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BANCOLOMBIA SA  
Form 20-F/A  
May 07, 2007

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 04, 2007  
=====

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

-----  
FORM 20-F/A  
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AMENDMENT NO 1

(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, 2005

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: 1-32535

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)

CALLE 50 NO. 51-66  
MEDELLIN, COLOMBIA  
(Address of principal executive offices)

SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT.

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| TITLE OF EACH CLASS<br>----- | NAME OF EACH EXCHANGE ON WHICH REGISTERED<br>----- |
|------------------------------|--|
| AMERICAN DEPOSITARY SHARES   | New York Stock Exchange                            |
| PREFERRED SHARES             | New York Stock Exchange*                           |

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

Securities registered or to be registered pursuant to Section 12(g) of the Act.  
Not applicable  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.  
Not applicable  
(Title of Class)

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

|                        |             |
|------------------------|-------------|
| Common Shares .....    | 509,704,584 |
| Preferred Shares ..... | 218,122,421 |

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

Yes X No  
--- ---

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes No X  
--- ---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
--- ---

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

Large accelerated filer X Accelerated filer Non-accelerated filer



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of this Amendment No. 1 and accordingly amended the following page:

### ITEM 19. EXHIBITS

Page 220 (Exhibit index)

- 12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 04, 2007.
- 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 04, 2007.
- 13.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 04, 2007.
- 13.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 04, 2007.

Except for the certifications, this Amendment No. 1 speaks as of the filing date of the original filing. Other than as set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate any other information or disclosure included in the original filing or reflect any events that have occurred after the filing date of the original filing. This amendment should be read in conjunction with the Bank's filings made with the SEC subsequent to the original filing, as information in such reports and documents may update or supersede certain information contained in this amendment. This amendment retains the page numbering of the original filing for ease of reference.

## PART II

### ITEM 15. CONTROLS AND PROCEDURES

An evaluation has been carried out, under the supervision and with the participation of BC's management, including President Jorge Londono Saldarriaga and Finance Vice-President Jaime Alberto Velasquez Botero, of the effectiveness of the design and operation of our "disclosure controls and procedures" as defined in Exchange Act Rules 13a-15(e). Our disclosure controls and procedures are designed to ensure that the financial and non-financial information required to be disclosed in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Based upon that evaluation, our management, including President Jorge Londono Saldarriaga and Finance Vice-President Jaime Alberto Velasquez Botero, concluded that our disclosure controls and procedures are effective as of December 31, 2005.

In connection with this evaluation and given the nature and cause of the restatement, BC's management, including President Jorge Londono Saldarriaga and Finance Vice-President Jaime Alberto Velasquez Botero, has concluded that the restatement of our Supplemental Consolidated Condensed Income Statement and the Supplemental Consolidated Condensed Statements of Cash Flow under U.S.GAAP for the year ended December 31, 2005, did not impact the conclusion that our disclosure controls and procedures are effective as of December 31, 2005.

Changes in Internal Controls. On July 30, 2005 Conavi (Conavi Banco Comercial y de ahorros S.A.) and Corfinsura (Corporacion Financiera Nacional y Suramericana S.A.) merged with and into Bancolombia as surviving entity (for more information please see Item 4 - Information on the Company, A - History and

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Development of the Company). As of December 31, 2005, a full transition of the Conavi and Corfinsura's systems into Bancolombia's systems, including, but not limited to, core processing of transactions and certain policies and procedures was not complete. In connection with this transition process, additional controls and procedures were put in place during the second semester of 2005. Achievement of a full transition is ongoing and is expected to be completed by the second semester of 2006. Until the full transition has occurred, BC's management will continue adding internal control measures to reasonably ensure that controls pertaining to financial reporting and safeguarding of assets are effective.

### PART III

#### ITEM 18. FINANCIAL STATEMENTS

Reference is made to pages F - 1 through F - 132.

#### ITEM 19. EXHIBITS

The following exhibits are filed as part of this Annual Report.

- 12.1. CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 04, 2007.
- 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 04, 2007.
- 13.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 04, 2007.
- 13.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 04, 2007.

### SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 on its behalf.

Dated: May 04, 2007

BANCOLOMBIA S.A.

By: /s/ JAIME ALBERTO VELASQUEZ BOTERO

-----  
Name: Jaime Alberto Velasquez Botero.

Title: Vice President, Finance.

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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(DELOITTE (R) LOGO)

Deloitte & Touche Ltda.  
Edificio Corfivalle  
Calle 16 Sur No 43A-49 Piso 9 y 10  
A.A. 404  
Nit. 860.005.813-4  
Medellin  
Colombia  
Tel. +57(4) 3138899  
Fax: +57(4) 3133225  
www.Deloitte.com.co

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of directors and shareholders of Bancolombia S.A.:

We have audited the accompanying consolidated balance sheets of Bancolombia S.A. and subsidiaries (the "Bank") as at December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2005 and 2004, and the consolidated results of its operations and

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its cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in Colombia and the regulations of Superintendency of Finance in Colombia, collectively Colombian GAAP.

Colombian GAAP varies in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Information relating to the nature and effect of such differences is presented in Note 31 to the consolidated financial statements.

As discussed in Note 32, the Supplemental Consolidated Condensed Statements of Operations for the year ended December 31, 2005 and Statement of Cash Flows for the three years ended December 31, 2005 under U.S.GAAP and presented in Note 31 have been restated.

Our audits also comprehended the translation of Colombian pesos amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 c). Such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

By: /s/ Deloitte & Touche Ltda.

-----  
Deloitte & Touche Ltda.

Medellin, Colombia, January 28, 2006, except for Notes 30 and 31 as to which the date is June 20, 2006 and for Note 32 as to which the date is May 04, 2007.

Auditoria. Impuestos. Consultoria. Finanzas Corporativas.

Una Firma miembro  
de Deloitte &  
Touche Tohmatsu

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### BANCOLOMBIA S.A. AND SUBSIDIARIES

#### Consolidated Balance Sheets

December 31, 2004 and 2005

(Stated in millions of pesos and thousands of U.S. Dollars)

|  | Notes |    | 2004             |    | 2005             |
|--|-------|----|------------------|----|------------------|
|  | ----- |    | -----            |    | -----            |
| <b>ASSETS</b>                          |       |    |                  |    |                  |
| Cash and cash equivalents:             |       |    |                  |    |                  |
| Cash and due from banks                | 4     | Ps | 768,514          | Ps | 1,249,360        |
| Overnight funds                        |       |    | 480,846          |    | 480,846          |
|  |       |    | -----            |    | -----            |
| <b>TOTAL CASH AND CASH EQUIVALENTS</b> |       |    | <b>1,249,360</b> |    | <b>1,730,206</b> |
|  |       |    | -----            |    | -----            |

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|  |      |               |          |
|--|------|---------------|----------|
| Investment securities:                                     | 5    |               |          |
| Debt securities:   |      | 4,922,792     | 8,2      |
| Trading securities   |      | 2,245,756     | 5,4      |
| Available for sale   |      | 1,943,685     | 1,8      |
| Held to maturity   |      | 733,351       | 1,0      |
| Equity securities  |      | 393,044       | 2        |
| Trading securities   |      | 129,964       |          |
| Available for sale   |      | 263,080       | 2        |
| Market value allowance                                     |      | (65,625)      | (        |
|  |      | -----         | -----    |
| TOTAL INVESTMENT SECURITIES                                |      | 5,250,211     | 8,4      |
|  |      | -----         | -----    |
| Loans and financial leases:                                | 6,29 |               |          |
| Commercial loans   |      | 7,353,956     | 11,9     |
| Consumer loans   |      | 1,655,066     | 2,4      |
| Small business loans                                       |      | 90,000        | 1        |
| Mortgage loans   |      | 56,107        | 1,4      |
| Financial leases   |      | 880,110       | 2,6      |
| Allowance for loans and financial leases losses            | 7    | (434,378)     | (7       |
|  |      | -----         | -----    |
| LOANS AND FINANCIAL LEASES, NET                            |      | 9,600,861     | 17,9     |
|  |      | -----         | -----    |
| Accrued interest receivable on loans and financial leases: |      |               |          |
| Accrued interest receivable on loans and financial leases  |      | 125,879       | 2        |
| Allowance for accrued interest losses                      | 7    | (4,603)       |          |
|  |      | -----         | -----    |
| INTEREST ACCRUED, NET                                      |      | 121,276       | 1        |
|  |      | -----         | -----    |
| Customers' acceptances and derivatives                     | 8    | 43,894        | 1        |
| Accounts receivable, net                                   | 9,29 | 173,875       | 5        |
| Premises and equipment, net                                | 10   | 346,243       | 6        |
| Operating leases, net                                      | 11   | 8,311         | 1        |
| Foreclosed assets, net                                     | 15   | 12,206        |          |
| Prepaid expenses and deferred charges                      | 12   | 15,950        |          |
| Goodwill   | 14   | 73,607        |          |
| Other assets   | 13   | 315,394       | 5        |
| Reappraisal of assets                                      | 16   | 267,941       | 3        |
|  |      | -----         | -----    |
| TOTAL ASSETS   |      | Ps 17,479,129 | Ps 30,8  |
|  |      | =====         | =====    |
| MEMORANDUM ACCOUNTS  | 25   | Ps 78,232,437 | Ps 138,5 |
|  |      | =====         | =====    |

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BANCOLOMBIA S.A. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2004 and 2005

(Stated in millions of pesos and thousands of U.S. Dollars)

| Notes | 2004  | 2005  |
|-------|-------|-------|
| ----- | ----- | ----- |



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LIABILITIES AND STOCKHOLDERS' EQUITY

|  |       |               |                |
|--|-------|---------------|----------------|
| Deposits   | 29    |               |                |
| Non-interest bearing:                            |       | Ps 2,690,679  | Ps 3,530,171   |
| Checking accounts                                |       | 2,523,505     | 3,171,359      |
| Other  |       | 167,174       | 359            |
| Interest bearing:                                |       | 9,171,437     | 14,854,171     |
| Checking accounts                                |       | 1,275,618     | 1,068,171      |
| Time deposits                                    |       | 4,361,206     | 6,259,171      |
| Savings deposits                                 |       | 3,534,613     | 7,526,829      |
|  |       | -----         | -----          |
| TOTAL DEPOSITS                                   |       | 11,862,116    | 18,384,430     |
|  |       | -----         | -----          |
| Overnight funds                                  |       | 616,494       | 1,329,630      |
| Bank acceptances outstanding                     |       | 66,593        | 63,000         |
| Interbank borrowings                             | 17    | 246,282       | 1,705,000      |
| Borrowings from domestic development banks       | 18    | 857,919       | 2,222,000      |
| Accounts payable                                 |       | 729,448       | 1,250,000      |
| Accrued interest payable                         |       | 109,164       | 182,000        |
| Other liabilities                                | 19    | 232,932       | 459,000        |
| Long-term debt                                   | 20    | 552,531       | 1,648,000      |
| Accrued expenses                                 | 21    | 71,649        | 130,000        |
| Minority interest in consolidated subsidiaries   |       | 43,278        | 49,000         |
|  |       | -----         | -----          |
| TOTAL LIABILITIES                                |       | 15,388,406    | 27,426,000     |
|  |       | -----         | -----          |
| Stockholders' Equity (2)                         | 22,24 |               |                |
| Subscribed and paid in capital:                  |       | 355,119       | 430,000        |
| Nonvoting preference shares                      |       | 101,579       | 121,000        |
| Common shares                                    |       | 253,540       | 309,000        |
| Retained earnings:                               |       | 1,589,159     | 2,712,000      |
| Appropriated                                     | 23    | 1,010,481     | 1,765,000      |
| Unappropriated                                   |       | 578,678       | 946,000        |
| Reappraisal of assets                            | 16    | 42,237        | 110,000        |
| Gross unrealized net gain or loss on investments |       | 104,208       | 123,000        |
| STOCKHOLDERS' EQUITY                             |       | 2,090,723     | 3,377,000      |
|  |       | -----         | -----          |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY       |       | Ps 17,479,129 | Ps 30,803,000  |
|  |       | =====         | =====          |
| MEMORANDUM ACCOUNTS                              | 25    | Ps 78,232,437 | Ps 138,595,000 |
|  |       | =====         | =====          |

-----  
The accompanying notes, numbered 1 to 30, form an integral part of these Consolidated Financial Statements

(1) See note 2 (ff)

(2) A summary of significant adjustments to stockholders' equity that would be required if U.S. GAAP had been applied is disclosed in Note 31.

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Years ended December 31, 2003, 2004 and 2005

(Stated in millions of pesos and thousands of U.S. Dollars,  
except per share data)

|   | Notes | 2003      | 2004         | 2005 (2)     |
|---|-------|-----------|--------------|--------------|
|   | ----- | -----     | -----        | -----        |
| Interest income and expenses:   |       |           |              |              |
| Interest on loans   | Ps    | 918,791   | Ps 1,140,955 | Ps 2,050,274 |
| Interest on investment securities   |       | 546,207   | 549,328      | 824,709      |
| Overnight funds   |       | 14,046    | 18,375       | 33,629       |
| Leasing   |       | 58,774    | 94,450       | 291,472      |
|   |       | -----     | -----        | -----        |
| TOTAL INTEREST INCOME   |       | 1,537,818 | 1,803,108    | 3,200,084    |
|   |       | -----     | -----        | -----        |
| Interest expense  |       |           |              |              |
| Checking accounts   |       | 11,622    | 13,505       | 20,311       |
| Time deposits   |       | 249,911   | 267,558      | 449,367      |
| Saving deposits   |       | 113,968   | 141,288      | 241,889      |
|   |       | -----     | -----        | -----        |
| TOTAL INTEREST ON DEPOSITS  |       | 375,501   | 422,351      | 711,567      |
|   |       | -----     | -----        | -----        |
| Interbank borrowings  |       |           |              |              |
| Borrowings from domestic development banks                                |       | 5,293     | 7,389        | 54,630       |
| Overnight funds   |       | 58,456    | 73,549       | 156,509      |
| Bonds   |       | 38,423    | 41,215       | 73,910       |
|   |       | 2,840     | 41,239       | 153,658      |
|   |       | -----     | -----        | -----        |
| TOTAL INTEREST EXPENSE  |       | 480,513   | 585,743      | 1,150,274    |
|   |       | -----     | -----        | -----        |
| NET INTEREST INCOME   |       | 1,057,305 | 1,217,365    | 2,049,810    |
|   |       | -----     | -----        | -----        |
| Provision for loan and accrued interest losses, net                       |       |           |              |              |
|   | 7     | (162,057) | (110,455)    | (185,404)    |
| Recovery of charged-off loans   |       | 31,701    | 49,032       | 61,829       |
| Provision for foreclosed assets and other assets                          |       | (68,892)  | (33,127)     | (63,969)     |
| Recovery of provisions for foreclosed assets and other assets             |       | 16,949    | 27,926       | 56,504       |
|   |       | -----     | -----        | -----        |
| TOTAL NET PROVISIONS  |       | (182,299) | (66,624)     | (131,040)    |
|   |       | -----     | -----        | -----        |
| NET INTEREST INCOME AFTER PROVISION FOR LOANS AND ACCRUED INTEREST LOSSES |       | 875,006   | 1,150,741    | 1,918,770    |
|   |       | -----     | -----        | -----        |
| Commissions from banking services   |       |           |              |              |
| Electronic services and ATMs fees   |       | 39,363    | 53,082       | 101,355      |
| Branch network services   |       | 29,873    | 39,163       | 101,299      |
| Collections and payments fees   |       | 28,594    | 37,929       | 48,984       |
| Credit card merchant fees   |       | 25,604    | 38,654       | 56,670       |
| Credit and debit card annual fees   |       | 29,533    | 8,251        | 10,076       |
| Checking fees   |       | 62,158    | 80,290       | 205,606      |
| Warehouse services  |       | 46,910    | 49,391       | 54,846       |
| Fiduciary activities  |       | 42,705    | 49,072       | 62,155       |
| Brokerage fees  |       | 39,469    | 50,425       | 60,131       |
| Check remittance  |       | 5,687     | 8,669        | 68,231       |
| International operations  |       | 12,877    | 10,850       | 10,579       |
|   |       | 23,860    | 23,997       | 36,484       |
|   |       | -----     | -----        | -----        |

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|   |            |            |            |
|---|------------|------------|------------|
| FEEES AND OTHER SERVICE INCOME            | Ps 386,633 | Ps 449,773 | Ps 816,416 |
| FEEES AND OTHER SERVICE EXPENSES          | (32,361)   | (40,715)   | (48,087)   |
| TOTAL FEEES AND INCOME FROM SERVICES, NET | 354,272    | 409,058    | 768,329    |

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BANCOLOMBIA S.A. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2003, 2004 and 2005

(Stated in millions of pesos and thousands of U.S. Dollars,  
except per share data)

|   | Notes | 2003      | 2004      | 2005 (2)  |
|---|-------|-----------|-----------|-----------|
|   | ----- | -----     | -----     | -----     |
| Other operating income:                                     |       |           |           |           |
| Net foreign exchange gains (expenses)                       |       | 36,287    | (100,925) | (53,361)  |
| Forward contracts in foreign currency                       |       | 9,672     | 149,381   | 141,055   |
| Gains (losses) on sales of investments on equity securities |       | 5,878     | (27)      | 8,097     |
| Dividend income   |       | 30,734    | 30,546    | 42,731    |
| Revenues from commercial subsidiaries                       |       | 76,445    | 78,973    | 45,020    |
| Communication, postage, rent and others                     |       | 2,037     | 7,447     | 10,406    |
|   |       | -----     | -----     | -----     |
| TOTAL OTHER OPERATING INCOME                                |       | 161,053   | 165,395   | 193,948   |
|   |       | -----     | -----     | -----     |
| TOTAL INCOME  |       | 1,390,331 | 1,725,194 | 2,881,047 |
|   |       | -----     | -----     | -----     |
| Operating expenses  |       |           |           |           |
| Salaries and employee benefits                              |       | 320,886   | 363,557   | 615,121   |
| Bonus plan payments   |       | 22,423    | 32,923    | 26,826    |
| Compensation  |       | 22,959    | 15,169    | 8,030     |
| Administrative and other expenses                           | 27    | 350,517   | 393,592   | 793,179   |
| Deposit security, net                                       |       | 31,877    | 22,945    | 55,050    |
| Donation expenses   |       | 1,708     | 11,060    | 615       |
| Depreciation  | 10    | 40,625    | 46,872    | 87,633    |
| Merger expenses   |       | --        | --        | 45,703    |
| Goodwill amortization                                       |       | 59,773    | 26,303    | 22,648    |
|   |       | -----     | -----     | -----     |
| TOTAL OPERATING EXPENSES                                    |       | 850,768   | 912,421   | 1,654,805 |
|   |       | -----     | -----     | -----     |
| NET OPERATING INCOME  |       | 539,563   | 812,773   | 1,226,242 |
|   |       | -----     | -----     | -----     |
| Non-operating income (expense)                              |       |           |           |           |
| Other income  |       | 33,822    | 51,514    | 109,770   |
| Minority interest   |       | 330       | (2,425)   | (6,496)   |
| Other expense   |       | (41,696)  | (44,374)  | (105,120) |
|   |       | -----     | -----     | -----     |

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|                                      |    |            |            |            |
|--------------------------------------|----|------------|------------|------------|
| TOTAL NON-OPERATING INCOME (EXPENSE) |    | (7,544)    | 4,715      | (1,846)    |
|                                      |    | -----      | -----      | -----      |
| Income before income taxes           |    | 532,019    | 817,488    | 1,224,396  |
|                                      |    | -----      | -----      | -----      |
| Income tax expense                   | 21 | (62,635)   | (238,810)  | (277,515)  |
|                                      |    | -----      | -----      | -----      |
| NET INCOME(3)                        |    | Ps 469,384 | Ps 578,678 | Ps 946,881 |
|                                      |    | -----      | -----      | -----      |
| EARNINGS PER SHARE                   |    | Ps 814     | Ps 1,003   | Ps 1,301   |
|                                      |    | =====      | =====      | =====      |

-----  
The accompanying notes, numbered 1 to 30, form an integral part of these Consolidated Financial Statements

- (1) See accompanying notes to consolidated financial statements - See Note 2 (ff).
- (2) The consolidated statement of operations for the year ended December 31, 2005 includes Conavi's and Corfinsura's results since the beginning of the year.
- (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.

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BANCOLOMBIA S.A. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2003, 2004 and 2005

Expressed in terms of the purchasing power of Colombian pesos as of  
December 31, 2005

(Stated in millions of pesos and thousands of U.S. Dollars, except share data)

|   | Non Voting Preference<br>Shares |            | Voting Common Shares |            |
|---|---------------------------------|------------|----------------------|------------|
|   | Number                          | Par Value  | Number               | Par Value  |
|   | -----                           | -----      | -----                | -----      |
| BALANCE AT DECEMBER 31, 2002                  | 178,435,787                     | Ps 101,579 | 398,259,608          | Ps 253,540 |
| Net income                                    | --                              | --         | --                   | --         |
| Transfer to appropriated<br>retained earnings | --                              | --         | --                   | --         |
| Valuation of investment                       | --                              | --         | --                   | --         |
| Dividends declared                            | --                              | --         | --                   | --         |
| Other   | --                              | --         | --                   | --         |
|   | -----                           | -----      | -----                | -----      |
| BALANCE AT DECEMBER 31, 2003                  | 178,435,787                     | 101,579    | 398,259,608          | 253,540    |

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|   |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|
| Net income  | --                 | --                 | --                 | --                 |
| Transfer to appropriated retained earnings          | --                 | --                 | --                 | --                 |
| Valuation of investment                             | --                 | --                 | --                 | --                 |
| Dividends declared                                  | --                 | --                 | --                 | --                 |
| Other   | --                 | --                 | --                 | --                 |
| <b>BALANCE AT DECEMBER 31, 2004</b>                 | <b>178,435,787</b> | <b>101,579</b>     | <b>398,259,608</b> | <b>253,540</b>     |
| Net income  | --                 | --                 | --                 | --                 |
| Transfer to appropriated retained earnings          | --                 | --                 | --                 | --                 |
| Issuance of preference and common shares            | 39,686,634         | 19,843             | 111,444,976        | 55,722             |
| Valuation of investment                             | --                 | --                 | --                 | --                 |
| Merger effect                                       | --                 | --                 | --                 | --                 |
| Dividends declared                                  | --                 | --                 | --                 | --                 |
| Other   | --                 | --                 | --                 | --                 |
| <b>BALANCE AT DECEMBER 31, 2005</b>                 | <b>218,122,421</b> | <b>Ps 121,422</b>  | <b>509,704,584</b> | <b>Ps 309,262</b>  |
| <b>BALANCE AT DECEMBER 31, 2005 (UNAUDITED) (1)</b> | <b>218,122,421</b> | <b>US\$ 53,157</b> | <b>509,704,584</b> | <b>US\$135,391</b> |

|  | Retained Earnings |                | Surplus               |   | Stockholders' Equity |
|--|-------------------|----------------|-----------------------|---|----------------------|
|  | Appropriated      | Unappropriated | Reappraisal of assets | Gross unrealized gain or loss on investments available for sale |                      |
| <b>BALANCE AT DECEMBER 31, 2002</b>        | Ps 566,187        | Ps 210,380     | Ps 37,368             | Ps 115,294  | Ps 1,029,229         |
| Net income                                 | --                | 469,384        | --                    | --  | 469,384              |
| Transfer to appropriated retained earnings | 210,380           | (210,380)      | --                    | --  | --                   |
| Valuation of investment                    | --                | --             | (7,282)               | (20,858)  | (28,140)             |
| Dividends declared                         | (76,124)          | --             | --                    | --  | (76,124)             |
| Other                                      | 39,911            | --             | --                    | --  | 39,911               |
| <b>BALANCE AT DECEMBER 31, 2003</b>        | <b>740,354</b>    | <b>469,384</b> | <b>30,086</b>         | <b>94,436</b>   | <b>1,334,260</b>     |
| Net income                                 | --                | 578,678        | --                    | --  | 578,678              |
| Transfer to appropriated retained earnings | 469,384           | (469,384)      | --                    | --  | --                   |
| Valuation of investment                    | --                | --             | 12,151                | 9,772   | 21,923               |
| Dividends declared                         | (156,861)         | --             | --                    | --  | (156,861)            |
| Other                                      | (42,396)          | --             | --                    | --  | (42,396)             |
| <b>BALANCE AT DECEMBER 31, 2004</b>        | <b>1,010,481</b>  | <b>578,678</b> | <b>42,237</b>         | <b>104,208</b>  | <b>2,735,604</b>     |
| Net income                                 | --                | 946,881        | --                    | --  | 946,881              |
| Transfer to appropriated retained earnings | 578,678           | (578,678)      | --                    | --  | --                   |
| Issuance of preference and common shares   | 160,646           | --             | --                    | --  | 160,646              |
| Valuation of investment                    | --                | --             | (179,033)             | 31,690  | (147,343)            |
| Merger effect                              | 193,673           | --             | 247,275               | (12,650)  | 428,298              |
| Dividends declared                         | (216,838)         | --             | --                    | --  | (216,838)            |
| Other                                      | 39,358            | --             | --                    | --  | 39,358               |

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|   |              |             |             |             |        |
|---|--------------|-------------|-------------|-------------|--------|
| BALANCE AT DECEMBER 31, 2005                    | Ps 1,765,998 | Ps 946,881  | Ps 110,479  | Ps 123,248  | Ps 3,  |
|   | =====        | =====       | =====       | =====       | =====  |
| BALANCE AT DECEMBER 31, 2005<br>(UNAUDITED) (1) | US\$ 773,130 | US\$414,531 | US\$ 48,366 | US\$ 53,956 | US\$1, |
|   | =====        | =====       | =====       | =====       | =====  |

The accompanying notes, numbered 1 to 30, form an integral part of these Consolidated Financial Statements

(1) See Note 2 (ff).

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BANCOLOMBIA S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2003, 2004 and 2005

(Stated in millions of pesos and thousands of U.S. Dollars)

|  | 2003       | 2004       | 2005(1) |
|--|------------|------------|---------|
|  | -----      | -----      | -----   |
| Cash flows from operating activities:  |            |            |         |
| Net income (loss)  | Ps 469,384 | Ps 578,678 | Ps 946, |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: |            |            |         |
| Depreciation   | 40,625     | 46,872     | 87,     |
| Amortization   | 86,010     | 39,377     | 77,     |
| Minority interest  | (9,577)    | 1,719      | 5,      |
| Provision for loan, accrued interest and accounts receivable losses                      | 305,673    | 191,207    | 395,    |
| Provision for foreclosed assets  | 32,458     | 23,002     | 44,     |
| Provision for losses on investment securities and equity investments                     | 29,381     | 2,821      | 10,     |
| Provision for premises and equipment   | 5,665      | 2,223      |         |
| Provision for other assets   | 723        | 4,953      | 1,      |
| Reversal of provision for investments  | (8,400)    | (4,500)    | (5,     |
| Reversal of provision for loans and accounts receivable                                  | (143,615)  | (85,152)   | (220,   |
| Reversal of provision for foreclosed assets  | (5,493)    | (17,239)   | (45,    |
| Reversal of provision for other assets   | (41)       | (38)       | (3,     |
| Reversal of provision for premises and equipment   | (3,016)    | (6,149)    | (1,     |
| Loss (gain) on sales of premises and equipment   | 393        | (839)      |         |
| Loss (gain) on sales on investments securities   | (5,878)    | 27         |         |
| Realized and unrealized loss (gain) on derivative financial instruments                  | 5,409      | (129,616)  | (67,    |
| Loss (gain) on sales on foreclosed assets  | 2,867      | 3,433      |         |
| Valuation gain (loss) on investment securities   | (246,871)  | (266,428)  | (476,   |
| Foreclosed assets donation   | 1,029      | 10,854     |         |
| (Increase) in accounts receivable  | (11,724)   | (28,454)   | (514,   |
| Decrease (increase) in other assets  | (63,752)   | (161,362)  | 92,     |
| Increase in accounts payable   | 116,060    | 293,293    | 593,    |

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|  |             |             |         |
|--|-------------|-------------|---------|
| Increase in other liabilities                        | 3,745       | 58,614      | 227,    |
| (Increase) in loans                                  | (1,941,055) | (1,565,627) | (8,521, |
|  | -----       | -----       | -----   |
| Other  | 1,069       | 15,476      | 59,     |
|  | -----       | -----       | -----   |
| Net cash provided by operating activities            | (1,338,931) | (992,855)   | (7,314, |
|  | -----       | -----       | -----   |
| Cash flows from investing activities:                |             |             |         |
| Decrease (increase) in customers' acceptances        | Ps (17,827) | Ps 118,021  | Ps (25, |
| Proceeds from sales of property, plant and equipment | 35,737      | 48,454      | 92,     |

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BANCOLOMBIA S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2003, 2004 and 2005

(Stated in millions of pesos and thousands of U.S. Dollars)

|  | 2003        | 2004        | 2005 (1   |
|--|-------------|-------------|-----------|
|  | -----       | -----       | -----     |
| Proceeds from sales of foreclosed assets   | 10,384      | 16,315      | 98,       |
| (Purchases) of property, plant and equipment   | (290,947)   | (96,333)    | (589,     |
| (Purchases) sales of investment securities   | 96,942      | (635,634)   | (2,719,   |
| Proceeds from sales of long term investments   | 120,702     | --          |           |
|  | -----       | -----       | -----     |
| Net cash used in investing activities  | (45,009)    | (549,177)   | (3,143,   |
|  | -----       | -----       | -----     |
| Cash flows from financing activities:  |             |             |           |
| Dividends declared   | (76,124)    | (156,861)   | (216,     |
| Increase in deposits   | 1,443,839   | 1,630,119   | 6,522,    |
| Increase in long-term debt   | 9,036       | 480,713     | 1,095,    |
| Increase (decrease) in overnight funds   | 507,981     | (501,645)   | 713,      |
| Increase (decrease) in interbank borrowings and borrowings from domestic development banks | 94,580      | (107,395)   | 2,823,    |
|  | -----       | -----       | -----     |
| Net cash provided by financing activities  | 1,979,312   | 1,344,931   | 10,938,   |
|  | -----       | -----       | -----     |
| Increase (decrease) in cash and cash equivalents   | 595,372     | (197,101)   | 480,      |
| Cash and cash equivalents at beginning of year   | 851,089     | 1,446,461   | 1,249,    |
|  | -----       | -----       | -----     |
| Cash and cash equivalents at end of year   | Ps1,446,461 | Ps1,249,360 | Ps 1,730, |
|  | =====       | =====       | =====     |
| Supplemental disclosure of cash flows information:   |             |             |           |
| Cash paid during the year for:   |             |             |           |
| Interest   | Ps 459,893  | Ps 173,846  | Ps 1,033, |

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|              |          |            |         |
|--------------|----------|------------|---------|
|              | =====    | =====      | =====   |
| Income taxes | Ps 5,988 | Ps 207,856 | Ps 190, |
|              | =====    | =====      | =====   |

The accompanying notes, numbered 1 to 30, form an integral part of these Consolidated Financial Statements

- 
- (1) The consolidated statements of operations for the year ended December 31, 2005, includes Conavi and Corfinsura's result since the beginning of the year.
  - (2) See Note 2 (ff).

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

(1) ORGANIZATION AND BACKGROUND

Bancolombia S.A., the "Bank" previously known as Banco Industrial Colombiano S.A. is a private commercial bank incorporated under Colombian law on January 24, 1945. On April 3, 1998, Banco Industrial Colombiano S.A. merged with Banco de Colombia S.A. and the surviving entity was renamed Bancolombia S.A. The registered office and business address of the Bank is in Medellin.

On July 30, 2005, Conavi Banco Comercial y de Ahorros S.A. ("Conavi") and Corporacion Financiera Nacional y Suramericana S.A. (post-spin off) ("Corfinsura") were merged into the Bank (the "Merger"). The Merger was approved at the Bank's Ordinary Shareholders' Meeting held on March 28, 2005 and was also duly approved by the Annual Shareholder Meetings of Conavi and Corfinsura, respectively. The Superintendency of Banking (now the Superintendency of Finance) also approved the transaction by means of Resolution No. 1050 dated July 19, 2005. The Merger was formalized through Public Deed No. 3947, executed before Notary Public No. 29 of the Circuit of Medellin, and registered in the Commercial Registry of the Medellin Chamber of Commerce on August 1, 2005. By virtue of this Merger, the Bank acquired the entire property, rights and obligations of Conavi and Corfinsura, entities which were dissolved without being liquidated.

In order to proceed with the exchange of shares resulting from the Merger and for the purpose of facilitating the future growth of the Bank, a partial amendment to the Bank's by-laws was recorded in the Commercial Registry of the Medellin Chamber of Commerce on July 26, 2005, by virtue of which the Bank's authorized capital was increased from Ps 335,000 to Ps 500,000 and the Bank's Corporate Governance policies were modified.

Once shares in Conavi and Corfinsura had been exchanged for Bancolombia shares as a result of the Merger, as of November 30, 2005 Bancolombia's subscribed and paid-in capital totaled Ps 430,684 reflecting the new shares issued by the Bank in exchange for shares of Conavi and Corfinsura.

The Bank's purpose of business is to carry out all operations, transactions, acts and services inherent to the banking business, by means of the banking establishment that carries its name and according to all applicable legislation.



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The Bank, on a non-consolidated basis, has 11,571 employees and operates through 678 branches.

The attached financial statements consolidate the assets, liabilities, earnings, contingent accounts and memorandum accounts of the Bank and Subsidiaries in which it holds, directly or indirectly, 50% or more of the outstanding voting shares (the "Subsidiaries"). The consolidated Subsidiaries are:

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

| ENTITY<br>-----   | LOCATION<br>-----      | BUSINESS<br>-----                   | PARTICIPATION<br>PERCENTAGE<br>DEC-2004<br>----- |
|---|------------------------|-------------------------------------|--|
| Almacenes Generales de Deposito<br>Mercantil S.A. ALMACENAR(5)                | Colombia               | Warehousing and<br>logistics        | 98.25  |
| Fiducolombia S.A.   | Colombia               | Trust                               | 96.16  |
| Bancolombia Panama S.A.   | Panama                 | Banking                             | 100  |
| Bancolombia Cayman  | Cayman Islands         | Banking                             | 100  |
| Leasing Colombia S.A. (6)   | Colombia               | Leasing                             | 99.99  |
| Compania Suramericana de<br>Financiamiento Comercial S.A.<br>SUFINANCIAMIENTO | Colombia               | Financial services                  | 99.99  |
| Colcorp S.A. Corporacion Financiera   | Colombia               | Investment Banking                  | 100  |
| Comisionista de Colombia S.A.(2)  | Colombia               | Securities Brokerage                | 99.99  |
| Abocol S.A. (3)   | Colombia               | Chemical<br>Various Commercial      | 92.32  |
| Valores Simesa S.A.   | Colombia               | Investments                         | 71.75  |
| Inmobiliaria Bancol S.A.  | Colombia               | Real estate broker                  | 98.95  |
| Fundicom S.A.   | Colombia               | Metals engineering                  | 79.87  |
| Unicargo de Colombia S.A. (5)   | Colombia               | Freight service                     | 98.35  |
| Sistema de Inversiones y Negocios S.A.  | Panama                 | Commercial entity                   | 100  |
| Sinesa Holding Company  | British Virgin Islands | Commercial entity                   | 100  |
| Todo UNO Colombia S.A.  | Colombia               | E-commerce                          | 53.92  |
| Future Net Inc.   | Panama                 | E-commerce                          | 60.02  |
| Compania Metalurgica<br>Colombiana S.A. COMECOL(1)                            | Colombia               | Metals engineering                  | 39.65  |
| Sociedad Portuaria Mamonal S.A. (4)   | Colombia               | Customs office<br>Chemical products | 92.69  |
| Abocol Costa Rica S.A. (4)  | Costa Rica             | commercial<br>Chemical products     | 92.43  |
| Fertilizantes Ltda. (4)   | Colombia               | commercial                          | 55.39  |
| Ditransa S.A. (5)   | Colombia               | Freight service                     | --   |
| Compania Suramericana de Arrendamiento<br>Operativo S.A.Surenting             | Colombia               | Operating leasing                   | --   |
| Suleasing Internacional S.A.  | Panama                 | Leasing                             | --   |
| Suleasing Internacional Inc.  | USA                    | Leasing                             | --   |
| Inversiones CFNS Ltda.  | Colombia               | Comercial entity                    | --   |
| Compania Suramericana de Valores S.A.<br>Suvalor                              | Colombia               | Securities Brokerage                | --   |

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|  |             |                      |    |
|--|-------------|----------------------|----|
| Suvalor Panama                               | Panama      | Securities Brokerage | -- |
| Banco Corfinsura Internacional Inc.          | Puerto Rico | Banking              | -- |
| Multienlace S.A.                             | Colombia    | Contact Center       | -- |
| 3001 S.A. (in the process of being wound up) | Colombia    | E-commerce           | -- |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

- (1) Controlled through other subsidiaries (Valores Simesa S.A. and Colcorp S.A.)
- (2) On October 1, 2005, Comisionista de Colombia S.A Comicol merged with and into Compania Suramericana de Valores S.A. Suvalor Comisionista de Bolsa as surviving entity.
- (3) On December 30, 2005 Colcorp S.A., sold its position in Abonos Colombianos S.A. - Abocol S.A, to V. International Ventures Inc. The sell price was US\$ 20,070,843.
- (4) Were affiliates of Abonos Colombianos S.A. - Abocol S.A.
- (5) On November 22, 2005, the Bank entered into a preliminary agreement with Incorbank Banqueros de Inversion, Inversiones en Logistica y Seguridad de Transporte Ltda. Inverloset, Equity Investment S.A, Rodriguez Azuero Asociados S.A. and other individuals to being negotiations relating to proposed purchase agreement, by which the Bank would sell all of the shares it holds in Almacenar S.A.
- (6) On November 30, 2005 Suleasing S.A. merged with and into Leasing Colombia S.A. as surviving entity.

Chapter XVII of 1995 External Circular 100 issued by the Superintendency of Banking (now Superintendency of Finance) establishes that the goodwill will amortize in proportional monthly installments affecting the statement of operations during the time in which it is reasonably expected that future benefits will be obtained and that, in any case, such term may not exceed ten (10) years. Notwithstanding, in consideration that results allow, management amortized one hundred percent of the value of this goodwill in the statement of operations of 2003, in this way avoiding affecting future results. This fact was made known in a timely manner to the Superintendency of Banking (now Superintendency of Finance).

(2) MAIN ACCOUNTING POLICIES

(A) BASIC ACCOUNTING AND CONSOLIDATION POLICY

Accounting practices and the preparation of financial statements of the Bank and its Subsidiaries follow the special regulations of the Superintendency of Finance (before Superintendency of Banking), or, in the absence of such regulations, generally accepted accounting principles in Colombia.

For consolidation purposes, financial statements of foreign Subsidiaries were adjusted as required by Colombian regulations with regard

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to investments, loans and leased assets. The Bank also unified accounting policies related to inflation adjustments with the Superintendency of Finance (before Superintendency of Banking).

The Bank consolidates companies in which it holds, directly or indirectly, 50% or more of outstanding voting shares. Some of these Subsidiaries also consolidate subsidiaries of their own. The Bank's Subsidiary Bancolombia Panama S.A. consolidates Bancolombia Cayman, Sistema de Inversiones y Negocios S.A., Sinesa Holding Company and Future Net Inc. The Bank's Subsidiary Almacenas S.A. consolidates Unicargo de Colombia S.A. and Ditransa S.A. The Subsidiary Colcorp S.A. consolidates Inmobiliaria Bancol S.A., Inversiones CFNS, Comecol S.A., Valores Simesa S.A., Fundicom S.A. and Todo Uno Colombia. The Bank's subsidiary Leasing Colombia S.A. consolidates Surenting S.A., Suleasing Internacional S.A. and Suleasing Internacional Inc. The Bank's subsidiary Suvalor S.A. consolidates Suvalor Panama S.A..

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### BANCOLOMBIA S. A. AND SUBSIDIARIES Notes to Consolidated Financial Statements (Stated in millions of pesos and thousands of U.S. dollars)

The consolidated financial statements are prepared for presentation to the stockholders, but are not taken as a basis for the distribution of dividends or appropriation of profits.

Intercompany transactions and balances are eliminated upon consolidation.

#### (B) INFLATION ACCOUNTING

From January 1, 1992 to December 31, 2000, the consolidated financial statements were adjusted for inflation based on the variation in the CPI (Consumer Price Index) for middle-income earners. The adjustment was applied monthly to non-monetary assets, equity (except for the reappraisal of assets and exchange adjustment), contingent accounts and memorandum accounts. No adjustment was made to income, costs or expenses, and the financial statements for the preceding period did not have to be reamesured.

#### (C) CONVERSION OF FOREIGN CURRENCY TRANSACTIONS AND BALANCES

As an authorized exchange dealer, the Bank and its Colombian Subsidiaries are authorized by the Superintendency of Banking (now Superintendency of Finance) to make direct foreign exchange purchases and sales on the exchange market.

Operations in foreign currencies other than U.S. dollars are converted into U.S. dollars using the rate of exchange published by Reuters and then reamesured in (Ps) at the Representative Market Rate (RMR) calculated on the last business day of the month and certified by the Superintendency of Finance (before Superintendency of Banking). The Representative Market Rate at December 31, 2004 and 2005 was Ps 2,389.75 and Ps 2,284.22, respectively.

The foreign currency position is the difference between assets and liabilities denominated in foreign currency, recorded in and out of the balance, realized or contingent, including those that are settled in

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Colombian local currency, which correspond to the financial statements that include operations within the national territory.

The spot foreign currency position is the difference between assets and liabilities, denominated in foreign currency, based on the unique chart of accounts; investments available for sale in equity and debt securities, held to maturity and capital contributions in foreign branches and derivate arrangements (i.e., forward contracts, futures contracts, swaps and profit or loss in option valuation). Operations that can be settled in local currency are not included in this position.

The maximum amount of the Bank's position in any currency that is not Pesos cannot exceed the equivalent in foreign currency of twenty percent (20%) of the technical capital and the minimum amount may be negative, without exceeding the equivalent in foreign currency of five per cent (5%) of the Bank's technical capital.

The maximum amount corresponding to the Bank's spot foreign currency position cannot exceed fifty percent (50%) of the technical capital and cannot be negative.

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### BANCOLOMBIA S. A. AND SUBSIDIARIES Notes to Consolidated Financial Statements (Stated in millions of pesos and thousands of U.S. dollars)

The assets and liabilities in foreign currency of the Subsidiaries abroad included in the consolidated financial statements were converted into Colombian Pesos using the Representative Market Rate calculated the last business day of the month.

The equity accounts were converted into Colombian Pesos using historical exchange rates.

The income accounts were converted at an average rate of Ps 2,626.22 and Ps 2,320.77 per Dollar for the years 2004 and 2005, respectively. Said rates correspond to the average value of the representative market exchange rate on the business days in the period from January 1 to December 31 of each year.

#### (D) COMPARABILITY

The consolidated financial statements for the year ended December 31, 2004 include the financial information of the parent company and its subsidiaries. These however, do not include any effects of the Merger of the Bank, Conavi and Corfinsura (spun-off corporation), which was completed on July 30, 2005. The consolidated financial statements for the year ended December 31, 2005 includes the financial information of the parent company and its subsidiaries, which includes all additional subsidiaries acquired as a result of the Merger with Conavi and Corfinsura (spun-off corporation). For this reason, financial statements for 2004 and 2005 should be read taking into account the impacts of the Merger.

#### (E) CASH AND CASH EQUIVALENTS

The statement of cash flows was prepared using the indirect method. These cash flows were calculated by taking the net differences in the balances shown on the consolidated balance sheet on December 31, 2005 and

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December 31, 2004, not taking into account independently the effect of the Merger with Conavi and Corfinsura. Overnight funds sold with reselling agreements are considered to be cash equivalents for the purposes of this statement.

### (F) USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are: allowance for loans, accrued interest losses, allowance for foreclosed assets and valuation of investments and derivatives. Actual results could differ from those estimates.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

### (G) REAL VALUE UNIT RATE (UVR)

The main operations that the Bank carries out with regard to mortgage loans are linked to the Unidad de Valor Real (Real Value Unit, the "UVR") and adjusted on a daily basis according to the daily value of the UVR, as published by the Central Bank.

The values assigned by the Central Bank to the UVR, in Colombian pesos, on December 31, 2004 and December 31, 2005, were Ps 145.9324 and Ps 153.4858, respectively.

The UVR rate corresponds to the monthly variance in the CPI(10) during the calendar month immediately prior to the month for which the UVR rate is being calculated. In light of the above, the annualized UVR rate at December 31, 2004 and December 31, 2005 was 1.66% and 2.04%, respectively.

### (H) OVERNIGHT FUNDS SOLD AND RESELLING AGREEMENTS

This represents the funds directly placed by the Bank and its subsidiaries in other financial institutions with or without investment collateral, using surplus liquidity, with or without a commitment to resell, at terms of up to 30 days. The account also includes overnight deposits with banks abroad using Bank funds deposited outside Colombia.

Transactions not repaid within 30 days are reclassified as investments, loans or financial lease operations, as the case may be.

The difference between present value (cash received) and future value (resale price) is income booked to financial yields.

### (I) INVESTMENTS

This includes investments acquired by the Bank and its Subsidiaries to maintain secondary liquidity, investments in companies that Bancolombia has less than 50% of outstanding shares, to satisfy requirements of law or regulation, or simply to eliminate or significantly reduce market risks to which assets, liabilities or other balance sheet items are exposed.

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### 1. CLASSIFICATION

The investments are classified as "trading investments", "investments available for sale" and "investments held to maturity". The first two of these groups may include investments in debt or equity securities. The third shall only include investments in debt securities.

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- (10) CPI - Consumer Price Index, or inflation, is certified by Departamento Administrativo Nacional de Estadística (National Administrative Department of Statistics, or "DANE").

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Debt securities are those which make the holder the creditor of the issuer, whereas equity investments are those which make the holder a part-owner of the issuer.

#### TRADING SECURITIES

Trading investments are those acquired for the main purpose of obtaining profits from fluctuations in short-term prices.

#### HELD TO MATURITY

Investments "held to maturity" are debt securities acquired with the stated purpose and legal, contractual, financial and operational capacity to hold them until maturity or redemption. They may not be used for liquidity operations unless they are mandatory investments entered into on the primary market and provided that the counter party for the operation is the Colombian Central Bank, the General Treasury Direction of Colombia, institutions overseen by the Superintendency of Finance (before Superintendency of Banking and the Securities Superintendency) or in the exceptional cases that the Superintendency of Finance may determine.

#### AVAILABLE FOR SALE

These are the investments which do not fall into either of the other two classifications, for which the investor has the stated intention and legal, contractual, financial, and operational capacity to hold them for at least one year from the date of this classification.

This classification covers equity investments with low exchange turnover or which are unquoted and those held as parent or controlling stockholder of the issuer. There is no one-year minimum holding period required for the purposes of sale.

One of the Bank's subsidiaries, Bancolombia Panama S.A., classifies the investments it holds for the purpose of exercising control as permanent in accordance with Panama Superintendency of Banking Order 7 of 2000.

### 2. VALUATION

The purpose of valuation is to record the fair market value for a

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given investment as of a determined date.

### 2.1 DEBT SECURITIES

Debt securities are valued daily and the result is recorded daily. The procedures are defined in 1995 External Circular 100, Chapter I, numeral 6.1 issued by the Superintendency of Banking (now Superintendency of Finance).

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The Bank determines the market value of trading debt securities and available for sale debt securities by using the prices, reference rates and margins that the Bolsa de Valores de Colombia (the "Colombian Stock Exchange") calculates and publishes daily.

Investments in debt securities held to maturity are valued exponentially as of the internal rate of return calculated on the purchase date.

### 2.2 EQUITY SECURITIES

Equity investments are valued monthly and the results of such valuations are recorded monthly. They are valued based on the level of exchange volume at the time of valuation, as follows:

- High-volume: They are valued based on the daily weighted average trading price published by the exchange.
- Medium-volume: They are valued based on the average price published by the exchange, being the weighted average trading price on the last five days on which securities are traded.
- Low volume and unquoted: They are valued based on the increase or decrease according to the investor's share of the variations in equity value calculated based on the most recent audited financial statements that cannot be older than six months since valuation date, or more recent statements, if available.

### 2.3 SECURITIES DENOMINATED IN FOREIGN CURRENCY, IN UVR OR IN OTHER UNITS

The Bank determines the market value of the respective security in its original currency or unit before converting it into U.S. dollars.

As of January 2004, pursuant to 2004 External Circular 003 issued by the Superintendency of Banking (now the Superintendency of Finance), if the security is denominated in a currency other than the U.S. dollar, the value of the security determined in its original currency is converted into U.S. dollars using the foreign exchange translation rates published on the valuation date on the European Central Bank web page. The value thus obtained is multiplied by the Representative Market Rate effective on the valuation date (which is the current rate for the next day) and certified by the Superintendency of Finance or by the effective unit for the same day, as the case may be.

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3. RECORDING

3.1 TRADING INVESTMENTS

The difference between current and previous market value is used to adjust the value of the investment and is credited or charged to earnings as income or expense, respectively.

3.2 INVESTMENTS HELD TO MATURITY

The present value corresponds to the exponential valuation using the internal rate of return calculated at the time of purchase and its updated value is recorded as the greater of the investment value and its offsetting entry is recorded as income in the fiscal period operations statement.

These investments are recorded at amortized cost and interest accruals are recorded in earnings.

3.3 INVESTMENTS AVAILABLE FOR SALE

3.3.1 DEBT SECURITIES

Changes in the values of these securities are recorded using the following procedure:

The difference between the present value on the valuation date and the previous present value increases or decreases the value of the investment and is credited to earnings. The present value is arrived at by applying an exponential calculation based on an internal rate of return established at the time of purchase.

The difference between the market value and the present value of the investment increases or decreases its value and is recorded in the equity account as unrealized earnings or loss account.

3.3.2 EQUITY INVESTMENTS

The changes found in these securities have accounting entries made according to the investment trading volume, as follows:

3.3.2.1 INVESTMENTS IN SECURITIES WITH LOW VOLUME OR UNQUOTED SECURITIES

If the investment value based on the investor's shares of the equity of the investee is greater than the value at which the investment is registered, the difference will affect, in the first



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place, the provision or devaluation until it runs out, and the excess is registered as a surplus for valuation in stockholders' equity against reappraisal of the assets account.

If the investment value based on the investor's shares of the equity of the investee is less than the value at which the investment is registered, the difference will affect, in the first place, the surplus for valuation of the corresponding investment until it runs out, and the excess is registered as devaluation of said investment within equity, against devaluation of the assets account.

When the dividends or profits are distributed in kind, including those from capitalizing the equity revaluation account, the portion recorded as the surplus for valuation must be recorded as income, charged against the investment and the surplus must be reversed. When the dividends or profits are distributed in cash, the value recorded as surplus for valuation must be recorded as income, the surplus reversed and the excess amount of the dividends must be recorded as a lesser investment value.

### 3.3.2.2 HIGH OR MEDIUM - VOLUME

The update of the market value of these securities is recorded as an accumulated unrealized gain or loss, within the equity accounts, crediting or debiting the investment.

Dividends or profits distributed in kind or in cash, including those from capitalizing the equity revaluation account, must be recorded as income up to the amount corresponding to the investor of profits or equity revaluation that the issuer has recorded since the investment acquisition date, charged to accounts receivable.

Before External Circular 049 dated November 30, 2004 issued by Superintendency of Banking (now Superintendency of Finance) became effective, dividends or profits distributed in kind or in cash, including those from capitalizing the equity revaluation account, had to be recorded up to the amount that had been recorded as accumulated unrealized gains, during the fiscal year to which the profits and equity revaluation distributed corresponded, and were charged to the latter. The collection of the dividends in cash had to be recorded as a lesser value of the investment.

## 4. PROVISIONS OR LOSSES DUE TO CREDIT RISK CLASSIFICATION

The prices of trading and available for sale debt securities that do not have fair exchange prices, those classified as held to maturity as well as the price for equity securities with low or minimum volume or that are unquoted must be adjusted on each valuation date, based on the credit risk classification.

Internal or external debt securities issued or guaranteed by the Republic of Colombia or the Colombian Guarantee Fund for Financial Institutions ("Fogafin" for its Spanish initials) or issued by the Central Bank are not subject to this adjustment.

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### 4.1 SECURITIES ISSUED ABROAD OR WITH FOREIGN RANKING

Securities that are rated by a rating firm acknowledged by the Superintendency of Finance (before Securities Superintendency) or securities issued by entities that are rated by those rating firms cannot be registered for an amount that exceeds the following percentages of their nominal net amortization value made up to the valuation date:

| LONG TERM<br>RANKING | MAX. AMOUNT<br>% | SHORT TERM<br>RANKING | MAX. AMOUNT<br>% |
|----------------------|------------------|-----------------------|------------------|
| -----                | -----            | -----                 | -----            |
| BB+, BB, BB-         | Ninety (90)      | 3                     | Ninety (90)      |
| B+, B, B-            | Seventy (70)     | 4                     | Fifty (50)       |
| CCC                  | Fifty (50)       | 5 y 6                 | Zero (0)         |
| DD, EE               | Zero (0)         |                       |                  |

Provisions for investments classified as held to maturity, for which it is possible to establish a fair exchange value, correspond to the difference between the recorded value and the fair exchange value.

### 4.2 SECURITIES FROM ISSUES OR ISSUERS WITHOUT ANY FOREIGN RATING AND EQUITY SECURITIES

These securities are rated and classified according to the methodology defined by the Bank and its Subsidiaries. The maximum value, as defined by the Superintendency of Finance (formerly Superintendency of Banking), at which these investments are posted, according to their category is:

| CATEGORY                               | MAX.<br>REGISTERED<br>AMOUNT % (1) | INVESTMENT CHARACTERISTICS   |
|--|------------------------------------|--|
| -----                                  | -----                              | -----  |
| B Acceptable risk, greater than normal | Eighty (80)                        | Present factors of uncertainty that could affect the capacity to continue adequately fulfilling debt service and weaknesses that could affect their financial situation.         |
| C Appreciable risk                     | Sixty (60)                         | Present medium-high probabilities of non-fulfillment of timely payments of capital and interest in their financial situation that may compromise the recovery of the investment. |
| D Significant risk                     | Forty (40)                         | Present non-fulfillment of agreed terms of the security and material deficiencies in their financial situation, the probability of recovering the investment is highly doubtful. |
| E Unrecoverable                        | Zero (0)                           | Recovery highly improbable.  |

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- (1) On the net nominal amortization values made up to the valuation date for debt securities or the acquisition cost less allowances for equity securities.

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(J) LOANS AND FINANCIAL LEASE OPERATIONS

These accounts record loans and financial leases made by the Bank and its Subsidiaries in the various modalities permitted. They are funded by the Bank's own capital, public deposits and other internal and external sources of funds.

Loans are recorded at face value, except for acquisition of accounts receivable (factoring operations) which are recorded at cost, and foreign currency operations, which are converted into local currency.

The Subsidiary Bancolombia Panama S.A., authorized by the Panama Superintendency of Banking, includes participating credit loans in its loan portfolio. These are loans for which the subsidiary assumes no credit risk, which, in spite of having been sold and 100% paid up, are not taken out or omitted from the portfolio group. The profit in this business activity is seen in the net interest margin between the loan participation portfolio and the original loan portfolio.

External Circular 040 dated October 23, 2003 modified the treatment of financial leases. Since January 1, 2004, they have been included as part of the loan portfolio. For additional information see Note 2 (q).

The institutions overseen by the Superintendency of Finance (before Superintendency of Banking) must have a Credit Risk Administration System that puts in place policies, processes, models, and control mechanisms to enable risk identification, mitigation and measurement.

Credit risk evaluation is done pursuant to effective regulations, using an ongoing monitoring process and periodical portfolio classification as described below.

For provisions, the Bank applies Superintendency of Finance regulations as described below; in addition, the Bank calculates probable expected losses and tests estimating provisions using this methodology.

During the month of December 2004, External Circular 052 modified 1995 External Circular 100 Chapter II issued by the Superintendency of Banking (now Superintendency of Finance), which sets forth guidelines for credit risk administration. This Circular defines the basic elements of the system for the management of credit risk (SARC, for its initials in Spanish) and introduces reference models and a time schedule for submitting the internal models to the Superintendency of Finance, among others. The Bank has adopted all required modifications and will continue its in-depth develop of the proposed schemes as described below.

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### 1. CLASSIFICATION

Loans and financial lease contracts are classified as follows:

#### MORTGAGE LOANS

These are loans, no matter what their value, made to individuals for the purchase of new or used housing or to build a home, all in accordance with Law 546 of 1999. Such loans include: those 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 at least 5 and up to 30 years.

#### CONSUMER LOANS

These are loans and financial leases, no matter what their value, granted to individuals for the purchase of consumer goods or to pay for non-commercial or business services.

#### SMALL BUSINESS LOANS

These are loans and financial leases granted to microbusinesses, whose total balance outstanding with the Bank does not exceed twenty-five (25) times the effective legal minimum monthly salaries ("SMLVs").

"Microbusiness" means any economic exploitation unit owned by an individual or corporate entity, in entrepreneurial, farming and livestock, industrial, commercial or service activities, whether rural or urban, whose staff does not exceed ten (10) workers and whose total assets are under five hundred one (501) effective legal minimum monthly salaries ("SMLVs").

#### COMMERCIAL LOANS

Commercial loans are those that are granted to individuals or companies in order to carry out organized economic activities. These are different from those granted as microcredit loans.

Loan-related commissions and other receivables are classified within the accounts for the type of loan to which they are related.

### 2. EVALUATION FREQUENCY

The Bank and its Subsidiaries make continuous evaluations of their lending and financial lease operation risk, making all necessary modifications to the respective classifications when there are new analysis or data to justify such changes.

As a part of the previous process, in the months of May and November, the Bank and

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its Subsidiaries evaluate all loans and financial leases that are past due after having been restructured and that at the time of the evaluation exceed three-hundred (300) effective SMLVs, as well as loans from debtors whose debt from the different loan types exceeds this same amount.

### 3. EVALUATION CRITERIA

The Bank and its Subsidiaries evaluate loans and financial leases using the following criteria required by the Superintendency of Finance (before Superintendency of Banking):

They evaluate the ability to pay of the debtor/co-debtors/guarantors or any other person directly or indirectly unconditionally liable for the debt, and project the cash flow for such entities, if any. The following is the minimum information required from the debtor: income and outgoing cash flows, economic solvency, information on its current and past compliance with its obligations as well as the financial and credit history of debtors in risk centers, the number of times loans have been restructured, possible financial risks to cash flow, legal, operational and strategic risks, and the possibility of contagion.

### 4. CLASSIFICATION

The Bank and its Subsidiaries classify loans and financial leases on the basis of the above criteria into the following credit risk categories:

| CATEGORY<br>-----                 | COMMERCIAL<br>-----                  | CONSUMER<br>-----     |
|-----------------------------------|--------------------------------------|-----------------------|
| "A" Normal Risk                   | current - and up to 1 month past due | current - and up to 1 |
| "B" Acceptable Risk, Above Normal | 1-3 months past due                  | 1-2 months pas        |
| "C" Appreciable Risk              | 3-6 months past due                  | 2-3 months pa         |
| "D" Significant Risk              | 6-12 months past due                 | 3-6 months pa         |
| "E" Risk of Unrecoverability      | over 12 months past due              | over 6 months p       |

| CATEGORY<br>-----                 | SMALL BUSINESS LOANS<br>-----        | MORTGAGE<br>-----     |
|-----------------------------------|--------------------------------------|-----------------------|
| "A" Normal Risk                   | current - and up to 1 month past due | current - and up to 2 |
| "B" Acceptable Risk, Above Normal | 1-2 months past due                  | 2-5 months pa         |
| "C" Appreciable Risk              | 2-3 months past due                  | 5-12 months p         |
| "D" Significant Risk              | 3-4 months past due                  | 12-18 months p        |
| "E" Risk of Unrecoverability      | over 4 months past due               | over 18 months        |

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RULES OF ALIGNMENT

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A Bank and/or Subsidiary classification of B, C, D or E for any loan or financial lease would automatically classify all of that debtor's accounts in the same category, unless it can be shown to the Superintendency of Finance (before Superintendency of Banking) that the Bank has sound reasons for a lower risk classification.

Under the terms of the Colombian Commercial Code Articles 260-262, financial institutions that are related will receive the same classification as the parent institution unless the Superintendency of Finance is shown that there are good reasons for maintaining such entities in a lower risk category.

The Superintendency of Finance requires that entities align their classifications with other financial institutions when at least two of them have classified the debtor into a higher risk category, where the debt represents at least 20% of the debtor's total indebtedness according to the most recent information available from credit bureaus. In this event, there may not be more than one level of difference in risk classification.

The Superintendency of Finance can order reclassifications and reranking of the classifications assigned by financial institutions. It can also order loan portfolio reclassifications for an economic sector, geographical zone or for one debtor or a group of debtors, whose borrowings must be accrued pursuant to rules on individual debt limits.

### 5. SUSPENSION OF ACCRUALS

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

| TYPE OF LOAN<br>----- | ARREARS<br>IN EXCESS OF:<br>----- |
|-----------------------|-----------------------------------|
| Mortgage              | 2 months                          |
| Consumer              | 2 months                          |
| Small business loans  | 1 month                           |
| Commercial            | 3 months                          |

Until December 31, 2004, the suspension of accruals for mortgage and small business loans were applied after a credit is in arrears for more than 4 months and 2 months, respectively.

The Bank and its subsidiaries adopted a policy, according to which all loans and financial leasing operations of any type, with the exception of mortgage loans, that are more than 30 days past due, cease to accumulate interest on the statement of operations and instead are recorded in the memorandum accounts until such time the client proceeds with their payment.

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

### 6. PROVISIONS

The Bank makes provisions against earnings for each period as follows:

#### General Provision:

Until September 30, 2005, the Bank and its subsidiaries used to set up a general provision corresponding to one per cent (1%) of the total value of the gross loan portfolio.

In accordance with External Circular 035 issued in October 2005, the Superintendency of Banking (now Superintendency of Finance) implemented a methodology of monthly aliquots, therein stipulated, allowing for the percentage provision to be increased by an additional one per cent (1%) during 21 months. In this way, by July 1, 2007, there would be a general provision of 2% totally set up on the total value of the gross loan portfolio.

However on, December 30, 2005, the Superintendency of Finance enacted External Circular 004, decreasing the general provision to the original one per cent (1%) of the value of the total gross loan portfolio. Also, the aliquots corresponding to the months of October and November were required to be applied to the individual provisions for Categories "A" and/or "B".

As a result of the above, the general provision continues to be one per cent (1%) of the value of the total gross loan portfolio. Said provision, however, may be increased if approved by the General Shareholders Meeting, and is updated on a monthly basis according to the increases or decreases in the loan portfolio.

#### Individual Provisions:

Until December 30, 2005, the Bank set up individual provisions on its portfolio, according to rules and regulations issued by the Superintendency of Finance, corresponding to percentages calculated according to the different ratings on the net unpaid balance net of guarantees, while the internal methodology was implemented for the calculation of the provisions considering the expected losses in the case of default.

Considering the impact that will be caused by the change in provisions once the MRC (Reference Model for Commercial Portfolio) enters into effect as well as the dynamics shown in different types of loans, and the gradual convergence between the default classification system and the models of expected losses, the Superintendency of Finance by means of External Circular 004, issued on December 30, 2005, which increased its provision percentages on "A" and "B" rated loans to 1% and 3.2%, respectively.

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To cover the additional value that this increase represents with respect to the individual provisions, the institutions regulated by the

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Superintendency of Finance will have a total period of nineteen (19) months beginning as of December 2005, to follow the aliquot methodology according to instructions contained in Subsections 2.1.1 and 2.1.2 of Exhibit 1 of Chapter II of Circular 100 issued by the Superintendency of Banking (now Superintendency of Finance).

Furthermore, in compliance with instructions given by means of External Circular 004 of 2005, the Bank applied the total amount of aliquots generated in the form of general provision in the months of October and November, on the "B" rated loan portfolio pertaining to the Commercial Category.

Increases in the individual provisions for the "A" and "B" rated loans, as provided for by External Circular 004 of December 2005, must be set up without deducting the value of the corresponding guarantees, carried out on the balance of the gross portfolio.

Based on the regulations issued by the Superintendency of Finance minimum allowances for loans and financial leases must correspond to the following percentages:

|                                  | COMMERCIAL |                | CONSUMER |                | SMALL   |
|----------------------------------|------------|----------------|----------|----------------|---------|
|                                  | Capital    | Interest/Other | Capital  | Interest/Other | Capital |
| A- Normal Risk                   | 1          |                | 1        |                | 1       |
| B- Acceptable Risk, Above Normal | 3.2        | 1              | 3.2      | 1              | 3.2     |
| C- Appreciable Risk              | 20         | 100            | 20       | 100            | 20      |
| D- Significant Risk              | 50         | 100            | 50       | 100            | 50      |
| E- Risk of Unrecoverability      | 100        | 100            | 100      | 100            | 100     |

| HOME MORTGAGE %                     | CAPITAL                  |                              |                |
|-------------------------------------|--------------------------|------------------------------|----------------|
|                                     | ON GUARANTEED<br>PORTION | ON NON-GUARANTEED<br>PORTION | INTEREST/OTHER |
| A- Normal Risk                      | 1                        | 1                            | --             |
| B- Acceptable Risk, Above<br>Normal | 3.2                      | 100                          | 1              |
| C- Appreciable Risk                 | 10                       | 100                          | 100            |
| D- Significant Risk                 | 20                       | 100                          | 100            |
| E- Risk of Unrecoverability         | 30                       | 100                          | 100            |

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In the case of the mortgage portfolio, if the loan has remained in Category E for 2 consecutive years the provision for the guaranteed portion is increased to 60% and if it remains for another year in this category, the provision to be set up is for 100%, unless there is any indication of a possible recoupment by means of actions previously taken by the Bank.

Notwithstanding, until the new methodology set forth through External Circular 052, issued by the Superintendency of Banking (now Superintendency of Finance) on December 30, 2004, is implemented, the Bank administration, seeking to anticipate the effects of calculating expected losses, decided to maintain the decision taken in March 2004 of setting up provisions corresponding to 30% for the loan and financial leasing portfolios, net of guarantees, pertaining to the "B" rated consumer and small business categories, as follows:

|                                  | Consumer %            |                           |                  | Small Business Loan   |                           |
|----------------------------------|-----------------------|---------------------------|------------------|-----------------------|---------------------------|
|                                  | CAPITAL               |                           |                  | CAPITAL               |                           |
|                                  | ON GUARANTEED PORTION | ON NON-GUARANTEED PORTION | INTEREST/ OTHERS | ON GUARANTEED PORTION | ON NON-GUARANTEED PORTION |
| A - Normal Risk                  | 1                     | 1                         |                  | 1                     | 1                         |
| B- Acceptable Risk, Above Normal | 3.2                   | 30                        | 30               | 3.2                   | 30                        |
| C- Appreciable Risk              |                       | 50                        | 100              |                       | 60                        |
| D- Significant Risk              |                       | 100                       | 100              |                       | 100                       |
| E- Risk of Unrecoverability      |                       | 100                       | 100              |                       | 100                       |

However, the Bank and its Subsidiaries set up additional provisions based on an analysis of loss and probabilities of recoupment.

7. THE EFFECT OF SECURITY ON PROVISIONS

In the case of mortgage loans, the value of the corresponding guarantees to be considered in order to calculate the provisions is 100% of their value. Commercial, consumer and small business categories are valued at no more than 70% of their value. Notwithstanding, depending on whether the security is a mortgage or not and on the length of time the loan has been in arrears, the Bank only take into consideration the percentages of the total security value indicated below.

| % COVER OF SECURITY | TIME ELAPSED FROM DEFAULT DATE TO SECURITY NON-EXECUTION |                       |
|---------------------|--|-----------------------|
|                     | APPROPRIATE MORTGAGE SECURITY/ESCROW                     | NON-MORTGAGE SECURITY |
| 70                  | 0-18 months  | 0 - 12 months         |
| 50                  | 18-24 months   | 12-24 months          |
| 30                  | 24-30 months   | --                    |
| 15                  | 30-36 months   | --                    |
| 0                   | Over 36 months   | Over 24 months        |

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However, increases in individual provisions for the "A" and "B"- rated portfolio, as provided for by External Circular 004 of December 2005, must be set up without deducting the value of the corresponding guarantees.

The security is admissible when it is formalized and if it has a professionally-established and objective value to provide effective legal backing to repayment of the secured loan, giving the lender or creditor preferential or prior rights to obtain payment, and if it is reasonably marketable.

APPRECIATION OF MORTGAGE COLLATERAL

The value of the collateral posted by the Bank is established based on parameters set out in External Circular 034 of 2001 issued by the Superintendency of Banking (now Superintendency of Finance) and listed below:

- In the case of mortgage collateral consisting of property to be used for housing purposes, the market value shall be the initial appraisal value of the collateral duly adjusted according to the housing price index published by the National Planning Department. The value shall be updated on at least a quarterly basis, based on the aforementioned index.
- In the case of mortgage collateral consisting of property different from housing, the market value shall be the appraisal value of the property given over in guarantee when the loan is issued or the new appraisal value as subsequently calculated on a periodic basis.

For the purpose of calculating provisions, the value of the collateral pledged on the debtor's commercial or industrial establishments is not taken into account. Also, the property which forms part and the respective establishment or mortgages on property where the establishment operates or functions, are not taken into account.

The Bank and its Subsidiaries do not base their lending decisions on the amount and/or type of collateral offered, since they understand that the source of payment of the loan or financing arrangement is provided by the capacity of the beneficiary of the loan to generate cash flows, whether this is an individual or a company. However, in the case of new projects and/or mid to long-term financing, alternative sources are required, as a matter of prudence, in order to recoup the loan. Bearing in mind that the Bank has made inroads on the SME segment, its policy is to take out coverage with the Fondo Nacional de Garantias and the Fondo Agropecuario de Garantias.

BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
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### 8. MORTGAGE DEBT RELIEF

Mortgage relief originates from the large-scale process of reliquidating mortgage loans as a result of the change in the housing financing system, introduced by Law 546 of 1999. Credit institutions carried out this reliquidation process based on the difference between the DTF and the UPAC rates, this for the purpose of comparing how the UPAC rate is performing with regard to the UVR rate, so that these might be accorded the same reduction as that corresponding to the UPAC-linked credit. The Colombian Government, for its part, proceeded to credit to the value of the obligations the total amount of the difference produced by this reliquidation process and for the purpose of paying the amounts credited issued UVR-denominated Treasury Bonds (TES).

On the other hand, Decree 712 of 2001, which amended Decree 2221 of 2000, establishes in its Article One the following grounds for returning the debt relief applied for credit institutions, to the Republic of Colombia via the Ministry of Finance and Public Credit.

#### DUE TO DEFAULT ON THE PART OF THE BENEFICIARY OF THE CREDITED AMOUNT

When the beneficiary of the credited amount, according to the provisions of Law 546 of 1999, defaults on more than twelve (12) successive monthly payment installments, as of the date on which the amount is credited to the individual long-term mortgage loan.

#### DUE TO FAILURE TO PAY THE INDIVIDUAL MORTGAGE LOAN ON THE PART OF THE BENEFICIARY OF THE CREDITED AMOUNT

If the credit institution has started collection proceeding against the mortgagor prior to the expiry of the term of default established in the prior section.

#### DUE TO PAYMENT OF MORTGAGE CREDITS FOR MORE THAN ONE DWELLING PER PERSON

The amounts credited on mortgage loans for more than one dwelling per person must be returned.

#### DUE TO WAIVING THE AMOUNT CREDITED

Should the mortgagor have selected the loan for which he or she wishes the credited amount to be applied, as provided for by Article 40 of Law 546 of 1999, the mortgagor should provide written notification of his or her intent to waive the credit on other loans, if applicable. If the credit to which the mortgagor is waiving should have been made prior to the waiver made, the corresponding entity must review the credited amount applied to the loan and make the corresponding refund to the Nation.

#### DUE TO AMOUNTS CREDITED BEING HIGHER THAN THOSE DUE

When amounts higher than those due are credited, the excess amount must be refunded to the Nation together with the corresponding interest paid up to the date on which the refund is made.

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### 9. LOANS TO REGIONAL AUTHORITIES

The evaluation of loans to regional authorities includes not only the criteria applicable to regular borrowers but also the provisions set forth in Law 358 of 1997 and Law 617 of 2000.

### 10. RESTRUCTURED LOANS

A "restructured loan" is a loan for which a legal agreement exists whose purpose or effect is to modify some of the terms of the loan for the debtor's benefit and at its request. This includes informal or non-moratorium agreements, Law 550 of 1999 agreements, Law 617 of 2000 agreements, and special restructuring as defined in the Superintendency of Banking (now Superintendency of Finance) Circular 39 of 1999.

Restructured loans shall not be considered to include the credit relief stipulated by law, as was the case of the relief stipulated in Law 546 of 1999, for the housing loan portfolio.

For the loans restructured as indicated above or using other restructuring modes which include the capitalization of interest recorded in memorandum accounts or balances written off, including capital, interest and other items, the amounts capitalized are recorded as deferred income and they are amortized in proportion to the amounts actually collected.

### 11. CHARGE OFFS

The Bank writes off debtors classified as "unrecoverable", following the criteria given below, at the latest at the close of the half-year in which that classification was made, provided they meet the following conditions:

- Provision of 100% of all amounts past due (capital, interest and other items)
- One hundred eighty (180) days past due for consumer and small business loans
- Three hundred sixty (360) days past due for commercial loans
- One thousand six hundred twenty (1620) days past due for mortgage loans

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

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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Charge-offs in Bancolombia Panama S.A.

In the case of the subsidiary in Panama, the Bank takes into account the Republic of Panama Superintendency of Banking Order 6-2000, dated June 28, 2000, which requires that Bancolombia Panama charge off all loans classified as unrecoverable at the latest by the end of the fiscal period in which they were

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so classified.

### 12. SECURITIZED NON-PERFORMING LOANS

The non-performing mortgage loan portfolio was securitized by the Bank for the following purposes:

- To reduce the level of overdue loans, and as a result reduce the systemic risk presented given the concentration of long-term assets vs. short-term liabilities.
- Improve upon the Bank's financial indicators.
- Mobilize and free up resources from the economy to the production system based on a non-performing asset which would otherwise not afford this benefit.
- Involve the Bank in the process of making the capital market more sophisticated.

The securitization process carried out on the mortgage loan portfolio was made in accordance with subsection one of Article 12 of Law 546 of 1999. The Bank proceeded to completely separate and isolate from its equity the total amount of underlying assets that were securitized, forming part of a Universality, according to that indicated in Article 2 of Resolution 775 of 2001 issued by the Superintendency of Banking (now Superintendency of Finance) issuing A, B and C-rated credit securities to finance the building and purchase of housing. A- rated securities were sold to the Securitizing Party and the B- and C- rated securities were recorded as - Trust Rights - Investments - pursuant to instructions received from the Superintendency of Finance. All expenses incurred in taking possession of the guarantee are paid for by the Bank; in exchange the Bank receives the amount remaining after paying out the total amount of principal and interest on said securities.

### (K) ACCEPTANCES AND DERIVATIVES

#### ACCEPTANCES

The Bank issues local currency bank acceptances for up to 180 days for import or export operations or for local purchases of merchandise, pursuant to legal provisions.

They are treated as active loans and may not exceed the Bank's paid in capital and legal reserve. The asset and liability are initially recorded at the same time.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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If unpaid at maturity, the asset is reclassified to a loan account and the liability to "past due bank acceptances" until it is paid, and as of maturity, these acceptances are subject to reserve requirements for on demand liabilities for payment within 30 days.

The term granted by the beneficiary abroad to the client in Colombia to pay for the goods is governed by International Chamber of Commerce rules and

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may exceed 180 days under the internationally-accepted deferred credit mode for up to one year. The ledgers may therefore contain foreign currency acceptances for more than 180 days.

### DERIVATIVES

The Bank and its Subsidiaries record the amount of agreements between two or more parties to purchase or sell assets at a future date, whose compliance or settlement is agreed upon more than two business days following the operation initiation date, in order to provide or obtain hedging, in the terms defined by competent authorities. Therefore, these agreements create reciprocal and unconditional rights and obligations. Operations are formalized by contract or letter of intent. The Bank has contracts for forwards, for options, swaps and futures.

Currency derivatives are designed to cover exchange exposure risks on structural or traded open positions by setting up a reciprocal operation or synthetic coverage for up to the maximum exposures allowed by the regulation and control agencies.

The difference between rights and obligations is recorded as income or expense, as the case may be.

### NEXT DAY OPERATIONS

These include all agreements or contracts entered into by two parties and to be fulfilled within two business days immediately following the date on which the agreement or contract is made.

### FORWARD CONTRACTS

A forward contract is any agreement or contract that meets the needs of two parties acting outside the market for the purpose of accepting or delivering a specific quantity of a product or underlying asset with defined specifications regarding price, date, place and means of delivery.

### FUTURE CONTRACTS

These are standard contracts for future delivery, specifying due date, quantities, amounts, qualities, etc. The valuation is calculated pursuant to the stock market practices where the securities are traded.

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### BANCOLOMBIA S. A. AND SUBSIDIARIES Notes to Consolidated Financial Statements (Stated in millions of pesos and thousands of U.S. dollars)

Futures may be liquidated in cash, by a reciprocal operation prior to the due date, by physical delivery of a product or by liquidating against an index.

### SWAP CONTRACTS OR FINANCIAL EXCHANGE CONTRACTS

A swap contract or financial exchange contract is a contract between two parties that agree to exchange flows of money within the time set forth in the obligations, which is financially similar to a series of Forward Contracts whose objective is to reduce costs and risks due to variations in exchange rates or in interest rates.

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### SIMULTANEOUS OPERATIONS

Simultaneous operations are those that are set up as a result of purchase and sale agreements by virtue of which a person (original seller) sells fixed-income securities to another (original buyer), with the undertaking that the latter shall sell back to the former, at a later date and at a price established at the beginning of the operation, securities equivalent to those originally handed over. Likewise, the original seller is obliged to purchase the securities handed over to the original buyer, according to the terms and conditions that were expressly stipulated in the agreement or contract.

### OPTION CONTRACTS

In option contracts, the holder of an option has the right, but not necessarily the obligation, to purchase or sell a specific quantity of an asset at a given price on a given date or during a determined period. The Bank has established an accepted technique for valuing these operations, taking into account market risks, operational risks and legal risks.

Derivatives are accounted for at fair value on a daily basis and results of the valuation are recorded on the same basis.

### (L) FORECLOSED ASSETS

The Bank and its Subsidiaries record the adjusted value of assets received in payment of unpaid loans in this account.

The following criteria apply to the recording of foreclosed assets:

- The initial value recorded is the value specified in the court award or the one agreed upon by the debtors.
- If the property received in payment is not in a sellable condition, its book value is increased by the expenses the Bank and its Subsidiaries incur to put it into a sellable condition.

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### BANCOLOMBIA S. A. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

(Stated in millions of pesos and thousands of U.S. dollars)

- If the proceeds of the sale are more than the settlement value agreed upon with the debtor, that difference is recorded as an account payable to the debtor. If the proceeds of sale are expected to be insufficient to cover the outstanding debt, the difference must be immediately recorded on the income statement.
- Moveable assets received in payment corresponding to investment securities are valued by applying the criteria indicated in this note in letter (i) Investments, but taking into account provision requirements for the periods referred to below.
- When the commercial value of the property is lower than its book value, a provision must be made for the difference.

### LEGAL TERM FOR THE SALE OF FORECLOSED ASSETS

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Institutions must sell the goods that have been transferred in payment of debts previously contracted in the course of business or that have been adjusted at public auction due to mortgages in their name no later than two years after the foreclosing date, except when upon the Board of Directors' request, the Superintendency of Finance (before Superintendency of Banking) extends the term. However, in no case may the extension exceed an additional period of two years.

### PROVISIONS FOR FORECLOSED ASSETS

With the issuance of the Superintendency of Banking (now Superintendency of Finance) External Circular 034 of August 2003, (Current since October 2003) supervised banks must design and adopt their own internal models for the calculation of provisions for foreclosed assets, by means of which expected losses for all types of assets are estimated. The Bank and its Subsidiaries do not have their own internal model for calculating provisions for foreclosed assets through which expected losses are estimated by type of asset and approved by the Superintendency of Finance (before Superintendency of Banking).

Until such model is presented and approved by the Superintendency of Finance (before Superintendency of Banking), provisions will be made following the parameters set forth below.

#### Real estate

A provision equal to 30% of the value of the asset at the time of receipt must be made in proportional monthly installments within the first year following receipt. This provision will increase an additional 30% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 80% of the value upon receipt. In case the term extension is granted, the remaining 20% of the provision may be constituted within said term.

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### BANCOLOMBIA S. A. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

(Stated in millions of pesos and thousands of U.S. dollars)

#### Moveable Assets

A provision equal to 35% of the value of the asset at the time of acquisition must be made in proportional monthly installments within the first year following receipt. Said provision must be increased an additional 35% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 100% of the book value of the asset prior to provisions. If the term extension is granted, the remaining 30% of the provision may be constituted within said term.

Based on individual analysis related to the feasibility of realizing a return on some foreclosed assets, the Bank records provisions for them, which are higher than the provisions that the Superintendency of Finance (before Superintendency of Banking) requires.

(M) LOAN FEES



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Loan origination and commitment fees, as well as direct loan origination and commitment costs, are recorded in the consolidated statement of operations as collected or incurred.

### (N) PROPERTY, PLANT AND EQUIPMENT

This account records tangible assets acquired or leased assets, constructed or in the process of importation or construction and permanently used in the course of the Bank's business which useful life exceeds one year. Property and equipment is recorded at the cost of acquisition, including direct and indirect costs and expenses incurred up to the time that the asset is in a usable condition.

Additions, improvements and non-routine repairs that significantly prolong the useful life of an asset are capitalized. Payments for routine maintenance and repairs are charged to expense in the period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The annual depreciation rates for each asset item are:

|                                   |     |
|-----------------------------------|-----|
| Buildings                         | 5%  |
| Equipment, furniture and fittings | 10% |
| Computer equipment                | 20% |
| Vehicles                          | 20% |

The individual net book value of real estate (cost less accumulated depreciation) is compared against market values taken from independent professional appraisals. If the market value is higher, a reappraisal is recorded; otherwise, the difference is charged to expenses for the period. Valuations must be made at least every three years.

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### BANCOLOMBIA S. A. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

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At December 31, 2004 and 2005, the Bank had insurance cover for fidelity and financial risks and civil liability cover for risks inherent to its business. Other policies protect assets against fire, earthquake, explosion, civil disturbance, riot, terrorism, damage to computers and vehicles.

#### Maintenance policy:

Corrective maintenance provides for the immediate replacement of parts, accessories or elements that may affect safety or proper operation. Preventive maintenance consists of regular checks of architectural and electrical items, conducted twice a year and the maintenance of equipment, furniture and fittings is done three to four times a year.

### (O) BRANCHES AND AGENCIES

This account records the operations between the Bank's branches and agencies.

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Balances are reconciled monthly and pending items are adjusted within thirty (30) calendar days. On the date of the financial statements, the Bank reclassifies net balances representing branch and agency transactions to asset or liability accounts and the respective income or expense is recorded.

### (P) PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses are payments made by the Bank and its Subsidiaries in the normal course of business, the benefits of which are recovered over more than one period and are recoverable assuming continuous delivery of services. Deferred charges are goods and services received, for which the Bank expects to obtain future economic benefits.

Amortization of prepaid expenses and deferred charges is calculated from the date which they contribute to the generation of income, considering the following factors:

#### Prepaid Expenses

Prepaid expenses include mainly the following monetary items: interest, amortized monthly during the period prepaid; insurance, over the life of the policy; rent, over the period prepaid; equipment maintenance, over the life of the contract; and other prepaid expenses over the period in which services are received or costs and expenses are incurred.

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#### Deferred Charges

Deferred charges are non-monetary items:

- Software is amortized over a maximum of three years.
- The goodwill is amortized based on due authorization granted by the Superintendency of Finance and arises from the difference between the value paid and the intrinsic value of investment at the moment of purchase.
- Stationery is amortized as and when consumed.
- Bonuses under the voluntary retirement plan are amortized as permitted by the Superintendency of Finance (before Superintendency of Banking).
- Contributions and affiliations are amortized over the period prepaid.

The Bank does not record deferred charges corresponding to renovations and improvements on leased property, studies and projects, institutional advertising and publicity. The value of the disbursements made regarding these items are recorded directly on the statement of operations.

### (Q) LEASED ASSETS

Subsidiaries Leasing Colombia S.A., Suleasing Internacional, Suleasing

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Internacional Inc, Sufinanciamiento S.A., Banco Corfinsura Internacional and Bancolombia Panama S.A. record the value of assets delivered under financial leases.

The loans and financial leasing agreements issued by the companies are recorded according to the different methods authorized. The resources used in granting the loans are provided by the entity's own funds, public funds in the form of time deposits and other internal and external sources of financing.

On October 23, 2003, the Superintendency of Banking (now the Superintendency of Finance) through its External Circular 040 modified the treatment of financial leases. Starting January 1, 2004, instead of recording financial leases as property, plant and equipment, companies must account for them in their loan portfolio.

Financial leasing agreements that were formerly recorded in the account titled "Leased Assets" were reclassified in the account titled "Portfolio of Financial Leasing Operations and Loans", by virtue of which the policies governing the Loan and Financial Leasing Portfolio shall be applied to said agreements. The operating leasing agreements entered into by the Companies, upon signing said documents, provide the user for his or her use the corresponding leased assets, which shall henceforth be recorded under Leased Assets.

Financial leases that were recorded in an independent line were reclassified to loan portfolio line.

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Operational leases entered into by the Companies, are accounted for as assets given in operational lease, after the respective contract is entered into by the parties and the leased asset is given to the user.

Depreciation will be recorded for the lesser of the useful life of the good and the lease contract term. The Companies use the depreciation methodology that requires that the depreciation expense is recorded for each month or fraction thereof.

(R) REAPPRAISALS

This account records reappraisals of available for sale investments with low exchange volume or which are unquoted, property and equipment, real estate and works of art and culture.

Valuations are subject to the accounting policy for each type of asset.

(S) INTERBANK FUNDS PURCHASED AND REPURCHASE AGREEMENTS

This account records funds obtained by the Bank from other financial institutions to satisfy transient liquidity needs. These transactions have a maximum term of thirty (30) calendar days, except the operations with the Colombian Central Bank. Purchases not repaid within that term are reclassified as bank loans and other financial obligations.

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The difference between present value (cash received) and future value (repurchase price) is a financial expense.

### (T) DEFERRED INCOME

This account records deferred income and income received in advance in the course of business. Amounts recorded in this account are amortized over the period to which they relate or in which the services are rendered.

The capitalization of yields on restructured loans that have been recorded in memorandum accounts or as charge - off loan balances is included here as indicated in Note 2 (j).

### (U) BONDS

Credit institutions are authorized by the Superintendency of Finance (before Superintendency of Banking) to issue or place ordinary bonds or general collateral bonds. In any case, every time a new issue is planned, the Superintendency of Finance must be informed of the total value, series, number of bonds, date of issue, term and frequency of payment, the corresponding return, the place and form of payment of said return as duly provided for by applicable legislation.

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## BANCOLOMBIA S. A. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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The bonds issued are recorded in the National Register of Securities for all legal effects and may be subject to a public offer without any need for further authorization from the Superintendency of Finance.

The term for repaying the bonds issued, either partially or totally, may not be less than one (1) year and these shall cease to yield a return as of the date established for collecting said payment.

At December 31, 2001, Conavi, having been duly authorized by FOGAFIN - the Colombian Guarantee Fund for Financial Institutions, issued convertible bonds, subscribed in their entirety by FOGAFIN, for the purpose of strengthening Conavi's equity, as provided for by Article 6 of Resolution 006 of 2001 issued by FOGAFIN. Conavi's shareholders undertook to repurchase such bonds, upon paying off the loan made by FOGAFIN in full. The financial cost, on December 31, 2005 was 9.35% (Effective Annual Rate - E.A.R.). At December 31, 2004 this came to 10.73% (E.A.R.).

### (V) DEFERRED CREDIT TAX

This is a tax that is deferred due to the temporary differences between commercial income and taxable income. This tax is canceled upon reverting the differences giving rise to said tax.

### (W) RETIREMENT PENSIONS

The Bank and its Subsidiary Almacénar S.A. apply the provisions in Decree 1517 of 1998, which requires a distribution of charges to amortize the actuarial calculation by 2010. As of December 31, 2005, the Bank has amortized the total actuarial calculation.

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### (X) ACCRUALS AND PROVISIONS

The Bank and its Subsidiaries record provisions to cover estimated liabilities, such as fines, sanctions, litigations and lawsuits where:

- The Bank has acquired a right, and therefore an obligation
- Payment may be demanded or is probable, and
- The provision is justifiable, quantifiable and verifiable

This account also records estimates for taxes.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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### (Y) RECOGNITION OF INTEREST REVENUE

Interest revenue is recognized in current earnings as it accrues. Interest is suspended when due and there is a doubt regarding its collectibility.

### (Z) CONTINGENT ACCOUNTS

These accounts record operations in which the Bank and its Subsidiaries acquire rights or assume obligations conditioned by possible future events with varying degrees of probability, such as definite, possible or remote. Likewise, they include financial yields as of when loan portfolio and financial lease interest entry into the statement of operations is suspended. Contingent accounts are included in the caption memorandum accounts of the balance sheet.

### (AA) MEMORANDUM ACCOUNTS

These accounts record third party operations whose nature does not affect the financial situation of the Bank. They also include tax memorandum accounts that record the figures used in preparing tax returns, internal control or management information and reciprocal operations between the Bank and its Subsidiaries.

### (BB) NET INCOME PER SHARE

To determine net income per share, the Bank uses the weighted average of the number of shares outstanding during the accounting period. For the periods ended December 31, 2004 and 2005, the weighted average of the Bank's outstanding shares was 576,695,395 and 652,882,756, respectively.

### (CC) ASSET AND LIABILITY MANAGEMENT

The Bank evaluates asset and liability management and off-balance-sheet positions, estimating and controlling the level of exposure to major market risks, in order to provide protection against losses due to possible variations in asset or liability values.

### (DD) CAPITAL ADEQUACY

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Capital Adequacy for Banks is required to be not less than 9% of their total credit risk weighted assets and credit contingencies. Under Decree 1720 of 2001 calculation of capital adequacy must incorporate market risk in addition to the credit risk. This new risk for capital adequacy requirement was covered 100% in 2004 and 2005. Calculations are made each month on an unconsolidated basis and in June and December on consolidated accounts which include the Bank's financial Subsidiaries in Colombia and abroad.

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As of June 2004 when Decree 2061 was issued, modifications to Decree 1720 of 2001 were set forth that provide new rules for calculating mandatory convertible bonds and currency-linked bonds in the additional equity of credit institutions, as well as modifications to the classification and weighting of mortgage loans, derivative operations and securities from securitization processes.

As of December 31, 2004 and 2005 the capital adequacy ratio was 13.44% and 10.93%, respectively.

(EE) LEGAL RESERVE

According to Colombian law, credit institutions must constitute a legal reserve that will amount to at least fifty percent (50%) of the subscribed capital, formed with ten percent (10%) of the net income of each period.

(FF) CONVENIENCE TRANSLATION TO U.S. DOLLARS

The Bank maintains its accounting records and prepares its financial statements in Colombian pesos. The U.S. dollar amounts presented in the financial statements and accompanying notes have been converted from peso figures solely for the convenience of the reader at the exchange rate of Ps 2,284.22 per US\$ 1, which is approximately the exchange rate, in effect at December 31, 2005. This translation may not be construed to represent that the Colombian peso represents or has been or could be converted into U.S. dollars at that or any other rate.

(GG) INCOME TAX

The income tax is determined as follows: from the ordinary and extraordinary income realized in the period, that being susceptible of produce net increase of shareholders' equity in the moment they incurred and, that have not been excepted, are reduced returns, reductions and discounts to obtain net income. As appropriated, realized costs that have a direct relation with income are reduced to determine income before taxes. Deductions are applied to income before taxes to obtain the taxable income for the ordinary system.

For purposes of income tax, it is presumed that the taxable income is not lower than 6% of shareholder's equity at the last day of the immediately previous taxable period. The excess of taxable income determined under the ordinary system over presumed income becomes taxable income to which the statutory tax rate applies.

When income tax is paid on presumed income, the difference between this and the income tax calculated under ordinary system can be adjusted in the

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following five years.

Deferred income taxes are generally recognized for timing differences for commercial and manufacturing subsidiaries. For financial companies, the Superintendency of Finance (before Superintendency of Banking) has restricted inclusion of timing differences related to the

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amortization of fiscal losses and the excess of presumed income over ordinary income as a deferred tax asset.

(HH) BUSINESS COMBINATION

Upon a business combination, the purchase method of accounting requires that (i) the purchase price be allocated to the acquired assets and liabilities on the basis of their book value, (ii) the statement of income of the acquiring company for the period in which a business combination occurs include the income of the acquired company as if the acquisition had occurred on the first day of the reporting period and (iii) the costs directly related to the purchase business combination not be considered as a cost of the acquisition, but deferred and amortized over a reasonable period as determined by management.

The pooling of interest method of accounting requires the aggregate of the shareholder's equity of the entities included in the business.

Conavi and Corfinsura acquisition was accounted for using the pooling of interests method in accordance with the methodology suggested by the Superintendency of Finance. Sufinanciamiento acquisition was accounted for using the purchase method under Colombian GAAP.

The line merger effect in the consolidated statement of stockholder's equity under Colombian GAAP includes the difference between the issuance of shares and the carrying amount of the net asset acquired from Conavi and Corfinsura.

(3) TRANSACTIONS IN FOREIGN CURRENCY

The Superintendency of Banking (now Superintendency of Finance) sets limits on the amount of foreign-currency assets and liabilities. The Bank was in compliance with the subject rules as of December 31, 2004 and 2005.

Substantially all foreign currency holdings are in U.S. dollars. The consolidated foreign currency assets and liabilities of the Bank at December 31, 2004 and 2005 were as follows:

|                         | 2004        | 2005        |
|-------------------------|-------------|-------------|
|                         | -----       | -----       |
| ASSETS:                 |             |             |
| Cash and due from banks | US\$ 73,391 | US\$ 81,327 |
| Overnight funds         | 180,720     | 213,897     |

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|                             |           |           |
|-----------------------------|-----------|-----------|
| Investment securities       | 562,723   | 786,733   |
| Loans                       | 825,371   | 1,734,049 |
| Customers' acceptances      | (203,714) | (500,176) |
| Accounts receivable         | 13,574    | 47,351    |
| Premises and equipment, net | 2,433     | 21,625    |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

|  | 2004          | 2005          |
|--|---------------|---------------|
|  | -----         | -----         |
| Other assets                               | 3,379         | 40,933        |
|  | -----         | -----         |
| TOTAL FOREIGN CURRENCY ASSETS              | US\$1,457,877 | US\$2,425,739 |
|  | -----         | -----         |
| LIABILITIES:                               |               |               |
| Deposits                                   | 1,176,207     | 1,155,250     |
| Bank acceptances outstanding               | 21,121        | 21,071        |
| Borrowings from domestic development banks | 815           | 90,234        |
| Interbank borrowings                       | 103,058       | 746,630       |
| Other liabilities                          | 12,682        | 243,266       |
|  | -----         | -----         |
| TOTAL FOREIGN CURRENCY LIABILITIES         | 1,313,883     | 2,256,451     |
|  | -----         | -----         |
| NET FOREIGN CURRENCY ASSET POSITION        | US\$ 143,994  | US\$ 169,288  |
|  | =====         | =====         |

The Bank's unconsolidated net foreign currency asset position amounted to US\$ 209,513 and US\$ 308,272 at December 31, 2004 and 2005, respectively. The Bank has the required net foreign currency position within the legal terms.

At December 31, 2004 and 2005, the Subsidiaries Bancolombia Panama S.A. and Bancolombia Cayman had 67.85% and 51.09% of the consolidated assets in foreign currency and 83.31% and 48.15% of the consolidated liabilities in foreign currency, respectively.

(4) CASH AND DUE FROM BANKS

The balances of cash and due from banks at December 31, 2004 and 2005 consisted of the following:

|  | 2004       | 2005       |
|--|------------|------------|
|  | -----      | -----      |
| COLOMBIAN PESO DENOMINATED:                          |            |            |
| Cash   | Ps 492,243 | Ps 740,615 |
| Due from the Colombian Central Bank                  | 52,830     | 279,909    |
| Due from domestic banks                              | 25,770     | 15,237     |
| Remittances of domestic negotiated checks in transit | 22,625     | 19,991     |



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|   |            |              |
|---|------------|--------------|
| Provision   | (339)      | (86)         |
|   | -----      | -----        |
| TOTAL LOCAL CURRENCY                                | 593,129    | 1,055,666    |
|   | -----      | -----        |
| FOREIGN CURRENCY:                                   |            |              |
| Cash  | 77,304     | 20,999       |
| Due from the Colombian Central Bank                 | 8,514      | 5,379        |
| Due from foreign banks                              | 85,465     | 153,106      |
| Remittances of foreign negotiated checks in transit | 4,276      | 6,299        |
| Provision   | (174)      | (14)         |
|   | -----      | -----        |
| TOTAL FOREIGN CURRENCY                              | 175,385    | 185,769      |
|   | -----      | -----        |
| TOTAL CASH AND DUE FROM BANKS                       | Ps 768,514 | Ps 1,241,435 |
|   | =====      | =====        |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

Reserves against transactions and time deposits with the Colombian Central Bank amounted to Ps 516,648 and Ps 1,098,712 at December 31, 2004 and 2005, respectively. The restriction, which is prescribed by the Colombian Central Bank, is based on a percentage of deposits maintained at the Bank by its customers.

(5) INVESTMENT SECURITIES

Investment securities at December 31, 2004 and 2005 consisted of the following:

|                                    | 2004         | 2005         |
|------------------------------------|--------------|--------------|
|                                    | -----        | -----        |
| TRADING SECURITIES                 |              |              |
| COLOMBIAN PESO DENOMINATED:        |              |              |
| Colombian government               | Ps 1,223,762 | Ps 3,305,131 |
| Colombian Central Bank             | 261          | 15           |
| Government entities                | 65,478       | 44,674       |
| Financial institutions             | 564,115      | 1,044,838    |
| Corporate bonds                    | 19,930       | 64,228       |
| Other marketable equity securities | 68,316       | 192,535      |
|                                    | -----        | -----        |
| TOTAL COLOMBIAN PESO DENOMINATED   | 1,941,862    | 4,651,421    |
|                                    | -----        | -----        |
| FOREIGN CURRENCY DENOMINATED:      |              |              |
| Colombian government               | 282,897      | 136,111      |
| Government entities                | 150,961      | --           |
| Financial institutions             | --           | 664,223      |
| Total foreign currency denominated | 433,858      | 800,334      |
|                                    | -----        | -----        |
| Total trading securities           | 2,375,720    | 5,451,755    |
|                                    | -----        | -----        |
| Allowance for trading securities   | (53)         | (1,100)      |
|                                    | -----        | -----        |

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TRADING SECURITIES, NET

Ps 2,375,667 Ps 5,450,655

=====

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 4.60% and 5.68% for 2004 and 2005, respectively.

The Bank had pledged investments securities of Ps 787,957 and Ps 1,723,109 as collateral to secure lines of credit at international banks, domestic development banks and other financial institutions as of December 31, 2004 and 2005, respectively.

The Bank sold Ps 118,823,601 and Ps 234,428,554 of investment securities during the years ended December 31, 2004 and 2005, respectively.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

|  | 2004         | 2005         |
|--|--------------|--------------|
|  | -----        | -----        |
| AVAILABLE FOR SALE - DEBT SECURITIES       |              |              |
| COLOMBIAN PESO DENOMINATED:                |              |              |
| Colombian government                       | Ps 1,279,564 | Ps 897,155   |
| Financial institutions                     | 14,687       | 27,655       |
| Other marketable equity securities         | --           | 3,434        |
|  | -----        | -----        |
| TOTAL LOCAL CURRENCY DENOMINATED           | 1,294,251    | 928,244      |
|  | -----        | -----        |
| FOREIGN CURRENCY DENOMINATED:              |              |              |
| Colombian government                       | 289,584      | 496,726      |
| Financial institutions                     | 114,322      | 339,633      |
| Other marketable equity securities         | 245,528      | 77,953       |
|  | -----        | -----        |
| TOTAL FOREIGN CURRENCY DENOMINATED         | 649,434      | 914,312      |
|  | -----        | -----        |
| TOTAL AVAILABLE FOR SALE - DEBT SECURITIES | Ps 1,943,685 | Ps 1,842,556 |
|  | -----        | -----        |

|  | PARTICIPATION<br>PERCENTAGE AT<br>DECEMBER 31, 2004 | 2004      | PARTICIPATION<br>PERCENTAGE AT<br>DECEMBER 31, 2005 |
|--|---|-----------|---|
|  | -----   | -----     | -----   |
| AVAILABLE FOR SALE - EQUITY SECURITIES   |   |           |   |
| "Conavi" Banco Comercial y de Ahorro     | 28.52%  | Ps 88,681 | --  |
| Todo Uno Services                        | 39.05%  | 52,152    | 38.86%  |
| Corporacion Financiera Suramericana S.A. |   |           |   |
| Corfinsura                               | 4.61%   | 55,749    | --  |

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|   |        |       |        |
|---|--------|-------|--------|
| Urbanizacion Chico Oriental No. 2 Ltda  | 24.37% | 7,848 | 24.37% |
| Carreteras Nacionales del Meta S.A.   | 8.44%  | 5,615 | 8.44%  |
| Sociedad Administradora de Fondos de Pensiones y de Cesantias Proteccion S.A.   | 7.42%  | 7,014 | 23.44% |
| Sociedad de Servicios Tecnicos y Administrativos Multienlace S.A.               | 48.60% | 6,957 | --     |
| Fideicomiso Devinorte   | 10.31% | 5,277 | 10.31% |
| Concesiones CCFC S.A.   | 25.50% | 4,358 | 25.50% |
| Venrepa C.A.  | 99.62% | 2,697 | 99.62% |
| Banco Latinoamericano de exportaciones BLADEX S.A.                              | 0.20%  | 2,183 | 0.20%  |
| Deposito Centralizado de Valores de Colombia Deceval S.A.                       | 6.98%  | 1,527 | 11.38% |
| Compania de Inversiones Bogota S.A. 3001 S.A. in the process of being wound up) | 13.00% | 653   | --     |
| Urbanizacion Sierras del Chico Ltda   | 5.85%  | 955   | --     |
| Concesiones Urbanas S.A.  | 0.55%  | 203   | 0.55%  |
| Titularizadora Colombia S.A.  | 33.32% | 8,446 | 33.32% |
| Promotora la Alborada   | --     | --    | 21.25% |
| Compania Suramericana de Inversiones S.A. Surainversiones                       | --     | --    | 25.81% |
| Redeban Red Multicolor  | --     | --    | 0.73%  |
|   | 10%    | 700   | 20.36% |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

|  | PARTICIPATION<br>PERCENTAGE AT<br>DECEMBER 31, 2004 | 2004       | PARTICIPATION<br>PERCENTAGE AT<br>DECEMBER 31, 2005 |
|--|---|------------|---|
| Terminal Maritimo Muelles El Bosque                    | 7.01%   | 3,390      | 7.01%   |
| Muelles El Bosque Operadores Portuarios                | 7.93%   | 1,242      | 7.93%   |
| Sutecnologia   | --  | --         | 49.00%  |
| Cadenalco S.A. Titularizacion                          | 3.33%   | 2,490      | 3.33%   |
| Bolsa de Valores de Colombia                           | --  | --         | 8.54%   |
| Other  |   | 4,943      |   |
| TOTAL EQUITY SECURITIES                                |   | 263,080    |   |
| Allowance for other-than-temporary impairment in value |   | (60,685)   |   |
| EQUITY SECURITIES, NET                                 |   | Ps 202,395 |   |

Dividends received from equity investments amounted to Ps 30,734, Ps 30,546 and Ps 42,731 for the years ended December 31, 2003, 2004 and 2005, respectively.

Most of the equity investments were classified as Category "A". The following investments are classified in categories other than "A":

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|   | 2004     |                        | 2005     |                        |
|---|----------|------------------------|----------|------------------------|
|   | CATEGORY | VALUATION<br>ALLOWANCE | CATEGORY | VALUATION<br>ALLOWANCE |
| Todo Uno Services                                 | D        | Ps 48,153              | D        | Ps 45,872              |
| Urbanizacion Chico Oriental No. 2 Ltda.           | E        | 7,848                  | E        | 7,848                  |
| Urbanizacion Sierras del Chico Ltda.              | E        | 203                    | E        | 203                    |
| Industria Colombo Andina Inca S.A.                | E        | 300                    | E        | 300                    |
| Venrepa C.A.                                      | E        | 2,697                  | E        | 2,578                  |
| 3001 S.A. (in the process of<br>being wound up)   | E        | 955                    | --       | --                     |
| Sociedad Portuaria San Andres                     | E        | 3                      | E        | 3                      |
| Sociedad Promotora Siderurgica<br>Colombiana E.U. | E        | 387                    | E        | 534                    |
| Tesicol   | E        | 4                      | --       | --                     |
| Promotora La Alborada                             | --       | --                     | E        | 9,897                  |

|  | 2004       | 2005       |
|--|------------|------------|
| HELD TO MATURITY SECURITIES<br>COLOMBIAN PESO DENOMINATED: |            |            |
| Colombian government                                       | Ps 424,731 | Ps 873,679 |
| Government entities  | 3,719      | --         |
| Financial institutions                                     | 47,276     | 55,757     |
| Other  | 2,999      | 16,147     |
| TOTAL HELD TO MATURITY SECURITIES                          | 478,725    | 945,583    |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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(Stated in millions of pesos and thousands of U.S. dollars)

|   | 2004    | 2005      |
|---|---------|-----------|
| FOREIGN CURRENCY DENOMINATED:                             |         |           |
| Colombian government                                      | 233,040 | 34,876    |
| Financial institutions                                    | 6,195   | 5,955     |
| Other   | 15,391  | 34,965    |
| TOTAL FOREIGN CURRENCY DENOMINATED                        | 254,626 | 75,796    |
|   | 733,351 | 1,021,379 |
| Allowance for other-than-temporary<br>impairment in value | (4,887) | (4,836)   |

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|   |                             |                               |
|---|-----------------------------|-------------------------------|
| TOTAL HELD TO MATURITY SECURITIES,<br>NET | -----<br>Ps728,464<br>===== | -----<br>Ps1,016,543<br>===== |
|---|-----------------------------|-------------------------------|

(6) LOANS AND FINANCIAL LEASES

The following represents the classification of the total loan portfolio and financial lease contracts as of December 31, 2004 and 2005 in accordance with the provisions of the Superintendency Banking (now Superintendency of Finance):

DECEMBER 31, 2004

| CLASSIFICATION<br>-----                 | MORTGAGE<br>----- | COMMERCIAL<br>-----  | CONSUMER<br>-----    | SMALL LOAN<br>----- | FINANCIAL LEASE<br>----- |
|---|-------------------|----------------------|----------------------|---------------------|--------------------------|
| "A" Normal Risk                         | Ps56,067          | Ps6,803,951          | Ps1,560,599          | Ps81,859            | Ps824,9                  |
| "B" Acceptable Risk                     | 3                 | 251,638              | 36,752               | 2,979               | 29,5                     |
| "C" Appreciable Risk                    | --                | 58,548               | 14,719               | 1,208               | 18,7                     |
| "D" Significant Risk                    | --                | 176,448              | 21,804               | 864                 | 5,2                      |
| "E" Unrecoverable                       | 37                | 63,371               | 21,192               | 3,090               | 1,6                      |
| TOTAL LOANS AND FINANCIAL<br>LEASES (1) | Ps56,107<br>===== | Ps7,353,956<br>===== | Ps1,655,066<br>===== | Ps90,000<br>=====   | Ps880,1<br>=====         |

-----  
(1) On October 23, 2003, the Superintendency of Banking (now Superintendency of Finance) through its External Circular 040, modified the treatment of financial leases. Since January 1, 2004 it is accounted for as part of the loan portfolio.

DECEMBER 31, 2005

| CLASSIFICATION<br>-----          | MORTGAGE<br>-----    | COMMERCIAL<br>-----   | CONSUMER<br>-----    | SMALL LOAN<br>----- | FI<br>-----  |
|----------------------------------|----------------------|-----------------------|----------------------|---------------------|--------------|
| "A" Normal Risk                  | Ps1,359,428          | Ps11,099,403          | Ps2,286,217          | Ps106,654           | Ps2          |
| "B" Acceptable Risk              | 62,670               | 400,804               | 58,154               | 2,650               |              |
| "C" Appreciable Risk             | 23,846               | 125,473               | 26,963               | 1,242               |              |
| "D" Significant Risk             | 5,158                | 206,023               | 33,638               | 869                 |              |
| "E" Unrecoverable                | 12,335               | 117,798               | 32,755               | 3,616               |              |
| TOTAL LOANS AND FINANCIAL LEASES | Ps1,463,437<br>===== | Ps11,949,501<br>===== | Ps2,437,727<br>===== | Ps115,031<br>=====  | Ps2<br>===== |

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(Stated in millions of pesos and thousands of U.S. dollars)

Promissory notes by means of which loans amounting to Ps 1,129,825 and Ps 1,352,071 at December 31, 2004 and 2005, respectively, have been documented were duly endorsed to domestic development banks, as required for laws regulating such type of loans.

The following represents a summary of restructured loans as of December 31, 2004 and 2005:

|                                     | 2004       | 2005       |
|-------------------------------------|------------|------------|
|                                     | -----      | -----      |
| Ordinary restructurings             | Ps 406,964 | Ps 424,781 |
| Extraordinary restructurings        | 13,060     | 8,526      |
| Under law 550                       | 61,255     | 74,558     |
| Under law 617                       | 156,617    | 184,317    |
| Creditor agreement proceedings      | 9,793      | 12,472     |
| Performance Agreement               | 3,420      | 2,844      |
| Interest and other receivable items | 9,767      | 8,726      |
|                                     | -----      | -----      |
|                                     | 660,876    | 716,224    |
| Allowances for loan losses          | (205,074)  | (256,041)  |
|                                     | -----      | -----      |
| NET OF RESTRUCTURED LOANS           | Ps 455,802 | Ps 460,183 |
|                                     | =====      | =====      |

### (7) ALLOWANCE FOR LOANS, FINANCIAL LEASES AND ACCRUED INTEREST LOSSES

An analysis of the activity in the allowance for loans and financial leases losses during the years ended December 31, 2003, December 31, 2004 and December 31, 2005 is as follows:

|  | 2003       | 2004      |       |
|--|------------|-----------|-------|
|  | -----      | -----     | ----- |
| Balance at beginning of year                                       | Ps 332,324 | Ps387,263 | Ps    |
| Balance at beginning of year (Conavi, Corfinsura and subsidiaries) | --         | --        |       |
| Balance at beginning of year (Sufinanciamiento)                    | 11,854     | --        |       |
| Allowance for financial lease reclassification (1)                 | --         | 7,002     |       |
| Provision  | 286,170    | 186,480   |       |
| Charge-offs  | (112,393)  | (55,032)  | (     |
| Effect of changes in exchange rate                                 | (284)      | (12,751)  |       |
| Decrease on allowance for securitization                           | --         | --        |       |
| Recoveries   | (130,408)  | (78,584)  | (     |
|  | -----      | -----     | ----- |
| Balance at end of year   | Ps 387,263 | Ps434,378 | Ps    |
|  | =====      | =====     | ===== |
| Ratio of charge-offs to average outstanding loans                  | 1.61%      | 0.62%     |       |
|  | =====      | =====     | ===== |

(1) On October 23, 2003, the Superintendency of Banking (now Superintendency of Finance) through its External Circular 040, modified the treatment of financial leases. Since January 1, 2004 they are accounted for as part of the loan portfolio.

BANCOLOMBIA S. A. AND SUBSIDIARIES  
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The activity in the allowance for accrued interest losses during the year ended December 31, 2003, 2004 and 2005 is as follows:

|  | 2003      | 2004     | 2005     |
|--|-----------|----------|----------|
|  | -----     | -----    | -----    |
| Balance at beginning of year                                       | Ps 15,074 | Ps 5,170 | Ps 4,603 |
| Balance at beginning of year (Conavi, Corfinsura and subsidiaries) | --        | --       | 9        |
| Balance at beginning of year (Sufinanciamiento)                    | 769       | --       | --       |
| Allowance for financial lease reclassification (1)                 |           | 473      |          |
| Provision  | 5,316     | 4,483    | 12,805   |
| Charge-offs  | (4,089)   | (2,072)  | (4,010)  |
| Recoveries   | (11,897)  | (3,332)  | (13,332) |
| Effect of changes in exchange rate                                 | (3)       | (119)    |          |
|  | -----     | -----    | -----    |
| Balance at end of year   | Ps 5,170  | Ps 4,603 | Ps 8,010 |
|  | =====     | =====    | =====    |

-----  
 (1) On October 23, 2003, the Superintendency of Banking (now Superintendency of Finance) through its External Circular 040, modified the treatment of financial leases. Since January 1, 2004 they are accounted for as part of the loan portfolio.

(8) CUSTOMER ACCEPTANCES AND DERIVATIVES

The Bank's rights and commitments from derivatives operations as of December 31, 2004 and December 31, 2005 were as follows:

|   | 2004      | 2005      |
|---|-----------|-----------|
|   | -----     | -----     |
| CUSTOMER ACCEPTANCES                                  |           |           |
| Current   | Ps 64,515 | Ps 62,282 |
| Overdue   | 1,979     | 704       |
|   | -----     | -----     |
| TOTAL   | 66,494    | 62,986    |
|   | -----     | -----     |
| DERIVATIVES   |           |           |
| (Fair value of derivatives instruments)               |           |           |
| NEXT DAY OPERATIONS                                   |           |           |
| Foreign exchange rights contracts to buy              | 94,891    | 296       |
| Foreign exchange rights contracts to sell             | 9,122     | 1,630     |
| Financial instruments rights to buy (local currency)  | 2,451     | 14,805    |
| Financial instruments rights to sell (Local currency) |           | 3,010     |
|   | -----     | -----     |
| Total rights  | 106,464   | 19,741    |

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|  |           |          |
|--|-----------|----------|
| Foreign exchange commitments contracts to buy              | (95,133)  | (295)    |
| Foreign exchange commitments contracts to sell             | (9,102)   | (1,614)  |
| Financial instruments commitments to buy (local currency)  | (2,448)   | (14,756) |
| Financial instruments commitments to sell (local currency) | --        | (3,006)  |
|  | -----     | -----    |
| Total obligations  | (106,683) | (19,671) |
|  | -----     | -----    |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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(Stated in millions of pesos and thousands of U.S. dollars)

|  | 2004        | 2005        |
|--|-------------|-------------|
|  | -----       | -----       |
| TOTAL NEXT DAY OPERATIONS                                  | (219)       | 70          |
| FORWARD CONTRACTS  |             |             |
| Foreign exchange rights contracts to buy                   | 2,988,149   | 2,284,278   |
| Foreign exchange rights contracts to sell                  | 4,142,648   | 3,304,346   |
| Financial instruments rights to buy (local currency)       | 338,543     | 956,244     |
| Financial instruments rights to sell (local currency)      | 273,656     | 821,967     |
| Other rights   | 2,385       | --          |
|  | -----       | -----       |
| Total rights   | 7,745,381   | 7,366,835   |
| Foreign exchange commitments contracts to buy              | (3,078,485) | (2,372,882) |
| Foreign exchange commitments contracts to sell             | (4,076,909) | (3,184,882) |
| Financial instruments commitments to buy (local currency)  | (336,544)   | (950,569)   |
| Financial instruments commitments to sell (local currency) | (275,713)   | (824,432)   |
|  | -----       | -----       |
| Total obligations  | (7,767,651) | (7,332,765) |
|  | -----       | -----       |
| TOTAL FORWARD CONTRACTS                                    | (22,270)    | 34,070      |
|  | -----       | -----       |
| FUTURES CONTRACTS  |             |             |
| Foreign exchange rights contracts to buy                   | Ps 14,578   | Ps 14,860   |
| Foreign exchange rights contracts to sell                  | 52,723      | 9,151       |
| Financial instruments rights to buy (local currency)       | --          | 9,394       |
| Financial instruments rights to sell (local currency)      | --          | 9,412       |
|  | -----       | -----       |
| Total rights   | 67,301      | 42,817      |
|  | -----       | -----       |
| Foreign exchange commitments contracts to buy              | (14,578)    | (14,860)    |
| Foreign exchange commitments contracts to sell             | (52,723)    | (9,151)     |
| Financial instruments commitments to buy (local currency)  | --          | (9,394)     |
| Financial instruments commitments to sell (local currency) | --          | (9,412)     |
|  | -----       | -----       |
| Total obligations  | (67,301)    | (42,817)    |
|  | -----       | -----       |
| TOTAL FUTURE CONTRACTS                                     | --          | --          |
|  | -----       | -----       |



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|  |           |            |
|--|-----------|------------|
| SWAPS                                      |           |            |
| Foreign exchange right contracts           | --        | 765,046    |
| Interest rate rights contracts             | 8,227     | 33,248     |
| Foreign exchange commitments contracts     | --        | (729,238)  |
| Interest rate commitments contracts        | (8,338)   | (32,633)   |
|  | -----     | -----      |
| TOTAL SWAPS                                | (111)     | 36,423     |
|  | -----     | -----      |
| OPTIONS                                    |           |            |
| Foreign exchange call options              | --        | (18)       |
| Foreign exchange put options               | --        | (111)      |
|  | -----     | -----      |
| TOTAL OPTIONS                              | --        | (129)      |
|  | -----     | -----      |
|  | -----     | -----      |
| TOTAL CUSTOMER ACCEPTANCES AND DERIVATIVES | Ps 43,894 | Ps 133,420 |
|  | -----     | -----      |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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(Stated in millions of pesos and thousands of U.S. dollars)

The Bank currently has an investment portfolio in local and foreign currencies that allows it to offer foreign exchange and interest rate coverage to its clients. By using derivatives, the Bank hedges exchange risk and protects its foreign-currency investment portfolio. These derivatives help protect the Bank against exchange-rate fluctuation and increase the predictability of the Bank's yield on foreign-currency investments.

The Bank derivatives' policy is to maintain active and passive positions with clients with the intent to reduce interest rate and exchange rate risk as much as possible. Within the amount of credit granted to the Bank's clients there is a portion for the management of derivatives.

For this reason, the Bank never carries out any operation of this type unless the client has the capacity to obtain a credit from the Bank.

Under the rules of the Superintendency of Banking, the Bank's derivatives portfolio is marked to market daily. Unrealized gains and losses are expressed in the statement of operations.

For forward contracts as of December 31, 2005, the average cost of rights and commitments relating to the purchase of financial instruments is 8.73% with an average maturity of 8 days and the average yield from rights and commitments relating to the sale of financial instruments is 6.79% with an average maturity of 2 days.

The average yield from rights and commitments relating to the sale of foreign currency as of December 31, 2005 is 2.38% annually with an average maturity of 101 days. The average yield from rights and commitments relating to the purchase of foreign currency is 1.57% annually with an average maturity of 72 days.

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The rates and the maturities indicated for forward contracts are the same for futures contracts.

The average value of hedging portfolio during the year 2005 was US\$ 3,578 and the average yield was 1.03%.

### (9) ACCOUNTS RECEIVABLE

As of December 31, 2004 and 2005, accounts receivable consisted of the following:

|                                    | 2004     | 2005      |
|------------------------------------|----------|-----------|
|                                    | -----    | -----     |
| Credit card compensation           | Ps90,417 | Ps242,225 |
| Overnight funds sold               | 668      | 836       |
| Commissions                        | 8,875    | 17,561    |
| Sierras del Chico y Chico Oriental | 3,098    | 3,462     |
| REFCO                              | --       | 53,036    |
| Sale of Abocol and Subsidiaries    | --       | 27,770    |
| Renting                            | 448      | 727       |

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
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|   | 2004      | 2005      |
|---|-----------|-----------|
|   | -----     | -----     |
| Advances to contractors and honoraries                      | 12,923    | 81,064    |
| Commitment seller   | 3,183     | 10,639    |
| Warehousing services  | 9,135     | 8,134     |
| Dividends   | 632       | 1,319     |
| Services and properties sells                               | 34,102    | 58,250    |
| Employee advances   | 273       | 267       |
| Banco de Comercio Exterior de Colombia ("Bancoldex")        | 900       | 900       |
| Fondo de Garantias de Instituciones Financieras ("Fogafin") | 8,139     | 26,167    |
| Other receivables   | 15,922    | 88,940    |
|   | -----     | -----     |
| TOTAL ACCOUNTS RECEIVABLE                                   | 188,715   | 621,297   |
| Allowance for accounts receivable losses                    | (14,840)  | (30,984)  |
|   | -----     | -----     |
| ACCOUNTS RECEIVABLE   | Ps173,875 | Ps590,313 |
|   | =====     | =====     |

The activity in the allowance for accounts receivable during the years ended December 31, 2003, 2004 and 2005 is as follows:

|  | 2003  | 2004  | 2005  |
|--|-------|-------|-------|
|  | ----- | ----- | ----- |

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|   |          |          |          |
|---|----------|----------|----------|
| Balance at beginning of year                    | Ps 7,140 | Ps15,367 | Ps14,840 |
| Provision for uncollectible amounts             | 13,303   | 6,923    | 25,121   |
| Charge-offs                                     | (1,474)  | (2,292)  | (7,851)  |
| Balance at beginning of year (Sufinanciamiento) | 593      | --       | --       |
| Effect of exchange rate                         | --       | --       | (163)    |
| Reversal of provision and recoveries (1) (2)    | (4,195)  | (5,158)  | (963)    |
|   | -----    | -----    | -----    |
| Balance at end of year                          | Ps15,367 | Ps14,840 | Ps30,984 |
|   | =====    | =====    | =====    |

- 
- (1) Includes lease reclassification required by Superintendency of Banking (now Superintendency of Finance) by External Circular 048 of 2004 and liquidation of CTI Cargo Company.
- (2) For 2005, includes addition of Conavi, Corfinsura and Suleasing, in this way includes reversal of Abocol, Sociedad Portuaria Mamonal, Fertillanos and Abocol Costa Rica.

(10) PREMISES AND EQUIPMENT

At December 31, 2004 and December 31, 2005 premises and equipment consisted of the following:

|                                   | 2004      | 2005      |
|-----------------------------------|-----------|-----------|
|                                   | -----     | -----     |
| PREMISES AND EQUIPMENT            |           |           |
| Land                              | Ps 49,357 | Ps 65,750 |
| Buildings                         | 212,036   | 305,895   |
| Warehouses                        | 29,663    | 18,352    |
| Furniture, equipment and fixtures | 126,099   | 191,189   |

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

|                               | 2004      | 2005      |
|-------------------------------|-----------|-----------|
|                               | -----     | -----     |
| Computer equipment            | 199,196   | 370,532   |
| Vehicles                      | 4,281     | 7,231     |
| Construction in progress      | 17,415    | 54        |
| Machinery and equipment       | 70,070    | 14,956    |
| Equipment in - transit(1)     | 38,113    | 210,920   |
|                               | -----     | -----     |
| Total                         | 746,230   | 1,184,879 |
| Less accumulated depreciation | (375,069) | (537,454) |
| Allowance                     | (24,918)  | (23,696)  |
|                               | -----     | -----     |

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PREMISES AND EQUIPMENT, NET            Ps 346,243    Ps 623,729  
     =====    =====

-----

(1) Includes goods being imported to be allocated to leasing.

Premises and equipment depreciation expense for the years ended December 31, 2003, December 31, 2004 and December 31, 2005, amounted to Ps37,738, Ps42,832 and Ps79,293 respectively.

(11) OPERATING LEASES

At December 31, 2004 and 2005 operating leases consisted of the following:

|                                   | 2004     | 2005      |
|-----------------------------------|----------|-----------|
|                                   | -----    | -----     |
| OPERATING LEASES                  |          |           |
| Machinery and equipment           | Ps 1,358 | Ps 1,989  |
| Vehicles                          | 2,273    | 172,745   |
| Furniture, equipment and fixtures | --       | 3,428     |
| Computer equipment                | 10,396   | 27,550    |
| Real goods                        | --       | 1,505     |
|                                   | -----    | -----     |
| TOTAL                             | 14,027   | 207,217   |
| Rents                             | 243      | 4,229     |
| Less accumulated depreciation     | (5,878)  | (66,169)  |
| Allowance                         | (81)     | (1,303)   |
|                                   | -----    | -----     |
| OPERATING LEASES, NET             | Ps 8,311 | Ps143,974 |
|                                   | =====    | =====     |

Operating lease depreciation expense for the years ended December 31, 2003, 2004 and 2005, amounted to Ps2,887, Ps4,040 and Ps8,340 respectively.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
 Notes to Consolidated Financial Statements  
 (Stated in millions of pesos and thousands of U.S. dollars)

(12) PREPAID EXPENSES AND DEFERRED CHARGES

At December 31, 2004 and December 31, 2005, prepaid expenses and deferred charges consisted of the following:

|                    | 2004     | 2005     |
|--------------------|----------|----------|
|                    | -----    | -----    |
| PREPAID EXPENSES:  |          |          |
| Insurance premiums | Ps 5,242 | Ps13,677 |
| Interest           | 59       | 30       |

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|   |          |          |
|---|----------|----------|
| Other                                       | 1,199    | 913      |
|   | -----    | -----    |
| TOTAL PREPAID EXPENSES                      | 6,500    | 14,620   |
|   | -----    | -----    |
| DEFERRED CHARGES:                           |          |          |
| Studies and projects                        | 204      | 1,669    |
| Computer programs                           | 6,726    | 5,971    |
| Remodeling                                  | 593      | 7        |
| Leasehold improvements                      | 815      | 1,017    |
| Deferred taxes non-banking entities         | 240      | 958      |
| Stationery and supplies                     | 239      | 424      |
| Contributions                               | 5        | --       |
| Other                                       | 628      | 2,232    |
|   | -----    | -----    |
| TOTAL DEFERRED CHARGES                      | Ps 9,450 | Ps12,278 |
|   | -----    | -----    |
| TOTAL PREPAID EXPENSES AND DEFERRED CHARGES | Ps15,950 | Ps26,898 |
|   | =====    | =====    |

(13) OTHER ASSETS

At December 31, 2004 and December 31, 2005 other assets consisted of the following:

|  |           |           |
|--|-----------|-----------|
|  | 2004      | 2005      |
|  | -----     | -----     |
| OTHER ASSETS:                                    |           |           |
| Value added tax deductible and withholding taxes | Ps111,532 | Ps 37,708 |
| Investment in Trust                              | 53,349    | 70,764    |
| Deposits   | 20,543    | 89,564    |
| Assets to place in lease contracts               | 70,746    | 352,079   |
| Inventory  | 52,202    | 5,295     |
| Other  | 7,022     | 8,178     |
|  | -----     | -----     |
| TOTAL OTHER ASSETS                               | Ps315,394 | Ps563,588 |
|  | =====     | =====     |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
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(14) GOODWILL

The activity of the goodwill during the years ended December 31, 2003, December 31, 2004 and December 31, 2005 is as follows:

|                              |           |           |           |
|------------------------------|-----------|-----------|-----------|
|                              | 2003      | 2004      | 2005      |
|                              | -----     | -----     | -----     |
| Balance at beginning of year | Ps118,903 | Ps 99,910 | Ps 73,607 |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Balance at beginning of year (Sufinanciamiento) | 4,433     | --        | --        |
| Additions                                       | 36,347    | --        | --        |
| Amortization (2)                                | (59,773)  | (26,303)  | (22,648)  |
|   | -----     | -----     | -----     |
| Balance at end of year (1)                      | Ps 99,910 | Ps 73,607 | Ps 50,959 |
|   | =====     | =====     | =====     |

-----  
(1) In the Annual Report of year 2003, goodwill was included in the line "prepaid expenses, deferred charges and other assets" of the consolidated balance sheet. For year 2004, goodwill is disclosed independently.

(2) As of December 31, 2003, included the amortization of the goodwill derived from: merger with Banco de Colombia, the acquisition of Sufinanciamiento and the increase in the participation on Fiducolombia.

(15) FORECLOSED ASSETS

At December 31, 2004 and December 31, 2005, foreclosed assets consisted of the following:

|                              | 2004      | 2005      |
|------------------------------|-----------|-----------|
|                              | -----     | -----     |
| Equity securities            | Ps 54,866 | Ps 52,273 |
| Real estate                  | 95,637    | 179,498   |
| Other assets                 | 2,568     | 4,765     |
|                              | -----     | -----     |
| TOTAL                        | 153,071   | 236,536   |
| Allowance                    | (140,865) | (205,176) |
|                              | -----     | -----     |
| TOTAL FORECLOSED ASSETS, NET | Ps 12,206 | Ps 31,360 |
|                              | =====     | =====     |

The following is a summary of equity securities classified as foreclosed assets:

|                                     | 2004     | 2005     |
|-------------------------------------|----------|----------|
|                                     | -----    | -----    |
| Urbanizacion Sierras del Chico Ltda | Ps11,567 | Ps11,567 |
| Chico Oriental Numero 2 Ltda.       | 14,053   | 14,053   |
| Pizano S.A.                         | 3,663    | 3,663    |
| Convertible Securities Pizano S.A.  | 3,221    | 3,221    |
| Lineas Agromar trust                | 1,399    | 1,547    |
| Emcocables 2 Santa Ana trust        | 837      | 1,752    |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
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|                      | 2004<br>----- | 2005<br>----- |
|----------------------|---------------|---------------|
| Pagos Procampo trust | 7,044         | 7,044         |
| Textiles Fabricato   | 4,313         | 297           |
| Concreto S.A.        | 2,622         | 2,622         |
| Holguines Cali       | --            | 1,485         |
| Other                | 6,147         | 5,022         |
|                      | -----         | -----         |
| TOTAL                | Ps54,866      | Ps52,273      |
|                      | =====         | =====         |

The activity of the valuation allowance for foreclosed assets during the years ended December 31, 2003, December 31, 2004 and December 31, 2005 is as follows:

|   | 2003<br>----- | 2004<br>----- | 2005<br>----- |
|---|---------------|---------------|---------------|
| Balance at beginning of year  | Ps107,871     | Ps135,090     | Ps140,865     |
| Balance at beginning of year (Conavi,<br>Corfinsura and subsidiaries) | --            | --            | 65,814        |
| Balance at beginning of year (Sufinanciamiento)                       | 222           | --            | --            |
| Provision   | 32,458        | 23,002        | 44,665        |
| Charge-offs   | --            | --            | (772)         |
| Recoveries  | (5,461)       | (17,227)      | (45,445)      |
| Reclassifications   | --            | --            | 52            |
| Effect of changes in exchange rates                                   | --            | --            | (3)           |
|   | -----         | -----         | -----         |
| Balance at the end of year  | Ps135,090     | Ps140,865     | Ps205,176     |
|   | =====         | =====         | =====         |

(16) REAPPRAISAL OF ASSETS

The following describes reappraisals of assets at December 31, 2004 and December 31, 2005:

|  | 2004<br>----- | 2005<br>----- |
|--|---------------|---------------|
| Asset revaluations                     | Ps267,941     | Ps330,915     |
| Less: proportional equity revaluations | (198,072)     | (196,159)     |
| Less: minority interests               | (27,632)      | (24,277)      |
|  | -----         | -----         |
| TOTAL EQUITY REVALUATIONS              | Ps 42,237     | Ps110,479     |
|  | =====         | =====         |

The proportional equity revaluations refer to the acquisition of investments in Colcorp S.A., Almacénar S.A., Leasing Colombia S.A., Fiducolombia S.A., Suvalor S.A., Sufinanciamiento S.A., Banco Corfinsura Internacional Inc, Multienlace S.A., 3001 S.A. (in the process of being wound up) and affiliates calculated on acquisition date. Consolidation rules require this value to be unchanged while the investment is held or

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no new acquisitions are made.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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(17) INTERBANK BORROWINGS

Interbank borrowings, primarily denominated in U.S. dollars, at December 31, 2004 and 2005 are summarized as follows:

|               | 2004<br>-----      | 2005<br>-----        |
|---------------|--------------------|----------------------|
| FOREIGN BANKS |                    |                      |
| Short-term    | Ps137,965          | Ps1,381,696          |
| Long-term     | 108,317            | 323,772              |
|               | -----              | -----                |
| TOTAL         | Ps246,282<br>===== | Ps1,705,468<br>===== |

Short-term interbank borrowings, obtained from other banks for liquidity purposes, are unsecured and generally have maturities ranging from 90 to 180 days.

Interest rates on U.S. dollar denominated short-term borrowings from foreign banks averaged 2.65% and 3.62% in 2004 and 2005, respectively.

For long term interbank borrowings, the average interest rate was 2.26% and 3.70% in 2004 and 2005, respectively, and maturities at December 31, 2005 were as follows:

|      | 2005<br>-----      |
|------|--------------------|
| 2006 | Ps196,566          |
| 2007 | 67,273             |
| 2008 | 59,933             |
|      | -----              |
|      | Ps323,772<br>===== |

(18) BORROWINGS FROM DOMESTIC DEVELOPMENT BANKS

The Colombian government has established programs to promote the development of specific sectors of the economy. These sectors include foreign trade, agriculture, tourism and many other industries. These programs are under the administration of the Colombian Central Bank and various government entities.

Under such programs, the Bank receives a loan request from an



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applicant operating in a designated economic sector. The Bank then performs a full credit analysis of the applicant based upon its normal credit criteria. If such criteria are met, the Bank applies to the appropriate government agency for funding. The government agency reviews the loan application to determine its compliance with policy objectives and may also perform an independent credit analysis of the applicant. Upon approval, the agency disburses funds to the Bank. The Bank, in turn, disburses the loan to its customer and assumes all credit risk.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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These loans generally bear interest from 3% to 6% above the average rates paid by domestic banks on short-term time deposits. Loan maturities vary depending on the program (ranging from one to ten years). The Bank funds approximately 0% to 15% of the total loan balance, with the remainder being provided by the respective government agencies. Loans to customers are in the same currency and maturities as the borrowings from the agencies.

As of December 31, 2004 and December 31, 2005, borrowings from domestic development banks received from certain Colombian government agencies consisted of the following:

|  | 2004      | 2005        |
|--|-----------|-------------|
|  | -----     | -----       |
| Fondo para el Financiamiento del Sector Agropecuario | Ps216,631 | Ps 383,904  |
| Banco de Comercio Exterior de Colombia ("Bancoldex") | 334,855   | 957,511     |
| Findeter   | 220,820   | 612,297     |
| Other  | 85,613    | 268,371     |
|  | -----     | -----       |
| TOTAL  | Ps857,919 | Ps2,222,083 |
|  | =====     | =====       |

Interest rates on borrowings from domestic development banks averaged 8.38% and 7.03% in 2004 and 2005, respectively, in local currency and 7.45% and 5.12% in 2004 and 2005, respectively, in foreign currency. Maturities at December 31, 2005 were as follows:

|                     |             |
|---------------------|-------------|
| 2006                | Ps 448,774  |
| 2007                | 286,707     |
| 2008                | 424,452     |
| 2009                | 318,946     |
| 2010                | 377,837     |
| 2011 and thereafter | 365,367     |
|                     | -----       |
| TOTAL               | Ps2,222,083 |
|                     | =====       |

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### (19) OTHER LIABILITIES

As of December 31, 2004 and December 31, 2005, other liabilities consisted of the following:

|   | 2004    | 2005     |
|---|---------|----------|
| Unearned income   | Ps8,760 | Ps15,373 |
| Accrued severance Law 50, net of advances   | 5,033   | 14,453   |
| Accrued severance pre-Law 50, net of advances to employees<br>of Ps 11,652 and Ps 11,354 in 2004 and 2005, respectively | 12,378  | 13,259   |
| Accrued payroll and other severance benefits  | 23,413  | 37,707   |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
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|  | 2004      | 2005      |
|--|-----------|-----------|
| Accrued pension obligations net of deferred cost | 86,353    | 88,682    |
| Negative goodwill                                | 1,426     | 9,959     |
| Deferred interest on restructured loans          | 45,286    | 56,974    |
| Deferred tax liability                           | 1,112     | 100,353   |
| Advances   | 42,080    | 103,213   |
| Other  | 7,091     | 19,995    |
|  | -----     | -----     |
| TOTAL  | Ps232,932 | Ps459,968 |
|  | =====     | =====     |

Unearned income consists of prepayments of interest by customers. Terms for the prepayment of interest are established when the loan is originated. Unearned income is generally amortized on a straight-line basis over the term for which interest has been prepaid.

Colombian labor regulations entitle each employee hired before January 1, 1991 to severance pay in an amount equal to such employee's last monthly salary multiplied by the number of years in service. The Bank increases the accrued liability for such severance benefits whenever an employee's salary is increased. To allow greater flexibility in labor contracts, the Colombian government enacted Law 50 in 1990, which, among other things, permits companies to negotiate a waiver of the retroactivity component of severance pay with their employees. In August 1994, the Bank and its executive employees agreed on a plan, which waived the retroactivity component of severance pay.

In accordance with the Colombian Labor Code, employers must pay retirement pensions to employees who fulfill certain requirements as to age and time of service. However, the Social Security Institute and other private funds have assumed a large portion of this obligation.

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### Pension obligation

The following is an analysis of the Bank's pension obligations for the years ended December 31, 2003, December 31, 2004 and December 31, 2005:

|                                    | PROJECTED<br>PENSION<br>LIABILITY | DEFERRED COST | NET       |
|------------------------------------|-----------------------------------|---------------|-----------|
|                                    | -----                             | -----         | -----     |
| BALANCE AT DECEMBER 31, 2002       | Ps 78,563                         | Ps (10,241)   | Ps 68,322 |
|                                    | =====                             | =====         | =====     |
| Adjustment per actuarial valuation | 10,120                            | (10,120)      | --        |
| Benefits paid                      | (9,245)                           | --            | (9,245)   |
| Pension expense                    | --                                | 19,501        | 19,501    |
|                                    | -----                             | -----         | -----     |
| BALANCE AT DECEMBER 31, 2003       | Ps 79,438                         | Ps (860)      | Ps 78,578 |
|                                    | =====                             | =====         | =====     |
| Adjustment per actuarial valuation | 17,064                            | (17,064)      | --        |
| Benefits paid                      | (9,364)                           | --            | (9,364)   |
| Pension expense                    | --                                | 17,139        | 17,139    |
|                                    | -----                             | -----         | -----     |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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|   | PROJECTED<br>PENSION<br>LIABILITY | DEFERRED COST | NET       |
|---|-----------------------------------|---------------|-----------|
|   | -----                             | -----         | -----     |
| BALANCE AT DECEMBER 31, 2004              | Ps 87,138                         | Ps (785)      | Ps 86,353 |
|   | =====                             | =====         | =====     |
| Balance at beginning of year (Corfinsura) | 356                               | --            | 356       |
| Decrease for Abocol sale                  | (5,292)                           | 785           | (4,507)   |
| Reclassification                          | (51)                              | --            | (51)      |
| Adjustment per actuarial valuation        | 16,715                            | (16,715)      | --        |
| Benefits paid                             | (10,184)                          | --            | (10,184)  |
| Pension expense                           | --                                | 16,715        | 16,715    |
|   | -----                             | -----         | -----     |
| BALANCE AT DECEMBER 31, 2005              | Ps 88,682                         | Ps --         | Ps 88,682 |
|   | =====                             | =====         | =====     |

The present value of the obligation for pensions as of December 31, 2003, 2004, and 2005 was determined on the basis of actuarial calculations in conformity with Colombian law. The significant assumptions utilized in the actuarial calculations for the years ended December 31, 2003 2004 and 2005 were as follows:

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|                          | 2003   | 2004   | 2005   |
|--------------------------|--------|--------|--------|
|                          | -----  | -----  | -----  |
| Discount rate            | 23.03% | 21.23% | 19.06% |
| Future pension increases | 15.33% | 13.72% | 12.01% |

(20) LONG TERM-DEBT

The scheduled maturities of long term-debt at December 31, 2005 are as follows:

|                     |             |
|---------------------|-------------|
| 2006                | Ps 675,001  |
| 2007                | 457,396     |
| 2008                | 195,622     |
| 2009                | 203,282     |
| 2010                | 105,281     |
| 2011 and thereafter | 11,730      |
|                     | -----       |
|                     | Ps1,648,312 |
|                     | =====       |

Long term debt consists of bonds issued by Bancolombia (unconsolidated), Leasing Colombia S.A., Fundicom S.A., Sufinanciamiento S.A. and by Surenting S.A. bearing interest at the following rates:

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BANCOLOMBIA S.A.

| Issue Date | Maturity Date | Rate   |
|------------|---------------|--------|
| -----      | -----         | -----  |
| 1997 (1)   | 03-Sep-07     | 13.38% |
| 2000 (1)   | 30-Nov-02     | 8.96%  |
| 2001 (1)   | 04-Apr-07     | 8.96%  |
| 2001       | 20-Dec-10     | 9.35%  |
| 2002 (1)   | 21-Jun-10     | 8.59%  |
| 2004       | 11-Feb-06     | 8.31%  |
| 2004       | 11-Feb-07     | 9.14%  |
| 2004       | 11-Feb-07     | 8.64%  |
| 2004       | 11-Feb-09     | 9.98%  |
| 2004       | 11-Feb-09     | 9.03%  |

(1) Each of this issues has a different nominal rate; for this reason annual rates showed above are calculated based on the interest accrued in 2005.

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### LEASING COLOMBIA S.A.

| Issue Date<br>----- | Maturity Date<br>----- | Rate<br>-----   |
|---------------------|------------------------|---|
| 2001                | From 18 to 60 months   | Up to an annual rate of the DFT plus 3%   |
| 2002                | From 18 to 72 months   | Up to an annual rate of the DFT plus 3%   |
| 2003                | From 12 to 60 months   | Up to DFT annual rate + 5.00% annual rate<br>Up to CPT - 12.00% annual effective rate |
| 2004                | From 18 to 60 months   | DTF or CPI  |
| 2004                | From 18 to 60 months   | DTF or CPI  |

### FUNDICOM S.A.

| Issue Date<br>----- | Maturity Date<br>----- | Rate<br>----- |
|---------------------|------------------------|---------------|
| 10-Aug-03           | 10-Aug-15              | CPI           |

### SUFINANCIAMIENTO S.A.

| Issue Date<br>----- | Maturity Date<br>----- | Rate<br>----- |
|---------------------|------------------------|---------------|
| 11-Mar-04           | 11-Mar-14              | CPI + 2%      |
| 29-Nov-05           | 06-Dec-15              | CPI + 2%      |

### SURENTING S.A.

| Issue Date<br>----- | Maturity Date<br>----- | Rate<br>----- |
|---------------------|------------------------|---------------|
| 30-Aug-00           | 30-Aug-07              | CPI + 9.49%   |
| 28-Jan-03           | 28-Jan-08              | CPI + 7.25%   |
| 28-Jan-03           | 28-Jan-06              | DTF + 2.5%    |
| 28-Jan-03           | 28-Jan-07              | DTF + 3%      |
| 28-Jan-03           | 28-Jan-09              | CPI + 6.7%    |

-----  
DTF: Average weekly rate of time deposits (issued by commercial and mortgage banks and commercial finance companies) with a maturity of 90 days.

CPI: Consumer price index

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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### (21) ACCRUED EXPENSES

As of December 31, 2004 and December 31, 2005, accrued expenses consisted of the following:

|                         | 2004     | 2005      |
|-------------------------|----------|-----------|
|                         | -----    | -----     |
| Interest payable        | Ps 1,046 | Ps --     |
| Income tax payable      | 10,547   | 41,125    |
| Fines and sanctions (1) | 38,829   | 64,486    |
| Labor obligations       | 7,617    | 9,643     |
| Other                   | 13,610   | 15,605    |
|                         | -----    | -----     |
| TOTAL                   | Ps71,649 | Ps130,859 |
|                         | =====    | =====     |

-----

(1) See Note 26(d) as it refers to the Bank.

For 2003, 2004 and 2005 the statutory income tax was 37% for Bancolombia unconsolidated, Leasing Colombia S.A., Colcorp S.A. and Fiducolombia S.A. according to an agreement of tax stability and 38.5% for the other Subsidiaries, respectively.

The Bank's tax liability is calculated based on the greater of (i) net taxable income and (ii) presumed income, which, in 2004 and 2005 is 6% of stockholders' equity.

The following is a reconciliation of taxable income before income taxes for the years ended December 31, 2003, December 31, 2004 and December 31, 2005:

|  | 2003       | 2004       | 2005        |
|--|------------|------------|-------------|
|  | -----      | -----      | -----       |
| Income before income taxes   | Ps 532,019 | Ps 817,488 | Ps1,224,396 |
| Adjustments for consolidation purposes, net  | (26,722)   | 209,987    | 37,032      |
| Difference between net operating loss carry-forwards and presumed income                     | 16,404     | (134,715)  | 8,149       |
| Non-deductible provisions, costs and expenses  | 107,926    | 176,454    | 130,528     |
| Non-taxable or exempt income   | (71,559)   | (350,338)  | (364,663)   |
| Difference between monetary correction for tax purposes and for financial reporting purposes | (40,040)   | (47,484)   | (38,028)    |
| Excess of accrued income over valuation income   | (50,514)   | (20,905)   | (130,265)   |
| Amortization of excess of presumed income over ordinary income                               | (298,180)  | (9,242)    | (94,562)    |
| Valuation derivatives effect   | --         | (11,788)   | (100,495)   |
| Other  | --         | --         | (156,122)   |
|  | -----      | -----      | -----       |
| Taxable income   | Ps 169,334 | Ps 629,457 | Ps 515,970  |
|  | -----      | -----      | -----       |
| Statutory tax rate   | 36.84%     | 37.75%     | 34.69%      |
|  | -----      | -----      | -----       |
| Estimated current income tax   | Ps 62,391  | Ps 237,620 | Ps 178,992  |
| Deferred income tax expense (benefit)  | 244        | 1,190      | 98,523      |

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|       |                             |                              |                              |
|-------|-----------------------------|------------------------------|------------------------------|
| TOTAL | -----<br>Ps 62,635<br>===== | -----<br>Ps 238,810<br>===== | -----<br>Ps 277,515<br>===== |
|-------|-----------------------------|------------------------------|------------------------------|

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Income taxes for the years ended December 31, 2004 and 2005 are subject to review by the tax authorities. The Bank management and its legal advisors believe that no significant liabilities in addition to those recorded will arise from such a review.

The following table presents, for the fiscal years cited, which amortizations of losses can be recorded and the excess of presumed income over ordinary income:

FISCAL LOSSES TO AMORTIZE

|      | INMOBILIARIA<br>BANCOL S.A. | FUNDICOM S.A. | COMECOL S.A. | TOTAL    |
|------|-----------------------------|---------------|--------------|----------|
|      | -----                       | -----         | -----        | -----    |
| 2006 | Ps--                        | Ps 267        | Ps 154       | Ps 421   |
| 2007 | --                          | --            | 915          | 915      |
| 2008 | --                          | 2,378         | 550          | 2,928    |
| 2009 | 91                          | --            | 497          | 588      |
| 2010 | --                          | --            | --           | --       |
|      | -----                       | -----         | -----        | -----    |
|      | Ps 91                       | Ps 2,645      | Ps 2,116     | Ps 4,852 |
|      | =====                       | =====         | =====        | =====    |

EXCESS OF PRESUMED INCOME OVER ORDINARY INCOME

|      | BANCOLOMBIA<br>S.A. | COLCORP S.A. | INMOBILIARIA<br>BANCOL S.A. | FUNDICOM<br>S.A. | COMECOL<br>S.A. | ALMACENAR<br>S.A. | SURENTING<br>S.A. |       |
|------|---------------------|--------------|-----------------------------|------------------|-----------------|-------------------|-------------------|-------|
|      | -----               | -----        | -----                       | -----            | -----           | -----             | -----             | ----- |
| 2006 | Ps --               | Ps --        | Ps --                       | Ps 669           | Ps --           | Ps --             | Ps --             | Ps -- |
| 2007 | 25,554              | --           | --                          | 153              | 461             | --                | --                | --    |
| 2008 | 29,795              | 3,667        | --                          | 894              | 390             | 1,621             | --                | --    |
| 2009 | 35,931              | 4,430        | 63                          | 535              | 335             | 2,403             | 1,718             | --    |
| 2010 | --                  | --           | 99                          | --               | --              | 2,354             | --                | --    |
|      | -----               | -----        | -----                       | -----            | -----           | -----             | -----             | ----- |
|      | Ps 91,280           | Ps 8,097     | Ps 162                      | Ps 2,251         | Ps 1,186        | Ps 6,378          | Ps 1,718          | Ps -- |
|      | =====               | =====        | =====                       | =====            | =====           | =====             | =====             | ===== |

As a result of the Merger, amortization of the excess of presumed income over ordinary income originated in Conavi and Corfinsura for

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Ps 25,266 and Ps 66,014 respectively, can be recorded by Bancolombia.

(22) SUBSCRIBED AND PAID-IN CAPITAL

Subscribed and paid-in capital consisted of the following:

|   | 2003<br>-----        | 2004<br>-----        | 2005<br>-----          |
|---|----------------------|----------------------|------------------------|
| AUTHORIZED SHARES                                   | 670,000,000<br>===== | 670,000,000<br>===== | 1,000,000,000<br>===== |
| ISSUED AND OUTSTANDING:                             |                      |                      |                        |
| Common shares with a nominal value of 500 pesos     | 398,259,608          | 398,259,608          | 509,704,584            |
| Preference shares with a nominal value of 500 pesos | 178,435,787<br>===== | 178,435,787<br>===== | 218,122,421<br>=====   |

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Non-voting shares with a preferred dividend will be entitled to receive a minimum preferred dividend equal to one percent (1%) of the initial offering price per preferred share for each fiscal year the bank reports profits after the Bank deducts an amount to compensate for any losses that affected its capital and any necessary contribution to a reserve account that must be made by law, and in compliance with Colombian regulation, but before the Bank creates or increases any other reserve. In addition, the dividend per share paid on preferred stock cannot be less than the dividend per share paid on ordinary stock (and will be increased if a higher dividend on ordinary stock is declared).

Each non-voting share with preferred dividend confers on its holder the right to participate in the shareholders' meetings and to vote solely on the matters provided for by law and in the By-laws.

A foreign capital institutional investment fund in Colombia has been constituted to hold certain non-voting preferred shares issued by the Bank as custodian and American Depositary Shares (ADSs) related to those non-voting preferred shares have been issued abroad.

(23) APPROPRIATED RETAINED EARNINGS

Pursuant to Colombian law, 10% of the net income of the Bank and its Colombian Subsidiaries in each year must be appropriated with a credit to a "legal reserve fund" until its balance is equivalent to at least 50% of the subscribed capital. This legal reserve may not be reduced to less than the indicated percentage, except to cover losses in excess of undistributed earnings.

The component "other" in the consolidated statements of stockholders' equity corresponds to the Subsidiaries' retained earnings that are not eliminated in the consolidation process, because the investment in the



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subsidiaries is accounted for at cost.

Appropriated retained earnings consist of the following:

|                              | 2003<br>-----      | 2004<br>-----        | 2005<br>-----        |
|------------------------------|--------------------|----------------------|----------------------|
| Legal reserve                | Ps497,075          | Ps 638,716           | Ps 886,159           |
| Additional paid - in capital | 107,359            | 107,359              | 268,005              |
| Other reserves               | 135,920            | 264,406              | 611,834              |
|                              | -----              | -----                | -----                |
| TOTAL                        | Ps740,354<br>===== | Ps1,010,481<br>===== | Ps1,765,998<br>===== |

In addition, paid-in capital of Ps 107,359 at December 31, 2003, 2004 and Ps 268,005 at December 31, 2005 was recorded as part of the legal reserve, as required by the Superintendency of Finance (before Superintendence of Banking).

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(24) DIVIDENDS DECLARED

The Bank's shareholders declared common stock dividends with respect to the preceding year's earnings of the Bank to be payable during 2004, 2005 and 2006 as indicated below:

|   | 2004<br>-----  | 2005<br>-----  |
|---|--|--|
| Preceding year's unconsolidated earnings (losses) | Ps309,772  | Ps 430,807   |
| Dividends in cash                                 | 272 pesos per share payable in four quarterly installments of 68 pesos per share from April 2004 on 398,259,608 and 178,435,787 common and preferred shares, respectively. | 376 pesos per share payable in four quarterly installments of 94 pesos per share from April 2005 on 398,259,608 and 178,435,787 common and preferred shares, respectively. |
| Total dividends declared                          | Ps156,861  | Ps 216,838   |
| Dividends payable at December 31                  | Ps 44,099  | Ps73,478   |

(25) MEMORANDUM ACCOUNTS

At December 31, 2004 and 2005, memorandum accounts consisted of the following:

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|  | 2004         | 2005         |
|--|--------------|--------------|
|  | -----        | -----        |
| TRUST:                                 |              |              |
| Investment trusts                      | Ps14,551,133 | Ps31,845,679 |
| COMMITMENTS:                           |              |              |
| Unused credit card limits              | 1,721,090    | 2,287,359    |
| Civil demands against the Bank         | 1,982,256    | 2,148,018    |
| Issued and confirmed letters of credit | 421,643      | 493,220      |
| Uncommitted lines of credit            | 347,833      | 549,161      |
| Bank guarantees                        | 137,375      | 347,556      |
| Approved credits not disbursed         | 17,824       | 408,949      |
| Nation account payable (546 law)       | --           | 105,459      |
| Other                                  | 1,250        | 12,201       |
|  | -----        | -----        |
| TOTAL                                  | Ps19,180,404 | Ps38,197,602 |
|  | =====        | =====        |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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OTHER MEMORANDUM ACCOUNTS:

|  | 2004         | 2005          |
|--|--------------|---------------|
|  | -----        | -----         |
| MEMORANDUM ACCOUNTS RECEIVABLE:                                  |              |               |
| Tax value of assets  | Ps12,383,426 | Ps 25,950,846 |
| Assets and securities given in custody                           | 3,985,019    | 6,837,310     |
| Assets and securities given as a collateral                      | 934,208      | 2,209,380     |
| Negotiable investments in debt securities                        | 2,143,814    | 5,199,740     |
| Written-off assets   | 638,654      | 935,438       |
| Quotas of leasing to receive                                     | 1,082,024    | 3,030,656     |
| Investments held to maturity                                     | 767,261      | 1,113,369     |
| Adjustments for inflation of assets                              | 217,785      | 181,512       |
| Accounts to receive yields trading investments<br>in debt titles | 165,073      | 214,358       |
| Investments available for the sale in debt titles                | 1,672,536    | 1,587,299     |
| Remittances sent for collection                                  | 27,259       | 28,869        |
| Amortized debt securities investment                             | --           | 2,209,254     |
| Other memorandum account receivable                              | 1,265,149    | 2,998,143     |
|  | -----        | -----         |
| TOTAL  | Ps25,282,208 | Ps 52,496,174 |
|  | -----        | -----         |
| MEMORANDUM ACCOUNTS PAYABLE:                                     |              |               |
| Assets and securities received as collateral                     | Ps 8,406,554 | Ps 17,714,293 |
| Qualification commercial loans                                   | 7,459,747    | 12,113,735    |
| Assets and securities received in custody                        | 1,776,613    | 1,867,850     |

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|                                       |              |               |
|---------------------------------------|--------------|---------------|
| Tax value of shareholders' equity     | 2,205,064    | 4,333,289     |
| Qualification consumer loans          | 1,653,473    | 2,449,782     |
| Adjustment for inflation of equity    | 490,297      | 897,280       |
| Qualification small loans             | 91,168       | 116,508       |
| Merchandise in owned warehouses       | 66,339       | 61,545        |
| Merchandise in third-party warehouses | 47,026       | 48,048        |
| Underwriting                          | --           | 25,000        |
| Qualification financial leasing       | 887,669      | 2,684,627     |
| Qualification operating leasing       | 8,392        | 145,277       |
| Qualification mortgage loans          | 291          | 1,415,812     |
| Other memorandum account payable      | 10,677,192   | 4,028,713     |
|                                       | -----        | -----         |
| TOTAL                                 | Ps33,769,825 | Ps 47,901,759 |
|                                       | -----        | -----         |
| TOTAL MEMORANDUM ACCOUNTS             | Ps78,232,437 | Ps138,595,535 |
|                                       | =====        | =====         |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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(26) COMMITMENTS AND CONTINGENCIES

THE BANK

A) CONTINGENCIES COVERED BY FOGAFIN:

During the privatization process of Banco de Colombia (which merged with and into the Bank in 1998), completed on January 31, 1994, the Fogafin made a commitment to assume the cost of contingent liabilities resulting from events that occurred before the date when the stock was sold, that should be claimed within the five (5) subsequent years. Fogafin's guarantee covers eighty percent (80%) of the first Ps 10,000, discounting allowances, and thereafter, one hundred percent (100%), all annually adjusted according to the consumer price index.

As established in the guarantee contract, Banco de Colombia committed to transfer to the Fogafin all the rights that it then had in Sierras del Chico Ltda. and Chico Oriental Numero Dos Ltda. for an amount no lesser than the book value as of December 31, 1993, including inflation adjustments and excluding any valuations. A judicial process was initiated questioning the validity and binding effect of the commitment to transfer these rights to Fogafin, but no final ruling has been made.

At December 31, 2004 and 2005, the civil contingencies covered by the guarantee amounted to approximately Ps 12,185 and Ps 11,167, respectively, with allowances at the same dates amounting to Ps 1,370 and Ps 957. Labor contingencies amount to Ps 305 and have allowances of Ps 153 respectively; these figures show no variation with respect to 2004.

B) LEGAL PROCESSES

At December 31, 2004 and 2005, other than the litigation discussed under (a) above, there were labor-related claims against the Bank amounting to approximately Ps 10,015 and Ps 11,885, respectively (the final result of such litigation is not predictable due to the controvertible nature of the

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obligations). The allowances for contingencies on those dates amounted to Ps 4,911 and Ps 5,938, respectively.

At December 31, 2004 and 2005, there were ordinary civil lawsuits, group actions, and civil actions within criminal and executive processes against the Bank with total claims of approximately Ps 301,823 and Ps 369,452, respectively and with allowances on the same dates of Ps 4,327 and Ps 16,729, respectively.

Allowances are recorded when processes are ruled in the first instance against the Bank or based on the opinion of the attorneys handling the litigations.

At December 31, 2005, the Superintendency of Finance (before Superintendency of Banking) has imposed fines on the Bank amounting to Ps 1,738, for which complete allowances have been created.

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At December 31, 2005, Bancolombia (unconsolidated) contingencies in an amount over Ps 5,000 was:

| PROCESS<br>-----  | INITIAL<br>EXPOSURE<br>----- | ACTUAL<br>EXPOSURE AT<br>DECEMBER 31,<br>2005<br>----- | ALLOWANC<br>----- |
|---|------------------------------|--|-------------------|
| Arbitration process Jaime Gilinski and Others against Bancolombia and some of its administrators        | US\$675,000                  | US\$720,000  | -                 |
| Felix Gaitan Cendales and others. Civil Court 29 of Bogota  | Ps 187,045                   | Ps 187,045   | -                 |
| Popular action Carlos Julio Aguilar and Other Administrative Tribunal of the Department of Valle        | 22,040                       | 22,040   | -                 |
| Rodrigo Garavito and others against Bancolombia Administrative Tribunal of the Department of Cundimarca | 20,000                       | 20,000   | -                 |
| Class action Luis Alberto Duran (1)   | 421,080                      | 21,469   | 21,46             |
| Vizcaya Centro Comercial S.A.   | 14,000                       | 14,000   | -                 |
| Pavicon   | 11,166                       | 12,552   | -                 |
| Inversiones C.B. S.A.   | 12,468                       | 12,468   | -                 |
| Editorial Oveja Negra Ltda. and Jose Vicente Katerain Velez   | 10,240                       | 10,240   | 51                |
| Murgueitio and Santander  | 8,000                        | 8,000  | -                 |
| Invico Ltda. Processes. Civil Court 9 of Bogota   | 5,000                        | 6,601  | -                 |
| Costrucc.Rojas Jimenez & CIA. S. EN C.  | 6,277                        | 6,277  | 62                |
| Julio Enrique Olaya. Civil Court 14 of Bogota   | 1,523                        | 5,594  | 5,59              |
| Constructodo against Corvivienda. Civil Court 18 of Bogota  | 3,500                        | 5,070  | -                 |
| Jaime Augusto Rueda Angel. Civil Court 29 of Bogota   | 1,706                        | 8,660  | -                 |
| Income and complementary taxes 1996   | 2,409                        | 7,332  | 7,33              |
| Income and complementary taxes 1996   | 2,341                        | 6,087  | 3,04              |

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- (1) The allowance correspond to principal and interest

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- C) CONTINGENCIES RELATED TO THE PURCHASE OF 51% OF FORMER BANCO DE COLOMBIA S.A. ("BANCO DE COLOMBIA") STOCK AND LATER MERGER WITH BANCO INDUSTRIAL COLOMBIANO ("BIC", NOW BANCOLOMBIA)

### The Gilinski Case

#### Contingency guarantee, former Banco de Colombia

With respect to the arbitration process filed by Bancolombia against Jaime Gilinski, as joint and several debtor, discovery is soon expected, addressing the claims presented by the Bank regarding the contingencies of former Banco de Colombia, and putting into effect the trust guarantee set up for this purpose, covering a value of up to US\$ 30,000. The total amount claimed in this arbitration process is of approximately Ps 50,614, excluding monetary adjustment and interest.

#### Criminal Investigation

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

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

In 2005, Messrs. Jaime and Isaac Gilinski filed before the Civil Division of the Supreme Court of Justice, a writ for the protection of rights against the Public Prosecutor's Office, the Delegated Prosecutor's Office before the Supreme Court of Justice and the National Unit of Prosecutors Specialized in Crimes Against Public Administration, with a view to reopening the investigation arguing that certain evidence, collected abroad, was not taken into consideration when first pronouncing upon this case, thereby constituting a de facto prevention of due process.

By means of a final court ruling issued on August 25, 2005, the Civil Appeal Division of the Court rejected this writ for protection of rights, considering that the Public Prosecutor's Office, upon resolving this point in the second instance, considered that the evidence requested by the Public Ministry was not relevant to the investigation, which was precisely what was being alleged by the plaintiffs' attorney. The plaintiffs therefore lodged an appeal against this decision before the Labor Division of the Supreme Court, who upheld the original decision given the fact that a writ for the protection of rights cannot be filed against court rulings.

The writ of protection was selected by the Constitutional Court for

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review and a decision in this respect remains pending.

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
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### Arbitration

With regard to the arbitration resorted to by Jaime Gilinski and Isaac Gilinski and some foreign successor companies of Bancol y cia S. en C. against the Bank and some of its administrators, in which charges similar to those previously filed with various administrative and judicial agencies were alleged, relating to the acquisition process of the majority share of the former Banco de Colombia by BIC, and the later merger of these two institutions. The period for producing evidence ended on November 22, 2005, after which the final arguments were heard. A decision is now pending.

The cause of action consists of the declaration of the inefficacy of BIC's acquisition of the majority share in the capital of the former Banco de Colombia, and as secondary causes of action, the declaration that the contract with the commitment to purchase and sell entered into by and between the parties is absolutely null and void and does not even exist, that the acquisition of the Banco de Colombia GDS's and Notes is absolutely null and void, the declaration of the Bank liability regarding the damages caused by alleged fraudulent operations and fraudulent representations regarding the above-mentioned contract; and the last secondary cause of action if none of the above should prosper was the declaration that the Bank had defaulted on the above-mentioned contract.

The Bank considers that the possibility of incurring any liability from this proceeding is remote, given the fact that the legal action lacks legal and probatory support, and considering that there have been prior court pronouncements that have exonerated the Bank and its administrators from similar petitions or petitions related to the petitions made in this proceeding.

### Class Action Luis Alberto Duran Valencia

As of December 31, 2005, the Bogota Supreme Court decision is still pending on the special appeal for annulment filed by the Bank regarding reviewing the effective regulations on the decision proffered by arbitration following the class action filed by Luis Alberto Duran Valencia and other shareholders of the former Banco de Colombia.

The appeal solely seeks to annul the portion of the award that is questioned, and that has to do with the court order to pay Ps 19,214, since with respect to the rulings regarding the rest of the claims, the award carries a res judicata status.

The Bank considers that a liability to be incurred by the Bank, is unlikely given the existence of serious arguments that may lead to a decision that would acknowledge some of the grounds invoked in the appeal for annulment. The Bank has an allowance in the amount of Ps 21,470, as it awaits the definitive decision regarding this matter.

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Popular Action Maximiliano Echeverri M

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

The cause of action of this legal action is the declaration of violation of the group interests for administrative morality and free economic competition, due to alleged omissions by the Colombian state supervision and control agencies in the acquisition process of the former Banco de Colombia and the later merger with BIC, and alleged Bank maneuvers to prevent the shareholders of the first institution from having all of the information they required to make the decisions at hand. The appeal filed by the plaintiff shall be heard by the Council of State, and the contingency is considered to be somewhat remote, since the merger and purchase process was carried out in full compliance with all applicable legislation and following the highest business ethics.

D) NATIONAL TAX AND CUSTOMS AGENCY ("DIAN")

Income and complementary taxes corresponding to 1993 - Conavi

Conavi filed a tax return on April 15, 1994 for the fiscal year of 1993, showing a tax figure of Ps 6,233 and prepayments of Ps 5,194 for a total of Ps 11,427. In answer to an official notification received from DIAN, Conavi proceeded to correct its tax return, showing a tax figure of Ps 6,233 and prepaid tax of Ps 5,929 for a total of Ps 12,162, this being Ps 735 higher than that initially calculated.

Subsequently DIAN notified Conavi of an order to pay Ps 257, including interest and bringing the amount in arrears up to date, to which Conavi proposed an exception from payment, which was declared as having no grounds by the Collection Division.

Conavi then proceed to file an appeal for reversal. The suit filed by Conavi for the purpose of annulling the order to pay was rejected by the Administrative Tribunal of the Department of Antioquia, a decision that was confirmed on appeal before the Council of State, by means of a ruling issued November 23, 2005, ordering its return to the tribunal. The sum in dispute totals Ps 940, including the tax in question plus default interest. A provision has been set up for this entire amount.

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Industry and Commerce Tax corresponding to 1995 - Conavi

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On April 9, 1996, Conavi filed its Industry and Commerce Tax return on the basis of 1995, for the fiscal year of 1996 and subsequent payment in this same period. The Medellin City Council, by means of Settlement Review Note No. 586 dated May 22, 1998, modified said return on the basis that the discount totaling Ps 30,200 from the monetary correction account was not legally authorized. Conavi filed a motion to annul this decision and reestablish its right, since the aforementioned discount was authorized by Article 20 Subsection 7 of the Municipal Agreement 061/89 and in Article 212 of Decree 1333 of 1986. The provision of Ps 363 was set up for this tax contingency, which is considered probable.

Income and complementary taxes corresponding to 1996 former Banco de Colombia

For the taxable year 1996, when determining the income tax and complementary taxes, the former Banco de Colombia requested that donations to universities be considered deductions and a tax discount at the same time. DIAN proceeded to reject the deduction of the mentioned donations, arguing that this constituted dual benefit on one sole economic item, and it deemed that was not allowed pursuant to applicable law.

On April 4, 2000, the Bank filed with the Honorable Cundinamarca Administrative Court a legal action to declare null and reestablish the right against administrative acts that modify private liquidation. On April 26, 2001, the Honorable Court proffered its decision not granting the Bank's petitions. Due to the above, an appeal was filed with the Honorable Council of State on September 18, 2001. On August 9, 2002, the Honorable Council of State revoked the first instance sentence; it annulled the sanction due to inaccuracy and confirmed the greater tax officially settled, not because of the simultaneous nature of the benefits, but because of the destination of the resources that the Bank had donated. On September 24, 2002, a special petition for reconsideration against the sentence was filed with the Open Court of the Honorable Council of State. This sentence is still pending pronouncement.

On July 30, 2003 the Bank reached a conciliation agreement with DIAN, under the terms in 2002 Law 788 Article 98, and paid the sum of Ps 2,538, but on February 26, 2004, the Honorable Council of State rejected the request to approve the conciliation agreement entered into by the parties, and that unfavorable decision was later confirmed for a regular petition for reconsideration.

The allowance that was constituted is Ps 7,332. The contingency is deemed probable because the Honorable State Council Open Court seldom revokes sentences that its regional courts proffer.

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
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Income and complementary taxes corresponding to 1996 - Conavi

On April 11, 1997, Conavi filed a tax return for fiscal year of 1996, and included under the heading "Discounts and Requested Deductions" a sum of Ps 9,568 corresponding to donations to non-profit institutions dedicated to providing education, based on the provisions of Article 125 and in



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keeping with standards set out in the Tax Code. After a thorough discussion, DIAN accepted the donation discount but rejected the deductions and fined Conavi for not providing precise information. Conavi filed a motion to annul this decision and reestablish its right before the Administrative Tribunal of Antioquia, who ruled in favor of Conavi. The Legal Tax Division attached to the National Tax Administration of Medellin filed an appeal against this ruling, which is currently being heard by the Council of State for subsequent ruling.

A provision of Ps 3,044 was set up for this tax contingency, which is considered remote.

Industry and Commerce Tax corresponding to 1997 - Conavi

Conavi filed its Industry and Commerce Tax return in Medellin on the basis of 1997 (for the fiscal year of 1998 for subsequent payment in this same period) and included figures for taxable operating income which coincided with the information reported by the Superintendency of Banking (now Superintendency of Finance) to Medellin City Council. The Municipal Tax Division notified Conavi of a special requirement, by means of which it intended to increase its tax base by Ps 233 given income from other towns as well as Ps 45,981 corresponding to the value of nontaxable monetary correction. Subsequently the Division accepted the explanations regarding the increase in the tax base but maintained its position with regard to tax-exempt monetary correction and proceeded to issue a Settlement Review Note. Conavi filed a motion to annul the decision and reestablish its right, with regard to which the Administrative Tribunal of Medellin abstained from hearing the motion, considering that an appeal to government authority must be filed beforehand. Conavi then filed an appeal to be heard by the Council of State. A provision of Ps 444 was set up for this tax contingency, which is considered probable.

Income and complementary taxes corresponding to 1999

The petition for reconsideration filed by the Bank against the Official Revised Settlement of the income tax and complementary taxes for the year 1999, through which the deduction for incentives from collecting customers' taxes in the amount of Ps 4,263 was disregarded, was decided against the Bank on April 30, 2004 and the Official Revised Settlement was confirmed. The dispute pending represents Ps 3,421, which includes the tax in dispute plus late payment interests, and there is a 100% allowance for it. On September 9, 2004, a legal action was filed with the Antioquia Administrative Court, which was admitted on November 23, 2004.

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
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Industry and Commerce Tax corresponding to 2001 - Conavi

The Administrative Tribunal of Antioquia is currently ruling on a motion to annul a decision and reestablish rights filed by Conavi and admitted in May 2005, against the Settlement Review Note issued by Medellin City Council with regard to the Industry and Commerce Tax corresponding to the fiscal year of 2001. The Medellin City Council wished to include in Conavi tax base the income from UVR monetary correction that used to apply to the former savings and loan corporations.

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A provision of Ps 99 was set up for this tax contingency, which is considered remote.

### Financial Flows Tax (GMF)

At December 31, 2005, Bancolombia S.A. had received from DIAN (National Tax and Customs Agency) 39 special notifications formally advising of a tax of Ps 18,113 due on the same number of weeks in 2003, by virtue of which it proposed that the Bank modified its weekly tax returns corresponding to the Financial Flows Tax (4x1000) with regard to Repos, drafts and foreign exchange operations carried out by Bancolombia with its customers. Out of these special notifications, 17 have been subject to an official settlement review note on the part of DIAN, amounting to Ps 11,930 in tax payable and a Ps 9,800 fine for lack of precision in the information.

In the opinion of the tax authorities, the Bank must withhold the aforementioned tax from its customers and proceed to pay this, whilst the Bank considers that these are operations that it pays for itself, and are therefore exempt from taxes by virtue of the tax stability benefit that Bancolombia currently enjoys.

With regard to these official settlement reviews, Bancolombia filed motions to reconsider the decision, without having obtained a definite response from DIAN to date.

About this matter, the Bank's legal advisors believe that the Bank has acted in accordance with all applicable legislation and that the possibility of any adverse effect is indeed remote.

### Taxes Collection DIAN & DDI

At December 31, 2005, DIAN and the DDI (Dirección Distrital de Impuestos de Bogotá, District Tax Direction of Bogotá) have imposed fines on the Bank amounting to Ps 3,896 for tax collection. The Bank has filed the pertinent appeals and legal actions and has made provisions in the amount of Ps 2,130 for such fines.

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
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### FIDUCOLOMBIA S.A.

Executive processes have been filed against the Bank's Trust subsidiary (Fiducolombia), which in the opinion of management and attorneys handling the litigations are not likely to result in an unfavorable ruling or to affect the Trust Company.

### Carlos Paz Mendez Process

At December 31, 2005, there is a proceeding underway against Banco de Colombia (currently, the Bank) and the Trust Company at Civil Court 12 of Bogotá. The plaintiff is Mr. Carlos Paz Mendez, and the proceedings commenced on July 16, 1993. On November 5, 1998, the tribunal issued a ruling favorable to Fiducolombia and ordered the plaintiff to pay costs.

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The defendant's appeal was accepted on December 14, 1998. On appeal, the Bank's and Fiducolumbia's lawyer requested an audience under Article 360 of the Civil Procedural Code, and that audience was held on May 9, 2001. By means of the decision dated March 25, 2003, proceeding for annulment was admitted which has been decided and the pronouncement confirmed the first instance sentence in favor of the Trust Company and the Bank. At present, the appeal for reversal filed by the plaintiff's attorney against the sentence proffered by the Bogota Judicial District High Court on December 19, 2002, and the pronouncement confirming the first instance sentence in favor of the Trust Company and the Bank, is pending.

This process is expressly covered by the contract of liability contingencies subscribed with Fogafin, contained in Public Deed No. 0182 of January 18, 1994 of Notary Two of Bogota D.C., according to protocol relationship in the aforementioned public document named Annex No. 1. The Trust Company's management and attorneys consider that the likelihood of obtaining a favorable ruling is high. By virtue of the above, Fiducolumbia has not made any allowances for this concept.

Silvana Trust

Seven proceedings are underway in the civil courts of the Bogota Circuit and in an Arbitration Court which ruled in favor of the Trust Company. All of the proceedings arise from Fiducolumbia S.A.'s role as trustee in the guarantee mercantile trust agreement entered into on December 1, 1993, with Gallego Inmobiliaria S.A. and the appraisal Vector (appraisal company) made of the property.

Two of the aforementioned proceedings terminated because of expiration. However, on December 11, 2003, a new ordinary proceeding was initiated against Fiducolumbia, following a legal action filed during the month of September 2003. The Circuit Civil Court Nine ordered for all of the proceedings to be consolidated into the Tarazona Bermudez Proceeding, in order to ensure one sole legal proceeding, and it is currently in the discovery stage. Except in the case of the action filed by Guillermo Acosta in which a favorable ruling was obtained in the second instance from the Superior Court of Bogota.

As indicated by the Trust Company's attorneys, management considers that there will be no liability based on the facts established in the processes. The plaintiffs claim amounts to approximately Ps 718.

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
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Grancolombiano Group

The "Grupo Grancolombiano" Trust that was managed by Banco de Colombia S.A. and liquidated on June 29, 1990, is subject to contingencies, among them, labor contingencies. For that purpose, a sum of money has been reserved through the "Contingency Fund" Trust managed by Fiducolumbia. These sums were contributed by former trustors of the "Grupo Grancolombiano" trust with the purpose of covering such contingencies. As recommended by the lawyer for, and in compliance with the purpose established in the Minutes of Liquidation of the "Grupo Grancolombiano", 24

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of the 29 proceedings filed were reconciled before a judge. Five more reconciliations occurred outside court with charge to the funds of the Contingency Fund of Grupo Grancolombiano. In the proceedings of Jorge Euclides Garcia Prado, on December 4, 2003, the fourth proceeding took place to be followed next by a decision. The proceedings of Jose del Carmen Racero Toribio, Pedro Antonio Alvarez Serpa and David Salcedo Mejia were not reconciled because the employment relationship ended when the building in which they worked was the property of the Compania Nacional de Chocolates S.A. The plaintiff integrated the litis consorcio with this company. In one case, the Court of Law in a first instance ruling limited the payment of a retirement pension, with the possibility of repeating against Nacional de Chocolates S.A. In two cases, it declared that the exception of petition before time was proven. In the remaining case, the court absolved the Bank of any liability. An appeal was filed by the parties, as a result of which the Antioquia High Court confirmed the sentence proffered by the Caucaasia Circuit Civil Court. Several legal actions were filed in 2003 and 2004 that were subsequently consolidated into the Dagoberto Tulio Correa proceeding, which is being decided by the Caucaasia Circuit Civil Court in which an exception to res judicata was declared at the first hearing.

The Trust Company's management and legal advisors do not believe that these cases will result in any additional liabilities. If any liability does result, it will affect the trust's reserve fund but not Fiducolumbia itself.

### Comerintegral Ltda. Process

The Arbitration Court summoned by Comerintegral Ltda., against Fiducolumbia, proffered a decision on June 25, 2004 in favor of the Trust Company.

### Invico Ltda. Processes

Invico Ltda. has a suit pending against the Bank and Fiducolumbia S.A. in Civil Court 6 of Bogota. The plaintiff seeks a ruling declaring that the Bank and Fiducolumbia S.A. must exercise the alternate right contained in Article 1948 of the Civil Code, in reference to the land lot denominated "Granjita", pursuant to the trust mandate contracted claims amount to Ps 4,000. Proceedings began on November 9, 2001, and on January 17, 2002, the court issued a ruling dismissing the claim and ordering the plaintiff to pay costs. By means of writ dated July 16, 2002, a settlement hearing was ordered for November 5, 2002. The diligence of reconciliation was declared a failure. At present, this case is in the discovery stage and Fiducolumbia is waiting for the expert appointed who has agreed to give his expert decision. However, it is still premature to give any views regarding said proceeding.

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
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Invico has also pursued "Accountability" proceedings against the Bank and Fiducolumbia S.A. in Civil Court 9 of Bogota. In these proceedings Invico seeks to hold the Bank and Fiducolumbia S.A. accountable for their time as trustees of its property, as a result of the appointment and choice that the former and its creditors made. The amount sought is Ps 3,000.

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Settlement hearings on December 4, 2001, failed. The case went to trial on November 27, 2001, beginning with the collection of evidence. On November 19, 2002, the edict dated the 25th of the same month proffered a sentence in favor of the trust company and the Bank. The sentence was appealed by the plaintiff, to which the Court confirmed the ruling given in the first instance.

### LEASING COLOMBIA S.A.

Leasing Colombia S.A. has fifty-one (51) litigations against it, out of which forty-six (46) correspond to extra-contractual civil liability proceedings, as a result of damages caused by company-owned vehicles and leased vehicles. There are court precedents and evidence in favor of Leasing Colombia S.A., to the extent that no leasing company has ever been found guilty of the alleged claims.

The five remaining proceedings involve contractual liability claims by virtue of alleged Leasing Colombia S.A. default; these will probably be ruled in Leasing Colombia favor as the claims lack legal support.

The economic amount of such contingencies represents the sum of Ps 13,042. This sum has not been provisioned, by virtue of the above considerations.

### SUFINANCIAMIENTO

Actions filed against this company total an estimated amount of Ps 6,799. According to the Company's attorneys, none of these actions represent a probable loss for the Company, and therefore Company Management does not consider it necessary to set up the corresponding provision.

### ALMACENAR S.A.

At December 31, 2004 and 2005, labor and civil proceedings against Almacenar S.A. were underway. Due to the debatable nature of the obligations, they are difficult to quantify.

At December 31, 2004 and 2005, there are allowances amounting to Ps 509 and Ps 1,036, respectively, to cover any liability resulting from these proceedings.

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
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### SULEASING INTERNACIONAL S.A.

Suleasing International S.A.'s branch in Colombia faces a labor action filed by Mrs. Leonor Aguilar against Bancolombia S.A., Leasing Colombia S.A. and Suleasing Internacional S.A., involving an amount of approximately Ps 300.

### FUNDICOM S.A.

At December, 31, 2005, there is one labor action filed against Fundicom for an estimated amount of Ps 294.

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DITRANSA S.A.

At December 31, 2005 eleven criminal, civil and administrative actions have been filed against Ditransa totaling an amount of approximately Ps 246.

COMPANIA SURAMERICANA DE ARRENDAMIENTOS - SURENTING S.A.

At December 31, 2005, there were twelve civil liability lawsuits filed against Surenting. There is no possibility of any adverse ruling being issued in 11 of these, since these are all lawsuits originating in the use customers have made of the vehicles leased to them. However, Surenting should be found guilty in any way, there is an insurance policy with Compania Suramericana de Seguros that covers the amounts at stake.

One of the lawsuits has been filed directly against Surenting for civil liability since it involved an accident caused by an employee in a company car. The claim is for Ps 1,209 and this is being negotiated with third parties. The corresponding payment shall be covered by Compania Suramericana de Seguros through the insurance policy held with them for this purpose.

COMPANIA SURAMERICANA DE VALORES S.A. - SUVALOR - COMISIONISTA DE BOLSA

At December 31, 2005, the Company faced 2 actions. One is an ordinary civil action filed in Cali for which an unfavorable ruling has been pronounced in the first instance and which was subsequently appealed before the Superior Court. The cost of this judgment in the first instance could reach Ps 300.

The other is a labor action for which a favorable ruling was obtained in the first instance with the corresponding court sentence pending. The value of this could reach approximately Ps 30.

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### BANCOLOMBIA S.A. AND SUBSIDIARIES

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3001 S.A. (IN THE PROCESS OF BEING WOUND UP)

With respect to the 3001 S.A., as of December 31, 2005, there was a pending complaint on the part of Treasury Secretary of the Medellin City Council, regarding a special notification in which 3001 S.A. (in the process of being wound up) was ordered to pay a fine of Ps 28 for lack of precision in information submitted. The Municipal Authorities, by means of Resolution 16203 dated September 8, 2004, decided not to accept as a lower value of the tax base for the Industry and Commerce tax for the base year of 2002/taxable year of 2003, the income corresponding to the difference in the exchange rate on investments made by this company abroad. The company filed the corresponding objections within the designated term, and has not yet been informed of any decision.

The other subsidiaries have not reported any other contingencies existing as of December 31, 2005.

(27) ADMINISTRATIVE AND OTHER EXPENSES

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Administrative and other expenses for the years ended December 31, 2003, December 31, 2004 and December 31, 2005 consisted of the following:

|   | 2003      | 2004      | 2005      |
|---|-----------|-----------|-----------|
|   | -----     | -----     | -----     |
| Public services                                       | Ps 27,882 | Ps 28,558 | Ps 47,175 |
| Advertising   | 17,328    | 20,754    | 50,235    |
| Industry and trade, property, vehicle and other taxes | 44,774    | 55,145    | 121,699   |
| Communication, postage and freight                    | 36,937    | 39,564    | 48,254    |
| Insurance   | 13,724    | 12,224    | 27,446    |
| Security services                                     | 17,167    | 18,404    | 29,339    |
| Stationery and supplies                               | 13,854    | 15,399    | 28,370    |
| Amortization of deferred charges                      | 26,237    | 13,074    | 54,463    |
| Rental expenses                                       | 14,167    | 16,963    | 56,375    |
| Maintenance and repairs                               | 38,049    | 49,794    | 99,678    |
| Contributions and membership dues                     | 5,762     | 8,335     | 14,587    |
| Temporary services                                    | 7,579     | 9,174     | 17,440    |
| Travel expenses                                       | 9,942     | 10,690    | 17,799    |
| Professional fees                                     | 17,614    | 29,167    | 56,004    |
| Call center services                                  | 7,094     | 8,672     | 20,041    |
| Information processes outsourcing                     | 10,722    | 13,420    | 18,218    |
| Other   | 41,685    | 44,255    | 86,056    |
|   | -----     | -----     | -----     |
| TOTAL   | Ps350,517 | Ps393,592 | Ps793,179 |
|   | =====     | =====     | =====     |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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(28) RELATED PARTY TRANSACTIONS

Significant balances and transactions with related parties were as follows:

2003

|                       | SHAREHOLDERS WITH<br>PARTICIPATING<br>STOCK EQUAL TO OR<br>HIGHER THAN 10%<br>OF BANK'S CAPITAL | NON-<br>CONSOLIDATED<br>INVESTMENTS | BANK'S<br>OFFICERS<br>AND BOARD<br>OF<br>DIRECTORS | SHAREHOLDERS WITH<br>PARTICIPATING<br>STOCK LOWER THAN<br>10% OF THE BANK'S<br>CAPITAL AND WITH<br>OPERATIONS HIGHER<br>THAN 5%<br>TECHNICAL EQUITY |
|-----------------------|---|-------------------------------------|--|---|
|                       | -----   | -----                               | -----  | -----   |
| BALANCE SHEET         |   |                                     |  |   |
| Investment securities | --  | 2,355                               | --   | --  |
| Loans                 | --  | 11,061                              | 12,246   | --  |
| Accounts receivable   | --  | 3,085                               | 150  | --  |
|                       | ----  | -----                               | -----  | -----   |

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|                    |      |          |          |          |
|--------------------|------|----------|----------|----------|
| TOTAL              | Ps-- | Ps16,501 | Ps12,396 | Ps --    |
|                    | ==== | =====    | =====    | =====    |
| Deposits           | 4    | 36,561   | 1,441    | 83,793   |
| Overnight funds    | --   | 84       | --       | --       |
| Accounts payable   | --   | 141      | 8        | --       |
|                    | ---- | -----    | -----    | -----    |
| TOTAL              | Ps 4 | Ps36,786 | Ps 1,449 | Ps83,793 |
|                    | ==== | =====    | =====    | =====    |
| TRANSACTIONS       |      |          |          |          |
| INCOME             |      |          |          |          |
| Dividends received | --   | 25,777   | --       | --       |
| Interest           | --   | 2,297    | 1,205    | 74       |
| Other              | --   | 269      | 24       | --       |
|                    | ---- | -----    | -----    | -----    |
| TOTAL              | Ps-- | Ps28,343 | Ps 1,229 | Ps 74    |
|                    | ==== | =====    | =====    | =====    |
| EXPENSES           |      |          |          |          |
| Interest           | 1    | 12,330   | 61       | 5,883    |
| Other              | --   | 2,261    | 69       | --       |
|                    | ---- | -----    | -----    | -----    |
| TOTAL              | Ps 1 | Ps14,591 | Ps 130   | Ps 5,883 |
|                    | ==== | =====    | =====    | =====    |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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2004

|   | SHAREHOLDERS WITH<br>PARTICIPATING<br>STOCK EQUAL TO OR<br>HIGHER THAN 10%<br>OF BANK'S CAPITAL | NON-<br>CONSOLIDATED<br>INVESTMENTS | BANK'S<br>OFFICERS<br>AND BOARD<br>OF<br>DIRECTORS (1) | SHAREHOLDERS WITH<br>PARTICIPATING<br>STOCK LOWER THAN<br>10% OF THE BANK'S<br>CAPITAL AND WITH<br>OPERATIONS HIGH<br>THAN 5%<br>TECHNICAL EQUIPMENT |
|---|---|-------------------------------------|--|--|
|   | -----   | -----                               | -----  | -----  |
| BALANCE SHEET                             |   |                                     |  |  |
| Investment securities                     | --  | 21,443                              | --   | --   |
| Loans                                     | --  | 5,135                               | 14,995   | --   |
| Customer's acceptances<br>and derivatives | --  | 27                                  | --   | --   |
| Accounts receivable                       | --  | 9,958                               | 3,045  | --   |
|   | ----  | -----                               | -----  | -----  |
| TOTAL                                     | Ps --   | Ps 36,563                           | Ps 18,040  | Ps --  |
|   | ====  | =====                               | =====  | =====  |
| Deposits                                  | 6   | 32,349                              | 812  | 222,226  |
| Overnight funds                           | --  | 106                                 | --   | --   |
| Accounts payable                          | --  | --                                  | --   | --   |
| Bonds                                     | --  | 10,000                              | --   | 11,500   |
|   | ----  | -----                               | -----  | -----  |
| TOTAL                                     | Ps 6  | Ps 42,455                           | Ps 812   | Ps 233,726   |



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|                    | ===== | =====     | =====    | =====    |
|--------------------|-------|-----------|----------|----------|
| TRANSACTIONS       |       |           |          |          |
| INCOME             |       |           |          |          |
| Dividends received | --    | 25,814    | --       | --       |
| Interest and fees  | --    | 2,693     | 1,626    | 153      |
| Other              | --    | 354       | --       | --       |
| TOTAL              | Ps -- | Ps 28,861 | Ps 1,626 | Ps 153   |
| EXPENSES           |       |           |          |          |
| Interest           | --    | 4,762     | 14       | 6,925    |
| Fees               | --    | --        | 99       | --       |
| Other              | --    | --        | --       | --       |
| TOTAL              | Ps -- | Ps 4,762  | Ps 113   | Ps 6,925 |

(1) For 2003 and 2004, includes, in addition to the Members of the Board of Directors, the President and the Vice-Presidents, as well as other employees who have legal representation of the Bank.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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2005

|   | SHAREHOLDERS WITH<br>PARTICIPATING<br>STOCK EQUAL TO OR<br>HIGHER THAN 10%<br>OF BANK'S CAPITAL | NON-<br>CONSOLIDATED<br>INVESTMENTS | BANK'S<br>OFFICERS<br>AND BOARD<br>OF<br>DIRECTORS (1) | SHAREHOLDERS WITH<br>PARTICIPATING<br>STOCK LOWER THAN<br>10% OF THE BANK'S<br>CAPITAL AND WITH<br>OPERATIONS HIGHER<br>THAN 5%<br>TECHNICAL EQUITY |
|---|---|-------------------------------------|--|---|
| BALANCE SHEET                             |   |                                     |  |   |
| Investment securities                     | --  | 293,073                             | --   | --  |
| Loans                                     | --  | 149,889                             | 18,802   | 3   |
| Customer's acceptances<br>and derivatives | --  | 43,147                              | 306  | 118,362   |
| Accounts receivable                       | --  | --                                  | --   | 175,095   |
| TOTAL                                     | Ps --   | Ps 486,109                          | Ps 19,108  | Ps 293,460  |
| Deposits                                  | 157   | 96,664                              | 996  | 393,088   |
| Accounts payable                          | --  | 1,768                               | --   | 198   |
| Bonds                                     | --  | 3,310                               | --   | 18,960  |
| TOTAL                                     | Ps 157  | Ps 101,742                          | Ps 996   | Ps 412,246  |
| TRANSACTIONS                              |   |                                     |  |   |

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|                    |       |           |          |           |
|--------------------|-------|-----------|----------|-----------|
| INCOME             |       |           |          |           |
| Dividends received | --    | 6,403     | --       | --        |
| Interest and fees  | --    | 19,965    | 1,963    | 64        |
| Other              | --    | 73        | 133      | --        |
|                    | ----- | -----     | -----    | -----     |
| TOTAL              | Ps -- | Ps 26,441 | Ps 2,096 | Ps 64     |
|                    | ===== | =====     | =====    | =====     |
| EXPENSES           |       |           |          |           |
| Interest           | 23    | 3,459     | 629      | 29,667    |
| Fees               | --    | --        | 100      | --        |
| Other              | --    | --        | 3        | --        |
|                    | ----- | -----     | -----    | -----     |
| TOTAL              | Ps 23 | Ps 3,459  | Ps 732   | Ps 29,667 |
|                    | ===== | =====     | =====    | =====     |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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(29) PURCHASE OF ASSETS AND LIABILITIES

As part of its growth strategy, the Bank entered into certain transaction for the purchase and sale of assets and liabilities with the following companies:

In 2004, the Bank purchased a loan portfolio in local currency from Sufinanciamiento for the amount of Ps926 with a discount of 45% on face value; from Comercia S.A. loan portfolio in local currency for the amount of Ps51,405; and another loan portfolio in local currency from Central de Inversiones S.A. (CISA) for the amount of Ps20,544, with a discount of 10% on face value.

In 2005, the Bank purchased from Banco Corfinsura Internacional a loan portfolio in foreign currency for the amount of US\$7,718, equivalent to Ps18,004 on the actual date of purchase; from the Banco del Estado, a loan portfolio in local currency for the amount of Ps8,612; from Citibank a loan portfolio in local currency for the amount of Ps 483; from Suleasing, a loan portfolio in local currency for the amount of Ps13,657; from CISA a loan portfolio for the amount of Ps770, with a discount of 6% on face value; from Fogafin, a loan portfolio for the amount of Ps42, with a discount of 15% on face value; from Titularizadora Colombiana S.A., a loan portfolio for the amount of Ps16,190, with a discount of 8% on face value; from Comercia S.A., a loan portfolio for the amount of Ps26,453; and from Davivienda and Granbanco Bancafe, a loan portfolio for the amount of Ps30,151.

SALE OF ASSETS AND LIABILITIES

In 2004, the Bank sold a loan portfolio in local currency with funds from FINAGRO resources to Leasing del Valle in the amount of Ps148.

During 2003 and 2004, the Bank made sales of its deteriorated and written-off farming and livestock loan portfolio in the amount of Ps1,079 and Ps 95, respectively, pursuant to an agreement entered into with Finagro in October 2001, as administrator of the National Farming and Livestock Reactivation Program resources within the legal framework set forth in Ministry of Agricultural and Rural Development Decree 967 of 2000. With

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this value, the total amount of the loans is understood as paid.

In 2005, the Bank sold a loan portfolio in foreign currency to Bancolombia Panama for the amount of US\$38,241 which was equivalent to Ps88,211 on the actual selling date; a loan portfolio in local currency to Comercia S.A for the amount of Ps300, with a discount of 50% on face value; a loan portfolio in local currency to Finagro for the amount of Ps36, with a discount of 62% on face value; a loan portfolio in local currency to Sufinanciamiento, for the amount of Ps8,075, with a discount of 2% on face value; a loan portfolio in local currency to Suleasing for the amount of Ps26,243; and a loan portfolio in local currency to Colcorp for the amount of Ps17,159.

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### (30) SUBSEQUENT EVENTS

On March 30, 2006, the arbitration proceedings initiated by Bancolombia against Jaime Gilinski, as debtor, jointly and severally liable with the companies that sold the majority of the shares of the former Banco de Colombia S.A., resulted in an award. Through the arbitration proceedings, Bancolombia sought to gain recognition of various claims that it presented to ensure the effectiveness of the guaranty that was granted with respect to the sold shares, the value of which is now US\$30,000. The award orders the defendant to pay Ps63,216 in favor of Bancolombia, including inflation adjustments and interest. The defendant filed an action for cancellation, which has not yet been considered.

On May 16, 2006, the arbitration proceeding initiated by Mr. Jaime Gilinski against Bancolombia resulted in an award ruling in favor of Bancolombia on the majority of the claims. However, the Tribunal ruled that Bancolombia should pay Ps40,570 to the plaintiffs with respect to their allegations of insufficient capitalization compensated with external borrowings.

The Arbitration Tribunal denied all the plaintiffs' claims against the senior management and exonerated them from all liability, ordering the plaintiffs to pay the court costs.

On June 7, 2006, the Bank filed an extraordinary cancellation action before the Superior Tribunal of Bogota pursuant to Articles 163 (7), (8) and (9) of Decree 1818 of 1998, challenging the May 16, 2006 ruling of the Arbitration Tribunal. In the cancellation action, the Bank argued that the ruling contained mathematical mistakes, that the Arbitration Tribunal did not decide issues that were material to the arbitration, that the Arbitration Tribunal instead decided issues that were not material to the arbitration and that the Arbitration Tribunal improperly granted more than the relief requested. In addition, the Bank offered to provide security in accordance with the terms of the third paragraph of Article 331 of the Civil Procedure Code of Colombia in order to stay the award while the cancellation action is pending.

After hearing a people's action filed by the lawyer Maximiliano Echeverri against the Bank and the Colombian Superintendencies of Banking and Securities (now the Superintendency of Finance), the Contentious

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Administrative Court of Cundinamarca ruled against the plaintiff's claims on August 10, 2005. On June 7, 2006, the Council of State upheld the original decision against the plaintiff in a judgment on appeal.

These resolutions were issued after the date when financial statements under Colombian GAAP were approved by General Shareholders' meeting and therefore the Bank did not record neither the asset or the liability associated with them, as of December 31, 2005.

On May 8, 2006, BC acquired 9,863,685 shares of Comercia S.A., equivalent to 55.61% of its outstanding shares, from Textiles Fabricato Tejicondor S.A. by means of a transaction duly authorized by the Superintendency of Finance. The value paid by the Bank was Ps24,610. We currently expect to acquire an additional participation equivalent to 38.96% of the outstanding shares of Comercia S.A., which are currently held by Patrimonio Autonomo Textiles Fabricato Tejicondor, administered by Santander Investment Trust S.A. No assurance can be given as to the timing of the acquisition of this additional participation.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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(31) DIFFERENCES BETWEEN COLOMBIAN ACCOUNTING PRINCIPLES FOR BANKS AND U.S. GAAP

The Bank's financial statements are prepared in accordance with generally accepted accounting principles and practices prescribed by the Superintendency of Finance and other legal provisions ("Colombian GAAP"). Because these principles and regulations differ in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"), this note presents a reconciliation of net income and stockholders' equity to U.S. GAAP.

A) RECONCILIATION OF NET INCOME:

The following summarizes the principal differences between accounting practices under Colombian GAAP and U.S. GAAP and their effects on net income for the years ended December 31, 2003, 2004 and 2005:

|   | 2003       | 2004      |
|---|------------|-----------|
| CONSOLIDATED NET INCOME UNDER COLOMBIAN GAAP                          | Ps 469,384 | Ps578,678 |
| a) Deferred income taxes  | (140,555)  | 49,073    |
| b) Employee benefit plans   | 1,757      | 1,203     |
| c) Inflation adjustment   | --         | --        |
| d) Revaluation of assets  | --         | --        |
| e) Allowance for loans, financial leases losses and foreclosed assets | 55,908     | (159)     |
| f) Loan origination fees and costs                                    | 11,719     | 7,100     |
| g) Interest recognition on non-accrual loans                          | 729        | 1,205     |
| h) Deferred charges   | 31,787     | 9,422     |
| i) Investment securities  | --         | 1,111     |
| j) Investments in unaffiliated companies                              | (591)      | (252)     |
| k) Investments in affiliates  | 10,168     | (29,548)  |
| l) Lessor accounting  | --         | --        |

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|   |            |           |
|---|------------|-----------|
| m) Business combinations  |            |           |
| m.i) Adjustment goodwill  | (10,314)   | (8,504)   |
| m.ii) Adjustment amortization   | 41,452     | 22,577    |
| m.iii) Business combinations Conavi and Corfinsura                    | --         | --        |
| n) Securitization non-performing loans                                | --         | --        |
| o) Foreign currency translation adjustment                            | 2,975      | 10,220    |
| p) Minority interest  | --         | --        |
|   | -----      | -----     |
| CONSOLIDATED NET INCOME UNDER U.S. GAAP                               | Ps 474,419 | Ps642,126 |
|   | -----      | -----     |
| NET INCOME FROM CONTINUING OPERATIONS                                 | Ps 466,290 | Ps621,342 |
| INCOME (LOSS) FROM OPERATIONS AND DISPOSAL OF DISCONTINUED OPERATIONS | Ps 8,129   | Ps 20,703 |

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
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B) RECONCILIATION OF STOCKHOLDERS' EQUITY:

The following summarizes the principal differences between accounting practices under Colombian GAAP and U.S. GAAP and their effects on stockholders' equity for the years ended December 31, 2003, 2004 and 2005:

|   | 2003        | 2004        | 2005        |
|---|-------------|-------------|-------------|
|   | -----       | -----       | -----       |
| CONSOLIDATED STOCKHOLDERS' EQUITY UNDER COLOMBIAN GAAP                | Ps1,689,379 | Ps2,090,723 | Ps3,377,290 |
| a) Deferred income taxes  | (45,234)    | 6,317       | 135,900     |
| b) Employee benefit plans   | (27,855)    | (36,129)    | (70,730)    |
| c) Inflation adjustment   | 43,216      | 43,216      | 38,790      |
| d) Revaluation of assets  | (30,086)    | (42,237)    | (110,470)   |
| e) Allowance for loans, financial leases losses and foreclosed assets | 102,362     | 102,203     | 217,660     |
| f) Loan origination fees and costs                                    | 43,356      | 50,456      | 53,730      |
| g) Interest recognition on non-accrual loans                          | 827         | 2,032       | 6,000       |
| h) Deferred charges   | (10,697)    | (1,275)     | (3,030)     |
| i) Investment securities  | (89)        | --          | 14,930      |
| j) Investments in unaffiliated companies                              | (7,416)     | (7,668)     | (11,750)    |
| k) Investments in affiliates  | 41,848      | 12,300      | 30,570      |
| l) Lessor accounting  | --          | --          | 1,930       |
| m) Business combinations  |             |             |             |
| m.i) Adjustment goodwill  | (31,543)    | (40,047)    | (44,760)    |
| m.ii) Adjustment amortization   | 64,818      | 87,395      | 119,210     |
| m.iii) Business combinations Conavi and Corfinsura                    | --          | --          | 368,280     |
| n) Securitization non performing loans                                | --          | --          | 5,850       |
| o) Foreign currency translation adjustment                            | --          | --          | --          |
| p) Minority interest  | --          | --          | (3,420)     |
|   | -----       | -----       | -----       |
|   | 143,507     | 176,563     | 748,700     |
|   | -----       | -----       | -----       |
| CONSOLIDATED STOCKHOLDERS' EQUITY UNDER U.S. GAAP                     | Ps1,832,886 | Ps2,267,286 | Ps4,125,990 |
|   | =====       | =====       | =====       |

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### C) SUPPLEMENTAL CONSOLIDATED CONDENSED FINANCIAL STATEMENTS UNDER U.S.GAAP:

The followings are the supplemental consolidated condensed financial statements under U.S.GAAP for years ended December 31, 2004 and 2005:

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BANCOLOMBIA S.A. AND SUBSIDIARIES  
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#### SUPPLEMENTAL CONSOLIDATED CONDENSED BALANCE SHEETS

|   | 2004                | 2005                |
|---|---------------------|---------------------|
|   | -----               | -----               |
| <b>ASSETS:</b>                                    |                     |                     |
| Cash and cash equivalents                         | Ps 1,249,360        | Ps 1,730,022        |
| Investment securities, net                        | 5,254,843           | 8,493,463           |
| Loans and financial leases, net                   | 9,703,064           | 17,802,410          |
| Accrued interest receivable on loans, net         | 126,056             | 207,347             |
| Customers' acceptances and derivatives            | 43,894              | 133,420             |
| Accounts receivable, net                          | 173,875             | 590,313             |
| Premises and equipment, net                       | 389,459             | 707,631             |
| Other assets                                      | 754,018             | 1,905,912           |
|   | -----               | -----               |
| <b>TOTAL ASSETS</b>                               | <b>PS17,694,569</b> | <b>PS31,570,518</b> |
|   | =====               | =====               |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>      |                     |                     |
| Deposits  | 11,862,116          | 18,329,466          |
| Borrowings  | 1,104,201           | 3,927,551           |
| Other liabilities                                 | 2,460,966           | 5,187,505           |
| Shareholders' equity                              | 2,267,286           | 4,125,996           |
|   | -----               | -----               |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>PS17,694,569</b> | <b>PS31,570,518</b> |
|   | =====               | =====               |

#### SUPPLEMENTAL CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

|   | 2003        | 2004        | 2005               |
|---|-------------|-------------|--------------------|
|   | -----       | -----       | -----              |
|   |             |             | Restated (Note 32) |
| Total interest income                                     | Ps1,538,028 | Ps1,803,763 | Ps2,627,277        |
| Total interest expense                                    | (471,899)   | (577,442)   | (1,032,923)        |
|   | -----       | -----       | -----              |
| Net interest income                                       | 1,066,130   | 1,226,321   | 1,594,354          |
| Total net provisions                                      | (125,832)   | (66,181)    | (11,822)           |
|   | -----       | -----       | -----              |
| Net interest income after provision and financial leasing | 940,298     | 1,160,140   | 1,582,532          |
| Other income  | 457,106     | 633,681     | 935,738            |
| Other expenses  | (739,860)   | (979,742)   | (1,464,378)        |

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|   |            |            |            |
|---|------------|------------|------------|
| Income before income taxes                | 657,544    | 814,079    | 1,053,892  |
| Income tax expense                        | (191,254)  | (192,656)  | (149,541)  |
| Net income before discontinued operations | 466,290    | 621,423    | 904,351    |
| DISCONTINUED OPERATIONS (1)               | 8,129      | 20,703     | (13,230)   |
| NET INCOME                                | PS 474,419 | PS 642,126 | PS 891,121 |

(1) Correspond to discontinued operations of Abocol, Almacenaar and their Subsidiaries.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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SUPPLEMENTAL CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

|   | 2003               | 2004               |      |
|---|--------------------|--------------------|------|
|   | Restated (Note 32) | Restated (Note 32) | Rest |
| Net income (loss)   | Ps 474,419         | Ps 642,126         | P    |
| Adjustments to reconcile net income to net cash provided (used) by operating activities | (1,964,394)        | (608,738)          |      |
| Net cash provided by operating activities   | (1,489,975)        | 33,388             |      |
| Net cash used in investing activities   | 106,035            | (1,575,420)        |      |
| Net cash provided by financing activities   | 1,979,312          | 1,344,931          |      |
| (Decrease) increase in cash and cash equivalents  | Ps 595,372         | Ps (197,101)       | P    |
| Cash and cash equivalents at beginning of year  | 851,089            | 1,446,461          |      |
| Cash and cash equivalents at end of year  | PS 1,446,461       | PS 1,249,360       | P    |

D) ANALYSIS OF CHANGES IN STOCKHOLDERS' EQUITY:

The following summarizes the changes in stockholders' equity under U.S. GAAP for the years ended December 31, 2003, 2004 and 2005:

|                                   | 2003        | 2004        | 2005        |
|-----------------------------------|-------------|-------------|-------------|
|                                   | -----       | -----       | -----       |
| Balance at beginning of year      | Ps1,413,445 | Ps1,832,886 | Ps2,267,286 |
| Shares issued at market value (1) | --          | --          | 1,164,218   |
| Net income                        | 474,419     | 642,126     | 891,121     |
| Dividends declared                | (76,124)    | (156,861)   | (216,838)   |
| Other comprehensive income (loss) | (18,765)    | (8,469)     | (19,148)    |

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|                        |             |             |             |
|------------------------|-------------|-------------|-------------|
| Other (2)              | 39,911      | (42,396)    | 39,357      |
|                        | -----       | -----       | -----       |
| Balance at end of year | Ps1,832,886 | Ps2,267,286 | Ps4,125,996 |
|                        | =====       | =====       | =====       |

-----

- (1) The line shares issued for Ps 236,212 in the Consolidated Statement of Stockholder's Equity under Colombian GAAP, reflects the par value of shares, the line shares issued for Ps 1,164,218 in this table reflects the fair market value of shares issued under U.S. GAAP.
- (2) Correspond to the Subsidiaries' retained earnings that are not eliminated in the consolidation process.

E) STATEMENT OF COMPREHENSIVE INCOME (LOSS):

|  | 2003      | 2004      | 2005      |
|--|-----------|-----------|-----------|
|  | -----     | -----     | -----     |
| Net Income   | Ps474,419 | Ps642,126 | Ps891,121 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:                         |           |           |           |
| Foreign currency translation adjustments                               | (2,975)   | (10,220)  | (1,651)   |
| Unrealized gain or (loss) on securities available for sale             | (13,196)  | 7,716     | 2,106     |
| Additional minimum pension liability<br>offset to shareholder's equity | (2,594)   | (5,965)   | (19,603)  |
|  | -----     | -----     | -----     |
| Other comprehensive income (loss)                                      | (18,765)  | (8,469)   | (19,148)  |
|  | -----     | -----     | -----     |
| Comprehensive income   | Ps455,654 | Ps633,657 | Ps871,973 |
|  | =====     | =====     | =====     |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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| OTHER COMPREHENSIVE INCOME (LOSS)                             | 2003        |                      |                             |
|---|-------------|----------------------|-----------------------------|
|   |             | BEFORE-TAX<br>AMOUNT | (TAX EXPENSE)<br>OR BENEFIT |
|   |             | -----                | -----                       |
| Unrealized gain or (loss) on securities<br>available for sale | Ps (20,947) | Ps 7,751             | Ps (13,196)                 |
| Additional minimum pension liability                          | (4,064)     | 1,470                | (2,594)                     |
| Foreign currency translation adjustment                       | (2,975)     | --                   | (2,975)                     |
|   |             | -----                | -----                       |
| Other comprehensive income (loss)                             | Ps (27,986) | Ps 9,221             | Ps (18,765)                 |
|   |             | =====                | =====                       |



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2004

|   | BEFORE-TAX<br>AMOUNT | (TAX EXPENSE)<br>OR BENEFIT | NET-OF-TAX<br>AMOUNT |
|---|----------------------|-----------------------------|----------------------|
|   | -----                | -----                       | -----                |
| Unrealized gain or (loss) on securities<br>available for sale | Ps 8,750             | Ps (1,034)                  | Ps 7,716             |
| Additional minimum pension liability                          | (9,477)              | 3,512                       | (5,965)              |
| Foreign currency translation adjustment                       | (10,220)             | --                          | (10,220)             |
|   | -----                | -----                       | -----                |
| Other comprehensive income (loss)                             | Ps (10,947)          | Ps 2,478                    | Ps (8,469)           |
|   | =====                | =====                       | =====                |

2005

|   | BEFORE-TAX<br>AMOUNT | (TAX EXPENSE)<br>OR BENEFIT | NET-OF-TAX<br>AMOUNT |
|---|----------------------|-----------------------------|----------------------|
|   | -----                | -----                       | -----                |
| Unrealized gain or (loss) on securities<br>available for sale | Ps 6,816             | Ps (4,710)                  | Ps 2,106             |
| Additional minimum pension liability                          | (32,876)             | 13,272                      | (19,603)             |
| Foreign currency translation adjustment                       | (1,651)              | --                          | (1,651)              |
|   | -----                | -----                       | -----                |
| Other comprehensive income (loss)                             | Ps (27,711)          | Ps 8,562                    | Ps (19,148)          |
|   | =====                | =====                       | =====                |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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ACCUMULATED OTHER COMPREHENSIVE INCOME

|                        | ADDITIONAL<br>MINIMUM<br>PENSION<br>LIABILITY | FOREIGN<br>CURRENCY<br>TRANSLATION<br>ADJUSTMENT | UNREALIZED<br>GAINS (LOSSES)<br>ON<br>SECURITIES | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>INCOME |
|------------------------|---|--|--|---|
|                        | -----   | -----  | -----  | -----   |
| Beginning balance 2003 | Ps (1,760)                                    | Ps 4,534   | Ps 71,865  | Ps 74,639                                       |
| Current-period change  | (2,594)                                       | (2,975)  | (13,196)   | (18,765)  |
|                        | -----   | -----  | -----  | -----   |
| Ending balance 2003    | (4,354)                                       | 1,559  | 58,669   | 55,874  |
|                        | =====   | =====  | =====  | =====   |
| Beginning balance 2004 | (4,354)                                       | 1,559  | 58,669   | 55,874  |
| Current-period change  | (5,965)                                       | (10,220)   | 7,716  | (8,469)   |
|                        | -----   | -----  | -----  | -----   |
| Ending balance 2004    | (10,319)                                      | (8,661)  | 66,385   | 47,405  |
|                        | =====   | =====  | =====  | =====   |
| Beginning balance 2005 | (10,319)                                      | (8,661)  | 66,385   | 47,405  |

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|                       |             |             |           |           |
|-----------------------|-------------|-------------|-----------|-----------|
| Current-period change | (19,603)    | (1,651)     | 2,106     | (19,148)  |
|                       | -----       | -----       | -----     | -----     |
| Ending balance 2005   | Ps (29,922) | Ps (10,312) | Ps 68,491 | Ps 28,257 |
|                       | =====       | =====       | =====     | =====     |

SUMMARY OF SIGNIFICANT DIFFERENCES AND REQUIRED U.S. GAAP DISCLOSURES

A) DEFERRED INCOME TAXES:

Under Colombian GAAP, deferred income taxes are generally recognized for timing differences (not temporary differences as in SFAS No. 109) for commercial and manufacturing subsidiaries. For financial companies, the Superintendency of Finance has restricted inclusion of timing differences related to the amortization of fiscal losses and the excess of presumed income over ordinary income as a deferred tax asset.

Under U.S. GAAP, deferred tax assets or liabilities must be recorded for all temporary differences between the financial and tax bases of assets and liabilities. A valuation allowance is provided for deferred tax assets to the extent that it is more likely than not that they will not be realized.

Income tax expense under U.S. GAAP is comprised of the following components for the years ended at December 31, 2003, 2004 and 2005:

|                                       | 2003      | 2004      | 2005      |
|---------------------------------------|-----------|-----------|-----------|
|                                       | -----     | -----     | -----     |
| Current income tax expense            | Ps 62,391 | Ps237,620 | Ps178,992 |
| Deferred income tax (benefit) expense | 140,799   | (47,883)  | (22,502)  |
|                                       | -----     | -----     | -----     |
| TOTAL                                 | Ps203,190 | Ps189,737 | Ps156,490 |
|                                       | =====     | =====     | =====     |

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Temporary differences between the amounts reported in the financial statements and the tax bases for assets and liabilities result in deferred taxes. Deferred tax assets and liabilities at December 31, 2004 and 2005 were as follows:

|                                     | 2004      | 2005      |
|-------------------------------------|-----------|-----------|
|                                     | -----     | -----     |
| DEFERRED TAX ASSETS AND LIABILITIES |           |           |
| DEFERRED TAX ASSETS:                |           |           |
| Accrual of employee benefits        | Ps 13,410 | Ps 26,194 |
| Allowance for loan losses           | --        | 23,155    |
| Fixed assets                        | 67,321    | 138,213   |

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|  |           |           |
|--|-----------|-----------|
| Tax losses                                     | 36,357    | 43,496    |
| Forward, future and swaps effect               | 8,362     | --        |
| Allowance for foreclosed assets                | 27,863    | 7,407     |
| Fiduciary assets                               | 5,671     | --        |
| Accrued expenses                               | 17,110    | 15,336    |
| Business combination                           | --        | 50,503    |
| Other  | 18,248    | 29,462    |
|  | -----     | -----     |
| Total gross deferred tax assets                | 194,342   | 333,766   |
| Less valuation allowance                       | (5,330)   | (4,440)   |
|  | -----     | -----     |
| NET DEFERRED TAX ASSET                         | Ps189,012 | Ps329,326 |
|  | -----     | -----     |
| DEFERRED TAX LIABILITIES:                      |           |           |
| Unrealized gain on investment securities       | Ps 35,943 | Ps 40,653 |
| Allowance for loan losses                      | 3,677     | --        |
| Loan origination fees and cost                 | 18,707    | 17,766    |
| Forward, future and swaps effect               | --        | 26,862    |
| Intangible assets                              | 26,819    | 80,382    |
| Inflation adjustments                          | 48,637    | 68,403    |
| Goodwill recognition                           | 33,012    | --        |
| Excess of accrued income over valuation income | 8,924     | 48,833    |
| Fair value of financial instruments            | --        | 5,674     |
| Other  | 7,848     | 4,244     |
|  | -----     | -----     |
| TOTAL DEFERRED LIABILITIES                     | 183,567   | 292,817   |
|  | -----     | -----     |
| NET DEFERRED ASSET (LIABILITY)                 | Ps 5,445  | Ps 36,509 |
|  | =====     | =====     |

The valuation allowance for deferred tax assets as of December 31, 2004 and 2005 was Ps 5,330 and Ps 4,440, respectively. The net change in the total valuation allowance for the year ended December 31, 2004 was a decrease of Ps 78,254 and for the year ended December 31, 2005 was a decrease of Ps 890. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical

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taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2005. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

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The 37% income tax nominal rate for years 2003, 2004 and 2005 differs from 30%, 23% and 14.94% effective rate for years 2003, 2004 and 2005, due to the following:

|  | 2003       | 2004      | 2005        |
|--|------------|-----------|-------------|
|  | -----      | -----     | -----       |
| Income before tax U.S. GAAP                                    | Ps 677,609 | Ps831,863 | Ps1,047,611 |
|  | -----      | -----     | -----       |
| 37% tax  | 250,716    | 307,789   | 387,616     |
| Non-deductible items / provisions                              | 26,946     | 15,433    | 48,225      |
| Non-taxable income (1)   | (63,295)   | (26,507)  | (164,457)   |
| Excess of accrued income over valuation income                 | (18,690)   | (7,735)   | (52,793)    |
| Amortization of excess of presumed income over ordinary income | (110,326)  | (3,420)   | (30,393)    |
| Others   | 95,511     | (17,569)  | (30,818)    |
|  | -----      | -----     | -----       |
| Increase (decrease) valuation allowance                        | 22,328     | (78,254)  | (890)       |
|  | -----      | -----     | -----       |
| Income tax   | Ps 203,190 | Ps189,737 | Ps 156,490  |
|  | =====      | =====     | =====       |

-----  
 (1) For 2005, includes Off Shore subsidiaries's income tax, dividend income tax, gain on sales of stocks tax, interest income over mortgage securities tax, interest income on VIS housing loans tax and recoveries of deductible items tax.

As of December 31, 2005, the Bank had the intention of capitalize the results from its off-shore Subsidiaries. Accordingly, no deferred income tax liability was recorded for the undistributed profits of Bancolombia Panama and its subsidiaries. The undistributed profits in such Subsidiaries is Ps 318,338 at December 31, 2005.

### B) EMPLOYEE BENEFIT PLANS:

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

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### Pension Plan

In 1967, the Social Security Institute assumed the pension obligation for the majority of the Bank's employees; however, employees who had more than ten years of service prior to that date, continue to participate in the Bank's noncontributory unfounded defined benefit pension plan. Under this plan, benefits are based on length of service and level of

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compensation. As of December 31, 2005, there were 1,023 participants covered by the Plan.

While Colombian GAAP requires calculation of the estimated liability using actuarial methodology given by the law, the actuarial assumptions, based on nominal discount, salary and pension increase rates, and the method of computing the net periodic pension costs differ from those required by U.S. GAAP.

### Severance obligation

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

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

As of December 31, 2005 there were 1,855 participants remaining in the original severance plan.

Until December 31, 2004 the determination of pension plan and severance obligation included employees from Bancolombia S.A. (the parent company), Almacénar S.A. and Abocol S.A.. As a result of the sale of Abocol S.A. dated December 29, 2005, 55 Abocol's employees who participated in the pension plan and 3 employees who participated in Severance plan were not included in the calculation. Bancolombia does not maintain any pension or severance obligation with Abocol's employees after the sale.

Conavi and Corfinsura did not have a defined benefit plan to its employees and their employees are not entitled to join Bancolombia's defined benefit plan.

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### DISCLOSURE AND CALCULATION OF DIFFERENCES UNDER U.S. GAAP

The combined costs for the above mentioned benefit plans, determined using U.S. GAAP, for the years ended December 31, 2003, 2004 and 2005 are summarized below:

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|   | 2003        | 2004        | 2005        |
|---|-------------|-------------|-------------|
|   | -----       | -----       | -----       |
| CHANGE IN BENEFIT OBLIGATION  |             |             |             |
| Unfunded benefit obligation at beginning of year                          | Ps 107,257  | Ps 113,715  | Ps 127,629  |
| Service cost  | 1,557       | 1,543       | 1,604       |
| Interest cost   | 25,616      | 25,624      | 27,504      |
| Actuarial gain (loss)   | (1,025)     | 7,763       | 4,028       |
| Effect of curtailments/settlements (*)                                    |             |             | (4,545)     |
| Benefits paid   | (19,690)    | (21,016)    | (22,722)    |
|   | -----       | -----       | -----       |
| Unfunded benefit obligation at end of year                                | Ps 113,715  | Ps 127,629  | Ps 133,498  |
|   | =====       | =====       | =====       |
| Funded status   | (113,715)   | (127,629)   | (133,498)   |
| Unrecognized net transition loss  | 6,541       | 5,493       | 4,388       |
| Unrecognized net actuarial loss (gain)                                    | (4,872)     | 2,809       | 4,997       |
| Unrecognized prior service cost   | 860         | 716         | 559         |
|   | -----       | -----       | -----       |
| Accrued benefit cost under U.S.GAAP                                       | (111,186)   | (118,611)   | (123,554)   |
|   | =====       | =====       | =====       |
| Accrued benefit cost under Colombian GAAP                                 | (90,103)    | (98,731)    | (101,941)   |
|   | -----       | -----       | -----       |
| Difference to be recognized under U.S. GAAP                               | (21,083)    | (19,880)    | (21,613)    |
|   | -----       | -----       | -----       |
| Additional minimum pension liability<br>offset to Stockholders' equity    | (6,772)     | (16,249)    | (49,125)    |
|   | -----       | -----       | -----       |
| TOTAL DIFFERENCE TO BE RECOGNIZED UNDER<br>U.S. GAAP STOCKHOLDERS' EQUITY | Ps (27,855) | Ps (36,129) | Ps (70,738) |
|   | =====       | =====       | =====       |

(\*) The effect of curtailment/settlement is related to the sale of Abocol S.A.

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

|                                | 2003   | 2004   | 2005  |
|--------------------------------|--------|--------|-------|
|                                | -----  | -----  | ----- |
| Discount rate                  | 13.94% | 13.40% | 8.68% |
| Rate of compensation increases | 7.61%  | 7.10%  | 6.33% |
| Rate of pension increases      | 5.50%  | 5%     | 4.50% |
|                                | =====  | =====  | ===== |

The economic assumptions used in the determination of pension obligation under U.S. GAAP differ from those used under Colombian GAAP because these are established annually by the Colombian law.

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|  | 2003     | 2004     | 2005       |
|--|----------|----------|------------|
|  | -----    | -----    | -----      |
| COMPONENTS OF NET PERIODIC BENEFIT COST                |          |          |            |
| Service cost   | Ps 1,557 | Ps 1,543 | Ps 1,604   |
| Interest cost  | 25,616   | 25,624   | 27,504     |
| Amortization of prior service                          | 143      | 143      | 143        |
| Amortization of unrecognized net transition obligation | 1,047    | 1,048    | 1,048      |
| Amortization of actuarial unrecognized net gain (loss) | 5        | 82       | 562        |
|  | -----    | -----    | -----      |
| Net periodic pension cost under U.S. GAAP              | 28,368   | 28,440   | 30,861     |
| Net periodic pension cost under Colombian GAAP, net    | 30,125   | 29,643   | 29,128     |
|  | -----    | -----    | -----      |
| Difference to be recognized under U.S. GAAP            | Ps 1,757 | Ps 1,203 | Ps (1,733) |
|  | =====    | =====    | =====      |

### Estimated Future Benefit Payments

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

|                   | PENSION<br>BENEFITS | OTHER<br>BENEFITS |
|-------------------|---------------------|-------------------|
|                   | -----               | -----             |
| 2006              | 11,962              | 10,484            |
| 2007              | 11,037              | 7,235             |
| 2008              | 10,582              | 8,690             |
| 2009              | 10,461              | 10,487            |
| 2010              | 10,540              | 9,471             |
| Years 2011 - 2015 | 52,207              | 88,416            |
|                   | =====               | =====             |

### C) INFLATION ADJUSTMENT

Since January 1, 1992, and up to December 31, 2000, the consolidated financial statements were adjusted for inflation based on the variation in the CPI for middle income-earners. The adjustment was applied monthly to non-monetary assets, equity (except for the revaluation surplus and exchange adjustment), contingent accounts and memorandum accounts. No adjustment was made to income, costs and expenses, and the financial statements for the preceding period did not have to be re-measured.

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

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D) REVALUATION OF ASSETS

In accordance with Colombian GAAP, reappraisals of a portion of the Bank's premises and equipment, equity investments and other non-monetary assets are made periodically and recorded in offsetting accounts which are shown under the asset caption "reappraisal of assets" and the stockholders' equity caption "Surplus from reappraisals of assets". The last valuation was in December 2005. Under U.S. GAAP, reappraisals of assets are not permitted.

E) ALLOWANCE FOR LOAN LOSSES

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

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

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



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loan workout procedures.

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

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

The following summarizes the allowance for loan and financial lease losses under Colombian GAAP and U.S. GAAP at December 31, 2003, 2004 and 2005:

|  | 2003      | 2004      | 2005      |
|--|-----------|-----------|-----------|
|  | -----     | -----     | -----     |
| ALLOWANCE FOR LOANS, FINANCIAL LEASE LOSSES AND FORECLOSED ASSETS UNDER COLOMBIAN GAAP     |           |           |           |
| Allowance for loans and financial lease losses   | Ps400,838 | Ps434,378 | Ps705,882 |
| Allowance for accrued interest and other receivable  | 5,597     | 4,729     | 10,358    |
| Allowance for foreclosed assets  | 135,121   | 140,865   | 205,182   |
|  | -----     | -----     | -----     |
|  | Ps541,556 | Ps579,972 | Ps921,422 |
|  | -----     | -----     | -----     |
| ALLOWANCE FOR LOAN LOSSES UNDER U.S. GAAP  |           |           |           |
| Allowance for loans, financial lease, accrued interest losses and other related receivable |           |           |           |
|  | 363,068   | 393,138   | 552,364   |
| Allowance for foreclosed assets  | 76,126    | 84,631    | 151,394   |
|  | -----     | -----     | -----     |
|  | Ps439,194 | Ps477,769 | Ps703,758 |
|  | -----     | -----     | -----     |
| DIFFERENCE TO BE RECOGNIZED AS AN ADJUSTMENT TO COLOMBIAN GAAP STOCKHOLDERS' EQUITY        |           |           |           |
|  | Ps102,362 | Ps102,203 | Ps217,664 |
|  | =====     | =====     | =====     |

An analysis of the activity in the allowance for loans and financial lease losses under U.S. GAAP during the year ended December 31, 2004 and

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2005 is as follows:

|  | 2004     | 2005      |
|--|----------|-----------|
|  | -----    | -----     |
| Provision at the beginning of the period   | 363,068  | 393,138   |
| Currency Translation and other adjustments | (12,751) | (3,955)   |
| Charge-offs                                | (55,032) | (115,455) |
| Recoveries                                 | (78,584) | (207,896) |
| Charged to profit and loss account         | 176,437  | 486,532   |
|  | -----    | -----     |

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|  | 2004       | 2005       |
|--|------------|------------|
|  | -----      | -----      |
| Provision at the end of the period (1)                         | 393,138    | 552,364    |
|  | =====      | =====      |
| Gross Loans and financial leases                               | 10,035,239 | 18,626,252 |
| Closing customers provisions as a percentage of gross loans    | 3.92%      | 2.97%      |
| Customers charges against profits as percentage of gross loans | 1.76%      | 2.61%      |

-----  
(1) Includes financial leases.

At December 31, 2003, 2004, and 2005, the carrying value of loans considered to be impaired, under SFAS No. 114 (not including restructured loans) was approximately Ps 329,864, Ps 118,710 and Ps 211,423, respectively, and the related allowance for loan losses on those impaired loans totaled Ps 153,089, Ps 22,243 and Ps 92,611, respectively.

For the years ended December 31, 2003, 2004 and 2005, the Bank recognized interest income of approximately Ps 5,586, Ps 6,653 and Ps 10,918 respectively, on such impaired loans.

The total amount of loans evaluated under a methodology different than SFAS 114 and SFAS 15 methodology was Ps 18,042,686.

Foreclosed assets

Under Colombian GAAP, the Bank must design and adopt its own internal models for the calculation of provisions for foreclosed assets by means of which the expected loss for all types of assets is estimated. For real estate, the provision is equal to 30% of the value of the asset at the time of receipt and must be constituted in proportional monthly installments within the first year following receipt. This provision will increase an

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additional 30% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 80% of the value upon receipt. In case the term extension is granted, the remaining 20% of the provision may be constituted within said term.

For moveable assets, the provision is equal to 35% of the value of the asset at the time of acquisition and must be constituted in proportional monthly installments within the first year following receipt. Said provision must be increased and additional 35% within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 100% of the book value of the asset prior to provisions. In case the term extension is granted, the remaining 30% of the provision may be constituted within said term.

Under U.S. GAAP, in order to assess for impairment its foreclosed assets, the Bank applies the methodology described by the SFAS 144 and SFAS 15 with respect to the method to evaluate the recoverability of the assets and to the measurement of the impairment loss.

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Accordingly, after a troubled debt restructuring, the Bank accounts for assets received in satisfaction of a receivable the same as if the assets had been acquired for cash. The application of SFAS 15 results in the measurement of a new cost basis for the long-lived asset received in full satisfaction of a receivable. A loss is recognized for any initial or subsequent write-down to fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized for a write-down to fair value less cost to sell.

### F) LOAN ORIGINATION FEES AND COSTS

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

### G) INTEREST RECOGNITION - NON-ACCRUAL LOANS

For Colombian GAAP purposes, interest income is not accrued on (i) commercial loans that are more than 90 days past due, and (ii) consumer loans that are more than 60 days past due. From January 1, 2005, the Superintendency of Finance (before Superintendency of Banking) established that, interest income is not accrued on (i) small business loans that are more than 30 days past due, and (ii) mortgage loans that are more than 60 days past due.

Once a loan is non-performing, an allowance is established for 100% of the accrued interest receivable and the Bank ceases to recognize interest income on that loan. The Bank recognizes interest income on a cash basis

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non-accrual loans.

Since March 25, 2003, the Bank established that commercial, consumer and small business loans that are past due more than thirty days will stop accruing interest in the statement of operations and their entries will be made in memorandum accounts until such time that the customer does not proceed to cancel.

For U.S. GAAP purposes, all accrued interest is reversed against interest income once a loan becomes more than 90 days past due. U.S. GAAP also requires that, if the collectibility of the principal of a non-accrual loan is in doubt, cash payments should be applied to reduce the principal to the extent necessary to remove such doubt.

For the years 2003 and 2004, interest income on past due commercial, consumer and small business loans between 31 and 90 days past due, was accounted as accrued interest.

Additionally, for the year 2005, interest income on past due mortgage loans between 61 and 90 days past due, was accounted as accrued interest.

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### H) DEFERRED CHARGES

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

### I) INVESTMENT SECURITIES

In September 2002, the Superintendency of Banking (now Superintendency of Finance) issued External Circular 033, which changed the classification of investment securities as "trading", "held to maturity", and "available for sale". According to this norm, an investment will be classified as "trading" when the Bank acquires it for the purpose of selling it in the near term, as "held to maturity" when the Bank has the intention and ability to hold it to maturity, and as "available for sale" when the investment is not classified as trading or held to maturity.

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

- Debt and equity securities that are bought and held principally for the purpose of selling them in the short term are classified as "trading" securities and are reported at fair value, with unrealized gains and losses included in earnings.
- Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as "held to maturity" securities and are reported at amortized cost.
- Debt and equity securities not classified as either "held to maturity" or "trading" securities are classified as "available for sale" securities and reported at fair value, with unrealized

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gains and losses excluded from earnings and reported net of taxes, as a separate component of stockholders' equity. Any loss in value of an investment considered other than temporary is recognized in earnings.

### FOREIGN EXCHANGE GAINS AND LOSSES ON SECURITIES AVAILABLE FOR SALE

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

As of December 31, 2004 and 2005, the Bank's portfolio was classified as "trading", "held to maturity" and "available for sale".

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

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|  | FAIR VALUE  | GROSS<br>UNREALIZED<br>GAINS | GROSS<br>UNREALIZED<br>LOSSES |    |
|--|-------------|------------------------------|-------------------------------|----|
| <b>AVAILABLE FOR SALE - DEBT SECURITIES</b>          |             |                              |                               |    |
| <b>DECEMBER 31, 2004</b>                             |             |                              |                               |    |
| Securities issued or secured by Colombian government | Ps1,569,148 | Ps67,258                     | Ps 385                        | Ps |
| Securities issued or secured by government entities  | 19,060      | 34                           | --                            |    |
| Securities issued or secured by financial entities   | 190,261     | 3,130                        | 5,506                         |    |
| Other investments                                    | 165,216     | 466                          | 647                           |    |
|  | Ps1,943,685 | Ps70,888                     | Ps6,538                       | Ps |
|  | =====       | =====                        | =====                         | == |
| <br>   |             |                              |                               |    |
|  | FAIR VALUE  | GROSS<br>UNREALIZED<br>GAINS | GROSS<br>UNREALIZED<br>LOSSES |    |
| <b>AVAILABLE FOR SALE - DEBT SECURITIES</b>          |             |                              |                               |    |
| <b>DECEMBER 31, 2005</b>                             |             |                              |                               |    |
| Securities issued or secured by Colombian government | Ps1,393,881 | Ps60,540                     | Ps 868                        | Ps |
| Securities issued or secured by government entities  | 3,431       | 256                          | --                            |    |
| Securities issued or secured by financial entities   | 106,242     | 646                          | 2,164                         |    |

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|                   |             |          |         |     |
|-------------------|-------------|----------|---------|-----|
| Other investments | 339,002     | 1,776    | 2,713   |     |
|                   | -----       | -----    | -----   | --- |
|                   | Ps1,842,556 | Ps63,218 | Ps5,745 | Ps  |
|                   | =====       | =====    | =====   | ==  |

|  | FAIR VALUE | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES |     |
|--|------------|------------------------|-------------------------|-----|
|  | -----      | -----                  | -----                   | --- |
| HELD TO MATURITY                                     |            |                        |                         |     |
| DECEMBER 31, 2004                                    |            |                        |                         |     |
| Securities issued or secured by Colombian government | Ps590,444  | Ps17,115               | Ps87,441                | P   |
| Securities issued or secured by financial entities   | 20,728     | 235                    | 2,085                   |     |
| Other investments                                    | 48,212     | 246                    | 2,037                   |     |
|  | -----      | -----                  | -----                   | --- |
|  | Ps659,384  | Ps17,596               | Ps91,563                | P   |
|  | =====      | =====                  | =====                   | ==  |

|  | FAIR VALUE | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES |     |
|--|------------|------------------------|-------------------------|-----|
|  | -----      | -----                  | -----                   | --- |
| HELD TO MATURITY                                     |            |                        |                         |     |
| DECEMBER 31, 2005                                    |            |                        |                         |     |
| Securities issued or secured by Colombian government | Ps817,008  | Ps 9,251               | Ps100,798               | Ps  |
| Securities issued or secured by financial entities   | 47,768     | 629                    | 1,271                   |     |
| Other investments                                    | 61,156     | 1,290                  | 4,548                   |     |
|  | -----      | -----                  | -----                   | --- |
|  | Ps925,932  | Ps11,170               | Ps106,617               | Ps  |
|  | =====      | =====                  | =====                   | ==  |

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

|  | FAIR VALUE | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES |     |
|--|------------|------------------------|-------------------------|-----|
|  | -----      | -----                  | -----                   | --- |
| AVAILABLE FOR SALE - EQUITY SECURITIES |            |                        |                         |     |
| DECEMBER 31, 2004                      |            |                        |                         |     |
| Corfinsura                             | Ps55,749   | Ps38,748               | Ps--                    |     |

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|          |          |       |
|----------|----------|-------|
| -----    | -----    | ----- |
| Ps55,749 | Ps38,748 | Ps--  |
| =====    | =====    | ===== |

|  | FAIR VALUE | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES |
|--|------------|------------------------|-------------------------|
|  | -----      | -----                  | -----                   |
| AVAILABLE FOR SALE - EQUITY SECURITIES   |            |                        |                         |
| DECEMBER 31, 2005                        |            |                        |                         |
| Compania Suramericana de Inversiones S.A |            |                        |                         |
| Surainversiones                          | Ps64,672   | Ps64,665               | Ps--                    |
|  | -----      | -----                  | -----                   |
|  | Ps64,672   | Ps64,665               | Ps--                    |
|  | =====      | =====                  | =====                   |

The scheduled maturities of debt securities at December 31, 2005 were as follows:

|                                  | HELD TO MATURITY |            | AVAILABLE FOR SALE |             |
|----------------------------------|------------------|------------|--------------------|-------------|
|                                  | AMORTIZED COST   | FAIR VALUE | AMORTIZED COST     | FAIR VALUE  |
|                                  | -----            | -----      | -----              | -----       |
| Due in one year or less          | Ps 49,024        | Ps 49,111  | Ps 132,393         | Ps 132,496  |
| Due from one year to five years  | 585,142          | 590,530    | 1,475,492          | 1,523,357   |
| Due from five years to ten years | 387,070          | 286,184    | 172,646            | 181,892     |
| Due more ten years               | 143              | 107        | 4,552              | 4,811       |
|                                  | -----            | -----      | -----              | -----       |
| TOTAL                            | Ps1,021,379      | Ps925,932  | Ps1,785,083        | Ps1,842,556 |
|                                  | =====            | =====      | =====              | =====       |

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

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

The Bank is not required under Colombian GAAP to disclose the proceeds from the sale of investment securities nor gains or losses resulting from such sales. As a result, it is not feasible to obtain that information in a reasonable manner for disclosure under U.S. GAAP.

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Notes to Consolidated Financial Statements  
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### UNREALIZED LOSSES DISCLOSURE

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

|  | FAIR VALUE | GROSS<br>UNREALIZED<br>LOSSES | COST<br>BASIS |
|--|------------|-------------------------------|---------------|
|  | -----      | -----                         | -----         |
| AVAILABLE FOR SALE                                   |            |                               |               |
| DECEMBER 31, 2005                                    |            |                               |               |
| Securities issued or secured by Colombian government | Ps246,622  | Ps 868                        | Ps247,490     |
| Securities issued or secured by financial entities   | 19,777     | 47                            | 19,824        |
| Other investments                                    | 86,754     | 2,513                         | 89,267        |
|  | -----      | -----                         | -----         |
| TOTAL  | Ps353,153  | Ps3,428                       | Ps356,581     |
|  | =====      | =====                         | =====         |

|  | FAIR VALUE | GROSS<br>UNREALIZED<br>LOSSES | COST<br>BASIS |
|--|------------|-------------------------------|---------------|
|  | -----      | -----                         | -----         |
| HELD TO MATURITY                                     |            |                               |               |
| DECEMBER 31, 2005                                    |            |                               |               |
| Securities issued or secured by Colombian government | Ps 94,968  | Ps31,077                      | Ps126,045     |
| Securities issued or secured by financial entities   | 22,362     | 127                           | 22,489        |
| Other investments                                    | 10,683     | 4,544                         | 15,227        |
|  | -----      | -----                         | -----         |
| TOTAL  | Ps128,013  | Ps35,748                      | Ps163,761     |
|  | =====      | =====                         | =====         |

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

|  | FAIR VALUE | GROSS<br>UNREALIZED<br>LOSSES | COST<br>BASIS |
|--|------------|-------------------------------|---------------|
|  | -----      | -----                         | -----         |
| IMPAIRMENT AVAILABLE FOR SALE                      |            |                               |               |
| DECEMBER 31, 2005                                  |            |                               |               |
| Securities issued or secured by financial entities | Ps17,976   | Ps2,117                       | Ps20,093      |
| Other investments                                  | 40,786     | 200                           | 40,986        |
|  | -----      | -----                         | -----         |
| TOTAL  | Ps58,762   | Ps2,317                       | Ps61,079      |
|  | =====      | =====                         | =====         |



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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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|  | FAIR VALUE | GROSS<br>UNREALIZED<br>LOSSES | COST<br>BASIS |
|--|------------|-------------------------------|---------------|
|  | -----      | -----                         | -----         |
| IMPAIRMENT HELD TO MATURITY                          |            |                               |               |
| DECEMBER 31, 2005                                    |            |                               |               |
| Securities issued or secured by Colombian government | Ps228,802  | Ps69,721                      | Ps298,523     |
| Securities issued or secured by financial entities   | 8,848      | 1,144                         | 9,992         |
| Other investments                                    | 5,453      | 4                             | 5,457         |
|  | -----      | -----                         | -----         |
| TOTAL  | Ps243,103  | Ps70,869                      | Ps313,972     |
|  | =====      | =====                         | =====         |

SECURITIES ISSUED OR SECURED BY COLOMBIAN GOVERNMENT: The unrealized losses on this category are related to mandatory investments issued by the Ministry of Finance. The unrealized losses were caused by interest rate increases. Because the Bank has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2005.

As of December 31, 2005, 322 investment securities presented gross unrealized losses.

No other-than-temporary impairment has been recognized for the investment in debt securities held to maturity because the Bank has the ability and the positive intent to hold these securities until the amortized cost is recovered, there does not appear to be any credit deterioration, and recovery seems probable. Held to maturity investments that presented gross unrealized losses correspond to mandatory investments.

The amount of unrealized holding gain or loss on trading securities included in earnings during 2004 and 2005 was Ps266,428 and Ps476,139, respectively.

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

Those factors include:

- (a) the length of time and the extent to which the market value has been less than cost;
- (b) the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer (such as changes in technology that may impair the earnings potential of the investment, or the discontinuance of a segment of a business that may affect the future earnings potential); or

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- (c) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

The Bank also takes into account changes in economic conditions globally, regionally, or related to specific issuers or industries that could adversely affect these values.

- J) INVESTMENT IN UNAFFILIATED COMPANIES. HIGH AND MEDIUM VOLUME QUOTATION INVESTMENT SECURITIES CLASSIFIED AS "AVAILABLE FOR SALE" UNDER COLOMBIAN GAAP

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

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

- K) INVESTMENTS IN AFFILIATES. INVESTMENTS IN LOW, MINIMUM EXCHANGE OR UNQUOTED EQUITY SECURITIES CLASSIFIED AS "AVAILABLE FOR SALE" FOR PURPOSES OF COLOMBIAN GAAP

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

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

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### L) LESSOR ACCOUNTING

The Bank's Subsidiaries, Bancolombia Panama S.A., Sufinanciamiento S.A., Suleasing Internacional, Surenting S.A., Banco Corfinura Internacional and Leasing Colombia S.A., lease certain assets to third parties under non-cancelable lease arrangements. These lease arrangements involve machinery and equipment, computer equipment, automobile and furniture and fixtures (with terms between three and five years).

Under Colombian GAAP, for financial entities, leases are classified into financial leases and operating leases. Since January 1, 2004, goods given in financial lease to third parties with a purchase option are recorded in the loan portfolio. Goods given in operating lease are recorded as property, plant and equipment. For both types of leasing, the initial record must represent the value to be financed of the good given in leasing (that is, the acquisition or construction cost) and the value of the improvement and expenses that can be capitalized, which represent a greater value of the lease operation to be financed.

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

Surenting applied a specific provision of Colombian GAAP for leases. Under this regulation, leases are classified as operating leases, even if the contracts were signed with a purchase option. Under U.S. GAAP some of their contracts classified as financial leasing after applying the criteria for classifying leases established in SFAS 13.

#### Disclosure lessor accounting

The following lists the components of the net investment in direct financial leases as of December 31, 2004 and 2005:

|  | 2004        | 2005        |
|--|-------------|-------------|
|  | -----       | -----       |
| Total minimum lease payments to be received  | Ps1,091,505 | Ps3,033,438 |
| Estimated residual values of leased property | 55,937      | 174,866     |
| Less: Unearned income                        | (285,896)   | (721,848)   |
|  | -----       | -----       |
| Net investment in direct financial leases    | Ps 861,546  | Ps2,486,456 |
|  | =====       | =====       |

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

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|  |             |
|--|-------------|
| YEAR ENDED DECEMBER 31,                            |             |
| 2006   | Ps 681,431  |
| 2007   | 674,681     |
| 2008   | 675,241     |
| 2009   | 348,211     |
| 2010   | 300,525     |
| Later years, through 2011                          | 353,349     |
|  | -----       |
| TOTAL MINIMUM FUTURE LEASE PAYMENTS TO BE RECEIVED | Ps3,033,438 |
|  | =====       |

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

|  |           |
|--|-----------|
| YEAR ENDED DECEMBER 31,                            |           |
| 2006   | Ps 59,402 |
| 2007   | 47,138    |
| 2008   | 28,506    |
| 2009   | 11,278    |
| 2010   | 4,780     |
| Later years, through 2011                          | --        |
|  | -----     |
| TOTAL MINIMUM FUTURE LEASE PAYMENTS TO BE RECEIVED | Ps151,104 |
|  | =====     |

### M) BUSINESS COMBINATIONS

#### Purchase method of accounting

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

Upon a business combination, the purchase method of accounting under Colombian GAAP requires that (i) the purchase price be allocated to the acquired assets and liabilities on the basis of their book value, (ii) the statement of income of the acquiring company for the period in which a business combination occurs include the income of the acquired company as if the acquisition had occurred on the first day of the reporting period and (iii) the costs directly related to the purchase business combination not be considered as a cost of the acquisition, but deferred and amortized over a reasonable period as determined by management.

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Conavi and Corfinsura acquisition was accounted for using the pooling of interests method under Colombian GAAP, in accordance with the methodology suggested by the Superintendency of Finance.

### Sufinanciamiento acquisition

On December 29, 2003, the Bank and its Subsidiaries acquired 99.99% of the outstanding common shares of Sufinanciamiento S.A. Under U.S. GAAP, the results of Sufinanciamiento's operations have been included in the consolidated financial statements since that date. Sufinanciamiento is a commercial financing company, specializing in automobile loans.

The acquisition of Sufinanciamiento will allow the Bank and its Subsidiaries to complement its portfolio of products improving commercial financing activities, more specifically automobile financing. The aggregate purchase price was Ps 75,016 paid in cash.

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

|  | FAIR VALUE OF ASSETS ACQUIRED AND<br>LIABILITIES ASSUMED UNDER U.S. GAAP<br>FROM SUFINANCIAMIENTO<br>AS OF DECEMBER 31, 2003 |
|--|--|
| -----  |  |
| TOTAL PURCHASE PRICE, NET OF CASH ACQUIRED                   | Ps 63,622  |
|  | -----  |
| Assets acquired  | 304,256  |
| Premises and equipment, net                                  | 7,358  |
| Liabilities assumed  | 269,268  |
|  | -----  |
| NET ASSETS ACQUIRED  | Ps 42,346  |
|  | =====  |
| EXCESS OF COST OVER THE FAIR VALUE OF<br>ACQUIRED NET ASSETS | 21,276   |
| INTANGIBLE ASSET   | 1,562  |
|  | -----  |
| GOODWILL   | Ps 19,714  |
|  | =====  |

The excess of purchase price amounted to Ps 21,276 and Ps 1,562 was assigned to a contract with Almacenes Exitto (intangible assets) while the remaining Ps 19,714 was assigned to goodwill.

In 2003 Sufinanciamiento S.A. signed an agreement with Almacenes Exitto, a major retailer in Colombia, whereby the former will be the only financing provider to the latter's clients. Given the significance of this agreement to Sufinanciamiento's operations and the future benefits it will bring to the Bank's strategic and financial positions, this contractual relationship has been identified as an intangible asset and fair valued by the Bank.

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The following unaudited pro forma information for 2002 and 2003 reflects the consolidated results of operations as if the acquisition had occurred at the beginning of each year presented and includes the amortization of intangibles, as appropriate. The unaudited pro forma financial information presented is not necessarily indicative of the results of operations that might have occurred had the transaction been completed at the beginning of the year specified, and does not purport to represent what the consolidated results might be for any future period.

|                      | 2003<br>----- |
|----------------------|---------------|
| U.S. GAAP Net income | 481,736       |
| Revenues             | 1,465,973     |
| Earnings per share   | 1,088.44      |
|                      | =====         |

Under Colombian GAAP, the Bank consolidated Sufinanciamiento's earnings since January 1, 2003, as if the acquisition had occurred at the beginning of the year. Accordingly, virtually all of the amounts for pre-acquisition periods in the primary financial statements are different from the amounts that would be presented under U.S. GAAP. In effect, the financial statements presented as the primary financial statements are of a different reporting entity than would be required under U.S. GAAP.

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

Conavi and Corfinsura acquisition

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

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

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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Corfinsura was the largest financial corporation in Colombia as of the date of the Merger with a market share in net loans of 55.9%, according to the Superintendency of Finance. Known for its expertise in handling large and mid-sized corporate credit and financial services through close customer relationships, Corfinsura also has a highly respected investment bank, as well as a modern and diversified treasury department, focused on structured products. As of December 31, 2004, Corfinsura's consolidated total asset value amounted to Ps6,396 billion.

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

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

The aggregate purchase price, net of cash was Ps 1,133,728, paid in through the issuance of common and preferred shares in exchange for Corfinsura and Conavi's shares. The value of the 111,444,976 common shares and the 39,686,634 preferred shares issued was determined based on the average market price of Bancolombia's common and preferred shares over the 2-day period before and after the terms of the acquisition were agreed to and ann The aggregate purchase price includes merger expenses of Ps 10,524.

For Colombian GAAP purposes the results of operations of the acquired entities were included in the consolidated statements of operations of the combined entity since January 1, 2005.

In the acquisition agreement for the Merger there are not specified contingent payments, options, or commitments.

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

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(Stated in millions of pesos and thousands of U.S. dollars)

|   | FAIR VALUE OF ASSETS<br>ACQUIRED AND LIABILITIES<br>ASSUMED UNDER U.S. GAAP<br>FROM CONAVI<br>AS OF JULY 31, 2005<br>----- |
|---|--|
| TOTAL PURCHASE PRICE, NET OF CASH ACQUIRED                | Ps 316,864   |
| Assets acquired   | 2,921,925  |
| Premises and equipment, net                               | 209,535  |
| Liabilities assumed                                       | 3,006,974  |
| NET ASSETS ACQUIRED                                       | Ps 124,486   |
| Excess of cost over the fair value of acquired net assets | 192,378  |
| Intangible Asset  | 122,269  |
| GOODWILL  | Ps 70,109  |

|   | FAIR VALUE OF ASSETS<br>ACQUIRED AND LIABILITIES<br>ASSUMED UNDER U.S. GAAP<br>FROM CORFINSURA<br>AS OF JULY 31, 2005<br>----- |
|---|--|
| TOTAL PURCHASE PRICE, NET OF CASH ACQUIRED                | Ps 816,864   |
| Assets acquired   | 4,969,839  |
| Premises and equipment, net                               | 142,872  |
| Liabilities assumed                                       | 4,739,515  |
| NET ASSETS ACQUIRED                                       | Ps 373,196   |
| Excess of cost over the fair value of acquired net assets | 443,668  |
| Intangible Asset  | 105,294  |
| GOODWILL  | Ps 338,374   |

Of the Ps227,563 of acquired intangible assets, Ps73,134 was assigned to registered brands that are not subject to amortization and Ps 154,429 was assigned to service asset, asset management and Customers relationships. The acquired intangible assets subject to amortization have a weighted-average useful life of approximately 14 years.

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



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Brand

Brand intangibles are obtained from the Companies capacity to capture a greater market share through new customers.

Customer relationships and contractual agreements

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

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The following unaudited pro forma information for 2004 and 2005 reflects the consolidated results of operations as if the acquisition of Conavi and Corfinsura had occurred at the beginning of each year presented and includes the amortization of intangibles, as appropriate. The unaudited pro forma financial information presented is not necessarily indicative of the results of operations that might have occurred had the transaction been completed at the beginning of the year specified, and does not purport to represent what the consolidated results might be for any future period.

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

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

The following is a breakdown of the adjustments to the Stockholders' Equity related to Conavi and Corfinsura business combination:

|  | 2005      |
|--|-----------|
| Fair value of fixed and foreclosed assets      | Ps 85,545 |
| Service asset                                  | 6,023     |
| Fair value of time deposits and long term debt | 55,516    |

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|  |            |
|--|------------|
| Fair value of loans  | (317,293)  |
| Securitization of non performing loans                     | 27,503     |
| Conavi and Corfinsura net income from January to July 2005 | (113,296)  |
| Goodwill and other intangible assets                       | 624,291    |
|  | -----      |
| BUSINESS COMBINATION CONAVI AND CORFINSURA                 | Ps 368,289 |
|  | =====      |

### FAIR VALUE OF FIXED AND FORECLOSED ASSETS

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

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### BANCOLOMBIA S. A. AND SUBSIDIARIES Notes to Consolidated Financial Statements (Stated in millions of pesos and thousands of U.S. dollars)

#### FAIR VALUE OF TIME DEPOSITS, LONG TERM DEBT AND LOANS

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

#### SECURITIZATION OF NON PERFORMING LOANS

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

#### SERVICE ASSET

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

#### Goodwill and intangible assets

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

Prior to December 31, 2001, the Bank recognized an excess of fair value of acquired net assets over cost (commonly referred to as negative goodwill) on certain business combinations. Under Colombian GAAP, negative goodwill is recorded as a liability and it is amortized over a period of five years.

Under U.S. GAAP, as explained previously, the Bank adopted SFAS No. 141 on January 1, 2002. Upon adoption of SFAS No. 141, any unamortized negative goodwill related to an excess over cost arising from business combinations for which the acquisition date was before July 1, 2001 was written off and recognized as the effect of a change in accounting principle.

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The Bank has performed the required impairment test of each reporting unit's goodwill and concluded that there was no impairment of goodwill. Accordingly, the Bank reversed the amortization of goodwill from Colombian GAAP for the year ended 2005.

The activity of the goodwill and intangible assets during the years ended December 31, 2003, 2004 and 2005 is as follows:

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|                              | 2003<br>----- | 2004<br>----- | 2005<br>----- |
|------------------------------|---------------|---------------|---------------|
| GOODWILL                     |               |               |               |
| Balance at beginning of year | Ps141,553     | Ps161,267     | Ps161,267     |
| Additions                    | 19,714        | --            | 408,483       |
|                              | -----         | -----         | -----         |
| Balance at end of year       | Ps161,267     | Ps161,267     | Ps569,750     |
|                              | =====         | =====         | =====         |

Goodwill by segments was as follows:

|                             | DECEMBER 31,<br>2004<br>----- | DECEMBER 31,<br>2005<br>----- |
|-----------------------------|-------------------------------|-------------------------------|
| Commercial Banking          | Ps 33,114                     | Ps251,703                     |
| Retail Banking              | 104,443                       | 151,420                       |
| Small Business Banking      | 23,710                        | 27,784                        |
| Leasing                     | --                            | 54,238                        |
| Trust                       | --                            | 2,493                         |
| Offshore Commercial Banking | --                            | 31,534                        |
| Brokerage                   | --                            | 43,722                        |
| Government Banking          | --                            | 1,199                         |
| Builder Banking             | --                            | 4,326                         |
| Other segments              | --                            | 1,331                         |
|                             | -----                         | -----                         |
| Total Goodwill              | Ps161,267                     | Ps569,750                     |
|                             | =====                         | =====                         |

|                              | 2004<br>----- | 2005<br>----- |
|------------------------------|---------------|---------------|
| INTANGIBLE ASSETS            |               |               |
| Balance at beginning of year | Ps1,562       | Ps 1,406      |
| Additions                    | --            | 227,563       |

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|                        |         |           |
|------------------------|---------|-----------|
| Amortization           | (156)   | (5,889)   |
|                        | -----   | -----     |
| Balance at end of year | Ps1,406 | Ps223,080 |
|                        | =====   | =====     |

Intangible assets were as follows:

|                                   | DECEMBER 31, 2004        |                             | DECEMBER 31, 2005        |                             |
|-----------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
|                                   | GROSS CARRYING<br>AMOUNT | ACUMMULATED<br>AMORTIZATION | GROSS CARRYING<br>AMOUNT | ACUMMULATED<br>AMORTIZATION |
|                                   | -----                    | -----                       | -----                    | -----                       |
| Non-Amortizable intangible assets | Ps --                    |                             | Ps 73,134                |                             |
| Amortizable intangible assets     | Ps1,562                  | Ps156                       | Ps155,991                | Ps6,045                     |
|                                   | =====                    | =====                       | =====                    | =====                       |

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The following table shows the amortizable intangible assets, detailed with their respective useful lives.

|                       | VALUE     | ESTIMATED USEFUL<br>LIFE (MONTHS) |
|-----------------------|-----------|-----------------------------------|
|                       | -----     | -----                             |
| Service asset         | Ps 6,206  | 169                               |
| Asset management      | 30,004    | 125                               |
| Loan                  | 77,354    | 201                               |
| Deposits              | 20,027    | 166                               |
| Customer relationship | 22,400    | 105                               |
|                       | -----     |                                   |
|                       | Ps155,991 |                                   |
|                       | =====     |                                   |

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

N) SECURITIZATION

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

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Upon applying the principle set out in Paragraph 9 of SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" to the securitization operations carried out, the Bank finds that the securitization of non-performing loans does not comply with the conditions qualifying a transfer by means of sale according to U.S. GAAP. For this reason, and for the purposes of U.S. GAAP, the securitization of non-performing loans are accounted for as a secured borrowing.

O) FOREIGN CURRENCY TRANSLATION ADJUSTMENT

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

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

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P) MINORITY INTEREST

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

Q) DISCONTINUED OPERATIONS

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

|  | 2004     | 2005       |
|--|----------|------------|
|  | -----    | -----      |
| Profit from discontinued operations      |          |            |
| including profit on disposal of Ps18,072 | Ps20,703 | Ps(13,230) |
|  | =====    | =====      |

R) GUARANTEES

In order to meet the needs of its customers, the Bank issues financial standby letters of credit and bank guarantees. At December 31, 2004 and 2005, outstanding letters of credits and bank guarantees issued by the Bank totaled Ps 559,018 and Ps 838,675, respectively.

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The table below summarizes, at December 31, 2004 and 2005, all of the Bank's guarantees where the Bank is the guarantor. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts bear no relationship to the anticipated losses on these guarantees and greatly exceed anticipated losses.

|                                     | EXPIRE WITHIN ONE<br>YEAR |                  | EXPIRE AFTER ONE<br>YEAR |                  | TOTAL AMOUNT<br>OUTSTANDING |                  |
|-------------------------------------|---------------------------|------------------|--------------------------|------------------|-----------------------------|------------------|
|                                     | 2004                      | 2005             | 2004                     | 2005             | 2004                        | 2005             |
| Financial standby letters of credit | Ps402,969                 | Ps474,159        | Ps18,674                 | Ps19,061         | Ps421,643                   | Ps493,000        |
| Bank guarantees                     | 69,104                    | 122,280          | 68,271                   | 223,175          | 137,375                     | 345,000          |
| <b>TOTAL</b>                        | <b>Ps472,073</b>          | <b>Ps596,439</b> | <b>Ps86,945</b>          | <b>Ps242,236</b> | <b>Ps559,018</b>            | <b>Ps838,000</b> |

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

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

S) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

As required by U.S. GAAP, the estimated fair value of the Bank's financial instruments, their carrying values and the major assumptions and methodologies used to estimate fair values at December 31, 2004 and 2005 are presented hereunder. The fair value of a financial instrument is defined as the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

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

|   | DECEMBER 31, 2004  |                         | DECEMBER 31, 2003  |
|---|--------------------|-------------------------|--------------------|
|   | CARRYING<br>AMOUNT | ESTIMATED<br>FAIR VALUE | CARRYING<br>AMOUNT |
| <b>FINANCIAL ASSETS</b>                             |                    |                         |                    |
| Cash and cash equivalents                           | Ps 1,249,360       | Ps 1,249,360            | Ps 1,730,000       |
| Investment securities                               | 5,250,211          | 5,176,244               | 8,459,700          |
| Loans and accrued interest receivable on loans, net | 9,722,137          | 9,767,980               | 18,118,600         |
| Customers' acceptances                              | 66,494             | 66,494                  | 62,900             |
| Forward contracts                                   | (22,270)           | (22,270)                | 34,000             |
| Swaps   | (111)              | (111)                   | 36,400             |
| Next day operations                                 | (219)              | (219)                   |                    |
| Options   | --                 | --                      | (1,000)            |
| Cap   | --                 | --                      |                    |
| <b>FINANCIAL LIABILITIES:</b>                       |                    |                         |                    |
| Deposits  | Ps11,862,116       | Ps12,030,870            | Ps18,384,900       |
| Overnight funds                                     | 616,494            | 616,494                 | 1,329,900          |
| Bank acceptances outstanding                        | 66,593             | 66,593                  | 63,100             |
| Interbank borrowings                                | 246,282            | 246,282                 | 1,705,400          |
| Borrowings from domestic development banks          | 857,919            | 857,919                 | 2,222,000          |
| Long term debt                                      | 552,531            | 564,417                 | 1,648,300          |
|   | =====              | =====                   | =====              |

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

**Short-term financial instruments**

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

**Investment securities**

The fair value of these financial instruments which include time deposits in financial entities are calculated by the Colombian Stock Exchange, except for financial instruments classified "held to maturity", for which the fair value was determined using discounted cash flows with

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actual market rates for similar assets.

### Loans

The Bank has estimated the fair value of the loan portfolio pursuant three methods depending of the type of loan being analyzed. Estimated fair value of the homogeneous loan portfolio, including consumer, mortgage and small business loans, has been determined based upon various statistical analysis. These include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, together with analysis that reflect current trends and conditions. Estimated fair value of loans with collateral has been calculated using the realizable value of collateral. Estimated fair value of restructured loans has been determined based on the present value of expected future cash flow method discounted at the loan's contractual effective rate.

### Derivatives

The Bank's derivatives are recorded at fair value on a daily basis in conformity with the rules prescribed by the Superintendency of Finance, in accordance with the class of instrument, as follows:

#### Foreign exchange forward contracts:

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

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#### Financial instruments forward contracts:

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

#### Balance sheet classification:

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

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

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

Consequently, the relevant assets and liabilities would be increased by Ps144,979 as of December 31, 2005 in a U.S. GAAP balance sheet, with no effect on net income or shareholders' equity.



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### Futures Contracts

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

### Deposits

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

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

### Interbank borrowings and borrowings from domestic development banks

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

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### Long term debt

Long term debt are bonds issued by the Bank, Leasing Colombia S.A., Fundicom S.A., Surenting S.A. and Sufinanciamiento S.A.

The fair value of bonds issued by the Bank, Leasing Colombia S.A. and Surenting S.A. were estimated using quoted market prices. Bonds issued by Fundicom S.A. and Sufinanciamiento S.A. are non marketable. For this reason the carrying amounts were considered to approximate fair value.

### T) PAID-IN-CAPITAL

In accordance with Colombian GAAP, paid-in capital in excess of par value of shares issued is credited to a legal reserve. Under U.S. GAAP, capital in excess of par value is credited to paid-in capital.

### U) UNEARNED INTEREST INCOME

Under Colombian GAAP, unearned interest income is recorded as a liability in the balance sheet. For U.S. GAAP purposes, only the net amounts (loan amount less unearned interest) would be classified as a loan. Under Colombian GAAP, unearned interest is amortized on a straight-line basis whereas U.S. GAAP requires the use of the effective interest method. However, the difference does not have a material impact on the Bank's financial statements.

### V) EARNINGS PER SHARE

Under Colombian GAAP, earnings per share ("EPS") are computed by dividing net income by the weighted average number of both common and

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preference shares outstanding for each period presented.

U.S. GAAP requires dual presentation of basic and diluted EPS for entities with complex capital structures, as well as a reconciliation of the basic EPS computation to the diluted EPS computation. Basic EPS is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS assumes the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. For the years ended December 31, 2003, 2004 and 2005, the Bank had a simple capital structure. Therefore, there was no difference between basic or diluted EPS for these years.

The following summarizes information related to the computation of basic EPS for the years ended December 31, 2003, 2004 and 2005 (millions of pesos, except per share data):

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|  | 2003       | 2004       | 2005       |
|--|------------|------------|------------|
|  | -----      | -----      | -----      |
| U.S. GAAP consolidated net income  | Ps 474,419 | Ps 642,126 | Ps 891,121 |
| Less preferred share dividends   | 48,535     | 67,092     | 110,806    |
|  | -----      | -----      | -----      |
| Income attributable to common stockholders   | 425,884    | 575,034    | 780,315    |
|  | =====      | =====      | =====      |
| Income from continuing operations<br>attributable to common shareholders                               | 417,555    | 554,331    | 793,145    |
| Income (loss) from operations and disposal<br>of discontinued operations                               | 8,129      | 20,703     | (13,230)   |
|  | -----      | -----      | -----      |
| Income attributable to common shareholders   | 425,884    | 575,034    | 780,315    |
|  | =====      | =====      | =====      |
| Weighted average number of common shares<br>outstanding used in basic EPS<br>calculation (in millions) | 398        | 398        | 455        |
| Basic and Diluted earnings per share<br>(U.S. GAAP):   |            |            |            |
| Income from continuing operations  | 1,049.64   | 1,392.79   | 1,744.05   |
| Income (loss) from operations and disposal<br>of discontinued operations                               | 20.42      | 52.02      | (29.08)    |
|  | -----      | -----      | -----      |
| Income attributable to common shareholders   | Ps1,070.06 | Ps1,444.81 | Ps1,714.97 |
|  | =====      | =====      | =====      |

W) CASH FLOW

During 2005, reserves against transactions and time deposits with the Central Bank amounted to Ps 1,098,712. Under Colombian GAAP, this amount is classified as cash and cash equivalent, while, for U.S. GAAP purposes, restricted cash does not represent part of cash and cash equivalents for

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cash flow statement presentation because it cannot be withdrawn without prior notice or penalty.

Also during 2005 the Bank has the following items which are non cash transactions: Ps 69,594 related to restructured loans were transferred to foreclosed assets; shares issued for Ps 75,566, Ps 27,770 related to accounts receivable for Abocol sale and foreign exchange loss for Ps 51,711. Such transactions affect the Bank's balance sheet but do not result in cash receipts or cash payments in the period.

### X) SEGMENTS DISCLOSURE

Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly used by the Finance Vice President (the Chief Operating decision maker) in deciding how to allocate resources and assessing performance.

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

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

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

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2003

|   | Retail<br>Banking<br>----- | Commercial<br>Banking<br>----- | Small<br>Business<br>Banking<br>----- | Governmental<br>And<br>Institutional<br>Banking<br>----- |   |
|---|----------------------------|--------------------------------|---------------------------------------|--|---|
| Revenues from external customers  | Ps 212,472                 | Ps 32,502                      | Ps 34,906                             | Ps 19,007  | P |
| Revenues from transactions with<br>other operating segments of the<br>same enterprise | 34,422                     | 22,731                         | 19,795                                | 24,530   |   |
| Interest income   | 453,975                    | 179,113                        | 132,127                               | 56,075   |   |
| Interest expense  | 147,647                    | 17,395                         | 18,361                                | 59,119   |   |

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|   |             |             |             |           |
|---|-------------|-------------|-------------|-----------|
| Net interest revenue  | 306,328     | 161,718     | 113,766     | (3,044)   |
| Depreciation and amortization expense                                     | --          | --          | --          | --        |
| Provision for loan losses   | 62,068      | 12,781      | 365         | 1,133     |
| Administrative and other expense  | 336,412     | 40,112      | 38,541      | 24,275    |
| Income tax expense or benefit   | --          | --          | --          | --        |
| Other income or expense, net  | 3,354       | (462)       | (449)       | 153       |
| Segment profit before distribution of income (expense) for treasury funds | 158,096     | 163,596     | 129,112     | 15,238    |
| Distribution of income (expense) for treasury funds (1)                   | 96,777      | (75,379)    | (49,667)    | 50,866    |
| Segment profit  | Ps 254,873  | Ps 88,217   | Ps 79,445   | Ps 66,104 |
| Segments assets   | Ps3,127,442 | Ps1,838,100 | Ps1,449,736 | Ps665,609 |

|   | Offshore<br>Commercial<br>Banking | Trust    | Leasing    | Brokerage | Manufactur |
|---|-----------------------------------|----------|------------|-----------|------------|
| Revenues from external customers  | Ps 7,742                          | Ps38,424 | Ps 47,186  | Ps 5,113  | Ps 31,40   |
| Revenues from transactions with other operating segments of the same enterprise | (7,276)                           | 773      | (314)      | (111)     | 16,55      |
| Interest income   | 150,602                           | 5,366    | 8,174      | 10,856    | (          |
| Interest expense  | 63,874                            | 109      | 50,274     | 274       | 9,00       |
| Net interest revenue  | 86,728                            | 5,257    | (42,100)   | 10,582    | (9,01      |
| Depreciation and amortization expense   | 882                               | 1,032    | 3,377      | 1,059     | 2,74       |
| Provision for loan losses   | 50,360                            | 2,239    | 3,564      | --        | 23         |
| Administrative and other expense  | 7,122                             | 23,368   | 12,739     | 10,475    | 26,03      |
| Income tax expense or benefit   | --                                | 6,430    | 4,240      | 2,577     | 1,52       |
| Other income or expense, net  | 89,901                            | 1,308    | 11,773     | 2,463     | (78        |
| Segment profit before distribution of income (expense) for treasury funds       | 118,731                           | 12,693   | (7,375)    | 3,936     | 7,61       |
| Distribution of income (expense) for treasury funds (1)                         | --                                | --       | --         | --        | --         |
| Segment profit  | Ps 118,731                        | Ps12,693 | Ps (7,375) | Ps 3,936  | Ps 7,61    |
| Segments assets   | Ps3,748,134                       | Ps73,395 | Ps554,073  | Ps83,218  | Ps221,22   |

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

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2004

|   | Retail<br>Banking | Commercial<br>Banking             | Small<br>Business<br>Banking | Governmental<br>And<br>Institutional<br>Banking | Tr        |            |
|---|-------------------|-----------------------------------|------------------------------|---|-----------|------------|
|   | -----             | -----                             | -----                        | -----   | -----     |            |
| Revenues from external customers  | Ps 226,318        | Ps 33,013                         | Ps 34,582                    | Ps 20,277                                       | Ps        |            |
| Revenues from transactions with<br>other operating segments of<br>the same enterprise | 48,585            | 27,669                            | 36,438                       | 24,402  |           |            |
| Interest income   | 597,066           | 208,387                           | 200,207                      | 43,857  |           |            |
| Interest expense  | 138,503           | 29,896                            | 20,877                       | 81,164  |           |            |
| Net interest revenue  | 458,563           | 178,491                           | 179,330                      | (37,307)  |           |            |
| Depreciation and amortization<br>expense  | --                | --                                | --                           | --  |           |            |
| Provision for loan losses   | 51,614            | 3,265                             | 4,358                        | (326)   |           |            |
| Administrative and other expense  | 371,517           | 46,997                            | 46,078                       | 28,622  |           |            |
| Income tax expense or benefit   | --                | --                                | --                           | --  |           |            |
| Other income or expense, net  | (1,121)           | (528)                             | --                           | --  |           |            |
| Segment profit before<br>distribution of income<br>(expense) for treasury funds       | 309,214           | 188,383                           | 199,914                      | (20,924)  |           |            |
| Distribution of income (expense)<br>for treasury funds(1)                             | 56,937            | (46,341)                          | (74,825)                     | 99,032  |           |            |
| Segment profit  | Ps 366,151        | Ps 142,042                        | Ps 125,089                   | Ps 78,108                                       | Ps        |            |
| Segments assets   | Ps4,064,951       | Ps2,162,364                       | Ps2,125,485                  | Ps597,028                                       | Ps4,      |            |
|   | =====             | =====                             | =====                        | =====   | =====     |            |
|   |                   | Offshore<br>Commercial<br>Banking | Trust                        | Leasing   | Brokerage | Manufactur |
|   |                   | -----                             | -----                        | -----   | -----     | -----      |
| Revenues from external customers  | Ps 7,234          | Ps49,178                          |                              | 88,265  | Ps 7,842  | Ps 42,28   |
| Revenues from transactions with<br>other operating segments of<br>the same enterprise | 4,063             | 817                               |                              | (582)   | 196       | 10,72      |
| Interest income   | 172,103           | 6,412                             |                              | 21,918  | 8,894     | 44         |
| Interest expense  | 47,919            | 2                                 |                              | 88,676  | 2,923     | 11,19      |
| Net interest revenue  | 124,184           | 6,410                             |                              | (66,758)  | 5,971     | (10,74     |
| Depreciation and amortization<br>expense  | 357               | 1,085                             |                              | 4,462   | 469       | 95         |
| Provision for loan losses   | 36,046            | 1,165                             |                              | 20,293  | 148       | 1,73       |
| Administrative and other expense  | 8,262             | 26,112                            |                              | 18,951  | 11,123    | 28,64      |
| Income tax expense or benefit   | --                | 10,355                            |                              | 10,278  | 3,980     | 4,34       |
| Other income or expense, net  | 19,304            | 1,275                             |                              | 15,721  | 8,250     | (65        |
| Segment profit before<br>distribution of income<br>(expense) for treasury funds       | 110,120           | 18,963                            |                              | (17,338)  | 6,539     | 5,92       |
| Distribution of income (expense)<br>for treasury funds(1)                             | --                | --                                |                              | --  | --        | --         |
| Segment profit  | Ps 110,120        | Ps18,963                          |                              | Ps (17,338)                                     | Ps 6,539  | Ps 5,92    |
|   | =====             | =====                             |                              | =====   | =====     | =====      |

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|                 |             |          |             |          |          |
|-----------------|-------------|----------|-------------|----------|----------|
| Segments assets | Ps3,463,813 | Ps91,306 | Ps1,003,995 | Ps24,389 | Ps247,03 |
|                 | =====       | =====    | =====       | =====    | =====    |

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

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
 Notes to Consolidated Financial Statements  
 (Stated in millions of pesos and thousands of U.S. dollars)

2005

|   | Retail<br>Banking                 | Commercial<br>Banking | Small<br>Business<br>Banking | Builder<br>Banking (2) | Govern<br>An<br>Instit<br>Ban |
|---|-----------------------------------|-----------------------|------------------------------|------------------------|-------------------------------|
|   | -----                             | -----                 | -----                        | -----                  | -----                         |
| Revenues from external customers  | Ps 474,916                        | Ps 32,652             | Ps 50,724                    | Ps 1,104               | Ps 1                          |
| Revenues from transactions with other<br>operating segments of the same<br>enterprise | 76,998                            | 145,022               | 161,358                      | 3,118                  | 2                             |
| Interest income   | 1,059,092                         | 379,434               | 375,839                      | 40,244                 | 8                             |
| Interest expense  | 245,978                           | 87,318                | 127,094                      | 1,642                  | 3                             |
| Net interest revenue  | 813,114                           | 292,116               | 248,745                      | 38,602                 | 4                             |
| Depreciation and amortization expense   | --                                | --                    | --                           | --                     | --                            |
| Provision for loan losses   | 77,229                            | 3,497                 | 13,338                       | 1,774                  | --                            |
| Administrative and other expense  | 697,565                           | 76,472                | 85,086                       | 4,763                  | 3                             |
| Income tax expense or benefit   | --                                | --                    | --                           | --                     | --                            |
| Other income or expense, net  | 193                               | 5                     | 5                            | --                     | --                            |
| Segment profit before distribution of<br>income (expense) for treasury funds          | 590,427                           | 389,826               | 362,408                      | 36,287                 | 4                             |
| Distribution of income (expense) for<br>treasury funds(1)                             | 102,443                           | (84,480)              | (87,934)                     | (20,556)               | 1                             |
| Segment profit  | Ps 692,870                        | Ps 305,346            | Ps 274,474                   | Ps 15,731              | Ps 6                          |
| Segments assets   | Ps7,710,861                       | Ps3,757,603           | Ps3,730,214                  | Ps328,150              | Ps82                          |
|   | =====                             | =====                 | =====                        | =====                  | =====                         |
|   | Offshore<br>Commercial<br>Banking | Trust                 | Leasing                      | Brokerage (3)          | Manufa                        |
|   | -----                             | -----                 | -----                        | -----                  | -----                         |
| Revenues from external customers  | Ps 12,618                         | Ps 58,431             | Ps 308,027                   | Ps 67,346              | Ps                            |
| Revenues from transactions with other<br>operating segments of the same<br>enterprise | 10,604                            | 753                   | 6,654                        | (2,547)                | --                            |
| Interest income   | 178,409                           | 9,902                 | 67,845                       | 59,488                 | --                            |
| Interest expense  | 75,422                            | --                    | 210,411                      | 29,204                 | --                            |

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|   |             |           |             |           |       |
|---|-------------|-----------|-------------|-----------|-------|
| Net interest revenue  | 102,987     | 9,902     | (142,566)   | 30,284    |       |
| Depreciation and amortization expense                                     | 706         | 1,280     | 11,871      | 1,254     |       |
| Provision for loan losses   | 28,538      | 850       | 19,459      | 11        |       |
| Administrative and other expense  | 8,952       | 30,427    | 57,950      | 56,345    |       |
| Income tax expense or benefit   | --          | 13,351    | 32,389      | 19,047    |       |
| Other income or expense, net  | 12,346      | 904       | 6,546       | 14,313    |       |
| Segment profit before distribution of income (expense) for treasury funds | 100,359     | 24,082    | 56,992      | 32,739    |       |
| Distribution of income (expense) for treasury funds(1)                    | --          | --        | --          | --        |       |
|   | -----       | -----     | -----       | -----     | ----- |
| Segment profit  | Ps 100,359  | Ps 24,082 | Ps 56,992   | Ps 32,739 | Ps    |
|   | =====       | =====     | =====       | =====     | ===== |
| Segments assets   | Ps4,166,424 | Ps129,858 | Ps3,452,069 | Ps421,797 | Ps 8  |
|   | =====       | =====     | =====       | =====     | ===== |

- (1) Those costs are calculated base on the funds that segments use or provide. Those do not have an impact in the final result.
- (2) This segment was incorporated from Conavi as a result of the Merger. It targets the building construction industry.
- (3) In the Annual Report of 2003 and 2004 Brokerage was not considered by the management as an individual operating segment, it was included in all other segments of the segments disclosure. For year 2005 and with the introduction of Suvalor as a result of the Merger, brokerage become in an operating segment susceptible to evaluation by the management. For comparability effects it was necessary to break out the segment brokerage for years 2003 and 2004.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
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(Stated in millions of pesos and thousands of U.S. dollars)

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

|  | 2003         | 2004         | 2005         |
|--|--------------|--------------|--------------|
|  | -----        | -----        | -----        |
| REVENUES                                     |              |              |              |
| Total revenues for reportable segments       | Ps 1,808,366 | Ps 2,334,389 | Ps 4,136,202 |
| Other revenues                               | 307,342      | 140,253      | 111,278      |
|  | -----        | -----        | -----        |
| Total  | 2,115,708    | 2,474,642    | 4,247,480    |
|  | -----        | -----        | -----        |
| Elimination of intersegment revenues         | (30,204)     | (56,366)     | (37,032)     |
|  | -----        | -----        | -----        |
| TOTAL REVENUES FOR REPORTABLE SEGMENTS (1)   | Ps 2,085,504 | Ps 2,418,276 | Ps 4,210,448 |
|  | =====        | =====        | =====        |
| PROFIT OR LOSS                               |              |              |              |
| Total profit or loss for reportable segments | Ps 466,594   | Ps 601,407   | Ps 966,656   |
| Other profit or loss                         | 32,994       | 33,637       | 17,257       |
|  | -----        | -----        | -----        |

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|                                      |              |              |              |
|--------------------------------------|--------------|--------------|--------------|
| Total                                | 499,588      | 635,044      | 983,913      |
|                                      | -----        | -----        | -----        |
| Elimination of intersegment profits  | (30,204)     | (56,366)     | (37,032)     |
|                                      | -----        | -----        | -----        |
| NET INCOME (LOSS)                    | Ps 469,384   | Ps 578,678   | Ps 946,881   |
|                                      | =====        | =====        | =====        |
| ASSETS                               |              |              |              |
| Total assets for reportable segments | Ps15,991,727 | Ps19,186,151 | Ps32,984,023 |
| Other assets                         | 513,204      | 560,357      | 538,059      |
|                                      | -----        | -----        | -----        |
| Total                                | 16,504,931   | 19,746,508   | 33,522,082   |
|                                      | -----        | -----        | -----        |
| Elimination of intersegment assets   | (1,328,802)  | (2,267,379)  | (2,718,565)  |
|                                      | -----        | -----        | -----        |
| CONSOLIDATED TOTAL                   | Ps15,176,129 | Ps17,479,129 | Ps30,803,517 |
|                                      | =====        | =====        | =====        |

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

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

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
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|                                       | 2004        |                     | 2005        |                     |
|---------------------------------------|-------------|---------------------|-------------|---------------------|
|                                       | REVENUES    | LONG LIVED - ASSETS | REVENUES    | LONG LIVED - ASSETS |
|                                       | -----       | -----               | -----       | -----               |
| GEOGRAPHIC INFORMATION                |             |                     |             |                     |
| Republic of Colombia                  | Ps2,284,240 | Ps340,304           | Ps3,990,600 | Ps734,419           |
| Republic of Panama and Cayman Islands | 183,400     | 1,692               | 202,018     | 29,810              |
| Puerto Rico                           | --          | --                  | 42,897      | 131                 |
| USA (1)                               | 7,002       | 577                 | 11,965      | 326                 |
|                                       | -----       | -----               | -----       | -----               |
| Total                                 | 2,474,642   | 342,573             | 4,247,480   | 764,686             |
| Eliminations                          | (56,366)    | (1,119)             | (37,032)    | 7,144               |
|                                       | -----       | -----               | -----       | -----               |
| TOTAL, NET                            | Ps2,418,276 | Ps341,454           | Ps4,210,448 | Ps771,830           |
|                                       | =====       | =====               | =====       | =====               |

-----  
(1) Information relating to Bancolombia Miami Agency is included since 2004, because it started operations at the end of 2003. Additionally, the amounts for the year 2005 include Suleasing Internacional Inc. as a result of the Merger among Bancolombia, Conavi and Corfinsura.



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The segments reported embrace the following activities:

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

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

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

**BUILDER BANKING:** The Builder Banking segment provides services to the professional Building construction industry. Builder customers are segmented by the number of construction projects belonging to them.

**GOVERNMENTAL AND INSTITUTIONAL BANKING:** This segment provides services to institutional customers subject to the supervision of the Superintendency of Finance the Superintendency of Health or the Superintendency of Family Subsidy, and also electric and financial corporations. The governmental customers include public sector entities.

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### BANCOLOMBIA S. A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Stated in millions of pesos and thousands of U.S. dollars)

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

**OFFSHORE COMMERCIAL BANKING:** Bancolombia Panama S.A. and Bancolombia Cayman, located in Panama and the Cayman Islands, respectively, Suvalor Panama S.A. and Banco Corfinsura Internacional Inc, located in Panama and Puerto Rico, respectively, provide a complete line of banking services mainly to Colombian customers, which includes loans to private sector companies, brokerage services (Suvalor Panama S.A.), trade financing, lease financing, financing for industrial projects as well as a complete portfolio of cash management products, such as checking accounts, international collections and payments and PC Banking. Through these Subsidiaries, the Bank also offers to its high net worth customers and private banking customers investment opportunities in U.S. dollars, in savings accounts and in checking accounts, CD-time deposits, and investment funds.

**TRUST:** The Bank offers, through its Subsidiary Fiducolombia S.A., a family of five mutual funds and one voluntary retirement fund, all of which are designed to provide customers with the opportunity to diversify their investments. As of December 31, 2005, it had Ps 2,878,543 in total assets under management, increasing 42.5% from Ps 2,020,227 in 2004. Additionally,

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Fiducolombia offers a broad range of products and services by type of trust, among which the following stand out: Public trust, management and payment trust, individual investment trust, real estate trust and guarantee trust.

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

BROKERAGE: On October 3, 2005, Comisionista de Colombia S.A Comicol Merged with and into Compania Suramericana de Valores S.A. Suvalor Comisionista de Bolsa as surviving entity. According to data as of September 30, 2005, Suramericana de Valores S.A. - Suvalor - and Comisionista de Colombia S.A - Comicol -

The following are investment alternatives offer by Suvalor: Fixed and variable yield instruments; Stock Investments; SURENTA Investment Funds; International Investments; Specialized Products such as Portfolio Management and capital markets advisory services and Structured Products.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
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MANUFACTURING: The manufacturing segment of the Bank provides a wide range of products to individuals and companies such us: metal parts in gray and ductile iron, both wrought and finished, such as brake systems for passenger automobiles and trucks, accessories for aqueducts and agriculture machinery.

ALL OTHER SEGMENTS: Provide the following products and services:

- Warehouse and logistics services through Almacenar S.A., a Subsidiary of the Bank;
- Colcorp S.A. is a Subsidiary of the Bank that specializes in providing investment banking services to a variety of the Bank's customers;

### Y) RECENT U.S. GAAP PRONOUNCEMENTS

In May 2005, the FASB issued Statement No. 154 ("SFAS 154"), Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and amends the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement

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does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of SFAS 154 will depend on the accounting change, if any, in a future period.

In February 2006, the FASB issued Statement No. 155 ("SFAS 155"), Accounting for Certain Hybrid Financial Instruments. This Statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets". This Statement:

- a. Permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation
- b. Clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Stated in millions of pesos and thousands of U.S. dollars)

- c. Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation
- d. Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives
- e. Amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Bank is currently evaluating the potential impact, if any, that the adoption of SFAS 155 will have on our consolidated financial statements.

In March 2006, the FASB issued Statement 156 ("SFAS 156"), Accounting for Servicing of Financial Assets. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because this

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Statement permits income statement recognition of the potential offsetting changes in fair value of the servicing assets, servicing liabilities, and related derivative instruments in the same accounting period. An entity that elects to subsequently measure servicing assets and servicing liabilities at fair value is expected to recognize declines in fair value of the servicing assets and servicing liabilities more consistently than by reporting other-than-temporary impairments.

An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. Bancolombia is evaluating the impacts of SFAS 156.

In July 2005, the FASB posted FSP APB 18-1, "Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for Under the Equity Method in Accordance With APB Opinion No. 18 Upon a Loss of Significant Influence".

The FSP requires that when equity method accounting ceases upon the loss of significant influence of an investee, the investor's proportionate share of the investee's OCI should be offset against the carrying value of the investment. To the extent that this results in a negative carrying value, the investor should adjust the carrying value to zero and record the residual balance through earnings.

An entity should adopt this Staff Position as of the first reporting period beginning after July 12, 2005. The impact of FSP APB 18-1 will depend on the loss of significant influence of an investee accounted under equity method, if any, in a future period.

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BANCOLOMBIA S. A. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
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EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". On November 3, 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". This FSP nullifies certain requirements of Issue 03-1 and supersedes EITF Abstracts, Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value". This FSP specifically:

- a. Nullifies the requirements of paragraphs 10-18 of Issue 03-1 in EITF Abstracts
- b. Carries forward the requirements of paragraphs 8 and 9 of Issue 03-1 in EITF Abstracts with respect to cost-method investments
- c. Carries forward the disclosure requirements included in paragraphs 21 and 22 of Issue 03-1 and related examples in EITF Abstracts
- d. References existing other-than-temporary impairment guidance.

The guidance in this FSP shall be applied to reporting periods

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beginning after December 15, 2005. Earlier application is permitted. The adoption of FSP FAS 115-1 and FAS 124-1 is not expected to have a material impact on BC consolidated financial statements.

### (32) RESTATEMENT OF SUPPLEMENTAL CONSOLIDATED CONDENSED FINANCIAL STATEMENTS UNDER U.S.GAAP

The Bank Supplemental Consolidated Statements of Operations for the year ended December 31, 2005 and the Supplemental Consolidated Condensed Statements of Cash Flows for the three years ended December 31, 2005, prepared in accordance with U.S. GAAP, were restated to correct inadvertent errors. There is no impact on the Consolidated Net Income and Stockholders' Equity for any of the years presented under U.S. GAAP as reported in the original filing.

As described in Note 31(m) the acquisition of Conavi and Corfinsura was accounted for using the pooling of interests method under Colombian GAAP and purchase accounting under US GAAP. In order to provide comparative financial information under US GAAP, the Bank presented Supplemental Consolidated Financial Statements in note 31 (c). The restatement of the Supplemental Consolidated Condensed Statements of Operations and the Supplemental Consolidated Condensed Statements of Cash Flow for the year ended December 31, 2005, is a consequence of the inadvertent failure to eliminate on a line by line basis of the results and cash flows of Conavi and Corfinsura for the period from January 1, 2005 to July 30, 2005. The Supplemental Consolidated Condensed Statement of Cash Flows for the years ended December 31, 2005, 2004 and 2003 are being restated for the reclassification of cash flows related to trading securities from investing activities to operating activities.

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### BANCOLOMBIA S. A. AND SUBSIDIARIES Notes to Consolidated Financial Statements (Stated in millions of pesos and thousands of U.S. dollars)

#### SUPPLEMENTAL CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

|   | 2005                   |              |
|---|------------------------|--------------|
|   | PREVIOUSLY<br>REPORTED | RESTATED     |
| Total interest income                                     | Ps 2,972,967           | Ps 2,627,277 |
| Total interest expense                                    | (1,198,334)            | (1,032,923)  |
| NET INTEREST INCOME                                       | 1,774,633              | 1,594,354    |
| Total net provisions                                      | (14,965)               | (11,822)     |
| NET INTEREST INCOME AFTER PROVISION AND FINANCIAL LEASING | 1,759,668              | 1,582,532    |
| Other income  | 1,141,720              | 935,738      |
| Other expenses  | (1,847,496)            | (1,464,378)  |
| INCOME BEFORE INCOME TAXES                                | 1,053,892              | 1,053,892    |

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|   |            |            |
|---|------------|------------|
| Income tax expense                        | (149,541)  | (149,541)  |
|   | -----      | -----      |
| NET INCOME BEFORE DISCONTINUED OPERATIONS | 904,351    | 904,351    |
|   | -----      | -----      |
| Discontinued operations                   | (13,230)   | (13,230)   |
| NET INCOME                                | Ps 891,121 | Ps 891,121 |
|   | =====      | =====      |

SUPPLEMENTAL CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

|  | 2003                   |              | 2004                   |              |
|--|------------------------|--------------|------------------------|--------------|
|  | PREVIOUSLY<br>REPORTED | RESTATED     | PREVIOUSLY<br>REPORTED | RESTATED     |
|  | -----                  | -----        | -----                  | -----        |
| Net income (loss)                                    | Ps 474,419             | Ps 474,419   | Ps 642,126             | Ps 642,126   |
| Adjustments to reconcile net<br>income to            |                        |              |                        |              |
| net cash provided (used) by<br>operating activities: | (1,803,773)            | (1,964,394)  | (1,663,670)            | (608,738)    |
|  | -----                  | -----        | -----                  | -----        |
| Net cash provided by operating<br>activities         | (1,329,354)            | (1,489,975)  | (1,021,544)            | 33,388       |
| Net cash used in investing<br>activities             | (54,586)               | 106,035      | (520,488)              | (1,575,420)  |
| Net cash provided by financing<br>activities         | 1,979,312              | 1,979,312    | 1,344,931              | 1,344,931    |
|  | -----                  | -----        | -----                  | -----        |
| (Decrease) increase in cash and<br>cash equivalents  | Ps 595,372             | Ps 595,372   | Ps (197,101)           | Ps (197,101) |
|  | =====                  | =====        | =====                  | =====        |
| Cash and cash equivalents at<br>beginning of year    | 851,089                | 851,089      | 1,446,461              | 1,446,461    |
|  | -----                  | -----        | -----                  | -----        |
| Cash and cash equivalents at end<br>of year          | Ps 1,446,461           | Ps 1,446,461 | Ps 1,249,360           | Ps 1,249,360 |
|  | =====                  | =====        | =====                  | =====        |