BANCOLOMBIA SA
Form 20-F
April 30, 2018

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 29, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 20-F

(Mark One)

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR

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

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

Date of event requiring this shell company report……………….

Commission file number: 001 - 32535

BANCOLOMBIA S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Republic of Colombia

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Alejandro Mejia Jaramillo, Investor Relations Manager

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

Carrera 48 # 26-85, Medellín, Colombia

(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each Class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Preferred Shares	New York Stock Exchange*

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

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

Not applicable
(Title of Class)

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

Not applicable
(Title of Class)

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

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

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to
Section 13 of 15(d) of the Securities Exchange Act of 1934.
Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

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

Yes ¨ No x

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

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards † provided pursuant to Section 13(a) of the Exchange Act. ¨

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

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

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

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

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

Yes ¨ No x

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CERTAIN DEFINED TERMS

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

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

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

References to “ATM” refer to automatic teller machine.

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

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

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

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

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

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

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

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

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

References to “Colombian banking GAAP” refer to generally accepted accounting principles in Colombia as regulated by Law 1314 of 2009, Decree 1851 of 2013 and as supplemented by the applicable regulations of the SFC, which differs with IFRS in (i) the recognition of impairment for loans; (ii) the classification and subsequent measurement of debt and equity investments, and (iii) the impairment of foreclosed assets.

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

References to "Consolidated Financial Statements" refer to the audited consolidated statements of financial position of the Bank as of December 31, 2017 and 2016 and the audited consolidated statements of income, of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017, 2016 and 2015 and related notes included in this Annual Report.

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

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

References to “Grupo Agromercantil” refer to Grupo Agromercantil Holding S.A., a company organized under the laws of the Republic of Panama and the parent company of BAM, and its consolidated subsidiaries, unless the context otherwise requires.

References to “IFRS” refer to the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

References to “Leasing Bancolombia” refer to Leasing Bancolombia S.A. Compañía de Financiamiento, a Subsidiary of Bancolombia S.A. organized under the laws of Colombia that on September 30, 2016, merged into Bancolombia S.A.

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

References to “OCI” refers to Other Comprehensive Income.

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

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

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

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

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

References to "SMEs" refer to Small and Medium Enterprises.

References to "SMMLV" refer to *Salario Mínimo Mensual Legal Vigente*, the effective legal minimum monthly salary in Colombia. In 2017, the SMMLV in Colombia was COP 737,717.

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

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

References to "Superintendency of Industry and Commerce" or "SIC" refer to the Colombian Superintendency of Industry and Commerce (*Superintendencia de Industria y Comercio de Colombia*), a technical entity under the Ministry of Commerce, Industry and Turism (*Ministerio de Comercio, Industria y Turismo*) with functions of supervision and regulation of the competition in several industries, including financial institutions.

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

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

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

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

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

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

Our fiscal year ends on December 31, and references in this annual report to any specific fiscal year are to the 12-month period ended December 31 of such year.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

The audited consolidated statements of financial position of the Bank as of December 31, 2017 and 2016 and the audited consolidated statements of income, of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017, 2016 and 2015 and related notes (the “Consolidated Financial Statements”) included in this Annual Report were prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and the related interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). All data included in this report has been prepared in accordance with IFRS as issued by the IASB, except for the data included in Item 4. B.7 Competition, which has been prepared in accordance with the local GAAP of each subsidiary.

The Consolidated Financial Statements include entities which the Bank controls, directly or indirectly. See Item 4. “Information on the Company – C. Organizational Structure” for an organizational chart depicting Bancolombia and its subsidiaries.

Currencies

The Consolidated Financial Statements are presented in Colombian pesos, which is the functional currency for Bancolombia S.A., and the presentation currency for the Consolidated Financial Statements. The Consolidated Financial Statements as of December 31, 2017 and 2016 and for the three fiscal years ended December 31, 2017, 2016 and 2015 contained in this Annual Report are expressed in millions of pesos.

This Annual Report translates certain pesos amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such peso amounts have been translated at the rate of COP 2,984.00 per USD 1.00, which corresponds to the Representative Market Rate calculated on December 31, 2017. The SFC also calculates and certifies the average Representative Market Rate for each month for purposes of preparing financial statements and converting amounts in foreign currency to pesos. Such conversion should not be construed as a representation that the peso amounts correspond to, or have been or could be converted into, U.S. dollars at that rate or any other rate. On April 27, 2018, the Representative Market Rate was COP 2,812.83 per USD 1.00.

Rounding Comparability of Data

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

The Bank maintains an internet site at http://www.grupobancolombia.com/. In addition, certain of the Bank's Subsidiaries referred to in this Annual Report maintain separate internet sites. For example, Banco Agrícola and Banistmo maintain internet sites at http://www.bancoagricola.com/ and http://www.banistmo.com/, respectively. Information included on or accessible through Bancolombia's internet site or the internet site of any of the Subsidiaries of the Bank is not part of this Annual Report. All references in this Annual Report to these and other internet sites are inactive textual references to these URLs, or "uniform resource locators", and are for your informational reference only.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected consolidated statement of financial position data as of December 31, 2017 and 2016, and the selected consolidated statement of income data for each of the periods ended December 31, 2017, 2016 and 2015, set forth below have been derived from the Consolidated Financial Statements under IFRS as issued by the IASB included in this Annual Report, except for the figures translated to U.S. dollars, which are presented for the convenience of the reader.

The selected consolidated statement of financial position data as of December 31, 2015 and 2014 have been derived from audited consolidated financial statements previously filed with the SEC as part of the Bank's Annual Report on Form 20-F for the years ended December 31, 2016 and 2015.

The selected consolidated financial data should be read in conjunction with, and is qualified in its entirety by reference to the Consolidated Financial Statements, including the notes thereto, and the audit reports of the Bank's independent registered public accounting firms.

The Consolidated Financial Statements of the Bank as of and for the years ended December 31, 2017 and 2016 were audited by Deloitte and Touche Ltda, while the Consolidated Financial Statements of the Bank as of and for the years endedDecember 31, 2015 and 2014 were audited by PricewaterhouseCoopers Ltda.

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	As of and for the year ended December 31,				
	2017 (1)	2017	2016	2015	2014
	In millions of COP and thousands of USD, except per share and per ADS amounts				
CONSOLIDATED STATEMENT OF INCOME DATA:					
Total interest and valuation	USD 5,591,715	COP 16,685,677	COP 15,748,805	COP 11,269,644	COP 9,172,163
Interest expenses	(2,088,802)	(6,232,986)	(6,053,100)	(4,037,941)	(3,164,611)
Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments	**3,502,913**	**10,452,691**	**9,695,705**	**7,231,703**	**6,007,552**
Credit impairment charges on loans and advances and financial leases, net	(1,162,433)	(3,468,699)	(2,643,710)	(1,667,680)	(843,597)
Credit impairment recoveries (charges) on off balance sheet credit instruments	2,297	6,854	(87,442)	(7,421)	(25,608)
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**2,342,777**	**6,990,846**	**6,964,553**	**5,556,602**	**5,138,347**
Total other operating income (2)	1,417,349	4,229,370	3,982,779	3,577,320	3,084,942
Total operating expenses	(2,422,066)	(7,227,445)	(6,979,050)	(5,898,287)	(5,118,695)
Profit before tax	**1,338,060**	**3,992,771**	**3,968,282**	**3,235,635**	**3,104,594**
Income tax	(415,080)	(1,238,598)	(1,176,832)	(649,250)	(737,676)
Profit for the year from continuing operations	**922,980**	**2,754,173**	**2,791,450**	**2,586,385**	**2,366,918**
Net income from discontinued operations	-	-	163,497	22,513	62,867
Net income	**922,980**	**2,754,173**	**2,954,947**	**2,608,898**	**2,429,785**
Net income attributable to equity holders of the parent company	**USD 876,340**	**COP 2,615,000**	**COP 2,865,328**	**COP 2,518,890**	**COP 2,387,086**
Non-controlling interest	46,640	139,173	89,619	90,008	42,699
Weighted average of Preferred and Common Shares outstanding (3)		**961,827,000**	**961,827,000**	**961,827,000**	**941,936,589**
	0.93	2,780	3,040	2,680	2,591

Basic and diluted earnings per share to common shareholders [3]					
From continuing operations	0.93	2,780	2,870	2,656	2,524
From discontinued operations	-	-	170	24	67
Basic and diluted earnings per ADS [3]	3.73	11,120	12,160	10,720	10,364
From continuing operations	3.73	11,120	11,480	10,624	10,096
From discontinued operations	-	-	680	96	268
Cash dividends declared per share	-	1,020	950	888	830
Cash dividends declared per share (stated in USD)	-	0.34	0.32	0.28	0.26
Cash dividends declared per ADS	-	4,080	3,800	3,552	3,320
Cash dividends declared per ADS (stated in USD)	-	1.37	1.27	1.13	1.05

(1) Translated for convenience only using the representative market rate as computed and certified by the Superintendency of Finance of COP 2,984.00 per U.S. 1.00 on December 31, 2017.

(2) Includes total fees and commissions, net other operating income and dividends received, and share of profits of equity method investees. See consolidated statement of income to the consolidated financial statements. As of December 31, 2017, the Bank recognized the amount of COP 173,339 due to impairment charges on joint venture, for further information see Note 7.

(3) The weighted average of preferred and common shares outstanding for the fiscal years ended December 31, 2017, 2016 and 2015 reflects 452,122,416 preferred shares and 509,704,584 common shares, and for the fiscal year ended December 31, 2014 reflects 432,232,005 preferred shares and 509,704,584 common shares.

	As of December 31,				
	2017[1]	2017	2016	2015	2014
	In millions of COP and thousands of USD, except per share and ADS amounts				
SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA:					
Assets:					
Cash and cash equivalents	USD 6,087,682	COP 18,165,644	COP 20,460,245	COP 18,597,614	COP 13,466,783
Financial assets investments	5,488,356	16,377,253	13,060,653	14,277,824	12,784,223
Derivative financial instruments	380,151	1,134,372	1,677,970	2,382,168	1,448,845
Loans and advances to customers and financial Institutions	53,776,171	160,468,094	151,747,486	145,620,639	115,173,653
Allowance for loans and advances and lease losses	(2,755,732)	(8,223,103)	(6,621,911)	(5,248,755)	(4,789,257)
Assets held for sale and inventories	126,341	377,003	273,187	1,950,808	97,744
Investment in associates and joint ventures	524,484	1,565,059	1,298,246	546,549	1,349,697
Investment property	555,432	1,657,409	1,581,689	1,505,046	1,114,180
Premises and equipment, net [2]	1,048,058	3,127,405	3,115,697	3,052,266	2,646,321
Goodwill and intangible assets, net	2,222,327	6,631,424	6,694,037	7,092,255	4,585,849
Deferred tax, net	49,804	148,614	222,862	170,482	187,737
Other assets	830,776	2,479,037	2,750,883	3,025,971	1,564,106
Total assets	**USD 68,333,850**	**COP 203,908,211**	**COP 196,261,044**	**COP 192,972,867**	**COP 149,629,881**
Liabilities and stockholders' equity:					
Liabilities and equity					
Deposits by customers	44,222,257	131,959,215	124,624,011	121,802,028	94,769,319
Borrowings from other financial institutions	4,632,088	13,822,152	18,905,843	19,721,184	13,852,284
Debt securities in issue	6,584,689	19,648,714	18,704,809	19,435,865	14,527,403
Other liabilities [3]	4,707,969	14,048,580	11,549,401	11,605,871	9,114,395
Total equity	8,186,847	24,429,550	22,476,980	20,407,919	17,366,480
Total liabilities and equity	**USD 68,333,850**	**COP 203,908,211**	**COP 196,261,044**	**COP 192,972,867**	**COP 149,629,881**

(1) *Translated for convenience only using the representative market rate as computed and certified by the Superintendency of Finance of COP 2,984.00 per U.S. 1.00 on December 31, 2017.*

(2) *The Bank previously classified land and buildings that were acquired through foreclosure of loans with net carrying amount of 189,296 as of December 31, 2015 in premises and equipment. As of December 31, 2016, and 2015, such assets were reclassified to other assets as they are intended for immediate sale or disposition.*

(3) *Includes interbank deposits, repurchase agreements and other similar secured borrowing, liabilities relating to assets held for sale, derivative financial instruments, preferred shares, current tax, deferred tax, net, employees benefit plans and other liabilities See consolidated statement of financial position to the Consolidated Financial Statements.*

See “Item 8. Financial Information – A. Consolidated Statements and Other Financial Information –A.3. Dividend Policy”, for information about the dividends declared per share in both pesos and U.S. dollars duringthe fiscal years ended December 31, 2017, 2016, 2015 and 2014.

SELECTED RATIOS

	As of and for the year ended December 31,			
	2017	2016	2015	2014
	Percentages, except for operating data			
SELECTED RATIOS: [1]				
Profitability ratios:				
Net interest and valuation margin from continuing operations [2]	6.07	5.96	5.25	5.30
Return on average total assets from continuing operations [3]	1.30	1.49	1.53	1.72
Return on average stockholders' equity attributable to the owners of the parent company [4]	11.99	14.52	13.62	14.81
Efficiency ratio:				
Operating expenses to net operating income from continuing operations	49.23	51.02	54.57	56.30
Operating expenses to average total assets from continuing operations	3.60	3.64	3.62	3.80
Operating expenses to productive assets from continuing operations	4.20	4.29	4.28	4.51
Capital ratios:				
Technical capital to risk weighted assets [5][6]	14.18	13.26	12.46	N/A
Credit quality data:				
Past due loans to loans principal [9]	4.49	3.31	2.98	2.62
"C", "D" and "E" loans as a percentage of loans principal	6.34	5.07	3.95	3.81
Allowances for loan and lease losses to past due loans principal	107.52	125.90	115.16	145.55
Allowance for loan and lease losses as a percentage of "C", "D" and "E" loans principal	76.12	82.08	87.00	100.09
Allowance for loan and lease losses as a percentage of total loans principal	4.83	4.17	3.43	3.81
Operational data (in units):				
Number of branches [7]	1,153	1,247	1,274	1,067
Number of employees [8]	31,061	31,598	34,390	30,158

1. *Average balances used to calculate the ratios shown above have been calculated as follows: for the years ended December 31, 2017, 2016 and 2015, for each month, the actual month-end balances were established. The average consolidated balance for such periods is the average of such month-end balances. These averages are calculated using 13 data points. The Bank has calculated the average balances using quarterly book balances for the year ended December 31, 2014 as we believe such balances are representative of our operations and it would be too costly to produce average balances using monthly balances under IFRS.*
2. *Net interest and valuation income divided by average interest-earning assets.*
3. *Net income divided by average total assets.*
4. *Net income divided by average stockholders' equity attributable to the owners of the parent company.*
5. *For an explanation of risk-weighted assets and Technical Capital, see Item 4. "Information on the Company – B. Business Overview – B.8 –Supervision and Regulation" and Item 5 "Operating and Financial Review and Prospects - B. Liquidity and Capital Resources – B.1. Liquidity and Funding - Capital Adequacy".*

6. *The Bank's consolidated capital adequacy was computed considering balance accounts under IFRS as of December 31, 2017, 2016 and 2015. For 2014 the balance accounts were under Colombian Banking GAAP, as a result the figure is not comparative.*
7. *Number of branches includes branches of the Bank's Subsidiaries. For some subsidiaries, the central office is considered a branch. Representative offices are included.*
8. *The number of employees includes employees of the Bank's consolidated Subsidiaries. For the years 2015 and 2014 Tuya S.A had 3,020 and 2,639 employees, respectively. For the years 2016 and 2017, Tuya S.A. is classified as an investment in a joint venture in the Bank's consolidated financial statements.*
9. *Loans that are past due more than 30 days to loans principal.*

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Exchange Rates

On March 31, 2018, the Representative Market Rate was COP 2,780.47 per USD 1.00. The Federal Reserve Bank of New York does not report a rate for pesos; the SFC calculates the Representative Market Rate based on the weighted average of the buy/sell foreign exchange rates quoted daily by certain financial institutions, including Bancolombia, for the purchase and sale of U.S. dollars.

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

Recent exchange rates of pesos per U.S. dollars

Month	**Low**	**High**	**Period-End**
March 2018	2,780.47	2,879.15	2,780.47
February 2018	2,806.67	2,908.70	2,867.94
January 2018	2,783.13	2,940.94	2,835.05
December 2017	2,962.14	3,029.75	2,984.00
November 2017	2,976.39	3,055.57	3,006.04
October 2017	2,921.92	3,039.19	3,039.19

Source: SFC.

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

Representative Market Rate

Period	**Period-End**	**Average**
	Peso/USD 1.00	
2017	2,984.00	2,963.13
2016	3,000.71	3,039.23
2015	3,149.47	2,773.43
2014	2,392.46	2,019.38
2013	1,926.83	1,881.04

Source: SFC.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

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

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

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

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

Although Colombia and Panama currently have investment grade credit ratings from international rating agencies, El Salvador and Guatemala do not. As of the date of this Annual Report, El Salvador has a long-term debt rating of Caa1 (stable) from Moody's, and CCC+ (stable) by S&P. Guatemala has ratings of BB (stable) and BB- (stable) from Fitchs and S&P, respectively. Further downgrades in the ratings of either country, or the failure of Colombia or Panama to maintain investment grade credit ratings, could increase the Bank's funding costs and adversely affect our results of operation and financial condition.

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

A significant decline in economic growth or a sustained economic downturn of any of Colombia's, Panama's, El Salvador's or Guatemala's major trading partners (i.e., the European Union, the United States, China and other Latin

American countries for Colombia and the United States and European Union for Panama, Guatemala and El Salvador) could have a material adverse impact on Colombia's, Panama's, El Salvador's and Guatemala's balance of trade and remittances inflows, resulting in lower economic growth.

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

Events occurring in a market where we do not operate may cause international investors to have an increased risk perception of an entire region or class of investment, which could in turn negatively affect market prices and liquidity of securities issued or owned by the Bank.

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

Uncertainty relating to tax legislation poses a constant risk to the Bank. Changes in legislation, regulation and jurisprudence can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting deductions and exemptions, and eliminating incentives and non-taxed income. Notably, the Salvadorian government has significant fiscal deficits that may result in future tax increases. Higher taxes could negatively affect the Bank's results of operations and cash flow. In addition, national or local taxing authorities may not interpret tax regulations in the same way that the Bank does. Differing interpretations could result in future tax litigation and associated costs.

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

Colombia has adopted a floating exchange rate system. The Central Bank maintains the power to intervene in the exchange market in order to consolidate or dispose of international reserves, and to control any volatility in the exchange rate. From time to time, including during 2017, there have been significant fluctuations in the exchange rate between the Colombian peso and the U.S. dollar. Unforeseen events in the international markets, fluctuations in interest rates, volatility of the oil price in the international markets, or changes in capital flows, may cause exchange rate instability that could generate sharp movements in the value of the peso. Because a portion of the Bank's assets and liabilities are denominated in, or indexed to, foreign currencies, especially the U.S. dollar, sharp movements in exchange rates may negatively impact the Bank's results. In addition, exchange rate fluctuations may adversely impact the value of dividends paid to holders of the Bank's ADSs as well as the market price and liquidity of ADSs.

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

Colombia has experienced periods of criminal violence over the past four decades, primarily due to the activities of guerilla groups and drug cartels. In response, the Colombian government has negotiated a peace treaty with the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia* or “FARC”). Additionally, the Colombian government is currently in the process of negotiating a peace treaty with the National Liberation Army (*Ejercito de Liberación Nacional* or “ELN”). Despite these efforts, the peace treaty with the FARC or the peace negotiations with the ELN may not lead to a lasting decrease in violence or drug-related crime in Colombia or the successful integration of former guerilla members into Colombian society. An escalation of violence or drug-related crime may have a negative impact on the Colombian economy and on the Bank.

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

Our financial results may be negatively affected by changes to accounting standards.

We report our results and financial position in accordance with IFRS as issued by the IASB. Changes to IFRS or interpretations thereof may cause our future reported results and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis. Such changes may also affect our regulatory capital and ratios. We monitor potential accounting changes and when possible, we determine their potential impact and disclose significant future changes in our financial statements that we expect as a result of those changes. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, some of which could be expected to impact our reported results, financial position and regulatory capital in the future. In particular, since January 2018, IFRS 9 requires us to record credit losses on a loan at inception on an expected loss basis instead of recording credit losses on an incurred loss basis, which is likely to result in an increase in the Bank´s provisions for such losses. For further information about developments in financial accounting and reporting standards, see Note 2 to the Consolidated Financial Statements, “Significant Accounting Policies”.

Our financial results may be negatively affected by changes to assumptions supporting the value of our goodwill.

We test the goodwill that we have recognized on the respective balance sheets of our operating segments for impairment at least annually. Our impairment test in respect of the assets recognized as of December 31, 2017 indicated that our respective goodwill balances are not impaired. The impairment test requires that we make assumptions regarding estimated earnings, discount rates and long-term growth rates impacting the recoverable amount of the goodwill associated with each operating segment and on estimates of the carrying amounts of the operating segments to which the goodwill relates. If the actual results in future periods deviate from the earnings and other assumptions on which our impairment testing is based, the value of the goodwill in any one or more of our businesses may become impaired in the future, resulting in charges to income.

Material weaknesses in our internal control over financial reporting could adversely affect our ability to report our financial condition accurately and on a timely basis.

In connection with our assessment as of December 31, 2017 of the effectiveness of our internal control over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934, we identified a material weakness relating to the estimation of impairment for individually significant impaired commercial loans. Specifically, the review controls over the key judgments and information used in measuring impairment were not designed effectively and did not operate effectively.

We have initiated certain measures, including implementing controls to assure the completeness of the inputs and accuracy of the assumptions used to estimate loan losses from individually significant impaired commercial loans and completeness of the impaired commercial loans; defining procedures required to ensure sufficient detailed documentation to support the assumptions made for the estimation; providing additional training of Sarbanes-Oxley Act requirements to key personal in charge of loan losses estimation process; increasing the monitoring of activities during the year of the controls related to this process.

For a discussion of our internal control over financial reporting and a description of the material weakness identified in our internal controls and planned remediation measures, see Item 15. “Controls and Procedures”.

Although we have initiated the above mentioned remedial steps to address this material weakness in our internal controls, and based on the additional analysis and other procedures performed, we believe the consolidated financial statements included in this Annual Report on Form 20-F are fairly presented in all material respects, in conformity with IFRS, if we are unable to remediate the material weakness, our ability to report our financial condition accurately and on a timely basis could be adversely affected. This in turn could negatively affect shareholder and customer confidence towards our financial reporting and other aspects of our business.

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

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

Moreover, regulators in the jurisdictions in which Bancolombia operates may alter the current regulatory capital requirements to which Bancolombia is subject and thereby require equity increases that could dilute existing stockholders, lead to required asset sales or adversely impact the return on stockholders' equity and/or the market price of the Bank's common and preferred shares.

Furthermore, banking laws and regulations may create new types of financial entities whose services could compete with the segments or services offered by the Bank. Increased competition could lead to lower margins for affected products and services, and could adversely affect the Bank's results of operations.

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

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

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

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

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

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

Additionally, in past years, the Congress and the SFC have considered various regulatory initiatives regarding banking fees. Although no such initiatives have been adopted in the past, there are new initiatives to impose similar restrictions on banking fees. If the Bank is prohibited from continuing to charge for certain services or types of transactions to its clients, or from imposing charges with respect to new services that might be introduced, the Bank’s results of operations and financial condition could be adversely affected.

Financial Conglomerates

In accordance with Law 1870 of 2017, the Government is expected to set out provisions and regulatory standards applicable to financial conglomerates in the areas of corporate governance principles, risk management, capital adequacy requirements and related party transactions, among others. Pursuant to Law 1870 of 2017 Bancolombia will be subject to such provisions and standards because of the shareholding in Bancolombia by Grupo de Inversiones Suramericana S.A. These provisions and regulatory standards, the details of which have not yet been published, could materially and adversely affect the Bank´s business.

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

Decree 1966 of 2014, as modified by Decree 2095 of 2014, designates 37 jurisdictions as tax havens for Colombian tax purposes although neither Panama nor other countries in which the Bank operates, were included on this list. As a result of the tax haven regulation the Bank’s clients who are residents in such jurisdictions would be subject to (i) higher withholding tax rates including a higher withholding rate on interest and dividends derived from investments in the Colombian securities market, (ii) the transfer pricing regime and its reporting duties, (iii) enhanced ability on the part of Colombian authorities to qualify a conduct as abusive under tax regulations, (iv) non-deductibility of payments made to such residents or entities located in tax havens, unless the required tax amount has been withheld and (v) additional information disclosure requirements, any of which could have a negative impact on Bancolombia’s business and financial results.

In order to avoid Panama's designation as a tax haven, Colombia and Panama signed a memorandum of understanding which establishes that both countries will negotiate a treaty for the avoidance of double taxation. This treaty is expected to include provisions regarding the exchange of information between Colombian and Panamanian tax authorities. Although Panama adhered to the Covention on Mutual Administrative Assitance in Tax Matters of the Organization for Economic Cooperation and Development's ("OECD") in 2017, any failure to execute a treaty between Colombia and Panama, or the designation of Panama as a tax haven, could result in a negative impact on the Bank's customer base and, therefore, a potential negative impact on the Bank's results of operations and financial condition. On April 28, 2016, the Colombian Ministry of Finance and Public Credit announced the successful conclusion of the negotiations between Colombia and Panama. The two countries stated their intention to enter into a treaty for the avoidance of double taxation. However, as of the date of this Annual Report, the treaty has not been entered into.

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The Bank and most of its Subsidiaries are subject to the U.S. Foreign Account Tax Compliance Act of 2010 and the OECD´s Automatic Exchange of Information - Common Reporting Standard (CRS).

Bancolombia and most of its subsidiaries are considered foreign financial institutions ("FFIs") under the Foreign Account Tax Compliance Act of 2010 ("FATCA") (see "Item 4. Information on the Company – B. Business Overview – B.8. Supervision and Regulation – International regulations applicable to Bancolombia and its subsidiaries"). Additionally, Bancolombia and some of its subsidiaries are subject to the reporting obligations derived from the conventions that implement the Common Reporting Standard ("CRS") approved by the OECD.

Given the size and the scope of the Bank's international operations, we have taken measures and implemented procedures aimed at complying with FATCA and CRS, including transmitting to the relevant authorities the reports required under FATCA and CRS.

However, if the Bank cannot satisfy the requirements thereunder, certain payments to Bancolombia, or its Subsidiaries, may be subject to withholding under FATCA or other penalties imposed by each government. The possibility of such withholding or penalties and the need for accountholders and investors to provide certain information may discourage some customers or potential customers from banking with us, thereby adversely affecting our results of operations and financial condition. In addition, compliance with the terms of the intergovernmental agreements ("IGA"), particular agreements entered into with the IRS, the international conventions signed for the exchange of information under CRS, the laws or any other regulations enforced in the relevant jurisdictions may increase our compliance costs. Legislation and regulations implementing FATCA and CRS in some of the countries in which the Bank operates remain under development, and the reporting dates vary depending on the jurisdiction.

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

A number of our products expose the Bank to credit risk. These products include loans, financial leases, guarantees and lending commitments.

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

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

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

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

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

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

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

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

As of December 31, 2017, the aggregate outstanding principal amount of the Bank's 25 largest credit exposures, on a consolidated basis, represented 8.88% of the Bank's loan portfolio. No single exposure represented more than 2% of the loan book and all of those loans were corporate loans. Problems with one or more of the Bank's largest borrowers could materially and adversely affect its results of operations and financial position, see "Item 4. Information on the Company – E. Selected Statistical Information – E.3. Loan Portfolio – Borrowing Relationships".

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

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

The Bank is subject to market risk.

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

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

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

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

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

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

The Bank’s debt securities portfolio is primarily composed of sovereign debt securities, including securities issued or guaranteed by the Colombian Government. Therefore, the Bank’s results are exposed to credit, market, and liquidity risk associated with sovereign debt. As of December 31, 2017, the Bank’s total debt securities represented 7.29% of its total assets, and 47.22% of these securities were issued or guaranteed by the Colombian Government. A significant decline in the value of the securities issued or guaranteed by the Colombian Government could adversely affect the Bank’s debt securities portfolio and consequently the Bank’s results of operations and financial position.

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

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

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

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The Bank is subject to operational risks and losses.

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

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

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

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

The Bank is subject to cyber-security risk.

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

The Bank's business is highly dependent on the security and efficacy of its infrastructure, computer and data management systems, as well as those of service providers, and others with whom the Bank interacts.

The Bank has implemented a cyber-security management and control system that is designed to anticipate, identify, and offset these threats. The system includes features, among others, such as: perimeter security devices; the constant monitoring and continuous assessment of technological infrastructure seeking to identify vulnerabilities; implementations of software and hardware upgrades; backup security systems; a 24/7 security operations center; and continuous security testing (including ethical hacking). Furthermore, the Bank has obtained an insurance policy aimed at covering certain damages that may be suffered by the Bank and third parties as a result of data losses derived from cyber-attacks.

In addition to the measures listed above, all relevant cyber-security issues are reported to the Bank´s Board of Directors and Audit Committee.

As of the date of this Annual Report, the Bank has not faced a cyber-attack with a material impact on its business or its clients. However, we can give no assurance that the previously described measures, initiatives and procedures will be effective to prevent or mitigate potential future attacks or threats to our technology infrastructure. Any failure by the Bank to detect or prevent cyber-security risk in a timely manner could result in a negative impact on the Bank's results of operations and financial position, or in problems with information, including data related to customers being lost, compromised, or delivered to the Bank's clients with delays or errors.

Failures related to the Bank's information technology infrastructure and management information systems could adversely affect the Bank's competitiveness, reputation, financial condition and results of operations.

The Bank has recently faced technological failures which have negatively affected the Bank´s products and services in general, and in particular, its digital channel (including multiple offline periods). Such failures have impacted, principally, the capacity of our clients to access their products and services. In addition to the technological updates being implemented by the Bank, we have implemented controls and measures, such as enabling alternative channels to assure the client´s access to our services, in order to mitigate such failures and to prevent future threats. Any failure to effectively prevent and manage the Bank's information technology infrastructure and information management systems in an adequate manner could materially and adversely affect the Bank's competitiveness, reputation, financial condition and results of operations.

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

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

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

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

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

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

The Bank's principal source of funds is short-term deposits, which on a consolidated basis represented 73.52% of total liabilities at the end of 2017 compared to 71.71% at the end of 2016. Because the Bank relies primarily on short-term deposits for its funding, in the event of a sudden or unexpected shortage of funds in the banking systems and money markets in which the Bank operates, the Bank may not be able to maintain its current level of funding without incurring higher costs or selling assets at prices below their prevailing market value.

The Bank has adopted certain initiatives, policies and procedures to mitigate risks related to regulatory compliance.

The Bank is subject to laws and regulations related to anti-competitive practices, including the formation of cartels and the abuse of its dominant position. Violation of these laws and regulations may result in significant administrative sanctions imposed by the SIC.

The Bank is in the process of creating a special unit responsible for overseeing and ensuring regulatory compliance in general and, in particular, compliance with regulations related to anti-competitive practices, personal data protection and consumer protection. If this initiative is not successful our reputation, regulatory position and financial condition may be adversely affected and our ability to achieve our strategic objectives may be impaired.

Moreover, to ensure compliance with regulations regarding the use and protection of personal data, the Bank is currently developing a Comprehensive Data Protection Program. The program may not be able to prevent all inappropriate use of personal data or breaches that may result in personal data being exposed.

The Bank may not be able to prevent all risks associated with regulatory compliance or detect all instances of non-compliance with regulations. Any failure by the Bank to detect and prevent the aforementioned practices in a timely manner could damage the Banks reputation and facing substantial fines and penalties which could adversely affect the Bank's results of operations and financial position.

The Bank's policies and procedures may not be able to detect money laundering, corruption and other illegal or improper activities fully or on a timely basis.

The Bank is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations. These laws and regulations require the Bank, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, as the methods used by money launderers evolve and become increasingly sophisticated, such policies and procedures may not completely eliminate the risk that the Bank may be used by other parties to engage in money laundering, corruption and other illegal or improper activities.

The Bank is subject to laws and regulations relating to corrupt and illegal payments to public and private officials in the jurisdictions in where it operates, including the U.S. Foreign Corrupt Practices Act and Colombian regulations on transnational bribery. The Bank has an anti-corruption system, which incorporates, among others, an anti-corruption policy, training, reporting channels, monitoring, internal investigations and sanctions. Such system has only been recently implemented and does not completely eliminate the risk that the Bank´s employees, providers, clients or agents may engage in corrupt practices.

If the Bank fails to fully comply with applicable laws and regulations, it may face fines, penalties or other liabilities including restrictions on its ability to conduct business. In addition, the Bank's business and reputation could suffer if it is not able to prevent and detect money laundering, corruption or other illegal practices.

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

The Bank operates in a highly competitive environment and management expects competition to increase in the jurisdictions where the Bank operates. Intensified merger activity in the financial services industry has produced larger, better capitalized and more geographically diverse firms that are capable of offering a wider array of financial products and services at more competitive prices. Also, the emergence of new financial technologies, unregulated financial intermediaries (known as “shadow banking”) and the recent enactment of regulations aimed at enabling non-Colombian residents to offer loans in COP, may increase competition for the Bank operates. The Bank’s ability to maintain its competitive position depends mainly on its ability to fulfill new customers’ needs through the development of new products and services, the Bank’s ability to offer adequate services and strengthen its customer base through cross-selling and the Bank’s ability to bring in and retain human talent. The Bank’s business will be adversely affected if the Bank is not able to maintain efficient service strategies. In addition, the Bank’s efforts to offer new services and products may not succeed if product or market opportunities develop more slowly than expected or if the profitability of opportunities is undermined by competitive pressures.

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

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

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

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

Risks Relating to the Preferred Shares and the ADSs.

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

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

Although it is not obligated to, do so, the Bank intends to consider at the time of any rights offering the costs and potential liabilities associated with any such registration statement, the benefits to the Bank from enabling the holders of the ADRs to exercise those rights and any other factors deemed appropriate at the time before it makes a decision as to whether to file a registration statement. Accordingly, the Bank may in some cases decide not to file a registration statement. For example, in connection with rights offering in January 2012, the Bank did not file such a registration statement.

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

The Bank’s preferred shares have limited voting rights.

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

Bancolombia is a stock company (sociedad anónima) domiciled in Medellin, Colombia and operates under Colombian laws and regulations, mainly the Colombian Commercial Code, Decree 663 of 1993 and Decree 2555 of 2010. Bancolombia was incorporated in Colombia in 1945, under the name Banco Industrial Colombiano S.A. or "BIC", and is incorporated until 2044. In 1998, the Bank merged with Banco de Colombia S.A., and changed its legal name to Bancolombia S.A. On July 30, 2005, Conavi Banco Comercial y de Ahorros S.A. and Corporación Financiera Nacional y Suramericana S.A. merged with and into Bancolombia, with Bancolombia as the surviving entity. Through this merger, Bancolombia gained important competitive advantages in retail and corporate banking which materially strengthened Bancolombia's multi-banking franchise.

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

In October 2013, Bancolombia acquired a 100% percent interest in the ordinary voting shares, and 1,325,780 preferred shares of Banistmo, a Panamanian banking entity and its subsidiaries involved in the securities brokerage, trust, consumer finance, and leasing businesses.

Also in October 2013, Bancolombia Panama acquired a 40% interest in Grupo Agromercantil, the parent company of BAM, and certain other companies dedicated to securities brokerage, insurance, and other financial businesses. Bancolombia Panama acquired an additional 20% interest and control of Grupo Agromercantil on December 30, 2015.

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

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

As of December 31, 2017, Bancolombia and its consolidated subsidiaries had:

COP 203,908 billion in total assets;

COP 152,245 billion in total net loans and advances to customers and financial institution, net;

COP 131,959 billion in total deposits from customers; and

COP 23,113 billion in stockholders’ equity attributable to the owners of the parent company.

Bancolombia’s consolidated net income attributable to equity holders of Bancolombia S.A. for the year ended December 31, 2017 was COP 2,615 billion, representing a return on average total equity of 11.99% and a return on average total assets of 1.3%.

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

RECENT DEVELOPMENTS

Issuance of Subordinated Notes

On October 18, 2017 Bancolombia S.A. issued notes for an aggregate principal amount of USD 750,000,000. The notes, which were listed in the New York Stock Exchange, have a 10-year maturity, are redeemdable at the option of Bancolombia on the fifth anniversary of their issuance and bear interest at a rate of 4.875%, payable semi-annually on April 18 and October 18 of each year, commencing on April 18, 2018. The Bank used the proceeds of the Notes to acquire USD 360,912,000 of the outstanding Notes due 2020 and USD 321,152,000 of the outstanding Notes due 2022, issued on July 26, 2010 and September 4, 2012, respectively, through a private exchange following a dealer intermediated tender offer.

Issuance of Banistmo Senior Notes

On September 12, 2017, Banistmo issued international bonds for an aggregate principal amount of USD 500,000,000 due in 2022, under Regulation S and Rule 144A under the Securities Act of 1933. The bonds bear interest at a rate of 3.65%.

Bancolombia enters into a Collective Bargaining Agreement

On October 24, 2017, Bancolombia entered into a new collective bargaining agreement with its labor unions. The new agreement provides for a salary increase as well as increases in education, housing and health insurance benefits. The agreement covers 13,000 Colombian employees of Bancolombia S.A. and its subsidiaries. The agreement came into force on November 1, 2017 and will expire on October 31, 2020.

PUBLIC TAKEOVER OFFERS

In 2017, and as of the date of this Annual Report, there have been no public takeover offers by third parties with respect to the Bank's shares or by the Bank in respect to another company's shares.

CAPITAL ACQUISITIONS AND DIVESTITURES

During 2017, total capital expenditures amounted to COP 349.97 billion. Such investments were mainly focused on IT related projects (COP 59.71 billion), the expansion of the Bank's branch and ATM network (COP 23.64 billion), the purchase of fixed assets (COP 30.92 billion), and other miscellaneous projects, including new software modules, upgrade of web contents, automation of reports, and construction of data centers (COP 235.69 billion).

In 2017, Bancolombia funded its capital expenditures with its own resources and plans to continue to fund those currently in progress in the same manner.

During 2018, the Bank expects to invest approximately COP 295.98 billion as follows: COP 47.65 billion in connection with the expansion of the Bank's branch and ATM network, COP 55.26 billion in connection with the purchase of hardware for the expansion, updating and replacement of the current IT equipment, COP 36.99 billion in connection with other fixed assets and COP 156.08 billion in connection with strategic projects. These figures represent only an estimate and may change according to the continuing assessment of the Bank's project portfolio. No assurance can be given, however, that all such capital expenditures will be made and, if made, that such expenditures will be in the amounts currently expected.

The following table summarizes the Bank's capital acquisitions and divestitures in interests in other companies, for the years ending December 31, 2017, 2016 and 2015:

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Capital Acquisitions [1]	Type of Investment	For the year ended December 31, 2017	2016	2015	Total
		In millions of COP			
PA Viva Malls	Associate	262,918	388,595	-	651,513
PA Central Point	Financial Instrument	36,242	-	-	36,242
Compañía de Financiamiento Tuya S.A.	Joint venture	30,000	15,977	-	45,977
Puntos Colombia S.A.S.	Joint venture	9,000	-	-	9,000
ECOPETROL S.A.	Financial Instrument	6,347	-	1,785	8,132
500 Luchadores II, L.P.	Financial Instrument	2,984	-	-	2,984
Davivienda S.A. Preferencial	Financial Instrument	2,490	-	2,180	4,670
Canacol Energy Ltd.	Financial Instrument	2,375	-	-	2,375
PA Estrategias Inmobiliarias	Financial Instrument	1,797	-	-	1,797
Grupo AVAL Acciones y Valores S.A.	Financial Instrument	1,735	-	-	1,735
CEMEX Latam Holdings S.A.	Financial Instrument	1,650	-	-	1,650
Fondo Bursátil Ishares COLCAP	Financial Instrument	1,567	-	-	1,567
Corporación Financiera Colombiana S.A.	Financial Instrument	1,501	-	-	1,501
Fondos SURA SAF SAC	Financial Instrument	1,345	3,307	-	4,652
Anheuser-Busch Companies, Inc	Financial Instrument	1,328	-	-	1,328
Johnson & Johnson de Colombia S.A.	Financial Instrument	1,258	-	-	1,258
SPDR Gold Shares	Financial Instrument	916	-	-	916
Amgen, Inc	Financial Instrument	784	-	-	784
Walgreens Boots Alliance, Inc	Financial Instrument	762	-	-	762
Reintegra S.A.S.	Associate	739	573	950	2,262
Grupo ARGOS S.A.	Financial Instrument	-	92,966	-	92,966
Asociación Gremail de Instituciones Financieras Credibanco S.A.	Financial Instrument	-	82,258	-	82,258
PA Clínica del Prado	Financial Instrument	-	41,069	-	41,069
Fideicomiso P.A Acqua Power Center	Financial Instrument	-	21,649	-	21,649
Fideicomiso Corpacero S.A.S.	Financial Instrument	-	11,111	-	11,111
PA Plesco	Financial Instrument	-	10,935	-	10,935
ETB S.A. E.S.P.	Financial Instrument	-	1,986	-	1,986
Equifax centroamerica S.A. De C.V.	Financial Instrument	-	1,615	1,695	3,310
Gestora de Fondos de Inversión Banagricola S.A.	Subsidiary	-	1,471 [2]	-	1,471
Inversiones ARGOS S.A.	Financial Instrument	-	37	1,076	1,113
Grupo Agromercantil Holding S.A. DE C.V.	Subsidiary	-	-	477,145 [3]	477,145
Internacional Ejecutiva de Aviación S.A.S.	Associate	-	-	8,121	8,121
Compañía de Procesamiento de Medios de Pago Guatemala, S.A.	Financial Instrument	-	-	5,562	5,562
Grupo Nutresa	Financial Instrument	-	-	2,644	2,644
Grupo AVAL	Financial Instrument	-	-	2,618	2,618
Transacciones y Transferencias, S.A.	Financial Instrument	-	-	1,315	1,315
Interconexión Eléctrica S.A.	Financial Instrument	-	-	1,107	1,107
Cementos ARGOS S.A.	Financial Instrument	-	-	667	667
Garantias y Servicios S.G.R.S.A. De C.V.	Financial Instrument	-	-	531	531
Imágenes Computarizadas de Guatemala, S.A.	Financial Instrument	-	-	476	476
Citigruop, Inc.	Financial Instrument	-	-	461	461
Others		3,440	1,842	1,709	6,991
Total Acquisitions		**371,178**	**675,391**	**510,042**	**1,556,6**

(1) *The amounts disclosed in this table correspond to the consideration paid as a result of the acquisition of each invesment.*

(2) *The amount of USD 500 thousand has been converted at the rate of COP 2,942.16 per USD 1,00, which is the Representative Market Rate calculated on May 5, 2016, (the date of the completion of the transaction) as reported by the SFC.*

(3) *The amount of USD 151,5 million has been converted at the rate of COP 3,149.47 per USD 1,00, which is the Representative Market Rate calculated on December 31, 2015, as reported by the SFC.*

Capital Divestitures (1)	Type of Investment	As of December 31, 2017	2016	2015	T
		In millions of COP			
Grupo Argos	Financial Instrument	92,966	-	-	9
Fideicomiso P.A Acqua Power Center	Financial Instrument	17,640	-	-	1
Leasing Perú S.A. (In liquidation)	Subsidiary	16,838	-	-	1
ECOPETROL S.A.	Financial Instrument	15,469	-	-	1
PA Plesco	Financial Instrument	10,935	-	-	1
ADARA VENTURES	Financial Instrument	6,979	-	-	6
Fideicomiso Corpacero S.A.S.	Financial Instrument	6,584	-	-	6
Fondo de Inversión en Arrendamiento Operativo CIB S.A. (In liquidation)	Subsidiary	3,757	-	-	3
Construcciones El Cóndor S.A.	Financial Instrument	2,819	-	-	2
Fondos SURA SAF SAC	Financial Instrument	2,128	-	-	2
SURA Corto Plazo CASHDOL	Financial Instrument	1,194	-	-	1
Fogansa S.A.	Financial Instrument	883	-	-	8
Grupo Odinsa S.A.	Financial Instrument	-	101,371	1,442	1
Compañía de Financiamiento Tuya S.A.	Joint venture	-	79,017	-	7
CIFIN S.A.	Financial Instrument	-	46,432	-	4
ISAGEN S.A. E.S.P.	Financial Instrument	-	8,489	-	8
Multiactivos S.A.	Associate	-	4,101	-	4
Cementos ARGOS S.A.	Financial Instrument	-	2,601	-	2
Concesiones Urbanas S.A.	Associate	-	2,361	-	2
Davivienda S.A. Preferencial	Financial Instrument	-	2,180	-	2
Trust found	Financial Instrument	-	2,077	-	2
Equifax centroamerica S.A. De C.V.	Financial Instrument	-	1,695	-	1
Inversiones Inmobiliarias Arauco Alameda S.A.S.	Associate	-	-	216,598	2
Others		2,420	2,267	2,426	7
Total Divestitures		**180,612**	**252,591**	**220,466**	**6**

(1). *The amount disclosed in this table correspond to the consideration received as result of the sale of each invesment.*

B. BUSINESS OVERVIEW

B.1. GENERAL

COMPANY DESCRIPTION, PRODUCTS AND SERVICES

Bancolombia is a full service financial institution that offers a wide range of banking products and services to a diversified individual and corporate customer base of nearly 12 million customers. Bancolombia delivers its products and services through its regional network comprising Colombia's largest non-Government owned banking network, El Salvador's leading financial conglomerate, Guatemala's fourth-largest bank, Panama's second-largest bank and off-shore banking subsidiaries in Panama, Cayman and Puerto Rico, all of them measure by gross loans.

Bancolombia and its subsidiaries offer the following products and services:

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

Ahorro a la Mano: This is a mobile phone based savings account specially designed to serve low-income clients and those with no prior experience with banking products.

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

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

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

Financial and Operating Leases: The Bank offers financial and operating leases specifically designed for acquiring fixed assets.

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

Trading: The bank offers an internet-based trading platform, available for retail and institutional clients, which allows them to buy/sell securities in the Colombian Securities Exchange.

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

The Bank offers its clients direct access to local and international capital markets through a full range of brokerage and investment advisory services that cover equities and fixed income securities, proprietary and third party asset management products, such as mutual funds, private equity funds, and privately managed investment accounts for institutional, corporate and private bank clients.

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

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

Bancassurance and Insurance: The Bank distributes diverse insurance products (life, auto, commercial, and homeowner's insurance) written by Compañía Suramericana de Seguros, one of the main insurance companies in Colombia. In addition, Bancolombia offers unemployment insurance written by Sure General Cardif Colombia S.A.

Investment Banking: The Bank, through its subsidiary Banca de Inversión, offers a wide variety of value-added services, including project and acquisition finance, debt and equity capital markets, principal investments (in real estate, industrials, construction), M&A, restructurings and structured corporate lending across all economic sectors.

Trust and Fiduciary Services: The Bank, through its subsidiary Fiduciaria Bancolombia offers a broad and diversified portfolio of services for companies and individuals, meeting their needs with tailored services. These services include managing escrow accounts, multiple investment funds, and real estate funds.

Nequi (Digital Bank): In June 2016, the Bank launched its signature pilot project Nequi, a 100% digital bank that operates independently from the Bancolombia brand. This product is completely paperless; users interact with the platform exclusively by mobile phone, with no contact with Bancolombia's branch network. Nequi users can open a savings account, transfer cash, make payments, withdraw cash from Bancolombia ATMs, and recharge their prepaid cell phone plans. As of December 31, 2017, this app had over 704,467 downloads, 271,864 total users and 76,193 active users who have made at least one transaction over the last three months.

NEW PRODUCTS OR SERVICES

Bancolombia continues its efforts to diversify and innovate in its product portfolio. Below is a brief description of the new products and services introduced in 2017:

Nequi (Digital Bank): In January 2017, the Bank launched its signature pilot project Nequi in Banistmo our operation in Panamá, a 100% digital bank that operates independently from the Banistmo brand. This product is completely paperless; users interact with the platform exclusively by mobile phone, with no contact with Banistmo's branch network. Nequi users can open a savings account, transfer cash, make payments in POS, withdraw cash from Banistmo ATMs, make payments of some bills by the marketplace of Nequi. As of December 31, 2017, this app had over 80,556 downloads, 20,464 total users and 3,361 active users who have made at least one transaction over the last three months.

Revolving Credit Facility for Individuals: it is a product designed for employees that require resources before the next payment day and have a stable salary and their payroll or pension deposited in the Bank. The facility has a flat commitment fee and can be withdrawn through any channel of the Bank. Also, along with the product, there is a life and unemployment insurance that covers the outstanding balance.

MAIN LINES OF BUSINESS

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

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

B.2. OPERATIONS

See Note 3 to the Consolidated Financial Statements included in this Annual Report for a description of the principal markets in which the Bank competes, including a breakdown of total interest and valuation income by category of activity and geographic market for each of the last two fiscal years.

B.3. SEASONALITY OF DEPOSITS

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

B.4. RAW MATERIALS

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

B.5. DISTRIBUTION NETWORK

Bancolombia provides its products and services through a traditional branch network, sales and customer representatives as well as through mobile branches (or *"Puntos de Atención Móviles"*), an ATM network, online and computer banking, telephone banking, mobile phone banking services, and points of sale (or "*Puntos de Atención*

Cercano"), among others. Transactions performed through electronic channels represented more than 92.26% of all transactions in 2017, up from 91.02% of all transactions in 2016. In addition, as of December 31, 2017, Bancolombia had a sales force of approximately 13,479 employees.

The following are the distribution channels offered by Bancolombia as of December 31, 2017:

Branch Network

As of December 31, 2017, Bancolombia's consolidated branch network consisted of 1,153 offices, including 726 from Bancolombia S.A., 97 from Banco Agricola, 44 from Banistmo, 203 from BAM and 83 from other subsidiaries.

Company*	**Number of branches 2017**	**Number of branches 2016**	**Number of branches 2015**	**Number of branches 2014**
Bancolombia S.A.(unconsolidated)	726	817	827	826
Leasing Bancolombia [(1)]	19	20	21	21
SUFI [(1)]	5	3	3	3
Bancolombia Panama	1	1	1	1
Bancolombia S.A. Panama Branch	1	1	1	1
Renting Colombia	24	22	23	19
Valores Bancolombia	6	6	7	11
Valores Bancolombia Panamá S.A.	1	1	1	1
Banca de Inversión	2	2	2	2
Fiduciaria Bancolombia	7	6	5	7
Bancolombia Puerto Rico International Inc.	1	1	1	1
Arrendamiento Operativo CIB S.A.C. [(2)]	1	1	1	1
Fondo Inversión Arrend.Operativo Renting Perú I (in liquidation)[(2)]	-	1	1	1
Inversiones CFNS S.A.S.	2	2	2	2
Banco Agrícola	97	97	97	98
Arrendadora Financiera S.A.	1	1	1	1
Valores Banagricola, S.A. de C.V.	1	1	1	1
Capital Investments SAFI S.A.	1	1	1	1
Transportempo S.A.S.	1	1	1	1
Leasing Perú S.A. (in liquidation)	-	1	1	1
FiduPerú S.A. Sociedad Fiduciaria (previously Fiduciaria GBC S.A.)	1	1	1	1
Banistmo	44	45	47	50
Financomer	8	8	8	7
BAM (Guatemala)	203	208	220	-
Tuya S.A. Compañía de Financiamiento [(3)]	-	-	-	4
Seguros Banitsmo [(4)]	-	-	-	4
Uff Móvil S.A.S. [(5)]	-	-	-	1
Total	**1,153**	**1,248**	**1,274**	**1,067**

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

(1) *On September 30, 2016, Leasing Bancolombia S.A. merged into Bancolombia. Bancolombia, as the surviving entity, became the holder of the rights and liabilities of Leasing, and assumed responsibility for managing Leasing´s existing portfolio of products and services. Leasing Bancolombia assigned to Bancolombia the "Leasing Bancolombia" trademark, which has thereafter been used to identify a division of Bancolombia.Leasing Bancolombia operates 19 branches under that brand. Sufi is a Bancolombia brand that operates 5 branches.*

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

(3) *Bancolombia S.A. sold 50% of its stake in Compañía de Financiamiento Tuya S.A. on October 31, 2016. Bancolombia S.A. no longer consolidates such company, although it stills own 50% of the company's common*

equity.

(4) *On February 23, 2015, Banistmo S.A. sold its insurance operation to Suramericana S.A.*

(5) *Bancolombia S.A. sold its 80.59% stake in Uff Movil S.A.S. in 2015.*

Banking Correspondents

A banking correspondent is a platform which allows non-financial institutions, such as stores open to the public, to provide financial services and transactions in towns where banks and financial institutions have limited or no presence. As of December 31, 2017, Bancolombia had a total of 10,349 banking correspondents, including 9,629 in Colombia, 142 in Panama and 578 in El Salvador.

Puntos de Atención Móviles “PAM”

PAMs consist of commercial advisors who visit small towns in Colombia periodically to offer Bancolombia’s products and services. As of December 31, 2017, there were a total of 590 PAMs (567 in Colombia, 7 in Panama and 16 in El Salvador).

Kiosks

Kiosks, which are used only in El Salvador, are located inside the Bank’s agencies, malls, and other public places and are used to provide the Bank’s clients the possibility of conducting a variety of self-service transactions. As of December 31, 2017, there were a total of 227 kiosks.

Automatic Teller Machines “ATMs”

Bancolombia has a total of 5,630 ATMs, including 4,549 in Colombia, 572 in El Salvador, 331 in Panama, and 178 in Guatemala.

Online/Computer Banking

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

Telephone Banking

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

Electronic Funds Transfer at Point of Sale or *Punto de Atención Cercano* “PAC”

Through our own network of 5,414 PACs our customers may carry out a variety of transactions including transfer of funds, bill payments, and changes to debit card PINs, among others.

Mobile Phone Banking Service

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

B.6. PATENTS, LICENSES AND CONTRACTS

The Bank is not dependent on patents or licenses, nor is it substantially dependent on any industrial, commercial or financial contracts (including contracts with customers or suppliers). However, the contracts with service providers described below are important to the Bank’s business:

The online banking platform of the Bank is provided by Todo1 Services Inc., a company specialized in providing services to financial institutions for their mobile and internet banking platforms.

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

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

The Bank's software for processing credit card services is provided by First Data Corp., an electronic commerce and payment processing services provider for financial institutions.

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

B.7. COMPETITION

Description of the Colombian Financial System

Overview

During the last decade, the Colombian banking system has been undergoing a period of expansion, given the series of mergers and acquisitions that have taken place within the sector. More specifically, several mergers and acquisitions took place in 2007, mainly due to the global economic situation. Colombian banks made several investments allowing some entities to become big players in the Latin American market. In 2007, Bancolombia completed the acquisition of Banagrícola in El Salvador. In 2010, Banco de Bogotá acquired BAC-Credomatic, which operates in several countries in Central America. In 2011, Canadian Scotiabank purchased a stake in Colpatria. The most relevant event regarding the presence of foreign banks in Colombia was the acquisition of Banco Santander Colombia S.A. in July 2012 by Corpbanca (Chile). Also in 2012, Davivienda acquired the subsidiaries of HSBC in Costa Rica, Honduras and El

Salvador.

In 2013, Bancolombia continued its internationalization process with the acquisition of the banking and insurance operations of HSBC in Panama for USD 2,234 million. In addition, Bancolombia Panama acquired 40% of the common shares of Grupo Agromercantil for USD 217 million. In 2013, Grupo Aval acquired 100% of the Guatemalan Reformador Financial Group (the transaction was valued at USD 411 million) and acquired BBVA Panama for USD 490 million. In 2013, some competitors started operations in Colombia: Itau BBA entered the market with an investment bank, as did BNP Paribas; Credicorp acquired Correval (a local brokerage firm); Brazilian broker-dealer BTG Pactual acquired Bolsa y Renta; Banco Santander returned to the Colombian market with a bank; and the Chilean company Larrain Vial started operations with a brokerage firm. During 2014, the entry of new entities continued as the financing company Hipotecaria, specialized in mortgage loans, began operations in March, of that year; in June, Corpbanca completed the acquisition of Helm Bank, keeping Corpbanca’s brand, and the bank GNB Sudameris acquired 99.9% of the capital of HSBC Colombia and now operates under the brand GNB Colombia. In October 2014, GNB Sudameris acquired GNB Colombia. In 2015, the Chilean group CorpBanca merged with the Itaú of Brazil and Bancolombia sold 50% of its shares in Tuya S.A. to Grupo Exito. In December 2015, Bancolombia also acquired an additional 20% interest in Grupo Agromercantil, bringing its interest to 60% in total.

As of December 31, 2017, according to the SFC, the main participants in the Colombian financial system were 25 commercial banks (14 domestic private banks, 10 foreign banks, and 1 domestic state-owned bank), 5 financial corporations and 16 financing companies (4 leasing companies and 12 traditional financing companies). In addition, trust companies, cooperatives, insurance companies, insurance brokerage firms, bonded warehouses, special state-owned institutions, and pension and severance pay funds also participate in the Colombian financial system.

Market and Credit Institutions' Evolution in 2017

During 2017, the Colombian economy continued its downward trend, with an annual GDP growth of 1.8%, lower than the 2.0% of 2016. The economic activities that contributed to GDP growth were financial services, construction and manufacturing. The economic activity that subtracted from GDP growth was mining and quarrying. Inflation in 2017 was 4.09%, 166 basis points less than 2016, and still above the target range of the Central Bank by 9 basis points. Food and housing groups were the main contributors to this gap. Due to the Central Bank's objective inflation policy and the expectations of rate hikes given by the Federal Reserve in the United States, among other reasons, the Central Bank began to lower the interest rate to 4.75% during the second half of 2017. In 2017, the Colombian peso was largely stable, appreciating only 0.56% against the U.S. dollar.

In 2015, Colombian financial institutions began reporting their consolidated financial results under IFRS. However, in the case of credit institutions (including banks, financial corporations, financing companies and 38 financial cooperatives), the SFC has allowed the presentation of stand-alone financial statements under Colombian Banking GAAP, following Decree 1851 of August 2013, which regulates the Law 1314 of 2009 concerning the technical regulatory framework for the institutions that report their financial results. Accordingly, the following information includes figures under Colombian Banking GAAP regulation, as reported by Colombian credit institutions to the SFC. Loan growth at Colombian credit institutions was 6.21% in 2017, compared to 7.83% in 2016. Commercial loans grew by 3.32% in 2017, compared to 4.35% in the previous year. Consumer loans increased 9.39% in 2017, less than the 13.18% in 2016. Mortgage loans continued performing well, with increases of 11.38% compared with 13.50% in 2016, and small business loans grew 7.74% in 2017 as compared with 6.66% in 2016.

Credit institutions' ratio of past-due loans as a percentage of the total loan portfolio increased from 3.19% in December 2016 to 4.33% in December 2017. In addition, the coverage, measured by the ratio of allowances for loan losses (principal) to past-due loans (overdue 30 days), ended 2017 at 133.84%, compared to 154.29% at the end of 2016.

At the end of 2017, the loan portfolio of Colombian credit institutions represented 64.24% of their assets, less than the previous year, when the precentage was 65.00%. Investments and derivatives transactions as a percentage of total assets increased from 20.77% at the end of 2016 to 21.81% at the end of 2017. The ratio of deposits to total loan balances decreased from 88.75% in 2016 to 85.83% in 2017.

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As of December 31, 2017, credit institutions recorded COP 676.9 trillion in total assets, representing a 6.63% increase compared to previous year. Based on total assets held by Colombian credit institutions, banks had a market share of 95.55% followed by financial corporations with 1.98%, financing companies with 1.96%, and financial cooperatives with 0.52%.

The capital adequacy ratio (Tier 1 + Tier 2) for credit institutions was 16.58% in December 2017 (including banks, financial corporations, financing companies and financial cooperatives), which is well above the minimum legal requirement of 9%. With the effectiveness of Decree 1771 of 2012 and the external circular 20 of 2013 of the Financial Superintendence, a new capital regime for credit institutions was established in order to strengthen the quality of equity of financial institutions to ensure they have the capacity to absorb losses in the development of their activities.

Bancolombia and its Competitors

The following table shows the key profitability, capital adequacy ratios and loan portfolio quality indicators for Bancolombia unconsolidated and its main competitors unconsolidated, based on IFRS information as applicable under Colombian Banking GAAP and published by the SFC.

	ROE(1)		**ROA(2)**		**Past-due loans/ Total loans**		**Allowances/ Past-due loans**		**Capital Adequacy**	
	Dic-17	**Dic-16**	**Dic-17**	**Dic-16**	**Dic-17**	**Dic-16**	**Dic-17**	**Dic-16**	**Dic-17**	**Dic-16**
Bancolombia	10.42%	13.31%	1.52%	1.96%	4.48%	2.95%	151.50%	189.20%	16.56%	16.20%
Banco de Bogotá	11.97%	26.72%	2.41%	5.33%	3.71%	2.55%	121.34%	133.51%	21.25%	20.80%
Davivienda	11.61%	17.37%	1.41%	2.12%	3.78%	2.95%	127.82%	141.31%	15.58%	13.95%
BBVA	11.37%	12.79%	0.79%	0.99%	4.12%	2.66%	127.43%	148.47%	12.27%	12.87%
Banco de Occidente	7.80%	12.95%	0.92%	1.61%	4.13%	2.96%	118.30%	140.42%	14.03%	13.23%
Banco Corpbanca	(3.50%)	(4.22%)	(0.41%)	(0.49%)	3.81%	2.90%	165.97%	179.61%	12.73%	12.96%
Banco Colpatria	6.93%	15.87%	0.56%	1.38%	5.89%	4.46%	105.94%	134.50%	11.06%	11.36%

Source: SFC.

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

(2) *ROA is return on average assets.*

The following tables illustrate Bancolombia and its main competitor's market share on an unconsolidated basis with respect to various key products, based on figures published by the SFC for the years ended December 31, 2017 and 2016:

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Total Net Loans
Market Share

Total Net Loans – Market Share (%)	2017	2016
Bancolombia	25.62%	25.05%
Banco de Bogotá	12.97%	13.25%
Davivienda	14.79%	14.46%
BBVA	10.48%	10.14%
Banco de Occidente	6.29%	6.71%
Banco Corpbanca	4.96%	5.41%
Banco Colpatria	5.11%	4.98%

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

Checking Accounts
Market Share

Checking Accounts – Market Share (%)	2017	2016
Bancolombia	21.82%	22.47%
Banco de Bogotá	23.35%	24.55%
Davivienda	10.72%	9.20%
BBVA	12.10%	10.86%
Banco de Occidente	10.43%	11.01%
Banco Corpbanca	2.97%	3.54%
Banco Colpatria	2.67%	3.21%

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

Time Deposits
Market Share

Time Deposits – Market Share (%)	**2017**	**2016**
Bancolombia	21.22%	21.68%
Banco de Bogotá	11.75%	12.16%
Davivienda	15.17%	13.34%
BBVA	13.91%	13.27%
Banco de Occidente	4.07%	4.76%
Banco Corpbanca	6.91%	8.16%
Banco Colpatria	6.72%	6.36%

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

Saving Accounts
Market Share

Saving Accounts – Market Share (%)	**2017**	**2016**
Bancolombia	25.60%	23.94%
Banco de Bogotá	13.49%	13.07%
Davivienda	12.09%	14.28%
BBVA	10.33%	10.63%
Banco de Occidente	6.73%	5.68%
Banco Corpbanca	3.44%	3.98%
Banco Colpatria	4.64%	4.41%

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

Banco Agrícola and its Competitors

In 2017, Banco Agricola continued to lead the Salvadorian financial system and ranked first in terms of total assets, loans, deposits, stockholders' equity and profits. The information presented in the following tables relates to Banco Agrícola and its competitors on a stand-alone basis and was prepared based on El Salvador accounting standards. The following table illustrates the market share for the main institutions of the Salvadorian financial system for the year ended on December 31, 2017:

	Assets	**Stockholders` Equity**	**Loans**	**Deposits**	**Profits**
Banco Agrícola	26.2%	26.0%	26.2%	27.0%	44.7%
Cuscatlán	8.9%	11.1%	8.6%	9.0%	4.7%
Davivienda	15.0%	13.2%	15.3%	13.7%	14.3%
Scotiabank	12.1%	15.4%	13.1%	11.8%	13.4%
BAC	13.6%	11.9%	13.8%	14.1%	13.4%
Promerica	6.8%	5.3%	6.8%	7.2%	5.9%
Others	17.4%	17.1%	16.2%	17.2%	3.6%

Sources: ABANSA (Asociación Bancaria Salvadoreña)

The following tables illustrate the market share of Banco Agricola and its main competitors, based on figures published by the Salvadorian Banking Association (ABANSA), as of December 31, 2017 and 2016:

Total Loans
Market Share

Total Loans - Market Share (%)	**2017**	**2016**
Banco Agrícola	26.2%	27.2%
Cuscatlán	8.6%	8.5%
Davivienda	15.3%	14.9%
Scotiabank	13.1%	14.1%
BAC	13.8%	13.0%
Promerica	6.8%	6.8%
Others	16.2%	15.5%

Checking Accounts
Market Share

Checking Accounts - Market Share (%)	**2017**	**2016**
Banco Agrícola	21.9%	22.3%
Cuscatlán	11.7%	13.3%
Davivienda	11.0%	10.4%
Scotiabank	9.4%	9.4%
BAC	20.8%	20.2%
Promerica	7.0%	7.1%
Others	18.2%	17.3%

Time Deposits
Market Share

Time Deposits - Market Share (%)	**2017**	**2016**
Banco Agrícola	21.1%	21.3%
Cuscatlán	6.2%	5.6%
Davivienda	15.8%	15.2%
Scotiabank	13.4%	15.1%
BAC	11.9%	10.7%
Promerica	9.4%	9.7%
Others	22.2%	22.4%

Saving Accounts
Market Share

Saving Account - Market Share (%)	**2017**	**2016**
Banco Agrícola	40.1%	39.0%
Cuscatlán	9.8%	9.9%
Davivienda	13.5%	13.3%
Scotiabank	12.2%	12.9%
BAC	9.9%	8.7%
Promerica	4.4%	4.1%
Others	10.1%	12.1%

Banistmo and its Competitors

Banistmo, a leading company in Panama, is the second largest bank in the country with an 11.0% market share by loans. The information presented in the following tables relates was prepared based on Panama accounting standards. The following table illustrates the market share for the main institutions of the Panamanian financial system for the year ended in December 31, 2017.

MARKET SHARE

	Assets	**Equity**	**Loans**	**Deposits**	**Profits**
Banistmo	9.4%	9.2%	11.0%	12.0%	5.0%
Banco General	15.9%	10.5%	16.1%	20.8%	21.2%
Global Bank	6.6%	5.1%	7.6%	5.8%	6.8%

Banesco	4.1%	3.3%	4.3%	6.4%	2.7%
BAC	8.0%	22.6%	5.7%	7.0%	25.0%
Others	56.0%	49.3%	55.3%	48.0%	39.3%

Source: Banistmo based on data by SBP (Superintendency of Banks of Panama)

The following tables illustrate the market share of Banistmo stand-alone and its main competitors, based on figures published by the Superintendency of Banks of Panama, in accordance with Panamanian banking regulations, for the years ended in December 31, 2017 and 2016:

Total Loans

Market Share

Total Loans - Market Share (%)	**2017**	**2016**
Banistmo	11.0%	10.8%
Banco General	16.1%	15.1%
Global Bank	7.6%	8.4%
Banesco	4.3%	4.1%
BAC	5.7%	5.4%
Others	55.3%	56.2%

Source: Banistmo based on data by SBP (Superintendency of Banks of Panama)

Saving Accounts

Market Share

Saving Account - Market Share (%)	**2017**	**2016**
Banistmo	12.2%	13.0%
Banco General	25.8%	25.8%
Global Bank	5.2%	5.4%
Banesco	12.5%	13.1%
BAC	3.1%	3.1%
Others	41.2%	39.6%

Source: Banistmo based on data by SBP (Superintendency of Banks of Panama)

Checking Accounts

Market Share

Checking Accounts - Market Share (%)	2017	2016
Banistmo	12.0%	12.2%
Banco General	23.5%	24.6%
Global Bank	3.8%	3.8%
Banesco	4.1%	4.7%
BAC	10.4%	9.0%
Others	46.2%	45.7%

Source: Banistmo based on data by SBP (Superintendency of Banks of Panama)

Time Deposits

Market Share

Time Deposits - Market Share (%)	2017	2016
Banistmo	11.9%	11.6%
Banco General	17.8%	16.8%
Global Bank	6.7%	6.6%
Banesco	4.5%	4.4%
BAC	7.4%	6.0%
Others	51.7%	54.6%

Source: Banistmo based on data by SBP (Superintendency of Banks of Panama)

Banco Agromercantil de Guatemala, S.A. and its Competitors

Banco Agromercantil continues as the fourth largest bank in the banking system in Guatemala by total assets, net loans and stockholders' equity.

As of December 31, 2017, the Superintendencia de Bancos de Guatemala (SIB) has under its supervision and inspection, 18 banking entities. The information presented in the following tables was prepared in accordance with Guatemalan banking regulations, as reported to the SIB (Superintendencia de Bancos de Guatemala). The following table illustrates the market share for the main institutions of the financial system as of and for the year ended December 31, 2017:

MARKET SHARE

	Assets	**Stockholders' Equity**	**Loans**	**Deposits**	**Profits**
Banco Industrial	28.3%	24.8%	27.9%	24.8%	30.5%
Banrural	20.4%	23.4%	17.9%	22.9%	20.7%
Banco G&T Continental	17.1%	13.8%	15.5%	17.3%	13.2%
Banco Agromercantil	8.0%	8.3%	10.6%	7.4%	6.5%
BAC-Reformador	7.6%	8.1%	9.9%	8.0%	6.3%
Bantrab	7.0%	7.4%	7.0%	7.7%	11.6%
Banco Promerica	2.1%	2.9%	2.6%	2.2%	2.6%
*Others**	9.5%	11.3%	8.6%	9.7%	8.6%

**Others. Includes the followings banks: Internacional, Crédito Hipotecario Nacional, Ficohsa Azteca, Inmobiliario, De Antigua, Vivibanco, Citibank, N.A. de Guatemala, De Crédito, Inv.*

Source: Superintendencia de Bancos de Guatemala (SIB).

The following tables illustrate the market share of Banco Agromercantil and its main competitors, based on figures published by the SIB as of December 31, 2017 and 2016:

Net Loans

Market Share

Total Loans - Market Share (%)	**2017**	**2016**
Banco Industrial	27.9%	27.6%
Banrural	17.9%	20.0%
Banco G&T Continental	15.5%	15.8%
Banco Agromercantil	10.6%	10.7%
BAC-Reformador	9.9%	8.4%
Bantrab	7.0%	6.5%
*Banco Promerica (Citibank 2016)**	2.6%	2.6%
*Others***	8.6%	8.4%

** Banco Promerica (Citibank 2016). Grupo Promerica completed the acquisition of Banco Citibank de Guatemala, S.A on October 31, 2016. This transaction is only for consumer and commercial banking, excluding corporate banking which will continue to operate under Citibank N.A. Guatemala Branch. As of February 2017, Banco Citibank de Guatemala, S.A. changed its corporate name to Banco Promerica de Guatemala.*

***Others. Includes the following banks: Internacional, Crédito Hipotecario Nacional, Ficohsa, Azteca, Inmobiliario, De Antigua, Vivibanco, Citibank, N.A. de Guatemala, De Crédito, Inv.*

Source: Superintendencia de Bancos de Guatemala (SIB).

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Checking Accounts
Market Share

Checking Accounts - Market Share (%)	2017	2016
Banco Industrial	30.0%	31.3%
Banrural	22.1%	22.0%
Banco G&T Continental	17.1%	17.3%
BAC-Reformador	11.9%	9.9%
Banco Agromercantil	7.2%	7.8%
Bantrab	1.2%	1.2%
*Banco Promerica (Citibank 2016)**	2.0%	1.9%
*Others***	8.5%	8.6%

** Banco Promerica (Citibank 2016). Grupo Promerica completed the acquisition of Banco Citibank de Guatemala, S.A on October 31, 2016. This transaction is only for consumer and commercial banking, excluding corporate banking which will continue to operate under Citibank N.A. Guatemala Branch. As of February 2017, Banco Citibank de Guatemala, S.A. changed its corporate name to Banco Promerica de Guatemala.*

***Others. Includes the following banks: Internacional, Crédito Hipotecario Nacional, Ficohsa, Azteca, Inmobiliario, De Antigua, Vivibanco, Citibank, N.A. de Guatemala, De Crédito, Inv.*

Source: Superintendencia de Bancos de Guatemala (SIB).

Time Deposits
Market Share

Time Deposits - Market Share (%)	2017	2016
Banco Industrial	20.9%	18.4%
Banrural	19.5%	21.6%
Bantrab	15.5%	13.5%
Banco G&T Continental	15.0%	17.1%
Banco Agromercantil	7.5%	7.2%
BAC-Reformador	5.9%	5.6%
*Banco Promerica (Citibank 2016)**	2.9%	3.4%
*Others***	12.8%	13.2%

** Banco Promerica (Citibank 2016). Grupo Promerica completed the acquisition of Banco Citibank de Guatemala, S.A on October 31, 2016. This transaction is only for consumer and commercial banking, excluding corporate banking which will continue to operate under Citibank N.A. Guatemala Branch. As of February 2017, Banco Citibank de Guatemala, S.A. changed its corporate name to Banco Promerica de Guatemala.*

***Others. Includes the following banks: Internacional, Crédito Hipotecario Nacional, Ficohsa, Azteca, Inmobiliario, De Antigua, Vivibanco, Citibank, N.A. de Guatemala, De Crédito, Inv.*

Source: Superintendencia de Bancos de Guatemala (SIB).

Saving Accounts
Market Share

Saving Accounts - Market Share (%)	**2017**	**2016**
Banco Industrial	23.5%	24.1%
Banrural	31.1%	30.0%
Banco G&T Continental	22.1%	21.4%
Banco Agromercantil	7.5%	8.3%
BAC-Reformador	5.2%	5.2%
Bantrab	3.5%	3.6%
*Banco Promerica (Citibank 2016)**	1.3%	1.5%
*Others***	5.8%	5.9%

** Banco Promerica (Citibank 2016). Grupo Promerica completed the acquisition of Banco Citibank de Guatemala, S.A on October 31, 2016. This transaction is only for consumer and commercial banking, excluding corporate banking which will continue to operate under Citibank N.A. Guatemala Branch. As of February 2017, Banco Citibank de Guatemala, S.A. changed its corporate name to Banco Promerica de Guatemala.*

***Others. Includes the following banks: Internacional, Crédito Hipotecario Nacional, Ficohsa, Azteca, Inmobiliario, De Antigua, Vivibanco, Citibank, N.A. de Guatemala, De Crédito, Inv.*

Source: Superintendencia de Bancos de Guatemala (SIB).

B.8. SUPERVISION AND REGULATION

Colombian Banking Regulators

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

Central Bank

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

Ministry of Finance

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

Superintendency of Finance

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

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

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

Other Colombian regulators

Self- Regulatory Organization

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

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

Superintendency of Industry and Commerce

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

Regulatory Framework for Colombian Banking Institutions

The basic regulatory framework of the Colombian financial sector is set forth in Decree 663 of 1993, as modified by among others, Law 510 of 1999, Law 546 of 1999, Law 795 of 2003, Law 1328 of 2009 and Law 1870 of 2017.

Decree 663 of 1993 defined the structure of the Colombian financial system, establishes a set of permitted activities wilthin the system and defines several forms of business entities, including: (i) credit institutions (establecimientos de crédito) (which are further categorized into banking institutions, such as the Bank, finance corporations (corporaciones financieras), financing companies (compañias de financiamiento) and finance cooperatives (cooperativas financieras)); (ii) financial services entities (sociedades de servicios financieros); (iii) capitalization corporations (sociedades de capitalización); (iv) insurance companies (entidades aseguradoras); and (v) insurance intermediaries (intermediarios de seguros). Furthermore, Decree 663 of 1993 sets forth (i) the procedure applicable for mergers and acquisitions, spin-offs, and other corporate reorganizations of the aforementioned entities, (ii) specific regulations that apply to the issuance and sale of shares and other securities by such entities, and (iii) certain rules regarding the activies of officers and directors of such institutions, among others. Finally, Decree 663 of 1993 provides that no financial, banking or credit institution may operate in Colombia without the prior approval of the SFC.

Law 510 of 1999 improved the solvency standards and stability of Colombia's financial institutions by providing rules for their incorporation and regulating permitted investments of credit institutions, insurance companies and investment companies.

Law 546 of 1999 was enacted to regulate the system of long-term home loans.

Law 795 of 2003 broadened the scope of permitted activities for financial institutions, to update regulations with some of the then-latest principles of the Basel Committee and to increase the minimum capital requirements in order to incorporate a financial institution (for more information, see "Minimum Capital Requirements" below). Law 795 of 2003 also provided authority to the SFC to take preventive measures, consisting mainly of preventive interventions with respect to financial institutions whose capital falls below certain thresholds.

Law 1328 of 2009 provided a set of rights and responsibilities for customers of the financial system and a set of obligations for financial institutions in order to minimize disputes. This law also gives foreign banks more flexibility to operate in Colombia through "branches". Following its adoption, credit institutions were allowed to operate leasing businesses and banks were allowed to extend loans to third parties so that borrowers could acquire control of other companies.

Law 1870 of 2017 implemented the legal framework for the regulation and supervision on financial conglomerates. The law sets forth a definition for financial conglomerate. This regulation establishes two ways in which a company is considered a financial holding company and therefore subject to the new legal framework: (i) it has significant influence over a financial institution, or (ii) it controls a financial institution. This law prescribes the framework within which the Government and the SFC may regulate matters related to financial conglomerates, such as regulatory capital, definition of related parties, corporate governance principles and risk management, among others. In regulating financial conglomerates, the Government and the SFC musttake into consideration the structure, complexity, and individual features of each conglomerate. Additionally, regarding risk management and exposure limits, the new requirements applicable to financial conglomerates must consider the requirements to which the financial institutions are already subject. Along the same lines, when financial institutions fulfill capital adequacy requirements and solvency ratios, authorities may not impose solvency ratios on the conglomerate.

The law also reinforced the mechanism for the resolution of credit establishments - deposit-taking institutions under Colombian Law - by establishing the concept of the bridge bank, an entity used to facilitate the purchase of assets and transfer of liabilities from failing institutions.

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

Financial institutions are subject to further rules if they engage in additional activities. Law 964 of 2005 (securities market law) regulates securities intermediation activities, which may be performed by banks, and securities offerings. External Resolution 8 of 2000 (foreign exchange regulations), and Resolution 4 (as hereinafter defined) issued by the board of directors of the Central Bank, defined the different activities that banks, including the Bank, may perform as currency exchange intermediaries, including lending in foreign currencies and investing in foreign securities.

Additionally, Decree 2555 of 2010 compiled regulations that were dispersed in separate decrees, including regulations regarding securities market activities, capital adequacy requirements, principles in the determination, diffusion and publicity of rates and prices of products and financial services, and lending activities.

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

Key interest rates

Colombian commercial banks, finance corporations and consumer financing companies are required to provide the Central Bank, on a weekly basis, with data regarding the total volume (in pesos) of certificates of deposit issued during the prior week and the average interest rates paid for certificates of deposit with maturities of 90 days. Based on such reports, the Central Bank computes *Depósitos a Término Fijo* ("DTF") rate, which is published at the beginning of the following week, for use in calculating interest rates payable by financial institutions. The DTF is the weighted average interest rate paid by finance corporations, commercial banks and consumer financing companies for certificates of deposit with maturities of 90 days. For the week of April 27, 2018, the DTF was 4.88%.

Article 884 of the Colombian Commercial Code provides for a limit on the amount of interest that may be charged in commercial transactions. The limit is 1.5 times the current banking interest rate, or *Interés Bancario Corriente*, certified and calculated by the SFC as the average rate of interest ordinarily charged by banks for loans made during a specified period. The current banking interest rate for small business loans and for all other loans is certified by the SFC. As of December 31, 2017, the banking interest rate for small business loans was 36.78% and for all other loans was 20.69%.

Capital adequacy requirements

Capital adequacy requirements for Colombian financial institutions (as set forth in Decree 2555 of 2010, as amended) are based on applicable Basel Committee standards. Some of the highlights of this regulation are as follows:

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

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

- The capital adequacy ratio is set at a minimum of 9% of the financial institution's total risk-weighted assets; however, each entity must comply with a minimum basic solvency ratio of 4.5%, which is defined as the ordinary basic capital after deductions divided by the financial institution's total risk-weighted assets. These ratios apply to credit establishments individually and on a consolidated basis. Credit establishments include Banks, Financial Corporations, and Financing Companies.

- Recently the Ministry of Finance issued Decree 415 of 2018, which establishes that as of the year 2019, non-depository financial institutions, such as asset managers and fiduciary entities under Colombian law, shall comply with a 9% minimum solvency ratio on an individual basis.

In 2014, the Ministry of Finance issued Decree 1648 of 2014 and Decree 2392 of 2015 establishing criteria for hybrid instruments to be considered additional basic capital (Additional Tier I).

As of December 31, 2017, the Bank's capital adequacy ratio was 14.18%, exceeding the requirements of the Colombian government and the SFC by 518 basis points. As of December 31, 2016, the Bank's capital adequacy ratio was 13.26%.

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

The minimum capital requirement for banks on an unconsolidated basis is established in Article 80 of Decree 633 of 1993. The minimum capital requirement for banks, including Bancolombia S.A., for 2017 is COP 90,142 million. Failure to meet such requirement can result in the taking of possession (*toma de posesión*) of the Bank by the SFC (see Item 4. "Information on the Company – B. Business Overview – B.8 –Supervision and Regulation – Bankruptcy Considerations").

Capital Investment Limit

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

Mandatory Investments

Central Bank regulations require financial institutions, including the Bank, to hold minimum mandatory investments in debt securities issued by Fondo para el Financiamiento del Sector Agropecuario ("Finagro"), a Colombian public financial institution that finances production and rural activities to support the agricultural sector. The amount of these mandatory investments is calculated by applying a fixed percentage (ranging from 4.3% to 5.8%, depending on the type of liability) to the quarterly average of the end of day balances of certain liabilities, primarily, deposits and short-term debt. The investment balance is computed at the end of each quarter. Any required adjustment (due to a change in the quarterly average between periods) results in the purchase of additional securities or may result in redemption by Finagro at of securities in excess of the requirement. The purchase of additional securities takes place during the month following the date as of which the computation was performed.

Foreign Currency Position Requirements

According to External Resolution 9 of 2013 issued by the board of directors of the Central Bank as amended or suppplemented ("Resolution 9"), a financial institution's foreign currency position (posición propia en moneda extranjera) is the difference between such institution's foreign currency-denominated assets and liabilities (including any off-balance sheet items), actual or contingent, including those that may be converted into Colombian legal currency.

Resolution 9 provides that the average of a bank's foreign currency position for three business days cannot exceed the equivalent in pesos of 20% of the bank's technical capital. Currency exchange intermediaries such as the Bank are permitted to hold a three business days' average negative foreign currency position not exceeding the equivalent in foreign currency of 5% of its technical capital (with penalties being payable after the first business day).

In addition, in the case of a bank that consolidated financial statements with its subsidiaries and has controlled foreign investments, the average of the bank’s foreign currency position for three business days cannot exceed the equivalent in foreign currency of 30% of the bank’s technical capital.

Resolution 9 also defines the foreign currency position in cash (posición propia de contado en moneda extranjera) as the difference between all foreign currency-denominated assets and liabilities. A bank’s three business days average foreign currency position in cash cannot exceed 50% of the bank’s technical capital. In accordance with Resolution 9, the three business days’ average must be calculated on a daily basis and the foreign currency position in cash for any single business day can be negative as long as it does not exceed 20% of the bank’s technical capital.

Finally, Resolution 9 requires banks to comply with a gross position of leverage (posición bruta de apalancamiento) as it relates to its foreign currency position. Gross position of leverage is defined as (i) the value of term contracts denominated in foreign currency, plus (ii) the value of transactions denominated in foreign currency to be settled in a term equal or greater than one day in cash, plus (iii) the value of the exchange rate risk exposure associated with exchange rate options and derivatives. According to Resolution 9 the three business days' average of the gross position of leverage cannot exceed 55% of the technical capital.

Reserve Requirements

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

Credit institutions must maintain reserves of 11% over private demand deposits, government demand deposits, other deposits and liabilities and savings deposits; of 4.5% over term deposits with maturities fewer than 540 days and 0% over term deposits with maturities equal to or more than 540 days.

Foreign Currency Loans

According to External Resolution 8 of 2000, residents of Colombia may obtain foreign currency loans from foreign residents, and from Colombian currency exchange intermediaries (such as the Bank) or by placing debt securities abroad. Foreign currency loans must be either disbursed through a foreign exchange intermediary or deposited in special purpose offshore accounts.

Colombian residents who borrow funds in foreign currency my be required to post with the Central Bank non-interest bearing deposits for a specified term, but currently although the size of the required deposit is currently zero. Such deposits would not be required in certain cases, including foreign currency loans aimed at financing Colombian investments abroad, or for short-term exportation loans, provided that these loans are disbursed against the funds of Banco de Comercio Exterior – Bancoldex.

External Resolution 8 of 2000 sets forth a number of restrictions and limitations as to the use of proceeds in the case of foreign currency loans obtained by Colombian currency exchange intermediaries for the purpose of avoiding the deposit requirement described above. Such foreign currency loans may be used, among others, for lending activities in a foreign currency with a tenor equal to, or shorter than, the tenor of the foreign financing.

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

Non-Performing Loan Allowance

The SFC maintains rules on non-performing loan allowances for financial institutions. These rules apply for Bancolombia's financial statements on a stand-alone basis for Colombian regulatory purposes. Non-performing loan allowances in the Consolidated Financial Statements are calculated according to IFRS.

Lending Activities

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

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

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

Ownership and Management Restrictions

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

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

Bankruptcy Considerations

Colombian banks and other financial institutions are not subject to the laws and regulations that generally govern the insolvency, restructuring and liquidation of industrial and commercial companies, but rather are subject to special rules, the most important details of which are summarized below.

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

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

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

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

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Within two months (extensible for two additional months) from the date in which the SFC takes possession of a bank, the SFC must decide which measures to adopt. The decision is to be made with the purpose of permitting depositors, creditors and investors to obtain full or partial payment of their credits and must be submitted to Fondo de Garantías de Instituciones Financieras' (Fogafin) previous opinion.

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

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

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

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

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

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

Deposit insurance—Troubled Financial Institutions

Subject to specific limitations, Fogafin is authorized to provide equity (whether or not reducing the par value of the recipient's shares) and/or secured credits to troubled financial institutions, and to insure deposits of commercial banks and certain other financial institutions.

To protect the customers of commercial banks and certain financial institutions, Resolution 1 of 2012 of the board of directors of Fogafin, as amended, requires mandatory deposit insurance. Banks must pay an annual premium of 0.30% of total funds received on saving accounts, checking accounts, certificates of deposit and other deposits, which is paid in four quarterly installments. If a bank is liquidated, the deposit insurance will cover the funds deposited by an individual or corporation with such bank up to a maximum of COP 50 million regardless of the number of accounts held.

Risk Management Systems

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

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

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

With respect to liquidity risk, financial entities must meet a liquidity coverage test that ensures their ability to hold liquid assets sufficient to cover potential net cash outflows for a period of 30 days. Net cash outflows for this purpose are contractual maturities of assets (interbank borrowings, financial assets investments, loans and advances to customers, derivative financial instruments) minus contractual maturities of liabilities (demand deposits, time deposits, interbank deposits borrowings from other financial institutions, debt securities, derivative financial instruments) occurring within a period of 30 days. For purposes of this calculation, liabilities does not include projections of future transactions. The maturity of the loan portfolio is affected by the historical default indicator and the maturity of deposits is modeled according to the regulation.

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

Anti-Money Laundering Provisions

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

Colombian laws adopt the latest guidelines related to anti-money laundering and other terrorist activities established by the Financial Action Task Force on Money Laundering ("FATF"). Colombia, as a member of the GAFI-SUD (a FATF-style regional body), follows all of FATF's 40 recommendations and eight special recommendations. External Circular 029 of 2014 requires the implementation by financial institutions of a system of controls for money laundering and terrorism financing. These rules emphasize "know your customer" policies and knowledge of customers and markets, and other customer identification and monitoring processes that include screening against international lists.

Financial institutions must cooperate with the appropriate authorities to prevent and control money laundering and terrorism financing. Finally, the Colombian Criminal Code introduced criminal rules and regulations to prevent, control, detect, eliminate and adjudicate all matters related to financing terrorism and money laundering, including the omission of reports on cash transactions, mobilization or storage of cash, and the lack of controls.

Regulatory Framework for Subsidiaries that are Non-Participants in the Financial Sector

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

International regulations applicable to Bancolombia and its subsidiaries

FATCA

FATCA, a U.S. federal tax law enacted in 2010, imposes a 30% withholding tax on ‘withholdable payments’ made to non-U.S. financial institutions that do not participate in the FATCA program or that fail (or, in some cases, that have affiliates in which they hold an interest of more than 50% and which are also non-U.S. financial institutions that fail) to provide certain information regarding their U.S. accountholders and/or certain U.S. investors (such U.S. accountholders and U.S. investors, “U.S. accountholders”) to the IRS. FATCA also requires participating FFIs to withhold on “passthru payments” (which include both “withholdable payments” and certain non-U.S.-source payments) made to account holders who do not provide information to the FFIs to determine their U.S. accountholder’s status – “recalcitrant accountholders” – and to FFIs that do not sign an FFI Agreement with the IRS (such FFIs, “nonparticipating FFIs”). “Withholdable payments” generally include, among other items, payments of U.S.-source interest and dividends and the gross proceeds from the sale or other disposition of property that may produce U.S.-source interest and dividends. This withholding will take effect on a “phased” schedule, which started in July 2014 with respect to certain payments.

Among the countries where Bancolombia operates, Colombia, the Cayman Islands, and Panama have signed an IGA Model 1. Peru has reached an agreement in substance with the IRS, and consented to be treated as having an IGA in effect. In addition, certain subsidiaries of Bancolombia located in other countries have transmitted directly to the IRS the information required pursuant to FATCA, since they have not entered into an IGA.

CRS

The CRS, approved by the OECD Council on 2014, is applicable to signatory countries of the Multilateral Competent Authority Agreement (“MCAA”) which, therefore, have the obligation to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. The CRS defines (i) which financial institutions are required to report; (ii) the types of accounts covered; and (iii) the due diligence procedures that financial institutions must follow to identify the reporting information.

Among the countries where Bancolombia operates, Colombia, Panamá and Cayman Island, have signed to the MCAA and, thus, has the obligation to report in accordance to the CRS.

Financial Regulation in Panama

The banking business in Panama is regulated by the Law Decree 9 of 1998, subsequently amended by Law Decree 2 of 2008. In accordance with the Law Decree, as amended, the Superintendency of Banks of the Republic of Panama, as the banking supervisor, has the power to issue agreements and resolutions to regulate the banking system. These regulations are mainly focused on matters such as licensing of banks, corporate governance, banking supervision (consolidated and individual or sub-consolidated), capital requirements, capital adequacy, liquidity requirements, risk management (credit, market, liquidity, country, asset and liability, operational, information technology, electronic banking), external audit, on-site inspections, reporting, compliance, change of control, mergers and acquisitions, confidentiality, money laundering, voluntary wind up, administrative and operational control, reorganization, bankruptcy, penalties, customers protection and dispute resolution.

In order to implement Basel III capital standards, the Superintendency of Banks of the Republic of Panama issued in January 2015 an agreement on Capital Adequacy. This agreement sets forth the new composition of a banking institution's capital base, as well as the new capital adequacy ratio, including tier 1 core capital ratio and tier 1 capital ratio, all consistent with Basel III standards. This agreement became effective in June 2016, and the new standards will be implemented, progressively, from that date until they are fully applicable in January 2019. With respect to liquidity, banks operating under a general banking license, or General License Banks, are currently required to maintain 30% of their global deposits in liquid assets (which include short-term loans to other banks and other liquid assets) of the type prescribed by the Superintendency of Banks. Additionally, General License Banks are required to maintain assets in Panama of no less than 85% of their local deposits or any other percentage fixed by the Superintendency of Banks. Under the Banking Law, deposits from central banks and other similar depositories of the international reserves of sovereign states are immune from attachment or seizure proceedings.

Panamian regulations also require all financial institutions to maintain a legal reserve for certain obligations. The Superintendency of Banks may require additional marginal reserves. The exact level and method of calculation of these reserve requirements is set by the Superintendency of Banks.

As for credit risk, in March 2016, the Superintendency of Banks of the Republic of Panamá issued Accord No.3-2016, which sets forth new risk weights applicable to on and off-balance sheet credit exposures, which are more risk sensitive in line with Basel II. The Accord introduces the treatment of counterparty exposures in derivatives transactions, as well as credit risk mitigation techniques, such as the treatment of financial collaterals.

In Panama, banks are prohibited from granting, directly or indirectly, to any individual or legal person, including any entity that is part of the economic group of a bank, any loan or credit facility, guarantee or any other obligation (other than credit facilities fully secured by deposits in the bank) ("Credit Facilities") in favor of said person exceeding at any time, individually or jointly, 25% of the total regulatory capital of the bank. Obligations to related parties (as such term is defined in the applicable regulations) that exceed (i) 5% of its total capital, in the case of unsecured transactions, and (ii) 10% of its total capital, in the case of secured transactions (other than loans secured by deposits in the bank), are prohibited.

Banks and banking groups (defined as the holding company and all direct and indirect subsidiaries of the holding company) are subject to inspection by the Superintendency of Banks, which must take place at least once every two years. The Superintendency of Banks is empowered to request from any bank or any company that belongs to the economic group of which a bank in Panama is a member, the documents and reports pertaining to its operations and activities. The Superintendency of Banks can assume the administrative and operating control of a bank, including possession of its assets and seizure of its management in order to defend the best interest of the bank's depositors and creditors, under any of the following grounds: (i) at the request of the bank; (ii) if the bank may not continue operations without endangering the interests of the depositors; (iii) as a consequence of the evaluation of an advisor's report; (iv) noncompliance with the measures ordered by the Superintendency of Banks; (v) if the bank carries out its operations in an illegal, negligent or fraudulent manner; (vi) if the bank has suspended payment of its obligations; and

(vii) if the Superintendency of Banks confirms that capital adequacy, solvency or liquidity of the bank has deteriorated in such a way as to require the Superintendency of Banks intervention. Upon expiration of the period of administrative control, the Superintendent will decide whether to proceed with the reorganization of the bank, the compulsory liquidation of the bank or the return of administrative and operating control to the directors or legal representatives of the bank, as the case may be.

The Superintendency of Banks of the Republic of Panama is also in charge of the supervision and oversight of the trust business, regulated by Law 1 of 1984, which set forth aspects such as minimum requirements of trust agreements, characteristics of trusts, rights and responsibilities of grantors, trustees and beneficiaries.

In 2017, the Panamanian Congress issued Law No.21 of 2017, which strengthens the oversight and regulation capabilities of the Superintendency of Banks, regarding the trust business. The Law imposes higher standards and provides for more detailed supervision, with respect to matters such as licensing, prudential regulation, corporate governance, reporting and customer protection, amongst others.

Other Regulations in Panama

Securities market activities in Panama are subject to the supervision, control and oversight of the Superintendency of the Securities Market. These activities are primarily regulated by Law Decree 1 of 1999, as amended by several laws, which established important changes in order to strengthen the regulatory framework of the Panamanian securities market and increase investors' confidence. Among the most important changes introduced by these recent amendments are the following:

1. The establishment of a coordination and cooperation system between the financial supervisors. This system also enables a more comprehensive supervision of financial conglomerates operating in multiple areas of the financial industry.

2. The establishment of the Superintendency of the Securities Market, as the supervising entity replacing the previous National Securities Commission.

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

4. The regulation of foreign currency exchange as a securities activity and the regulation of certain actors of the securities market, such as securities price suppliers, risk rating agencies and Administrative Service Suppliers of the securities market.

5. The introduction of provisions regarding clearing and settlement of securities and financial instruments, which will bring more stability and security to transactions;

6. The creation of new participants to promote over-the-counter transactions, such as entities acting as central counterparties, and infrastructure providers for the over-the-counter market.

The principal aspects of the securities business covered by the Law-Decree 1 of 1999 as amended, and the agreements and resolutions issued by the Superintendency of the Securities Market of the Republic of Panama are (i) licensing requirements of securities brokers, investment advisors, fund administrators and self-regulated organizations, (ii) registration requirements of risk rating agencies, securities price suppliers, securities, public offerings, funds and administrative service suppliers of the securities market, (iii) authorization for requesting voting powers regarding registered securities, (iv) notification requirements of public offerings for the acquisition of registered shares, (v) options, futures contracts and derivatives, (vi) custody, clearing and settlement of securities, (vii) penalization procedures and penalties, (viii) voluntary wind up, reorganization and bankruptcy of securities brokers, self-regulated organizations, funds, and fund administrators, (ix) reporting of issuers of registered securities, securities brokers, investment advisors, funds, fund administrators, self-regulated organization and other registered entities, (x) on-site inspection of securities brokers, investment advisors, self-regulated organizations, funds, fund administrators, administrative service suppliers of the securities market, securities price suppliers and rating agencies, (xi) capital requirements, liquidity requirements, risk assessment, confidentiality, conflict of interest, suitability, compliance and money laundering of securities brokers and (xii) communication of events of importance by issuers of registered securities.

Panama has also enacted a series of laws in order to prevent, detect and punish money-laundering activities. In Panama, anti-money laundering requirements are primarily regulated by (i) Executive Decree No. 136 of June 9, 1995, which created a Financial Analysis Unit (“UAF”) for the Prevention of Money Laundering, and (ii) Law No. 23 of April 27, 2015 (“Law 23”), regulated by Executive Decree No. 363 of August 13, 2015, whereby banks and trust corporations, among other financial institutions, are required to perform their operations with due diligence and due care conducive to preventing said operations, to be performed with funds, or over funds, generated from activities related to money laundering.

Law 23 and Accord No. 7-2015 provide that the following entities are deemed to be “supervised entities” for purposes of money laundering, financing of terrorism or any other illicit activity: (i) banks; (ii) bank groups; (iii) trust corporations; (iv) leasing companies; (v) factoring companies; (vi) credit, debit or pre-paid card processing entities; (vii) companies engaged in remittances or wire transfers; and (viii) companies that provide any other service related to trust companies. These entities must take necessary measures to prevent their operations and/or transactions from being used for money laundering, financing of terrorism or any other illicit activity. Non-compliance with Law 23, or those dictated by the pertinent authorities of supervision of each activity for which there is no specific sanction established, is subject to fines ranging from US$5,000 to US$1,000,000.

Panama has also moved forward with the adoption of international standards on transparency and cooperation on tax matters, through the approval of the Inter-Governmental Agreement for the implementation of FATCA on 2016, the commitment regarding the automatic exchange of information on a bilateral basis and under the Common Reporting

Standard, beginning on September, 2018, and the ratification of the Multilateral Convention on Mutual Administrative Assistance on Tax Matters on 2017. All of the above will enable the exchange of information for tax matters between the Panamanian tax authorities, and a broader set of countries to implement these commitments, regulations were adopted during the course of 2016 and 2017 setting forth the obligations and responsibilities of banking institutions, regarding due diligence procedures in order to identify reportable accounts under FATCA and CRS, as well as responsibilities regarding control measures and reporting requirements necessary to comply with such international standards and agreements. The laws, rules and regulations issued for these purposes include: Law No.47 of 2016, Law No.51 of 2016, Law No.5 of 2017, Executive Decree No.124 of 2017, Executive Decree No.461 of 2017 and the Resolution No.201-3931 of 2017 amended by Resolution No.201-4488 of 2017.

Financial Regulation in El Salvador

In 2011, Decree 592, entitled "Supervision and Regulation of the Financial System" (Ley de Supervisión y Regulación del Sistema Financiero) was enacted in order to strengthen the State's organization, adapting all supervision and regulatory institutions to the economic reality of the financial system. Decree 592 states that the Superintendency of the Financial System and the Central Reserve Bank of El Salvador are mandated to supervise all members of the financial system and to approve the necessary regulation for the adequate application of Decree 592.

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

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

In 2015, the Salvadorian congress amended Decree 592 in order to include within the scope of the supervision of the Superintendency of the Financial System all legal entities dedicated to the money transfer business. In 2016 another was amendment to Decree 592 was enacted in order to define the requirements that must be met by valuation experts when elaborating valuation reports in connection with guarantees of loans granted by financial entities.

Banking Law of El Salvador

On 1999, The Congress of the Republic of El Salvador enacted Decree 697, which regulates the financial intermediation activities and other operations performed by banks. Banks are required to establish the regulatory reserve requirements set by the Superintendency of the Financial System in accordance with the deposits and liabilities of each bank.

According to the Salvadorian Superintendency of Financial System's regulations, the reserve requirements for Salvadorian banks as of December 31, 2017 are:

	Ordinary Reserve Requirements %
Checking accounts	25%
Saving accounts	20%
Time deposits	20%
Borrowings from foreign banks	5%
Long-term debt (1)	15% - 20%
Checking accounts	25%

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

Investment Certificates with maturity equal or more than 5 years with mortgage guarantee, are not obliged to have reserves.

Monetary Integration Law of El Salvador

The Monetary Integration Law adopted the U.S. dollar as the legal currency, establishing a fixed exchange rate of 8.75 Colones per USD 1.00. The colón continues to have unrestricted legal circulation, but the Central Reserve Bank has been replacing it with the U.S. dollar each time colón bills and coins are used in commercial transactions.

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

Financial Transactions Tax

In 2014, the Congress the Republic of El Salvador enacted the "Financial Transactions Tax Law". Pursuant to the financial transactions tax law, financial entities act as withholding agents for the tax to be applied on financial transactions and of the liquidity control tax, each of which are calculated at the time the customer conducts financial transactions. The financial transactions tax is 0.25% on taxable transactions exceeding USD 1,000. The tax for liquidity control is 0.25% on cash transactions of deposit, withdrawals and payments in excess of a monthly aggregate amount of USD 5,000.

The transactions subject to the financial transactions tax are: (i) payments of goods and services by checking or debit card, (ii) payments by wire transfers, (iii) transfers to third parties by any means, and (iv) transactions between financial entities based on any statement of their customers. In December 2016, the aforementioned law was amended in order to exclude from its scope certain transactions executed in the Salvadorian stock market. Such amendment was enacted in order to stimulate investment in the local stock market.

Investment Funds Law

The investment funds law seeks to encourage economic activity by providing small investors with access to capital markets, diversification of their investments and channeling their savings into productive sectors, in order to generate higher economic growth.

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

This Law also provides for the creation of investment fund managers who are responsible for performing all acts, contracts and operations necessary for the administration and operation of investment funds.

In 2016, The Central Bank enacted Technical Standards ("Normas Técnicas") in order to apply this Law. Such technical standards include, standards regarding the investment funds permitted transactions, standards related to the disclosure of information, etc.

Financial Regulation in Guatemala

Decree 16 of 2002 sets forth the scope of the activities of Banco de Guatemala in its capacity as Central Bank of the country, establishing as its fundamental purpose contributing to the creation and maintenance of the most favorable conditions for an orderly development of the national economy, for which it shall facilitate the monetary, foreign exchange and credit conditions that promote stability in general prices.

Pursuant to Decree 16 of 2002, the Guatemalan Central Bank's main objectives are to (i) be the national currency issuer, (ii) assure the effective functioning of the national payments system, (iii) assure an adequate liquidity level in the banking system, (iv) receive in deposit bank reserve requirements and statutory deposits, (v) manage international reserves.

Furthermore, Decree 16 of 2002 regulates the activities of the Monetary Board as governing body of the Central Bank and the Guatemalan financial system. Pursuant to Decree 16 of 2002, the Monetary Board has the following attributions with respect to the Guatemalan financial system: (i) determine and assess the monetary, currency exchange and credit policies of the country; (ii) ensure liquidity and solvency of the national banking system; (iii) regulate aspects related to bank reserves and statutory deposits; (iv) regulate the Banking Clearing House Chamber; (v) authorize the investment policy of international monetary reserves; (vi) establish the minimum reserves required in order to strengthen the Central Bank´s net worth; (vii) issue regulations with respect to the financial system and financial activities, and; (viii) approve any provisions or rules submitted for its consideration by the Superintendency of Banks or by the Central Bank, as applicable.

The Superintendency of Banks is created and regulated by Decree 18 of 2002. The Decree establishes the scope of the Superintendency´s regulatory and supervisory activities within the financial system. Thus, the Superintendency of Banks is in charge of the supervision of entities such as the Central Bank, banks, financial corporations, credit institutions, bond entities, insurance entities, warehouse deposit companies, currency exchange offices, financial groups and holding companies of financial groups, and other entities as mentioned by law.

Pursuant to Decree 18 of 2002, the Superintendency of Banks, in order to achieve its purpose, shall exercise the following functions:

a) Supervise financial entities so they can maintain adequate liquidity and solvency levels that enable them to timely and fully perform their obligations, and to assess and properly manage their risks
b) Issue instructions intended to remediate any deficiencies or irregularities found in the activities of financial entities.
c) Impose any applicable penalties and fines to financial institutions in accordance to applicable the laws and regulations.
d) Supervise and inspect with the broadest attributions all sources and systems of information of the supervised financial entities, including, but not limited to, accounting records, reports, contracts, documents and any other information the Superintendence deems necessary.
e) Require information on any of the financial entities´ activities, acts, trust operations and financial condition, either individually, or where appropriate, in a consolidated manner.
f) Perform its supervision activities on a consolidated basis.
g) Assess risk policies, procedures, standards and systems of financial entities, and in general terms, ensure that they have integral risk management processes.
h) Ensure overall and uniform compliance with the accounting standards, in compliance with the regulations issued for such purposes by the Monetary Board.
i) Ensure compliance with the regulations issued by the Monetary Board requiring financial entities to provide sufficient, trustworthy and timely information to the public on their activities and their financial situation, individually, and where applicable, in a consolidated manner.
j) Publish sufficient, trustworthy and timely information on the financial situation of the financial entities subject to its supervision, either individually or in a consolidated manner.

The following are some of the main considerations taken into account by the Superintendency of Banks in determining compliance with applicable regulations:

a) Minimum Reserve Requirements: Banking institutions are subject to a minimum reserve requirement of 14.6% over the deposits received by the institution, which must be kept in the form of immediately available deposits with the Guatemalan Central Bank. To verify compliance with the regulation, banking institutions must provide the Superintendence of Banks with a daily report detailing the minimum reserve requirement.

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b) Loan Loss Reserves: In accordance with limitations specified by the Banks and Financial Groups Law and regulations issued by the Monetary Board, banking institutions, financial service entities, offshore entities and other financial institutions must carry out quarterly delinquency assessments of their credit and record reserves based on estimates of non-recoverability. Banking institutions and financial corporations must provide to the Superintendence of Banks monthly reports concerning outstanding credits in effect and movements and appraisals of credit portfolios in accordance with criteria specified by the Monetary Board. Additionally, the Superintendence of Banks carries out on-site reviews in which it evaluates payment ability and payment fulfillment of debtors and requests the institutions to record that necessary reserves be based on the non-payment risk.

c) Capital Requirements: As specified in regulations issued by the Monetary Board, banking institutions in Guatemala must have a minimum capital adequacy ratio (risk-weighted assets to equity) of 10%, which is consistent with the Basel I guidelines. Banks must submit a weekly report to the Superintendence of Banks for monitoring compliance with this requirement.

d) Related Party Transactions: In its on-site reviews the Superintendence of Banks verifies that financial institutions are in compliance with Monetary Board regulations limiting transactions between related parties. Related parties may transact business with one another provided they do so in accordance with their normal standards of business.

In addition, when a bank has a deficit in its regulatory capital (*deficiencia patrimonial*), it must immediately report it to the Superintendence of Banks. The Monetary Board will immediately order the suspension of operations of a bank that has suspended payment of its obligations and has a deficit in regulatory capital that exceeds 50% of equity, or if it has not submitted to the Superintendence of Banks a recovery plan, or if such plan has been rejected or has not been complied with. In such a case, the Monetary Board will name an Assets and Liabilities Exclusion Board which will be responsible for suspending the obligations of the entity and closing its operations. If, after suspension of operations, the Board of Assets and Liabilities Exclusion reports to the Monetary Board that dissolution is inevitable, the Monetary Board must then instruct the Superintendence of Banks to request a judicial declaration of bankruptcy. Once bankruptcy proceedings commence, the Savings Protection Fund participates as the entity in charge of the recovery of depositor funds.

The Law for Banks and Financial Groups provides within a regularization plan, and if deemed convenient, at the discretion of the Monetary Board, limiting profit sharing for the shareholders of a bank as well as the possibility of incorporating a member to the Board of Directors.

Decree 19 of 2002 regulates the creation, organization, merging, activities, operations, functioning, suspension of operations and winding up of banks and financial entities, as well as the establishment and closure of branches and representation offices of foreign banks in Guatemala.

Decree 19 of 2002 also establishes that the members of the board of directors and general managers of the above-mentioned entities shall be held civilly, administrative and criminally accountable for the performance of their duties and, therefore, will respond unlimitedly with their personal assets with respect to liability for fines, damages and other monetary sanctions, directors and general managers are subject to potentially unlimited personal liability.

This decree also allows financial entities to form financial groups or conglomerates under the common control of a holding entity or to designate one of the financial entities of the group as its holding company. The identification as a financial group does not entail that the financial group becomes a separate legal entity, rather, the purpose of such identification is to allow the Superintendency of Banks to perform its supervision tasks on a consolidated basis.

Other Regulations in Guatemala

Decree 94 of 2000 permits and regulates the use, transfer and payment in foreign currencies, as well as the use of foreign currency accounts and deposits within the Guatemalan financial system. Corporations and other entities that wish to offer securities denominated in foreign currencies must obtain prior authorization from the Monetary Board.

The Anti-Money Laundering Law (Ley Contra el Lavado de Dinero u Otros Activos) was enacted to prevent and control money laundering in connection with criminal activities. Regulations issued by the Superintendency of Banks in accordance with this law went into effect on April 26, 2002. Among other things, the law and regulations created the Financial Intelligence Unit within the Superintendence of Banks under the name of Special Verification Intendence (Intendencia de Verificación Especial – IVE). The Special Verification Intendence has been developing a national network for the prevention, control and surveillance of money-laundering activities. Penalties for non-compliance with anti-money laundering laws and regulations, which are set forth in the Superintendence of Banks Resolution 43-2002, include fines or jail time for bank directors or employees and the suspension or cancellation of a financial institution's license.

In August 2005, Guatemala's Congress approved Decree No. 58-2005 which contains the Law to Prevent and Repress Terrorism Financing. This law is based on the requirements and recommendations of the United Nation's International Convention for the suppression of Terrorism Financing, the UN's 1373 Resolution from the Security Council and the FATF 9 Special Recommendations. Approval of the Law to Prevent and Repress Terrorism Financing places Guatemala as the first country in Central America and second in Latin America to have specific legislation concerning terrorist financing. The law provides penalties such as seizure of assets, imprisonment or imposition of fines to any director, officer, stockholder or owner of financial entities found guilty of violating it.

C. ORGANIZATIONAL STRUCTURE

The following are the subsidiaries of Bancolombia:

(*) *Investment in legal liquidation process.*

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The following is a list of subsidiaries of Bancolombia as of December 31, 2017:

SUBSIDIARIES

Entity	**Jurisdiction of Incorporation**	**Business**	**Shareholding Directly and Indirectly**
Fiduciaria Bancolombia S.A. Sociedad Fiduciaria	Colombia	Trust	98.81%
Banca de Inversión Bancolombia S.A. Corporación Financiera	Colombia	Investment banking	100.00%
Valores Bancolombia S.A. Comisionista de Bolsa	Colombia	Securities brokerage	100.00%
Renting Colombia S.A.S. (Before Renting Colombia S.A.)	Colombia	Operating leasing	100.00%
Transportempo S.A.S.	Colombia	Transportation	100.00%
Valores Simesa S.A.	Colombia	Investments	68.57%
Inversiones CFNS S.A.S.	Colombia	Investments	99.94%
BIBA Inmobiliaria S.A.S.	Colombia	Real estate broker	100.00%
FCP Fondo Colombia Inmobiliario.	Colombia	Real estate broker	63.47%
Fideicomiso "Lote Abelardo Castro".	Colombia	Mercantil trust	68.23%
Bancolombia Panamá S.A.	Panama	Banking	100.00%
Sistemas de Inversiones y Negocios S.A. Sinesa	Panama	Investments	100.00%
Banagrícola S.A.	Panama	Holding	99.16%
Banistmo S.A.	Panama	Banking	100.00%
Banistmo Investment Corporation S.A.	Panama	Trust	100.00%
Financomer S.A.	Panama	Financial services	100.00%
Leasing Banistmo S.A.	Panama	Leasing	100.00%
Valores Banistmo S.A.	Panama	Purchase and sale of securities	100.00%
Suvalor Panamá Fondos de Inversión S.A.	Panama	Holding	100.00%
Suvalor Renta Fija Internacional Largo Plazo S.A.	Panama	Collective investment fund	100.00%
Suvalor Renta Fija Internacional Corto Plazo S.A.	Panama	Collective investment fund	100.00%
Banistmo Capital Markets Group Inc. (non-operational stage)	Panama	Purchase and sale of securities	100.00%
Van Dyke Overseas Corp. (non-operational stage)	Panama	Real estate broker	100.00%
Inmobiliaria Bickford S.A. (non-operational stage)	Panama	Real estate broker	100.00%
Williamsburg International Corp. (non-operational stage)	Panama	Real estate broker	100.00%
Anavi Investment Corporation S.A. (non-operational stage)	Panama	Real estate broker	100.00%
Desarrollo de Oriente S.A. (non-operational stage)	Panama	Real estate broker	100.00%
Steens Enterpresies S.A. (non-operational stage)	Panama	Portfolio holder	100.00%
Ordway Holdings S.A. (non-operational stage)	Panama	Real estate broker	100.00%
Grupo Agromercantil Holding S.A.	Panama	Holding	60.00%
Banco Agrícola S.A.	El Salvador	Banking	97.36%

Arrendadora Financiera S.A. Arfinsa	El Salvador	Leasing	97.37%
Credibac S.A. de C.V.	El Salvador	Credit card services	97.36%
Valores Banagrícola S.A. de C.V.	El Salvador	Securities brokerage	98.89%
Inversiones Financieras Banco Agrícola S.A IFBA	El Salvador	Investments	98.89%
Gestora de Fondos de Inversión Banagricola S.A.	El Salvador	Administers investment funds	98.89%
Arrendamiento Operativo CIB S.A.C. (classified as assets held for sale)	Peru	Operating leasing	100.00%
Fondo de Inversión en Arrendamiento Operativo - Renting Perú (In liquidation)	Peru	Operating leasing	100.00%
Capital Investments SAFI S.A. (classified as assets held for sale)	Peru	Trust	100.00%
FiduPerú S.A. Sociedad Fiduciaria (classified as assets held for sale)	Peru	Trust	98.81%

Entity	Jurisdiction of Incorporation	Business	Shareholding Directly and Indirectly
Leasing Perú S.A. (In liquidation)	Peru	Leasing	100.00%
Banagrícola Guatemala S.A.	Guatemala	Outsourcing	99.16%
Banco Agromercantil de Guatemala S.A.	Guatemala	Banking	60.00%
Seguros Agromercantil de Guatemala S.A.	Guatemala	Insurance company	59.17%
Financiera Agromercantil S.A.	Guatemala	Financial services	60.00%
Agrovalores S.A.	Guatemala	Securities brokerage	60.00%
Arrendadora Agromercantil S.A.	Guatemala	Operating Leasing	60.00%
Agencia de Seguros y Fianzas Agromercantil S.A.	Guatemala	Insurance company	60.00%
Asistencia y Ajustes S.A.	Guatemala	Services	60.00%
Serproba S.A.	Guatemala	Maintenance and remodelling services	60.00%
Servicios de Formalización S.A.	Guatemala	Loans formalization	60.00%
Conserjeria, Mantenimiento y Mensajería S.A.	Guatemala	Maintenance services	60.00%
Media Plus S.A.	Guatemala	Advertising and marketing	60.00%
Mercom Bank Ltd.	Barbados	Banking	60.00%
New Alma Enterprises Ltd.	Bahamas	investments	60.00%
Bancolombia Puerto Rico Internacional Inc.	Puerto Rico	Banking	100.00%
Bancolombia Caymán S.A.	Cayman Islands	Banking	100.00%
Bagrícola Costa Rica S.A.	Costa Rica	Outsourcing	99.16%

D. PREMISES AND EQUIPMENT

As of December 31, 2017, the Bank owned COP 3,127 billion in premises and equipment (including assets that are part of our operating leasing business) COP 1,641 billion correspond to land and buildings, of which approximately 95.88% are used for administrative offices and branches in 55 municipalities in Colombia, 25 municipalities in El Salvador, 9 municipalities in Guatemala and 4 municipalities in Panama. Likewise, COP 783 billion correspond to computer equipment, of which 12.06% relate to the central computer and servers of the Bank and the rest relate to personal computers, ATMs, telecommunications equipment and other equipment. Additionally, COP 5 billion correspond to constructions in progress.

In addition to its own branches, the Bank occupies 957 rented offices.

The following table illustrates the carrying amounts of premises and equipment for each country as of December 31, 2017:

Country [1]	Amount
	In millions of COP
Colombia	2,445,791
Costa Rica	80
El Salvador	277,976
Guatemala	165,804
Panamá	237,366
Puerto Rico	388
Total	**3,127,405**

(1) *As of December 31, 2017, the Bank has premises and equipment classified as held for sale amounting to 109,469, related with its Peruvian operations.*

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The Bank does not have any liens on its property.

E. SELECTED STATISTICAL INFORMATION

The following information should be read in conjunction with the Consolidated Financial Statements as well as Item 5, “Operating and Financial Review and Prospects”. This information has been prepared based on the Bank’s financial records, which are prepared in accordance with IFRS as issued by the IASB and the related interpretations issued by the IFRIC.

The consolidated selected statistical information as of and for the year ended December 31, 2014 includes the selected statistical information of Bancolombia and its Subsidiaries, without reflecting any pro-forma calculation of the effect of the acquisition of the majority ownership of Grupo Agromercantil, while consolidated selected statistical information as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016, 2015 and 2014, as applicable, corresponds to the Bank, including all Subsidiaries as to which Bancolombia acquired control as a result of the 2015 acquisition of additional shares of Grupo Agromercantil. Prior to January 1, 2014, our consolidated financial statements were prepared in accordance with Colombian Banking GAAP.

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

Average balances for each of the years ended December 31, 2017, 2016 and 2015 have been calculated as the arithmetic average of the last 13 monthly IFRS balances.

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

Average statement of financial position

The following tables show for the years ended December 31, 2017, 2016 and 2015, respectively: (i) average balances for all of the Bank’s assets and liabilities; (ii) interest earned and interest paid amounts; and (iii) average nominal interest rates/yield for the Bank’s interest-earning assets and interest-bearing liabilities.

	Average statement of financial position and Income from Interest-Earning Assets for the Fiscal Year Ended December 31,[1]								
	2017			2016			2015		
	Average Balance	Interest income earned	Average Yield / Rate	Average Balance	Interest income earned	Average Yield / Rate	Average Balance	Interest income earned	Average Yield / Rate
	In millions of COP, except percentages								
ASSETS									
Interest-earning assets									
Funds sold and securities purchased under agreements to resell									
Domestic activities	1,164,612	57,071	4.9%	1,434,974	119,889	8.4%	1,180,507	74,263	6.3%
Foreign activities	2,196,602	504	0.0%	1,905,163	41,113	2.2%	1,594,096	20,721	1.3%
Total	**3,361,214**	**57,575**	**1.7%**	**3,340,137**	**161,002**	**4.8%**	**2,774,603**	**94,984**	**3.4%**
Debt investments [2]									
Domestic activities	9,057,238	612,076	6.8%	7,114,398	481,316	6.8%	7,929,171	253,121	3.2%
Foreign activities	5,390,576	247,655	4.6%	5,364,736	262,644	4.9%	3,684,896	113,608	3.1%
Total	**14,447,814**	**859,731**	**6.0%**	**12,479,134**	**743,960**	**6.0%**	**11,614,067**	**366,729**	**3.2%**
Interest income on loans and financial leases [3]									
Domestic activities	94,870,082	12,122,572	12.8%	87,289,606	11,494,684	13.2%	79,835,468	8,739,998	10.9%
Foreign activities	55,631,821	3,851,013	6.9%	57,291,045	3,815,489	6.7%	45,190,581	2,521,782	5.6%
Total	**150,501,903**	**15,973,585**	**10.6%**	**144,580,651**	**15,310,173**	**10.6%**	**125,026,049**	**11,261,780**	**9.0%**
Total interest-earning assets									
Domestic activities	105,091,932	12,791,719	12.2%	95,838,978	12,095,889	12.6%	88,945,146	9,067,396	10.2%
Foreign activities	63,218,999	4,099,172	6.5%	64,560,944	4,119,246	6.4%	50,469,573	2,656,142	5.3%
Total	**168,310,931**	**16,890,891**	**10.0%**	**160,399,922**	**16,215,135**	**10.1%**	**139,414,719**	**11,723,538**	**8.4%**
Total non-interest-earning assets									
Domestic activities	16,254,108	-	-	15,656,149	-	-	10,050,646	-	-
Foreign activities [4]	16,347,218	-	-	17,411,162	-	-	15,383,212	-	-
Total	**32,601,326**	-	-	**33,067,311**	**-**	**-**	**25,433,858**	**-**	**-**
Total interest and non-interest earnings assets									
Domestic activities	121,346,040	12,791,719	10.5%	111,495,127	12,095,889	10.8%	98,995,792	9,067,396	9.2%
Foreign activities [4]	79,566,217	4,099,172	5.2%	81,972,106	4,119,246	5.0%	65,852,785	2,656,142	4.0%
Total [5]	**200,912,257**	**16,890,891**	**8.4%**	**193,467,233**	**16,215,135**	**8.4%**	**164,848,577**	**11,723,538**	**7.1%**

(1) *The Bank average total assets and total liabilities and stockholder's equity were calculated considering the last 13 monthly IFRS balances.*

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

(3) *Includes performing loans only.*

(4) *The percentage of total average assets attributable to foreign activities was 39.6%, 42.4% and 39.9% respectively, for the fiscal years ended December 31, 2017, 2016 and 2015.*

(5) *As of December 31, 2016, and 2015 the Bank´s total average assets includes the assets of the discontinued operations of Tuya S.A., as it was not practicable to exclude such assets when calculating monthly balances and the resulting annual averages. The difference between the line "total" in the table above and the line "Total interest and valuation" is due to the fact that the Bank's Consolidated Statement of Income includes interest and valuation related to debt securities investments and derivatives.*

Average statement of financial position and Interest Paid on Interest-Bearing Liabilities for the Fiscal Year Ended December 31, (1)

	2017			2016			2015		
	Average Balance	Interest paid	Average Yield / Rate (2)	Average Balance	Interest paid	Average Yield / Rate (2)	Average Balance	Interest paid	Average Yield / Rate
	In millions of COP, except percentages								
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Checking deposits									
Domestic activities	10,319,409	14,2[illegible]	0.1%	10,960,605	15,175	0.1%	11,0[illegible]	[illegible]	0.2%
Foreign activities	10,173,663	36,5[illegible]	0.4%	10,511,089	42,473	0.4%	7,53[illegible]	[illegible]	0.2%
Total	**20,493,072**	**50,8[illegible]**	**0.2%**	**21,471,694**	**57,648**	**0.3%**	**18,5[illegible]**	**[illegible]**	**0.2%**
Savings deposits									
Domestic activities	38,111,789	1,06[illegible]	[illegible]	33,763,375	866,387	2.6%	30,9[illegible]	[illegible]	1.7%
Foreign activities	12,277,933	200,7[illegible]	1.6%	12,653,306	192,413	1.5%	9,83[illegible]	[illegible]	1.4%
Total	**50,389,722**	**1,26[illegible]**	**2.5%**	**46,416,681**	**1,058,800**	**2.3%**	**40,7[illegible]**	**[illegible]**	**1.6%**
Time deposits									
Domestic activities	30,666,059	2,18[illegible]	7.1%	27,813,915	2,128,861	7.7%	23,2[illegible]	[illegible]	5.7%
Foreign activities	24,242,926	781,3[illegible]	3.2%	23,375,945	720,532	3.1%	18,9[illegible]	[illegible]	2.3%
Total	**54,908,985**	**2,96[illegible]**	**5.4%**	**51,189,860**	**2,849,393**	**5.6%**	**42,2[illegible]**	**[illegible]**	**4.2%**
Funds purchased and securities sold under agreements to repurchase									
Domestic activities	4,109,470	175,[illegible]	4.3%	2,514,533	130,912	5.2%	2,795,[illegible]	[illegible]	4.6%
Foreign activities	845,370	5,05[illegible]	0.6%	529,575	6,492	1.2%	450,7[illegible]	[illegible]	0.7%
Total	**4,954,840**	**180,[illegible]**	**3.6%**	**3,044,108**	**137,404**	**4.5%**	**3,245,[illegible]**	**[illegible]**	**4.1%**
Borrowings from development and other domestic banks (2)									
Domestic activities	5,066,726	391,[illegible]	7.7%	5,228,949	232,899	4.5%	4,603,[illegible]	[illegible]	2.8%
Foreign activities	683,451	34,3[illegible]	5.0%	598,092	17,232	2.9%	270,2[illegible]	[illegible]	2.8%
Total	**5,750,177**	**425,[illegible]**	**7.4%**	**5,827,041**	**250,131**	**4.3%**	**4,874,[illegible]**	**[illegible]**	**2.8%**
Interbank borrowings(2)(3)									
Domestic activities	-	-	0.0%	-	-	0.0%	-	-	0.0%
Foreign activities	10,779,261	278,1[illegible]	2.6%	14,004,249	307,178	2.2%	10,50[illegible]	[illegible]	1.7%
Total	**10,779,261**	**278,1[illegible]**	**2.6%**	**14,004,249**	**307,178**	**2.2%**	**10,50[illegible]**	**[illegible]**	**1.7%**
Long-term debt									
Domestic activities	5,803,401	476,[illegible]	8.2%	5,885,689	613,321	10.4%	5,907,[illegible]	[illegible]	8.4%
Foreign activities	13,435,824	714,9[illegible]	5.3%	13,556,293	738,827	5.5%	10,73[illegible]	[illegible]	5.4%
Total	**19,239,225**	**1,19[illegible]**	**6.2%**	**19,441,982**	**1,352,148**	**7.0%**	**16,64[illegible]**	**[illegible]**	**6.5%**

Total interest-bearing liabilities									
Domestic activities	94,076,854	4,304,120	4.6%	86,167,066	3,987,555	4.6%	78,56[illegible]	[illegible],504	3.3%
Foreign activities	72,438,428	2,051,019	2.8%	75,228,549	2,025,147	2.7%	58,27[illegible]	1,9[illegible]6,330	2.4%
Total	**166,515,282**	**6,355,139**	**3.8%**	**161,395,615**	**6,012,702**	**3.7%**	**136,84[illegible]**	**[illegible],834**	**2.9%**
Total non-interest bearing liabilities									
Domestic activities	8,965,995	-	-	8,541,148	-	-	5,744,793	-	-
Foreign activities (4)	2,387,904	-	-	2,657,346	-	-	3,366,523	-	-
Total	**11,353,899**	-	-	**11,198,494**	-	-	**9,111,316**	-	-
Stockholders' equity									
Domestic activities	18,743,416	-	-	15,715,483	-	-	15,512,136	-	-
Foreign activities	4,299,659	-	-	5,157,640	-	-	3,344,666	-	-
Total	**23,043,075**	-	-	**20,873,123**	-	-	**18,856,802**	-	-
Total interest and non-interest bearing liabilities and stockholders' equity (4)									

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Average statement of financial position and Interest Paid on Interest-Bearing Liabilities for the Fiscal Year Ended December 31, [1]

	2017			2016			2015		
	Average Balance	Interest paid	Average Yield / Rate [2]	Average Balance	Interest paid	Average Yield / Rate [2]	Average Balance	Interest paid	Average Yield / Rate
In millions of COP, except percentages									
Domestic activities	121,786,265	4,304,[illegible]	[illegible]	110,423,697	3,987,555	3.6%	99,820,[illegible]	[illegible]23,504	2.6%
Foreign activities [4]	79,125,991	2,051,[illegible]	[illegible]	83,043,535	2,025,147	2.4%	64,990,1[illegible]	[illegible]76,330	2.1%
Total [5]	**200,912,256**	**6,355,[illegible]**	**[illegible]**	**193,467,232**	**6,012,702**	**3.1%**	**164,810,[illegible]**	**[illegible]9,834**	**2.4%**

(1) *The Bank average of total assets and total liabilities and stockholder's equity were calculated considering the last 13 monthly IFRS balances.*

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

(3) *Includes borrowings from banks located outside Colombia.*

(4) *The percentage of total average liabilities attributable to foreign activities was 42.1%, 45.1% and 42.2% respectively, for the fiscal years ended December 31, 2017, 2016 and 2015.*

(5) *As of December 31, 2016, and 2015 the Bank's total average liabilities and stockholder's equity includes the liabilities and stockholder's equity of the discontinued operation.*

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

The following table allocates, for domestic and foreign activities, changes in the Bank’s net interest income to changes in average volume, changes in nominal rates and the net variance caused by changes in both average volume and nominal rate for the year ended December 31, 2017 compared to the year ended December 31, 2016; and the year ended December 31, 2016, compared to the year ended December 31, 2015. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities. Net changes attributable to changes in both volume and interest rate have been allocated to the change due to changes in volume.

	December 31, 2017- December 31, 2016			December 31, 2016- December 31, 2015		
	Increase (Decrease) due to changes in:			Increase (Decrease) due to changes in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change

	In millions of COP					
Interest-earning assets						
Funds sold and securities purchased under agreements to resell						
Domestic activities	(19,665)	(43,153)	(62,818)	16,002	24,392	40,394
Foreign activities	7,427	(48,036)	(40,609)	4,049	13,648	17,697
Total	**(12,238)**	**(91,189)**	**(103,427)**	**20,051**	**38,040**	**58,091**
Investment securities [(1)]						
Domestic activities	131,294	(534)	130,760	(26,014)	283,277	257,263
Foreign activities	1,272	(16,261)	(14,989)	51,791	66,795	118,586
Total	**132,566**	**(16,795)**	**115,771**	**25,777**	**350,072**	**375,849**
Loans and financial leases						
Domestic activities	953,302	(325,414)	627,888	816,043	1,773,092	2,589,135
Foreign activities	(98,435)	133,959	35,524	675,245	487,836	1,163,081
Total	**854,867**	**(191,455)**	**663,412**	**1,491,288**	**2,260,928**	**3,752,216**
Total interest-earning assets						
Domestic activities	1,064,931	(369,101)	695,830	806,031	2,080,761	2,886,792
Foreign activities	(89,736)	69,662	(20,074)	731,085	568,279	1,299,364

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	December 31, 2017- December 31, 2016 Increase (Decrease) due to changes in:			December 31, 2016- December 31, 2015 Increase (Decrease) due to changes in:		
	Volume	**Rate**	**Net Change**	**Volume**	**Rate**	**Net Change**
	In millions of COP					
Total	**975,195**	**(299,439)**	**675,756**	**1,537,116**	**2,649,040**	**4,186,156**
Interest-bearing liabilities:						
Checking deposits						
Domestic activities	(884)	(57)	(941)	(119)	(2,501)	(2,620)
Foreign activities	(1,329)	(4,565)	(5,894)	6,334	14,400	20,734
Total	**(2,213)**	**(4,622)**	**(6,835)**	**6,215**	**11,899**	**18,114**
Savings deposits						
Domestic activities	117,432	80,616	198,048	48,296	265,076	313,372
Foreign activities	(5,429)	13,797	8,368	40,674	7,486	48,160
Total	**112,003**	**94,413**	**206,416**	**88,970**	**272,562**	**361,532**
Time deposits						
Domestic activities	169,358	(116,208)	53,150	257,315	459,434	716,749
Foreign activities	27,270	33,474	60,744	103,726	140,465	244,191
Total	**196,628**	**(82,734)**	**113,894**	**361,041**	**599,899**	**960,940**
Funds purchased and securities sold under agreements to repurchase						
Domestic activities	62,524	(17,525)	44,999	(12,940)	16,668	3,728
Foreign activities	(10,181)	8,745	(1,436)	582	2,198	2,780
Total	**52,343**	**(8,780)**	**43,563**	**(12,358)**	**18,866**	**6,508**
Borrowings from development and other domestic banks						
Domestic activities	(6,991)	165,541	158,550	17,668	74,907	92,575
Foreign activities	2,753	14,315	17,068	9,071	310	9,381
Total	**(4,238)**	**179,856**	**175,618**	**26,739**	**75,217**	**101,956**
Interbank borrowings						
Domestic activities	-	-	-	-	-	-
Foreign activities	(123,845)	94,774	(29,071)	61,208	46,807	108,015
Total	**(123,845)**	**94,774**	**(29,071)**	**61,208**	**46,807**	**108,015**
Long-term debt						
Domestic-activities	(8,462)	(128,779)	(137,241)	(1,828)	120,426	118,598
Foreign-activities	(6,523)	(17,384)	(23,907)	152,508	4,755	157,263
Total	**(14,985)**	**(146,163)**	**(161,148)**	**150,680**	**125,181**	**275,861**
Total interest-bearing liabilities						
Domestic-activities	332,977	(16,412)	316,565	308,392	934,010	1,242,402
Foreign-activities	(117,284)	143,156	25,872	374,103	216,421	590,524
Total	**215,693**	**126,744**	**342,437**	**682,495**	**1,150,431**	**1,832,926**

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

INTEREST-EARNING ASSETS — NET INTEREST MARGIN AND SPREAD

The following table presents the levels of average interest-earning assets and net interest income of the Bank and illustrates the comparative net interest margin and interest spread obtained for the fiscal years ended December 31, 2017, 2016 and 2015, respectively.

	Interest-Earning Assets-Yield For the Fiscal Year Ended December 31,		
	2017	**2016**	**2015**
	In millions of COP, except percentages		
Total average interest-earning assets			
Domestic activities	105,091,932	95,838,978	88,945,146
Foreign activities	63,218,999	64,560,944	50,469,573
Total	**168,310,931**	**160,399,922**	**139,414,719**
Net interest income (1)			
Domestic activities	8,487,599	8,108,334	6,443,892
Foreign activities	2,048,153	2,094,099	1,279,812
Total	**10,535,752**	**10,202,433**	**7,723,704**
Average yield on interest-earning assets			
Domestic activities	12.17%	12.62%	10.19%
Foreign activities	6.48%	6.38%	5.26%
Total	**10.04%**	**10.11%**	**8.41%**
Net interest margin (2)			
Domestic activities	8.08%	8.46%	7.24%
Foreign activities	3.24%	3.24%	2.54%
Total	**6.26%**	**6.36%**	**5.54%**
Interest spread (3)			
Domestic activities	7.60%	7.99%	6.86%
Foreign activities	3.65%	3.69%	2.90%
Total	**6.22%**	**6.38%**	**5.49%**

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

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

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

E.2. INVESTMENT PORTFOLIO

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

International Financial Reporting Standard 9 (IFRS 9) requires investments to be classified as either amortized cost or fair value. The classification is based on: (a) the entity's business model for managing the financial assets, and (b) the contractual cash flow characteristics of the financial asset. Accordingly, an investment is classified and measured as amortized cost if: (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Indicators that the financial asset is impaired include historical performance data, particular characteristics of the borrower, fair value of collateral, the borrower's debt to other entities, macroeconomic factors and financial information, a significant financial difficulty of the customers, or if they are likely to declare bankruptcy or financial restructuring, or if there is a breach of contract, such as a default or delinquency in interest or principal payments.

For purposes of measurement and recognition of impairment in subsidiaries, affiliates, associates and joint ventures in separated financial statements, the controlled companies apply the impairment test in accordance with IAS 36 once indicators of impairment from IAS 39 are identified.

As of December 31, 2017, Bancolombia's debt securities investment portfolio had a carrying value of COP 14,859 billion.

The following table sets forth the carrying value of the Bank's investments in Colombian Government and foreign Governments and corporate securities and certain other financial investments as of the dates indicated [(1)].

	As of December 31,		
	2017 (2)	**2016 (2)**	**2015 (2)**
	In millions of COP		
Foreign currency-denominated			
Securities issued by foreign Governments	3,522,849	3,413,867	4,443,307
Securities issued or secured by other financial entities	641,305	615,299	905,171
Securities issued or secured by Colombian Government	69,602	263,275	188,618
Securities issued or secured by the El Salvador Central Bank	-	-	43,913
Securities issued or secured by Government entities	26,377	12,376	9,997
Corporate bonds	1,000,794	480,713	531,044
Subtotal	**5,260,927**	**4,785,530**	**6,122,050**
Peso-denominated			
Securities issued or secured by other financial entities	636,902	666,592	838,769
Securities issued or secured by the Colombian Government	6,946,510	4,640,877	4,644,051
Securities issued or secured by Government entities	1,936,215	1,532,312	1,475,055
Corporate bonds	78,869	47,170	33,218
Subtotal (3)	**9,598,496**	**6,886,951**	**6,991,093**
Total	**14,859,423**	**11,672,481**	**13,113,143**

(1) *For further information, see Note 5 "Financial assets investments and derivatives" to the Consolidated Financial Statements.*

(2) *Includes debt securities only. Net investments in equity securities were COP 1,517,830 COP 1,388,172 million and COP 1,164,681 million for 2017, 2016 and 2015, respectively.*

(3) *As of December 31, 2015, Compañía de Financiamiento Tuya S.A. a discontinued operation, had debt securities amounting to COP 30,271 million, which were classified in 'Securities issued or secured by Government entities' item.*

As of December 31, 2017, 2016 and 2015, Bancolombia held securities issued by foreign Governments in the following amounts:

As of December 31,	Issuer	Investment Amount–Book Value - (In millions of COP)	Investment Amount–Book Value (thousands of U.S. dollars)(1)
2017	*Republic of Guatemala*	1,462,363	490,068
	Republic of Panama	958,553	321,231
	U.S. Treasury	701,551	235,104
	Republic of Mexico	22,095	7,404
	Republic of Costa Rica	87,800	29,424
	Republic of El Salvador	290,487	97,348
2016	*Republic of Guatemala*	1,428,338	476,000
	Republic of Panama	818,988	272,931
	U.S. Treasury	319,967	106,630
	Republic of Mexico	197,162	65,705
	Republic of Costa Rica	47,575	15,855
	Republic of El Salvador	569,479	189,781
	Republic of Brazil	32,358	10,784
2015	*Republic of Guatemala*	1,670,390	530,372
	Republic of Panama	923,470	293,214
	U.S. Treasury	523,707	166,284
	Republic of Mexico	479,304	152,186
	Republic of Costa Rica	123,196	39,117
	Republic of El Salvador	688,522	218,615
	Republic of Brazil	34,718	11,023

(1) These amounts have been translated at the rate of COP 2,984.00 per USD 1.00 at December 31, 2017, COP 3,000.71 per USD 1.00 at December 31, 2016 and COP 3,149.47 per USD 1.00 at December 31, 2015, which corresponds to the Representative Market Rate calculated on December 31, the last business day of the year.

As of December 31, 2017, the Bank’s peso-denominated debt securities portfolio amounted to COP 9,598 billion, reflecting a 39.37% increase compared to December 31, 2016 because a surge in positions of Securities issued or secured by the Colombian Government and Government entities. Peso-denominated debt securities issued by the Colombian government represented 72.37% of the Bank’s peso-denominated debt securities portfolio as of December 31, 2017.

Also, as of December 31, 2017, Bancolombia’s portfolio of securities issued by foreign governments amounted to COP 3,522 billion, a 3.19% increase compared to December 31, 2016 as a consequence of a rise in the Bank’s position in U.S. Treasury, Costa Rica and U.S. Guatemala.

INVESTMENT SECURITIES PORTFOLIO MATURITY

The following table summarizes the maturities and weighted average nominal yields of the Bank's investment securities as of December 31, 2017:

As of December 31, 2017 (1)

	Maturity less than 1 year		Maturity between 1 and 5 years		Maturity between 5 and 10 Years		Maturity more than 10 years		Total	
	Balance	Yield %(1)	Balance	Yield %(1)	Balance	Yield %(1)	Balance	Yield %(1)	Balance	Yield %(1)
In millions of COP, except yields										
Securities issued or secured by:										
Foreign currency.-denominated (2):										
Foreign Governments	1,204,584	3.29%	1,744,373	2.34%	483,413	2.19%	90,479	0.32%	3,522,849	2.59%
Other financial entities	204,770	3.06%	213,885	3.38%	17,624	3.43%	205,027	-	641,306	2.20%
Colombian Government	-	-	42,016	4.33%	27,585	3.30%	-	-	69,601	3.92%
Other Government entities	-	-	24,137	3.94%	2,241	7.59%	-	-	26,378	4.25%
Corporate bonds	28,020	2.55%	177,116	5.52%	732,182	4.73%	63,476	5.13%	1,000,794	4.83%
Subtotal	**1,437,374**	**3.24%**	**2,201,527**	**2.75%**	**1,263,045**	**3.71%**	**358,982**	**0.99%**	**5,260,928**	**2.99%**
Securities issued or secured by Peso-denominated (2)										
Other financial entities	69,739	6.96%	288,219	7.46%	247,966	10.68%	30,977	9.42%	636,901	8.75%
Colombian Government	2,163,682	5.17%	4,429,393	5.29%	247,311	5.89%	100,764	6.62%	6,941,150	5.30%
Other Government entities	1,920,497	2.83%	14,825	6.89%	892	10.28%	-	-	1,936,214	2.87%
Corporate bonds	33,903	6.40%	24,960	6.27%	10,206	7.50%	9,800	8.24%	78,869	6.73%
Subtotal	**4,187,821**	**4.14%**	**4,757,397**	**5.44%**	**506,375**	**8.27%**	**141,541**	**7.34%**	**9,593,134**	**5.05%**
Securities issued or secured by UVR-denominated (2)										
Colombian Government	-	-	5,361	3.12%	-	-	-	-	5,361	3.12%
Subtotal	**-**	**-**	**5,361**	**3.12%**	**-**	**-**	**-**	**-**	**5,361**	**3.12%**
Total (COP)	**5,625,195**		**6,964,285**		**1,769,420**		**500,523**		**14,859,423**	

(1) Yield was calculated using the internal rate of return (IRR) as of December 31, 2017.

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

As of December 31, 2017, the Bank had the following investments in securities of issuers that exceeded 10% of the Bank's equity:

		As of December 31, 2017	
Securities issued or secured by:	**Issuer**	**Book Value**	**Fair value**
		In millions of COP	
Colombian Government	Ministry of Finance	7,016,112	7,016,112
Total		**7,016,112**	**7,016,112**

E.3. LOAN PORTFOLIO

Types of Loans

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

	As of December 31,			
	2017	2016	2015	2014
	In millions of COP			
Domestic				
Corporate (1)				
Trade financing	3,806,417	3,479,077	3,380,106	2,896,799
Loans funded by development banks	1,738,950	1,861,669	1,306,888	703,152
Working capital loans	43,087,893	41,432,921	42,632,934	36,157,009
Credit cards	105,505	65,852	54,694	47,197
Overdrafts	151,804	121,555	126,888	67,060
Total corporate	**48,890,569**	**46,961,074**	**47,501,510**	**39,871,217**
Retail (1)				
Credit cards	5,085,713	4,277,498	3,629,539	4,831,945
Personal loans	10,967,770	8,552,243	7,104,076	6,568,264
Vehicle loans	2,533,815	2,553,815	2,517,925	2,477,992
Overdrafts	223,981	226,575	203,439	210,283
Loans funded by development banks	957,577	1,033,879	884,490	783,610
Trade financing	537,205	404,481	372,339	424,596
Working capital loans	15,344,502	14,342,558	13,078,764	11,909,314
Total retail	**35,650,563**	**31,391,049**	**27,790,572**	**27,206,004**
Financial Leases	**21,728,901**	**20,685,823**	**19,898,665**	**17,197,752**
Mortgage	**10,987,580**	**10,170,163**	**8,712,892**	**7,353,372**

Total loans and leases	**117,257,613**	**109,208,109**	**103,903,639**	**91,628,345**
Allowance for loans and advances and lease losses	(7,305,563)	(5,529,506)	(4,312,564)	(4,028,866)
Total domestic loans, net	**109,952,050**	**103,678,603**	**99,591,075**	**87,599,479**
Foreign				
Corporate (1)				
Trade financing	16,414,186	15,474,410	15,192,611	6,248,364
Loans funded by development banks	7,731	9,375	12,576	6,162
Working capital loans	7,669,064	8,409,213	8,793,603	6,188,503
Credit cards	52,020	38,596	25,748	9,978
Overdrafts	7,135	9,232	6,661	7,140
Total corporate	**24,150,136**	**23,940,826**	**24,031,199**	**12,460,147**
Retail (1)				
Credit cards	1,651,333	1,582,942	1,429,351	746,691
Personal loans	6,348,860	6,242,800	6,106,241	4,134,873
Vehicle loans	477,900	595,399	637,047	373,478
Overdrafts	68,610	64,085	74,492	53,213
Loans funded by development banks	66,320	77,284	66,149	41,242
Trade financing	345,433	312,542	242,403	128,668
Working capital loans	57,211	79,710	71,316	45,246
Total retail	**9,015,667**	**8,954,762**	**8,626,999**	**5,523,411**
Financial Leases	**520,050**	**658,100**	**652,911**	**367,477**
Mortgage	**9,524,628**	**8,985,689**	**8,405,891**	**5,194,273**

	As of December 31,			
	2017	2016	2015	2014
	In millions of COP			
Total loans and leases	**43,210,481**	**42,539,377**	**41,717,000**	**23,545,308**
Allowance for loans and advances and lease losses	(917,540)	(1,092,405)	(936,191)	(760,391)
Total foreign loans, net	**42,292,941**	**41,446,972**	**40,780,809**	**22,784,917**
Total Foreign and Domestic Loans	**152,244,991**	**145,125,575**	**140,371,884**	**110,384,396**

(1) Corporate loans in this table are lower than the balances presented in Note 6 to Consolidated Financial Statements as Commercial loans in COP 15,956,536 and COP 15,357,808, as of 31 December 2017 and 2016, respectively. These amounts are presented as Retail loans in this table. Similarly, Retail loans also include the amounts presented in Note 6 to Consolidated Financial Statements as Small Business Loans for COP 1,063,580 and COP 1,062,724 and Consumer loans for COP 27,646,114 and COP 23,925,279 as of 31 December 2017 and 2016, respectively.

This difference in presentation is because loans are aggregated for marketing and selling purposes in a different way than they are aggregated for risk management purposes. Types of loans in this section follow the marketing and selling aggregation, whereas Note 6 to Consolidated Financial Statements follows risk management aggregation.

As of December 31, 2017, the Bank's total loan portfolio amounted to COP 160,468 billion, up 5.75% as compared to COP 151,747 billion in 2016. The moderate growth in loan volume during 2017 is explained by the macroeconomic conditions presented during the year, especially in the first half. For further discussion of some of these trends, please see Item 5. "Operating and Financial Review and Prospects-D. Trend information".

As of December 31, 2017, corporate loans amounted to COP 73,041 billion, or 45.52% of loans, and increased 3.02% from COP 70,902 billion at the end 2016. Such change is the result of the net effect between an increase in disbursements and prepayments made by corporate borrowers who refinanced debt using the capital markets.

As of December 31, 2017, retail loans totaled COP 44,666 billion, or 27.83% of total loans, of which COP 17,317 billion were personal loans (10.79% of total loans). Retail loans increased 17.04% over the year as a result of the downward trend in interest rates which led to an increase in household borrowing.

Total corporate and retail loans amounted to COP 117,707 billion at December 31, 2017. These loan categories correspond to the portfolio categories described in the consolidated financial statements as commercial, consumer and small business loans portfolio, which amounted to COP 88,997 billion, COP 27,646 billion and COP 1,064 billion, respectively, as of December 31, 2017. The difference between the two presentations is mainly explained by the allocation of credit cards, working capital loans and overdrafts. These products are considered as corporate loans from the salesforce's point of view, but are considered as part of one of the three different portfolios for purposes of the impairment assessment.

Financial leases totaled COP 22,249 billion as of December 31, 2017, up 4.24% from COP 21,344 billion in 2016.

As of December 31, 2017, mortgage loans totaled COP 20,512 billion and increased 7.08% over the year. This growth is explained by the slowdown in housing prices which means that a lower rate of housing prices increased, accompanied by the downward trend in interest rates during 2017.

Borrowing Relationships

As of December 31, 2017, the aggregate outstanding principal amount of the Bank's 25 largest credit exposures, on a consolidated basis, represented approximately 8.88% of the loan portfolio of the Bank and no single exposure represented more than 2% of the loan book. In addition, 100% of those loans were corporate loans.

Maturity and Interest Rate Sensitivity of Loans

The following table shows the maturities of the Bank's loan portfolio as of December 31, 2017:

	Maturity of one year or less	Maturity of one to five years	Maturity of more than five years	Total
	In millions of COP			
Domestic loans and financial leases				
Corporate				
Trade financing	3,597,785	130,587	78,045	3,806,417
Loans funded by development banks	7,870	383,700	1,347,380	1,738,950
Working capital loans	10,391,593	15,169,995	17,526,305	43,087,893
Credit cards	43,178	30,684	31,643	105,505
Overdrafts	151,804	-	-	151,804
Total corporate	**14,192,230**	**15,714,966**	**18,983,373**	**48,890,569**
Retail				
Credit cards	427,398	2,502,554	2,155,761	5,085,713
Personal loans	246,843	8,828,029	1,892,898	10,967,770
Vehicle loans	60,782	1,852,228	620,805	2,533,815
Overdrafts	223,981	-	-	223,981
Loans funded by development banks	86,436	544,538	326,603	957,577
Trade financing	532,205	594	4,406	537,205
Working capital loans	3,754,254	8,623,773	2,966,475	15,344,502
Total retail	**5,331,899**	**22,351,716**	**7,966,948**	**35,650,563**
Financial leases	**3,087,015**	**5,824,546**	**12,817,340**	**21,728,901**
Mortgage	**44,464**	**383,561**	**10,559,555**	**10,987,580**
Total domestic loans and financial leases	**22,655,608**	**44,274,789**	**50,327,216**	**117,257,613**
Foreign loans and financial leases:				
Corporate				
Trade financing	5,131,223	6,893,516	4,389,447	16,414,186
Loans funded by development banks	90	1,926	5,715	7,731
Working capital loans	2,795,106	1,975,275	2,898,683	7,669,064
Credit cards	58	42,949	9,013	52,020
Overdrafts	7,135	-	-	7,135
Total corporate	**7,933,612**	**8,913,666**	**7,302,858**	**24,150,136**
Retail				
Credit cards	375,626	1,066,992	208,715	1,651,333
Personal loans	234,245	2,030,934	4,083,681	6,348,860
Vehicle loans	7,914	462,162	7,824	477,900
Overdrafts	68,554	56	-	68,610
Loans funded by development banks	207	13,739	52,374	66,320
Trade financing	78,862	110,011	156,560	345,433
Working capital loans	44,239	5,986	6,986	57,211

Total retail	**809,647**	**3,689,880**	**4,516,140**	**9,015,667**
Financial leases	**14,329**	**420,218**	**85,503**	**520,050**
Mortgage	**5,638**	**154,746**	**9,364,244**	**9,524,628**
Total foreign loans and financial leases	**8,763,226**	**13,178,510**	**21,268,745**	**43,210,481**
Total loans	**31,418,834**	**57,453,299**	**71,595,961**	**160,468,094**

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In general, the term of a loan will depend on the type of guarantee or collateral, the credit history of the borrower and the purpose of the loan. As of December 31, 2017, 55.38% of the Bank's loan portfolio has a maturity of five years or less.

Loans interest rate sensitivity

The following table shows the interest rate sensitivity of the Bank's loan portfolio due after one year and within one year or less as of December 31, 2017:

	As of December 31, 2017
	In millions of COP
Loans with term of 1 year or more:	
Variable Rate	
Domestic-denominated	67,246,540
Foreign-denominated	21,247,403
Total	**88,493,943**
Fixed Rate	
Domestic-denominated	27,355,465
Foreign-denominated	13,199,852
Total	**40,555,317**
Loans with term of less than 1 year:	
Domestic-denominated	22,655,608
Foreign-denominated	8,763,226
Total	**31,418,834**
Total loans	**160,468,094**

Loans by Economic Activity

The following table summarizes the Bank's loan portfolio, for the periods indicated, by the principal activity of the borrower using the primary Standard Industrial Classification (SIC) codes:

	As of December 31,							
	2017	**%**	**2016**	**%**	**2015**	**%**	**2014**	**%**
	In millions of COP, except percentages							
Domestic								
Agricultural	3,533,671	3.0%	3,360,479	3.1%	4,330,757	4.2%	4,030,994	4.4%

Mining products and oil	909,127	0.8%	1,670,126	1.5%	1,791,910	1.7%	2,559,701	2.8%
Food, beverage and tobacco	5,640,910	4.8%	4,992,305	4.6%	5,141,738	5.0%	4,148,724	4.5%
Chemical production	3,341,248	2.9%	3,184,196	2.9%	2,871,547	2.8%	3,028,095	3.3%
Government	3,780,686	3.2%	3,426,089	3.1%	3,131,339	3.0%	2,030,749	2.2%
Construction	15,464,605	13.2%	14,122,163	12.9%	14,577,061	14.0%	11,515,240	12.6%
Trade and tourism	17,115,018	14.6%	15,953,310	14.6%	14,934,712	14.4%	13,380,359	14.6%
Transportation and communications	8,307,712	7.1%	7,484,105	6.9%	8,189,789	7.9%	5,200,661	5.7%
Public services	5,180,634	4.4%	5,013,469	4.6%	4,881,297	4.7%	4,832,527	5.3%
Consumer services	31,367,376	26.7%	28,673,632	26.3%	22,439,817	21.6%	21,109,019	23.0%

	As of December 31,							
	2017	**%**	**2016**	**%**	**2015**	**%**	**2014**	**%**
	In millions of COP, except percentages							
Commercial services	16,248,665	13.9%	15,186,857	13.9%	15,956,430	15.3%	14,299,832	15.6
Other industrial and manufacturing products	6,367,961	5.4%	6,141,378	5.6%	5,657,242	5.4%	5,492,444	6.0%
Total domestic loans	**117,257,613**	**100.0%**	**109,208,109**	**100.0%**	**103,903,639**	**100.0%**	**91,628,345**	**100.**
Foreign								
Agricultural	2,171,525	5.0%	2,210,219	5.2%	1,942,147	4.7%	752,267	3.2%
Mining products and oil	65,991	0.2%	96,463	0.3%	355,825	0.9%	501,236	2.1%
Food, beverage and tobacco	808,493	1.9%	556,798	1.3%	330,038	0.8%	323,446	1.4%
Chemical production	172,763	0.4%	218,010	0.5%	331,651	0.8%	109,137	0.5%
Government	151,879	0.3%	204,429	0.5%	668,463	1.6%	309,947	1.3%
Construction	5,164,321	12.0%	4,496,434	10.6%	5,424,291	13.0%	3,609,264	15.3
Trade and tourism	6,520,546	15.1%	6,056,928	14.2%	5,833,248	14.0%	3,362,533	14.3
Transportation and communications	602,962	1.4%	740,379	1.7%	1,588,048	3.8%	716,974	3.1%
Public services	2,472,215	5.7%	4,626,201	10.9%	4,807,362	11.5%	2,757,506	11.7
Consumer services	16,719,168	38.7%	13,116,938	30.8%	12,634,026	30.2%	8,580,530	36.4
Commercial services	3,993,836	9.2%	5,753,166	13.5%	3,049,918	7.3%	56,333	0.2%
Other industrial and manufacturing products	4,366,782	10.1%	4,463,412	10.5%	4,751,983	11.4%	2,466,135	10.5
Total foreign loans	**43,210,481**	**100.0%**	**42,539,377**	**100.0%**	**41,717,000**	**100.0%**	**23,545,308**	**100.**
Total Foreign and Domestic Loans	**160,468,094**	**100.0%**	**151,747,486**	**100.0%**	**145,620,639**	**100.0%**	**115,173,653**	**100.**

Credit Categories

For the purpose of credit risk evaluation, loans and financial lease contracts are classified in accordance with the regulations of the SFC. For further details please see Note 31 to the Consolidated Financial Statements, section b. Credit Quality Analysis - Loans and Financial Leases.

The following table shows the Bank's loan portfolio by type of loan for the relevant periods:

	Loan Portfolio by Type of Loan As of December 31,			
	2017	**2016**	**2015**	**2014**
	In millions of COP			
Commercial	88,997,241	86,259,708	85,892,752	65,473,755
Consumer	27,646,114	23,925,279	21,170,615	18,927,154
Small Business	1,063,580	1,062,724	886,913	659,870
Financial Leases	22,248,951	21,343,923	20,551,576	17,565,229
Mortgage	20,512,208	19,155,852	17,118,783	12,547,645
Total loans and financial leases	**160,468,094**	**151,747,486**	**145,620,639**	**115,173,653**

Total allowance for loans and advances and lease losses	**(8,223,103)**	**(6,621,911)**	**(5,248,755)**	**(4,789,257)**
Total loans and advances to customers and financial institutions, net	**152,244,991**	**145,125,575**	**140,371,884**	**110,384,396**

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Risk categories

The SFC provides the following minimum risk classifications, according to the financial situation of the borrower or the past-due days of the obligation. For further details please see Note 31 to the Consolidated Financial Statements, section b. Credit Quality Analysis - Loans and Financial Leases.

	As of December 31,							
	2017	**%**	**2016**	**%**	**2015**	**%**	**2014**	**%**
	In millions of COP, except percentages							
"A" Normal Risk	140,558,163	87.6%	136,471,216	89.9%	131,999,143	90.6%	105,475,511	91.6%
"B" Acceptable Risk	9,189,969	5.7%	7,319,360	4.8%	7,682,616	5.3%	4,978,602	4.3%
"C" Appreciable Risk	3,844,704	2.4%	3,582,671	2.4%	2,438,541	1.7%	1,865,897	1.6%
"D" Significant Risk	4,456,958	2.8%	2,499,271	1.7%	1,821,582	1.3%	1,504,125	1.3%
"E" Unrecoverable Risk	2,418,300	1.5%	1,874,968	1.2%	1,678,757	1.1%	1,349,518	1.2%
Total loans and financial leases	**160,468,094**	**100.0%**	**151,747,486**	**100.0%**	**145,620,639**	**100.0%**	**115,173,653**	**100.0%**
Loans classified as "C", "D" and "E" as a percentage of total loans	6.68%		5.24%		4.08%		4.10%	

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

	As of December 31,							
	2017	**%**	**2016**	**%**	**2015**	**%**	**2014**	**%**
	In millions of COP, except percentages							
Domestic								
Corporate								
Trade financing	15,851	0.3%	4,059	0.1%	24,733	0.7%	464	0.0%
Loans funded by development banks	40,757	0.6%	-	0.0%	3,567	0.1%	4,264	0.2%
Working capital loans	1,429,617	24.0%	579,989	15.2%	613,922	17.0%	461,505	16.9%
Credit cards	726	0.0%	750	0.0%	1,167	0.0%	1,795	0.1%
Overdrafts	4,239	0.1%	2,090	0.1%	1,339	0.0%	3,509	0.1%
Total corporate	**1,491,190**	**25.0%**	**586,888**	**15.4%**	**644,728**	**17.8%**	**471,537**	**17.3%**
Retail								
Credit cards	432,669	7.3%	238,975	6.3%	231,865	6.4%	343,521	12.6%
Personal loans	543,061	9.1%	370,686	9.7%	265,802	7.4%	239,261	8.7%
Vehicle loans	203,476	3.4%	201,852	5.3%	133,846	3.7%	144,213	5.3%
Overdrafts	34,718	0.6%	29,404	0.8%	24,994	0.7%	29,418	1.1%
Loans funded by development banks	53,633	0.9%	49,331	1.3%	30,119	0.8%	40,132	1.5%
Trade financing	7,646	0.1%	2,347	0.1%	1,759	0.1%	1,198	0.0%
Working capital loans	1,411,725	23.7%	954,934	25.1%	755,713	21.0%	702,065	25.6%

Total retail	**2,686,928**	**45.1%**	**1,847,529**	**48.6%**	**1,444,098**	**40.1%**	**1,499,808**	**54.8%**
Financial Leases	**754,965**	**12.8%**	**620,686**	**16.3%**	**936,382**	**26.0%**	**259,048**	**9.4%**
Mortgage	**1,020,323**	**17.1%**	**750,164**	**19.7%**	**582,010**	**16.1%**	**507,588**	**18.5%**
Total domestic past due loans	**5,953,406**	**100.0%**	**3,805,267**	**100.0%**	**3,607,218**	**100.0%**	**2,737,981**	**100.0%**
Foreign								
Corporate								
Trade financing	313,381	18.6%	261,943	16.6%	301,674	22.7%	97,646	12.6%
Loans funded by development banks	-	0.0%	-	0.0%	291	0.0%	-	0.0%
Working capital loans	118,740	7.1%	72,341	4.6%	99,330	7.5%	75,205	9.7%
Credit cards	1,339	0.1%	748	0.0%	1,316	0.1%	170	0.0%
Overdrafts	163	0.0%	-	0.0%	149	0.0%	36	0.0%
Total Corporate	**433,623**	**25.8%**	**335,032**	**21.2%**	**402,760**	**30.3%**	**173,057**	**22.3%**
Retail								
Credit cards	112,331	6.7%	107,791	6.9%	79,573	6.0%	37,427	4.9%

	As of December 31,							
	2017	**%**	**2016**	**%**	**2015**	**%**	**2014**	**%**
	In millions of COP, except percentages							
Personal loans	281,690	16.8%	341,619	21.6%	277,596	20.9%	203,487	26.4%
Vehicle loans	51,892	3.1%	46,586	3.0%	41,015	3.1%	22,638	2.9%
Overdrafts	2,018	0.1%	1,112	0.1%	2,755	0.2%	1,773	0.2%
Loans funded by development banks	1,939	0.1%	96	0.0%	2,792	0.2%	1,249	0.2%
Trade financing	29,623	1.8%	26,518	1.7%	11,639	0.9%	7,184	0.9%
Working capital loans	9,089	0.5%	32,868	2.1%	4,912	0.4%	4,132	0.5%
Total retail	**488,582**	**29.1%**	**556,590**	**35.3%**	**420,282**	**31.7%**	**277,890**	**36.0%**
Financial Leases	**13,824**	**0.8%**	**27,620**	**1.7%**	**23,381**	**1.8%**	**9,892**	**1.4%**
Mortgage	**740,763**	**44.3%**	**659,524**	**41.8%**	**480,469**	**36.2%**	**311,389**	**40.3%**
Total foreign past due loans	**1,676,792**	**100.0%**	**1,578,766**	**100.0%**	**1,326,892**	**100.0%**	**772,228**	**100.0%**
Total Foreign and Domestic past due loans	**7,630,198**	**100.0%**	**5,384,033**	**100.0%**	**4,934,110**	**100.0%**	**3,510,209**	**100.0%**

Policies for the granting and review of credit

The Bank's credit standards and policies aim to achieve a high level of credit quality in the Bank's loan portfolio, efficiency in the processing of loans and the specific assignment of responsibilities for credit risk. For further details please see Note 31 of Consolidated Financial Statements, section a. Credit Risk Management - Loans and Financial Leases.

E.4. SUMMARY OF LOAN LOSS EXPERIENCE

ALLOWANCE FOR LOANS AND ADVANCES AND LEASE LOSSES

The Bank records an allowance for loans and advances and lease losses in accordance with IFRS as issued by the IASB. For further details regarding the regulation and methodologies for the calculation of such allowances please see Note 2 to Consolidated Financial Statements.

The following table sets forth the changes in the allowance for loans and advances and lease losses:

Year Ended December 31,

	2017	2016	2015	2014
	In millions of COP			
Balance at beginning of period	**6,621,911**	**5,248,755**	**4,789,257**	**4,473,562**
Domestic	5,529,506	4,254,754	4,028,866	3,766,387
Foreign	1,092,405	994,001	760,391	707,175
Domestic Discontinued Operations (1)	-	-	(282,098)	-
Allowance for loan of PA Leasing	-	**27,825**	**-**	**-**
Domestic	-	27,825	-	-
Provisions for loan losses, net	**3,879,559**	**2,930,239**	**1,884,859**	**1,308,825**
Domestic	3,413,963	2,415,771	1,642,914	1,236,594
Foreign	465,596	514,468	241,945	72,231
Charge-offs	**(2,275,300)**	**(1,533,202)**	**(1,422,055)**	**(1,178,748)**
Domestic	(1,637,906)	(1,168,844)	(1,134,928)	(974,115)
Foreign	(637,394)	(364,358)	(287,127)	(204,633)
Effect of difference in exchange rate	**(3,067)**	**(51,706)**	**278,792**	**185,618**
Foreign	(3,067)	(51,706)	278,792	185,618
Balance at end of year	**8,223,103**	**6,621,911**	**5,248,755**	**4,789,257**
Domestic	7,305,563	5,529,506	4,254,754	4,028,866

	Year Ended December 31,			
	2017	**2016**	**2015**	**2014**
	In millions of COP			
Foreign	917,540	1,092,405	994,001	760,391

[(1)] As of December 31, 2015, Compañía de Financiamiento Tuya S.A. is considered a discontinued operation.

Recoveries of written-off loans are recorded in the consolidated statement of income and are not included in provisions for loan losses.

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

	As of December 31,			
	2017	**2016**	**2015**	**2014**
	In millions of COP			
Commercial loans	4,514,180	3,499,791	2,694,965	2,360,488
Consumer loans	2,291,829	1,791,123	1,321,281	1,479,460
Small business loans	140,591	110,015	80,586	76,560
Financial leases	631,402	567,046	579,151	415,766
Mortgage	645,101	653,936	572,772	456,983
Total allowance for loans and advances and lease losses	**8,223,103**	**6,621,911**	**5,248,755**	**4,789,257**

The following table sets forth the allocation of the Bank‘s allowance for loans and advances and lease losses by type of loan:

	As of December 31,							
	2017	**%**	**2016**	**%**	**2015**	**%**	**2014**	**%**
	In millions of COP, except percentages							
Domestic								
Corporate								
Trade financing	109,258	1.5%	54,372	1.0%	35,387	0.8%	14,759	0.4%
Loans funded by development banks	63,502	0.9%	49,008	0.9%	23,552	0.5%	5,772	0.1%
Working capital loans	2,288,997	31.3%	1,713,735	31.0%	1,183,378	27.4%	1,006,493	25.0%
Credit cards	1,591	0.0%	1,596	0.0%	2,218	0.1%	1,995	0.1%

Overdrafts	4,321	0.1%	3,226	0.1%	3,318	0.1%	5,759	0.1%
Total corporate	**2,467,669**	**33.8%**	**1,821,937**	**33.0%**	**1,247,853**	**28.9%**	**1,034,778**	**25.7%**
Retail								
Credit cards	630,358	8.6%	482,278	8.7%	343,057	8.0%	589,702	14.6%
Personal loans	805,327	11.0%	595,253	10.8%	441,225	10.2%	422,649	10.5%
Vehicle loans	260,747	3.6%	242,230	4.4%	180,408	4.2%	224,481	5.6%
Overdrafts	36,693	0.5%	30,544	0.5%	27,668	0.6%	36,345	0.9%
Loans funded by development banks	58,470	0.8%	49,038	0.9%	38,274	0.9%	39,235	1.0%
Trade financing	22,766	0.3%	9,606	0.2%	13,531	0.3%	12,972	0.3%
Working capital loans	1,863,844	25.5%	1,316,302	23.8%	1,084,698	25.2%	969,557	24.1%
Total retail	**3,678,205**	**50.4%**	**2,725,251**	**49.3%**	**2,128,861**	**49.4%**	**2,294,941**	**57.0%**
Financial leases	**617,266**	**8.4%**	**546,710**	**9.8%**	**553,317**	**12.8%**	**388,115**	**9.6%**
Mortgage	**542,423**	**7.4%**	**435,608**	**7.9%**	**382,533**	**8.9%**	**311,032**	**7.7%**
Total domestic allowance for loans and advances and lease losses	**7,305,563**	**100.0%**	**5,529,506**	**100.0%**	**4,312,564**	**100.0%**	**4,028,866**	**100.0%**
Foreign								
Corporate								
Trade financing	167,081	18.2%	242,490	22.2%	82,777	8.8%	83,306	10.9%
Loans funded by development banks	566	0.1%	329	0.0%	568	0.1%	175	0.0%
Working capital loans	148,415	16.2%	149,392	13.7%	256,244	27.4%	227,915	30.0%
Credit cards	2,026	0.2%	1,253	0.1%	838	0.1%	361	0.1%
Overdrafts	351	0.0%	635	0.1%	656	0.1%	548	0.1%
Total corporate	**318,439**	**34.7%**	**394,099**	**36.1%**	**341,083**	**36.5%**	**312,305**	**41.1%**
Retail								
Credit cards	111,269	12.1%	101,066	9.3%	66,582	7.1%	42,433	5.6%
Personal loans	327,210	35.7%	316,387	29.0%	277,094	29.6%	221,627	29.2%
Vehicle loans	18,927	2.1%	20,058	1.8%	14,076	1.5%	12,533	1.7%
Overdrafts	8,982	1.0%	7,884	0.7%	10,780	1.1%	8,237	1.1%
Loans funded by development banks	2,582	0.3%	2,932	0.3%	2,731	0.3%	1,514	0.2%
Trade financing	8,303	0.9%	5,598	0.5%	3,450	0.4%	2,728	0.4%
Working capital loans	5,014	0.6%	5,717	0.5%	5,305	0.6%	4,867	0.6%
Total retail	**482,287**	**52.6%**	**459,642**	**42.1%**	**380,018**	**40.6%**	**293,939**	**38.8%**
Financial leases	**14,136**	**1.5%**	**20,336**	**1.9%**	**24,848**	**2.6%**	**8,217**	**1.0%**
Mortgage	**102,678**	**11.2%**	**218,328**	**19.9%**	**190,242**	**20.3%**	**145,930**	**19.1%**
Total foreign allowance for loans and advances and lease losses	**917,540**	**100.0%**	**1,092,405**	**100.0%**	**936,191**	**100.0%**	**760,391**	**100.0%**
Total foreign and domestic allowance for loans and advances and lease losses	**8,223,103**	**100.0%**	**6,621,911**	**100.0%**	**5,248,755**	**100.0%**	**4,789,257**	**100.0%**

As of December 31, 2017, allowances for loans and financial lease losses amounted to COP 8,223 billion (5.12% of total loans), up 24.18% as compared to COP 6,622 billion (4.36% of total loans) at the end of 2016.

Coverage, measured by the ratio of allowances for loans and advances and lease losses to past-due loans (overdue 30 or more days; excluding accrued interest), was 107.52% at December 31, 2017, down from 125.90% at December 31, 2016. The decrease in the coverage ratio is mainly explained by the lower macroeconomic dynamics that affected the consumer and SME portfolio and the materialization of credit events in the Infrastructure and Mass Transport Systems sectors in Colombia.

CHARGE-OFFS

The following table shows the allocation of the Bank's charge-offs of domestic and foreign loans by type of loan as of December 31, 2017, 2016, 2015 and 2014:

	Year ended December 31,			
	2017	2016	2015	2014
	In millions of COP			
Domestic				
Trade financing	1,036	734	1,220	12,452
Loans funded by development banks	5,804	12,335	23,852	10,078
Working capital loans	903,241	447,673	457,097	279,701
Credit cards	266,312	214,800	145,350	325,475
Personal loans	203,852	285,462	209,211	197,973
Vehicle loans	149,964	100,224	81,140	79,527
Overdrafts	14,344	16,050	13,947	10,276
Mortgage and other	17,308	15,823	167,718	13,818
Financial leases	76,045	75,743	35,393	44,815
Total domestic charge-offs	**1,637,906**	**1,168,844**	**1,134,928**	**974,115**
Foreign				
Trade financing	186,140	1,028	-	72
Loans funded by development banks	94	-	-	-
Working capital loans	20,308	20,038	28,317	33,170
Credit cards	125,919	55,836	37,938	40,640
Personal loans	268,622	259,434	198,283	113,685

	Year ended December 31,			
	2017	2016	2015	2014
	In millions of COP			
Vehicle loans	13,815	14,471	9,968	5,211
Overdrafts	410	270	726	3,743
Mortgage and other	20,369	8,796	11,761	8,112
Financial leases	1,717	4,485	134	-
Total foreign charge-offs	**637,394**	**364,358**	**287,127**	**204,633**
Total Foreign and Domestic charge-offs	**2,275,300**	**1,533,202**	**1,422,055**	**1,178,748**

The ratio of charge-offs to average outstanding loans for the years ended December 31, 2017, 2016, 2015 and 2014 was as follows:

	Year ended December 31,			
	2017	**2016**	**2015**	**2014**
Ratio of charge-offs to average outstanding loans	1.51%	1.03%	1.14%	1.19%

The Bank charges off loans that are classified as “unrecoverable”. For further details please see Note 2 of Consolidated Financial Statements, section 7.6.1 “Written-Off loan portfolio balances and related allowances”.

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

POTENTIAL PROBLEM LOANS

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

As of December 31, 2017, loans included in the watch list amounted to COP 11,895 billion. The increase from COP 9,824 billion as of December 31, 2016, was driven by the addition to the watch list of significant Corporate and SMEs clients that were classified principally in Level 1 - Low Risk. During 2017, risk level 4 was created for nonperforming clients without any financial, operational or commercial viability, where the objective is to obtain the highest possible portfolio recovery by judicial means, in order to reduce or end the commercial relationship given their inability to pay.

Watch List December 31 2017
Million COP

Risk Level	**Amount**	**%**	**Allowance**
Level 1 - Low Risk	4,938,711	2%	114,361
Level 2 - Medium Risk	1,641,169	5%	81,796
Level 3 - High Risk	3,806,554	33%	1,264,077
Level 4 - High Risk	1,509,014	76%	1,150,212
Total	**11,895,448**	**22%**	**2,610,447**

IMPAIRED LOANS

A credit is considered as an impaired loan when there is an objective evidence of impairment that has an effect on the cash flow of the loan. Additionally, this category includes loans that have been restructured because of financial difficulties of the debtor, and for that reason, the Bank must grant a concession to the debtor, that it would not otherwise consider ("Trouble Debt Restructuring loans" - TDRs).

Under IFRS, all credits are accounting in an accrual status, although they are classified as "impaired loans".

The following table presents the recorded investment for impaired loans:

	As of December 31,									
	2017			**2016**			**2015**			**2**
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**	**D**
In millions of COP										
Commercial										
Corporate	3,957,150	758,029	4,715,179	3,001,953	1,104,935	4,106,888	1,468,122	401,920	1,870,042	1
SME	2,081,996	291,015	2,373,011	1,499,054	138,604	1,637,658	1,114,816	128,125	1,242,941	9
Others	804,266	214,645	1,018,911	894,642	151,274	1,045,916	661,481	187,413	848,894	6
Total Commercial	**6,843,412**	**1,263,689**	**8,107,101**	**5,395,649**	**1,394,813**	**6,790,462**	**3,244,419**	**717,458**	**3,961,877**	**2**
Consumer										
Credit card	486,736	182,356	669,092	308,158	177,073	485,231	554,725	392,490	947,215	1
Vehicle loans	286,865	16,287	303,152	244,618	19,567	264,185	201,456	9,886	211,342	1
Payroll loan	144,491	238,685	383,176	127,866	469,494	597,360	118,015	24,002	142,017	1
Others	661,521	334,643	996,164	371,018	103,617	474,635	223,080	138,428	361,508	1
Total Consumer	**1,579,613**	**771,971**	**2,351,584**	**1,051,660**	**769,751**	**1,821,411**	**1,097,276**	**564,806**	**1,662,082**	**6**
Residential Mortgage										
Vis [(1)]	172,273	61,365	233,638	156,747	54,439	211,186	136,628	305	136,933	1
No Vis	474,560	407,588	882,148	356,181	647,694	1,003,875	291,128	571,248	862,376	2
Total residential mortgage	**646,833**	**468,953**	**1,115,786**	**512,928**	**702,133**	**1,215,061**	**427,756**	**571,553**	**999,309**	**3**
Small Business Loans	101,955	33,050	135,005	81,769	22,705	104,474	58,875	1,365	**60,240**	5
Financial leases	1,712,023	11,319	1,723,342	1,237,165	34,061	1,271,226	865,412	12,547	**877,959**	2
Total	**10,883,836**	**2,548,982**	**13,432,818**	**8,279,171**	**2,923,463**	**11,202,634**	**5,693,738**	**1,867,729**	**7,561,467**	**4**

[(1)] *VIS refers in Spanish to "Vivienda de Interés Social", a term used to describe residential mortgages granted by financial institutions in amounts that are less than 135 legal minimum monthly salaries in Colombia (as of*

December 31, 2017 COP 100).

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

	2017			2016			2015		
	In millions of COP								
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Interest income recognized in net income for the period.	464,723	415,354	880,077	490,536	333,519	824,055	471,226	116,355	587,581
The gross interest income that would have been recorded in the period that ended if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the period.	477,708	467,915	945,623	511,828	382,116	893,944	472,862	117,148	590,010

CROSS-BORDER OUTSTANDING LOANS AND INVESTMENTS

As of December 31, 2017, 2016, and 2015, total cross-border outstanding loans and investments amounted to approximately USD 16,309 million, USD 15,966 million, USD 16,082 million, respectively. As of December 31, 2017, total outstanding loans to borrowers in foreign countries amounted to USD 14,666 million, and total investments were USD 1,643 million. As of December 31, 2017, total cross-border outstanding loans and investments represented 23.87% of total assets.

The Bank had no cross-border outstanding acceptances, interes-earning deposits with other banks or any other monetary assets denominated in pesos or other non-local currencies, in which the total exceeded 1% of consolidated total assets at December 31, 2017, 2016 and 2015.

The following table presents information with respect to the Bank’s cross-border outstanding loans and investments at December 31, 2017, 2016 and 2015:

	As of December 31,					
	2017		2016		2015	
	thousands of U.S. dollars					
Governments and official institutions						
Guatemala	USD	490,068	USD	476,000	USD	529,834
Panama		371,729		340,631		373,540

United States	235,104	106,630	166,284
El Salvador	97,348	189,781	233,096
Costa Rica	29,424	15,855	39,117
Mexico	7,404	65,705	152,186
Brazil	-	10,784	11,023
Banks and other financial institutions			
Guatemala	USD 163,347	USD 58,647	USD 26,786
Panama	110,535	112,430	216,788
Costa Rica	39,315	34,416	30,119
Peru	15,263	10,095	13,281
El Salvador	11,648	26,836	43,766
Chile	10,482	14,286	14,951
Venezuela	7,885	22,120	30,164
Brazil	4,775	4,702	7,705

	As of December 31,		
	2017	**2016**	**2015**
	thousands of U.S. dollars		
United States	3,031	11,069	10,002
Cayman Islands	2,877	-	-
Honduras	2,546	7,485	751
Mexico	-	-	3,041
Commercial and industrial loans			
Panama	USD 3,270,293	USD 3,183,641	USD 3,138,755
Guatemala	2,164,020	2,009,213	2,941,396
El Salvador	837,985	889,980	563,534
Peru	199,766	284,576	420,341
Costa Rica	174,863	162,028	249,819
Nicaragua	69,921	55,251	8,917
United States	68,805	127,321	260,041
Dominican Republic	67,196	104,444	100,035
Honduras	32,834	72,602	87,036
Belize	15,232	16,426	-
Chile	14,101	18,997	41,192
Uruguay	2,458	-	10,768
Mexico	734	21,369	3,636
Brazil	215	3,784	13,002
Ecuador	125	49,178	56,545
Puerto Rico	7	151,223	100,474
British Virgin Island	-	13,837	15,234
Guyana	-	3,604	4,906
Republic of China	-	3,167	-
U.S. Virgin Island	-	-	27,835
Barbados	-	-	4,021
Others	2,134	6,869	1,243
Other loans			
Panama	USD 4,262,289	USD 3,896,328	USD 3,319,118
El Salvador	2,274,746	2,177,723	2,471,002
Guatemala	952,949	883,186	115,215
Costa Rica	96,141	164,760	79,351
United States	92,668	61,001	32,617
Spain	39,492	10,939	14,249
Canada	8,937	3,686	2,989
England	7,835	3,953	5,501
Australia	7,600	3,832	1,010
Mexico	5,194	6,827	1,770
Brazil	4,995	2,783	8,333
Nicaragua	4,498	13,286	18,523
France	3,324	2,128	-
Venezuela	3,321	2,564	2,429
Chile	2,965	2,662	5,468
Peru	2,133	15,500	44,947

Ecuador	2,041	2,746	1,218
Argentina	1,772	5,072	-
Italy	1,692	1,438	-
Honduras	1,531	2,087	-
Germany	1,148	1,527	-
Belgium and Luxembourg	381	2,640	3,203
Bolivia	252	1,900	-
Uruguay	151	4,236	-

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	As of December 31,		
	2017	2016	2015
	thousands of U.S. dollars		
Others	7,250	8,586	3,811
Total Cross-Border Outstanding Loans and Investments	**USD 16,308,775**	**USD 15,966,372**	**USD 16,081,918**

E.5. DEPOSITS

The following table shows the composition of the Bank's deposits for 2017, 2016 and 2015:

	As of December 31,		
	2017	2016	2015[1]
	In millions of COP		
Non-interest bearing deposits:			
Checking deposits	16,284,742	16,189,259	16,823,024
Other deposits	1,676,399	1,813,922	1,627,981
Total	**17,961,141**	**18,003,181**	**18,451,005**
Interest bearing deposits:			
Checking deposits	5,780,905	5,253,743	6,823,554
Time deposits	53,961,586	52,673,385	48,713,789
Savings deposits	54,255,583	48,693,702	47,813,680
Total	**113,998,074**	**106,620,830**	**103,351,023**
Total deposits	**131,959,215**	**124,624,011**	**121,802,028**

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[1] Includes deposits amounting to COP 1,266,305 million held by Compañía de Financiamiento Tuya S.A., which deposits are considered as assets held for sale as of December 31, 2015.

The following table shows the time deposits held by the Bank as of December 31, 2017, classified by amount and maturity:

	At December 31, 2017		
	Peso - Denominated	Foreign Exchange-Denominated	Total
	In millions of COP		
Time deposits higher than USD 100,000			
Up to 3 months	5,012,846	5,602,380	10,615,226
From 3 to 6 months	3,088,626	3,598,854	6,687,480

From 6 to 12 months	4,837,340	5,190,394	10,027,734
More than 12 months	10,654,180	6,361,545	17,015,725
Time deposits higher than USD 100,000[(1)]	**23,592,992**	**20,753,173**	**44,346,165**
Time deposits less than USD 100,000 [(1)]	**6,427,919**	**3,187,502**	**9,615,421**
Total	**30,020,911**	**23,940,675**	**53,961,586**

(1) *Approximately COP 298 million at the Representative Market Rate as of December 31, 2017.*

As of December 31, 2017, the time deposits greater than USD 100,000 collected by foreign subsidiaries amounted to COP 20,148,071 million.

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

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E.6. RETURN ON EQUITY AND ASSETS

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

Return on equity and assets [1]	**Year Ended December 31,**		
	2017	**2016**	**2015**
	In percentages		
Net income as a percentage of:			
Average total assets [2] [3] [4]	1.30	1.49	1.53
Return on average stockholders‘ equity attributable to the owners of the parent company	11.99	14.52	13.62
Average equity [5]	11.95	14.16	13.84
Dividends declared per share as a percentage of consolidated net income per share [6]	36.69	31.25	32.46
Average stockholders' equity as a percentage of average total assets	11.47	10.79	11.44
Return on interest-earning assets [7]	10.04	10.11	8.41

(1) *The Bank´s average total assets and stockholder's equity were calculated considering the last 13 monthly IFRS balances.*

(2) *As of December 31, 2016, and 2015 the Bank's average total assets were calculated considering the assets of the discontinued operation.*

(3) *The difference between the figures disclosed as assets and liabilities in Consolidated Statements and the table above is due to the off-setting of deferred tax assets and deferred tax libilities in accordance with IAS 12. See further information in Note 11. Income tax.*

(4) *Defined as net income attributable to equity holders of the parent company divided by the average total assets*

(5) *Defined as net income divided by the average stockholders' equity*

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

(7) *Defined as total interest earned divided by average interest-earning assets*

E.7. SHORT-TERM BORROWINGS

The following table sets forth certain information regarding the short-term borrowings by the Bank for the periods indicated:

	As of December 31, [1]		
	2017	**2016**	**2015**

In millions of COP, except percentages	Amount	Rate [2]	Amount	Rate [2]	Amount	Rate [2]
End of period	7,612,323	4.87%	9,951,438	2.95%	11,129,652	1.68%
Weighted average during period	9,289,645	3.99%	10,122,682	2.90%	8,527,033	2.20%
Maximum amount of borrowing at any month end	10,513,614 (3)		11,067,435 (4)		11,129,652 (5)	-
Interest paid during the year	370,353		293,348		187,185	-

(1) Short-term borrowings with other financial institutions with remaining maturity less than one year. For further information see Note 16 Borrowings with other financial institutions to the Financial Statements.

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

(3) The amount corresponds to the end of August.

(4) The amount corresponds to the end of February.

(5) The amount corresponds to the end of December.

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ITEM 4 A. UNRESOLVED STAFF COMMENTS

As of the date of the filing of this Annual Report, there are no unresolved comments from SEC staff regarding the Bank's periodic reports required to be filed under the Exchange Act of 19

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion should be read in conjunction with Part II, Item 6 "Selected Financial Data" of this Annual Report and our Consolidated Financial Statements and the related notes thereto included in this Annual Report.

The following discussion includes information regarding future financial performance and plans, targets, aspirations, expectations, and objectives of management, which constitute forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. It is possible that the Bank's actual results may differ materially from the results discussed in the forward-looking statements because of a number of risks and uncertainties. In addition, please refer to the discussion in Item 3. "Key Information – D. Risk Factors" for a description of risks and uncertainties affecting our business and financial results.

IMPACT OF ECONOMIC AND MONETARY POLICIES ON BANCOLOMBIA'S RESULTS

Bancolombia's results of operations are affected by macroeconomic factors principally in Colombia, but also in the other countries in where the Bank operates. The most important variables include GDP growth, interest rates, inflation and exchange rates, principally the representative market rate. The following discussion summarizes the trends of these measures in Colombia in 2017.

Economic activity

Colombia's real GDP growth was 1.8% in 2017, lower than the 2.0% reached in 2016. The reduction in the pace of growth is mainly explained by the slow-down in gross capital formation from the private sector and a sluggish growth in consumption and government spending.

The behavior of key GDP components in 2017 compared with 2016 was as follows: investment increased 0.1%, consumption increased 2.2%, imports increased 0.2% and exports decreased 0.6%. In 2017, gross capital formation represented 23.4% of GDP, household consumption represented 62.9%, government consumption 19.1%, exports 14.8% and imports 20.1%.

The sectors that led growth during the year were agriculture (4.9% increase) and financial services (3.8% increase).

In summary, during 2017, the Colombian economy continued with the process of deceleration that started in 2015. This lower economic dynamism was characterized by the moderation of internal demand, especially consumer demand and government spending, and a considerable decrease in net exports.

Interest Rates

As of December 31, 2017, following steady rate cuts totaling a 275 basis points cut during the year, the Colombian Central Bank's benchmark interest rate stood at 4.75%. These rate reductions reflect an attempt to stimulate growth in a slower-paced economy. Interest rates have continued to decline in 2018, with the benchmark rate at 4.50% as of the date of this Annual Report.

The Central Bank aims to maintain long term inflation rates within the long-term targeted range (between 2% and 4%). The Central Bank may continue to reduce interest rates in order to promote economic activity, credit expansion and consumption.

Inflation

The year-end inflation rate for 2017 was 4.09%, lower than the 5.75% recorded for 2016. The components that led inflation in 2017 were recreation (7.69% increase), education (7.41% increase) and communications (6.43% increase).

Inflation in January 2017 was 5.47%, 147 basis points above the upper limit of the inflation target range of the Central Bank (2% - 4%). However, this metric decreased in the subsequent months, when inflation started to moderate. Inflation thus far in 2018 continues on this downward trajectory and as of February 28, 2018, the annual inflation rate was 3.37%.

Exchange rate

The Colombian Peso appreciated 0.56% versus the U.S. dollar during 2017, compared to an appreciation of 4.72% 2016.

The appreciation of the Colombian Peso was explained by a reduction in the current account deficit and some increase in oil prices, and an effective absorption by the Colombian economy of external shocks, such as that caused by the U.S. presidential elections.

Outlook

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

Favorable factors for the Colombian economy – medium-term	**Unfavorable factors for the Colombian economy – medium term**
Benefits derived from interest rate cuts aimed at promoting faster economic growth.	Underdeveloped infrastructure that continues to constrain growth.
Declining inflationary pressures with the necessary fiscal adjustments.	Oil and gas dependent export activity.
Stronger local capital markets, with little exposure to "toxic assets" and with low currency mismatches.	Despite successful efforts to diversify export markets, continued concentration in specific export destinations, particularly the United States (which could change as a result of the new U.S. administration).

Favorable factors for the Colombian economy – medium-term	Unfavorable factors for the Colombian economy – medium term
	Exchange rate volatility and depreciation that directly impacts inflation and economic growth.
Better prospects for growth in the near term, derived from improving macroeconomic conditions.	Large current account deficit and fiscal pressures.
A well-capitalized banking system.	Introduction of additional tax reform measures due to fiscal burden in the near term.
Well-developed supervision and regulation of the financial system.	High tax environment for Colombian corporate sector compared to other countries in the region
Adequate international reserves compared to the level of short-term debt.	Uncertainties regarding the future post-conflict.
	Higher unemployment and household indebtedness.
	Political fragmentation and instabilitiy before presidential and congressional elections taking place in 2018.

GENERAL DISCUSSION OF THE CHANGES IN RESULTS FOR 2017 VERSUS 2016

Summary

During 2017, Bancolombia continued to benefit from its strong competitive position and full-service financial model, including the diversity of its leading franchises. For the year 2017, net income attributable to equity holders of the parent company totaled COP 2,615 billion (COP 2,718 per share, including both common and preferred shares, and USD 3.64 per ADR), which represents a decrease of 8.74% as compared to COP 2,865 billion of net income attributable to equity holders of the parent company for the fiscal year 2016.

Bancolombia's average return on stockholders' equity for 2017 was 11.99%, down from 14.52% in 2016.

The net interest and valuation income after provisions for loans, financial leases and off-balance sheet credit instruments margin from continuing operations increased significantly in 2017 and stood at 6.07% for the year, up from 5.96% in 2016.

Credit impairment charges on loans and financial leases, net of recoveries, totaled COP 3,462 billion for 2017, up 26.75% from COP 2,731 billion in 2016. The higher amount of provisions was the result specific defaults of large corporate clients as well as generalized loan deterioration in the consumer and SME loan books, especially during the second half of the year.

Loans and advances to customers and financial Institutions leases grew 5.75% during the year. This performance was driven primarily by consumer loans and mortgages. The total loan book denominated in COP grew 11.89% while USD- denominated loans declined 4.43% for the year.

Allowance for loans, advances and lease losses represented 4.83% of total loans and 107.52% of past-due loans (excluding accrued interest) at the end of 2017 compared with 4.17% of total loans and 125.90% of past-due loans (excluding accrued interest) in December 31, 2016.

Despite the decline in the ratio, the bank expects that this coverage will provide solid protection in a potential downside scenario in which loan quality continues to deteriorate. Capital adequacy was 14.18% (Tier 1 ratio of 10.15%), higher than the 13.26% (Tier 1 ratio of 9.02%) reported at the end of 2016, principally as a result of the issuance of USD 750 million of Tier 2 subordinated debt in September 2017.

Deposits by customers increased 5.89% during 2017, while the ratio of net loans to deposits was 115.4% at the end of the year, down from 116.5% in December 31, 2015.

Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off-balance sheet credit instruments

For 2017, net interest margin and valuation income on financial instruments, before impairment on loans and financial leases and off balance sheet credit instruments, totaled COP 10,453 billion, up 7.81% from COP 9,696 billion in 2016. This performance is the result of growth in the Colombian loan portfolio during the year, as well as increasing interest margins. During 2017, the Central Bank cut its reference rate from 7.50% to 4.75% in response to lower inflation and weak economic growth. In line with this trend, the Bank's borrowings costs decreased during 2017 due to efforts to bring down the cost of time deposits and borrowings from financial institutions.

Margin on loans and financial leases decreased as a result of interest rate cuts and lower yields on new originations. The weighted average nominal interest rate on loans and financial leases ended at 10.5% in 2017 down from 10.6% in 2016. Nonetheless, interest income, which is the sum of interest on loans, financial leases, overnight funds and interest and valuation income from investment securities, totaled COP 16,686 billion in 2017, up 5.95% as compared to COP 15,749 billion in 2016 as a result of higher loan volumes.

Interest on investment securities, which includes, among other items, the interest paid or accrued on debt securities and mark-to-market valuation adjustments, totaled COP 685 billion in 2017, 3.14% lower than 2016.

Net interest and valuation income after provisions for loans, financial leases and off-balance sheet credit instruments margin from continuing operations expanded 11 basis points from 5.96% to 6.07% during the year due to the growth in consumer loans, which grew faster than corporate loans, and bear interest at a higher rate.

Bancolombia was very active in the deposits markets to secure the necessary funding. Interest rates declined during the second half of the year, releasing pressure from the cost of deposits. Interest rate cuts tend to put pressure on margins because of the asset-sensitive nature of the Bank's balance sheet. During the latter part of 2017, management's goal has been to reduce the asset-sensitivity of the balance sheet in order to avoid further pressures on margins given the potelntial of further reductions in the Central Bank's rate in the first half of 2018.

Interest expenses totaled COP 6,233 billion in 2017, up 2.97% as compared to COP 6,053 billion in 2016. The increase in interest expenses is explained by the increase in volumes of deposits. Overall, the average interest rate paid on interest-bearing liabilities was 3.7% in 2017 stable compared to 2016.

Net Fees and Commissions

For the year 2017, total net fees and commissions totaled COP 2,504 billion, up 7.99% as compared to COP 2,319 billion in 2016. This variation was driven primarily a better performance of commission from banking services, credit and debit cards fees, and bancassurance, all of which increased due to a higher number of transactions and trust activities, which increased due to an increase in the assets under management.

Consumers had a significant increase in the tax burden during 2017; as a result, consumption capacity suffered and financial services posted a sluggish trend during the year. Nevertheless, the strategies designed by the Bank to promote the utilization of financial services, such as electronic payments, asset management and mutual funds, permited to increase the volumes of transations and the revenues.

In particular, the Bank actively sought to promote and increase credit and debit card transactions through strategic initiatives with retailers as well as commercial incentives. This strategy involved advertising campaigns as well as enhanced use of reward and loyalty schemes relating to the use of Bancolombia-issued credit cards.

In the corporate side, the efforts have been focused in the middle and small market, mainly, comprenhensive banking, cash management serkices and electronic plataforms for treasury management, the pace of growth in this segments has a high correlation to GDP and as a result, its growth was moderate in 2017.

The following table lists the main revenue-producing fees for the years 2017 and 2016 along with the corresponding year-to-year variations:

Main Fees and Commissions Income

	Year		**Growth**	
	2017	**2016**	**2017-2016**	
	In millions of COP			
Credit and debit card fees	1,164,380	1,092,919	71,461	6.54%

Banking services	885,512	816,839	68,673	8.41%
Bancassurance	408,248	336,692	71,556	21.25%
Trust	359,651	294,499	65,152	22.12%
Collections	228,580	229,940	(1,360)	(0.59%)
Acceptances and guarantees	55,365	55,724	(359)	(0.64%)
Checks	48,010	51,974	(3,964)	(7.63%)
Brokerage	20,618	23,431	(2,813)	(12.01%)
Others	416,543	383,217	33,326	8.70%
Fees and commissions income	**3,586,907**	**3,285,235**	**301,672**	**9.18%**

Fees and commissions expenses

	Year		Growth	
	2017	**2016**	**2017-2016**	
	In millions of COP			
Banking services	(396,264)	(354,640)	(41,624)	11.74%
Call center and website	(291,602)	(260,006)	(31,596)	12.15%
Others	(394,848)	(351,625)	(42,223)	12.29%
Fees and other service expenses	(1,082,714)	(966,271)	(116,443)	12.05%
Total fees and income from services, net	**2,504,193**	**2,318,964**	**185,229**	**7.99%**

Other Operating Income

For 2017, total other operating income was COP 1,632 billion, 9.77% higher than the COP 1,487 billion in 2016.

The variation in this line item is explained by the significant improvement in net foreign exchange, which recorded COP 294 billion in 2017, 122.29% higher than the COP 132 billion reported in 2016. This increase resulted from a positive net impact of variations in the U.S-denominated assets and liabilities, as well as, a sale of U.S-denominated assets.

Revenues from operating leases totaled COP 564 billion in 2017, an increase of 14.26% compared to 2016. Such increase is due to higher volumes of operations and delivered assets under leasing.

Additionally, in 2017 the bank recorded an income of COP 86 billion related to the reversal of acruals of taxes, as a result of the fiscal reform of 2016.

Operating expenses

For 2017, operating expenses totaled COP 7,227 billion, up 3.56% as compared to COP 6,979 billion in 2016.

Salaries and employee benefits totaled COP 2,792 billion in 2017, down 0.60% as compared to 2016. This performance was primarily driven by the reduction in headcount and the reduction in bonus payments.

Other administrative and general expenses totaled COP 2,980 billion in 2017, up 12.39% as compared to 2016 driven by the automation and optimization of processes, which required IT investments in robotics as well as consulting services expenses.

Depreciation and amortization expenses totaled COP 479 billion in 2017, decreasing by 7.52% as compared to COP 518 billion in 2016.

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

	For the years ended December 31,		Growth	
	2017	**2016**	**2017-2016**	
	In millions of COP			
Operating expenses				
Salaries and employee benefits	2,792,015	2,808,931	(16,916)	(0.60%)
Other administrative and general expenses	2,979,863	2,651,334	328,529	12.39%
Wealth tax, contributions and other tax burden	727,661	741,184	(13,523)	(1.82%)
Impairment, depreciation and amortization	478,883	517,809	(38,926)	(7.52%)
Other expenses	249,023	259,792	(10,769)	(4.15%)
Total operating expenses	**7,227,445**	**6,979,050**	**248,395**	**3.56%**

Provision Charges and Credit Quality

For the year 2017, credit impairment charges on loans and advances and financial leases (net of recoveries) totaled COP 3,462 billion (or 2.22% of average loans), which represents an increase of 26.75% as compared to COP 2,731 billion (or 1.84% of average loans) in 2016. The significant increase in the level of provisions was driven by the formation of new past due loans and the deterioration of specific corporate clients, as well as the consumer segment and SMEs loans. The deterioration in consumer and SMEs segments was explained by higher inflation levels during 2016 and the slow growth of the economy during 2017.

Net loan charge-offs totaled COP 2,275 billion in 2017, up 48.40% from the 1,533 billion in 2016. Past-due loans amounted to COP 7,630 billion as of December 31, 2017, up 41.72% as compared to COP 5,384 billion as of December 31, 2016.

The delinquencies ratio (loans overdue more than 30 days divided by total loans) reached 4.49% as of December 31, 2017, up from 3.31% as of December 31, 2016. The uptick in delinquency occurred in the corporate segment due to specific clients that defaulted and in the consumer segment and SMEs explained by the slow performance of the economy.

Income Tax Expenses

Income tax expense for the fiscal year 2017 totaled COP 1,239 billion, up 5.25% from COP 1,177 billion in 2016. The effective tax rate for 2017 was 31.02%.

The increase in the effective income tax rate in 2017 was due to the fact that during 2016, there was a tax reversion in the provision of the income tax after the income statement was finalized, meaning that there was certainty about the payable taxes based on the income generated during the fiscal period.. The effective tax rate for 2016 was 29.66%.

Additionally, during 2017, there was a reversion for the compensation of fiscal credits and the tax reform approved in December 2016, which had an impact on deferred taxes because statutory tax rates were lower from those previously estimated.

For further details please see Note 11 of Consolidated Financial Statements.

GENERAL DISCUSSION OF THE CHANGES IN RESULTS FOR 2016 VERSUS 2015

Summary

During 2016, Bancolombia continued to benefit from its strong competitive position and full-service financial model, including the diversity of its leading franchises. For the year 2016, net income attributable to equity holders of the parent company totaled COP 2,865 billion (COP 2,979 per share, USD 3.97 per ADR), which represents an increase of 14% as compared to COP 2,519 billion of net income attributable to equity holders of the parent company for the fiscal year 2015.

Bancolombia's return on average stockholders' equity for 2016 was 14.52%, up from 13.62% in 2015.

The net interest and valuation income after provisions for loans, financial leases and off-balance sheet credit instruments margin from continuing operations increased significantly in 2016 and stood at 5.96% for the year, up from 5.25% in 2015.

Credit impairment charges, on loans and financial leases, net of recoveries, totaled COP 2,731 billion for 2015, up 63.04% from COP 1,675 billion. The higher amount of provisions was the result of generalized loan deterioration in the consumer and SME loan books, especially during the second half of the year. Most of the provisions regarding Conalvías (the major infrastructure company that filed for bankruptcy) had already been accounted for in 2015.

Loans and advances to customers and financial Institutions leases grew 4% during the year. This performance was driven primarily by mortgage demand from individuals and corporate loans. The total loan book in Colombia grew 10% while the loan growth in USD- denominated loans was 0% for the year.

Allowance for loans and advances and lease losses represented 4.2% of total loans and 126% of past-due loans at the end of 2016 compared with 3.4% of total loans and 115% of past-due loans in December 31, 2015. The bank expects that this higher coverage ratio will provide solid protection in a potential downside scenario in which loan quality continues to deteriorate. Capital adequacy was 13.3% (Tier 1 ratio of 9.02%), higher than the 12.5% (Tier 1 ratio of 7.51%) reported at the end of 2015.

Deposits by customers increased 2% during 2016, while the ratio of net loans to deposits (including borrowings from commercial banks) was 101.11% at the end of the year, up slightly from 99.19% in December 31, 2015.

Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments

For 2016, net margin and valuation income on financial instruments, before impairment on loans and financial leases and off balance sheet credit instruments, totaled COP 9,696 billion, up 34.1% from COP 7,232 billion in 2015. This performance is the result of growth in the Colombia loan portfolio during the year as well as increasing interest margins. During 2016, the Central Bank increased its reference rate from 5.75% to 7.50% in response to higher inflation, decreasing money supply and a substantial reduction in liquidity in the economy. Although interest rates on the Bank's borrowings increased during 2016, and despite more difficult macroeconomic conditions in Colombia, the Bank was able to control its funding costs, in a manner that protected spreads.

Interest on loans and financial leases reflected an increase in the rates on loans in 2016. The weighted average nominal interest rate on loans and financial leases ended at 10.6% in 2016 up from 9.0% in December 31, 2015. As a result, interest income, which is the sum of interest on loans, financial leases, overnight funds and interest and valuation income from investment securities, totaled COP 15,749 billion in 2016, up 40% as compared to COP 11,270 billion in 2015.

Interest on investment securities, which includes, among other items, the interest paid or accrued on debt securities and mark-to-market valuation adjustments, totaled COP 707 billion in 2016, up 134% as compared to 2015. Investment securities gained value throughout the year due to a pronounced rally during the middle of the year, specifically of Colombian government debt (TES bonds) as investors sought the higher rates offered.

The net interest and valuation income after provisions for loans, financial leases and off-balance sheet credit instruments margin from continuing operations expanded 71 basis points from 5.25% to 5.96% during the year due to the faster repricing of assets than liabilities, while funding costs were kept relatively stable. Bancolombia was very active in the deposits markets to secure the necessary funding. Interest rates rose during the second half of the year. Increasing interest rates tend to lead to an improved net interest margin, because of the asset-sensitive nature of the Bank's balance sheet. Management's outlook going forward is more neutral as rates begin to come down (benchmark rates have decreased by 50 basis points so far in 2017) and the Bank aims to keep interest spreads stable in 2017.

Regarding interest expenses, interest incurred on liabilities totaled COP 6,053 billion in 2015, up 50% as compared to COP 4,038 billion in 2015. The increase in interest expenses is explained by the increase in volumes of deposits and bonds, as well as a higher cost on each type of funding source. Overall, the average interest rate paid on interest-bearing liabilities increased to 3.7% in 2016 from 2.9% in 2015.

Net Fees and Commissions

For the year 2016, total net fees and commissions totaled COP 2,319 billion, up 16% as compared to COP 1,993 billion in 2015. This increase was driven primarily by increases in the performance of commission from banking services, credit and debit cards fees, collections and payments fees, bancassurance, and trust activities which presented a higher number of transactions. In particular, the Bank actively sought to promote and increase credit and debit card transactions through strategic initiatives with retailers as well as commercial incentives. This strategy involved advertisements campaigns, alliances and discounts at merchants if Bancolombia's credit cards were used as method of payment, more reward and loyalty points with certain credit cards issued by Bancolombia, etc.

The following table lists the main revenue-producing fees for the years 2016 and 2015 along with the corresponding year-to-year variations:

Main Fees and Commissions Income (and Expense)

	Year		Growth	
	2016	2015	2016-2015	
	In millions of COP			
Credit and debit card fees	1,092,919	1,015,253	77,666	7.65%
Banking services	816,839	630,616	186,223	29.53%
Bancassurance	336,692	260,224	76,468	29.39%
Trust	294,499	265,215	29,284	11.04%
Payments and Collections	229,940	203,772	26,168	12.84%
Acceptances and Guarantees	55,724	44,539	11,185	25.11%
Checks	51,974	55,861	(3,887)	(6.96%)
Brokerage	23,431	23,453	(22)	(0.09%)
Others	383,217	291,624	91,593	31.41%
Fees and commissions income	**3,285,235**	**2,790,557**	**494,678**	**17.73%**

Fees and commissions expenses

	Year		Growth	
	2016	2015	2016-2015	
	In millions of COP			
Banking services	(354,640)	(298,415)	(56,225)	18.84%
Call Center and Website	(260,006)	(254,769)	(5,237)	2.06%
Others	(351,625)	(244,329)	(107,296)	43.91%
Fees and commissions expenses	(966,271)	(797,513)	(168,758)	21.16%
Total fees and commissions income, net	**2,318,964**	**1,993,044**	**325,920**	**16.35%**

The sale of Compañia de Financiamiento Tuya S.A took place on October 31, 2016. The amounts recognized until that date are presented in the line "Net income from discontinued operations" of the Statement of Income. The Net fees and income from services attributable to this company for the periods shown were as follows:

	Year		Growth	
	2016	2015	2016-2015	
	In millions of COP			
Fees and commissions income	361,988	388,306	(26,318)	(6.78%)
Fees and commissions expenses	(117,795)	(152,500)	34,705	22.76%
Total fees and commissions income, net [(1)]	**244,193**	**235,806**	**8,387**	**(3.56%)**

(1) *See note 30 to the Bank's Consolidated Financial Statements*

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Other Operating Income

For 2016, total other operating income was COP 1,487 billion, 8% higher than the COP 1,373 billion in 2015.

The variation in this line item is explained by the significant improvement in net foreign exchange, which recorded COP 132 billion in 2016, 184% higher than the COP (158) billion reported in 2015. The 5% appreciation of the Colombian Peso against the U.S. Dollar during 2016 caused the foreign exchange gains and gains on forward contracts in foreign currency to have opposite variations compared to what occurred in 2015.

Operating expenses

For 2016, operating expenses totaled COP 6,979 billion, up 18% as compared to COP 5,898 billion in 2015.

Salaries and employee benefits totaled COP 2,809 billion in 2016, up 25% as compared to 2015. This performance was primarily driven by the combined effect of the consolidation of GAH (which accounted for 7% of the growth in operating expenses), wage increments during 2016, and bonus payments. In December, Bancolombia recorded the annual bonuses paid to employees whenever the return on equity exceeds cost of capital as determined by the bank's compensation policies.

Other administrative and general expenses totaled COP 2,651 billion in 2016, up 18% as compared to 2015 driven by increased taxes other than income tax. The impact of GAH is the primary explanation for the uptick in this expense line. Depreciation and amortization expenses totaled COP 518 billion in 2016, increasing by 8% as compared to COP 477 billion in 2015. This increase was driven by the growth in the operating lease business of Bancolombia.

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

	For the years ended December 31,		**Growth**
	2016	**2015** [(1)]	**2016-2015**

	In millions of COP			
Operating expenses				
Salaries and employee benefits	2,808,931	2,255,391	553,540	24.54%
Other administrative and general expenses	2,651,334	2,237,598	413,736	18.49%
Wealth tax, contributions and other tax burden	741,184	675,387	65,797	9.74%
Impairment, depreciation and amortization	517,809	477,285	40,524	8.49%
Other expenses	259,792	252,626	7,166	2.84%
Total operating expenses	**6,979,050**	**5,898,287**	**1,080,763**	**18.32%**

(1) *For the year ended December 31, 2015, Compañía de Financiamiento Tuya S.A. as a discontinued operation had operating expenses amounting to COP 219,532 million.*

Provision Charges and Credit Quality

For the year 2016, credit impairment charges on loans and advances and financial leases (net of recoveries) totaled COP 2,731 billion (or 1.8% of average loans), which represents an increase of 63% as compared to COP 1,675 billion (or 1.3% of average loans) in 2015. The obvious increase in the level of provisions was driven by the formation of new past due loans and deterioration of consumer and SME loans. Moreover, lower and middle income individuals began to default on loans as unemployment began to go up and household indebtedness reached higher than expected levels.

Net loan charge-offs totaled COP 1,533 billion in 2016, up 7.8% from the 1,422 billion in 2015. Past-due loans amounted to COP 5,384 billion in 2016, up 9.12% as compared to COP 4,934 billion in 2015.

The delinquencies ratio (loans overdue more than 30 days divided by total loans) reached 3.31% as of December 31, 2016, up from 2.98% at December 31, 2015. The uptick in delinquency occurred primarily in the consumer segment during the second half of the year and as a consequence the bank tightened the underwriting standards of certain segments (lower income individuals and SMEs).

Income Tax Expenses

Income tax expense for the fiscal year 2016 totaled COP 1,177 billion, up 81% from COP 649 billion in 2015. Income tax increased significantly, due to the impact the peso's appreciation had on fiscal accounting on a consolidated level. The tax rate volatility caused by fluctuations in exchange rates will be eliminated in 2017 due to the new tax reform approved and passed by Congress on December 30, 2016.

RESULTS BY SEGMENT

The Bank manages its business through 9 main operating segments: Banking Colombia, Banking El Salvador, Banking Panama, Banking Guatemala, Trust, Investment Banking, Brokerage, Off Shore and All Other.

In 2016, Bancolombia included "Banking Guatemala" as new segment because of the acquisition of additional 20% of Banco Agromercantil and its subsidiaries by Bancolombia Panama on December 30, 2015.

Also in 2016, Bancolombia eliminated the "Leasing" segment as a result of the merger between Leasing Bancolombia S.A. and Bancolombia S.A. on September 30. As a result of this merger the "Leasing" segment disappeared and the "Banking Colombia" and "All other" segments changed their composition. The data for the "Banking Colombia" and "All other" segments for 2015 was restated in order to be on a comparable basis to the segment information for 2016 and 2017.

In 2015, Bancolombia eliminated the "Insurance" segment as a result of the sale of the insurance operation in Banistmo S.A. to Suramericana S.A. on February 23.

Banking Colombia: This segment provides retail and corporate banking products and services to individuals, companies and national and local governments in Colombia. The Bank's strategy in Colombia is to grow with these clients based on value added and long-term relationships. In order to offer specialized services to individuals and small and medium size enterprises (SMEs), the Bank´s retail sales force targets the clients classified as: Personal, Private, Entrepreneurs, Foreign Residents and SMEs. The Bank´s corporate and government sales force targets and specializes in companies with more than COP 16,000 million in revenue in nine economic sectors: Agribusiness, Commerce, Manufacturing of Supplies and Materials, Media, Financial Services, Non-Financial Services, Construction, Government and Natural Resources.

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

Compañia de financiamiento Tuya S.A. was discontinued in the year ending as of December 31, 2016. The segment information presented below does not include any amounts for that discontinued operation, which is described in more detail in note 30, discontinued operations, of the notes to our audited Consolidated Financial Statements.

	Year ended December 31,				
	2017	**2016**	**2015**	**Change 2017-2016**	**Change 2016-2015**
	In millions of COP				
Total interest and valuation	12,984,301	11,586,785	8,992,368	12.06%	28.85%
Interest income on loans and financial leases	12,576,159	11,196,951	8,785,739	12.32%	27.44%
Total debt investments	602,304	464,504	249,459	29.67%	86.20%
Derivatives	(54,156)	(10,197)	50,362	(431.10%)	(120.25%)
Total liquidity operations	(140,006)	(64,473)	(93,192)	117.15%	(30.82%)
Interest expenses	(4,791,976)	(4,542,701)	(3,192,822)	5.49%	42.28%
Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments	**8,192,325**	**7,044,084**	**5,799,546**	**16.30%**	**21.46%**
Total credit impairment charges, net	(3,196,065)	(1,797,848)	(1,509,519)	77.77%	19.10%
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**4,996,260**	**5,246,236**	**4,290,027**	**(4.76%)**	**22.29%**
Revenues (expenses) from transactions with other operating segments of the Bank	(59,884)	(65,915)	(68,915)	(9.15%)	(4.35%)
Total fees and commission income, net	1,588,246	1,269,298	1,347,999	25.13%	(5.84%)
Other operating income (1)	673,850	603,860	483,556	11.59%	24.88%
Dividends received, and share of profits of equity method investees	(53,141)	(264,715)	(40,115)	(79.93%)	559.89%
Total operating income, net	**7,145,331**	**6,788,764**	**6,012,552**	**5.25%**	**12.91%**
Operating expenses (2)	(4,717,591)	(4,150,984)	(3,836,019)	13.65%	8.21%

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	Year ended December 31,				
	2017	2016	2015	Change 2017-2016	Change 2016-2015
	In millions of COP				
Impairment, depreciation and amortization	(147,034)	(147,261)	(247,446)	(0.15%)	(40.49%)
Total operating expenses	**(4,864,625)**	**(4,298,245)**	**(4,083,465)**	**13.18%**	**5.26%**
Profit before tax	**2,280,706**	**2,490,519**	**1,929,087**	**(8.42%)**	**29.10%**
Segment assets	**130,417,688**	**122,595,540**	**116,827,269**	**6.38%**	**4.94%**
Segment liabilities	**(121,432,832)**	**(114,845,318)**	**(110,507,654)**	**5.74%**	**3.93%**

(1) *Includes derivatives, net foreign exchange, operating leases and gains on sale of assets.*
(2) *Includes staff costs, other administration and general expenses, contributions and other tax burdens and others.*

Analysis of 2017 versus 2016

In 2017, profit before taxes for Banking Colombia decreased by 8.42% to COP 2,281 billion.

Total interest and valuation increased 12.06% to COP 12,984 billion. This growth resulted from an expansion of the net interest margin and valuation on financial instruments and from higher volumes of peso-denominated loans. Interest income from consumer loans grew by 30.33%, Leasing by 8.24%, mortgages by 3.40% and commercial by 0.86%. Demand for consumer loans was mainly driven by high-income individuals.

Total credit impairment charges net, increased by 77.77% to COP 3,196 billion. This increase resulted from specific defaults related to a few corporate clients, as well as some deterioration in the SMEs and consumer segments.

Total fees and commission net, increased by 25.13% to COP 1,588 billion, due to the better performance of credit and debit cards, bancassurance business and banking services.

Dividends received, and share of profits of equity method investees, decreased by 79.93% to COP 53 billion, due to a lower net income generation from equity investments. The reduction in dividends was also due to the 2016 sale of Tuya and Renting Colombia to Banca de Inversion Bancolombia, as a result of which dividends from those companies were not received by this segment during 2017.

Other operating income increased 11.59% during 2017 because of gains from the sale of premises and equipment and some assets held for sale.

Total operating expenses increased by 13.18% to COP 4,865 billion, due to increases in severance packages because of the reduction in the headcount during 2017, as well as, the automation and optimization of processes, which required IT investments in robotics and consulting services expenses.

Assets attributable to Banking Colombia grew by 6.92% during the year, mainly driven by growth in loans, financial assets investments, and interbank deposits.

Analysis of 2016 versus 2015

In 2016, profit before taxes for Banking Colombia increased by 29.10% to COP 2,491 billion.

Total interest and valuation increased 28.85% to COP 11,587 billion. This strong growth resulted from an expansion of the net interest margin and valuation on financial instruments and from higher volumes of peso-denominated loans. Interest income from corporate loans grew by 39.70%, mortgages by 20.21% and consumer loans by 2.93%. Demand for commercial loans was mainly driven by large corporate loans, and rediscount and factoring operations.

Total credit impairment charges net, increased by 19.10% to COP 1,798 billion. This increase resulted from specific defaults related to a few corporate clients, as well as some deterioration in the consumer segment.

Total fees and commission net, decreased by 5.84% to COP 1,269 billion, due to the exclusion of the fee income and fee expenses of TUYA. In addition, some of the commissions from banking services were transfered to a Joint Venture with First Data, and therefore, the commisions for banking Colombia declined during 2016. The benefits of this Joint venture were reflected thought the valuation of the equity investment by equity method.

Dividends received, and share of profits of equity method investees, increased by 559.89% to COP 265 billion, due to a higher net income generation from some equity investments. During 2016, some associates did not appropriat earnings and therefore did not distribute dividends.

Other operating income increased 24.88% during 2016 because of gains from the sale of premises and equipment and some assets held for sale.

Total operating expenses increased by 5.26% to COP 4,298 billion, due to increases in labor costs as well as bonuses.

Assets attributable to Banking Colombia grew by 4.94% during the year, mainly driven by growth in cash and an increase in investments and interbank deposits, as well as by the incorporation of assets previously held by Leasing Bancolombia.

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

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

	Year ended December 31,				
				Change	**Change**
	2017	**2016**	**2015**		
				2017-2016	**2016-2015**
	In millions of COP				
Total interest and valuation	**882,806**	**901,757**	**728,582**	**(2.10%)**	**23.77%**
Interest income on loans and financial leases	830,050	844,687	706,582	(1.73%)	19.55%
Total debt investments	31,582	48,264	19,747	(34.56%)	144.41%
Derivatives	-	-	-	0.00%	0.00%
Total liquidity operations	21,174	8,806	2,253	140.45%	290.86%
Interest expenses	**(256,994)**	**(252,011)**	**(187,743)**	**1.98%**	**34.23%**

	Year ended December 31,			Change	Change
	2017	2016	2015	2017-2016	2016-2015
	In millions of COP				
Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments	**625,812**	**649,746**	**540,839**	**(3.68%)**	**20.14%**
Total credit impairment charges, net	(110,018)	(55,985)	(26,933)	96.51%	107.87%
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**515,794**	**593,761**	**513,906**	**(13.13%)**	**15.54%**
Revenues (expenses) from transactions with other operating segments of the Bank	(963)	(3,054)	(8,475)	(68.47%)	(63.96%)
Total fees and commission income, net	170,834	158,262	140,398	7.94%	12.72%
Other operating income [(1)]	(6,405)	1,302	24	(591.94%)	5325.00%
Dividends received, and share of profits of equity method investees	324	711	1,716	(54.43%)	(58.57%)
Total operating income, net	**679,584**	**750,982**	**647,569**	**(9.51%)**	**15.97%**
Operating expenses [(2)]	(383,002)	(390,309)	(330,362)	(1.87%)	18.15%
Impairment, depreciation and amortization	(34,671)	(50,323)	(27,761)	(31.10%)	81.27%
Total operating expenses	**(417,673)**	**(440,632)**	**(358,123)**	**(5.21%)**	**23.04%**
Profit before tax	**261,911**	**310,350**	**289,446**	**(15.61%)**	**7.22%**
Segment assets	**12,987,250**	**12,978,212**	**13,094,026**	**0.07%**	**(0.88%)**
Segment liabilities	**(11,248,123)**	**(11,226,682)**	**(11,119,166)**	**0.19%**	**0.97%**

(1) Includes derivatives, net foreign exchange, operating leases and gains on sale of assets.
(2) Includes staff costs, other administration and general expenses, contributions and other tax burdens and others.

Analysis of 2017 versus 2016

In 2017, profit before taxes for Banking El Salvador decreased by 15.61% to COP 262 billion.

Total interest and valuation decreased by 2.10% to COP 883 billion, mainly explained by the reduction in revenues from government securities, which posted a significant decline in value during the year, and lower contribution of commercial loans, which decreased due to weak demand from corporate clients.

Total credit impairment charges, net were COP 110 billion, increasing by 96.51% from the level in 2016, due to a deterioration in financial leases of certain corporate clients.

Total fees and commissions, net increased by 7.94% to COP 171 billion mainly due to a grow in fees from banking services, acceptances, guarantees and Standby letters of credits and trust products.

Total operating expenses decreased by 5.21% to COP 418 billion, mainly explained efforts to control personnel and administrative expenses.

Assets attributable to Banking El Salvador did not change materially during the year.

Analysis of 2016 versus 2015

In 2016, profit before taxes for Banking El Salvador increased by 7.22% to COP 310 billion.

Total interest and valuation increased by 23.77% to COP 902 billion, due to a growth in the loan portfolio mainly in consumer and commercial loans, as well as higher revenues from interest received on debt investments. Interest income from commercial loans grew by 17.98% and consumer loans by 33.93%. Income from debt investments increased by 46.77%.

Total credit impairment charges, net were COP 56 billion, increasing by 107.87% from the level in 2015. Credit impairment charges in 2015 were abnormally low due to the reversion of provisions. Charges in 2016 reflected increases in the reserves for loans in the consumer and mortgage segment.

Total fees and commissions, net increased by 12.72% to COP 158 billion mainly due to fees from banking services, which include acceptances, guarantees and Standby letters of credits, check remittances and trust products.

Total operating expenses increased by 23.04% to COP 441 billion, mainly explained by the increase in personnel, administrative and general expenses. Also, the appreciation of the U.S. dollar versus the Colombian Peso during 2016 contributed to the increase. Assets attributable to Banking El Salvador decreased by 0.88% during the year.

Banking Panama: This segment provides retail and commercial banking products and services to individuals and companies in Panama through the Banistmo operation. This segment includes all the operations of Banistmo and its subsidiaries as they are managed and monitored by the chief operating decision maker on a consolidated basis.

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

	Year ended December 31,				
	2017	**2016**	**2015**	**Change 2017-2016**	**Change 2016-2015**
	In millions of COP				
Total interest and valuation	**1,495,446**	**1,399,852**	**1,119,540**	**6.83%**	**25.04%**
Interest income on loans and financial leases	1,374,398	1,284,986	1,041,780	6.96%	23.35%
Total debt investments	93,154	94,284	64,466	(1.20%)	46.25%
Derivatives	438	3,274	2,704	(86.62%)	21.08%
Total liquidity operations	27,456	17,308	10,590	58.63%	63.44%
Interest expenses	**(523,312)**	**(457,611)**	**(363,373)**	**14.36%**	**25.93%**
	972,134	**942,241**	**756,167**	**3.17%**	**24.61%**

Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments					
Total credit impairment charges, net	(46,468)	(367,781)	(82,344)	(87.37%)	346.64%
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**925,666**	**574,460**	**673,823**	**61.14%**	**(14.75%)**
Revenues (expenses) from transactions with other operating segments of the Bank	(26,837)	(20,600)	(6,098)	30.28%	237.82%
Total fees and commission income, net	205,645	180,286	136,372	14.07%	32.20%
Other operating income [(1)]	7,784	18,828	104,448	(58.66%)	(81.97%)
Dividends received, and share of profits of equity method investees	7,038	4,692	69,127	50.00%	(93.21%)

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	Year ended December 31,				
	2017	2016	2015	Change 2017-2016	Change 2016-2015
	In millions of COP				
Total operating income, net	**1,119,296**	**757,666**	**977,672**	**47.73%**	**(22.50%)**
Operating expenses [(2)]	(569,219)	(589,535)	(606,582)	(3.45%)	(2.81%)
Impairment, depreciation and amortization	(55,197)	(62,459)	(49,590)	(11.63%)	25.95%
Total operating expenses	**(624,416)**	**(651,994)**	**(656,172)**	**(4.23%)**	**(0.64%)**
Profit before tax	**494,880**	**105,672**	**321,500**	**368.32%**	**(67.13%)**
Segment assets	**28,055,391**	**27,195,988**	**27,895,156**	**3.16%**	**(2.51%)**
Segment liabilities	**(24,014,188)**	**(23,401,132)**	**(24,055,881)**	**2.62%**	**(2.72%)**

(1) Includes derivatives, net foreign exchange, operating leases and gains on sale of assets.
(2) Includes staff costs, other administration and general expenses, contributions and other tax burdens and others.

Analysis of 2017 versus 2016

In 2017, profit before taxes for Banking Panama increased by 368.32% to COP 495 billion.

Total interest and valuation increased by 6.83% to COP 1,495 billion, due to a growth in the loan portfolio mainly in commercial loans and mortgages, as well as an increase in leasing, overnight and market funds and debt investments. Interest income from commercial loans grew 10.15%, mortgages 5.72% and leasing 16.60%.

Total credit impairment charges, net were COP 46 billion, compared with COP 368 billion for 2016. This decrease is explain mainly by the improvement in the loan collection processes in Banistmo as well as the reversal of allowances of certain past due loans.

Total fees and commission, net increased by 14.07% to COP 206 billion due to higher commissions from banking services, check remittances and trust products.

Total operating expenses decreased by 4.23% to COP 624 billion, mainly due to the reduction of the headcount by 7.54% during 2017.

Assets attributable to Banking Panama increased by 3.16% during the year.

Analysis of 2016 versus 2015

In 2016, profit before taxes for Banking Panama decreased by 67.13% to COP 106 billion.

Total interest and valuation increased by 25.04% to COP 1,400 billion, due to a growth in the loan portfolio mainly in consumer loans and mortgages, as well as an increase in leasing, overnight and market funds and debt investments. Interest income from commercial loans grew 18.64%, consumer loans 23.14%, mortgages 30.63% and leasing 69.10%.

Total credit impairment charges, net were COP 368 billion, compared with COP 82 billion for 2015. This increase is explain mainly by deterioration in some commercial clients and consumer loans.

Total fees and commission, net increased by 32.20% to COP 180 billion due to higher commissions from banking services and trust products.

Total operating expenses decreased by 0.64% to COP 652 billion, mainly due to tighter control on the growth in expenses during the year.

Assets attributable to Banking Panama decreased by 2.51% during the year.

Banking Guatemala: This segment provides retail and commercial banking and insurance products and services to individuals, companies and national and local governments in Guatemala. Banking Guatemala also includes operations of the following subsidiaries: Banco Agromercantil de Guatemala S.A., Mercom Bank Ltd., Seguros Agromercantil S.A., Financiera Agromercantil S.A., Agrovalores S.A., and Tarjeta Agromercantil S.A.

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

	Year ended December 31,		
	2017	**2016**	**Change 2017-2016**
	In millions of COP		
Total interest and valuation	**865,038**	**869,329**	**(0.49%)**
Interest income on loans and financial leases	767,986	763,031	0.65%
Total debt investments	100,193	96,081	4.28%
Derivatives	-	5,323	(100.00%)
Total liquidity operations	(3,141)	4,894	(164.18%)
Interest expenses	**(348,726)**	**(348,219)**	**0.15%**
Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments	**516,312**	**521,110**	**(0.92%)**
Total credit impairment charges, net	(125,877)	(127,839)	(1.53%)
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**390,435**	**393,271**	**(0.72%)**
Revenues (expenses) from transactions with other operating segments of the Bank	(972)	701	(238.66%)
Total fees and commission income, net	101,565	58,745	72.89%

	Year ended December 31,		
	2017	2016	Change 2017-2016
	In millions of COP		
Other operating income [1]	54,246	55,942	(3.03%)
Dividends received, and share of profits of equity method investees	608	779	(21.95%)
Total operating income, net	**545,882**	**509,438**	**7.15%**
Operating expenses [2]	(343,646)	(323,001)	6.39%
Impairment, depreciation and amortization	(101,392)	(112,429)	(9.82%)
Total operating expenses	**(445,038)**	**(435,430)**	**2.21%**
Profit before tax	**100,844**	**74,008**	**36.26%**
Segment assets	**12,163,561**	**11,765,670**	**3.38%**
Segment liabilities	**(10,593,967)**	**(10,462,755)**	**1.25%**

(1) Includes derivatives, net foreign exchange, operating leases and gains on sale of assets.
(2) Includes staff costs, other administration and general expenses, contributions and other tax burdens and others.

Analysis of 2017 versus 2016

In 2017, profit before taxes for Banking Guatemala increased by 36.26% to COP 101 billion.

Total interest and valuation decreased by 0.49% to COP 865 billion due to a slow growth in the loan portfolio, mainly in consumer loans coupled with a compression in the margins. Interest income from commercial loans grew by 1.90% and mortgages by 5.29%.

Total credit impairment charges, net were COP 126 billion, decreasing by 1.53% from the level in 2016. This decrease is explained mainly by the reversion of provisions attributable to past due loans that became performing over the year.

Total fees and commission, net increased by 72.89% to COP 102 billion due to higher commissions from banking services and credit and debit cards.

Total operating expenses increased by 2.21% to COP 445 billion.

Assets attributable to Banking Guatemala increased by 3.38% during the year.

Analysis of 2016

During 2016, assets of the Banking Guatemala segment grew at a moderate pace, mainly explained by the origination of new loans. The expansion of the loan portfolio permitted growth of the net interest income.

Fees declined slightly due to lower demand for financial services, while operating expenses experienced an increase during the year. As a result of these factors, net income of the segment declined during 2016.

Trust: This segment provides trust and asset management services to clients in Colombia and Peru through Fiduciaria Bancolombia and FiduPerú S.A. Sociedad Fiduciaria. The main products offered by this segment include money market accounts, mutual and pension funds, private equity funds, payment trust, custody services, and corporate trust.

Investment in FiduPerú S.A. is classified as asset held for sale in Statement of Financial Position. For further information, see note 12 Assets held for sale and inventories.

	Year ended December 31,				
				Change	Change
	2017	2016	2015		
				2017-2016	2016-2015
	In millions of COP				
Total interest and valuation	**794**	**827**	**626**	**(3.99%)**	**32.11%**
Interest income on loans and financial leases	-	-	-	0.00%	0.00%
Total debt investments	193	283	185	(31.80%)	52.97%
Derivatives	-	-	-	0.00%	0.00%
Total liquidity operations	601	544	441	10.48%	23.36%
Interest expenses	**(102)**	**(20)**	**(367)**	**410.00%**	**(94.55%)**
Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments	**692**	**807**	**259**	**(14.25%)**	**211.58%**
Total credit impairment charges, net	(549)	(164)	(3,204)	234.76%	(94.88%)
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**143**	**643**	**(2,945)**	**(77.76%)**	**(121.83%)**
Revenues (expenses) from transactions with other operating segments of the Bank	(33,024)	(22,893)	(21,833)	44.25%	4.86%
Total fees and commission income, net	283,666	238,745	218,190	18.82%	9.42%
Other operating income (1)	13,560	13,500	16,507	0.44%	(18.22%)
Dividends received, and share of profits of equity method investees	18,249	16,873	13,573	8.16%	24.31%
Total operating income, net	**282,594**	**246,868**	**223,492**	**14.47%**	**10.46%**
Operating expenses (2)	(113,482)	(87,951)	(85,918)	29.03%	2.37%
Impairment, depreciation and amortization	(540)	(612)	(466)	(11.76%)	31.33%
Total operating expenses	**(114,022)**	**(88,563)**	**(86,384)**	**28.75%**	**2.52%**
Profit before tax	**168,572**	**158,305**	**137,108**	**6.49%**	**15.46%**
Segment assets	**81,928**	**124,472**	**154,485**	**(34.18%)**	**(19.43%)**
Segment liabilities	**(76,856)**	**(71,591)**	**(76,749)**	**7.35%**	**(6.72%)**

(1) Includes derivatives, net foreign exchange, operating leases and gains on sale of assets.
(2) Includes staff costs, other administration and general expenses, contributions and other tax burdens and others.

Analysis of 2017 versus 2016

In 2017, profit before taxes for the Trust segment increased by 6.49% to COP 169 billion.

Total fees and commission, net increased by 18.82% to COP 284 billion driven by higher volume of transactions, repricing strategy for some products and higher value of assets under management and corporate trust fees.

Assets attributable to the Trust segment decreased by 34.18% during the year to COP 82 billion, due to a reduction in investments in debt and equity securities.

Analysis of 2016 versus 2015

In 2016, profit before taxes for the Trust segment increased by 15.46% to COP 158 billion.

Total fees and commission, net increased by 9.42% to COP 239 billion driven by higher value of assets under management and corporate trust fees.

Assets attributable to the Trust segment decreased by 19.43% during the year to COP 124 billion, mainly driven by the decrease in debt investments issued by foreign issuers and cash, as well as, lower valuations of equity investments.

Investment Banking: This segment provides corporate and project finance advisory, underwriting, capital markets services and private equity management through Banca de Inversión Bancolombia. Its customers include private and publicly held corporations as well as Government institutions.

	Year ended December 31,				
	2017	**2016**	**2015**	**Change 2017-2016**	**Change 2016-2015**
	In millions of COP				
Total interest and valuation	**94**	**136**	**287**	**(30.88%)**	**(52.61%)**
Interest income on loans and financial leases	-	-	-	0.00%	0.00%
Total debt investments	94	136	287	(30.88%)	(52.61%)
Derivatives	-	-	-	0.00%	0.00%
Total liquidity operations	-	-	-	0.00%	0.00%
Interest expenses	**-**	**-**	**(236)**	**0.00%**	**(100.00%)**
Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments	**94**	**136**	**51**	**(30.88%)**	**166.67%**
Total credit impairment charges, net	466	(423)	127	(210.17%)	(433.07%)
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**560**	**(287)**	**178**	**(295.12%)**	**(261.24%)**
Revenues (expenses) from transactions with other operating segments of the Bank	16,209	12,891	2,355	25.74%	447.39%
Total fees and commission income, net	28,695	19,821	29,327	44.77%	(32.41%)
Other operating income(1)	1,886	2,285	2,080	(17.46%)	9.86%
Dividends received, and share of profits of equity method investees	(70,114)	202,062	40,018	(134.70%)	404.93%
Joint venture impairment (2)	(173,339)			0.00%	0.00%
Total operating income, net	**(196,103)**	**236,772**	**73,958**	**(182.82%)**	**220.14%**
Operating expenses (3)	(34,100)	(26,662)	(22,635)	27.90%	17.79%
Impairment, depreciation and amortization	(133)	(93)	(93)	43.01%	0.00%
Total operating expenses	**(34,233)**	**(26,755)**	**(22,728)**	**27.95%**	**17.72%**
Profit before tax	**(230,336)**	**210,017**	**51,230**	**(209.67%)**	**309.95%**
Segment assets	**223,730**	**215,281**	**128,301**	**(3.92%)**	**67.79%**
Segment liabilities	**(48,191)**	**(119,090)**	**(24,886)**	**(59.53%)**	**378.54%**

(1) Includes derivatives, net foreign exchange, operating leases and gains on sale of assets.
(2) Includes imparment recognition in joint venture Compañía de Financiamiento Tuya S.A.For more information see Note 7 Investments in associates and joint ventures.
(3) Includes staff costs, other administration and general expenses, contributions and other tax burdens and others.

Analysis of 2017 versus 2016

In 2017, profit before taxes for the Investment Banking segment decreased to COP (230) billion from COP 210 billion in 2016. The decrease is mainly explain by the impairment of the TUYA operation by COP 173 billion.

Total interest and valuation decreased by 30.88% to COP 94 million, due to lower investments valuation in debt investments.

Dividends received, and share of profits of equity method investees, decreased to COP (70) billion from COP 202 billion in 2016, largely due to elimination of intercompanies transactions, as well as, lower generation of net income from some associates.

Total operating expenses increased by 27.95% to COP 34 billion, due to higher cost related to severance packages in personal expenses.

Assets attributable to Investment Banking increased by 3.92% to COP 224 billion.

Analysis of 2016 versus 2015

In 2016, profit before taxes for the Investment Banking segment increased to COP 210 billion from COP 51 billion in 2015.

Total interest and valuation decreased by 52.61% to COP 136 million, due to lower investments valuation in debt investments.

Dividends received, and share of profits of equity method investees, increased to COP 202 billion from COP 40 billion in 2015, due to higher valuations of financial instruments, higher profits in equity investments, and higher dividends received from associates due to higher generation of profits in those associates.

Total operating expenses increased by 17.72% to COP 27 billion, due to higher personal expenses mainly salaries and incentive compensation plan.

Assets attributable to Investment Banking increased by 67.79% to COP 215 billion due to the acquisition of the 50% of the stocks of TUYA S.A. from Bancolombia S.A.

Brokerage: This segment provides brokerage, investment advisory and private banking services to individuals and institutions through Valores Bancolombia S.A. Comisionista de Bolsa. It sells and distributes equities, futures, foreign currencies, fixed income securities, mutual funds and structured products.

	Year ended December 31,				
				Change	**Change**
	2017	**2016**	**2015**		
				2017-2016	**2016-2015**
	In millions of COP				
Total interest and valuation	**8,916**	**17,160**	**21,157**	**(48.04%)**	**(18.89%)**
Interest income on loans and financial leases	-	-	-	0.00%	0.00%
Total debt investments	15,147	18,094	14,999	(16.29%)	20.63%
Derivatives	(7,661)	(2,113)	5,161	262.57%	(140.94%)
Total liquidity operations	1,430	1,179	997	21.29%	18.25%

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	Year ended December 31, 2017	2016	2015	Change 2017-2016	Change 2016-2015
	In millions of COP				
Interest expenses	**(72)**	**(33)**	**(652)**	**118.18%**	**(94.94%)**
Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments	**8,844**	**17,127**	**20,505**	**(48.36%)**	**(16.47%)**
Total credit impairment charges, net	(147)	(25)	(177)	488.00%	(85.88%)
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**8,697**	**17,102**	**20,328**	**(49.15%)**	**(15.87%)**
Revenues (expenses) from transactions with other operating segments of the Bank	53,075	38,677	31,734	37.23%	21.88%
Total fees and commission income, net	96,703	80,060	78,124	20.79%	2.48%
Other operating income (1)	(11,647)	(9,923)	(6,325)	17.37%	56.89%
Dividends received, and share of profits of equity method investees	12,278	32,567	(1,473)	(62.30%)	(2310.93%)
Total operating income, net	**159,106**	**158,483**	**122,388**	**0.39%**	**29.49%**
Operating expenses (2)	(101,255)	(110,317)	(111,255)	(8.21%)	(0.84%)
Impairment, depreciation and amortization	(1,398)	(1,980)	(1,274)	(29.39%)	55.42%
Total operating expenses	(102,653)	(112,297)	(112,529)	(8.59%)	(0.21%)
Profit before tax	**56,453**	**46,186**	**9,859**	**22.23%**	**368.47%**
Segment assets	**194,959**	**136,471**	**224,020**	**42.86%**	**(39.08%)**
Segment liabilities	**(56,786)**	**(51,937)**	**(50,314)**	**9.34%**	**3.23%**

(1) *Includes derivatives, net foreign exchange, operating leases and gains on sale of assets.*
(2) *Includes staff costs, other administration and general expenses, contributions and other tax burdens and others.*

Analysis of 2017 versus 2016

In 2017, profit before taxes for the Brokerage segment increased by 22.23% to COP 56 billion from COP 46 billion in 2016.

Total interest and valuation decreased by 48.04% to COP 9 billion, due to losses in operations relating to debt investments and repos.

Total fees and commission, net increased by 20.79% to COP 97 billion, due to higher volume and repricing strategy of fees related to distribution and intermediation of securities, trust products, investment banking and asset management.

Total operating expenses decreased by 8.59% to COP 103 billion, mainly due to tighter control on expenses during the year.

Assets attributable to the Brokerage segment increased by 42.86% during the year.

Analysis of 2016 versus 2015

In 2016, profit before taxes for the Brokerage segment increased to COP 46 billion from COP 10 billion in 2015.

Total interest and valuation decreased by 18.89% to COP 17 billion, due to losses in operations relating to futures contracts over securities.

Total fees and commission, net which are the most important component of revenues, increased by 2.48% to COP 80 billion, due to higher fees related to distribution and intermediation of securities, trust products and asset management.

Total operating expenses decreased by 0.21% to COP 112 billion, mainly due to tighter control on expenses during the year.

Assets attributable to the Brokerage segment decreased by 39.08% during the year, mainly driven by the sale of Valores Bancolombia Panama to Banistmo S.A. (Banking Panama segment).

Off Shore: This segment provides a complete line of offshore banking services to Colombian and foreign customers through Bancolombia Panamá S.A., Bancolombia Caymán S.A., and Bancolombia Puerto Rico International, Inc. It offers loans to private sector companies, trade financing, leases financing and financing for industrial projects, as well as a complete portfolio of cash management products, such as checking accounts, international collections and payments. Through these subsidiaries, the Bank also offers investment opportunities in U.S. dollars, savings and checking accounts, time deposits, and investment funds to its high net worth clients and private banking customers.

	Year ended December 31,			**Change**	**Change**
	2017	**2016**	**2015**	**2017-2016**	**2016-2015**
	In millions of COP				
Total interest and valuation	**444,649**	**442,107**	**291,249**	**0.57%**	**51.80%**
Interest income on loans and financial leases	412,418	431,381	310,077	(4.40%)	39.12%
Total debt investments	16,329	16,205	15,502	0.77%	4.53%
Derivatives	6,085	(7)	(26,392)	(87028.57%)	(99.97%)
Total liquidity operations	9,817	(5,472)	(7,938)	(279.40%)	(31.07%)
Interest expenses	**(226,304)**	**(252,030)**	**(215,592)**	**(10.21%)**	**16.90%**
Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments	**218,345**	**190,077**	**75,657**	**14.87%**	**151.24%**
Total credit impairment charges, net	6,541	(52,294)	(49,830)	(112.51%)	4.94%
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**224,886**	**137,783**	**25,827**	**63.22%**	**433.48%**

	Year ended December 31,			Change	Change
	2017	**2016**	**2015**	**2017-2016**	**2016-2015**
	In millions of COP				
Revenues (expenses) from transactions with other operating segments of the Bank	101,327	99,914	95,495	1.41%	4.63%
Total fees and commission income, net	16,270	27,502	32,325	(40.84%)	(14.92%)
Other operating income (1)	5,280	15,961	16,281	(66.92%)	(1.97%)
Dividends received, and share of profits of equity method investees	(239,328)	(269,096)	(141,261)	(11.06%)	90.50%
Total operating income, net	**108,435**	**12,064**	**28,667**	**798.83%**	**(57.92%)**
Operating expenses (2)	(56,593)	(60,688)	(73,425)	(6.75%)	(17.35%)
Impairment, depreciation and amortization	(967)	(972)	(17,254)	(0.51%)	(94.37%)
Total operating expenses	**(57,560)**	**(61,660)**	**(90,679)**	**(6.65%)**	**(32.00%)**
Profit before tax	**50,875**	**(49,596)**	**(62,012)**	**(202.58%)**	**(20.02%)**
Segment assets	**9,329,498**	**10,847,782**	**11,667,606**	**(14.00%)**	**(7.03%9**
Segment liabilities	**(10,636,804)**	**(12,251,502)**	**(14,608,981)**	**(13.18%)**	**(16.14%)**

(1) Includes derivatives, net foreign exchange, operating leases and gains on sale of assets.
(2) Includes staff costs, other administration and general expenses, contributions and other tax burdens and others.

Analysis of 2017 versus 2016

In 2017, profit before taxes for the Off Shore segment increased to COP 51 billion.

Total interest and valuation increased by 0.57% to COP 445 billion, driven by higher revenues from overnight and market funds.

Total credit impairment charges, net were COP 6 billion, decreasing by 112.51%. This decrease is mainly explained by the recovery of provision taken in previous years.

Total fees and commission, net decreased by 40.84% to COP 16 billion mainly due to more expensive banking services in Bancolombia Panama.

Total operating expenses decreased by 6.65% to COP 58 billion, mainly due to tighter control on expenses during the year.

Assets attributable to the Off Shore segment decreased by 14.00% to COP 9,329 billion.

The jurisdictions where operations of the Off Shore segment are conducted have no corporate income taxes.

Analysis of 2016 versus 2015

In 2016, profit before taxes for the Off Shore segment decreased by 20.02% to COP 50 billion.

Total interest and valuation increased by 51.80% to COP 442 billion, driven by higher revenues from commercial loans and leasing operations due to higher pricing of loans, as well as higher revenues from debt investments due to higher market interest rates. Interest income from commercial loans grew 42.39% and leasing 25.09%.

Total fees and commission, net decreased by 14.92% to COP 28 billion mainly due to more expensive banking services in Bancolombia Panama.

Other operating income decreased by 1.97% to COP 16 billion, due to losses in forwards COP/USD and other currencies.

Total operating expenses decreased by 32.00% to COP 62 billion, due to tighter control over expenses during the year.

Assets attributable to the Off Shore segment decreased by 7.03% to COP 10,848 billion, as a result of the sale of debt securities of foreign and local issuers and; lower mark to market valuations on interest rates swaps.

The jurisdictions where operations of the Off Shore segment are conducted have no corporate income taxes.

All Other: This segment provides financial and operational leases activities, including cross-border and international leasing services to clients in Colombia, Central America, Mexico and Brazil. Bancolombia offers these services mainly through the following Subsidiaries: Renting Colombia S.A.S., Arrendamiento Operativo CIB S.A.C., Transportempo S.A.S. and Capital Investment Safi S.A. This segment also includes results from small operation of particular investment vehicles of Bancolombia: Valores Simesa S.A., BIBA Inmobiliaria S.A.S., Inversiones CFNS S.A.S., Sistema de Inversiones y Negocios S.A. Sinesa, Banagrícola S.A., Inversiones Financieras Banco Agrícola and others.

The investments in Arrendamiento Operativo CIB S.A.C. and Capital Investment Safi S.A. are classified as Assets held for sale in the Statement of Financial Position. For further information, see note 12 “Assets held for sale and inventories.”

	Year ended December 31,				
	2017	**2016**	**2015**	**Change 2017-2016**	**Change 2016-2015**
	In millions of COP				
Total interest and valuation	**10,201**	**30,299**	**112,858**	**(66.33%)**	**(73.15%)**
Interest income on loans and financial leases	13,000	25,819	109,062	(49.65%)	(76.33%)

Total debt investments	735	3,145	1,425	(76.63%)	120.70%
Derivatives	(289)	(1,030)	-	(71.94%)	0.00%
Total liquidity operations	(3,245)	2,365	2,371	(237.21%)	(0.25%)
Interest expenses	**(85,928)**	**(99,991)**	**(77,156)**	**(14.06%)**	**29.60%**
Net interest margin and valuation income on financial instruments before impairment on loans and financial leases and off balance sheet credit instruments	**(75,727)**	**(69,692)**	**35,702**	**8.66%**	**(295.20%)**
Total credit impairment charges, net	1,696	871	(3,219)	94.72%	(127.06%)

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	Year ended December 31,			Change	Change
	2017	2016	2015	2017-2016	2016-2015
	In millions of COP				
Net interest margin and valuation income on financial instruments after impairment on loans and financial leases and off balance sheet credit instruments	**(74,031)**	**(68,821)**	**32,483**	**7.57%**	**(311.87%)**
Revenues (expenses) from transactions with other operating segments of the Bank	(48,931)	(39,721)	(24,263)	23.19%	63.71%
Total fees and commission income, net	12,569	13,724	10,334	(8.42%)	32.80%
Other operating income (1)	874,126	874,978	772,959	(0.10%)	13.20%
Dividends received, and share of profits of equity method investees	(61,156)	(175,595)	(159,583)	(65.17%)	10.03%
Total operating income, net	**702,577**	**604,565**	**631,930**	**16.21%**	**-4.33%**
Operating expenses (2)	(430,212)	(400,243)	(354,811)	7.49%	12.80%
Impairment, depreciation and amortization	(137,377)	(137,672)	(133,401)	(0.21%)	3.20%
Total operating expenses	**(567,589)**	**(537,915)**	**(488,212)**	**5.52%**	**10.18%**
Profit before tax	**134,988**	**66,650**	**143,718**	**102.53%**	**(53.62%)**
Segment assets	**4,773,601**	**4,600,424**	**5,203,576**	**3.76%**	**(11.59%)**
Segment liabilities	**(1,440,368)**	**(1,494,960)**	**(1,581,716)**	**(3.65%)**	**(5.48%)**

(1) Includes derivatives, net foreign exchange, operating leases and gains on sale of assets.
(2) Includes staff costs, other administration and general expenses, contributions and other tax burdens and others.

Analysis of 2017 versus 2016

In 2017, profit before taxes for All Other increased by 102.53% to COP 135 billion.

Other operating income, was stable during the year reaching COP 874 billion in 2017 compared to COP 875 billion in 2016. The smaill increase was due to the growth in operating leases by 11.66% and gains on sale of subsidiaries by 45.97%.

Assets attributable to All Other increased by 3.76% to COP 4,774 billion.

Analysis of 2016 versus 2015

In 2016, profit before taxes for All Other decreased by 53.62% to COP 67 billion.

Other operating income, which is the most significant revenue line, increased by 13.20% to COP 875 billion, driven by the growth in revenues from services and translation adjustment of the equity investment portfolio.

Assets attributable to All Other decreased by 11.59% to COP 4,600 billion, due to a decrease in debt and equity investments

B. LIQUIDITY AND CAPITAL RESOURCES

B.1. LIQUIDITY AND FUNDING

Liquidity Management

The Asset and Liability Management Committee, or ALCO, sets the main policies of liquidity and funding for the Bank in accordance with the Bank's desired statement of financial position structure.

The Bank uses a variety of funding sources to generate liquidity, taking into consideration market conditions, interest rates, liquidity needs and the desired maturity profile of funding instruments. Consequently, policies are designed to achieve an optimal match between assets and liabilities profile regarding maturities, interest rates and currency exposure.

One of the Bank's main strategies is to maintain a solid liquidity position; thus, the Risk Committee has established a minimum amount of liquid assets, based on calculations of maximum expected withdrawals of deposits, disbursements and other obligations in order to guarantee the proper operation of banking activities and protect capital. The ALCO has delegated the short-term liquidity assessment task to the Liquidity Committee, which sets strategies and policies regarding liquidity.

Stress tests scenarios are simulated periodically to assess the Bank´s ability to raise funds under adverse market conditions. In addition, the Bank has defined a contingency liquidity plan that allows the organization to raise funds under stressed market scenarios.

Liquid Assets

During 2017, the Bank maintained a solid liquidity position. As mentioned above, the Bank seeks the optimum level of liquid assets to assure not only the proper operation under normal conditions but also to operate under stress market scenarios.

The following table shows the composition of the liquid assets in the last two years:

Liquid Assets[(1)]	December 31, 2017	December 31, 2016
High quality Liquid Assets		
Cash	14,793,855	15,821,823
High quality liquid securities	7,963,343	7,844,716
Other Liquid Assets		
Other securities	1,617,158	2,557,679
Total Liquid Assets	**24,374,356**	**26,224,218**

(1) *Liquid assets accepted by the Central Bank for its monetary expansion and contraction operations. Liquid assets are adjusted by a haircut. The following are considered liquid assets: cash, repos held for trading and investments held for trading in listed shares in Colombia's stock exchange, in investment funds units or in other trading debt securities.*

High-quality liquid assets are comprised of cash and securities that are eligible collateral for purposes of repurchase transactions, in addition to those liquid assets that the Central Bank receives for its monetary expansion and contraction.

The Bank measures liquid assets on a daily basis and compares this result to an objective target set by the Risk Committee Under this rule, daily liquid assets must be equal to or higher than this target. In the event the limit is not reached, there is a five-day period to increase liquidity levels.

Cash is important to guarantee branch and ATM operations. The Bank's expansion across the Colombian territory requires considerable levels of cash; however, cash levels are daily monitored in order to minimize opportunity costs. Additionally, cash is taken into account in the mandatory bank reserve established by the Central Bank.

Securities that comprise liquid assets are reviewed by the ALCO in light of the Bank's liquidity objective. Even though available for sale and held to maturity debt securities cannot be sold, they can be pledged as collateral in repurchase agreements. Some of them are mandatory investments that can be posted to the Central Bank as collateral.

SFC requires financial entities to have liquid assets greater than the contractual liquidity accumulative one-month gap. This contractual gap reflects the maturity of the current positions of assets and liabilities and does not reflect projections of future operations. The maturity of the loan portfolio for this purpose is affected by the historical default indicator and the maturity of deposits is modeled according to the regulation.

The Bank's management believes that the current level of liquidity is adequate and will seek to maintain its solid deposit base and the access to alternative sources of funding such as borrowings from domestic and international development and commercial banks, repurchase agreements, bond issuances, overnight funds and Central Bank funds, considering market conditions, interest rates and the desired maturity profile of liabilities.

Funding Structure

As of December 31, 2017, the Bank's liabilities reached COP 179,478 billion, a 3.28% increase compared to December 31, 2016. Liabilities denominated in Colombian Pesos increased by 8.77 percentage points, and liabilities denominated in U.S. dollars liabilities decreased by 3.67 percentage points. This change is principally the result of the increase in COP denominated saving accounts, time deposits and repurchase agreements and other similar secured borrowing, and a decrease in USD denominated borrowings from financial institutions, offset by a decline in COP denominated debt securities and increases in USD denominated checking accounts, interbank deposits and debt securities in issue.

	As of December 31,	
	2017	**2016**
	In millions of COP, except percentages	
Total funding		
Peso-denominated	105,532,426	97,019,386
Dollar-denominated.	73,946,235	76,764,678
Total Liabilities	**179,478,661**	**173,784,064**

In 2017, the Bank experienced a growth in deposits which reached COP 131,959 billion at year-end, an increase of COP 7,335 billion, or 5.89% compared to the level at December 31, 2016. COP denominated deposits increased by 8.68%, explained mainly by the rise in COP denominated time deposits and saving accounts, while USD denominated deposits increased by 1.26% as a result of the rise in USD denominated checking accounts and time deposits. The ratio of deposits to total assets was 64.72%, increasing by 1.22% percentage points compared to 2016.

	As of December 31,	
	2016	2015
	In millions of COP	
Total Deposits	131,959,215	124,624,011

The following table sets forth checking accounts, savings accounts and time deposits as a percentage of the Bank's total liabilities for the years 2017 and 2016.

	2017	2016
Checking deposits	12.3%	12.4%
Time deposits	30.0%	30.4%
Savings deposits	30.2%	28.0%
Other deposits	0.9%	1.0%
Percentage of Total Liabilities	**73.4%**	**71.8%**

The Bank's principal sources of funding are deposits, which are mainly composed of checking accounts, time deposits and savings accounts.

Deposits as a percentage of the Bank's total liabilities in 2017 were 73.4%, increasing from 71.8% of total liabilities at year-end 2016.

The ratio of net loans to deposits (including borrowing from commercial banks) was 104.43% at the end of 2017, increasing from 101.11% as compared to 2016. This change is primarily explained by the increase in loans and advances to customers which rose from COP 151,747 billion in 2016 to COP 160,468 billion and the decrease in borrowings from other financial institutions which declined from COP 18,905 billion to COP 13,822 billion in 2017. The bank relied on alternative sources of funding to a greater extent during 2017; COP-denominated repurchase agreements and other similar secured borrowing rose from COP 1,686 billion to COP 3,210 billion, and USD-denominated debt securities in issue increased from COP 13,206 billion to COP 14,661 billion.

	As of December 31,	
	2017	2016
Net Loans to Deposits	104.43%	101.11%

The Bank funds its operations in part with borrowings from financial institutions which amounted to COP 5,139 billion at the end of 2017, as compared to COP 4,921 billion at the end of 2016. Management believes these borrowings represent a good quality source of funding provided mainly by governmental entities in order to promote lending activities within specific sectors of the Colombian economy.

In addition to the main sources of funding described above, the Bank uses borrowings from other financial institutions and debt securities.

Debt securities in issue

In 2017, Bancolombia and Banistmo issued notes in amounts of USD 750 million and USD 500 million respectively.

As of December 31, 2017, the total outstanding aggregate principal amount of bonds issued by the Bank was COP 19,648 billion.

The following table shows the Bank´s debt securities in issue maturity profile:

	2018	**2019**	**2020**	**2021**	**2022**	**2023 and thereafter**	**Total**
	In millions of COP						
Debt securities in issue	2,132,242	1,692,912	2,146,107	3,554,641	5,140,866	4,981,946	19,648,714

The following table sets forth the components of the Bank's liabilities for the years 2017 and 2016:

	As of December			
	2017	**% of total funding**	**2016**	**% of total funding**
	In millions of COP, except percentages			
Checking accounts				
Peso-denominated	11,562,956	6.4%	11,407,661	6.6%
Dollar-denominated	10,502,691	5.9%	10,035,341	5.8%
Total	**22,065,647**	**12.3%**	**21,443,002**	**12.4%**
Time deposits				
Peso-denominated	30,020,911	16.7%	28,940,030	16.7%
Dollar-denominated	23,940,675	13.3%	23,733,355	13.7%
Total	**53,961,586**	**30.0%**	**52,673,385**	**30.4%**
Savings accounts				
Peso-denominated	41,975,168	23.4%	36,354,465	20.9%
Dollar-denominated	12,280,415	6.8%	12,339,237	7.1%
Total	**54,255,583**	**30.2%**	**48,693,702**	**28.0%**
Other deposits				
Peso-denominated	818,387	0.4%	932,945	0.5%
Dollar-denominated	858,012	0.5%	880,977	0.5%
Total	**1,676,399**	**0.9%**	**1,813,922**	**1.0%**

Interbank Deposits				
Peso-denominated	91,322	0.1%	12,597	0.0%
Dollar-denominated	993,269	0.6%	329,259	0.2%
Total	**1,084,591**	**0.7%**	**341,856**	**0.2%**
Derivate financial instrument-Liabilities				
Peso-denominated	937,950	0.5%	1,283,481	0.7%
Dollar-denominated	7,903	0.0%	28,969	0.0%
Total	**945,853**	**0.5%**	**1,312,450**	**0.7%**
Borrowings from other financial institutions [1]				
Peso-denominated	5,139,129	2.9%	4,921,950	2.8%
Dollar-denominated	8,683,023	4.8%	13,983,893	8.0%
Total	**13,822,152**	**7.7%**	**18,905,843**	**10.8%**
Debt securities in issue				
Peso-denominated	4,987,702	2.8%	5,498,303	3.2%

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	As of December			
	2017	**% of total funding**	**2016**	**% of total funding**
	In millions of COP, except percentages			
Dollar-denominated	14,661,012	8.2%	13,206,506	7.6%
Total	**19,648,714**	**11.0%**	**18,704,809**	**10.8%**
Repurchase agreements and other similar secured borrowing				
Peso-denominated	3,210,674	1.8%	1,686,316	1.0%
Dollar-denominated	25,454	0.0%	237,694	0.1%
Total	**3,236,128**	**1.8%**	**1,924,010**	**1.1%**
Other liabilities				
Peso-denominated	6,788,227	3.8%	5,981,638	3.5%
Dollar-denominated	1,993,781	1.1%	1,989,447	1.1%
Total	**8,782,008**	**4.9%**	**7,971,085**	**4.6%**
Total funding				
Peso-denominated	105,532,426	58.8%	97,019,386	55.9%
Dollar-denominated	73,946,235	41.2%	76,764,678	44.1%
Total Liabilities	**179,478,661**	**100.0%**	**173,784,064**	**100.0%**

(1) *Includes borrowings from commercial banks and other non-financial entities.*

Consolidated Statement of Cash Flows

The following table shows net cash provided by (used in) operating activities, net cash (used in) provided by investing activities and net cash (used in) provided by financing activities, for the years ended December 31,2017, 2016 and 2015:

	2017	**2016**	**2015**
		In millions of COP	
Operating activities	2,939,588	3,601,418	1,856,726
Investing activities	(1,908,080)	(1,027,627)	141,985
Financing activities	(3,620,909)	(343,839)	(231,474)
(Decrease) Increase in cash and cash equivalents	**(2,589,401)**	**2,229,952**	**1,767,237**

Operating Activities

In 2017, operating activities resulted in positive net cash as a result of the increase in deposits by customers to COP 8,236 billion and the COP 15,347 billion of interest received. The increase in loans and advances to customers and financial institutions was COP 11,266 billion, compared with COP 10,853 billion and COP 15,036 billion in 2016 and 2015 respectively. The interest paid was COP 5,578 billion of cash in 2017, COP 5,229 billion in 2016 and COP 3,771 billion in 2015. The value of investment securities recognized at fair value through profit and losses decreased by COP 1,599 billion in 2017, while in 2016 and 2015 it increased by COP 1,485 billion and COP 1,729 billion respectively.

Net income has been positive; COP 2,754 billion, COP 2,954 billion and COP 2,608 billion for 2017, 2016 and 2015, respectively.