees.

The Bank has established an incentive compensation plan that awards bonuses annually or semi-annually to its management employees. In determining the amount of any bonuses, the Bank takes into consideration the overall return on equity of the Bank and its executives' achievement of established goals. The Bank's variable compensation has deferred elements and, depending on the amount awarded, the bonuses are payable in cash and as a combination of cash, a right to receive in three years an amount in cash determined with reference to the value of the Bank's stocks and an entitlement to a share in a pool of unvested bonuses. The pool of unvested bonuses is an account of preliminary bonuses, payable once it is established that the results that are the basis of such bonuses have been sustained over time and were not the result of a particular, extraordinary transaction that does not reflect better performance, according to guidelines designed by the Bank. Such elements are solely paid when certain future profits are obtained. This incentive compensation plan is not in the form of stock options.

The Bank paid a total of COP 1,319 billion for salaries of personnel employed directly by the Bank and senior management of its affiliates. Such amount includes the sum of approximately COP 79.62 billion that was spent in connection with the incentive compensation plan.

As of December 31, 2014, the Bank had provisioned 100% of its actuarial obligation corresponding to retirement pension's payable by the Bank, which amounted to COP 108.72 billion. Decree 4565 of 2010 established the year 2029 as the deadline for amortization.

C. BOARD PRACTICES

The following table reflects the composition of the Board of Directors as of March 31, 2015.

Name	Elected to the Board	Term Expires
David Bojanini García	2006	2016
José Alberto Vélez Cadavid	1996	2016
Roberto Ricardo Steiner Sampedro	2014	2016
Gonzalo Alberto Pérez Rojas	2004 (1)	2016
Ricardo Sierra Moreno	1996 (2)	2016
Rafael Martínez Villegas	2010	2016
Hernando José Gómez Restrepo	2013	2016

- (1) Gonzalo Alberto Pérez Rojas had previously served as Bank's Director during the period 1990-1994.
- (2) Ricardo Sierra Moreno had previously served as Bank's Director during the period 1982-1988.

Mr. Ricardo Sierra Moreno, Rafael Martínez Villegas, Hernando José Gómez Restrepo and Roberto Ricardo Steiner Sampedro are independent directors in accordance with the Bank's bylaws and other applicable laws. Consequently, the majority of the Board of Directors is composed of independent directors.

Neither the Bank nor its Subsidiaries have any type of agreement with the Bank's directors providing for benefits upon termination of their term.

The following are the current terms of office and the period during which the members of senior management have acted as such in Bancolombia. There are no defined expiration terms. The members of senior management can be removed by a decision of the Board of Directors.

<i>Name</i>	<i>Period Served</i>
President	
Carlos Raúl Yepes Jimenez	Since 2011
Vice Presidents	
Jaime Alberto Velásquez Botero	Since 1997
Juan Carlos Mora Uribe	Since 2005
Mauricio Rosillo Rojas	Since 2008
Santiago Pérez Moreno	Since 1989
Gonzalo Toro Bridge	Since 1998
Augusto Restrepo Gómez	Since 2007
Rodrigo Prieto Uribe	Since 2011
Carmenza Henao Tisnes	Since 2011

For further information about the Bank’s corporate governance practices please see “Item 16. Reserved – 16.B. Corporate Governance and Code of Ethics”.

Audit Committee

In accordance with Colombian regulations, the Bank has an audit committee whose main purpose is to support the Board of Directors in supervising the effectiveness of the Bank’s internal controls. The committee consists of three independent directors, one of whom must be a financial expert, who are elected by the board of directors for a period of two years.

The audit committee is composed of Mr. Hernando José Gómez Restrepo, Mr. Rafael Martinez Villegas, and Mr. Ricardo Sierra Moreno.

Pursuant to applicable U.S. laws for foreign private issuers, Mr. Rafael Martinez Villegas serves as the financial expert of the audit committee.

As established by the SFC, the audit committee has a charter approved by Board of Directors which establishes its composition, organization, objectives, duties, responsibilities and extension of its activities. The Board of Directors also establishes the remuneration of the members of the audit committee. The audit committee must meet at least quarterly and must present a report of its activities at the general stockholders' meeting.

The Bank currently complies with the requirements of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder, as applicable to foreign private issuers with respect to the composition and functions of its audit committee.

Designation, Compensation and Development Committee

This committee is composed of two members of the Board of Directors elected by it. The Vice President of Human Relations of the Bank acts as secretary of this committee.

The designation, compensation and development committee determines the policies and provisions for the hiring, remuneration, compensation, and development of management and key personnel of the Bank. Likewise, it continuously surveys the goals of the different compensation programs with regard to the performance of the officers, and it assesses the efficacy of such programs.

The duties of the designation, compensation and development committee are: (i) defining the administration policies of human resources, establishing the selection, evaluation, compensation, and development processes for top management, determining their goals; (ii) determining the objective criteria under which the Bank hires its principal officers; (iii) proposing objective criteria under which the Bank hires senior management and designs succession plans; (iv) evaluating the performance of senior management; and (v) issuing recommendations for the Board of Directors concerning appointments and compensation of the president and senior management.

The members of the designation, compensation and Development committee are Ricardo Sierra Moreno, David Bojanini Garcia and José Alberto Vélez Cadavid.

D.EMPLOYEES

The following table sets forth the number of employees of the Bank for the last three fiscal years:

<i>As of December 31</i>	<i>Total number of employees employed by Bancolombia and its consolidated Subsidiaries</i>	<i>Number of employees employed by Bancolombia</i>
2014	30,158	18,867
2013	28,763	18,463
2012	24,820	17,532

As of December 31, 2014, Bancolombia and its consolidated subsidiaries had 30,158 employees, of which 18,867 were employed directly by the Bank. Of the 18,867 employees directly contracted by the Bank, 12,624 are operations personnel and 6,243 are management employees. Of the 18,867 employees, approximately 23.75% are located in the Bogota Region, 11.81% in the South Region, 15.26% in the Antioquia Region, 26.83% in the Medellin headquarters, 12.32% in the Central Region and 10.03% in the Caribbean Region. During 2014, the Bank employed an average of 181 employees per month through temporary personnel service companies.

Of the employees directly employed by Bancolombia, approximately 21% are part of a labor union called Sintrabancol, 13.47% are members of an industry union called Uneb, 1.18% belong to an industry labor union called Sintraenfi and 0.03% belong to an industry labor union called Aceb. A collective bargaining agreement was reached with Uneb and Sintrabancol in October, 2014. The agreement has been in effect since November 1, 2014 and is set to expire on October 31, 2017. This agreement applies to approximately 13,134 employees regardless of whether they are members of an union or not and it extends to operating personnel employed by the subsidiaries Banca de Inversión Bancolombia, Valores Bancolombia, Leasing Bancolombia and Fiduciaria Bancolombia. Sintranefi, the labor union composed of approximately 222 employees, did not take part in the collective bargaining agreement. The latter labor union has made a request for an arbitration court to settle this dispute, a request which is currently in process by the respective judicial authorities, and if it is successful it would cover only the members of the said union; nevertheless, the terms of the agreement reached with UNEB and Sintrabancol apply as well to the members of the Sintraenfi union.

With the execution of this agreement, the Bank, Uneb and Sintrabancol continue to work on the consolidation of long-term labor relationships based on mutual trust and respect.

The most important economic aspects of the Agreement are:

1. A pay increase of 7% for the first year. For the second year, the increase will be equal to the variation in the Colombian consumer price index (“IPC”), as certified by the Colombian statistical bureau (“DANE”) for the period between November 2014 and October 2015, plus 200 basis points. For the third year, the increase will be equal to the IPC variation, for the period between November 2015 and October 2016, plus 250 basis points.

For the salary increases corresponding to the second and the third year in which the current collective bargaining agreement is in place, the Bank will apply whichever is greatest between the variation of the national Consumer Price Index (IPC) for the last twelve months, and the variation of the national IPC for the period between October 31 and December 31 of the year in question. The same criteria will be applied for the subsidies and benefits associated to salary increases.

2. Improved benefits, such as, immediate right to access first home loan after 4 years of tenure, increased amounts to the first home loans, improved health insurance coverage, transportation and food assistance. Increase in tuition assistance and a new tuition loan.

E. SHARE OWNERSHIP

The following directors and members of the senior management owned common shares in Bancolombia as of December 31, 2014: David Bojanini García, Rafael Martínez Villegas, Ricardo Sierra Moreno, Gonzalo Alberto Pérez Rojas and Gonzalo Toro Bridge.

The following directors and members of senior management owned preferred shares in Bancolombia as of December 31, 2014: Roberto Ricardo Steiner Sampedro, Gonzalo Toro Bridge and Luis Santiago Pérez Moreno.

None of the directors and members of senior management's shareholdings, individually or in the aggregate, exceed 1% of Bancolombia's outstanding common shares, preferred shares or a combination of both classes of shares.

As of December 31, 2014, there are no stock options to acquire any of Bancolombia's outstanding common shares or preferred shares or share based payment to any employee.

ITEM 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR STOCKHOLDERS

In accordance with the Bank's by-laws, there are two classes of stock authorized and outstanding: common shares and preferred shares. Each common share entitles its holder to one vote at meetings of the Bank's stockholders, and there are no differences in the voting rights conferred by any of the common shares. Under the Bank's by-laws and Colombian corporate law, holders of preferred shares (and consequently, holders of ADRs) have no voting rights in respect of preferred shares, other than in limited circumstances as described in "Item 10. Additional Information – B. Memorandum and Articles of Association – Description of Share Rights, Preferences and Restrictions – Voting Rights – Preferred Shares".

The following table sets forth, solely for purposes of United States securities laws, certain information regarding the beneficial ownership of Bancolombia's capital stock by each person known to Bancolombia to own beneficially more than 5% of each class of Bancolombia's outstanding capital stock as of March 31, 2015. A beneficial owner includes anyone who has the power to receive the economic benefit of ownership of the securities.

Name

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	Common Shares	Preferred Shares	<i>% Ownership of Common Shares⁽¹⁾</i>	<i>% Ownership of Preferred Shares⁽¹⁾</i>	<i>% Ownership of Total Shares⁽¹⁾</i>			
Grupo de Inversiones Suramericana S.A. (2)	235,648,369	21,731,467	46.23	% 4.81	% 26.76			%
Grupo Argos S.A. ⁽³⁾	33,139,106	-	6.50	% 0.00	% 3.45			%
ADR Program	-	209,374,306	0.00	% 46.31	% 21.77			%
Fondo de Pensiones Obligatorias Protección S.A.	20,517,781	48,955,992	4.03	% 10.83	% 7.22			%
Fondo de Pensiones Obligatorias Porvenir Moderado	52,768,326	29,679,721	10.35	% 6.56	% 8.57			%

(1) Common shares have one vote per share; preferred shares have limited voting rights under certain circumstances specified in the by-laws of Bancolombia filed as Exhibit 1 to this Annual Report.

Represents ownership of Grupo de Inversiones Suramericana S.A. directly and through its subsidiaries: Grupo de

(2) Inversiones Suramericana Panamá S.A., Inversiones y Construcciones Estrategicas S.A., Cia. Suramericana de Seguros de Vida S.A., Cia. Suramericana de Seguros S.A., Suratep.

(3) Represents ownership of Grupo Argos S.A. directly and through its subsidiary Cementos Argos S.A.

As of March 31, 2015, a total of 509,704,584 common shares and 452,122,416 preferred shares were registered in the Bank's stockholder registry in the name of 58,369 stockholders. A total of 209,374,306 representing 46.31% of preferred shares were part of the ADR Program and were held by 36 record holders registered in The Bank of New York Mellon's registered stockholder list. Given that some of the preferred shares and ADSs are held by nominees, the number of record holders may not be representative of the number of beneficial owners.

During the past year, the Bank's ADR program changed its percentage ownership of the Bank, increasing from 16.09% as of March 31, 2014 to 21.77% by the end of March 2015 as depositary receipts were created throughout the period. In addition, Fondo de Pensiones Obligatorias Protección, a Colombian private pension fund manager, increased its percentage ownership to 7.22% as of March 31, 2015 compared to 7.21% as of March 31, 2014; and Fondo de Pensiones Obligatorias Porvenir Moderado a Colombian private pension fund manager increased its percentage of ownership to 8.57% as of March 31, 2015 compared to 8.56%, as of March 31, 2014.

There are no arrangements known to the Bank which may at a subsequent date result in a change in control of the company.

To the extent known to the Bank, and in accordance with Colombian law, Bancolombia is not directly or indirectly owned or controlled by any other entity or person.

B. RELATED PARTY TRANSACTIONS

Colombian law sets forth certain restrictions and limitations on transactions carried out with related parties, these being understood as principal shareholders, subsidiaries and management officials.

Limitations on related party transactions are set forth, mainly, in articles 119 and 122 of Decree 663 of 1993, in the Colombian Commercial Code and, regarding credit and risk concentration limits (legal lending limits), in Decree 2555 of 2010, all as amended.

The above-mentioned regulations set forth, among others, the following guidelines: (i) subsidiaries must carry out their activities independently and with administrative autonomy; (ii) transactions between the parent company and its subsidiaries must have economic substance and cannot differ considerably from standard market conditions, nor in detrimental to the Colombian government, stockholders or third parties; and (iii) subsidiaries may not acquire any shares issued by their parent company.

According to the provisions of the Colombian Commercial Code, neither the Bank's directors nor its management may, directly or indirectly, purchase or sell shares issued by the Bank while they remain in their offices, except when said transactions are carried out for reasons other than purely speculative and upon prior authorization of (i) the Board of Directors, which shall be granted by the affirmative vote of two - thirds of its members, or (ii) the shareholders; in either case, excluding the vote of the person requesting such authorization, if applicable.

The Bank's Corporate Governance Code provides that, in any event, any transaction regarding Bancolombia's shares that is carried out by any officer, director or manager may not be executed for speculative purposes, which would be presumed if the following three conditions were met: (a) if suspiciously short lapses of time exist between the purchase and the sale of shares; (b) if situations arise proving to be exceptionally favorable for the Bank; and (c) if significant profits are obtained from this transaction.

Pursuant to Article 122 of Decree 663 of 1993, transactions entered into by credit institutions with (i) their shareholders holding 5% or more of the outstanding capital, (ii) their managers, or (iii) spouses and certain relatives of shareholders and managers, shall require the unanimous affirmative vote of the members of the board of directors attending the corresponding meeting. The Board of Directors may not authorize transactions subject to terms and conditions other than those usually agreed by the Bank with non-related parties.

All transactions that the Bank enters into with its directors, officers and senior executives are subject to the limitations and conditions set forth by the applicable law governing the prevention, handling and resolution of conflicts of interest.

Over time, Bancolombia has granted loans and engaged in other transactions with related parties. Such loans were made in the ordinary course of business, on substantially the same terms, including interest rates and required collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability, and do not present any additional unfavorable terms for the Company.

Bancolombia, on a non-consolidated basis, had a total amount of COP 2,327,264 million in loans outstanding to related parties as of February 28, 2015. The principal amounts outstanding as of February 28, 2015 included in this amount are:

Entity	Amount outstanding	Accrued Interest	Average Interest rate	
Leasing Bancolombia S.A.	1,342,608	7,263	6.12	%
Grupo Odinsa S.A.	250,300	4,459	8.74	%
Renting Colombia S.A.	193,010	1,752	6.28	%
Inversiones CFNS S.A.S.	174,543	2,217	6.55	%
FCP Fondo Inmobiliario Colombia	154,164	435	7.92	%

2014

Enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or management personnel under common control with, the company and associates
(in millions of COP) (in millions of COP)

Balance Sheet

Investment securities	1,078,435	-
Loans	268,841	112,366
Accounts receivable	12,260	1,238
Other Assets	226,067	-
Total	COP 1,585,603	COP 113,604

Deposits	119,642	11,243
Derivatives	-	53
Total	COP 119,642	COP 11,296

Transactions Income

Interest and fees	24,405	9,799
Dividends Received	40,441	-
Total	COP 64,846	COP 9,799

Expenses

Interest	5,815	85
Fees	-	776

Other expenses	797	988
Total	COP 6,612	COP 1,849

For additional information regarding the Bank's related party transactions, please see Note 29 to the Financial Statements.

C. INTEREST OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

A.1. CONSOLIDATED FINANCIAL STATEMENTS

Reference is made to pages F- 1 through F - 154.

A.2. LEGAL PROCEEDINGS

The Bank is involved in normal collection proceedings and restructuring proceedings with respect to certain borrowers as well as other legal proceedings. For further information regarding legal proceedings, see the “Financial Statements” and- “Note 26 – to the Financial Statements,”Contingencies”.

A.3. DIVIDEND POLICY

The declaration, amount and payment of dividends are based on Bancolombia’s unconsolidated earnings. Dividends must be approved at the ordinary annual shareholders’ meeting upon the recommendation of the Board of Directors. Under the Colombian Commercial Code, after payment of income taxes and appropriation of legal and other reserves, and after setting off losses from prior fiscal years, Bancolombia must distribute to its stockholders at least 50% of its annual net income or 70% of its annual net income if the total amount of reserves exceeds its outstanding capital. Such dividend distribution must be made to all stockholders, in cash or in issued stock of Bancolombia, as may be determined by the stockholders, and within a year from the date of the ordinary annual stockholders’ meeting in which the dividend was declared. According to Colombia’s law, the minimum dividend per share may be waived by an affirmative vote of the holders of 78% of the shares present at the stockholders’ meeting.

The annual net profits of Bancolombia must be applied as follows: (i) first, an amount equal to 10% of Bancolombia’s net profits to a legal reserve until such reserve is equal to at least 50% of the Bank’s paid-in capital; (ii) second, to the payment of the minimum dividend on the preferred shares (for more information, see “Item 10. Additional Information – B. Memorandum and Articles of Association”); and (iii) third, as may be determined in the ordinary annual stockholders’ meeting by the vote of the holders of a majority of the shares entitled to vote.

The following table sets forth the annual cash dividends paid on each common share and each preferred share during the periods indicated:

Dividends declared with respect to net income earned in:	<i>Cash dividends per share⁽¹⁾⁽²⁾</i> (COP)	<i>Cash dividends per share⁽¹⁾⁽³⁾</i> (U.S. dollars)
2014	830	0.319
2013	776	0.394
2012	754	0.412
2011	708	0.395
2010	669	0.357

(1) Includes common shares and preferred shares.

(2) Cash dividends for 2014, 2013, 2012, 2011 and 2010 were paid in quarterly installments.

(3) Amounts have been translated from pesos at the Representative Market Rate in effect at the end of the month in which the dividends were declared (March).

B. SIGNIFICANT CHANGES

There have not been any significant changes since the date of the annual Consolidated Financial Statements included in this document.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Bancolombia's ADRs, each representing four preferred shares, have been listed on the New York Stock Exchange ("NYSE") since 1995, where they are traded under the symbol "CIB". Bancolombia's preferred shares are also listed on the Colombian Stock Exchange.

The table below sets forth, for the periods indicated, the reported high and low market prices and share trading volume for the preferred shares on the Colombian Stock Exchange. The table also sets forth the reported high and low market prices and the trading volume of the ADRs on the NYSE for the periods indicated:

Year Ending	Colombian Stock Exchange COP Per Preferred Share		New York Stock Exchange USD per ADS Trading Volume		
	High	Low	High	Low	(Number of ADSs)
December 31, 2014	31,300	22,000	66.78	42.50	104,278,406
December 31, 2013	31,460	23,380	70.62	47.59	63,665,433
December 31, 2012	30,600	24,220	69.50	53.78	100,220,776
December 31, 2011	31,100	25,160	69.87	53.56	83,520,522
December 31, 2010	31,820	20,400	69.44	40.10	92,823,574

Source: NYSENet (Composite Index) and Colombian Stock Exchange.

	Colombian Stock Exchange COP Per Preferred Shares			New York Stock Exchange USD per ADS Trading Volume		
	High (in nominal pesos)	Low	Trading Volume (Number of Shares)	High	Low	Trading Volume (Number of ADSs)
2015						
First quarter	28,880	23,740	44,059,256	48.56	36.23	32,659,705
2014						
First quarter	27,440	22,000	58,591,558	56.48	42.77	31,239,335
Second quarter	28,100	25,540	52,735,647	59.60	53.20	23,039,202
Third quarter	31,300	27,100	37,993,293	66.78	56.06	18,297,717
Fourth quarter	30,400	26,020	37,548,935	58.15	42.50	31,702,152

2013

First quarter	31,460	28,300	18,455,997	70.62	61.37	18,330,475
Second quarter	31,200	26,000	26,332,638	68.45	53.58	17,643,189
Third quarter	28,360	25,100	35,884,955	60.11	52.52	15,196,607
Fourth quarter	27,580	23,380	26,347,484	58.64	47.59	12,483,637

Source: NYSENet (Composite Index) and Colombian Stock Exchange.

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Month	Colombian Stock Exchange COP Per Preferred Share		New York Stock Exchange USD per ADS		Trading Volume (Number of ADSs)
	High	Low	High	Low	
March 2015	26,220	23,740	41.30	36.23	10,999,516
February 2015	28,880	25,760	48.39	40.93	8,209,348
January 2015	28,880	26,680	48.56	43.81	13,450,841
December 2014	29,600	26,020	51.63	42.50	13,372,925
November 2014	30,400	28,480	57.58	51.43	8,993,667
October 2014	29,700	27,840	58.15	53.50	9,335,560

Source: NYSENet (Composite Index) and Colombian Stock Exchange.

ADRs evidencing ADSs are issuable by The Bank of New York Mellon (the “Depository”), as Depository, pursuant to the Deposit Agreement, dated as of July 25, 1995, entered into by Bancolombia, the Depository, the owners of ADRs from time to time and the owners and beneficial owners from time to time of ADRs, pursuant to which the ADSs are issued (as amended, the “Deposit Agreement”). The Deposit Agreement was amended and restated on January 14, 2008. Copies of the Deposit Agreement are available for inspection at the Corporate Trust Office of the Depository, currently located at 101 Barclay Street, New York, New York 10286, and at the office of Fiduciaria Bancolombia, as agent of the Depository, currently located at Carrera 48, No. 26 - 85, Medellín, Colombia or Calle 30A No. 6-38, Bogotá, Colombia. The Depository’s principal executive office is located at One Wall Street, New York, New York 10286.

On September 30, 1998, Bancolombia filed a registration statement on Form F-3 with the SEC to register ADSs evidenced by ADRs, each representing four preferred shares, issued in connection with the merger between BIC and Banco de Colombia for resale by the holders into the U.S. public market from time to time. On January 24, 2005, the Board determined to deregister the unsold ADSs registered under the registration statement on Form F-3. On March 14, 2005, Bancolombia filed an amendment to the registration statement deregistering the remaining unsold ADSs. On August 8, 2005, Bancolombia filed, through the Depository, a registration statement on Form F-6 registering 50,000,000 ADSs evidenced by ADRs in connection with the Conavi/Corfinsura merger. On May 14, 2007, Bancolombia filed an automatic shelf registration statement on Form F-3 with the SEC to register an indeterminate amount of debt securities, preferred shares and rights to subscribe for preferred shares in connection with the subsequent offerings which took place in the second and third quarter of 2007. On January 14, 2008, by filing the Form F-6 with the SEC, Bancolombia increased the amount of its ADR program up to 400,000,000 American Depository Shares, and registered some amendments to the Depository Agreement of ADSs between Bancolombia and The Bank of New York Mellon. On July 13, 2010, Bancolombia filed an automatic shelf registration statement on Form F-3 with the SEC to register an indeterminate amount of debt securities, preferred shares, American Depository Shares representing preferred shares and rights to subscribe for preferred shares in connection with the subsequent offering of subordinated debt securities which took place on July 19, 2010. On February 6, 2012, Bancolombia priced a public offer of 63,999,997 preferred shares without voting rights, which represented an aggregate amount of approximately COP 1,680 billion. On March 3, 2014, Bancolombia priced a public offer of 110,000,000 preferred shares without voting rights, which represented an aggregate amount of approximately COP 2,656 billion.

B. PLAN OF DISTRIBUTION

Not applicable.

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C. MARKETS

The Colombian Stock Exchange is the principal non-U.S. trading market for the preferred shares and the sole market for the common shares. As of March 31, 2015, the market capitalization for Bancolombia's preferred shares based on the closing price in the Colombian Stock Exchange was COP 11,484 billion (Bancolombia's total market capitalization, which includes the common and preferred shares, was COP 23,972 billion or USD 9.23 billion as of the same date).

There are no official market makers or independent specialists on the Colombian Stock Exchange to ensure market liquidity and, therefore, orders to buy or sell in excess of corresponding orders to sell or buy will not be executed. The aggregate equity market capitalization of the Colombian Stock Exchange, as of March 31, 2015, was COP 329,494 billion (USD 127.9 billion), with 90 companies listed as of that date.

D. SELLING STOCKHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Set forth below is certain information concerning the Bank's capital stock and a brief summary of certain significant provisions of the Bank's bylaws and Colombian corporate law. This description does not purport to be complete and is qualified by reference to the Bank's bylaws (an English translation of which is attached as Exhibit 1 to the Bank's Annual Report on Form 20-F for the year ended December 31, 2010, filed with the SEC on April 28, 2011) and to Colombian corporate law.

Bancolombia is a publicly held corporation with its principal place of business in the city of Medellín, Colombia, governed mainly by the Bank's bylaws and by Colombian corporate law.

Bancolombia's Corporate Purpose

Pursuant to Article 4 of its bylaws, Bancolombia's corporate purpose consists of all kinds of banking operations, business, acts and services. Subject to applicable law, Bancolombia may carry out all the activities and investments authorized to banking establishments. Bancolombia is also authorized to participate in the capital stock of other companies, subject to any restrictions imposed by applicable law.

Board of Directors

As of the date of filing of this Annual Report, Bancolombia's board of directors is composed of seven directors, elected for a two-year term, with no alternate directors being provided for. For additional information regarding Bancolombia's current directors please see Item 6.A, "Directors and Senior Management Directors".

After being designated, all of the members of the Board of Directors need an authorization from the Superintendency of Finance. The SFC assesses whether the director has an adequate profile for the position according to the requirements of the Colombian Law.

The directors of Bancolombia must abstain from participating, directly or through an intermediary, on their own behalf or on behalf of a third party, in activities that may compete against the Bank or in conflict-of-interest transactions that may generate a conflict of interest situation, unless the general shareholders meeting expressly authorizes such transactions. For such purposes, the directors shall provide the shareholders meeting with all the relevant information necessary for the shareholders to reach a decision. If the director is a shareholder, his or her vote shall be excluded from the respective decision process. In any case, the general shareholders meeting could only grant its authorization if the act does not adversely affect Bancolombia's interests.

In the general annual shareholders meeting the shareholders are responsible for determining, the compensation of the members of the board of directors.

Pursuant to the by-laws of Bancolombia, the board of directors has the power to authorize the execution of any agreement, within the corporate purpose of Bancolombia, and to adopt the necessary measures in order for the Bank to accomplish its purpose.

The Corporate Governance Code of Bancolombia provides an age limit requirement of 65 years regarding retirement for senior management.

Description of Share Rights, Preferences and Restrictions

Bancolombia's bylaws provide for an authorized capital stock of COP 500 billion divided into 1,000,000,000 shares of a par value of COP 500 each, which must belong to one of the following classes: (i) common shares, (ii) privileged

shares; and (iii) shares with preferred dividend and no voting rights (“preferred shares”). Pursuant to Article 6 of the bylaws, all shares issued shall have the same nominal value.

As of December 31, 2014, Bancolombia had 509,704,584 common shares and 452,122,416 preferred shares outstanding and a shareholders’ equity of COP 16,817 billion divided into 961,827,000 shares.

Voting Rights

Common Shares

The holders of common shares are entitled to vote on the basis of one vote per share on any matter subject to approval at a general shareholders’ meeting. These general meetings may be ordinary meetings or extraordinary meetings.

Ordinary general shareholder’s meetings occur at least once a year but no later than three months after the end of the prior fiscal year, for the following purposes: (i) to consider the approval of Bancolombia’s annual report, including the financial statements for the preceding fiscal year; (ii) to review the annual report prepared by the external auditor; (iii) to determine the compensation for the members of the board of directors, the external auditor and the client representative (defensor del consumidor financiero). The client representative acts as spokesman of the clients and users before the Bank, his primary duty is to objectively solve, free of charge and within the terms established by law, the individual complaints submitted by clients; (iv) to elect directors, the client representative and the external auditor (each for a two-year term); and (v) to determine the dividend policy and the allocation of profits, if any, of the preceding fiscal year, as well as any retained earnings from previous fiscal years.

According to Decree 3923 of 2006, the election of independent directors must be in a separate ballot from the ballot to elect the rest of the directors, unless the reaching of the minimum number of independent directors required by law or by the by-laws is assured, or when there is only one list that includes the minimum number of independent directors required by law or by the by-laws.

According to Law 964 of 2005, 25% of the members of the board of directors shall be independent. A person who is an “independent director” is understood to mean a director who is NOT: (i) An employee or director of the issuer or any of its parent or subsidiary companies, including all those persons acting in said capacity during the year immediately preceding that in which they were appointed, except in the case of an independent member of the board of directors being re-elected; (ii) Shareholders, who either directly or by virtue of an agreement direct, guide or control the majority of the entity’s voting rights or who determine the majority composition of the administrative, directing or controlling bodies of this same entity; (iii) A partner or employee of any association or firm that provides advisory or consultancy services to the issuer or to companies who belong to the same economic group to which the issuer in question belongs, in the event that income obtained from such services represent for said association or firm twenty per cent (20%) or more of its total operating income; (iv) An employee or director of a foundation, association or institution that receives significant donations from the issuer. The term “significant donations” is quantified as being twenty per cent (20%) or more of the total amount of donations received by the respective institution; (v) An administrator of any entity on whose board of directors a legal representative of the issuer participates; and (vi) Any person who receives from the issuer any kind of remuneration different from fees as a member of the board of directors, of the audit committee or any other committee set up by the board of directors. Both elections are made under a proportional representation voting system. Under that system: (i) each holder of common shares is entitled at the annual general shareholders’ meeting to nominate for election of one or more directors (ii) each nomination of one or more directors constitutes a group for the purposes of the election; (iii) each group of nominees must contain a hierarchy as to the order of preference for nominees in that group to be elected; (iv) once all groups have been nominated, holders of common shares may cast one vote for each common share held in favor of a particular group of nominees. Votes may not be cast for particular nominees in a group; they may be cast only for the entire group; (v) the total number of votes casted in the election is divided by the number of directors to be elected. The resulting quotient is the quota of votes necessary to elect particular directors. For each time that the number of votes cast for a group of nominees is divisible by the quota of votes, one nominee from that group is elected, in the order of the hierarchy of that group; and (vi) when no group has enough remaining votes to satisfy the quota of votes necessary to elect a director, any remaining board seat or seats are filled by electing the highest remaining nominee from the group with the highest number of remaining votes cast until all available seats have been filled.

Extraordinary general shareholders’ meetings may take place when duly called for a specified purpose or purposes, or, without prior notice, when holders representing all outstanding shares entitled to vote on the issues presented are present at the meeting.

Quorum for both ordinary and extraordinary general shareholders’ meetings to be convened at first call requires the presence of two or more shareholders representing at least half plus one of the outstanding shares entitled to vote at the relevant meeting. If a quorum is not present, a subsequent meeting is called at which the presence of one or more holders of shares entitled to vote at the relevant meeting constitutes a quorum, regardless of the number of shares represented. General meetings (whether ordinary or extraordinary) may be called by the board of directors, the President or the external auditor of Bancolombia. In addition, two or more shareholders representing at least 20% of the outstanding shares have the right to request that a general meeting be convened. Notice of ordinary general meetings must be published in one newspaper of wide circulation at Bancolombia’s principal place of business at least 15 business days prior to an ordinary general shareholders’ meeting. Notice of extraordinary general meetings, listing the matters to be addressed at such a meeting must be published in one newspaper of wide circulation at Bancolombia’s principal place of business at least five calendar days prior to an extraordinary general meeting.

Except when Colombian law or Bancolombia's bylaws require a special majority, action may be taken at a general shareholder's meeting by the vote of two or more shareholders representing a majority of common shares present. Pursuant to Colombian law and/or Bancolombia's bylaws, special majorities are required to adopt the following corporate actions: (i) a favorable vote of at least 70% of the shares represented at a general shareholders' meeting is required to approve the issuance of stock without granting a preemptive right in respect of that stock in favor of the shareholders; (ii) a favorable vote of at least 78% of the holders of common shares present to decide not to distribute as dividend at least 50% of the annual net profits of any given fiscal year as required by Colombian law; (iii) a favorable vote of at least 80% of the holders of common shares and 80% of the holders of subscribed preferred shares to approve the payment of a stock dividend; and (iv) a favorable vote of at least 70% of the holders of common shares and of subscribed preferred shares to effect a decision to impair the conditions or rights established for such preferred shares, or a decision to convert those preferred shares into common shares.

Adoption of certain of the above-mentioned corporate actions also requires the favorable vote of a majority of the preferred shares as specified by Colombian law and Bancolombia's bylaws. If the Superintendency of Finance determines that any amendment to the bylaws fails to comply with Colombian law, it may demand that the relevant provisions be modified accordingly. Under these circumstances, Bancolombia will be obligated to comply in a timely manner.

Preferred Shares

The holders of preferred shares are not entitled to receive notice of, attend to or vote at any general shareholder's meeting of holders of common shares except as described below.

The holders of preferred shares will be entitled to vote on the basis of one vote per share at any shareholders' meeting, whenever a shareholders vote is required on the following matters: (i) In the event that changes in the Bank's bylaws may impair the conditions or rights assigned to such shares and when the conversion of such shares into common shares is to be approved. (ii) When voting the anticipated dissolution, merger or transformation of the corporation or change of its corporate purpose. (iii) When the preferred dividend has not been fully paid during two consecutive annual terms. In this event, holders of such shares shall retain their voting rights until the corresponding accrued dividends have been fully paid to them. (iv) When the general shareholders' meeting orders the payment of dividends with issued shares of the Bank. (v) If at the end of a fiscal period, the Bank's profits are not enough to pay the minimum dividend and the Superintendency of Finance, by its own decision or upon petition of holders of at least ten percent (10%) of preferred shares, determines that benefits were concealed or shareholders were misled with regard to benefits received from the Bank by the Bank's directors or officers decreasing the profits to be distributed, the Superintendency of Finance may resolve that holders of preferred shares should participate with speaking and voting rights at the general shareholders' meeting, in the terms established by law. (vi) When the registration of shares at the Colombian Stock Exchange or at the National Register of Securities and Issuers which is a registry kept by the Superintendency of Finance, is suspended or canceled. In this event, voting rights shall be maintained until the irregularities that resulted in such cancellation or suspension are resolved.

Bancolombia must cause a notice of any meeting at which holders of preferred shares are entitled to vote to be mailed to each record holder of preferred shares. Each notice must include a statement stating: (i) the date of the meeting; (ii) a description of any resolution to be proposed for adoption at the meeting on which the holders of preferred shares are entitled to vote; and (iii) instructions for the delivery of proxies.

Dividends

Common Shares

Once the balance sheet is approved by the general shareholders meeting, the appropriation for the payment of taxes of the corresponding taxable year has been made, and the transfers to the legal reserve have been performed, then they can determine the allocation of distributable profits, if any, of the preceding year. This is done through a resolution adopted by the vote of the holders of a majority of the common shares at the annual general shareholder's meeting pursuant to the recommendation of the board of directors and the President of Bancolombia.

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

Under Colombian law and Bancolombia's bylaws annual net profits are to be applied as follows: (i) first, an amount equivalent to 10% of net profits is segregated to build a legal reserve until that reserve is equal to at least 50% of Bancolombia's paid-in capital (ii) second, payment of the minimum dividend on the preferred shares; and (iii) third, allocation of the net profits is determined by the holders of a majority of the common shares entitled to vote on the recommendation of the board of directors and the President and may, subject to further reserves required by the by-laws, be distributed as dividends (iv) under Colombian law, the dividends payable to the holders of common shares cannot exceed the dividends payable to holders of the preferred shares. Bancolombia's bylaws requires to maintain a reserve fund equal to 50% of paid-in capital. All common shares that are fully paid in and outstanding at the time a dividend or other distribution is declared are entitled to share equally in that dividend or other distribution. Common shares that are only partially-paid in participate in a dividend or distribution in the same proportion than the shares have been paid in at the time of the dividend or distribution.

The general shareholders' meeting may allocate a portion of the profits to welfare, education or civic services, or to support economic organizations of the Bank's employees.

Preferred Shares

Holders of preferred shares are entitled to receive dividends based on the profits of the preceding fiscal year, after deducting losses affecting the capital and once the amount that shall be legally set apart for the legal reserve has been deducted, but before creating or accruing for any other reserve, of a minimum preferred dividend equal to one per cent (1%) yearly of the subscription price of the preferred share, provided this dividend is higher than the dividend assigned to common shares, if this is not the case, the dividend shall be increased to an amount that is equal to the per share dividend on the common shares. The dividend received by holders of common shares may not be higher than the dividend assigned to preferred shares.

Payment of the preferred dividend shall be made at the time and in the manner established in the general shareholders' meeting and with the priority indicated by Colombian law.

In the event that the holders of preferred shares have not received the minimum dividend for a period in excess of two consecutive fiscal years, they will acquire certain voting rights. See Item 10.B. "Memorandum and Articles of Association ³/₄Description of Share Rights, Preferences and Restrictions Voting Rights Preferred Shares".

General Considerations Relating to Dividends

Subject to the decision of the General Meeting of Shareholders, the dividend may be payable in stock. This decision shall be compulsory to the stockholder's provided it has been approved of the majority in the manner provided for on number 3 of Article 47 of the Bancolombia's Bylaws.

The dividend periods may be different from the periods covered by the general balance sheet. In the general shareholders' meeting, shareholders will determine such dividend periods, the effective date, the system and the place for payment of dividends.

Dividends declared on the common shares and the preferred shares will be payable to the record holders of those shares, as they are recorded on Bancolombia's stock registry, on the appropriate record dates as determined in the

general shareholders' meeting.

Any stock dividend payable by Bancolombia will be paid in common shares to the holders of common shares and in preferred shares to the holders of preferred shares. Nonetheless, Shareholders at the general shareholders' meeting may authorize the payment in common shares to all shareholders.

Any stock dividend payable in common shares requires the approval of 80% or more of the shares present at a shareholders' meeting, which will include 80% or more of the outstanding preferred shares. In the event that none of the holders of preferred shares is present at such meeting, a stock dividend may only be paid to the holders of common shares that approve such a payment.

Liquidation Rights

Bancolombia will be dissolved if certain events take place, including the following: (i) its term of existence, as stated in the by-laws, expires without being extended by the shareholders prior to its expiration date (ii) losses cause the decrease of its shareholders' equity below 50% of its outstanding capital stock, unless one or more of the corrective measures described in the Colombian Commercial Code are adopted by the shareholders within six months (iii) by decision at the general shareholders' meeting (iv) in certain other events expressly provided by law and in the by-laws.

Upon dissolution, a liquidator must be appointed by a general meeting of the shareholders to wind up its affairs. In addition, the Superintendency of Finance has the power to take over the operations and assets of a commercial bank and proceed to its liquidation under certain circumstances and in the manner prescribed in the *Estatuto Orgánico del Sistema Financiero*, Decree 663 of 1993. For more information see Item 4. “Information on The Company - B. Business Overview - B.7. Supervision and Regulation - Intervention Powers of the Superintendency of Finance - Bankruptcy Considerations”.

Preemptive Rights and Other Anti-Dilution Provisions

Pursuant to the Colombian Commerce Code, Bancolombia is allowed to have an amount of outstanding capital stock smaller than the authorized capital stock set out in its bylaws.

Under Bancolombia’s bylaws, the holders of common shares determine the amount of authorized capital stock, and the board of directors has the power to (a) order the issuance and regulate the terms of subscription of common shares up to the total amount of authorized capital stock and (b) regulate the issuance of shares with rights to a preferential dividend but without the right to vote, when expressly delegated at the general shareholders’ meeting. The issuance of preferred shares must always be first approved at the general shareholders’ meeting, which shall determine the nature and extent of any privileges, according to the bylaws and Colombian law.

At the time a Colombian company is formed, its outstanding capital stock must represent at least 50% of the authorized capital. Any increases in the authorized capital stock or decreases in the outstanding capital stock must be approved by the majority of shareholders required to approve a general amendment to the by-laws. Pursuant to Decree 663, the Superintendency of Finance may order a commercial bank to increase its outstanding capital stock under certain special circumstances.

The Bank’s bylaws and Colombian law require that, whenever the Bank issues new shares of any outstanding class, it must offer the holders of each class of shares the right to purchase a number of shares of such class sufficient to maintain their existing percentage ownership of the aggregate capital stock of the Bank. These rights are called preemptive rights. See Item 3. “Key Information D. Risk Factors Preemptive rights may not be available to holders of ADRs.”

Shareholders at a general meeting of shareholders may suspend preemptive rights with respect to a particular capital increase by a favorable vote of at least 70% of the shares represented at the meeting. Preemptive rights must be exercised within the period stated in the share placement terms of the increase, which cannot be shorter than 15 business days following the publication of the notice of the public offer of that capital increase. From the date of the notice of the share placement terms, preemptive rights may be transferred separately from the corresponding shares.

The Superintendency of Finance will authorize decreases in the outstanding capital stock decided by the holders of common shares only if: (i) Bancolombia has no liabilities (ii) Bancolombia's creditors consent in writing or (iii) the outstanding capital stock remaining after the reduction represents at least twice the amount of Bancolombia's liabilities.

Limits on Purchases and Sales of Capital Stock by Related Parties

Pursuant to the Colombian Commerce Code, the members of the Bank's board of directors and certain of our principal executive officers may not, directly or indirectly, buy or sell shares of our capital stock while they hold their positions, except when dealing with non-speculative operations and in that case they need to obtain the prior authorization of the board of directors passed with the vote of two-thirds of its members (excluding, in the case of transactions by a director, such director's vote) or when deemed relevant by the Board of Directors of the Bank with the authorization of the Shareholders Meeting the affirmative vote of the ordinary majority foreseen in the bylaws, excluding the vote of the petitioner.

No Redemption

Colombian law prohibits Bancolombia from repurchasing shares of its capital stock, including the preferred shares.

Limitations on the Rights to Hold Securities

There are no limitations in our by-laws or Colombian law on the rights of Colombian residents or foreign investors to own the shares of the Bank, or on the right to hold or exercise voting rights with respect to those shares.

Restrictions on Change of Control Mergers, Acquisitions or Corporate Restructuring of the Company

Under Colombian law and our bylaws, the general shareholders' meeting has full and exclusive authority to approve any corporate restructuring including, mergers, acquisitions or spin-offs upon authorization by the Colombian Superintendency of Finance.

Ownership Threshold Requiring Public Disclosure

We must disclose to the Superintendency of Finance at the end of each fiscal year the names of the shareholders of our company, indicating at least, the twenty shareholders with the highest number of shares.

Colombian securities regulations set forth the obligation to disclose any material event or relevant fact. Any transfer of shares equal or greater than 5% of our capital stock or any person acquiring a percentage of shares that would make him the beneficial owner of 5% or more of our capital stock, is a material event, and therefore, must be disclosed to the Superintendency of Finance.

Changes in the Capital of the Company

There are no conditions in our by-laws governing changes in our capital stock that are more stringent than those required under Colombian law.

C. MATERIAL CONTRACTS

Bancolombia has not entered into any contract, other than those entered in the ordinary course of business or that are not considered to be material, to which it or any of its subsidiaries is a party, for the two years immediately preceding publication of this Annual Report.

D. EXCHANGE CONTROLS

The Central Bank has consistently made foreign currency available to Colombian private sector entities to meet their foreign currency obligations. Nevertheless, in the event of shortages of foreign currency, foreign currency may not be available to private sector companies and foreign currency needed by the Bank to service foreign currency obligations may not be purchased in the open market without substantial additional cost.

The Foreign Exchange Statute, Law 9 of 1991, outlines the Colombian foreign exchange regime which relates to matters such as imports and exports of goods, foreign indebtedness, and guarantees in foreign currencies, among others. Additionally, Decree 2080 of 2000, as amended, sets forth an International Investments Regime which provides for rules applicable to foreign residents who invest in the Colombian securities markets and undertake other types of investments, prescribes registration with the Central Bank of certain foreign exchange transactions, and specifies procedures pursuant to which certain types of foreign investments are to be authorized and administered. Both, the Foreign Exchange Statute and the International Investments Regime are regulated by External Resolution No. 8 of 2000 and External Regulating Circular DCIN 83 of 2006, both as amended, of the board of directors of the Central Bank.

Under Colombian law and the Bank's by-laws, foreign investors receive the same treatment as Colombian citizens with respect to ownership and the voting rights of ADSs and preferred shares. For a detailed discussion of ownership restrictions see Item 4. B7 "Information on the Company. Business Overview Supervision and Regulation – Ownership Restrictions".

E. TAXATION

Colombian Taxation

For purposes of Colombian taxation, an individual is a resident of Colombia if he or she has a consecutive or non-consecutive physical presence in Colombia for more than 183 days, including days of arrival and departure from the country, during a 365 continuous days' period, provided that, if the physical presence is exercised in two different fiscal years, the individual is deemed to be a resident on the second fiscal year. An individual is also considered as resident if he or she meets any of the following conditions:

The individual is exempt from income and occasional gains' taxes in the country in which he or she resides, as a consequence of his or her service as a member of the foreign or diplomatic service of Colombia.

The individual is a Colombian citizen and during the applicable fiscal year:

(a) his or her spouse or life partner, or underage children, are residents in Colombia;

(b) 50% or more of his or her gross income has a Colombian source;

(c) 50% or more of his or her assets are managed or held or deemed to be held in Colombia;

(d) The Colombian taxation authority has requested evidence of the non-resident status, and it is not provided by the individual; or

(e) He or she has a fiscal residence in a tax haven jurisdiction.

An individual is not considered a tax resident if meets any of the above conditions but fulfills at least one of the following:

- (a) 50% or more of the individual's annual income has its source in the jurisdiction in which they are domiciled

- (b) 50% or more of its assets are located in the jurisdiction where they are domiciled.

For purposes of Colombian taxation, a legal entity is a resident of Colombia if its principal office is located in Colombia. For this purpose, the principal office means the place where material commercial and management decisions are made.

Foreign companies, foreign investment funds, and individuals that are not Colombian residents are not required by law to file an income tax return in Colombia when their income has been previously subject to withholding tax, provided that such income results from payments of dividends, capital gains or labor related income.

Pursuant to the International Investment Regime (see "Item 10. Additional Information – D. Exchange Controls"), the preferred shares deposited under the Deposit Agreement constitute a Foreign Institutional Capital Investment Fund (the "Fund"). Under Article 18-1 of the *Estatuto Tributario*, Decree 624 of 1989, as amended (the "Fiscal Statute"), profits of the Fund, excluding dividends, are subject to withholding tax. The applicable taxation rate is 14%, provided that the Depository is not located in a tax haven, in which case, the applicable taxation rate is 25%.

If the Depositary sells, or otherwise negotiates, the preemptive rights it would be entitled to in the event of a new issue of shares (see “Item 3. D. Risk Factors - Risks Relating to the Preferred Shares and the “ADSs”)), the profits obtained from such disposal will be subject to withholding tax.

Dividends paid by the Bank are not subject to withholding tax, provided that they are previously taxed earnings of Bancolombia, pursuant to Article 49 of the Fiscal Statute. If the dividends are paid out of non-taxed earnings of the Bank, they will be subject to a withholdable tax at a rate of 25%.

Likewise, dividends paid to a holder of preferred shares (as distinguished from the ADSs representing such preferred shares) who is not a resident of Colombia, and who holds the preferred shares in his own name, rather than through another institutional or individual fund, in compliance with the International Investment Regime, will be subject to income tax if such dividends do not correspond to the Bank’s profits that have been previously taxed. For these purposes, the applicable rate is 33%.

Pursuant to article 36-1 of the Fiscal Statute, profits received by a Colombian or foreign investor derived from the disposal or negotiation of stock listed in the Colombian Stock Exchange, are not subject to withholding or any other tax in Colombia, provided that the transaction does not involve the disposal of 10% or more of the company’s outstanding shares by the same beneficial owner in one taxable year.

Tax reform of 2014

On December 23, 2014, the Colombian Congress approved a tax reform by enacting Law 1739 of 2014. This bill introduced material changes to already existing taxes and created new ones with impact for Bancolombia. The main highlights of the law are:

The creation of the wealth tax, that differs from the equity tax that was previously charged in Colombia from 2011 to 2014. The tax base is the taxpayer’s wealth, determined as taxpayer’s gross assets minus debts as of 1 January 2015, as long as it is equal to or greater than COP 1 billion. The tax rate ranges between 0% to 1.5% depending on the wealth of the tax payer, as adjusted each year, and will be paid from 2015 to 2018.

The financial transaction tax was extended until 2021. The tax rate will be 0.004% from 2015 to 2018, and will be reduced to 0.003% in 2019, 0.002% in 2020 and 0.001% in 2021. The tax will be repealed in 2022.

A surcharge over the already existing CREE Tax (this tax is only applicable to corporations) at a rate between 0 - 9% over the base calculated for CREE and for years 2015 until 2018.

The tax reform permanently increases the CREE tax rate to 9% beginning in 2016 and, thus, the lower tax rate will no longer apply, which was expected to be 8% beginning in 2016.

Other Tax Considerations

As of the date of this report, there is no income tax treaty and no inheritance or gift tax treaty in effect between Colombia and the United States. Transfers of ADSs from non-residents or residents to non-residents of Colombia by gift or inheritance are not subject to Colombian income tax. Transfers of ADSs or preferred shares by gift or inheritance from residents to residents or from non-residents to residents will be subject to Colombian income tax at the income tax rate applicable for occasional gains obtained by residents of Colombia. Transfers of preferred shares by gift or inheritance from non-residents to non-residents or from residents to non-residents are also subject to income tax in Colombia at the applicable rate. There are no Colombian stamps, issue, registration, transfer or similar taxes or duties payable by holders of preferred shares or ADSs.

United States Federal Income Taxation Considerations

In General

This section describes the material United States federal income tax consequences generally applicable to ownership by a U.S. holder (as defined below) of owning preferred shares or ADSs. It applies to you only if you hold your preferred shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- ✦ a dealer in securities,

- ✦ a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,

- ✦ a tax-exempt organization,

- ✦ a life insurance company,

- ✦ a person liable for alternative minimum tax,

- ✦ a person that actually or constructively owns 10% or more of our voting stock,

- ✦ a person that holds preferred shares or ADSs as part of a straddle or a hedging or conversion transaction,

- ✦ a person that purchases or sells preferred shares or ADSs as part of a wash sale for tax purposes, or

- ✦ a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions. These laws are subject to change, possibly on a retroactive basis. There is currently no comprehensive income tax treaty between the United States and Colombia. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds the preferred shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the preferred shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the preferred shares or ADSs.

You are a U.S. holder if you are a beneficial owner of shares or ADSs and you are:

• A citizen or resident of the United States,

• A domestic corporation,

• An estate whose income is subject to United States federal income tax regardless of its source, or

- A trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the preferred shares represented by those ADRs. Exchanges of preferred shares for ADRs, and ADRs for preferred shares generally will not be subject to United States federal income tax.

Taxation of Dividends and Distributions

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a non-corporate U.S. holder, dividends paid to you that constitute qualified dividend income will be taxable to you at preferential rates applicable to long-term capital gains provided that you hold the preferred shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date (or, if the dividend is attributable to a period or periods aggregating over 366 days, provided that you hold the preferred shares or ADSs for more than 90 days during the 181-day period beginning 90 days before the ex-dividend date) and meet other holding period requirements. Dividends we pay with respect to the ADSs generally will be qualified dividend income provided that, in the year that you receive the dividend, the ADSs are readily tradable on an established securities market in the United States. The Bank believes that its ADSs, which are listed on the NYSE, are readily tradable on an established securities market in the United States; however, there can be no assurance that the Bank's ADSs will continue to be readily tradable on an established securities market. Because the preferred shares are not listed on any United States securities market, it is unclear whether dividends we pay with respect to the preferred shares will also be qualified dividend income. If dividends we pay with respect to our preferred shares are not qualified dividend income, then the U.S. dollar amount of such dividends received by a U.S. holder (including dividends received by a non-corporate U.S. holder) will be subject to taxation at ordinary income tax rates.

You must include any Colombian tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of preferred shares, or the Depository, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Colombian Peso payments made, determined at the spot Colombian Peso / U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the preferred shares or ADSs and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with U.S. federal income tax principles. Accordingly, you should expect to generally treat distributions with respect to preferred shares or ADSs as dividends.

Subject to certain limitations, the Colombian tax withheld and paid over to Colombia will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to preferential rates. To the extent a refund of the tax withheld is available to you under Colombian law; the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. The rules governing foreign tax credits are complex, and U.S. holders should consult their tax advisors regarding the creditability of foreign taxes in their particular circumstances.

For foreign tax credit purposes, dividends will be income from sources outside the United States and will, depending on your circumstances, be either “passive” or “general” income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if you sell or otherwise dispose of your preferred shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your preferred shares or ADSs. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The deductibility of capital losses is subject to limitations. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

We believe that preferred shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless you elect to be taxed annually on a mark-to-market basis with respect to your preferred shares or ADSs, the following rules would apply. With certain exceptions, your preferred shares or ADSs would be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your preferred shares or ADSs.

Any “excess distributions,” which would include any distributions during a taxable year that are greater than 125% of the average annual distributions received by you in respect of the preferred shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the preferred shares or ADSs, and any gain realized on the sale or other disposition of your preferred shares or ADSs would be allocated ratably over your holding period for the preferred shares or ADSs and would generally be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. Any gain recognized would not be treated as capital gain.

If you own preferred shares or ADSs in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your preferred shares or ADSs at the end of the taxable year over your adjusted basis in your preferred shares or ADSs. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your preferred shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the preferred shares or ADSs will be adjusted to reflect any such income or loss amounts.

In addition, notwithstanding any election you make with regard to the preferred shares or ADSs, dividends that you receive from us would not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead would be taxable at rates applicable to ordinary income.

Medicare Tax

A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the U.S. holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between USD 125,000 and USD 250,000, depending on the individual's circumstances). A holder's net investment income will generally include its dividend income and its net gains from the disposition of preferred shares or ADSs, unless such dividend income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the preferred shares or ADSs.

Information with Respect to Foreign Financial Assets

Owners of “specified foreign financial assets” with an aggregate value in excess of USD 50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons (including the preferred shares and ADSs), (ii) financial instruments and contracts held for investment that have non-United States issuers or counterparties, and (iii) interests in foreign entities. U.S. holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the preferred shares or ADSs.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

Bancolombia files reports and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any document that Bancolombia files at the SEC’s public reference room at 100 F Street NE, Washington, D.C. 20549. Some of the Bank’s SEC filings are also available to the public from the SEC’s website at <http://www.sec.gov>.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Introduction

The following section describes the market risks to which Bancolombia is exposed and the tools and methodology used to measure these risks as of December 31, 2014. Bancolombia faces market risk as a consequence of its lending, trading and investments businesses. Market risk represents the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates, equity prices and other risk factors, such as sovereign risk.

Bancolombia's risk management strategy, called the Integrated Risk Management Strategy, is based on principles set by international bodies and by Colombian regulations, and is guided by Bancolombia's corporate strategy. The main objective of the Integrated Risk Management Strategy is to identify measure, coordinate, monitor, report and propose policies for market and liquidity risks of the Bank, which in turn serve to facilitate the efficient administration of Bancolombia's assets and liabilities. Bancolombia's board of directors and senior management have formalized the policies, procedures, strategies and rules of action for market risk administration in its "Market Risk Manual". This manual defines the roles and responsibilities within each subdivision of the Bank and their interaction to ensure adequate market risk administration.

The Bank's Market Risks Management Office is responsible for: (a) identifying, measuring, monitoring, analyzing and controlling the market risk inherent in the Bank's businesses, (b) analyzing the Bank's exposure under stress scenarios and confirming compliance with Bancolombia's risk management policies, (c) analyzing the methodologies for valuation of the market value securities and financial instruments designed by the official price vendor, (d) reporting to senior management and the board of directors any violation of Bancolombia's risk management policies, (e) reporting to the senior management on a daily basis the levels of market risk associated with the trading instruments recorded in its treasury book (the "Treasury Book"), and (f) proposing policies to the board of directors and to senior management that ensure the maintenance of predetermined risk levels. The Bank has also implemented an approval process for new products across each of its subdivisions. This process is designed to ensure that every subdivision is prepared to incorporate the new product into its procedures, that every risk is considered before the product is incorporated and that approval is obtained from the board of directors before the new product can be sold.

The Bank's assets include both trading and non-trading instruments. Trading instruments are recorded in the Treasury Book and include fixed income securities and derivatives, foreign exchange (FX) and bond futures, and over-the-counter plain vanilla and exotic derivatives. Trading in derivatives includes forward contracts in foreign currency operations, plain vanilla options and asian options on U.S. dollar/COP currency, foreign exchange swaps and interest rate swaps. Non-trading instruments are recorded in the Bank's banking book (the "Banking Book"), which includes primarily loans, time deposits, checking accounts and savings accounts.

The Bank uses a VaR calculation to limit its exposure to the market risk of its Treasury Book. The board of directors is responsible for establishing the maximum VaR based on its assessment of the appropriate level of risk for Bancolombia. The Risks Committee is responsible for establishing the maximum VaR by type of investment (e.g., fixed income in public debt) and by type of risk (e.g., currency risk). These limits are supervised on a daily basis by the Market Risk Management Office.

For managing the interest rate risk from banking activities, the Bank analyzes the interest rate mismatches between its interest earning assets and its interest bearing liabilities. In addition, the foreign currency exchange rate exposures arising from the Banking Book are provided to the Treasury Division where these positions are aggregated and managed.

Trading Instruments Market Risk Measurement

The Bank currently measures the Treasury Book exposure to market risk (including over-the-counter derivatives positions) as well as the currency risk exposure of the Banking Book, which is provided to the Treasury Division, using a VaR methodology established in accordance with "Chapter XXI of the Basic Accounting Circular", issued by the Superintendency of Finance.

The VaR methodology established by “Chapter XXI of the Basic Accounting Circular” is based on the model recommended by the Amendment to the Capital Accord to Incorporate Market Risks of Basel Committee of 2005, which focuses on the Treasury Book and excludes investments classified as “held to maturity” which are not being given as collateral and any other investment that comprises the Banking Book, such as non-trading positions. In addition, the methodology aggregate all risks by the use of correlations, through an allocation system based on defined zones and bands, affected by given sensitivity factors.

The total market risk for the Bank is calculated by the arithmetical aggregation of the VaR calculated for each subsidiary. The aggregated VaR is reflected in the Bank’s Capital Adequacy (Solvency) ratio, in accordance with Decree 1771 of 2012.

For purposes of VaR calculations, a risk exposure category is any market variable that is able to influence potential changes in the portfolio value. Taking into account a given risk exposure, the VaR model assesses the maximum loss not exceeded at a specified confidence level over a given period of time. The fluctuations in the portfolio’s VaR depend on volatility, modified duration and positions changes relating to the different instruments that are subject to market risk.

The relevant risk exposure categories for which VaR is computed by Bancolombia according to the “Chapter XXI, Appendix 1 of the Basic Accounting Circular” are: (i) interest rate risks relating to local currency, foreign currency and UVR; (ii) currency risk; (iii) stock price risk; and (iv) fund risk.

Interest Rate Risk: The interest rate risk is the probability of decrease in the market value of the position due to fluctuations in market interest rates. Bancolombia calculates the interest rate risk for positions in local currency, foreign currency and UVR separately; in accordance with Chapter XXI of the Basic Accounting Circular issued by the Superintendency of Finance. The calculation of the interest rate risk begins by determining the net position in each instrument and estimating its sensitivity by multiplying its net present value (“NPV”) by its “modified duration” and by the interest rate’s estimated fluctuation (as defined by the Superintendency of Finance). The interest rate’s fluctuations are established by the Superintendency of Finance according to historical market performance, as shown in the following table:

Figure 1. Interest Risk – Sensitivity by Bands and Zones

Zone	Band	Modified Duration		Interest Rate Fluctuations (basis points)		
		Low	High	Pesos	UVR	USD
Zone 1	1	0	0.08	274	274	100
	2	0.08	0.25	268	274	100
	3	0.25	0.5	259	274	100
	4	0.5	1	233	274	100
Zone 2	5	1	1.9	222	250	90
	6	1.9	2.8	222	250	80
	7	2.8	3.6	211	220	75
	8	3.6	4.3	211	220	75
	9	4.3	5.7	172	200	70
Zone 3	10	5.7	7.3	162	170	65
	11	7.3	9.3	162	170	60
	12	9.3	10.6	162	170	60
	13	10.6	12	162	170	60
	14	12	20	162	170	60
	15	20	-	162	170	60

Once the sensitivity factor is calculated for each position, the modified duration is then used to classify each position within its corresponding band. A net sensitivity is then calculated for each band, by determining the difference between the sum of all long-positions and the sum of all short-positions. Then a net position is then calculated for each zone (which consists of a series of bands) determined by the Superintendency of Finance. The final step is to make adjustments within each band, across bands and within each zone, which results in a final number that is the interest rate risk VaR by currency. Each adjustment is performed following the guidelines established by the Superintendency of Finance.

The Bank’s exposure to interest risk primarily arises from investments in Colombian government’s treasury bonds (TES) and securities issued by the Colombian government.

The interest rate risk VaR decreased from COP 216 billion on December 31, 2013 to COP 172 billion on December 31, 2014, due to a reduction in investments in Colombian government’s treasury bonds (TES) in the trading portfolio. During the year 2014, the average interest rate risk VaR was COP 177 billion, the maximum value COP 240 billion, and the minimum value COP 109.6 billion.

Currency, Equity and Fund Risk: The VaR model uses a sensitivity factor to calculate the probability of loss due to fluctuations in the price of stocks, funds and currencies in which the Bank maintains a position. As previously indicated, the methodology used in this Annual Report to measure such risk consists of computing VaR, which is derived by multiplying the position by the maximum probable variation in the price of such positions (“Dp”). The Dp is determined by the Superintendency of Finance, as shown in the following table:

Figure 2. Sensitivity Factor for Currency Risks, Equity Risks and Fund Risks

USD	5.50 %
Euro	6.00 %
Other currencies	8.00 %
Funds	14.70 %
Stock Price	14.70 %

The currency risk VaR dropped from COP 77 billion as of December 31, 2013 to COP 56 billion as of December 31, 2014 due to the decrease in the delta and gamma sensitivity of the options portfolio. Between December 31, 2013 and December 31, 2014, the average currency risk VaR was COP 82 billion, the maximum value COP 104 billion, and the minimum value COP 56 billion.

The equity risk VaR increased from COP 23.7 billion as of December 31, 2013 to COP 24.6 billion as of December 31, 2014. Between December 31, 2013 and December 31, 2014, the average equity VaR was COP 25 billion, the maximum value COP 31 billion, and the minimum value COP 22 billion.

The fund risk which arises from investment in mutual funds rose from COP 41 billion as of December 31, 2013 to COP 44 billion as of December 31, 2014. Between December 31, 2013 and December 31, 2014, the average fund risk VaR was COP 40 billion, the maximum value COP 44 billion, and the minimum value COP 39 billion.

As mentioned above the Bank uses the regulatory VaR model to measure its exposure to market risk, in accordance with “Chapter XXI of the Basic Accounting Circular”, issued by the Superintendency of Finance. The interest rate’s fluctuations and the sensitivity factors for currency, equity and fund risk used in the model are established by the Superintendency of Finance according to historical market performance, and have not changed since March 2011.

Total Market Risk VaR

The total market risk VaR is calculated as the algebraic sum of the interest rate risk, the currency risk, the stock price risk and the fund risk.

The total market risk VaR, had a 17% reduction going from COP 358 billion in December 31, 2013 to COP 297 billion as of December 31, 2014, due mainly to the drop in the interest rate and currency risk mentioned above.

Assumptions and Limitations of VaR Models: Although VaR models represent a recognized tool for risk management, they have inherent limitations, including reliance on historical data that may not be indicative of future market conditions or trading patterns. Accordingly, VaR models should not be viewed as predictive of future results. The Bank may incur losses that could be materially in excess of the amounts indicated by the models on a particular trading day or over a period of time, and there have been instances when results have fallen outside the values generated by the Bank’s VaR models. A VaR model does not calculate the greatest possible loss. The results of these models and analysis thereof are subject to the reasonable judgment of the Bank’s risk management personnel.

The chart below provides information about Bancolombia’s consolidated VaR for trading instruments at the end of December 2013 and December 2014.

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(in millions of COP)	2014	2013
Interest Rate Risk VaR	171,602	215,916
Currency Risk VaR	56,310	77,345
Equity Risk VaR	24,622	23,733
Fund Risk VaR	44,235	40,816
Total VaR	296,769	357,810

Between December 31, 2013 and December 31, 2014, the average Total VaR was COP 325 billion, the maximum value COP 402 billion, and the minimum value COP 240 billion.

Non-Trading Instruments Market Risk Measurement

The Banking Book's relevant risk exposure is interest rate risk, which is the probability of unexpected changes in net interest income as a result of a change in market interest rates. Changes in interest rates affect Bancolombia's earnings as a result of timing differences on the repricing of the assets and liabilities. The Bank manages the interest rate risk arising from banking activities in non trading instruments by analyzing the interest rate mismatches between its interest earning assets and its interest bearing liabilities. The foreign currency exchange rate exposures arising from the Banking Book are provided to the Treasury Division where these positions are aggregated and managed.

The Bank has performed a sensitivity analysis of market risk sensitive instruments based on hypothetical changes in the interest rates. The Bank has estimated the impact that a change in interest rates would have on the net present value of each position in the Banking Book, using a modified duration model and assuming positive parallel shifts of 50 and 100 basis points.

The following tables provide information about Bancolombia's interest rate sensitivity for the balance sheet items comprising the Banking Book. These tables show the following information for each group of assets and liabilities:

FAIR VALUE: Sum of the original net present value.

+ 50 bps: Net present value change with an increase of 50 bps.

+ 100 bps: Net present value change with an increase of 100 bps.

Interest Rate Risk (COP million)

2014

	FAIR VALUE	+50bps	+100bps
Assets			
Held To Maturity Securities	3,082,572	(26,073)	(52,027)
Loans	108,871,139	(490,017)	(977,804)
Total interest rate sensitive assets	111,953,711	(516,090)	(1,029,831)
Liabilities	<i>FAIR VALUE</i>	<i>+50bps</i>	<i>+100bps</i>
Demand deposits	59,737,900	(428,926)	(855,900)
Time Deposits	37,185,093	(84,809)	(169,231)
Interbank borrowings	14,793,087	(38,612)	(77,048)
Long-term debt	15,687,850	(274,656)	(548,062)
Total interest rate sensitive liabilities	127,403,930	(827,003)	(1,650,241)
Total net change		310,913	620,410

A rise in interest rates decreases the fair value of the assets and liabilities of the Bank, therefore, affects negatively the Bank's market value on the active side and positively on the liabilities side.

Interest Rate Risk (COP million)

2013

	FAIR VALUE	+50bps	+100bps
Assets			
Held To Maturity Securities	3,974,890	(30,579)	(61,019)
Loans	90,491,411	(432,970)	(863,969)
Total interest rate sensitive assets	94,466,301	(463,549)	(924,988)
Liabilities	FAIR VALUE	+50bps	+100bps
Demand deposits	53,484,781	(380,843)	(759,954)
Time Deposits	35,057,738	(86,187)	(171,983)
Interbank borrowings	12,404,923	(23,785)	(47,462)
Long-term debt	13,578,374	(251,417)	(501,689)
Total interest rate sensitive liabilities	114,525,816	(742,232)	(1,481,088)
Total net change		278,684	556,099

A rise in interest rates decreases the fair value of the assets and liabilities of the Bank, therefore, affects negatively the Bank's market value on the active side and positively on the liabilities side.

Bancolombia's largest assets are loans, which represent 97.2% of the total NPV of the total interest rate sensitive assets in the banking book. The market value's change in assets with a 50 basis points parallel shift of the yield curve has increased from COP 464 billion in December 2013 to COP 516 billion in December 2014 due to an increase in the amount of the Bancolombia's Loans.

On the liabilities side, Bancolombia's largest interest rate sensitive liabilities are demand deposits and time deposits which represent 46.9% and 29.2%, respectively of the total NPV of the total interest rate sensitive liabilities in the banking book. The market value's change in liabilities with a 50 basis points parallel shift of the yield curve increased from COP 742 billion in December 2013 to COP 827 billion in December 2014, due primarily to the exchange rate, the increase of demand deposits and the issuance of long term debt.

As of December 2014, the net change in the NPV for the market risk sensitive instruments, entered into for other than trading purposes with positive parallel shifts of 50 and 100 basis points were COP 311 billion and COP 620 billion, respectively. The change in the interest rate sensitivity for the balance sheet items comprising the Banking Book in December 2013 as compared to December 2014, is due primarily to the exchange rate and the increase of the demand deposits during 2014.

Assumptions and Limitations of Sensitivity Analysis: Sensitivity analysis is based on the following assumptions, and should not be relied on as indicative of future results: When computing the NPV of the market risk sensitive instruments and its modified duration we have relied on two key assumptions: (a) a uniform change of interest rates of assets and liabilities and of rates for different maturities; and (b) modified duration of variable rate assets and liabilities is taken to be the time remaining until the next interest reset date.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

D. American Depositary Shares

D.3. Fees and charges applicable to holders of American Depositary Receipts

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

The following are the fees charged by the depositary:

Persons depositing or withdrawing shares must pay:

USD 5.00 per 100 ADSs (or portion of 100 ADSs)

For:

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property.

Registration or transfer fees

Expenses of the depositary

Taxes and other Governmental charges the depositary or the custodian has to pay on any ADSs or share underlying an ADSs, for example, stock transfer taxes, stamp duty or withholding taxes.
Any charges incurred by the depositary or its agents for servicing the deposited securities.

- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates.
- Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares.
- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement).

- Converting foreign currency to U.S. dollars.

- As necessary.

- As necessary.

D.4.i. FEES INCURRED IN PAST ANNUAL PERIOD

From January 1, 2014 to December 31, 2014, the depositary reimbursed Bancolombia USD 550,000 for expenses related to the administration and maintenance of the ADR facility, investor relations activities, annual listing fees and any other ADR program-related expenses incurred by Bancolombia directly associated with the Bank's preferred share ADR program. In addition, Fiduciaria Bancolombia, a subsidiary of the Bank, received USD 92,074 from The Bank of New York Mellon during the same period in connection with its role as local custodian of the depositary bank.

D.4.ii. Fees to be Paid in the Future

The Bank of New York Mellon, as depositary, has agreed to reimburse the Bank for expenses incurred that are related to establishment and maintenance expenses of the ADS program. The depositary has agreed to reimburse the Company for its continuing annual stock exchange listing fees. The depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse the Company annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the depositary collects from investors.

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There has not been any default, arrearage or delinquency neither in the payment of principal, interest, a sinking or purchase fund installment, nor in any payment relating to indebtedness or dividends by the Bank or any of its subsidiaries.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

There has not been any modification to the rights of security holders and use of proceeds.

ITEM 15. CONTROLS AND PROCEDURES

The Bank carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. As a result, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports the Bank files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and regulations of the SEC and to provide reasonable assurance that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

The Bank's internal control over financial reporting includes those policies and procedures that:

- ü Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank;

- ü Provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of the Bank's management and directors; and

- ü Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of internal control over financial reporting as of December 31, 2014 based on criteria established in the new Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework version). On this assessment, management concluded that the Bank's internal control over financial reporting was effective as of December 31, 2014. In addition, there were no changes in Bank's internal control over financial reporting occurred during the period covered by this annual report that has materially affected, or is reasonable likely to materially affect the bank's internal control over financial reporting.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, which report is included on page F-4 of this annual report.

ITEM 16. RESERVED

A. AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors of Bancolombia appointed Mr. Rafael Martinez Villegas as the “audit committee financial expert” in accordance with SEC rules and regulations.

Our audit committee financial expert, along with the other members of our audit committee, is considered to be independent according to applicable NYSE criteria.

Mr. Martinez Villegas has served as the Bank's audit committee financial expert since he was appointed in October 2012; he owns 11 ordinary shares of Bancolombia and there is no business relationship between him and the Bank, except for standard personal banking services. Further, there is no fee arrangement between Mr. Martinez Villegas and the Bank, except in connection with his capacity as a member of the Bank's board of directors and now as a member of the audit committee. Mr. Rafael Martinez Villegas is considered an independent director under Colombian law and the Bank's Corporate Governance Code, as well as under NYSE's director independence standards. For more information regarding our audit committee, see “Item 6. Directors, Senior Management and Employees—Board Practices—Audit Committee.”

B. CORPORATE GOVERNANCE AND CODE OF ETHICS

Bancolombia has adopted a Code of Ethics and a Corporate Governance Code, both of which apply to all employees, including our Chief Executive Officer (principal executive officer), Chief Financial Officer (principal financial

officer) and Controller (principal accounting officer), as well as to the directors of the Bank.

English translations of the Ethics Code and the Corporate Governance Code are posted at Bancolombia's website at www.grupobancolombia.com.co. The Spanish versions of these codes will prevail for all legal purposes.

The Bank also has a phone line called "ethics line (línea ética)" which is available for anonymous reporting of any evidence of improper conduct.

Under the NYSE's Corporate Governance Standards, Bancolombia, as a listed foreign private issuer, must disclose any significant ways in which its corporate governance practices differ from those followed by U.S. companies under NYSE listing standards. See "Item 16. G Reserved – Corporate Governance".

C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed under the caption audit fees for professional services rendered to Bancolombia for the audit of its financial statements and for services that are normally provided to Bancolombia, in connection with statutory or regulatory filings or engagements totaled COP 11,926 million and COP 9,456 million audited by PricewaterhouseCoopers for the years 2014 and 2013, respectively.

Audit Related Fees

In 2014 and 2013, Bancolombia paid no other audit related fees.

Tax Fees

At December 31, 2014 and 2013, Bancolombia and its Subsidiaries paid COP 13 million and COP 9 million, respectively for concept of tax fees for professional services related to transfer pricing advice provided by PricewaterhouseCoopers. During these years, Bancolombia paid no other fees to PricewaterhouseCoopers.

Pre-Approval Policies and Procedures

The Bank's audit committee charter includes the following pre-approval policies and procedures, which are included in the audit committee's charters:

In those events in which additional services are required to be provided by the external auditors, such services must be previously approved by the audit committee. Whenever this approval is not obtained at a meeting held by the audit committee, the approval will be obtained through the Legal Vice Presidency, who will be responsible for soliciting the consent from each of the audit committee members. The approval will be obtained with the favorable vote of the majority of its members.

Every request of approval of additional services must be adequately sustained, including complete and effective information regarding the characteristics of the service that will be provided by the external auditors.

During 2014, there were no services approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

There are no exceptions from the listing standards for audit committees.

E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

There have not been any purchases by Bancolombia or any affiliated purchaser (as defined in 17CFR240.10b-18(a)(3)) of shares or any other units of any class of equity securities issued by Bancolombia.

Colombian law prohibits the repurchase of shares issued by entities supervised by the SFC. Therefore, neither Bancolombia nor any of its Subsidiaries that are under supervision of such Superintendency may repurchase securities issued by them.

F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

On October 28, 2013, Bancolombia completed the acquisition of Banistmo and its subsidiaries. As a result, in accordance with the Bank's policy to have the same independent registered public accounting firm for the Bank and all of its subsidiaries, KPMG Central America S.A. ("KCA") was dismissed as Banistmo's independent registered public accounting firm and was replaced by PwC, who is the independent registered public accounting firm for Bancolombia and its subsidiaries. The decision to dismiss KCA was approved by Bancolombia's audit committee in March 2014.

KCA's reports on the consolidated financial statements for Banistmo and its subsidiaries as of December 31, 2013 and for the period from October 28, 2013 to December 31, 2013 did not contain any adverse opinion or a disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope, or accounting principles. Additionally, in connection with the audit of Banistmo's condensed consolidated financial statements for the period ended December 31, 2013 there were no disagreements as defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions with KCA on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KCA, would have caused them to make reference in connection with its reports to the subject matter of the disagreements.

In connection with the audit of Banistmo's condensed consolidated financial statements for the fiscal period ended December 31, 2013, there were no reportable events (as defined in Item 16F(a)(1)(v) of Form 20-F).

We have provided KCA with a copy of the disclosures made in this Item 16F, and we have requested that KCA furnish us with a letter addressed to the SEC stating whether it agrees with the above statements. A copy of this letter is included herewith as Exhibit 15.3.

G. CORPORATE GOVERNANCE

Bancolombia, as a listed company that qualifies as a foreign private issuer under the NYSE listing standards in accordance with the NYSE corporate governance rules, is permitted to follow home-country practice in some circumstances in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual that are applicable to U.S. companies. The Bank follows corporate governance practices applicable to Colombian companies and those described in the Bank's Corporate Governance Code, which in turn follows Colombian corporate governance rules. An English translation of the Corporate Governance Code is available at Bancolombia's website at www.grupobancolombia.com.co. The Spanish prevails for all legal purposes.

In Colombia, a series of laws and regulations set forth corporate governance requirements. External Circular 029 of 2014, issued by the SFC, contains the corporate governance standards to be followed by companies issuing securities that may be purchased by Colombian pension funds, and determines that entities under supervision of the SFC, when making investment decisions, must take into account the recommendations established by the "Country Code" and the corporate governance standards followed by the entities who are beneficiaries of the investment.

Additionally, Law 964 of 2005 established mandatory corporate governance requirements for all issuers whose securities are publicly traded in the Colombian market, and Decree 2555 of 2010 regulates the information disclosure requirements for the Colombian securities market SIMEV (Sistema Integral de Información del Mercado de Valores). Bancolombia's corporate governance standards comply with these legal requirements and Bancolombia has implemented additional corporate governance measures pursuant to regional recommendations including the Organization for Economic Cooperation and Development's (OECD) White Paper on Corporate Governance for Latin America and the Andean Development Corporation's (CAF) Corporate Governance Code.

The following is a summary of the significant differences between the corporate governance practices followed by Bancolombia and those applicable to domestic issuers under the NYSE listing standards:

Independence of Directors. Under NYSE corporate governance rules, a majority of a U.S. company's board of directors must be composed of independent directors. Regarding Colombian legislation, Law 964 of 2005 requires that at least 25% of the members of the Bank's board of directors are independent directors, and Decree 3923 of 2006 regulates their election. To be considered independent, the board members must not be (i) employees or directors of the Bank; (ii) shareholders of the Bank that directly or indirectly address or control the majority of the voting rights or that may determine the majority composition of the management boards; (iii) shareholders or employees of entities that render certain services to the Bank in cases in which the service provider receives 20% or more of its income from the Bank; (iv) employees or directors of a non-profit organization that receives donations from the Bank in certain amounts; (v) directors of other entities in whose board of directors one of the legal representatives of the Bank participates; and (vi) any other person that receives from the Bank any kind of economic consideration (except for the considerations received by the board members, the auditing committee or any other committee of the board of directors). Additionally, Colombian law requires that all directors exercise independent judgment under all

circumstances. Bancolombia's Corporate Governance Code includes a provision stating that directors shall exercise independent judgment and requires that Bancolombia's management recommend to its shareholders lists of director nominees of which at least 25% are independent directors. As of December 31, 2014, the Bank's board of directors included a majority of independent members. For the independence test applicable to directors of Bancolombia, see "Item 10. Additional Information. – B. Memorandum and Articles of Association – Board of Directors".

Non-Executive Director Meetings. Pursuant to the NYSE listing standards, non-executive directors of U.S. listed companies must meet on a regular basis without management present. There is no prohibition under Colombian regulations for officers to be members of the board of directors; however, it is customary for Colombian companies to maintain separation between the directors and management. Bancolombia's board of directors does not include any management members; however, the CEO attends the monthly meetings of the Bank's board of directors, and members of senior management may attend to the meetings of the board of directors and committees to guarantee an adequate flow of information between employees, management and directors; in both cases, the CEO and members of senior management are not allowed to vote. In accordance with Law 964 of 2005 and the Bank's by-laws, no executive officer can be elected as chairman of the Bank's board of directors.

Committees of the Board of Directors. Under NYSE listing standards, all U.S. companies listed on the NYSE must have an audit committee, a compensation committee, and a nominating/corporate governance committee and all members of such committees must be independent. In each case, the independence of directors must be established pursuant to highly detailed rules enacted by the NYSE and, in the case of the audit committee, the NYSE and the SEC. The Bank's board of directors has a "*Designation, Compensation and Development Committee*", a "*Corporate Governance Committee*", a "*Risk Committee*" and an "*Audit Committee*", each of which is composed exclusively of directors. For a description of Designation, Compensation and Development Committee and Audit Committee, see "Item 6. Directors, Senior Management and Employees – C. Board Practices".

Stockholders' Approval of Dividends. While NYSE corporate governance standards do not require listed companies to have stockholders approve or declare dividends, in accordance with the Colombian Code of Commerce, all dividends must be approved by Bancolombia's stockholders.

H. MINE SAFETY DISCLOSURES

Not applicable

PART III

FINANCIAL STATEMENTS

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to pages F - 1 through F – 154.

ITEM 19. EXHIBITS

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

- 1.1 English translation of the corporate by-laws (estatutos sociales) of the registrant, as amended on March 7, 2011.
- 2.1 Deposit Agreement entered into between Bancolombia and The Bank of New York, as amended and restated on January 14, 2008⁽¹⁾.
- 2.2 Instruments defining the rights of the holders of long-term debt issued by Bancolombia S.A. and its subsidiaries. The Bank agrees to furnish to the SEC upon request, copies of the instruments, including indentures, defining the rights of the holders of our long-term debt and of our subsidiaries' long-term debt.
- 7.1 Selected Ratios' Calculation.
- 8.1. List of Subsidiaries.
- 12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 27, 2015.
- 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 27, 2015.
- 13.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 27, 2015.
- 13.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 27, 2015.
- 15.1 Consent of Pricewaterhouse Coopers Ltda.
- 15.2 Consent of KPMG Central America S.A. (KCA)
- 15.3 Letter of KPMG Central America S.A. (KCA), dated April 27, 2015.

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

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

BANCOLOMBIA S.A

/s/ JAIME ALBERTO VELASQUEZ BOTERO

Name: Jaime Alberto Velasquez Botero.

Title: Vice President, Strategy and Finance

Date: April 27, 2015

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Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of Bancolombia S. A.

In our opinion, based on our audits and the report of the other auditors with respect to the consolidated financial statements for the year ended December 31, 2013, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Bancolombia S. A. and its subsidiaries (the "Bank") at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in Colombia and the special regulations of the Colombian Superintendency of Finance, collectively "Colombian GAAP". Also in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Bank's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's Report on Internal Control Over Financial Reporting" appearing under Item 15 of Form 20-F of Bancolombia S. A. dated April 27, 2015.

Our responsibility is to express opinions on these financial statements and on the Bank's internal control over financial reporting based on our integrated audits. We did not audit the consolidated financial statements of Banistmo S. A. and subsidiaries (formerly HSBC Bank (Panama) S. A.) ("Banistmo S. A."), a wholly-owned subsidiary, which statements reflect total assets of 12% of the related consolidated total as of December 31, 2013, and total revenues 1% of the related consolidated total for the year ended December 31, 2013. Those statements were audited by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Banistmo S. A., is based solely on the report of the other auditors. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and auditing standards generally accepted in Colombia.

Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits and the report of the other auditors

provide a reasonable basis for our opinions.

PricewaterhouseCoopers Ltda., Edificio Forum, Calle 7 Sur No. 42-70, Torre 2, Piso 11, Medellín, Colombia, Tel: (57-4) 325 4320, Fax: (57-4) 325 4322, www.pwc.com/co

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To The Board of Directors and Stockholders of Bancolombia S. A.

Colombian GAAP varies in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 31 to the consolidated financial statements. We have applied audit procedures on the conversion adjustments presented as of and for the year ended December 31, 2013 in Note 31 to the financial statements of Banistmo S. A., to conform those financial statements to accounting principles generally accepted in the United States of America.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers Ltda.

Medellin, Colombia

April 27, 2015

KPMG Teléfono: (507) 208-0700
Apartado Postal 816-1089 Fax: (507) 263-9852
Panamá 5, República de Panamá Internet: www.kpmg.com

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Banistmo, S.A. (formerly HSBC Bank (Panama), S.A.):

We consent to the incorporation by reference in the registration statement No. 333-188394 on Form F-3 of Bancolombia, S.A., of our report dated April 25, 2014, with respect to the condensed consolidated balance sheet of Banistmo, S.A. (formerly HSBC Bank (Panama), S.A.) and subsidiaries as of December 31, 2013, and the related condensed consolidated statements of income, changes in stockholders' equity and cash flows and for the period from October 28, 2013 to December 31, 2013, not included herein, which report appears in the December 31, 2014 annual report on Form 20-F of Bancolombia, S.A.

Our report dated April 25, 2014 contains language stating that accounting principles generally accepted in Colombia and the special regulations of the Colombian Superintendency of Finance varies in certain significant respects from U.S. generally accepted accounting principles and management of Banistmo, S. A. (formerly HSBC Bank (Panama), S.A.) decided to omit information relating to the nature and effect of such differences in the condensed consolidated financial statements. Furthermore, such consolidated financial statements were prepared on a condensed format solely for consolidation purposes.

KPMG Panama

Panama, Panama

April, 27, 2015

KPMG, una sociedad civil panameña, y firma de la red de firmas miembro independientes de KPMG, afiliadas a KPMG International Cooperative (“KPMG International”), una entidad suiza

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KPMG Teléfono: (507) 208-0700
Apartado Postal 816-1089 Fax: (507) 263-9852
Panamá 5, República de Panamá Internet: www.kpmg.com

Banistmo, S. A.:

We have audited the condensed consolidated balance sheet of Banistmo, S. A. (formerly HSBC Bank (Panama), S.A.) and subsidiaries as of December 31, 2013, and the related condensed consolidated statements of income, changes in stockholders' equity and cash flows for the period from October 28, 2013 to December 31, 2013. These condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these condensed consolidated financial statements based on our audit.

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

In our opinion, the condensed consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banistmo, S. A. (formerly HSBC Bank (Panama), S. A.) and subsidiaries as of December 31, 2013, and the results of their operations and cash flows for the period from October

28, 2103 to December 31, 2013, in conformity with accounting principles generally accepted in Colombia and the special regulations of the Colombian Superintendency of Finance (collectively, "Colombian GAAP").

Colombian GAAP varies in certain significant respects from U.S. generally accepted accounting principles. Management of Banistmo, S. A. decided to omit information relating to the nature and effect of such differences in these condensed consolidated financial statements.

Without further qualifying our opinion, we draw attention to Note 2 to the condensed consolidated financial statements. These financial statements have been prepared on a condensed format solely for consolidation purposes.

April 25, 2014

Panama, Republic of Panama

KPMG, una sociedad civil panameña, y firma de la red de firmas miembro independientes de KPMG, afiliadas a KPMG International Cooperative (“KPMG Internacional”), una entidad suiza

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BANCOLOMBIA S.A. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

(Stated in millions of Colombian pesos and thousands of U.S. Dollars)

	<i>Notes</i>	2014 ⁽¹⁾ <i>(Unaudited)</i> <i>U.S. Dollar</i>	2014	2013
Assets				
Cash and cash equivalents:				
Cash and due from banks	4	USD 4,678,375	COP 11,192,825	COP 11,427,441
Funds sold and securities purchased under agreements to resell		940,164	2,249,304	3,981,205
Total cash and cash equivalents		5,618,539	13,442,129	15,408,646
Investment securities:				
Debt securities:				
Trading		4,886,595	11,690,982	12,136,179
Available for sale		2,929,688	7,009,161	6,537,697
Held to maturity		759,693	1,817,534	1,803,144
Equity securities:		1,197,214	2,864,287	3,795,338
Trading		833,975	1,995,252	1,680,237
Available for sale		177,157	423,842	411,987
Allowance for impairment		656,818	1,571,410	1,268,250
Total investment securities, net		(3,525)	(8,433)	(10,626)
		5,717,045	13,677,801	13,805,790
Loans and financial leases:				
Commercial loans	6	26,951,005	64,479,202	52,363,519
Consumer loans		7,797,330	18,654,801	16,601,890
Small business loans		271,072	648,528	516,767
Mortgage loans		5,232,683	12,518,984	10,295,930
Financial leases		4,703,122	11,252,032	9,681,436
Allowance for loan and financial lease losses		44,955,212	107,553,547	89,459,542
Total loans and financial leases, net	7	(1,985,476)	(4,750,173)	(4,065,530)
		42,969,736	102,803,374	85,394,012
Accrued interest receivable on loans and financial leases:				
Accrued interest receivable on loans and financial leases		306,513	733,319	624,317
Allowance for accrued interest losses	7	(27,975)	(66,929)	(63,745)
Total interest accrued, net		278,538	666,390	560,572

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Customers' acceptances and derivatives	8	653,272	1,562,928	602,409
Accounts receivable, net	9	712,977	1,705,770	1,537,218
Premises and equipment, net	10	1,019,365	2,438,790	2,191,677
Premises and equipment under operating leases, net	11	1,467,654	3,511,304	2,919,181
Foreclosed assets, net	15	37,405	89,491	103,565
Prepaid expenses and deferred charges, net	12	228,466	546,596	690,932
Goodwill, net	14	1,659,668	3,970,690	3,589,203
Other assets	13	1,128,022	2,698,747	2,590,110
Reappraisal of assets	16	673,303	1,610,851	1,422,926
Total assets		USD62,163,990	COP148,724,861	COP130,816,241
Memorandum accounts	25	USD272,066,572	COP650,908,392	COP574,503,144

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BANCOLOMBIA S.A. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

(Stated in millions of Colombian pesos and thousands of U.S. Dollars)

	<i>Notes</i>	2014 ⁽¹⁾ <i>(Unaudited)</i> <i>U.S. Dollar</i>	2014	2013
Liabilities and Stockholders' Equity				
Deposits				
Non interest bearing:				
Checking accounts		USD6,681,363	COP15,984,894	COP14,680,487
Other		6,100,305	14,594,736	13,617,057
Interest bearing:		581,058	1,390,158	1,063,430
Checking accounts		33,167,672	79,352,328	71,876,092
Time deposits		1,483,085	3,548,221	3,167,876
Savings deposits		15,310,147	36,628,915	34,058,452
Total deposits		USD39,849,035	COP95,337,222	COP86,556,579
Funds purchased and securities sold under agreements to repurchase				
		884,070	2,115,104	1,124,802
Bank acceptances outstanding and derivatives	8	551,934	1,320,483	464,514
Interbank borrowings	17	4,006,304	9,584,922	7,876,792
Borrowings from development and other domestic banks	18	1,781,272	4,261,621	4,631,300
Accounts payable		1,088,488	2,604,164	2,611,114
Accrued interest payable		266,891	638,526	610,511
Other liabilities	19	598,502	1,431,891	1,250,757
Long-term debt	20	5,719,157	13,682,855	12,328,275
Accrued expenses	21	182,378	436,332	423,303
Minority interest		206,644	494,387	445,448
Total liabilities		55,134,675	131,907,507	118,323,395
Stockholders' equity				
22,24				
Subscribed and paid in capital:				
Non-voting preference shares		228,921	547,684	492,684
Common shares		99,656	238,422	183,422
Retained earnings:		129,265	309,262	309,262
Appropriated	23	6,409,761	15,335,097	11,211,827
Unappropriated		5,624,494	13,456,376	9,761,188
Reappraisal of assets	16	785,267	1,878,721	1,450,639
Gross unrealized (loss) on available for sale investments		401,312	960,123	828,006
		(10,679)	(25,550)	(39,671)

Total stockholders' equity⁽²⁾		7,029,315	16,817,354	12,492,846
Total liabilities and stockholders' equity		USD62,163,990	COP148,724,861	COP130,816,241
Memorandum accounts against	25	USD 272,066,572	COP650,908,392	COP574,503,144

The accompanying notes, numbered 1 to 31, form an integral part of these Consolidated Financial Statements.

(1)

See note 2 (c).

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

BANCOLOMBIA S.A. AND ITS SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2014, 2013 and 2012

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

	<i>Note</i>	2014⁽¹⁾ <i>(Unaudited)</i> <i>U.S. Dollar</i>	2014	2013	2012
Interest income:					
Loans		USD3,278,835	COP7,844,481	COP6,730,380	COP6,047,906
Investment securities		211,146	505,158	489,528	759,513
Funds sold and securities purchased under agreements to resell		23,182	55,461	26,900	24,178
Financial leases		393,113	940,508	883,876	830,286
Total interest income		3,906,276	9,345,608	8,130,684	7,661,883
Interest expense:					
Checking accounts		12,463	29,817	29,403	24,931
Time deposits		597,322	1,429,068	1,330,439	1,117,435
Saving deposits		204,039	488,156	642,616	659,355
Total interest expense on deposits		813,824	1,947,041	2,002,458	1,801,721
Interbank borrowings		58,364	139,633	77,995	50,209
Borrowings from development and other domestic banks		99,821	238,818	223,193	220,096
Funds purchased and securities sold under agreements to repurchase		53,302	127,523	61,104	97,620
Long-term debt		329,273	787,772	757,376	725,214
Total interest expense		1,354,584	3,240,787	3,122,126	2,894,860
Net interest income		2,551,692	6,104,821	5,008,558	4,767,023
Provisions for loans and finance leases, accrued interest losses and other receivables, net	7	(675,011)	(1,614,936)	(1,394,075)	(1,240,339)
Recovery of charged-off loans and finance leases.		100,817	241,200	231,396	167,819
Provision for foreclosed assets and other assets		(54,096)	(129,422)	(152,802)	(118,961)
Recovery of provisions for foreclosed assets and other assets		41,005	98,104	84,881	80,608
Total net provisions		(587,285)	(1,405,054)	(1,230,600)	(1,110,873)

Net interest income after provisions for loans and accrued interest losses	1,964,407	4,699,767	3,777,958	3,656,150
Fees and other service income:				
Commissions from banking services	298,209	713,453	536,983	449,452
Electronic services and ATM fees	43,214	103,387	80,773	73,887
Branch network services	62,516	149,568	135,474	126,356
Collections and payments fees	142,744	341,509	283,760	256,503
Credit card merchant fees	6,323	15,128	8,295	9,684
Credit and debit card fees	334,411	800,066	690,065	654,900
Checking fees	27,959	66,890	70,261	72,636
Trust activities	87,005	208,156	207,994	208,583
Brokerage fees	23,891	57,158	62,615	63,631
Check remittances	18,766	44,898	25,082	22,120
International wire transfers	36,182	86,563	62,921	71,932
Total fees and other service income	1,081,220	2,586,776	2,164,223	2,009,684
Fees and other service expenses	(146,243)	(349,881)	(247,867)	(202,644)
Total fees and income from services, net	934,977	2,236,895	1,916,356	1,807,040

BANCOLOMBIA S.A. AND ITS SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2014, 2013 and 2012

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

	<i>Note</i>	<i>2014⁽¹⁾</i> <i>(Unaudited)</i> <i>U.S. Dollar</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
Other operating income:					
Foreign exchange gain ,net		164,295	393,070	94,595	103,953
(Loss) Gains on forward contracts in foreign currency, net		(43,128)	(103,183)	27,320	58,902
Gains on sales of investments in equity securities		698	1,670	3,780	82,187
Gains on sales of mortgage loans		7,697	18,415	31,593	43,146
Dividend income		32,743	78,337	63,007	47,610
Income from non-financial subsidiaries		64,575	154,493	143,893	147,304
Insurance income ⁽²⁾		9,635	23,051	10,164	-
Communication, postage, rent and others		245,146	586,502	465,773	349,995
Total other operating income		481,661	1,152,355	840,125	833,097
Total operating income		3,381,045	8,089,017	6,534,439	6,296,287
Operating expenses:					
Salaries and employee benefits		688,195	1,646,478	1,467,780	1,394,027
Bonus plan payments		101,080	241,831	154,550	204,201
Indemnities benefits		20,676	49,466	33,965	39,452
Administrative and other expenses	27	1,050,973	2,514,411	2,327,908	2,040,223
Insurance on deposits, net		67,140	160,629	135,816	105,675
Donation expenses		6,149	14,711	11,525	13,512
Depreciation	10,11	224,509	537,129	428,856	319,602
Goodwill amortization		166,272	397,798	78,880	45,690
Total operating expenses		2,324,994	5,562,453	4,639,280	4,162,382
Net operating income		1,056,051	2,526,564	1,895,159	2,133,905
Non-operating income, net:					
Other income		92,034	220,188	233,721	148,751
Minority interest		54	128	(17,364)	(5,723)
Other expenses		(79,420)	(190,009)	(179,294)	(107,813)
Previous periods		(37,231)	(89,075)	-	-
Total non-operating (expenses) income, net	28	(24,563)	(58,768)	37,063	35,215

Income before income taxes		1,031,488	2,467,796	1,932,222	2,169,120
Income tax expense	21	(246,221)	(589,075)	(417,095)	(467,074)
Net income ⁽³⁾		USD 785,267	COP 1,878,721	COP 1,515,127	COP 1,702,046
Earnings per share		USD 0.83	COP 1,995	COP 1,779	COP 2,013

The accompanying notes, numbered 1 to 31, form an integral part of these Consolidated Financial Statements.

(1)

See note 2(c)

(2) As a result of the acquisition of Banistmo and its subsidiaries, the Bank has recognized income attributable to insurance operations for the year 2014 and for the two-month period ended December 31, 2013.

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

BANCOLOMBIA S.A. AND ITS SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2014, 2013, and 2012

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

	Non Voting Preferred Shares		Voting Common Shares		Retained Earnings		Surplus
	Number	Par Value	Number	Par Value	Appropriated	Unappropriated	Reappraisal of assets
Balance at December 31, 2011	278,122,419	COP 151,422	509,704,584	COP 309,262	COP 6,221,793	COP 1,663,894	COP 637,040
Net Income	-	-	-	-	-	1,702,046	-
Transfer to appropriated retained earnings	-	-	-	-	1,663,894	(1,663,894)	-
Issuance of preferred ⁽¹⁾	63,999,997	32,000	-	-	1,619,917	-	-
Reappraisal of assets and valuation of investment	-	-	-	-	-	-	55,795
Dividends declared	-	-	-	-	(603,094)	-	-
Equity tax	-	-	-	-	(99,051)	-	-
Cumulative translation adjustments	-	-	-	-	(108,320)	-	-
Balance at December 31, 2012	342,122,416	COP 183,422	509,704,584	COP 309,262	COP 8,695,139	COP 1,702,046	COP 692,835
Net Income	-	-	-	-	-	1,515,127	-
Transfer to appropriated retained earnings	-	-	-	-	1,702,046	(1,702,046)	-
Reappraisal of assets and	-	-	-	-	-	-	135,171

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valuation of investments							
Dividends Declared	-	-	-	-	(642,278)	-	-
Appropriation of profits at the end of the first semester ⁽³⁾					64,488	(64,488)	
Equity Tax	-	-	-	-	(188,342)	-	-
Cumulative translation adjustments	-	-	-	-	130,135	-	-
Balance at December 31, 2013	342,122,416	COP 183,422	509,704,584	COP 309,262	COP 9,761,188	COP 1,450,639	COP 828,006
Net Income	-	-	-	-	-	1,878,721	-
Transfer to appropriated retained earnings	-	-	-	-	1,450,639	(1,450,639)	-
Issuance of preferred shares ⁽¹⁾	110,000,000	55,000	-	-	2,570,585	-	-
Reappraisal of assets and valuation of investments	-	-	-	-	-	-	132,117
Dividends Declared	-	-	-	-	(746,378)	-	-
Equity Tax	-	-	-	-	(2,291)	-	-
Cumulative translation adjustments	-	-	-	-	422,633	-	-
Balance at December 31, 2014	452,122,416	COP 238,422	509,704,584	COP 309,262	COP 13,456,376	COP 1,878,721	COP 960,123
Balance at December 31, 2014⁽²⁾		USD 99,656		USD 129,265	USD 5,624,494	USD 785,267	USD 401,312
(Unaudited)							

The accompanying notes, numbered 1 to 31, form an integral part of these Consolidated Financial Statements.

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(1) See note 22.

(2) See note 2(c).

During 2013, the Bank's subsidiaries, Leasing Bancolombia, Bancolombia Panamá, Factoring Bancolombia and (3) Renting Colombia, prepared their semi-annual financial statements for the six-months period ended at June 30, 2014.

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BANCOLOMBIA S.A. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014, 2013 and 2012

(Stated in millions of Colombian pesos and thousands of U.S. Dollars)

	<i>2014</i> ⁽¹⁾ <i>(Unaudited)</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
Cash flows from operating activities:				
Net income	USD785,267	COP1,878,721	COP1,515,127	COP1,702,046
Minority interest	(54)	(128)	17,364	5,723
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Provisions for loans and finance leases losses and other receivables, net	668,277	1,598,825	1,379,330	1,237,841
Provisions for foreclosed assets and other assets	45,644	109,202	138,473	109,212
Depreciation and amortization	506,659	1,212,161	771,967	540,682
Recovery of provisions for foreclosed assets and other assets	(36,047)	(86,241)	(71,422)	(78,110)
Gains on sales of mortgage loans and other assets	(14,954)	(35,776)	(91,505)	(18,108)
Valuation gains on investment securities	(214,004)	(511,996)	(504,630)	(840,774)
Valuation losses (gains) on derivative contracts	47,704	114,130	(21,056)	(54,379)
Goodwill impairment	1,329	3,179	-	-
Deferred income tax	33,137	79,279	(74,186)	(26,488)
Foreclosed assets donation	1,897	4,539	4,086	6,630
Increase in loans and financial leases	(5,119,973)	(12,249,330)	(9,693,091)	(10,918,827)
(Increase) Decrease in customers' acceptances and derivatives	(202,252)	(483,881)	76,050	210,558
Increase in accounts receivable	(148,088)	(354,295)	(78,735)	(487,850)
(Increase) Decrease in other assets	(105,449)	(252,282)	(52,259)	26,796
Increase in deposits and other liabilities	1,204,480	2,881,671	11,927,922	12,676,121
(Decrease) Increase in accounts payable	(7,754)	(18,551)	229,194	392,089
Equity tax paid ⁽²⁾	(39,547)	(94,615)	(96,439)	(99,107)
Increase in estimated liabilities and allowances	6,717	16,071	14,583	71,293
Change in trading investment securities	61,448	147,012	126,017	(2,338,328)
Proceeds from sales of foreclosed assets	61,711	147,641	55,118	85,825
	59,134	141,476	(305,823)	(402,141)

Decrease (Increase) in assets to place in lease contracts				
Net cash (used in) provided by operating activities	(2,404,718)	(5,753,188)	5,266,085	1,800,704
Cash flows from investing activities:				
Purchases of available for sale debt securities	(738,138)	(1,765,966)	(1,373,163)	(1,439,904)
Proceeds from available for sale debt securities	863,971	2,067,016	1,949,181	1,768,227
Purchases of held to maturity debt securities	(1,261,470)	(3,018,017)	(2,041,799)	(1,363,948)
Proceeds from maturities of debt securities	1,796,360	4,297,720	1,977,651	1,701,759
Purchases of available for sale equity securities	(49,561)	(118,572)	(2,621,579)	(362,631)
Proceeds from sales of equity securities	1,656	3,963	6,833	12,306
Proceeds from sales of Aseguradora Suiza Salvadoreña subsidiary	-	-	-	135,788
Purchases of Premises and Equipment	(787,465)	(1,883,978)	(1,841,335)	(1,132,436)
Proceeds from sales of Premises and equipment	204,253	488,667	323,636	180,988
Software purchases under program for technological renewal	(5,680)	(13,590)	(53,489)	(94,459)
Net cash provided by (used in) investing activities	23,926	57,243	(3,674,064)	(594,310)
Cash flows from financing activities:				
Increase (Decrease) in overnight funds	424,271	1,015,052	1,055,036	(1,909,165)
(Decrease) Increase in interbank borrowings	(419,412)	(1,003,426)	4,895,848	(1,857,441)
Placement of long-term debt	649,110	1,552,970	741,605	2,869,462
Payment of long-term debt	(777,493)	(1,860,121)	(1,105,513)	(674,106)
Issuance of preferred shares	1,097,442	2,625,585	-	1,651,917
(Decrease) Increase minority interest	(4,071)	(9,740)	346,719	5,752
Dividends paid	(298,301)	(713,679)	(632,004)	(583,421)
Net cash provided by (used in) financing activities	671,546	1,606,641	5,301,691	(497,002)
(Decrease) Increase in cash and cash equivalents	(1,709,246)	(4,089,304)	6,893,712	709,392
Effects of exchange rate changes on cash and cash equivalents	887,282	2,122,787	345,837	(269,292)
Cash and cash equivalents at beginning of year	6,440,503	15,408,646	8,169,097	7,728,997
Cash and cash equivalents at end of year	USD5,618,539	COP13,442,129	COP15,408,646	COP8,169,097
Supplemental disclosure of cash flows information:				
Cash paid during the year for:				
Interest	1,342,875	3,212,774	3,035,269	2,768,618
Income taxes	33,035	79,036	354,211	215,025

Supplemental schedule of noncash
financing activities: Exchange offering of
subordinated notes ⁽³⁾:

Aggregate principal amount tendered and accepted	-	-	-	(360,736)
Aggregate principal amount issued	-	-	-	409,263

See accompanying notes to Consolidated Financial Statements.

(1) See note 2(c) and 2 (d)

(2) See note 2(n)

(3) See note 20

BANCOLOMBIA S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Stated in millions of Colombian pesos and thousands of U.S. dollars.

Except for the Representative Market Rate)

Organization and Background

Bancolombia S.A. is a private commercial bank incorporated under Colombian law on January 24, 1945 and is incorporated until 2044. On April 3, 1998, Banco Industrial Colombiano S.A. (“BIC”) merged with Banco de Colombia S.A. and the surviving entity was renamed Bancolombia S.A. The registered office and business address of Bancolombia S.A. is in Medellin, Colombia. Bancolombia S.A. and its subsidiaries are defined herein as the Bank unless the context otherwise requires.

The most recent amendments to the Bank’s by-laws are as follows: (i) by means of Public Deed No. 633 drawn up on April 3, 1998 before the Notary Public No. 14 of the Circuit of Medellín, BIC took over Banco de Colombia S.A. which was dissolved without being liquidated, and changed its corporate name to Bancolombia S.A.; (ii) by means of Public Deed No. 3974 drawn up on July 30, 2005 before the Notary Public No. 29 of the Circuit of Medellín the merger between Bancolombia, Conavi and Corfinsura (spin-off) was duly made official. By virtue of this merger, Bancolombia took over the total amount of assets, rights and obligations of Conavi and Corfinsura, which were dissolved but not liquidated; (iii) by means of Public Deed No. 1614 drawn up on March 15, 2007 before the Notary Public No. 29 of the Circuit of Medellín, the main purpose of which was to simplify the workings of its Board of Directors, eliminating alternate members and reducing the number of principal members to nine and (iv) the most recent amendment was made by means of public Deed No. 1638 drawn up on March 25, 2011 before the Notary Public No. 29 of Medellín, accordingly, by which the members of the Board of Directors of the Bank was reduced from nine to seven; the procedures of the General Meeting of Stockholders were amended to include the designation for periods of two (2) years, of the Financial Consumer Defender and his alternate, and the ability to dismiss both freely, the conflict of interest procedures of the Board of Directors were modified; and the duties of the President were amended to include the possibility to create and abolish, subject to compliance with legal requirements, branches and agencies of the Bank in Colombia, as necessary for the development of the corporate objective.

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

As of December 31, 2014, Bancolombia S.A only has an agency in Panama City, Panama, due to the wind-down process of Bancolombia’s Miami Agency that took place in 2013. This decision was mainly based on the strategy to

focus the Bank's international operations on other markets.

The consolidated financial statements include the assets, liabilities, earnings, contingent accounts and memorandum accounts of the Bank and other entities in which the Bank holds, directly or indirectly, 50% or more of the outstanding voting shares (the "Subsidiaries"). The consolidated financial statements are submitted to the Bank's Stockholders meeting, but dividends are declared and paid to stockholders based on net income from the previous year based on the unconsolidated financial statements. Pursuant to requirements established by the Superintendency of Finance (the "SFC") the Bank must prepare the consolidated financial statements without consolidating non-financial subsidiaries.

Bancolombia S.A. has the following subsidiaries making up the Bancolombia Group, which is currently registered as a corporate group:

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Entity	Location	Business	Participation Percentage Dec-2014	Participation Percentage Dec-2013
Leasing Bancolombia S.A. Compañía de Financiamiento	Colombia	Leasing	100%	100%
Fiduciaria Bancolombia S.A. Sociedad Fiduciaria	Colombia	Trust	98.81%	98.81%
Banca de Inversión Bancolombia S.A. Corporación Financiera	Colombia	Investment banking	100%	100%
Valores Bancolombia S.A. Comisionista de Bolsa	Colombia	Securities brokerage	100%	100%
Compañía de Financiamiento Tuya S.A.	Colombia	Financial services	99.99%	99.99%
Factoring Bancolombia S.A. Compañía de Financiamiento (wound up in 2014) ⁽¹⁾	Colombia	Financial services	0.00%	100%
Patrimonio Autónomo Cartera LBC	Colombia	Loan management	100%	100%
Renting Colombia S.A.	Colombia	Operating leasing	100%	100%
Transportempo S.A.S.	Colombia	Transportation	100%	100%
Valores Simesa S.A.	Colombia	Investments	68.57%	68.57%
Inversiones CFNS S.A.S.	Colombia	Investments	99.94%	99.94%
CFNS Infraestructura S.A.S. (into liquidation)	Colombia	Investments	99.94%	99.94%
BIBA Inmobiliaria S.A.S. (Formerly Inmobiliaria Bancol S.A.)	Colombia	Real estate broker	100%	100%
Vivayco S.A.S. (into liquidation)	Colombia	Portfolio Purchase	74.95%	74.95%
Uff Móvil S.A.S.	Colombia	Mobile network operator	75.05%	75.05%
FCP Fondo Colombia Inmobiliario S.A.	Colombia	Real estate broker	50.28%	50.28%
Bancolombia Panamá S.A.	Panama	Banking	100%	100%
Valores Bancolombia Panamá S.A.	Panama	Securities brokerage	100%	100%
Suvalor Panamá Fondo de Inversión S.A.	Panama	Holding	100%	100%
Suvalor Renta Variable Colombia S.A.	Panama	Collective investment fund	100%	100%
Suvalor Renta Fija Internacional Corto Plazo S.A.	Panama	Collective investment fund	100%	100%
Suvalor Renta Fija Internacional Largo Plazo S.A.	Panama	Collective investment fund	100%	100%
Sistema de Inversiones y Negocios S.A. Sinesa	Panama	Investments	100%	100%
Banagrícola S.A.	Panama	Investments	99.16%	99.16%
Banistmo S.A.	Panama	Banking	98.12%	98.12%
Banistmo Investment Corporation S.A.	Panama	Trust	98.12%	98.12%
Financiera Flash S.A.	Panama	Financial services	98.12%	98.12%
Grupo Financomer S.A.	Panama	Financial services	98.12%	98.12%
Leasing Banistmo S.A.	Panama	Leasing	98.12%	98.12%
Seguros Banistmo S.A.	Panama	Insurance company	98.12%	98.12%
Securities Banistmo S.A.	Panama	Purchase and sale of securities	98.12%	98.12%
Banistmo Capital Markets Group Inc	Panama		98.12%	98.12%

		Purchase and sale of securities		
Anavi Investment Corporation S.A.	Panama	Real estate broker	98.12%	98.12%
Williamsburg International Corp.	Panama	Real estate broker	98.12%	98.12%
Van Dyke Overseas Corp.	Panama	Real estate broker	98.12%	98.12%
Desarrollo de Oriente S.A.	Panama	Real estate broker	98.12%	98.12%
Bien Raices Armuelles S.A.	Panama	Real estate broker	98.12%	98.12%
Steens Enterprises S.A.	Panama	Portfolio holder	98.12%	98.12%
Ordway Holdings S.A.	Panama	Real estate broker	98.12%	98.12%
Inversiones Castan S.A. (wound up in 2014) ⁽²⁾	Panama	Real estate broker	0.00%	98.12%
Financomer S.A.	Panama	Financial services	98.12%	98.12%
Banistmo Asset Management Inc	Panama	Purchase and sale of securities	98.12%	98.12%

Entity	Location	Business	Participation Percentage Dec-2014	Participation Percentage Dec-2013
M.R. C Investment Corp.	Panama	Real estate broker	98.12%	98.12%
Inmobiliaria Bickford S.A.	Panama	Real estate broker	98.12%	98.12%
Banco Agrícola S.A.	El Salvador	Banking	97.35%	97.35%
Arrendadora Financiera S.A. Arfinsa	El Salvador	Leasing	97.35%	97.35%
Credibac S.A. de C.V.	El Salvador	Credit card services	97.35%	97.35%
Valores Banagricola S.A. de C.V.	El Salvador	Securities brokerage	98.89%	98.89%
Inversiones Financieras Banco Agrícola S.A. IFBA	El Salvador	Investments	98.89%	98.89%
Arrendamiento Operativo CIB S.A.C.	Peru	Operating leasing	100%	100%
Capital Investments SAFI S.A.	Peru	Trust	100%	100%
Fondo de Inversión en Arrendamiento Operativo Renting Perú	Peru	Car Rental	100%	100%
Leasing Perú S.A.	Peru	Leasing	100%	100%
FiduPerú S.A. Sociedad Fiduciaria	Peru	Trust	98.81%	98.81%
Bancolombia Puerto Rico Internacional, Inc.	Puerto Rico	Banking	100%	100%
Suleasing International USA, Inc.	USA	Leasing	100%	100%
Bancolombia Caymán S.A.	Cayman Islands	Banking	100%	100%
Banagrícola Guatemala S.A.	Guatemala	Outsourcing	99.16%	99.16%
Bagrícola Costa Rica S.A.	Costa Rica	Outsourcing	99.16%	99.16%

In April 2014, Bancolombia S.A.'s board of directors approved the assumption of all assets and liabilities of its wholly owned subsidiary, Factoring Bancolombia; which became effective on October, 2014 with prior consent of the SFC by means of Resolution 1,464 dated as of August 26, 2014. As a result of this transaction, Bancolombia S.A. received assets and contracts, and assumed liabilities for an amount of COP 855,831 and COP 768,791, respectively. Beginning on October, 2014, Bancolombia S.A. started to provide factoring services to customers which were previously provided by Factoring Bancolombia.

The following table sets forth the transfer of the Factoring Bancolombia's assets and liabilities:

Assets

	Amount of the transfer
Cash and due from banks	COP3,006
Investments	22,165
Loans and accrued interest, net	830,083
Foreclosed assets	231
Premises and equipment	346
	COP855,831
Liabilities	
Deposits	COP(681,212)
Accrued payable	(25,740)
Other liabilities	(61,839)
	COP(768,791)
Cash paid by Bancolombia S.A.	COP87,040

(2) Investment Castan was liquidated by Banistmo during 2014.

The Bank holds the majority voting rights in Prosicol E.U, which was not included in the Consolidated Financial Statements due to the fact that this company is in a development stage.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

For the preparation of the financial statements and related disclosures, the Bank follows generally accepted accounting principles in Colombia and the special regulations of the SFC, collectively “Colombian Banking GAAP”.

The financial statements of foreign subsidiaries were adjusted in order to adopt uniform accounting practices as required in connection with the accounts of investments, derivatives, allowances for loan and financial leases losses, goodwill, foreclosed assets and financial leases.

Intercompany operations and balances between Bancolombia Group companies are eliminated upon consolidation.

(b) Translation of Foreign Currency Transactions and Balances

Translation of financial statements in foreign currency

The balance sheet accounts are converted to Colombian pesos using the exchange rate applicable at the end of the year (except equity accounts which are translated at the historical exchange rate). The exchange rate at December 31, 2014 and December 31, 2013 were COP 2,392.46 and COP 1,926.83 per USD 1, respectively. For income accounts the average exchange rate was used. The average exchange rate for the periods ended December 31, 2014 and 2013 were COP 2,000.68 and COP 1,868.90 per USD 1, respectively. Exchange differences originated in balance sheet accounts are recorded as “Cumulative Translation Adjustments” in the consolidated statements of Stockholders’ Equity and the exchange differences originated in the consolidated statements of operations accounts are recorded as “Foreign exchange gain (loss)” in the Consolidated Statements of Operations.

Transactions in foreign currency

Transactions and balances in foreign currencies are converted by the Bank and its Subsidiaries to Colombian pesos using the exchange rates applicable on the corresponding dates when the transactions were originated, as established

by the SFC. The exchange rates at December 31, 2014 and December 31, 2013 are those stated above.

Exchange rate differences arising from adjustments and remeasurements of assets and liabilities denominated in foreign currencies are recorded in the Consolidated Statements of Operations.

(c) Convenience Translation to U.S. Dollars

The Bank maintains its accounting records and prepares its financial statements in Colombian pesos. The U.S. Dollar amounts presented in the financial statements and accompanying notes have been converted from peso figures solely for the convenience of the reader at the exchange rate of COP 2,392.46 per USD 1, which corresponds to the representative market rate calculated on December 31, 2014 the last business day of the year (the “Representative Market Rate”). The Representative Market Rate is computed and certified by the SFC, the Colombian banking regulator, on a daily basis and represents the weighted average of the buy/sell foreign exchange rates negotiated on the previous day by certain financial institutions authorized to deal in foreign exchange transactions (including Bancolombia S.A.). This translation may not be construed to represent that the Colombian peso amounts represents or have been, or could be converted into, U.S. Dollars at that or any other rate. For further details about the consolidated foreign currency assets and liabilities converted into U.S. Dollars, see Note 3 “Transactions in Foreign Currency”.

(d) Cash and Cash Equivalents

The consolidated statement of cash flows was prepared using the indirect method. Under Colombian Banking GAAP there are no special requirements or forms governing of the Bank's statement of cash flows. Accordingly, the Bank has prepared the consolidated statement of cash flows in accordance with the presentation in the International Financial Reporting Standard No. 7, "Statement of Cash Flows".

Cash and cash equivalents consist of cash and due from banks, funds sold and securities purchased under agreements to resell, which are highly liquid investments with a maturity that contractually do not exceed one month.

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

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the main estimations affecting the financial statements include, but are not limited to the accounting treatment for pension plan provisions, evaluation of loan portfolio risk and determination of allowances for loan and finance lease, income taxes and determination of valuation allowances for debt and equity securities. Actual losses could differ from those estimated.

(f) Real Value Unit Rate (UVR)

The operations that the Bank carries out with regard to mortgage loans linked to the "Unidad de Valor Real" (the "Real Value Unit" or "UVR") are adjusted on a daily basis according to the daily value of the UVR, as published by the Central Bank. The values assigned by the Central Bank to the UVR, in Colombian pesos, on December 31, 2014 and 2013, were COP 215.0333 and COP 207.8381, respectively. The UVR rate corresponds to the monthly variance of the Indice de Precios al Consumidor (the "IPC" or "Colombian Consumer Index Price") during the calendar month immediately prior to the month for which the UVR rate is being calculated. In light of the above, the annualized UVR rate increased at December 31, 2014 and 2013 by 3.46% and 1.78%, respectively.

(g) Money Market Operations.

Include funds sold and securities purchased under agreements to resell and funds purchased and securities sold under agreements to repurchase (“Repos”).

Interbank Funds

Interbank funds include loans made to other financial institutions and borrowings from the Central Bank or other financial institutions with maturities between 1 to 30 days.

Repos

Asset position refers to transactions accounted for as collateralized lending in which the Bank or its subsidiaries purchase securities with an agreement to resell them to the seller at a stated price plus interest at a specified date. The amount recorded in this account relates to the money lent and the investment securities purchased are recorded in memorandum accounts. Accrued interest is recorded in accounts receivable, and recognized as operating income.

Liability position refers to transactions accounted for as collateralized borrowing in which the Bank or its subsidiaries sell securities with an agreement to repurchase them from the buyer at a stated price plus interest at a specified date, not exceeding one year. The amount is recorded as a liability related to the money borrowed and the investment security sold is reclassified inside the investment securities account into “Investment Securities under Repurchase Agreement”. Accrued interest is recorded in accounts payable, and recognized as operating expense.

Repo transactions do not qualify as true purchase/sales and therefore these investments are included on the Bank's balance sheet.

(h) Investment Securities

1. Classification

Investment securities are classified as “trading”, “held to maturity”, and “available for sale”.

Trading Securities

Trading investments are those acquired mainly for the purpose of obtaining gains on short-term price fluctuations.

Held to Maturity Securities

Investments “held to maturity” are debt securities acquired for the purpose of holding until maturity. Reclassification to a different category is permitted only under specific situations. These investments are only sold for liquidity operations, in exceptional cases, as determined by the SFC.

Available for Sale Securities

These are investments which do not fall into either of the above classifications, for which the investor has the stated intention and legal, contractual, financial and operational capacity to hold the investments for at least six months from the date of classification. Investments intended to be held for less than six months are classified as trading securities. According to the External Circular 033 of 2013, the entity must re-classify, when necessary, the available for sale security into the other classifications the following day after the minimum period of time has lapsed, otherwise the security falls into the available for sale classification for another six months.

This classification also covers equity investments with low market liquidity or those with no quoted price.

2. Investment Valuation

Initial recognition of investment

All investment securities are initially recorded at their purchase cost.

Subsequent measurement

Subsequent measurement is recorded as follows:

2.1. Debt Securities Denominated in Local Currency

Trading securities are valued daily at fair value and the result is recorded daily. The Bank uses the fair value of trading and available for sale debt securities provided by the price provider authorized by the SFC. These prices are calculated and published daily.

Held to maturity investments and unquoted securities at the valuation date are valued at amortized cost based on their internal rate of return calculated on the purchase date.

2.2 Securities Denominated in Foreign Currency or in UVR

Whenever the fair value of securities denominated in a foreign currency or UVR is not provided by the price provider authorized by the SFC, the fair value of those securities must be initially determined in such currency or in UVR by using reference rates and margins provided by Bloomberg and other price providers in accordance with international market ordinary transactions.

Securities denominated in a foreign currency other than U.S. Dollars are first converted by the Bank and its Subsidiaries to U.S. Dollars using the Exchange Rate authorized by the SFC. The U.S. Dollar amount computed is then converted into Colombian pesos using the exchange rates applicable on the same dates, as established by the SFC.

Valuation adjustments are recorded in the consolidated statement of operations as net interest income, and foreign exchange gains or losses resulting from investment in foreign currency securities are recorded as net foreign exchange gain or loss.

2.3 Equity Securities

External Circular 100 of 1995 issued by the SFC provides that investments should be valued on a daily basis; however, in the case of investments in equity shares with little or low market liquidity, or that are not listed on the stock exchange, the valuation is based on the financial statements of the issuer. The Bank records the valuation of these investments on a monthly basis:

a) Listed equity securities on the Colombia Stock Exchange are valued at prices published by authorized entities. In the absence of a price calculated for the day on which these investments are valued, the last known valuation price is used. For low volume trading securities the Bank uses the method described below in section b.

b) Non-listed equity securities are initially valued at their purchase cost and the valuation is increased or decreased based on the investor's share in all subsequent changes in the issuer's equity. For this purpose, the issuer's equity is calculated based on the latest certified financial statements released by the issuer that have been issued no longer than six (6) months prior to the date of determination.

In connection with investments held by the Bank's foreign subsidiaries, the issuer's stockholders equity is adjusted to follow the accounting practices required, before applying the valuation method described in b. above, and then converted by the Bank to Colombian pesos using the Exchange Rate authorized by the SFC.

Shares held in investment funds and structured securitizations through funds or self-standing trusts are valued using the unit value calculated by the fund manager on the day immediately preceding the date on which such investments are valued.

3. Accounting recognition

3.1. Trading Investments

Changes in the fair value of the investments are recorded in the consolidated statements of operations.

3.2. Investments Held to Maturity

Investments held to maturity are accounted for at amortized cost using the effective interest rate method and interest accruals are recorded as interest income on investment securities.

3.3. Investments Available for Sale

3.3.1. Debt Securities

Interest accruals are recorded as interest income on investment securities in the consolidated statements of operations.

Changes in the fair value of the investment are recorded in stockholders' equity in the account denominated "surplus from gross unrealized gain or (loss) on available for sale investments".

3.3.2 Equity Investments

Changes in the fair value of the investments are recorded in accordance with the trading characteristics of the investment as follows:

Investments in high or medium volume trading securities, quoted on a stock exchange, are recorded in the investment account, with a charge or credit in stockholders' equity in the account "surplus from unrealized gain or (loss) on available for sale investments".

Changes in the carrying value of investments in securities with little or low liquidity on the exchange or not listed on a stock exchanges are recorded as other assets in a special account "Reappraisal of assets" with a corresponding charge or credit in the stockholders' equity in the account "surplus from reappraisal of assets". A decrease in the fair value of the investment below the purchase cost is recorded as a provision with a charge in the consolidated statements of operations. This provision could be reversed in the future if the fair value increases above the purchase cost.

Dividends received in cash or shares on investment equity securities are recorded as income on an accrual basis when the dividend is declared.

4. Impairment Test on Investment Securities

Debt securities, with the exception of debt securities issued or guaranteed by the Republic of Colombia or the Colombian Guarantee Fund for Financial Institutions (*Fondo de Garantias de Instituciones Financieras* "Fogafin"), or

issued by the Central Bank, and equity securities with low liquidity or not listed on stock exchanges, must be tested for impairment on a quarterly basis as follows:

4.1. Securities with External Ratings

Securities that are rated by a rating firm approved by the SFC may not be recorded for an amount that exceeds the following percentages of their nominal value, net of amortization for debt securities, or acquisition cost for equity securities, as of the valuation date:

<i>Long-Term Rating</i>	<i>Max. Amount %</i>	<i>Short-Term Ranking</i>	<i>Max. Amount %</i>
BB+, BB, BB-	Ninety (90)	3	Ninety (90)
B+, B, B-	Seventy (70)	4	Fifty (50)
CCC	Fifty (50)	5 and 6	Zero (0)
DD, EE	Zero (0)		

However, for debt securities classified as held to maturity, with known fair value, impairment is recorded for the difference between its carrying value and such fair value.

4.2. Securities without any External Credit Rating

These securities are rated according to the methodology defined by the Bank. The securities are rated “A” except when there is a risk associated with them, in which case they are rated from rating B to E. The maximum value, as defined by the SFC, at which these investments are recorded, according to their rating is:

<i>Rating</i>	<i>Max. Registered Amount %⁽¹⁾</i>	<i>Investment Characteristics</i>
B Acceptable risk, greater than normal	Eighty (80)	Current factors of uncertainty that could affect the capacity to continue adequately fulfilling debt service and weaknesses that could affect financial situation.
C Appreciable risk	Sixty (60)	Current medium-high probabilities of non-fulfillment of timely payments of capital and interest that may compromise the recovery of the investment.
D Significant risk	Forty (40)	Current non-fulfillment of agreed terms of the security and material deficiencies in their financial situation, the probability of recovering the investment is highly doubtful.
E Unrecoverable	Zero (0)	Recovery highly improbable.

⁽¹⁾ Based on the net nominal amount as of the valuation date for debt securities or the acquisition cost, net of allowances for equity securities.

In assessing investment securities for impairment, the Bank reviews the ratings issued by ratings agencies, where applicable, verifies its internal rating model and calculates the maximum registered amount in accordance with those credit ratings or model. If the resulting amount is less than its carrying amount, the carrying amount of the investment is reduced to the face value, net of any amortization of principal, multiplied by the applicable percentage as described above. An impairment loss is recognized immediately in the consolidated statements of operations.

5. Reclassification of Investment Securities

The Bank reclassifies investments from available for sale to trading when its main purpose is to obtain gains on short-term price fluctuations.

An investment reclassified from available for sale to trading is subject to accounting, valuation rules and regulations applicable to the trading category. As a result, unrealized gain or (loss) must be accounted for as either income or expense on the date on which the investment is reclassified.

(i) Loans and Financial Leases

The Bank grants loans to customers in the following segments: residential mortgage, consumer, commercial, financial leases and small business loans. A substantial portion of the Bank's loan portfolio is represented by commercial loans throughout Colombia.

Loans are recorded at the principal outstanding less allowance for impairment, except in cases of purchases of portfolios, which are recorded at the acquisition cost on day one, and then the principal outstanding is affected by the allowance for impairment and loans granted in foreign currency which are recorded at the exchange rate applicable on the corresponding date of origination. Accrued interest is recorded in account receivables and unearned income is recorded as a liability.

Financial leasing operations are initially recorded as loans for an amount equal to the book value of the asset to be leased to the customer and subsequently, the loan is amortized when the rental payments are due in the amount of the payment corresponding to principal.

Suspension of Interest Accruals

The SFC requires that interest income, lease payments and other items of income cease to be accrued in the consolidated statements of operations after a loan is in arrears for more than two months for mortgage and consumer loans, three months for commercial loans and one month for small business loans. However, the Bank adopted a policy, in which commercial, consumer and small business loans that are past-due more than 30 days and mortgages that are past-due more than 60 days will stop accruing interest in the consolidated statements of operations. Instead, interest and principal payments are reflected in memorandum accounts until such time that the customer proceeds to pay amounts due or overdue. After that, the interest collected is recorded as income in the consolidated statements of operations on a cash basis.

Credit Risk Evaluation

The Bank analyzes on an ongoing basis the credit risk to which its loan portfolio is exposed, considering the terms of the corresponding obligations as well as the level of risk associated with the borrower. This risk evaluation is based on information relating to historical performance data, particular characteristics of the borrower, collateral, debt service with other entities, macroeconomic factors, financial information, etc. For consumer, mortgage and small business loans the analysis is performed only on the basis of the past-due days of the loans.

For loan portfolios, the following minimum credit risk ratings are assigned according to the financial situation of the debtor and/or the past-due days of the obligation. Additionally, all significant counterparty relationships as well as loans under special supervision are reviewed in detail every six months:

<i>Rating</i>	<i>Qualitative Factors</i>
A – <i>Normal Risk</i>	Loans and financial leases in this category are appropriately serviced. The debtor's financial statements or its projected cash flows, as well as all other credit information available to the Bank, reflect adequate paying capacity.
B – <i>Acceptable Risk,</i> <i>Sub Normal</i>	Loans and financial leases in this category are acceptably serviced and guaranty protected, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.
C – <i>Appreciable Risk</i>	Loans and financial leases in this category represent insufficiencies in the debtors' paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations.
D – <i>Significant Risk</i>	Loans and financial leases in this category have deficiencies and the probability of collection is highly doubtful are deemed uncollectible.
E – <i>Unrecoverable</i>	Loans and financial leases in this category are considered default loans.

Allowance for Loan Losses

Commercial and consumer loans

Allowances for loan losses are established based on the parameters issued by the SFC.

The Bank has adopted the Reference Models for Commercial and Consumer Loans, issued by the SFC. Based on these models, the individual provision for loan portfolios is calculated as a sum of the following individual components:

(a) The individual current credit risk (pro-cyclic) corresponding to the portion of the individual provision on the loan portfolio that reflects the current credit risk for each debtor.

(b) The individual future credit risk (counter-cyclic) corresponding to the portion of the individual provision on the loan portfolio, reflecting future possible changes in the debtor's credit risk. This portion is included to reduce the impact on the consolidated statements of operations when such a situation occurs. The internal reference models must take into account and calculate this component based on all available information reflecting such changes.

Under no circumstance may the individual future credit risk component for each obligation be less than zero and neither may it exceed the expected loss calculated using matrix B included below. Also, the sum of both components may not exceed the total value of the exposure of the loan.

According to the reference models, the allowance for loan losses is calculated as follows:

Expected Loss = [Probability of default] x [Exposure at default] x [Loss-given default]

Probability of Default (PD)

Probability of Default is defined as the probability of the debtor within a specific loan portfolio or segment and rating, defaulting on its obligations within the next twelve (12) months. For the Bank and its subsidiaries this probability of default is established by the SFC.

Banco Agricola S.A. and Banistmo use an internal model to calculate the Probability of Default duly authorized by the SFC.

Probability of Default is calculated based on the following matrices authorized by the SFC according to the type of portfolio:

Commercial loans

MATRIX A ⁽²⁾

Rating	Large Corporations⁽¹⁾		Medium Corporations⁽¹⁾		Small entities⁽¹⁾		Individuals⁽¹⁾	
AA	1.53	%	1.51		% 4.18	%	5.27	%
A	2.24	%	2.40		% 5.30	%	6.39	%
BB	9.55	%	11.65		% 18.56	%	18.72	%
B	12.24	%	14.64		% 22.73	%	22.00	%
CC	19.77	%	23.09		% 32.50	%	32.21	%
Default	100.00	%	100.00		% 100.00	%	100.00	%

MATRIX B ⁽²⁾

Rating	Large Corporations⁽¹⁾		Medium Corporations⁽¹⁾		Small entities⁽¹⁾		Individuals⁽¹⁾	
AA	2.19	%	4.19	%	7.52	%	8.22	%
A	3.54	%	6.32	%	8.64	%	9.41	%
BB	14.13	%	18.49	%	20.26	%	22.36	%
B	15.22	%	21.45	%	24.15	%	25.81	%
CC	23.35	%	26.70	%	33.57	%	37.01	%
Default	100.00	%	100.00	%	100.00	%	100.00	%

⁽¹⁾ The following table presents the classification of corporations by its level of assets, to determine the range in which their loans should be evaluated:

Size of the Corporation	Level of assets in SMMLV	COP
Large Corporations	More than 15,000	More than 9,240
Medium Corporations	Between 5,000 and 15,000	Between 3,080 and 9,240
Small Corporations and/or Entities	Less than 5,000	Less than 3,080

SMMLV means the effective legal minimum monthly salary (*Salario Mnimo Mensual Legal Vigente*). In 2014, the effective SMMLV in Colombia was COP 616,000 (in pesos).

⁽²⁾ In accordance with the External Circular 035 issued by the SFC, matrix A corresponds to the individual future credit risk (counter-cyclic) obtained by the difference between the total individual allowance and the individual allowance and matrix B corresponds to the individual future credit risk (counter-cyclic) obtained by the difference between the individual allowance and the total individual allowance.

*Consumer loans***MATRIX A ⁽¹⁾**

Rating	Vehicles	Others	Credit Cards
AA	0.97 %	2.10 %	1.58 %
A	3.12 %	3.88 %	5.35 %
BB	7.48 %	12.68 %	9.53 %
B	15.76 %	14.16 %	14.17 %
CC	31.01 %	22.57 %	17.06 %
Default	100.00 %	100.00 %	100.00 %

MATRIX B ⁽¹⁾

Rating	Vehicles	Others	Credit Cards
AA	2.75 %	3.88 %	3.36 %
A	4.91 %	5.67 %	7.13 %
BB	16.53 %	21.72 %	18.57 %
B	24.80 %	23.20 %	23.21 %
CC	44.84 %	36.40 %	30.89 %
Default	100.00 %	100.00 %	100.00 %

In accordance with the External Circular 035 issued by the SFC, matrix A corresponds to the individual future credit risk (counter-cyclic) obtained by the difference between the total individual allowance and the individual allowance and matrix B corresponds to the individual future credit risk (counter-cyclic) obtained by the difference between the individual allowance and the total individual allowance.

In accordance with the instructions issued by the SFC and due to the cumulative phase that took place during the years 2014 and 2013, the Bank used matrix B in order to calculate its individual current credit risk (pro-cyclic).

Exposure at Default

Exposure at default is defined as the current loan balance of the principal plus interest receivable accounts and other receivables of the customer.

Loss Given Default (LGD)

Loss Given Default is the economic loss incurred by the Bank when events of default occur. The LGD for debtors classified in the default rating depends on the type of collateral and gradually increases the allowance according to the amount of days lapsing after being classified in such rating. For this purpose 100% of the collateral value is considered to cover the principal amount. Loss Given Default is calculated based on the following matrices authorized by the SFC according to the type of loan portfolio and adjusted by the Bank in order to recognize in an earliest term the effects of the loans' overdue:

Commercial loans

Collateral	LGD Initial	Days After Default	LGD	Days After Default	LGD	Days After Default	LGD	Days After Default
Guarantees not accepted as collateral	55%	0	100%	1 onwards				
Financial collateral: FNG and FAG ⁽¹⁾	12%	0-359	70%	360-539	100%	540 onwards		
Real estate – commercial and residential	40%	0	60%	1-89	80%	90-209	100%	210 onwards
Assets leased in leasing agreements	45%	0	90%	1-89	100%	90 onwards		
Other collaterals	50%	0	90%	1-89	100%	90 onwards		
Rights in trust guarantees and others	45%	0	60%	1-89	80%	90-209	100%	210 onwards
Without collateral or not accepted for local purposes	55%	0	100%	1 onwards				

Consumer loans

Collateral	LGD Initial	Days After Default	LGD	Days After Default	LGD	Days After Default	LGD	Days After Default
Guarantees not accepted as collateral	75%	0	90%	1-29	90%	30-89	100%	90 onwards
Financial collateral: FNG and FAG ⁽¹⁾	12%	0- 359	70%	360-539	100%	540 onwards		
Real estate – commercial and residential	40%	0	80%	1-29	90%	30-89	100%	90 onwards
Assets leased in leasing agreements- real estate	35%	0	80%	1-29	90%	30-89	100%	90 onwards
Assets leased in leasing agreements – other than real estate	45%	0	85%	1-29	90%	30-89	100%	90 onwards
Other collaterals	50%	0	85%	1-29	90%	30-89	100%	90 onwards
Rights in trust guarantees and others	45%	0	80%	1-29	90%	30-89	100%	90 onwards
Without collateral or not accepted for local purposes	75%	0	90%	1-29	90%	30-89	100%	90 onwards

(1)Collateral provided to the clients by local government entities named:

FNG = *Fondo Nacional de Garantías*. The *Fondo Nacional de Garantías*, guarantees credit operations up to 70% to financial intermediaries, supporting activities of all economic sectors (except agriculture). The fund guarantees credits destined for working capital, acquisition of fixed assets and in general, financial resources needed by medium and small corporations, only if these resources are invested in productive activities.

FAG = *Fondo Agropecuario de Garantías*. The *Fondo Agropecuario de Garantías* guarantees credit operations discounted before FINAGRO, which have been granted in order to finance projects in the agriculture sector.

For sovereign collateral, letters of credits and deposits the LGD is zero (0).

Mortgage Residential Loans and Small Business Loans

In compliance with instructions issued by the SFC for mortgage residential and small business loans, the Bank must maintain at all times individual allowances corresponding to minimum percentages, which might differ if the loan has any collateral. Up to 70% of the collateral value is considered to repay the principal. There is no reference model issued for this type of loan.

The tables set forth below show the percentages applied on collateral for maintaining individual allowances according to the instructions issued by the SFC:

For Small Business Loans

<i>Past-due</i>	<i>Percentage</i>
0 – less than 12 months	70%
More than 12 months – less than 24 months	50%
More than 24 months	0%

For Mortgage Residential Loans

<i>Past-due</i>	<i>Percentage</i>
0 – less than 18 months	70%
More than 18 months – less than 24 months	50%
More than 24 months – less than 30 months	30%
More than 30 months – less than 36 months	15%
More than 36 months	0%

Allowances are calculated based on the following matrix authorized by the SFC:

<i>Risk Rating</i>	<i>Mortgage Residential Loans</i>		<i>Accounts receivables</i>
	<i>Principal outstanding</i>		
	With Collateral	Without Collateral	
A – Normal	1%	1%	1%
B – Acceptable	2.20%	3.20%	100%
C – Appreciable	60%	60%	100%
D – Significant	100%	100%	100%
E – Unrecoverable	100%	100%	100%

Valuation of Mortgage Collateral for Allowance Purposes

The fair value of the collateral recorded by the Bank is established based on parameters issued by the SFC:

- In the case of mortgage collateral consisting of residential real estate, the fair value shall be the appraisal established when the loan was disbursed and subsequently adjusted on a quarterly basis according to the residential price index published by the National Planning Department.

- In the case of mortgage collateral consisting of premises other than residential real estate, the fair value is updated on a periodic basis when the loan is renewed or impaired.

General Allowance

According to SFC rules, the Bank records a general provision corresponding to 1% of the total value of mortgage residential and small business loans. The general provision is updated on a monthly basis according to the increases or decreases in the loan portfolio. The general provision may also be increased if approved by the general stockholders' at the annual meeting.

Other provisions

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The Bank and its subsidiaries Leasing Bancolombia S.A. and Tuya S.A. also record other allowances for specific clients in addition to minimum allowances required by the SFC, bearing in mind specific risk factors affecting clients, including macroeconomic, industry and any other factors that could indicate early impairment.

At December 31, 2014, and 2013 additional allowances were as follows:

Type of Loan	2014	2013
Commercial	COP 478,782	COP 385,249
Consumer	10,204	138,200
Mortgage	13	5
Small Business Loans	873	1,285
Total	COP 489,872	COP 524,739

Charge-Offs

In June and December of each year, the Bank writes off in full, debtors classified as “unrecoverable”, based on the following criteria: (i) allowance of 100% of all amounts past-due (principal, interest and other items); (ii) One hundred and eighty (180) days past-due for consumer and small business loans; (iii) Three hundred and sixty (360) days past-due for commercial loans and (iv) one thousand six hundred and twenty (1,620) days past-due for mortgage loans.

The recovery of charged-off loans is accounted for as income in the consolidated statements of operations.

Troubled Restructured Loans

Loans are troubled restructured loans when the Bank, because of economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider. Such restructurings can employ different mechanisms in accordance with the regulatory framework to grant that concession to the debtor by modifying the original agreed terms in order to help the debtor to improve its financial conditions before any current or potential impairment of its debt service occurs. Among those mechanisms the Bank can provide an extension of the maturity date.

Troubled restructured loans are accounted for according to the terms of the restructuring agreement, including income accruals. When the agreement includes the capitalization of non-accrued interest previously recorded in memorandum accounts, the interest is recorded by increasing the loan balance with a credit to deferred income in other liabilities and this deferred income is amortized with a credit to income on a cash receipts basis.

In order to calculate the corresponding provisions, the ratings for these loans may be upgraded only when the Bank collects the principal of the loan on a regular basis.

For this purpose, the Bank has defined the following policy:

- Restructured loans rated either B or C, remain in this rating for two months following the date of the restructuring agreement; thereafter, the rating may be improved by one grade when the Bank collects four timely payments.

- Restructured loans rated D or E remain in this rating for four months following the date of the restructuring agreement; thereafter, the rating may be improved to a C rating when the Bank collects two timely payments, to B when the Bank collects four additional consecutive timely payments, and then to A when the Bank collects an additional four timely payments.

Sale of loan portfolios under securitizations process

Loans that are securitized are derecognized as non-recourse credit providing the following conditions are satisfied:

- Loans are transferred exclusively to a special purpose entity (“SPE”).
- The disposal or transfer of securitized assets shall not be subject to any type of restriction by the transferor.
- The risks and returns of the loans must also have been totally transferred to the SPE.

Under no circumstance shall the transferor conserve discretionary rights to dispose of, control, limit, encumber, substitute, reacquire, or use the assets thus transferred or disposed of.

Portfolio loans sold in securitizations that meet the foregoing criteria are derecognized at their net book value. Any difference arising between the proceeds of the sale and the book value of the loans is recorded as an income or expense, as applicable, in the consolidated statements of operations.

The Bank may also retain beneficial interests in the form of the securities issued by the SPE, and through servicing fees on the securitized receivable. The securitized loans may be serviced by the Bank or by third parties. Currently, when acting as the servicer, the Bank is responsible for granting concessions to the debtors of the securitized loans and to perform the best effort to sell the foreclosed assets in favor of the structuring.

According to the SFC regulations any residual beneficial interest retained by the Bank in a securitization process must be recorded as a held to maturity investment in an amount equal to the value established for the beneficial interest in the balance sheet of the SPE created for such purpose. Before 2008 residual beneficial interests were not recognized. As a result, the Bank recognized residual beneficial interests in 2014, 2013 and 2012 in investment securities increasing income amounting to COP 2,492, COP 3,744 and COP 43,233, respectively.

(j) Derivatives

Derivatives are defined as agreements between two parties to purchase or sell financial instruments at a future date or agreements where the underlying is an index listed on a stock exchange, currency or commodity. The Bank enters into derivative transactions only to facilitate customer business or for hedging purposes, in forwards, options or swaps where the underlying are exchange rates, interest rates and securities. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Financial futures and forward settlement contracts are agreements to buy or sell a quantity of a financial instrument (including another derivative financial instrument), index, currency or commodity at a predetermined rate or price during a period or at a date in the future. Futures and option contracts are standardized agreements for future delivery, traded on exchanges that typically act as a platform.

The Bank recognizes all of its derivatives instruments on its balance sheet as either assets or liabilities depending on the rights or obligations under the derivatives contracts. Derivatives not designated as hedging instruments are measured at fair value, and all changes in the fair value are recognized in the consolidated statements of operations. Before the External Circular 052 of 2012 took effect in 2013, the changes in the fair value of swap contracts on day one were deferred and recognized in the consolidated statements of operations on a straight line basis during the life of the contract. The Bank has recognized COP 11,980 in earnings as result of the adoption of the External Circular 052 of 2012. Changes in fair value of derivatives designated as fair value hedges are recorded in earnings, and changes in fair value of derivatives designated as cash flow hedges are recorded in equity as “unrealized gains and losses”.

For derivatives designated as hedging instruments, the Bank duly documents at inception the relationship between hedging instruments and hedged items, the risk management objectives and hedging strategies, which are previously approved by the Risk Management Committee as the body designated by the Board of Directors.

Fair value hedges are used by the Bank, through its Panamanian subsidiary, Banistmo, to protect against changes in the fair value of investment securities that are attributable to interest rate variability. Cash flow hedges are used mainly to reduce the variability in cash flows of deposits issued by Banistmo caused by interest rate changes.

The Bank assesses at the inception of the hedge and on a monthly basis during its life, whether the hedge used in the transaction is expected to be highly effective (prospective effectiveness), and considers the actual effectiveness of the hedge on an ongoing basis (retrospective effectiveness). For a hedging relationship to be considered effective, the actual results of the hedge need to be within a range of 80%-100%. The Bank discontinues the hedge accounting when it is considered that the derivative is not expected to be or has ceased of being highly effective as a hedge. When hedge accounting for a fair value hedge is terminated the previous adjustments related to the changes in fair value of the hedged item are subsequently recorded in earnings in the same manner as other components of the carrying amount of that asset. When a derivative instrument in a cash flow hedge is terminated, related adjustments recorded in 'unrealized gains and losses' are reclassified into earnings in the same periods in which the hedged forecasted transaction affects earnings.

Derivative fair value measurements are established as follows:

Forward Contracts

The fair value of forward contracts is determined using the methodology established by the price provider and approved by the SFC, using the quoted forward price points published by authorized pricing providers that represent a major portion of market liquidity.

Future Contracts

The fair value of future contracts is determined using the quoted price at the valuation date that is provided by the price provider authorized by the SFC.

Swap Contracts

The fair value of swap contracts is determined using the discounted cash flow method approved by the SFC at the interest rates applicable for each flow. The valuation process depends on significant inputs that are provided by the authorized price provider. Counterparty credit risk on the swap is not included in the valuation process.

Option Contracts

When available, the fair value at the valuation date is determined by the quoted price. For unquoted operations, the fair value of option contracts is determined using the Garmen-Kollhagen method, which is an extension of the Black-Scholes/Merton method.

Spot Transactions

These are transactions that are recorded with a term for their respective clearance equal to the date on which the transaction is recorded or up to three business days beginning on the day after the transaction was completed.

Basis of presentation

For purposes of presentation of the Consolidated Balance Sheet, the Bank does not offset derivative assets and liabilities and cash collateral held, for cases where the fair value of the right is greater than the fair value of the obligation, the derivative is recognized as an asset, otherwise is recognized as a liability.

k) Foreclosed Assets

The Bank records foreclosed assets using the following criteria:

Foreclosed real estate is recognized at the amount specified in the foreclosure appraisal or at the price that both parties have agreed on the basis of a valuation by reference to market evidence of transaction prices for similar properties.

If the amount recognized in the contract for the foreclosed asset is more than the balance of the loan outstanding, that difference is recorded as accounts payable to the debtor. If such amount is insufficient to cover the outstanding loan, the difference must be immediately recorded on the consolidated statements of operations as a non-operating expense.

Other assets received in payment corresponding to investment securities are valued by applying the criteria indicated in the investment securities accounting policy, unless the provision of the foreclosed asset is equal to 100% of its book value.

Profits on credit sales of foreclosed assets are deferred over the life of the credit and are recognized on a cash basis; losses are recognized in the consolidated statements of operations.

When subsequent to the initial measurement the fair value of the asset is lower than its book value, a provision for the difference is recorded in the consolidated statements of operations.

Reappraisals of foreclosed assets are recorded as memorandum accounts.

Legal Term for the Sale of Foreclosed Assets

Financial institutions must sell the foreclosed assets by a date no later than two years after the foreclosure date.

Impairment of Foreclosed Assets

The SFC requires that a bank records a provision equal to a percentage of the carrying value of the asset before the legal term for the sale expires, considering a percentage equal to 60% for real estate and 70% for other foreclosed assets. This provision must be recorded in straight-line monthly installments within the two years following the bank's receipt of the asset. Once this legal term for sale has expired, the provision must be increased to 80% and 100%, respectively. If an extension of the permitted term to sell the asset is granted by the SFC, the increase in the provision may be recorded on a monthly basis within the new term.

Also, it is the Bank's policy, in the case of real estate foreclosed assets that remain for more than five years in the Bank's possession to increase the provision up to 100% of its book value and for other foreclosed asset the Bank record a provision equal to 100% of its book value at the time of receipt. Foreclosed assets under commitment agreements to sell are excluded from this practice.

(l) Loan Fees

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

(m) Premises and Equipment

Premises and equipment are recorded at the cost of acquisition, including direct and indirect costs and expenses incurred in their construction plus the inflation adjustment recorded until 2001 for premises and equipment purchased before that year.

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

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

The net book value of land and buildings (cost less accumulated depreciation) is compared against fair values taken from independent professional appraisals. If the fair value is higher, the difference is recorded as a “Reappraisal of Assets” with a credit to the “Surplus for Reappraisal of Assets” in Stockholders’ Equity; otherwise, the difference is charged to expenses as provision for other assets of the period. This provision may be reversed in future periods if the fair value of the asset increases. Appraisals must be updated at least every three years.

(n) Prepaid Expenses, Deferred Charges

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

Prepaid Expenses

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

Deferred Charges

- The discount on the issuance of long-term debt is amortized over the term of the debt on a straight-line basis.
- Contributions and memberships are amortized over the period prepaid.
- Deferred tax asset is recorded as deferred charges, as explained below in (s) *Deferred income tax*.

During the year 2013, the scope of the major project to renew the Bank’s technological infrastructure, named Innova, was redefined and the project is only focused on the development of technological support for the credit / debit cards operations and the ‘core’ business transactions. The viability of the project and the capacity of the internally developed software to generate future economic benefits that will flow to the Bank are assessed periodically, and when those criteria are not met, related costs are recorded as expense as they are incurred. Accounting guidelines in the case of the redefined Innova project are as follows:

Software licenses and fees and other payments that directly relate to software development are deferred and then (a) amortized over a period of 36 months, from the date when the software begins to be used in the Bank's operations. The fee invoices that amounted to less than COP 50 have been recognized as an expense on an accrual basis.

(b) Payroll for employees directly associated with the project is recorded as an expense on an accrual basis.

(c) The fees not directly related to software development and other indirect costs (gap analysis, training, replacing internal resources, etc) are recorded as an expense on an accrual basis.

Software licenses and fees and other payments greater than COP 120 that directly relate to software development, other than the Innova project, are deferred and then amortized over a period of 36 months, from the date when the software begins to be used in the Bank's operations. Payments less than COP 120 are recorded as an expense in operations as expensed as incurred.

During 2010, new regulations required Colombian companies to calculate Equity tax only once for the next four years as of January 1, 2011 and payable in 8 semi-annual installments over four years without interest. The amount computed, was recorded as a deferred asset to be amortized against the balance of local special account named "Revaluation of equity" in the stockholders' equity (which was originated when in the past companies recorded inflation adjustments) on a straight line basis over the four year period beginning with 2011, if the balance in this account is insufficient to cover the amount of the equity tax, the difference is recorded as expense in the consolidated statements of operations. The equity tax calculated by the Bank and its subsidiaries amounts to approximately COP 469,002. As of December 31, 2013, the parent company has amortized the remaining of the deferred amount against equity.

(o) Premises and Equipment Held under Operating Leases

The subsidiaries Leasing Bancolombia S.A., Renting Colombia S.A., Arrendamiento Operativo CIB S.A.C. (formerly Renting Perú), Fondo de Inversión en Arrendamiento Operativo Renting Perú and Arfinsa lease assets under operating leasing arrangements. Assets under operating leases are recorded at cost. Equipment other than vehicles is fully depreciated over the shorter of the lease term or its useful life.

Depreciation on vehicles under operating leasing arrangements is as follows:

1. Residual values of vehicles are established on a technical basis.
2. For vehicles purchased before December 31, 2009, their cost less their residual value is depreciated over a useful life of five years.
3. For vehicles purchased since January 1, 2010, their cost less their residual value is depreciated over the lease term.
4. When the lease agreement is renewed or the vehicle is received and placed under a new lease agreement, the new residual value is established and this book value less the new residual value is depreciated over the new lease term.

(p) Goodwill

The value of the goodwill acquired is determined once the Bank effectively obtains control over the acquired entity in an amount equal to the difference between the price paid and the net book value of the assets and liabilities acquired. Goodwill must be allocated to each of the business segments acquired and must be fully identified in the accounting records. In any case, there is no recognition of goodwill when the transaction is performed between parties under common control.

For purposes of the goodwill recorded in the acquisitions of Banagrícola and its subsidiaries and UFF Móvil, the goodwill is being amortized on a straight-line basis over 20 years since the Bank considers this method properly reflects the pattern in which the future economic benefits are expected to be received.

In the case of goodwill acquired by the Bank and its subsidiaries before 2008 the amortization term was ten years and three years for goodwill recorded in the subsidiaries Banagrícola and Inversiones Financieras Banagrícola S.A., respectively. Goodwill from the acquisition of Renting Colombia is being amortized by Leasing Bancolombia over a period of five years on a straight-line basis.

For goodwill denominated in foreign currency, the balance amount is converted to Colombian pesos using the exchange rate established by the SFC as indicated above in *(b) Translation of Foreign Currency Transactions and Balances*.

Goodwill allocated to a business segment is tested for impairment annually, comparing the fair value with the book value of the business segments. If the book value assigned is greater than its fair value, an impairment charge is recorded in earnings for the excess.

In October, 2013, Bancolombia S.A., acquired 100% of the common shares and voting rights and 90.1% of preferred shares of HSBC Bank (Panama) S.A., which changed its name to Banistmo.

As result of the Banistmo's acquisition, the Bank recorded goodwill amounting to USD 1,567,067, which is the difference between the price paid and the net book value of the assets and liabilities acquired under Colombian GAAP and it is being amortized on a straight-line basis over 10 years.

(q) Reappraisals of assets

This account records the excess over net book value of real estate properties and available for sale investments with a low trading volume in the market or for non-listed investments, with a credit to the "Reappraisal of Assets" account in the Stockholders' Equity.

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

(r) Trusteeships

Net assets put in trust under trust agreements are recorded in other assets at their book value. This account is adjusted periodically by the equity share of the Bank in the trust.

(s) Deferred Income

This account records deferred income and income received in advance in the course of business. Amounts recorded in this account are amortized over the period to which they relate or in which the services are rendered or over the period in which the money is collected in the case of profits obtained from the sale of foreclosed assets on credit agreements.

The capitalization of yields on restructured loans that have been recorded in memorandum accounts or as charged off loan balances are included in this category as indicated in this note under loans and financial leases.

(t) Deferred Tax

Deferred tax assets or liabilities must be recorded for all temporary differences raised in the current period based on consolidated statement of operations when comparing the amount of recognized income and expenses for accounting and tax purposes concerning to investment securities, derivatives contracts, dividends declared pending to be paid, accrued expenses, among others, which involves a deferring for the income tax and the *Impuesto sobre la renta para la equidad* ('CREE'). Deferred tax asset or liability is derecognized once the timing differences are reverted for the temporary differences.

(u) Impuesto sobre la renta para la equidad ('CREE')

Law 1607 of 2012 introduced the *Impuesto sobre la Renta para la Equidad* ("CREE"), which must be calculated annually for companies and individuals subject to income tax under the Colombian tax regulatory regime.

The taxable income for CREE is calculated based on ordinary taxable income, limiting some deductions such as donations, contributions made to voluntary funds, performing premises and equipment purchased during the year, compensation of tax loss carryforwards, among others.

Law 1739 of 2014 established the surcharges to the taxable income for CREE for the entity's tax basis above COP 800, considering: applicable statutory tax rate of 5% for the year 2015, 6% for the year 2016, 8% for the year 2017 and 9% for the year 2018; which implied recognizing tax rate adjustments related to the reversal of temporary differences.

(v) Legal Retirement Pensions

Under Colombian law, employee pension obligations are managed as a defined contribution. Retirement pension liabilities are calculated on an actuarial basis, considering economic and demographic assumptions such as salary increases, cost of living adjustment, mortality and disability. The Bank's pension liability as of December 31, 2014 and 2013 was fully amortized.

(w) Estimated Labor Liabilities

Other legal estimated labor liabilities are recorded based on applicable legislation and current labor agreements.

In addition to legal benefits, the Bank grants to its employees other benefits such as retirement and seniority bonuses. Both liabilities are calculated on an actuarial basis, accrued and recognized in the consolidated statements of operations.

(x) Long-Term Debt

Long-term debt consists of bonds issued by the Bank, which are recognized at amortized cost.

The discount on issuance of bonds is recognized as deferred charge and amortized using the straight-line method over the maturity period.

(y) Other Accrued Expenses

The Bank records provisions to cover estimated liabilities, such as fines, sanctions, litigation and lawsuits, provided that the Bank has acquired a right, and therefore has an obligation; and the liability is probable, justifiable, quantifiable and verifiable.

This account also records estimates for taxes and labor expenses calculated as indicated above.

(z) Additional paid-in capital

Additional paid-in capital consists of the excess paid by an investor over the par-value price of a stock issued. For the public offerings of preferred shares offered by the Bank exclusively outside of Colombia in the form of American Depositary Shares (“ADSs”), the discount contained in an underwriting agreement and other cost of issuance are recognized as a deduction from the additional paid-in capital.

(aa) Other Income, Costs and Expenses

Other income, cost and expenses are recognized on an accrual basis.

Loan origination costs are recorded in the consolidated statements of operations when incurred. The Bank has not implemented a policy of collecting commissions on the origination of the loans, and the commissions that it collects from credit cards are recorded in the income accounts using the accrual method.

Profits in leaseback transactions of real estate with a real estate investment fund, after duly evaluating the legal and economic aspects of the transaction are recorded in the consolidated statement of operations.

(ab) Memorandum Accounts

Contingent accounts record operations in which the Bank acquires rights or assumes obligations conditioned by possible or remote future events. They also include financial income accrued on nonaccrual assets in the loan portfolio and financial leasing operations.

Contingencies including fines, sanctions, litigation and lawsuits are evaluated by the Bank's Legal Department and its legal advisors. Estimating loss contingencies necessarily implies exercising judgment. In estimating loss contingencies regarding pending legal proceedings against the Bank, legal counsel evaluates, among other aspects, the merits of the case, the case law of the courts in question and the current status of the individual proceedings.

If this evaluation reveals the probability that a loss has occurred and the amount of the liability can be estimated, then this is duly recorded in the financial statements. If the evaluation reveals that a potential loss is not probable, or the outcome either is uncertain or probable but the amount of the loss cannot be estimated, then the nature of the corresponding contingency is disclosed in a note to the financial statements along with the probable estimated range of the loss. Loss contingencies that are estimated as being remote are not disclosed, except when disclosure of a remote contingency is required by a regulator.

Memorandum accounts also record third party operations whose nature does not affect the financial situation of the Bank. Contingent and memorandum accounts are included in the caption "memorandum accounts" of the balance sheet. This also includes tax memorandum accounts that are used in preparing income tax returns, as well as all those internal control or management information accounts and reciprocal transactions carried out between the Bank and its Subsidiaries.

(ac) Net Income per Share

To determine net income per share, the Bank uses the weighted average of Preferred and Common Shares outstanding during the accounting period. During the years ended on December 31, 2014 2013 and 2012, the Bank's weighted average of Preferred and Common Shares outstanding were 941,936,589; 851,827,000 and 845,531,918, respectively.

(ad) Insurance Liabilities

Actuarial liabilities

Actuarial liability for long term individual life insurance is calculated based on mortality tables, interest rates and actuarial formulas for each type of insurance.

The interest rate used in calculating the liability is the rate used to calculate the premium of the life insurance contract according to each type of insurance.

Premiums

Premiums on short-duration insurance contracts are deferred and amortized against income on a straight-line basis during the insurance contract life.

Liability for incurred but not reported claims

The liability for incurred but not reported claims (“IBNR”) is calculated as the average value of payments made by claims over the last three years but not reported in the year they occurred.

Salvage and Recovery

This item records all those revenues received from salvaging goods subject to claims for which the insurance company has paid to its clients the corresponding indemnities.

(ae) Business Combinations

Business combinations are recorded as follows: (i) the assets acquired and the liabilities assumed are recorded at book value, (ii) the consolidated statements of operations of the acquiring company for the period in which a business combination occurs includes the income of the acquired company arising subsequent to the date of combination, and (iii) the costs directly related to the purchase business combination are not considered as a cost of the acquisition, but deferred and amortized over a reasonable period as determined by Bank management.

(af) Convergence of accounting standards by Colombian financial institutions.

In July 2009 Congress approved Law 1314 of 2009, which introduced changes in the accounting, audit and information disclosures with the aim of converging with “International Financial Reporting Standards – IFRS”, although current regulations could differ in certain subjects from those in other countries. On December 29, 2012, Colombian Ministry of Trade, Industry and Tourism issued the Decree 2784 regulating the technical framework to be applied by public entities and issuers of securities.

The technical framework is based on the IFRS and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) related interpretations, as translated in Spanish at December 1, 2014, by the International Accounting Standard Board (IASB).

Furthermore, Decree 2784 modified by Decree 3024 of 2013, establishes that the transition period took place during year 2014, and all the entities are required to prepare the opening balance sheet under IFRS at January 1, 2014. Accounting regulations based on the new framework are effective for annual and interim fiscal years beginning after December 31, 2014.

During the year 2014, the transition period, entities must keep records of their financial situation under the new regulation established by Decree 2784 as well as under the current Colombian GAAP.

During year 2013, the Bank prepared an implementation program approved by the Board of Directors, specifying the major milestones and the key personal required for running and overseeing the convergence process.

For the year ending December 31, 2014, entities must prepare their financial statements under the current framework established by the Decrees 2649 and 2650 of 1993. Entities are required to prepare the comparative financial statement under the new regulation established by Decree 2784 of 2012, amended by the Decrees 3023 of 2013 and 2615 of 2014, from the year ending December 31, 2015 onwards.

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(3) Transactions in Foreign Currency

Colombian regulations define the limit on the amount of foreign-currency assets and liabilities as 20% of the Bank's Technical Capital. As of December 31, 2014 and 2013, the Bank was in compliance with these regulations.

Substantially all foreign currency holdings are in U.S. Dollars. The consolidated foreign currency assets and liabilities of the Bank at December 31, 2014 and 2013, converted to USD based on exchange rates in effect at the respective balance sheet dates, were as follows:

	2014	2013
Assets:		
Cash and due from banks	USD 2,532,013	USD 2,346,066
Funds sold and securities purchased under agreements to resell	570,546	1,064,229
Investment securities	1,629,996	1,943,769
Loans, net	15,413,718	14,049,812
Customers' acceptances and derivatives	2,413,504	(567,168)
Accounts receivable	236,783	296,825
Premises and equipment, net	199,249	202,539
Goodwill	1,652,570	1,851,259
Other assets	614,100	587,106
Total foreign currency assets	USD 25,262,479	USD 21,774,437
Liabilities:		
Deposits	13,218,223	12,173,012
Bank acceptances outstanding and derivatives	2,909,506	82,761
Borrowings from development and other domestic banks	43,530	18,720
Interbank borrowings	4,006,304	4,087,954
Long term-debt	3,464,709	3,970,753
Other liabilities	783,236	824,150
Total foreign currency liabilities	24,425,508	21,157,350
Net foreign currency asset position	USD 836,971	USD 617,087

At December 31, 2014 and 2013, the net foreign exchange proprietary trading assets amounted to USD 167,828 and USD 189,937 respectively, which meet the legal requirements.

At December 31, 2014, the participation in the consolidated assets and liabilities in foreign currency of foreign subsidiaries represents 64.82% and 60.83% respectively, and for the year ended at December 31, 2013, 71.16% and 68.17%, respectively.

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(4) Cash and Due from Banks

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

	2014	2013
Colombian peso denominated:		
Cash	COP3,395,988	COP2,951,173
Due from the Colombian Central Bank	1,657,639	3,899,251
Due from domestic banks	80,551	54,340
Remittances of domestic negotiated checks in transit	3,160	3,122
Allowance for cash and due from banks	(2,253)	(916)
Total local currency denominated	5,135,085	6,906,970
Foreign currency denominated:		
Cash	511,091	341,050
Due from the Colombian and El Salvador Central Bank	1,543,261	742,130
Due from foreign banks	3,896,120	3,303,144
Remittances of foreign negotiated checks in transit	107,268	143,468
Allowance for cash and due from banks	-	(9,321)
Total foreign currency denominated	6,057,740	4,520,471
Total cash and due from banks	COP11,192,825	COP11,427,441

(5) Investment Securities

Investments in trading securities consisted of the following:

	2014	2013
Trading Securities		
Colombian peso denominated:		
Colombian Government	COP6,173,970	COP5,609,704
Government entities	9,349	44,545
Financial institutions	189,571	304,985
Corporate bonds	32,312	91,443
Equity securities	146,561	170,371
Total local currency denominated	6,551,763	6,221,048

Foreign currency denominated:		
Colombian Government	69,795	107,462
Foreign Governments	501,703	360,053
Financial institutions	22,271	2,805
Corporate bonds	10,190	16,700
Equity securities	277,281	241,616
Total foreign currency denominated	881,240	728,636
Total trading securities	7,433,003	6,949,684
Allowance for trading securities	(901)	-
Total trading securities, net	COP7,432,102	COP6,949,684

The foreign currency denominated securities issued or secured by the Colombian Government are bonds denominated in U.S. Dollars, purchased at par value, with annual average interest rates of 2.18% and 2.79% for 2014 and 2013, respectively.

Investments in available for sale securities consisted of the following:

Available for sale - Debt securities	2014	2013
Colombian peso denominated:		
Financial institutions	COP150,948	COP276,700
Total local currency denominated	150,948	276,700
Foreign currency denominated:		
Colombian Government	135,507	58,719
El Salvador Central Bank	23,638	24,585
Government entities ⁽¹⁾	50,443	59,251
Foreign Governments	1,259,549	1,253,765
Financial institutions	139,572	86,180
Other	57,877	43,944
Total foreign currency denominated	1,666,586	1,526,444
Total Available for sale - Debt securities	1,817,534	1,803,144
Valuation allowance for available for sale securities	(4,484)	(3,466)
Total available for sale securities, net	COP1,813,050	COP1,799,678

This amount includes investments in fiduciary certificates of participation. These certificates were issued for the Environmental Trust for the conservation of the Coffee Forest (Fideicomiso Ambiental para la Conservación del Bosque Cafetero “FICAFE”). This trust was formed with the transfer of the coffee sector’s loan portfolio by a number of banks in El Salvador, including Banco Agrícola. The purpose of this transaction was to carry out the restructuring of those loans, promoted by the Government of El Salvador.

The Bank received proceeds from sales of COP 2,067,016 and COP 1,949,181 of available for sale debt securities during the years ended December 31, 2014 and 2013, respectively.

	Participation percentage at December 31, 2014		Participation percentage at December 31, 2013	
		2014		2013
Available for sale - equity securities				
Banco Agromercantil de Guatemala ⁽¹⁾	40.00	% COP615,066	40.00	% COP418,286
Sura Asset Management S.A. (Colombia)	3.65	% 351,748	3.65	% 283,289
Grupo Odinsa S.A. ⁽²⁾	13.91	% 195,413	13.50	% 196,416
Sociedad Administradora de Fondos de Pensiones y de Cesantías Protección S.A.	20.58	% 86,993	20.58	% 86,993
Inversiones Inmobiliaria Arauco Alameda ⁽³⁾	22.50	% 77,618	22.50	% 62,536
EPSA S.A. ESP	1.96	% 62,343	1.96	% 62,343
Bolsa de Valores de Colombia	8.63	% 32,035	8.63	% 34,165
Titularizadora Colombia S.A. ⁽⁴⁾	26.98	% 26,645	21.25	% 14,743
Avefarma S.A.S.	21.00	% 20,423	21.00	% 20,423
TELERED	14.83	% 14,490	15.00	% 11,670
CIFI (Corporación para el financiamiento y la infraestructura)	9.26	% 11,962	9.26	% 9,634
Enka de Colombia S.A.	6.60	% 9,523	6.60	% 6,547
Panamerican Pharmaceutical Holding INC	21.00	% 9,091	21.00	% 7,322
Concesiones CCFC S.A.	25.50	% 7,223	25.50	% 7,223
Cadenalco S.A. Titularización	3.33	% 5,472	3.33	% 5,296
Depósito Centralizado de Valores de Colombia	13.59	% 4,738	13.59	% 4,738
Deceval S.A.	20.36	% 4,396	20.36	% 4,396
Redeban Red Multicolor	0.19	% 2,006	0.19	% 1,791
Banco Latinoamericano de exportaciones BLADDEX S.A.	33.33	% 1,037	33.33	% 1,037
Other		33,188		29,402
Total equity securities		COP1,571,410		COP1,268,250
Valuation allowance for equity securities		(960)		(1,681)
Total equity securities, net		COP1,570,450		COP1,266,569

(1)

On January 23, 2014, the Bank's subsidiary, Bancolombia Panamá increased its investment in Banco Agromercantil de Guatemala through capitalization for USD 40,000.

(2) During April 2014, the Bank's subsidiary, Inversiones CFNS increased its stock participation in Grupo Odinsa by means of the distribution of dividends in shares corresponding to 724,069 common shares.

During the year 2014, the Bank's subsidiary, Banca de Inversion Bancolombia increased its investment in

(3) Inversiones Inmobiliaria Arauco Alameda through capitalization for COP 15,082, corresponding to 1,508,220 common shares.

(4) During March 2014, the Bank increased its stock participation in Titularizadora Colombiana S.A. through a purchase of 3,432,219 common shares for COP 11,902.

Dividends received from equity investments amounted to COP 78,337, COP 63,007 and COP 47,610 for the years ended December 31, 2014, 2013 and 2012, respectively.

The following equity securities are impaired under COLGAAP and the Bank has recognized the impairment amounts:

	<i>2014⁽¹⁾</i>		<i>2013⁽¹⁾</i>	
	<i>Category</i>	<i>Valuation Allowance</i>	<i>Category</i>	<i>Valuation Allowance</i>
Adara Venture	C	COP 941	C	COP 863
Fogansa S.A.	E	19	E	-
HSBC Plc Inc	A	-	A	416
SANEAL	E	-	A	402
		COP 960		COP1,681

As of December 31, 2014 and December 31, 2013, the Bank recorded impairment allowances amounted to COP (1)960 and COP 1,681, respectively, related to the aforementioned equity securities held by its subsidiaries Banistmo and Banca de Inversiones Bancolombia S.A.

Investments in held to maturity securities consisted of the following:

	2014	2013
Held to Maturity Securities		
Colombian peso denominated:		
Colombian Government	COP159,246	COP268,981
Government entities	1,413,651	1,743,790
Financial institutions	939,406	1,030,284
Corporate bonds	-	2,035
Total Colombian-Peso denominated	2,512,303	3,045,090
Foreign currency denominated:		
El Salvador Central Bank	-	580,450
Government entities	7,830	25
Foreign Governments	26,922	22,116
Financial institutions	237,501	120,455
Other	79,731	27,202
Total foreign currency denominated	351,984	750,248
	2,864,287	3,795,338
Valuation allowance for Held to Maturity securities	(2,088)	(5,479)
Total Held to Maturity securities, net	COP2,862,199	COP3,789,859

As of December 31, 2014 and 2013, the Bank pledged investments securities amounting to COP 1,227,328 and COP 445,652, respectively, as collateral to secure lines of credit at international banks, domestic development banks and other financial institutions.

The following table summarizes the maturities and weighted average yields of the Bank's investment debt securities as of December 31, 2014:

	<i>As of December 31, 2014</i>								<i>Total</i>
	<i>Maturing in less than 1 year</i>		<i>Maturing between 1 and 5 years</i>		<i>Maturing between 5 and 10 years</i>		<i>Maturing in more than 10 years</i>		
	<i>Balance⁽¹⁾</i>	<i>Yield %⁽²⁾</i>	<i>Balance⁽¹⁾</i>	<i>Yield %⁽²⁾</i>	<i>Balance⁽¹⁾</i>	<i>Yield %⁽²⁾</i>	<i>Balance⁽¹⁾</i>	<i>Yield %⁽²⁾</i>	<i>Balance⁽¹⁾</i>
<i>Securities issued or secured by:</i>									
<i>Foreign currency-denominated⁽³⁾:</i>									
Colombian Government	-	-	164,269	1.94%	41,033	3.18%	-	-	205,302

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El Salvador Central Bank	23,638	5.74%	-	-	-	-	-	-	23,638
Other Government entities	-	-	8,072	3.43%	6,951	5.28%	43,250	3.58%	58,273
Other financial entities	100,927	4.68%	252,055	3.04%	44,296	4.72%	-	-	397,278
Foreign Governments	722,672	2.93%	633,503	2.68%	404,720	3.86%	25,524	4.52%	1,786,419
Others	-	-	111,893	4.14%	19,639	5.25%	15,764	5.74%	147,296
Subtotal	847,237	3.21%	1,169,792	2.80%	516,639	3.95%	84,538	4.27%	2,618,200

Securities issued or secured by:

Peso-denominated⁽³⁾

Colombian Government	1,485,076	4.71%	2,683,442	5.18%	946,970	6.44%	45,528	7.16%	5,161,016
Other Government entities	1,413,758	0.73%	1,577	5.46%	7,665	7.33%	-	-	1,423,000
Other financial entities	209,450	4.55%	126,846	6.08%	479,148	8.32%	312,859	13.08%	1,128,303
Others	2,620	3.66%	11,858	5.69%	13,089	6.35%	4,745	7.20%	32,312
Subtotal	3,110,904	2.89%	2,823,723	5.22%	1,446,872	7.07%	363,132	12.27%	7,744,631

Securities issued or secured by:

UVR-denominated⁽³⁾

Colombian Government	695,330	1.86%	409,140	1.76%	67,730	2.81%	-	-	1,172,200
Other financial entities	6,932	6.65%	-	-	91,186	5.22%	51,042	9.69%	149,160
Subtotal	702,262	1.91%	409,140	1.76%	158,916	4.20%	51,042	9.69%	1,321,360
Total (COP)	4,660,403		4,402,655		2,122,427		498,712		11,684,191

(1) Amounts are net of allowances for decline in value which amounted to COP 6,785 in 2014.

(2) Yield was calculated using the internal rate of return (IRR) as of December 31, 2014.

(3) Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

(6) Loans and Financial Leases

Loan portfolio and financial lease contracts were classified, in accordance with the provisions of the SFC, as follows:

December 31, 2014

Rating	Commercial	Consumer	Small loans	Mortgage	Financial leases	Total
“A” Normal	COP60,249,628	COP16,016,750	COP456,861	COP11,585,000	COP10,280,006	COP98,588,245
“B” Acceptable	2,335,419	1,239,650	88,257	404,538	624,408	4,692,272
“C” Appreciable	701,997	610,460	62,151	301,688	144,788	1,821,084
“D” Significant	705,867	439,105	6,401	38,497	164,423	1,354,293
“E” Unrecoverable	486,291	348,836	34,858	189,261	38,407	1,097,653
Total loans and financial leases	COP64,479,202	COP18,654,801	COP648,528	COP12,518,984	COP11,252,032	COP107,553,544

December 31, 2013

Rating	Commercial	Consumer	Small loans	Mortgage	Financial leases	Total
“A” Normal	COP48,599,320	COP14,682,044	COP455,077	COP9,747,572	COP9,092,468	COP82,576,481
“B” Acceptable	1,933,231	820,276	15,187	133,839	302,582	3,205,115
“C” Appreciable	851,942	396,068	9,639	219,977	112,879	1,590,505
“D” Significant	619,566	412,805	8,366	33,109	139,411	1,213,257
“E” Unrecoverable	359,460	290,697	28,498	161,433	34,096	874,184
Total loans and financial leases	COP52,363,519	COP16,601,890	COP516,767	COP10,295,930	COP9,681,436	COP89,459,542

Promissory notes documenting loans amounting to COP 1,515,688 and COP 1,809,043 at December 31, 2014 and 2013, respectively, have been duly endorsed to development banks, as required by applicable laws.

The following table represents a summary of troubled loans restructured:

2014

2013

Performed by the Bank	COP2,079,852	COP1,690,032
Performed under local regulations	303,667	288,310
Interest and other receivables items	24,332	17,900
Trouble loans restructured	2,407,851	1,996,242
Allowances for loan losses	(745,323)	(669,676)
Troubled loans restructured, net	COP 1,662,528	COP1,326,566

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

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

	2014	2013	2012
Balance at beginning of period	COP4,065,530	COP3,249,639	COP2,812,582
Allowance for loan losses for Banistmo and its subsidiaries at October 31,2013. ⁽¹⁾	-	327,877	-
Sale of Asesuisa S.A. and Asesuisa Vida S.A.	-	-	(688)
Provisions for loan losses	3,151,160	2,717,954	2,344,265
Reversal of provisions	(1,614,770)	(1,391,434)	(1,192,067)
Charge-offs	(1,044,152)	(877,318)	(678,506)
Effect of changes in foreign exchange rates	192,405	38,812	(35,947)
Balance at end of year	COP4,750,173	COP4,065,530	COP3,249,639
Ratio of charge-offs to average outstanding loans	1.10	% 1.13	% 1.07
Recovery of charged-off loans	COP241,200	COP231,396	COP167,819

(1) See Note 1 Organization and Background.

Recoveries of charged-off loans are recorded separately in the consolidated statements of operations in the line 'Recovery of charged-off loans'.

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

	2014	2013	2012
Balance at beginning of year	COP63,745	COP54,026	COP43,644
Provision for Banistmo and its subsidiaries at October 31, 2013. ⁽¹⁾	-	4,590	-
Provision	53,469	51,774	48,085
Charge-offs	(19,987)	(19,185)	(15,142)
Reversal of provisions	(31,808)	(27,885)	(22,067)
Effect of changes in foreign exchange rates	1,510	425	(494)
Balance at end of year	COP66,929	COP63,745	COP54,026

(1) See Note 1 Organization and Background.

(8) Customers' Acceptances and Derivatives

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

	2014	2013
Assets		
Customer Acceptances	COP 90,049	COP 38,589
Derivative Assets		
Spot Transactions	224	153
Future Contracts	5	-
Forward Contracts	519,871	75,923
Swaps	768,078	454,933
Options	184,701	32,811
Total Derivative Assets	1,472,879	563,820
Total Customer Acceptances and Derivative Assets	COP1,562,928	COP 602,409
Liabilities		
Customers Acceptances	90,049	38,589
Derivative Liabilities		

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Forward contracts	574,123	62,621
Swaps	567,203	314,099
Options	89,108	49,205
Total Derivative Liabilities	1,230,434	425,925
Total Customers Acceptances and Derivative liabilities	COP 1,320,483	COP 464,514

As a result of the acquisition of Banistmo, the Bank, through its subsidiary Banistmo, has entered into credit derivatives to manage its credit risk. Those derivatives are designated as hedging instruments to protect the Bank against changes in the fair value fluctuations of its subsidiary's position in debt securities issued by the Panamanian Government (fair value hedge) and to protect against changes in the cash flows of its subsidiary's portfolio of deposits (cash flow hedge). The hedge effectiveness assessment is performed on a monthly basis consistently throughout the hedging relationship. For fair value hedges, the changes in value of the hedging derivative, as well as the changes in value of the related hedged item concerning to the risk hedged, are reflected in the Statement of Operations. For cash flow hedge, the changes in value of the hedging derivative are reflected in Unrealized gains and losses in the Bank's stockholders' equity, as long as the hedge is effective. For additional information on the Bank's hedging derivatives, see Note 2 Summary of Significant Accounting Policies.

(9) Accounts Receivable

Accounts receivable consisted of the following:

	2014⁽¹⁾	2013⁽¹⁾
Advances to suppliers	COP583,152	COP444,746
Balance in favor on credit card clearing house	503,380	512,489
Advances on commitments to purchase assets ⁽²⁾	154,585	87,057
Tax credit	86,768	56,837
Commissions	77,885	73,042
Insurance premium receivables	60,949	72,419
Value Added Tax (VAT) - Asset	48,987	45,942
Treasury operations pending payment by the customers	46,547	3,118
Sale of goods and services	22,285	41,135
Overnight funds sold	21,488	18,148
Fees on international wire transfers	18,952	16,741
Other credit card receivable (joint venture Tuya S.A.)	16,732	20,918
Accounts receivables in branches	9,761	7,469
Margin call	9,666	7,784
Electronic services and agreements	9,395	10,199
Receivables for financing Government's subsidies on the interest on mortgages	5,771	5,353
Sierras del Chicó and Chicó Oriental	5,330	5,330
Insurance on securitization process	2,608	3,102
Receivables in recovery stage	1,964	5,421
Recoveries of insurances on deposits ("Fogafin")	-	32,876
Other receivables	117,538	153,080
Total accounts receivable	1,803,743	1,623,206
Allowance for account receivable	(97,973)	(85,988)
Account receivable, net	COP1,705,770	COP1,537,218

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

(2) On December 31, 2014, this concept corresponds to FCP Fondo Inmobiliario S.A., for the amount paid in advance to buy furniture, according to the sales and purchase contracts.

The changes in allowance for accounts receivable losses are as follows:

2014 2013 2012

Balance at beginning of year	COP85,988	COP76,606	COP48,236
Provision for Banistmo at October 31, 2013 ⁽¹⁾	-	7,593	-
Sale of Asesuisa S.A. and Asesuisa Vida	-	-	(615)
Provision for uncollectible amounts	109,123	90,473	104,015
Charge - offs	(41,997)	(34,822)	(34,958)
Effect of difference in exchange rate	2,354	590	(586)
Reversal of provision and recoveries	(57,495)	(54,452)	(39,486)
Balance at end of year	COP97,973	COP85,988	COP76,606

(1) See Note 1 "Organization and Background".

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(10) Premises and Equipment

At December 31, 2014 and 2013 Premises and Equipment consisted of the following:

	2014	2013
Premises and Equipment		
Lands	COP 200,945	COP 171,249
Buildings	1,400,012	1,290,165
Furniture, equipment and fixtures	315,186	326,950
Computer equipment	338,413	446,523
Vehicles	88,254	19,653
Construction in progress	913	-
Equipment in transit	1,139,800	983,026
Total	3,483,523	3,237,566
Less Accumulated depreciation	(1,032,350)	(1,035,889)
Allowance for impairment	(12,383)	(10,000)
Premises and equipment, net	COP 2,438,790	COP 2,191,677

Premises and equipment depreciation expense for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 amounted to COP 135,475, COP 100,841, and COP 97,458, respectively.

(11) Premises and equipment under Operating Leases

Premises and equipment under operating leases where the Bank or any of its subsidiaries act as lessor consisted of the following:

	2014	2013
Machinery and equipment	COP 798,896	COP 631,288
Vehicles	1,772,453	1,556,238
Furniture, equipment and fixtures	61,612	54,216
Computer equipment	600,714	542,754
Real estate	1,477,204	1,087,239
Total	4,710,879	3,871,735
Lease payments receivables under lease contracts	58,058	45,541
Less accumulated depreciation	(1,186,821)	(923,365)
Allowance for impairment	(70,812)	(74,730)

Operating Leases, net

COP 3,511,304 COP 2,919,181

Operating lease depreciation expense for the years ended December 31, 2014, 2013 and 2012, amounted to COP 401,654, COP 328,015 and COP 222,144, respectively.

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(12) Prepaid Expenses and Deferred Charges

At December 31, 2014 and 2013, prepaid expenses and deferred charges consisted of the following:

	2014	2013
Prepaid expenses:		
Insurance premiums	COP13,952	COP16,430
Software licenses	16,828	12,912
Equipment maintenance	2,272	1,275
Deferred acquisition costs (DAC) ⁽¹⁾	17,723	13,477
Payroll advances ⁽²⁾	9,393	5,576
Other	2,764	3,918
Total prepaid expenses	COP62,932	COP53,588
Deferred charges:		
Equity tax and other contributions ⁽³⁾	8,185	21,762
Software purchased and related capitalized costs under INNOVA project	81,357	196,794
Software other than under the Innova project	63,192	83,606
Discounts on issuance of bonds	72,255	86,994
Leasehold improvements	30,129	20,116
Commissions	1,172	1,436
Deferred tax asset ⁽⁴⁾	200,853	202,197
Other	26,521	24,439
Total deferred charges	COP483,664	COP637,344
Total prepaid expenses and deferred charges	COP546,596	COP690,932

⁽¹⁾ Deferred Acquisition Costs (DAC), are associated with the costs incurred in acquiring a new customer, which are deferred over the term of the insurance contract.

⁽²⁾ Payroll advances are related to Banistmo and its subsidiaries.