

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 1998

OR

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

For the transition period from to

Commission file number: 1-13850

BANCOLOMBIA S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Republic of Colombia

(Jurisdiction of incorporation or organization)

Calle 50 No. 51-66

Medellín, Colombia

(Address of principal executive offices)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares	New York Stock Exchange
Preference Shares	New York Stock Exchange*

* The Company's Preference Shares are not listed for trading, but only in connection with the registration of American Depositary Shares, which are evidenced by American Depositary Receipts.

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 191,076,724

Preference Shares 58,060,558

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 which financial statement item the registrant has elected to follow.

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EXCHANGE RATES AND CURRENCY

Bancolombia S.A. (“BC” or the “Bank”) is a Colombian banking institution that maintains its accounting records in Colombian pesos. The audited consolidated financial statements of BC and its subsidiaries for the years ended December 31, 1996, 1997 and 1998 contained in the appendix (such audited consolidated financial statements, including the notes thereto, are collectively referred to as the “Financial Statements”) are expressed in Colombian pesos (“pesos” or “Ps”). In this annual report, references to “dollars,” “US\$” or “\$” are to United States dollars. This annual report contains translations of certain peso amounts into dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such peso amounts have been translated from pesos at the rate of Ps 1,510.99 per \$1.00, which approximates the average *Tasa Representativa del Mercado* (“Representative Market Rate”) on December 31, 1998. On June 21, 1999, the Representative Market Rate was Ps 1692.36 per \$1.00. The Superintendency of Banking calculates and certifies on a daily basis the Representative Market Rate, which is the weighted average of the buy/sell foreign exchange rates negotiated on the previous day by certain financial institutions (which include BC) authorized to engage in foreign exchange transactions. These translations should not be construed as representations that the peso amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated.

Colombia has experienced, and continues to experience, high rates of inflation. Colombian generally accepted accounting principles (“GAAP”) requires that the financial statements of Colombian financial institutions (including BC) be adjusted for inflation on a prospective basis from January 1, 1992 by applying coefficients of changes in the middle-income consumer price index (“MCPI”) for the relevant period to non-monetary assets and liabilities, shareholders’ equity (other than surplus from reappraisal of assets and cumulative translation adjustments) and results of operations. For this purpose, the effects of inflation prior to January 1, 1992 on historical amounts denominated in pesos are disregarded. Also, for each period beginning on or after January 1, 1992 and before restatement in constant pesos as described below, only the effects of inflation during the relevant period are taken into account. The peso data appearing herein includes such intra-period inflation adjustments. In December 1998, Law 488 was passed which eliminates the use of inflation adjustments in income, expense and inventory accounts for periods beginning January 1, 1999 and thereafter.

Unless otherwise indicated, all financial information included in this annual report has, for comparability purposes, been restated in pesos with purchasing power as of December 31, 1998 (“constant pesos”) by indexing historical amounts using the Colombian consumer price index (“CPI”) as measured by *Departamento Administrativo Nacional de Estadística* (“DANE”). Although the restatement of nominal pesos into constant peso amounts reduces the distorting effect that an inflationary environment has on comparisons of financial statements over time, such restatement does not wholly eliminate those distortions and evaluation of period-to-period trends may be difficult.

The financial information and results of operations presented in this Annual Report for the year ended December 31, 1998, reflects the effect of the merger of BC and Banco de Colombia S.A. (the “Merger”), as if the Merger had been effected as of January 1, 1998. Since the Bank’s results of operations subsequent to January 1998 reflect amounts recognized from the combined operations, BC’s financial information for 1998 is not directly comparable to financial information for prior periods.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

(a) GENERAL

The Bank (formerly, Banco Industrial Colombiano S.A. (“BIC”)) was founded in 1945. The Bank was originally established to provide products and services to blue-chip industrial companies in the Medellín industrial region and grew to become a leading bank for industrial companies throughout Colombia.

During 1998, BIC merged with Banco de Colombia (“BdC”), Colombia’s third largest bank in terms of assets as of March 31, 1998. As of January 1998, BIC had purchased 51% of the outstanding common shares of Banco de Colombia from certain individual shareholders for an aggregate consideration of US\$418.1 million. The shareholders of BdC and BIC approved the Merger on December 3, 1997. Effective April 3, 1998, Banco de Colombia was merged into BIC and the remaining 49% of the Banco de Colombia shares were exchanged for common shares and preference shares of BIC. In connection with the Merger, BIC changed its name to Bancolombia S.A.

The Bank provides general banking products and services to upper-income individuals, as well as the middle-market sector, consisting of small and medium companies. Such products and services include personal and corporate loans, deposit-taking, credit and debit cards, electronic banking, cash management, warehouse services, fiduciary and custodial services and dollar-denominated products. In addition, BC’s customers have access to a large branch and ATM network in Colombia. BC has the largest service network of any private financial institution in Colombia, with 376 branch offices in operation in approximately 120 cities as of March 31, 1999. For the year ended December 31, 1998, BC had a return on average assets of 0.14% and a return on average shareholders’ equity of 1.17%. At December 31, 1998, 3.72% of BC’s total loans were nonperforming. The effects of the Merger have had and may continue to have a negative effect on the quality of the Bank’s loan portfolio and the Bank’s return on average assets and shareholders’ equity. See “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Since the Merger, the Bank’s achievements have included a reduction of operational costs, market share of approximately 14% of the total assets of the Colombian banking system, a 15% market share of current accounts and a 13% market share in savings accounts (approximately 1,200,000 customers and clients), and a network of branch offices and automated teller machines.

Additionally, during 1998, the Bank announced a new Code of Ethics, and established a new employee training program, new procedures for opening new accounts, additional controls applicable to both cash transactions and documentary credits and a unit for the Prevention of Money Laundering.

BC is a New York Stock Exchange, Inc. (“NYSE”) listed company, where its American Depositary Shares (“ADSs”) are listed under the symbol “CIB.” See “Item 5. Nature of Trading Market.”

Economy Activity in Colombia

After Gross Domestic Product (“GDP”) rose only a modest 2.0% in 1996, the Colombian economy seemed to have overcome the demands on it and in 1997 grew 3.1%. However, contrary to the initial expectations, beginning in March 1998, progress slowed to a halt and 1998 ended with the worst GDP growth since the 1930s, growing only 0.2% (with GDP contracting 4.8% in the fourth quarter of 1998).

Reasons for the economic downturn in 1998 included turmoil in the world markets in the early months of 1998, a consolidated 3.1% fiscal deficit for 1997 and 3.7% for 1998, low international prices of Colombian exports, and the abrupt shortage of foreign capital which resulted in severe exchange rate pressures followed by an increase in interest rates, with the DTF reaching 37.19% (20.49% in real terms) during the fourth quarter of 1998.

The election of President Pastrana in June 1998 produced certain changes in expectations and produced a temporary reduction in pressure on the exchange rate which facilitated the implementation of expansionist measurements by the Central Bank. Unfortunately, the impairment of the exchange rates in the Russian market and the uncertainties about the Brazilian market in August 1998 drastically reduced the desired stability. Around that time, the exchange rate almost reached the ceiling of the exchange band and foreign reserves were slightly reduced. On September 2, 1998 the Central Bank shifted the exchange rate band upwards by 9.0% to ease pressure on the exchange rate. As of September 30, 1998, the devaluation of the peso was 28.4% in annual terms, while during the last quarter of 1998, the exchange rate appreciated 0.9%, or 3.65% in annual terms. In addition, Colombia experienced a high unemployment rate, which reached 15.7% as of December 31, 1998.

On November 16, 1998, the Colombian government declared an “Economic Emergency” pursuant to a constitutional provision that enabled the government to rule on economic matters by decree. The government implemented several preventive measures aimed at containing the deterioration of the financial system.

Though a collapse was avoided, the economy is still not as stable as desired. Interest rates have steadily decreased since November 1998, and the exchange rate is kept within a range established by the Central Bank. On June 27, 1999, the Central Bank shifted the exchange rate band upwards by 9.0%, effectively devaluing the peso.

A first step toward reducing the deficit was a tax reform package passed in November 1998. The new legislation increases and extends the rates and coverage of the Value Added Tax (“VAT”), introduces a minimum income tax on individuals and companies of five percent (5%) of such individual’s net worth or such company’s stockholders’ equity, as appropriate, eliminates tax-exempt revenues on public foreign debt debenture bonds chargeable to the Government, creates a compulsory obligation under the name of “*Bonos de Paz*,” and strengthens certain measures against tax evasion.

The imbalance in the public sector and its effects on interest rates and exchange rates created unexpected difficulties in the ability of borrowers to service their debt and in the economic solvency of smaller financial institutions belonging to cooperative savings and credit sectors. In order to address this problem, the Ministry of the Treasury in November 1998 introduced additional fiscal reforms through the declaration of the State of Economic Emergency, including, as an essential part of such reforms, a tax equivalent to 0.2% on most financial transactions. The proceeds from this additional reform plan are designated principally to a program designed to assist holders of home mortgages. Additionally, the Ministry of the Treasury, through *Fondo de Garantías de Instituciones Financieras* (“FOGAFIN”) and with the support of the Superintendency of Banking, established financial assistance mechanisms to assist financial institutions whose equity is endangered.

Financial Sector

After the second half of 1996, the financial sector slowed in its growth that had been so strong during the first years of the *Apertura*, or Opening of the Economy. The credit excess, promoted by the economy liberalization, caused impairment of quality indicators of the financial system assets. After some

improvement, artificially created by the fiscal policy of the end of 1997, portfolio growth decreased drastically and it became worse in 1998.

According to preliminary estimates from DANE, GDP for the financial sector increased by only 2.1% in 1998, compared to 3.2% in 1997. Financial institutions (consisting of banks, savings and loans, investment banks and commercial leasing companies) had a GDP decrease of 11.5% in 1998 (compared to an increase of 3.5% in 1997).

Total assets of Colombian financial institutions decreased 7.3%, and total gross loans of such institutions decreased approximately 5.2% during 1998. Among the group of financial institutions, only banks had positive growth in terms of assets although of little significance.

Similar trends to those of assets were observed in the deposits: aggregate deposits dropped 7.2% and only fixed term deposits had a positive growth while checking accounts and sight savings deposits had significant declines.

In an environment of extreme exchange rate volatility and big oscillations in monetary supply, the overall system underwent a significant impairment of its liquidity indicators which forced the Central Bank to assume considerable control and the Superintendency of Banking to assume the control of some credits institutions.

As a result of the fiscal year, as of December 1998, the consolidated loss of the financial system amounted to Ps 1,129 billion. From this total, Ps 943 billion, or 85% of the system total loss, was assumed by the public sector banking.

Composition of Financial System

After 1990, with the regulatory reforms associated with the *Apertura*, foreign ownership in the financial sector was permitted.

From mid 1996, when Banco Bilbao Vizcaya purchased 40% of Banco Ganadero, to the present, over 30 mergers and absorptions of financial institutions have taken place as consolidation in the industry has increased. According to the Central Bank, the number of registered financial institutions decreased from 126 in December 1997 to 103 in December 1998.

As a consequence of this phenomenon, the institutional configuration and the structure of participation in the financial system changed drastically. Commercial banks have increased their relative importance within the system, and increased their participation in assets held from 45.0% of the total held by the financial system in 1995 to 61.0% in March 1999; among these, the foreign capital private banking constitutes 27.0% of total assets of the financial system, while public banks only constitute 17.0% of total assets.

This consolidation has led to an increasing importance of larger institutions in the financial system. The three largest banks, Bancolombia, Ganadero and Bogotá, increased their share of the checking accounts market from 39.7% in March 1998 to 42.0% in March 1999. Similarly, in the savings accounts deposits, the four major banks, Davivienda, Bancolombia, Ganadero and Bogotá, increased their market share from 41.6% to 44.5% from March 1998 to March 1999. In the market of fixed time deposits, the four major banks – Bancolombia, Davivienda, Citibank and Ganadero – have increased their market share from 31.7% to 37.5% during the same period.

The greatest problem presently facing the financial system is the quality of banks' loan portfolios. The past due portfolio as a percentage of total loan portfolio for the banking system as a whole increased to 12.7% in March 1999 from 6.9% in March 1998. In spite of this general trend, a group of larger banks, including Bancolombia and a few smaller banks, have been able to keep their past due portfolios in check. Bancolombia's past due portfolio increased to 8.8% in March 1999 from 5.1% in March 1998. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations."

(b) OPERATIONS

Retail

General

Retail banking provides financial products and services to middle and upper income individuals and small companies with annual sales under Ps 6,200 million. As of December 31, 1998, BC's market share of such middle and upper income customers was approximately 7.9% with approximately 231,500 customers. In 1998, BC redefined its products and services portfolio by taking the best offerings from both the former BIC and the former Banco de Colombia and complementing them with new products and services. Products and services offered to individuals include personal lines of credit, credit cards, automobile loans, computer loans, loans by telephone, student loans, checking accounts, time deposit accounts, savings accounts, debit cards, electronic banking, overdraft credit, home delivery check book, personal insurance and home banking via the internet.

The Bank offers to small companies working capital loans, cash management deposits, medium and long term loans, as well as loans funded by domestic development banks and trade financing. Through its subsidiaries, Bancolombia Panama and Bancolombia Cayman, Bancolombia offers loans and takes deposits in U.S. dollars for its Colombian customers.

As of December 31, 1998, loans to individuals and small companies totaled approximately Ps 1,384,095 million, representing approximately 34.4% of BC's total net loan portfolio.

In June 1998, the Bank consolidated the databases of both the former BIC and the former Banco de Colombia and performed analyses of the customers to sub-segment the database into medium size banking, personal banking, and personal banking for customers with high income. This resulted in the first phase of the Eclipse Plan, consisting of the sub-segmentation of the clients and the creation of portfolio of basic and supplementary products for each one of them. The Bank created a different commercial force to attend to medium size or high income customers; and it appointed 119 senior account executives and 147 junior account executives. Through this segmentation, the Bank's account staff has been able to target more precisely certain customer segments and offer products and services that are more customized to the needs and desires of the customer. As a result of these more personalized efforts, the Bank believes that it has created a stronger sense of loyalty to the Bank among its customers.

In the second quarter of 1998, Bancolombia launched a sales plan directed at the old network of Banco de Colombia. The sales plan launched in 1996 directed at the old network of BIC continued with some improvements regarding the number of products and inclusion of the net sales index (retention of products) within its measurement. The 1998 marketing plan focused on the use of electronic devices for transactions and the provision of home banking services, as well as the ability to pay bills and accept payments through customers' accounts at the Bank.

Retail Lending

Individuals. BC's primary loan products offered to middle and upper income individuals are personal lines of credit, automobile loans, credit cards, loans by telephone and education loans for students at the college level.

Personal loans range in size from Ps 2 million to Ps 47 million with maturities from one to five years and bear interest at both fixed and variable rates. Approximately Ps 252,609 million of such loans, or 6.3% of the Bank's total loans, were outstanding at December 31, 1998 and 8.7% were at least one day past due (or 0.5% of the Bank's total loan portfolio). Automobile loans, which bear interest at both fixed and variable rates, have a term of up to 5 years with loan-to-value ratio of 80% and are secured by the respective automobile. As of December 31, 1998, approximately 0.9% of the Bank's total loan portfolio, or Ps 34,758 million, consisted of automobile loans, 6.87% of which were one day past due (or 0.06% of the Bank's total loan portfolio). Pre-approved loans by telephone range in size from Ps 2 million to Ps 47 million with maturities of 3 years. As of December 31, 1998, the Bank had Ps 33,006 million, or 0.8% of the Bank's total loan portfolio, outstanding as pre-approved loans by telephone. As of December 31, 1998, 5% of these loans by telephone were at least one day past due (or 0.04% of the Bank's total loan portfolio).

A centralized credit scoring department approves applications for automobile loans, personal lines of credit and loans by telephone up to a specific credit limit above which amount a branch manager or regional manager must approve the loan. Typically, an applicant has either a checking account or a savings account and a credit card with BC, which facilitates the credit review. The credit scoring system for these loans is similar to that used in credit card applications.

BC participates in the Colombian credit card market through the issuance of a variety of MasterCard credit cards. In addition, following the Merger, BC became a Visa issuer in Colombia. As a result, BC can issue Visa Standard, Visa Business, Visa Gold, and Visa Platinum cards to its customers through both personal and corporate cards. As of December 31, 1998, BC had issued 142,097 MasterCards and 103,484 Visa Cards, accounting for 10.0% of the Colombian market in terms of cards issued and 13.0% in terms of sales, according to the Superintendency of Banking. As a result, BC has become one of the market leaders in this business. BC is also the exclusive paying agent in Colombia for American Express. As of December 31, 1998, credit card loans totaled approximately Ps 155,758 million, representing approximately 3.9% of BC's net total loan portfolio. BC is two points below Colombia's past-due loan rates in the commercial banking system for its credit cards, with 12.87% of its total credit card loans at least one day past due at December 31, 1998 (or 0.5% of BC's net total loan portfolio), versus an industry average in excess of 15.6%.

BC charges an annual fee for the issuance of a credit card. As of December 31, 1998, this fee was approximately Ps 64,000 (nominal pesos), which was increased to Ps 72,000 (nominal pesos) in 1999, if only used within Colombia or US\$96 if used outside of Colombia for standard cards: Ps 80,000 (nominal pesos) in 1998, and Ps 92,000 in 1999, if only used within Colombia or US\$120 if used outside of Colombia for corporate cards, and Ps 80,000 (nominal pesos) in 1998, and up to Ps 108,000 (nominal pesos) for 1999, if only used within Colombia or US\$136 if used outside of Colombia for premium cards.

In addition, the Bank, in December 1996, introduced the BIC Cayman VISA card, issued and booked through BC's subsidiary on the Cayman Islands. BIC Cayman VISA billing was US\$13,339,413 for the year ended December 31, 1998 and the number of cards issued on that date was 2,786.

BC has centralized its credit card application processing and collection functions to provide greater consistency in credit decision and collections across the entire distribution network and to enhance branch

management productivity. BC approves a global amount of credit for each client, which is distributed to all products of the bank (checking accounts, credit cards, loans, overdrafts and savings accounts). To this end, BC developed a credit scoring system, hired an experienced management team and built a collection procedure through the hiring and training of telephone collection personnel and through automation, such as self-dialing and collection-oriented software.

Small Companies. BC's primary loan products offered to small companies are working capital loans, loans funded by Colombian development banks and trade financing loans.

Working capital loans to small companies are typically variable rate loans based on the average interest rate for the issuance of time deposits, the Colombian average certificate of deposit rate equivalent, with maturities of up to 12 months. As of December 31, 1998, 18.6% (Ps 748,642 million) of BC's total loan portfolio consisted of working capital loans, 15.4% of which was past due at least one day (or 2.9% of BC's total loan portfolio).

Loans funded by Colombian development banks have variable rates based on time deposit rates or LIBOR and have maturities from six months to five years. For these loans, the Bank receives funding from a Colombian development bank, such as Bancoldex, Colombia's export development bank, and on-lends such funds in the same currency and maturity at which they were borrowed from the most recent borrower. As of December 31, 1998, 2.0% of the Bank's total loan portfolio consisted of loans funded by Colombian development banks, 12.7% of which was at least one day past due (or 0.3% of BC's total loan portfolio).

Trade financing loans are typically variable rate loans based on LIBOR with maturities up to 6 months. As of December 31, 1998, 0.9% of BC's total loan portfolio consisted of trade financing, 10.4% of which was at least one day past due.

Starting in March 1998, a new market segment was defined which covers all small companies with annual sales between Ps 150 million and Ps 6,200 million. 30,000 clients were defined in this market, with 19,250 of them assigned to branch managers, with specific relationship optimization tasks defined for them.

In order to improve BC's participation in this market segment, a strategic approach focused on getting to know the client was introduced. The strategy has the objective of becoming the client's financial advisor in this process. BC's strategy in this small business segment is focused in six areas.

First, the bank has instituted new procedures to measure the specific risk factors associated with small business which is expected to be completed over the next three years. Second, a training program has been organized which covers essential aspects of the calling procedure, call memos and sales techniques. Third, BC has developed new products, enhancing the direct communication, thus integrating payroll payments, suppliers payments, and accounts receivable from clients in one computerized and telephone connected system in order to improve cash management. Fourth, as discussed under "Retail—General," BC has divided its clients into sub-segments in an attempt to target its customers more precisely by offering customized products and services tailored to the needs of its customers. Fifth, the Product Portfolio is now reviewed every 6 months, to ensure that BC's sales strategy is consistent with overall strategic plans. And, finally, meetings between Corporate Banking account managers and branch managers are being organized on a periodic basis, to share information in an attempt to acquire new clients.

Deposits

BC offers a variety of checking accounts, savings accounts, time deposit accounts and tax collection to its individual and small company customers. At December 31, 1998 BC offered these products through 376 branches. Based on information compiled by the Superintendency of Banking, as of December 31, 1998, BC was ranked first nationwide in deposits with a total amount of Ps 3,632,913 million on an unconsolidated basis, representing 12.4% of the total market. BC offers to its Colombian retail clients dollar-denominated deposit accounts through Bancolombia Panama.

As of December 31, 1998, BC had approximately 254,801 checking accounts, 62,000 time deposit accounts, and 937,091 savings accounts.

BC has developed a strict review process to approve receipts of deposits. In line with its “know your customer” policies and procedures, depositors of time deposits and monies for savings accounts and time deposits are required to go through an identification and screening process, while depositors of monies for checking accounts must undergo the same credit scoring review process as that required of potential borrowers.

Other

BC also receives non-interest income from electronic banking services through debit cards and telephone banking. Retail clients can use debit cards for withdrawals, deposits, transfers among accounts (both internally and between BC and Corporación Nacional de Ahorro y Vivienda S.A. (“CONAVI”) accounts), balance information and third-party payments. With the exception of withdrawals and deposits, the same services are provided via telephone. The debit cards can be used at any ATM of BC or CONAVI, or any ATM that is part of the Red Multicolor, CIRRUS or Redeban networks. BC receives a commission of Ps 950 for transfers between accounts in the same location. BC also receives a commission of Ps 1,950 for ATM payments to customers of other banks and charges no commission to BC’s customers for each ATM transaction at its own tellers or at CONAVI tellers.

To further BC’s policy of providing consistency in its operations and to resolve customer complaints and claims about each of the services it provides, in October 1996, BC, in conjunction with CONAVI and Suramericana, created the position of “Counsel for Customer Defense,” the first of its kind in Latin America. The role of the Counsel for Customer Defense is to evaluate and resolve customer claims in an impartial manner. The Counsel for Customer Defense operates independently from BC and its decision is binding to the Bank, in all such matters, subject to certain amounts and formalities, which are set forth in the regulations creating the position.

Corporate

General

In order to offer its clients customized services and attention and products with specific characteristics, focus its commercial efforts, personalize the commercial relationship and optimize the efficiency of the business, BC has divided its corporate customers into the following four segments:

- Corporate: clients with annual sales over Ps 42,000 million.
- Managerial: clients with annual sales over Ps 6,200 million and below Ps 42,000 million.

- Institutional: clients subject to the supervision of the Superintendency of Banking, Superintendency of Securities, Superintendency of Health, Family Subsidy, electronic and financial corporations.
- Government: public sector entities.

Corporate Lending

BC provides a range of products and services covering the needs of its corporate banking customers in areas such as working capital loans, trade financing, loans funded by Colombian development banks, foreign exchange, cash management services and electronic payments. BC also offers nonbanking services to its corporate clients such as zero balance cash management, payroll management and account access via personal computer.

Working capital lending is the most common type of lending in the corporate market. Working capital loans are predominantly variable rate, based on time deposits, and reprice every three months. As of December 31, 1998, 81.8% of the corporate banking customers loan portfolio consisted of working capital loans, 2.6% of which was at least one day past due (or 1.4% of the Bank's total net loan portfolio).

Trade financing loans are typically dollar-denominated, variable rate loans, and at December 31, 1998 they represented 5.4% of the Bank's total net loan portfolio with no significant amount past due. Due to legal restrictions, this portfolio has maturities between six months or less and some capital assets are financed up to 3 years.

Loans funded by Colombian development banks are variable rate, based on time deposit rates or LIBOR, and have maturities between six months and five years. As of December 31, 1998, 5.8% of the Bank's total net loan portfolio consisted of loans funded by Colombian development banks, with no significant amount past due.

BC generally requires a greater level of collateral coverage from managerial customers than from its large corporate customers and usually obtains mortgages, warehouse receipts, equipment liens, or other collateral to secure loans. In addition, BC frequently requires personal guarantees from the shareholders of its managerial customers. Of BC's corporate loans on December 31, 1998, approximately 60% were considered unsecured and approximately 40% were considered secured or guaranteed.

Corporate banking customers are served by BC's account managers in Bogotá, Medellín, Cali, Pereira, Bucaramanga, Manizales, Cartagena, and Barranquilla, who serve various industry sectors. BC's account managers call on corporate clients on a regular basis and monitor the credit quality and profitability of each client. BC believes that one of its competitive advantages in corporate banking is its focus on long-term relationships with clients, together with its ability to provide a full array of services to meet their needs. In addition, BC is focusing on providing fee income-generating products to large corporate customers, developing its products and services in foreign exchange and international trade financing and cash management and expanding products and services to the growing market of medium-sized corporations. BC also provides dollar-denominated loans through Bancolombia Panama, which are primarily working capital loans and lease financing to its Colombian corporate clients, and loans to the Colombian Government.

Much of BC's strategy towards corporate customers in 1998 revolved around the completion of the merger with Banco de Colombia and ways in which to retain customers and build customer loyalty. Steps taken included coupling product offerings with training seminars for clients.

Credit Analysis

BC'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, strict monitoring of outstanding loans and the specific assignment of responsibilities for credit risk.

To achieve a high level of credit quality and manage the risk arising from its lending activities, BC has established general loan policies for:

- I. evaluation of credit;
- II. lending limits to a single customer or economic group in accordance with those required by law;
- III. the level of management authority required to approve a loan;
- IV. maximum terms of loans; and
- V. collateral required for certain types of loans and their valuation.

In each region BC has a team of analysts that conduct a credit analysis for corporate loans. In addition, the Bank has invested in software to provide automated credit scoring for loan products to retail clients.

BC has established policies for loan approvals. BC's policies require that every loan be analyzed using the following factors: the character, reputation and credit history of the borrower; the type of business in which the borrower engages; the borrower's ability to repay the loan; the coverage and suitability of the proposed collateral for the loan; the information received from the credit risk center; the debt service ability; and the compliance with the loan terms. In addition to an analysis of the borrower, the Bank is permanently engaged in the analysis of the different economic sectors to which the Bank makes loans and has established guidelines for financial analysis of the borrower and for participation in investment projects in Colombia and outside Colombia. BC is currently in the process of updating and revising its loan policies. This process is expected to be completed in June 1999 after integrating the credit policies of the former Banco de Colombia into those of BC.

With respect to monitoring outstanding loans, BC has implemented a review policy in which loans in the commercial loan portfolio are fully reviewed every six months in accordance with the requirements of the Superintendency of Banking. Commercial loans that exceed Ps 1,000 million are fully reviewed every three months. BC's policy is to review loans in its consumer and mortgage loan portfolios on a monthly basis. Additionally, BC's Control and Credit Risk Department performs an ongoing review of the loan portfolio. In order to facilitate the review of outstanding loans with a term greater than one year, the Bank requires the borrower to provide, and examines, current cash flow statements.

In order to detect and deter money laundering by the Bank's customers, BC has adopted an integral plan (SIPLA), in accordance with current legal regulations. This plan includes the training of employees, the introduction of policies and procedures designed to enable the Bank to know its customers and employees, the monitoring of the Bank's operations and the establishment of mechanisms to report suspected laundering activity to the appropriate governmental authorities.

Distribution Network

General

BC has a variety of distribution channels through which it sells its financial products and services, effects transactions, and provides the information that its clients may need to communicate with the Bank. The group of distribution channels consists of 376 branches located in approximately 120 municipalities in Colombia, a network of 402 ATMs owned by BC, and 440 others to which BC's clients have access

because they are clients of CONAVI, a financial institution with which the Bank has a strategic alliance. Other distribution channels include telephone banking, banking via the Internet, PC Banking or banking via electronic devices at our branch offices and at various other commercial establishments through which our clients can effect their transaction with their debit card.

Branch Network

The BC branch network consists of 368 offices in approximately 120 Colombian cities and 8 additional branches located in supermarkets. Administration of the network is divided into 5 regions: Antioquia, with 62 branch offices; Bogotá and Sabana, with 107 offices; the South Region, with 82 offices, the Northern Region with 49 offices, and the Central Region with 76 offices. Each region, likewise, is divided into several zones depending on the size of the region to facilitate administration and supervision.

All the branches operate with the same technology for the processing of transactions and selling of products to clients, and all are on line in real time. This makes it possible for any operation performed at any given time to be immediately updated in all Bank offices.

The average number of employees per branch office is 11. These employees work under the supervision of a branch manager, who is in charge of sales, client service and transactions. The sales groups consist of account officers and commercial advisors, while client services are managed by an assistant manager who is in charge of tellers and the transactions division is run by operative advisors.

To expedite cash transactions, BC has in its branch offices a total of 100 electronic boxes to permit customers to speed up service without waiting in line for tellers. BC also has Pin Pads in 60 offices to attend to customers with ATM cards more rapidly and safely. BC expects that in two years all the payment branches will have these special features.

Ten branches are equipped for 24-hour service where customers can perform all the transactions and may obtain all consultations that they need. In addition, three of the branches have drive-in service, called "Autobanks."

BC has 8 branches at supermarkets, which render sale and transaction services exclusively for clients of personal banking who visit such supermarkets. At these branches, customers are able to perform 85% of their transactions electronically and 15% with the help of a cashier. Each supermarket branch has about five employees who perform all commercial and operative tasks. BC is continuing to expand this new concept throughout Colombia with the advisory services of the American consulting firm, NCBS, and hopes to have 25 branches in different supermarkets throughout Colombia by December 1999.

As a result of the merger with Banco de Colombia, BC is in the process of closing branch offices that are too close to one another, or those that have not performed well financially. Since the Merger, BC has closed 12 branches and plans to close another 56 branches in 1999. In addition, BC is planning to open 15 new branch offices during 1999.

Automatic Teller Machines

BC's proprietary network consists of 307 automated teller machines located outside the branch offices, which operate 24 hours a day, and an additional 95 ATMs located at shopping centers, airports and other sites with high flow of people. Through the Redeban and Red Multicolor networks, BC's clients can access their accounts at all of the existing ATMs in Colombia, and through CIRRUS, in approximately 105 countries worldwide. ATM available services include, among others, withdrawals, deposits, transfers among accounts, balance information and third-party payment services.

A strategic alliance with CONAVI gives access to an additional 440 ATMs which can be used by the Bank's clients, without any additional cost for the customers.

BC's ATMs receive cards from all banking institutions affiliated with the domestic networks and with the international networks affiliated with CIRRUS and Plus. BC receives a commission of Ps 950 for each transfer of funds effected at the domestic ATMs, and Ps 1,950 for each withdrawal made by a client at an ATM other than BC or CONAVI's ATMs. In 1998, BC ATMs performed over 23.4 million operations.

Electronic Banking and Bancolombia Via Internet

Approximately 30% of BC's transactions with its customers are electronic or over the Internet, and electronic banking and banking over the Internet play an important role in BC's marketing and distribution system. BC intends to decrease operating costs and to achieve the decongestion of branch networks. To this end, it has implemented programs oriented to increase the use of electronic banking through the training of its employees and clients in the use of such means. BC has a wide network of alternative channels, such as Electronic Tellers, Call Center, Banking via Internet, Corporate Banking, automatic systems for payment and collection of invoices and for transfer of funds, and electronic devices at the branches and stores to ease transactions and provide information to our clients.

BC was the first Colombian bank to offer a transactional system via the Internet beginning in November 1996. Since then, this system has been updated on various occasions and was reintroduced in 1998 as "Virtual Branch." Virtual Branch offers services 24 hours a day such as balance inquiries, savings and credit card information, payment of credit cards, disbursement of pre-approved loans, blocking of credit cards, counter-order of checks, transfers among BC accounts and to CONAVI accounts, products and services requests, and other customer services.

Presently, an average of 20,000 users per month use BC via the Internet, conducting an average of 220,000 transactions, representing a reduction cost of US\$ 1.50 per transaction.

In addition, in 1998, in order to sell products through the Internet, BC developed a web product catalog with interactive tools that allows customers to simulate loans, investments, credit cards and to find out the ideal product combination for their needs.

Call Center

The automated and operation-assisted Call Center is rendered through outsourcing with "Multienlace," an affiliated company, founded in 1997 which renders similar services to other companies, such as CONAVI, Suramericana and Susalud.

Through the Call Center, clients can, by using a personal password, effect operations, such as balance inquiries or recent transactions in their account, make requests of extracts via fax, transfer funds among BC accounts or to CONAVI accounts, and make disbursements of personal loans and payments of credit cards. If the customer does not have a password, they can communicate with an operator to obtain information, make inquiries, make complaints or suggestions, or apply for the home delivery of a checkbook. In 1999, the Bank plans to develop new services for the Call Center, such as the sale of products.

During 1998, BC conducted 8,207,664 transactions through the Call Center and answered 412,730 telephone calls through operators at the Call Center.

On-Line Banking

In addition to electronic retail banking via the Internet, BC offers to select corporate clients an on-line service directly linked to BC which, among other things, allows such clients to access account information, transfer funds within their BC accounts or to accounts at other financial institutions. The service, which operates through software that has to be installed on a client's information technology system, also enables such clients to make their payroll payments and pay their suppliers electronically as well as to issue checks.

BC – CONAVI Strategic Alliance

In order to capitalize on opportunities to improve services to clients, obtain large-scale savings and to create synergies, BC has entered into a strategic alliance with CONAVI, a financial institution affiliated with BC specializing in mortgage banking and the leader in savings and loans in the country. In its first stage, which was implemented in 1996, the alliance focused on using the competitive advantage of electronic banking especially in the unification of our networks of electronic funds between the accounts of both entities.

The second stage of the alliance, to be developed in 1999, is intended to improve the synergies of the merger with Banco de Colombia, decrease network costs and share some joint services, in order to improve our competitive position with respect to other financial institutions.

Technology

During 1998, and in order to provide an automation platform for the 376 branches resulting from the Merger and to comply with the requirements of the new millenium, the Bank implemented a new software package in each branch, replaced about 400 servers, 4,800 microcomputers and 100 printers, enhancing processing capacity over nine times. The Bank also incorporated technologies from different suppliers to include better graphics display, digital handling of signatures, bar code recognition, files and recovery of documents, productivity tools, electronic mail, centralized monitoring, and software and information distribution.

In addition, in order to support the 402 ATMs resulting from the Merger, BC enhanced Stratus, the transactional processing equipment, to a larger capacity model to increase its capacity over 5 times, and by installing Gasper, the most extensively and world wide known software for the monitoring and administration of ATMs.

For the remainder of 1999, the Bank intends to further enhance its internal electronic network. The Bank also intends to develop its electronic commerce business which will allow customers to pay for retail purchases from other vendors electronically. Furthermore, the Bank is developing an electronic client information system intended to facilitate the Bank's decision making with respect to each customer account.

Year 2000 Compliance

The Year 2000 issue is the result of computer programs being written without considering the impact of the upcoming change in the century and using only two digits to identify a year in the date field. Any of the Bank's computer programs that have such date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This issue, if unresolved, could result in system errors, such as miscalculations of interest and other amounts payable or receivable, delinquency or other information and could disrupt operations, including processing transactions, sending invoices and similar business

activity. Such failures, mistakes or delays, if widespread, could have a material adverse affect on the Bank's operations. In a "worst case scenario", the Bank could experience the loss in the integrity of information, incorrect calculations and interruption of service of some equipment. If not remedied, potential risks include business interruption or shutdown, financial loss, regulatory actions, reputational harm and legal liability.

In order to successfully address Year 2000 problems, in 1996, the Bank formed a working group of professionals from different areas of the Bank to perform a thorough review of most of the Bank's systems. Tailored to evaluate the potential impact on all affected areas, the working group's objectives are to insure that the plans and projects developed to address and manage the Year 2000 issues are executed effectively.

The working group outlined the Year 2000 compliance effort in the following four phases: the preliminary study, impact analysis, conversion, and tests and installation. The impact analysis phase was completed in 1997. In this investigation, the Bank determined that it will be required to modify or replace only certain portions of its software so that its computer systems will properly utilize dates beyond December 31, 1999.

However, the Bank depends upon the proper functioning of third-party computer and non-information technology systems. These parties include network automated teller machines (ATMs), point of sale computer systems (POS), government entities, and vendors such as telecommunication service providers and other utilities. The Bank has formally communicated with significant suppliers to determine the extent to which it is vulnerable to those third parties' failure to remedy their own Year 2000 issues. Most of these third party suppliers have assured the Bank of their compliance and where possible, the Bank has worked with such suppliers to jointly test the Year 2000 compliance of their systems. Nevertheless, there can be no assurance that these third party systems, upon which the Bank relies, will be converted in a timely manner, or that failure to convert, or an incompatible conversion, would not have a material adverse effect on the Bank. Additionally, any Year 2000 problems which would make any of the Bank's depositors or creditors illiquid could adversely affect the Bank. Many potential Year 2000 problems, such as compliance by suppliers, depositors and creditors, are beyond the Bank's control.

If the third parties with whom the Bank interacts have Year 2000 problems that are not remedied, the following problems could result: (i) in the case of vendors, in disruption of important services upon which the Bank depends, such as telecommunications and electrical power; (ii) in the case of third-party data providers, in the receipt of out-of-date information that would impair the Bank's ability to perform critical data functions and result in operational problems, such as problems with ATMs, POS and SWIFT wire transfers; (iii) in the disruption of capital flows potentially resulting in liquidity stress; and (iv) in financial and accounting difficulties for those parties that expose the Bank to increased credit risk and loss business. In addition, any Year 2000 problems which would make any of the Bank's depositors or creditors illiquid could adversely affect the Bank.

The Bank also depends on certain non-information technology systems which are linked to computers and thus need to be Year 2000 compliant such as individual power stations, closed circuit televisions and systems controlling the access to buildings. The Bank is in the process of testing all such systems and believes that there should be no problems associated with such systems or with the Bank's operations in the Year 2000.

As of May 1999, the Bank had reviewed all of its systems to assess their Year 2000 compliance. As of April 30, 1999, the Bank had incurred total expenses of Ps 7,771 million in connection with the Year 2000 issue. The Bank estimates that it will need to spend an additional Ps 200 million during the remainder of 1999 to complete the conversion and become fully Year 2000 compliant. The Bank expects

to obtain such funds from internally generated working capital. However, the Bank can give no assurance that its Year 2000 program will be effective or that its estimates about timing and cost of completion will be accurate.

The cost of the Year 2000 compliance project and the date which the Bank plans to complete its own Year 2000 modifications are based on management's best estimates, which were derived from utilizing numerous assumptions of future events including continued availability of certain resources, third party modification plans and other factors.

However, there can be no assurance that these estimates will be accurate and actual costs could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost or personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

The Bank is presently developing detailed contingency plans for critical business system applications to reduce potential problems associated with Year 2000 disruptions.

In order to confront the risk that the Year 2000 issue will create a greater liquidity crisis, BC's contingency plan includes cash flow simulation models and methods for obtaining liquidity through agreements with other companies and the sale of some of its investment portfolio as well as an analysis of the distribution of the cash it obtains. To address the credit risk related to Year 2000 issues, the Bank has developed a plan to evaluate the credit risk of its principal clients which includes policies and procedures to reduce the Year 2000 impact. The working group has also designed a corporate communications plan that will allow the Bank to keep its domestic and international clients informed of the Bank's developments.

BC's Year 2000 contingency plan also considers how to identify the Bank's critical processes, its risks, its failure scenarios, and the most appropriate alternative plans. In addition, the plan sets forth criteria for the "triggering" of the plan, the "recovery" teams for each of the identified processes, and provides guidance on how to document the procedures and strategies from day one. The plan also outlines personnel functions, a training program, and a plan to periodically test the contingencies in order to make sure they are being implemented effectively. In general, the contingency plan covers the most important operational areas of the Bank, including, among other things, the Bank's electricity supply, telecommunication services, computer centers, back office processes, SWIFT area, electronic banking, and external providers.

Finally, the Superintendency of Banking in Colombia has set forth guidelines with which all banks must comply in order to become Year 2000 compliant. The Bank believes that by April 1999 it was in compliance with such guidelines required by the Superintendency.

(c) COMPETITION

Historically, the Colombian financial system was comprised of specialized institutions operating in specific market niches which were prescribed and delineated by law. Law 45 of 1990, Law 35 of 1993 and Decree 663 of 1993 significantly deregulated the Colombian financial system, allowing the formation of groups of interrelated financial entities, thereby increasing competition among the different types of financial institutions, promoting consolidation of the financial system and increasing foreign competition. Financial sector reforms have also permitted foreign banks to establish subsidiaries in Colombia and encouraged foreign capital investment in Colombian financial institutions by removing foreign ownership restrictions with respect to Colombian financial institutions. These liberalizations have resulted in the

entry of international financial institutions into the Colombian financial system, particularly Santander and Banco Bilbao Vizcaya, which has resulted in increased competition for financing and related services.

In addition, in recent months, the Colombian financial sector has been the subject of a significant amount of merger and acquisition activity in which larger and stronger banks have emerged. This consolidation has resulted in the number of financial institutions registered with the Central Bank decreasing from 126 in December 1997 to only 103 in December 1998. Major transactions (other than the BC/Banco de Colombia merger) which have increased competition in the sector have included BBV's purchase of 40% of Banco Ganadero in 1996, the acquisition Banco Colpatría by Corporación Colpatría, the acquisition of Concasa by Bancafé and the consolidation of Coopedesarrollo.

BC believes its principal competitors in the corporate market include Banco Ganadero, Banco de Bogotá, Banco de Credito, Bancafe, Corfinsura and Corporación Financiera del Valle. BC believes it can compete in this market based on its quality of service and pricing. BC believes its principal competitors in the retail market are Citibank, Banco de Bogotá, Bancafe, Caja Social and Banco Santander because of their distribution network and customer service. The Bank believes that it is competitive in the retail market because of the high quality of its client base and technology and information systems.

(d) OPERATIONS SUPPORT

Operations support includes finance, administration, legal services, internal auditing, and credit. The finance department implements policies designed to optimally use BC's resources, coordinates BC's planning process, assists in the establishment of strategy for BC's business and coordinates the treasury departments. The legal services area manages BC's various legal matters and conducts any legal proceedings related to the Bank. The internal auditing department manages the control systems for BC's operation and administration. Credit management is geared to careful management of BC's lending activities and emphasizes asset quality and credit management.

Two additional areas that support BC's operations are human resources and information systems and operations. Human resources establishes policies and strategies designed to create a positive environment between BC's employees and BC itself. Its main activities include planning BC's human resource needs, designing a fair compensation program and administering the payroll.

The information systems and operations department provides support to customers of the Bank. Such support includes back-office operations, creating client databases to facilitate cross-selling of products, accounting services and development of new products. BC's information systems are centralized in Medellín. BC continues to pursue a goal of centralizing support functions as much as possible.

(e) EMPLOYEES

On December 31, 1998, BC and its consolidated subsidiaries had 9,477 employees, 7,549 of whom were employed by the Bank. Of the 9,477 employees, approximately 42% belonged to a corporate labor union called *Sintrabancol* and approximately 16% to an industrial labor union called *Uneb*.

Under Decree 1593 of 1959, banking employees are prohibited from striking and, accordingly, there have been no strikes by the Bank's employees. BC considers relations with its employees to be good.

Law 50 of 1990 provided for a substantial change in the severance pay system, under which the severance pay for employees hired after January 1, 1991 is calculated yearly by the employer each December 31, and deposited with a severance pay administrator company, thereby eliminating the retroactive effect of previous severance pay legislation. The new scheme is obligatory for all employees hired on or after

January 1, 1991. Those employees who entered the Bank prior to such date were given the option to continue with the previous system or to choose the new scheme. As of December 31, 1998, 61.3% of all employees were under the new scheme.

By the end of 1999, BC will negotiate the first collective bargaining agreement after the Merger with the two unions representing the employees. BC expects this process to result in the members of both labor unions being governed by the same collective bargaining agreement.

(f) THE COLOMBIAN FINANCIAL SYSTEM

General

At December 31, 1998, the Colombian financial system consisted of the following principal participants: the Central Bank; Banco Central Hipotecario ("BCH"), a state-owned savings and mortgage bank; 33 commercial banks (14 national banks, 14 foreign banks and 5 official banks); 16 private and state finance corporations; 27 commercial finance companies; 23 leasing companies; and 5 privately owned savings and loan banks. In addition, there are development banks, insurance companies, securities brokerage companies and bonded warehouse and trust companies.

Historically, the Colombian financial system was comprised of specialized institutions operating in specific market niches that were prescribed and delineated by Law. Law 45 of 1990, Law 35 and *Estatuto Orgánico del Sistema Financiero*, Decree 663, however, significantly deregulated the Colombian financial system, provided commercial banks the opportunity to set up subsidiaries to compete in different markets and permitted other financial institutions to enter markets in the Colombian financial system from which they had previously been excluded. These measures have increased competition among the different types of financial institutions, promoted consolidation of the financial system and created considerable overlap in the permitted scope of activities for the various types of financial institutions, particularly with respect to foreign exchange operations. Foreign investment is also now permitted in all types of financial institutions.

In addition to the foregoing measures, additional laws have been promulgated with the purpose of further deregulating the Colombian financial system. Law 35 and Decree 663 set forth the general circumstances under which the Government may intervene in the financial sector and the rules governing and the instruments that may be used to carry out such intervention. In addition, savings and loan banks are now authorized to carry out lending activities in areas other than those related to the construction sector (which such banks have historically been involved in) and to participate as foreign exchange intermediaries. Savings and loan banks may also provide interest bearing savings accounts as well as credit and debit cards.

In response to the crisis faced by the Colombian financial system during the early 1980s, in 1985 the Government created FOGAFIN, a fund to channel resources to troubled financial institutions. FOGAFIN is authorized to provide equity (whether or not reducing the face value of the shares) and/or secured credit to troubled financial institutions and to insure deposits of commercial banks and certain other financial institutions, subject to specified limitations.

Regulation

The principal entities regulating the Colombian financial system are the Ministry of Finance, the Board of Directors of the Central Bank, the Superintendency of Banking and the Superintendency of Securities. The National Congress of Colombia prescribes the general framework in which the Government may regulate the financial system. The Superintendency of Banking regulates and supervises all financial

institutions. Brokerage houses and stock exchanges are supervised by the Superintendency of Securities, which is charged with supervising and regulating the market for publicly traded securities.

Key Interest Rates

On Wednesday of each week, all Colombian commercial banks, finance corporations and commercial finance companies are required to report to the Central Bank data regarding the total volume (in pesos) of certificates of deposit issued during the prior week and the average interest rates paid for the following maturities of certificates of deposit: less than 90 days (for commercial banks only); 90 to 180 days; 181 to 360 days; and more than 360 days. Based on such data, the Central Bank calculates the *Tasa de Captaciones de Corporaciones Financieras* (“TCC”) and the DTF, which are published at the beginning of the following week for use in calculating interest rates paid by financial institutions during that week. The TCC is the average weighted interest rate paid by finance corporations during the second preceding week. The DTF is the average weighted interest rate paid by commercial banks, finance corporations, savings and loan banks and commercial finance companies during the second preceding week. At December 31, 1998, both the DTF and the TCC were 28.25%.

Central Bank

The Central Bank was created in 1923 and is the second oldest Central Bank in Latin America. The Central Bank exercises the customary functions of a Central Bank, including price stabilization, issuance of legal currency, regulation of currency circulation, monitoring of credit and exchange rates and administration of international reserves, and acts as the lender of last resort to financial institutions. In addition, its Board of Directors is the regulatory authority for monetary, currency exchange and credit policies, and is charged with the direction and execution of the Central Bank’s duties. The Central Bank also acts as the fiscal agent of the Government.

Pursuant to the Constitution of 1991, the Central Bank was granted greater independence from the Government in the formulation of monetary policy and administrative matters. The Constitution of 1991 established an administrative, technical, budgetary and legally autonomous structure for the Central Bank and its Board of Directors in monetary, credit and exchange matters, with regard to the Government. The Central Bank reports only to the National Congress; its Board of Directors has seven members, one of whom is the Minister of Finance.

(g) SUPERVISION AND REGULATION

The basic regulatory framework for the operations of the Colombian financial sector is set forth in Decree 663. Implementation and enforcement of the provisions contained in Decree 663 are regulated by periodic circulars and resolutions issued by the Superintendency of Banking and the Board of Directors of the Central Bank. In External Circular 007 of 1996, Basic Law Circular, the Superintendency of Banking compiled all of the rules related to the regulation of banking institutions. External Circular 100 of November 1995, Basic Accounting and Financial Circular, compiled all regulations applicable to accounting and financial treatment of banking institutions.

The Superintendency of Banking was established in 1923 and is responsible for supervising and regulating those entities that Decree 663 classifies as financial institutions, including commercial banks (BC), mortgage banks, finance corporations, commercial finance companies, savings and loan banks, financial services companies (such as trust companies, warehouse companies, and pension and severance pay administration companies) and insurance companies. Decree 2359 of 1993 provides the framework for the Superintendency. Financial institutions must seek the authorization of the Superintendency of Banking before initiating new operations.

Violators of specified provisions of Decree 663 and its underlying regulations are subject to administrative sanctions and, in some cases, criminal penalties. Additionally, the Superintendency of Banking has the authority to conduct inspection visits to Colombian financial institutions on a discretionary basis and to fine such institutions and their directors and officers if they violate Colombian laws, regulations, or such financial institutions' bylaws. Because its Common Shares and Preference Shares are publicly traded on the Bolsa de Bogotá (the "Bogotá Stock Exchange"), the Bolsa de Medellín (the "Medellín Stock Exchange") and the Bolsa de Occidente (the "Occidente Stock Exchange" and together with the Bogotá Stock Exchange and the Medellín Stock Exchange, the "Colombian Stock Exchanges"), certain aspects of BC's operations are supervised by the Superintendency of Securities.

The Ministry of Finance and the Board of Directors of the Central Bank, which have significant control over interest rates, design most regulations governing the financial system and are in charge of fiscal and monetary policy.

Capital Adequacy Requirements

Capital adequacy requirements for credit institutions, which requirements are based on those established by the Basel Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements. The regulations provide for four categories of assets, with different risk weights assigned to each category and require that a credit institution's Technical Capital (as defined below) must be maintained at a level of at least 9% of its total risk-weighted assets.

Technical Capital for the purposes of the regulations consists of basic capital ("primary capital") and additional capital ("secondary capital") (collectively, "Technical Capital"). For this purpose, primary capital consists primarily of: paid-in capital stock; legal and other primary capital reserves, including non-distributed profits from previous fiscal years; the total value of the primary capital revaluation account (if positive); the balance of the financial statements conversion adjustment; the balance from the primary capital account adjusted for exchange; profits for the current fiscal year in a proportion equivalent to the percentage of profits from the prior fiscal year that were allocated to the legal reserve or capitalized, or used to cover accrued losses; the total value of capitalized dividends; and any representative shares held as guarantee pending compliance with the recovery program established by the Superintendency of Banking. Items deducted from primary capital are: any prior- or current-period losses; the total value of the primary capital revaluation account (if negative); accumulated inflation adjustment on non-monetary assets (provided that the respective assets have not been transferred), capital investments in entities subject to the supervision of the Superintendency of Banking (including purchases of mandatory convertible bonds) and investments in financial subsidiaries, other capital investments in financial institutions and certain other items.

Secondary capital consists of other reserves and retained earnings which are added to primary capital in order to establish the total Technical Capital. Secondary capital includes: 50% of the revaluation of assets (excluding revaluations of assets acquired by foreclosure or relating to payment in kind), mandatory convertible bonds (provided that the terms and conditions of their issuance were approved by the Superintendency of Banking), 50% of the accumulated inflation adjustment originating from non-monetary assets (provided that such assets have not been disposed of), a portion of the provisions for loan losses, and the surplus capital account from donations, less the investment devaluation account. The level of secondary capital which is included in the calculation of Technical Capital may not exceed (but can be less than) the total amount of primary capital. As of December 31, 1998, BC's Technical Capital was at a level of 11.56% of its total risk-weighted assets calculated under the above-mentioned regulations.

Minimum Capital

The minimum capital requirements for banks on an unconsolidated basis is set forth in Decree 663 and is adjusted once a year to reflect inflation increases shown in the consumer price index prepared by DANE. Presently, the figure is Ps 39,678 million for 1999. Failure to meet such requirements could result in the imposition of a fine by the Superintendency of Banking equivalent to 3.5% of the difference between the minimum capital required and the non-complying commercial banks effective capital. The Bank met all such requirements. As of December 31, 1998, BC's total capital consisted of Ps 105,474 million in paid-in capital stock and Ps 570,866 million in legal and other reserve funds.

Reserve and Foreign Currency Position Requirements

Pursuant to the *Código de Comercio* (the "Commerce Code"), all commercial banks must create and adequately fund a legal reserve. Each year a commercial bank must allocate 10% of its net income to its legal reserve until its legal reserve is equal to 50% of its outstanding capital stock. Any subsequent increases in outstanding capital stock require corresponding increases in the legal reserve. As of December 31, 1998, BC's legal reserve was Ps 409,429 million.

Prior to January 1, 1996, commercial banks were required by the Board of Directors of the Central Bank to maintain a minimum foreign currency position through the purchase of dollars equal to a certain percentage of their foreign currency-denominated liabilities.

Effective January 1, 1996, Resolution 28 of 1995 removed the minimum foreign currency position requirement and allowed a commercial bank to borrow funds denominated in foreign currency and to make peso-denominated loans therewith. Resolution 26 of 1996 of the Board of Directors of the Central Bank (amended by Resolution 5 of 1999) provides that the sum of the bank's foreign currency-denominated assets and liabilities (including any off-balance sheet items) cannot, if assets are greater than liabilities, exceed 20% of the bank's Technical Capital, except that currency exchange intermediaries are permitted to hold negative foreign currency positions not exceeding the equivalent of 5% of its technical capital, (with penalties being payable after the first day). See Note 4 to the Financial Statements.

Commercial banks are required by the Board of Directors of the Central Bank to satisfy reserve requirements with respect to deposits in the form of non-interest bearing cash deposits with the Central Bank. These reserve requirements vary depending on the type of deposit received. The reserve requirements for Colombian banks for deposits received prior to July 15, 1996 are as follows:

	<u>Reserve Requirement (%)</u>
Private demand deposits.....	21
Governmental demand deposits	21
Other deposits and liabilities.....	21
Savings deposits	10
Time deposits ⁽¹⁾	5-10

The requirements for deposits received on or after July 15, 1996 are as follows:

	<u>Reserve Requirement (%)</u>
Private demand deposits.....	21
Governmental demand deposits	21
Other deposits and liabilities.....	21
Savings deposits	10
Time deposits ⁽¹⁾	5-7

The requirements for deposits received on or after November 19, 1998 are as follows:

	<u>Reserve Requirement (%)</u>
Private demand deposits.....	16
Governmental demand deposits	16
Other deposits and liabilities.....	16
Savings deposits	16
Time deposits ⁽¹⁾	0.5

(1) The applicable reserve requirement for time deposits depends upon the term of the deposit.

Foreign Currency Loans

Resolution 10 of September 18, 1998 issued by the Board of Directors of the Central Bank requires every Colombian resident and institution receiving foreign currency loans, regardless of the term or condition of the loan, to maintain, at the Central Bank for a six-month term, a non-interest bearing deposit equal to 10% of the indebtedness prior to the disbursement of the loan. Currently, the Bank does not have to register with the Central Bank to make such loans; however, the Bank must submit a report of all foreign currency loans made by the Bank, subject to certain exceptions for loans to finance imports, for capital goods, to finance foreign investments and for credit cards.

Allowance for Loan Losses

Guidelines for the establishment of allowance for loan losses by Colombian credit institutions, including commercial banks, are established by the Superintendency of Banking. See “Selected Statistical Information — Allowance for Loan Losses.”

Lending Activities

The Government, pursuant to Decrees 2360 and 2653, each of 1993, set maximum amounts that each 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 commercial bank’s Technical Capital. The limit is raised to 25% when any amounts lent above 5% of Technical Capital are secured by guarantees which comply with the financial institutions’ guidelines, in accordance with the requirements set forth in Decrees 2360 and 2653. BC may not make a loan to any shareholder who holds more than 10% of its capital stock, according to Decree 1886 of 1994, for a period of one year after the shareholder reaches the 10% mark. In no event may a loan to a shareholder holding directly or indirectly 20% or more of BC’s capital stock exceed 20% of BC’s Technical Capital. In addition, no loan to a financial institution may exceed 30% of BC’s Technical Capital. As of December 31, 1998, BC’s lending limit per borrower

on an unconsolidated basis was Ps 72,142 million for unsecured loans and Ps 180,354 million for secured loans. The Bank is in compliance with these limitations. If a financial institution exceeds these limits, the Superintendency of Banking may impose a fine of up to twice the amount by which any such loan exceeded the limit.

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. Such limits may be established under exceptional circumstances and may not be effective in any one year for more than 120 days.

The Bank is also subject to limits on risk concentration. Pursuant to Decree 2360, exposure to any individual or entity is limited to 30% of BC's Technical Capital, on a consolidated basis. Risk exposure includes loans, leasing transactions and equity and debt investments.

Related Party Transactions

Decree 663 regulates and limits transactions with related parties and affiliates. Loans to a holder of 5% or more of a financial institution's shares, directors, certain principal executive officers, or relatives of any such person must be approved unanimously by the company's board of directors. Except for loans extended to employees as part of their health, housing, education and transportation benefits, loans to related parties may not contain better terms than those provided for in loans to non-related parties. Additionally, the granting of credit to persons or entities affiliated with the Bank is subject to the regulations of the Central Bank. Such regulations set limits on the amount of credit that can be extended to affiliates based on, among other things, a percentage of BC's net worth. Financial institutions are prohibited from extending loans to financial services subsidiaries. They may, however, extend loans to non-financial services subsidiaries. Loans to non-financial subsidiaries and to BC's officers and employees are subject only to the general lending limits on loans to single borrowers described above.

Ownership Restrictions

BC is organized as a limited liability stock corporation. It is governed by laws which regulate the activities of private companies such as the Commerce Code. The Commerce Code requires companies such as the Bank to have at least five shareholders at all times and provides that no single shareholder may own 95% or more of BC's subscribed capital stock. According to Decree 663, any transaction resulting in an individual or corporation (other than a foreign investment fund) holding 10% or more of a financial institution's capital stock must receive prior authorization from the Superintendency of Banking. Pursuant to Decree 98 of 1994, any transaction resulting in a foreign investment fund holding 5% or more of a financial institution's capital stock must receive prior authorization from the Superintendency of Banking. In determining whether to grant its approval, the Superintendency of Banking will evaluate the professional experience, financial capacity and sophistication and, in the case of individuals, the character and education of the person that stands to acquire such percentage of the financial institution's capital stock, as well as the effect that the proposed transaction would have on the general welfare of Colombia.

Colombian law establishes no specific criteria or guidelines for the Superintendency of Banking to follow in carrying out its evaluation. If a transaction of this kind is effected without obtaining the prior approval of the Superintendency of Banking, it will be considered as having no effect. A financial institution must refrain from entering into its stock registry any transaction that violates this requirement. Foreign investors receive the same treatment as Colombian nationals and are subject to the limitations described above.

Pursuant to Resolution 400 of 1995 of the Superintendency of Securities, any transaction involving the sale of publicly traded stock in an amount of Ps 500,000 or more must be processed through one of the

Colombian Stock Exchanges. This limit is adjusted from time to time by resolution of the Superintendency of Securities to reflect inflation. In addition, pursuant to Resolution 400, as amended by Resolution 643 of 1998, any person or group of persons interested in acquiring in the secondary market 10% or more, or any 10% actual or beneficial shareholder wishing to increase his or her participation by more than 5% of the outstanding capital stock of a company listed on one of the Colombian Stock Exchanges must do so by means of a public offer directed to all of the shareholders of the company.

The Commerce Code prohibits BC and its directly owned subsidiaries from acquiring the capital stock of BC. However, subsidiaries indirectly owned by BC and other affiliates of BC are permitted to acquire and hold such capital stock.

Employees

As set forth above, under Decree 1593 of 1959, the Colombian Banking Industry is classified as a public service and, therefore, its employees, including those belonging to a union, are prohibited from striking. Any labor disputes with union employees which cannot be resolved through voluntary negotiation between the parties must be resolved by a compulsory arbitration court called for by the Ministry of Labor and Social Security.

Deposit Insurance

Resolution 1 issued by the Board of Directors of FOGAFIN in 1998 provides for mandatory deposit insurance to protect the customers of commercial banks and certain financial institutions. Under Resolution 1, banks must pay an annual premium equivalent to 0.3% of total funds received from deposits and checking accounts, the issuance and sale to investors of certificates of deposit and bonds. In the event a bank is liquidated, the insurance will cover 75% of all funds deposited by an individual or corporation with the liquidated bank, up to a maximum of Ps 10 million. Thus, the maximum amount that a customer of a liquidated financial institution is entitled to recover under deposit insurance is Ps 7.5 million.

Intervention by the Superintendency of Banking

Subject to the prior consent of the Advisory Board of the Ministry of Finance and with the approval of the Minister of Finance, the Superintendency of Banking has the power to seize the operations and assets of a bank in order to manage it or proceed to its liquidation if: (i) such bank (a) suspends the payment of its debts, (b) does not allow the Superintendency of Banking to inspect its records, (c) repeatedly fails to comply with the instructions of the Superintendency of Banking, (d) repeatedly violates the law or its bylaws, or (e) repeatedly manages its operations in an unauthorized or unsafe manner, or (ii) its shareholders' equity is reduced below 50% of its outstanding capital stock. Rather than seizing the operations and assets of a bank, the Superintendency of Banking may adopt other measures, including imposing additional requirements on a commercial bank and ordering it to increase its capital stock or divest certain or all of its assets.

(h) SUBSIDIARIES

Off-Shore Subsidiaries

BC's international banking operations were established to support and enhance the domestic business of the Bank and are conducted through its head office in Medellín, and through its 100% owned direct and indirect bank subsidiaries in Panama, the Cayman Islands and Montserrat, Bancolombia Panama, Bancolombia Cayman and Bancolombia Monserrat, respectively. In addition, as a result of the Merger, the Bank now has a representative office in Lima, Peru and a banking license in Venezuela.

Bancolombia Panama was established in 1973 and provides a complete line of banking services both within and outside of Panama, including loans to Colombian private sector companies, trade financing, lease financing, financing for industrial projects, and a complete portfolio of products for private banking clients. Leasing operations relate mainly to equipment and machinery purchases for technological modernization and for expansion of the production capacity of its customers in Colombia.

At December 31, 1998, Bancolombia Panama and its wholly owned subsidiaries, Bancolombia Cayman, and Bancolombia Montserrat, had total assets of \$550 million on a consolidated basis. Bancolombia Panama's consolidated loans outstanding to borrowers in Colombia, Peru and Venezuela at December 31, 1998 were \$199 million, \$23 million and \$11 million, respectively. Funding sources included demand deposits of \$139 million and time deposits of \$331 million. At December 31, 1998, Bancolombia Panama had an investment portfolio of \$169 million and shareholders' equity of \$22 million. Bancolombia Panama had net income for the fiscal year ended December 31, 1998 of \$2.3 million.

Fiducolombia S.A.

Fiducolombia S.A., which is 82.75% owned by BC, was formed from the merger of the trust companies of BIC and Banco de Colombia, Sufibic and Fiducolombia, respectively, which occurred in December of 1998. Fiducolombia provides a full range of fiduciary services for financial trusts, guarantee trusts, real estate trusts, management trusts and administration trusts. As of December 31, 1998, Fiducolombia managed approximately Ps 3,000,000 million in assets from approximately 20,000 clients.

Fiducolombia's headquarters are in Bogotá and it has offices in Medellín, Cali and Barranquilla with managers in Manizales, Pereira, Cartagena, Ibagué and Bucaramanga.

Almacenar S.A.

Almacenar S.A., which is 94.3% owned by BC, was formed from the merger of the bonded warehousing subsidiaries of BIC and Banco de Colombia, Almabac and Almacenar, respectively, which also occurred in May 1998. Almacenar conducts bonded warehousing, freight forwarding, customs agency operations and other logistics services in Colombia. As of December 1998, Almacenar was the leader in this industry in Colombia by revenue, with a market share of 18.3% of the total revenue of the general warehouse system in Colombia.

Colcorp S.A.

Colcorp S.A. was formed in 1994 as a subsidiary of Banco de Colombia and, as a result of the Merger, has become a subsidiary of the Bank. Colcorp provides investment banking services to a variety of the Bank's customers. As of December 1998, Colcorp was the largest subsidiary of the Bank.

Colcorp engages primarily in (1) asset management and (2) financial advisory services. As an asset manager, Colcorp invests assets both for the Bank and for third party customers of the Bank. As of December 31, 1998, Colcorp had over Ps 230,000 million under management. Colcorp invests in companies in all sectors of the Colombian economy, including agriculture, steel, telecommunications, construction and public works. In addition, Colcorp provides specialized financial advisory services to private companies as well as governmental entities in areas such as mergers and acquisitions, project and structured finance, valuation of business units, restructurings, among other things, both within Colombia and abroad.

For the year ended December 31, 1998, Colcorp had a net loss after taxes of Ps 4,400 million. The loss was primarily attributable to a provision taken for investments in the net amount of Ps 5,805 million.

Leasing Colombia S.A

Leasing Colombia was also a subsidiary of Banco de Colombia and has been operating since the 1970s. Leasing Colombia provides lease financing and other leasing products for the industrial and corporate sectors as well as products, such as automobile leases, for the consumer market. Its headquarters are in Bogotá, with offices in Medellín, Cali, Barranquilla and Pereira.

As of December 31, 1998, Leasing Colombia had approximately Ps 150,250 million in real estate and equipment under lease. Leasing Colombia arranges lease financing primarily in the public works and transportation sectors, but also in the construction, trade, manufacturing, cargo transport and electric sectors. Leasing Colombia is the third largest leasing company in Colombia (based on amount of lease receivables) with a market share of approximately 7% as of December 31, 1998.

Comisionista de Colombia S.A.

Comisionista de Colombia is a brokerage house that operates in both the equity and debt markets and has memberships in both the Bolsa de Bogotá and the Bolsa de Occidente. In addition, Comisionista de Colombia manages its own mutual funds. At December 31, 1998, it had assets of approximately Ps 5,761 million. For the year ended December 31, 1998, gross revenues totaled approximately Ps 5,163 million and net income of approximately Ps 743 million. For 1998, Comisionista de Colombia ranked seventh among brokerage houses in Colombia in terms of net income and fifth in terms of revenue.

Other Investments and Interests

In addition to investments in the foregoing subsidiaries, the Bank has made several equity investments, which in accordance with Colombian law are limited to financial companies. At December 31, 1998, the book value on the books of the issuer of the security of these investments and dividends receivable amounted to Ps 46,082 million.

The following table sets forth information regarding BC's investments in such financial companies as of and for the year ended December 31, 1998:

Company	Business	% Shares owned (direct or indirect)	Dividends Received by BC
			<i>(in millions of constant pesos)</i>
CONAVI ⁽¹⁾	Savings and Loans Banking	23.91	1,295
Protección (Sociedad Administradora de Fondos de Pensiones y Cesantías S.A.)	Severance and Pension Fund Management	7.42	—
Deceval (Depósito Central de Valores S.A.)	Securities Depository	6.97	—
Corfinsura (Corporación Financiera Suramericana S.A.)	Finance Corporation	5.43	86
Banco Central Hipotecario S.A.	Mortgage Banking	2.71	—
Bladex (Banco Latinoamericano de Exportaciones)	Export Finance	0.35	115

- (1) BC owns approximately 23.91% of CONAVI. As of and for the year ended December 31, 1998, CONAVI had total assets of Ps 3,244,323 million (nominal pesos), total shareholders' equity of Ps 286,725 million (nominal pesos) and net income of Ps 24,019 million (nominal pesos).

In April 1997, the Bank made an equity investment in Multienlace S.A. (“Multienlace”), under a provision of Colombian law that allows financial institutions to invest in an enterprise which provides services related to the investor’s operations. Multienlace provides technical and administrative services to the Bank and other entities, including CONAVI, Fiducolombia, Suramericana de Seguros de Vida, Suramericana de Capitalización and Protección. BC owns 48% of the capital stock of Multienlace.

(i) CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains statements that may be considered forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934, including, insofar as they may be considered forward-looking, statements (i) in “— (b) Operations — Distribution Network — Branch Network” about the features to be implemented at the branches and the number of branch closings; (ii) in “— (b) Operations — BC-CONAVI Strategic Alliance” about BC’s plans and beliefs about the prospects for the Alliance; (iii) in “— (b) Operations — Year 2000 Compliance” and “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures” about BC’s plans and beliefs regarding the impact of the Year 2000 Issue on the Bank and the capital expenditures needed for such plans; (iv) in “— (b) Operations — Competition” about BC’s ability to compete in the Colombian financial system; (v) in “Item 8. Selected Financial Data — Dividends” about BC’s intentions regarding the payment of dividends in future periods; (vi) in “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Merger with Banco de Colombia” about the expected costs of integrating Banco de Colombia and the Bank and the impact of the Merger on the Bank’s condition and results of operations; (vii) in “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Funding” about BC’s belief that longer-term funding will become available and enable it to minimize liquidity risks; and (viii) variations of the foregoing statements, as well as any other statements that may be considered forward-looking, wherever they appear in this Annual Report. In addition, from time to time the Bank may make public filings or issue press releases, and officers of the Bank or others acting on its behalf may make public oral statements, with respect to the Bank that may be considered forward-looking. Such filings, releases and oral statements could include statements about BC’s results of operations in future periods or its pursuit of new business opportunities.

All forward-looking statements, whether made in this Annual Report or in future filings or press releases or orally, address matters that involve risks and uncertainties; consequently, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. The Bank believes that these important factors include the following:

- Colombia has experienced periods of economic instability in recent years. In 1990, the Colombian Government embarked on a series of economic reforms which have had generally a positive impact on the Colombian economy. However, there can be no assurance that this effect will continue or that the Government will continue to promote these policies. Demand for loans, particularly in the retail sector, interest rates and the availability of credit — and thus BC’s prospects — depend in part on the rate of economic growth and other conditions in Colombia which in turn depend on many factors outside the control of the Government. The economy in Colombia has been growing very slowly since 1996 and to date has shown little sign of recovery. In 1998, the Colombian economy experienced a liquidity crisis leading to high interest rates, high inflation and the declaration of an Economic Emergency which placed even more pressure on an economic recovery. See “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations — General.”

- Historically, as with most Colombian banks, BC's principal sources of funds have been short-term savings and demand deposits. Since the Bank relies heavily on short-term deposits for its funding, rising interest rates (such as occurred in 1995 and 1996) generally have a negative effect on BC's net interest margin. Moreover, there can be no assurance that, in the event of a sudden or unexpected shortage of funds in the Colombian Banking system and money markets, the Bank could maintain its levels of funding without incurring sharply higher funding costs. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Sensitivity."
- While the Bank has a significant volume of outstanding loans to small companies, it believes that future growth of its business will be primarily in loans to medium and larger companies. As a result of growth in and the changing composition of the loan portfolio, the Bank may experience higher levels of past due and nonperforming loans than it has in the past and could be required to establish higher levels of allowances for loan losses. In particular, loans to small and medium companies present a different risk profile than large corporate loans and may be more difficult to evaluate in terms of credit risk. There can be no assurance that BC's current level of high asset quality will be maintained in the future. See "— (b) Operations — Retail."
- The Colombian financial institutions system is highly competitive. Recent financial sector reforms have increased competition among both Colombian and foreign financial institutions and BC believes this trend will continue. In addition, there has been a trend towards consolidation in the banking industry, which has created larger and stronger banks with which BC must now compete. Increased competition can adversely affect pricing and growth prospects, and therefore BC's results of operations. See "— (c) Competition" and "— (g) Supervision and Regulation."
- The Colombian financial system is regulated by the Superintendency of Banking and the Central Bank. Changes in regulations, which are beyond the control of the Bank, could have a material effect on the business and operations of the Bank. See "— (f) The Colombian Financial System," "— (g) Supervision and Regulation" and "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations — General."
- The integration of Banco de Colombia systems and operations into those of the Bank has continued through 1998 and into 1999. In this regard, BC continues to uncover unanticipated problems and facts that lead to uncertainty as to the ultimate success of the integration process. As a result, BC believes that it will not know the full impact of the Banco de Colombia merger on its results of operations and financial condition until at least another extended period of integration has taken place. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations — Merger with Banco de Colombia."
- Capital expenditure plans relating to expansion and technology may not be fully implemented, or if implemented, may not be completed as or when anticipated. These plans may be affected by changes in demand in the markets where the Bank operates and the general economic conditions in Colombia. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures."
- The payment of dividends is subject to certain regulatory requirements and will depend on BC's results of operations, financial condition, liquidity needs and investment plans, as well as any other factors deemed relevant by the Board of Directors and shareholders. See "Item 8. Selected Financial Data — Dividends."

The factors referred to above should be considered by investors when reviewing any forward-looking statements contained in this Annual Report, in any of BC'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. The important factors that could affect forward-looking statements are subject to change and the Bank does not intend to update the foregoing list of certain of these factors. By means of this cautionary note, the Bank intends to avail itself of the safe harbor from liability with respect to forward-looking statements that is provided by Section 27A and Section 21E referred to above.

ITEM 2 DESCRIPTION OF PROPERTY.

BC's principal executive offices, located at Calle 50, No. 51-66, Medellín, Colombia are owned by BC. At December 31, 1998, BC had 376 office locations throughout Colombia, of which 221 were owned and 155 were leased. BC also owns or leases properties at various locations in Colombia for the storage of documents and for back-office and administrative operations.

Bancolombia Panama owns its principal executive offices which are located in Panama City, Panama.

At December 31, 1998 the net book value of all premises and equipment owned by the Bank was approximately Ps 566,593 million. The total rent paid by the Bank in 1998 was approximately Ps 8,182 million.

ITEM 3 LEGAL PROCEEDINGS.

The bank is involved in normal collection proceedings, restructuring proceedings with respect to certain borrowers and other legal procedures in the ordinary course of business. For the purpose of its audited financial statements, the Bank had various contingent liabilities, including contingent liabilities relating to ordinary litigation outstanding at December 31, 1998 amounting to Ps 69,939 million. A substantial portion of these liabilities are covered by FOGAFIN (Ps 55,581 million at December 31, 1998), but a smaller portion is not (Ps 14,063 million at December 31, 1998). In the opinion of management, after consultation with its external Colombian legal counsel, the outcome of these contingent liabilities relating to ordinary litigation will not have a material adverse effect on BC's financial condition or results of operations and the possibility of loss by BC as a result of such litigation in excess of the recorded allowance of Ps 1,921 at December 31, 1998 is remote.

In March 1999, Bancol y Cia. and several other entities controlled by Isaac and Jaime Gilinski, the former controlling shareholders of Banco de Colombia, filed a lawsuit against the Bank and certain of its directors and officers in the United States District Court in New York claiming damages in excess of US\$76 million for alleged market manipulation, misrepresentations and fraudulent concealment by the defendants in connection with the Bank's Merger with Banco de Colombia in 1998. Plaintiffs allege that the defendants manipulated the market price of the Bank's ADRs during the Merger negotiations so as to misrepresent the value of the ADRs the plaintiffs were effectively to receive as consideration for a portion of plaintiffs' Banco de Colombia common shares. In addition, plaintiffs allege that the defendants represented that they would raise additional equity to fund a portion of the Merger and that the defendants failed to disclose an alleged plan to operate Banco de Colombia and the merged entity in violation of Colombian law and sound banking practices. The defendants moved to compel arbitration as provided under the Merger agreement and to dismiss the action. On June 28, 1999, the Court advised the parties that it would grant the defendants' motion. The Bank believes that it has a meritorious defense to all of the claims.

ITEM 4. CONTROL OF REGISTRANT.

The following table sets forth certain information regarding the beneficial ownership of BC's capital stock as of December 31, 1998 by all directors and executive officers of BC as a group and by each person known to BC to own beneficially more than 10% of BC's outstanding capital stock.

<u>Name</u>	<u>Common Shares</u>	<u>Preference Shares</u>	<u>% Ownership of Common and Preference Shares</u>	<u>Voting Power⁽¹⁾</u>
Suramericana de Inversiones S.A. ("Suramericana") ⁽²⁾	74,640,411 ⁽³⁾	1,604	29.96%	39.06%
Directors and executive officers as a group (22 persons)	783,807	1,401	0.32%	0.41%

(1) Common Shares have one vote per share; Preference Shares are non-voting.

(2) Represents ownership by Suramericana and its subsidiaries.

(3) Includes 21,141,263 Common Shares subject to repurchase agreements entered into by subsidiaries of Suramericana with respect to which such subsidiaries maintain voting rights.

Suramericana de Inversiones S.A. was formed on January 1, 1998 through the spin-off of Suramericana de Seguros S.A. The common stock of Suramericana de Inversiones S.A. ("Suramericana") is traded on the Bogotá and Medellín Stock Exchanges. Various affiliates of Suramericana owned or controlled in the aggregate 69.7% of Suramericana's outstanding common stock as of December 31, 1998. As of that date, these affiliates included Cementos del Caribe S.A., which held 21.3% of such stock; Compañía Colombiana de Tabaco S.A., which held 8.1% of such stock; Compañía Colombiana de Clinker S.A., which held 7.1% of such stock; Compañía de Cemento Argos S.A., which held 6.4% of such stock; Compañía Nacional de Chocolates S.A., which held 5.8% of such stock; Compañía de Inversiones la Merced S.A., which held 4.4% of such stock; Reaseguradora de Colombia S.A., which held 3.5% of such stock; Compañía de Cementos el Cairo S.A., which held 2.9% of such stock; Industria Colombiana de Chocolates S.A., which held 2.8% of such stock; Sub Templeton Developing Markets Trust which held 2.7% of such stock; Fábrica de Café la Bastilla S.A., which held 2.6% of such stock; and Industria Colombiana de Café S.A., which held 2.1% of such stock.

ITEM 5. NATURE OF TRADING MARKET.

BC's ADSs, each of which represents the right to receive four Preference Shares deposited in Colombia with the Custodian under the Deposit Agreement (as defined below), have been listed on the NYSE since July 1995. The Preference Shares have been listed on the Colombian Stock Exchanges since July 1995. Through ADSs, the NYSE is the principal U.S. trading market for the Preference Shares. On September 30, 1998, BC filed a registration statement with the United States Securities and Exchange Commission to register the Preference Shares, in the form of ADRs, for resale by the holders into the U.S. public market from time to time.

On May 31, 1999, there were 191,076,724 Common Shares outstanding, of which no shares were held by record holders in the United States, and 58,060,558 Preference Shares outstanding, none of which were directly held by record holders in the United States and 50,708,028 (87.3%) of which were represented by 12,677,007 ADSs (which were held by fourteen record holders in the United States). Because certain of the Preference Shares and ADSs are held by nominees, the number of record holders may not be representative of the number of beneficial owners.

In connection with the Merger, a total of 85,667,027 shares of BC were issued during 1998. First, 31,220,205 ordinary shares were issued to primary shareholders of the Bank in connection with a recapitalization. Then, in connection with the exchange of shares of the Bank for shares of Banco de Colombia, 15,886,264 ordinary shares and 38,560,558 Preference Shares were issued.

The Medellín Stock Exchange is the principal non-U.S. trading market for the Preference Shares. At December 31, 1998, the market capitalization for the Bancolombia Preference Shares on the Medellín Stock Exchange was Ps 388,659 million. The Medellín Stock Exchange, founded in 1961, is the second largest stock exchange in Colombia, with 27.1% of aggregate equity trading based on value on the Colombian Stock Exchanges during the twelve months ended December 31, 1998. There are no official market makers or independent specialists in the Medellín Stock Exchange to assure market liquidity and, therefore, orders to buy or sell in excess of corresponding orders to sell or buy will not be executed. The Medellín Stock Exchange is relatively volatile compared to major world markets. The aggregate equity market capitalization of the Medellín Stock Exchange as of December 31, 1998 was approximately Ps 15,942,792 million, with 88 companies listed as of that date. A substantial portion of the trading on the Colombian Stock Exchanges consists of trading of debt securities.

The table below sets forth, for the periods indicated, the reported high and low share prices for the Preference Shares on the Medellín Stock Exchange, expressed in nominal pesos, and share trading volume. The table also sets forth the reported high and low sale prices, and the average daily trading volume, of the ADSs on the NYSE for the periods indicated.

	Medellín Stock Exchange			New York Stock Exchange		
	Ps Per Preference Share		Trading Volume (Number of Shares)	\$ per ADS		Trading Volume (Number of ADSs)
	High	Low		High	Low	
(in nominal pesos)						
1997						
First quarter	4,600	4,600	20,615	20.4	16.4	950,800
Second quarter	4,600	4,600	34,615	18.5	15.5	2,068,000
Third quarter	5,150	4,660	28,310	19.1	16.1	1,787,900
Fourth quarter	5,150	5,150	8,460	18.2	13.3	1,583,600
1998						
First quarter ⁽¹⁾	—	—	0	14.2	11.0	2,492,400
Second quarter	4,600	4,095	39,812	15.4	10.9	1,608,700
Third quarter	4,050	4,050	2,357	11.2	4.8	718,200
Fourth quarter ⁽¹⁾	—	—	0	5.3	4.3	1,736,300

(1) No trades of Preference Shares were executed on the Medellín Stock Exchange during the first and fourth quarters of 1998.
Sources: Medellín Stock Exchange—Official Quotations Bulletin (*Boletines Estadísticos Bolsa de Medellín*); Bloomberg Financial Services Commodities News.

American Depositary Receipts (“ADRs”) evidencing ADSs are issuable by The Bank of New York, as depositary (the “Depositary”), pursuant to the Deposit Agreement entered into by BC, the Depositary, the owners of ADRs from time to time and the owners from time to time of a beneficial interest in book-entry ADRs, pursuant to which the ADSs are to be issued. Copies of the Deposit Agreement are available for inspection at the Corporate Trust Office of the Depositary, currently located at 101 Barclay Street, New York, New York 10286, and at the office of the agent of the Depositary (the “Custodian”), currently

located at Carrera 43A, No. 11A-44, Medellín, Colombia. The Depositary's principal executive office is located at One Wall Street, New York, New York 10286.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS.

(a) EXCHANGE CONTROLS

The Central Bank consistently has made foreign currency available to Colombian private sector entities to meet their foreign currency obligations. Nevertheless, in the event of renewed shortages of foreign currency, there can be no assurance that foreign currency would continue to be available to private sector companies or that foreign currency needed by BC to service foreign currency obligations could be purchased in the open market without substantial additional cost.

The International Investment Statute of Colombia contained in Law 9 of 1991, Decree 1295 of 1996 and Resolution 51 of 1991 issued by the Consejo Nacional de Política Económica y Social (“CONPES”), as amended (the “Foreign Investment Law”), regulates the manner in which foreign investors can participate in the Colombian securities markets and undertake other types of investment, prescribes registration with the Central Bank of certain foreign exchange transactions and specifies procedures pursuant to which certain types of foreign investments are to be authorized and administered.

Each individual investor who deposits Preference Shares into the ADS deposit facility for the purpose of acquiring ADSs (other than in connection with or reacquisition of the ADSs pursuant to the ADS offerings) will be required, as a condition to acceptance by Fiducolombia, as custodian of such deposit, to provide or cause to be provided certain information to Fiducolombia, to enable it to comply with the registration requirements under the Foreign Investment Law relating to foreign exchange. A holder of ADSs who withdraws Preference Shares from the ADS deposit facility under certain circumstances may be required to comply directly with certain registration and other requirements under the Foreign Investment Law. Under the Foreign Investment Law, the failure of a non-resident investor to report or register foreign exchange transactions relating to investments in Colombia with the Central Bank on a timely basis may prevent the investor from obtaining remittance rights, constitute an exchange control infraction and result in a fine.

(b) OWNERSHIP RESTRICTIONS

Under Colombian law and the bylaws of BC, foreign investors receive the same treatment as Colombian citizens with respect to the ownership and the voting of ADSs and Preference Shares.

Pursuant to Decree 663, any transaction resulting in an individual or corporation holding 10% or more of any class of capital stock of any Colombian financial institution, including transactions resulting in a holding of ADSs representing 10% or more of the Preference Shares represented by ADSs, must receive prior authorization from the Superintendency of Banking. In determining whether to grant its approval, the Superintendency of Banking will evaluate the proposed transaction based on a number of factors. However, Colombian law establishes no specific criteria or guidelines for the Superintendency of Banking to follow in carrying out its evaluation. If such a transaction is effected without obtaining the prior approval of the Superintendency of Banking, it will be considered as having no effect. A financial institution must refrain from entering into its stock registry any transaction that violates this requirement. Foreign investors are subject to and receive the same treatment as Colombian citizens with respect to the foregoing restrictions.

Pursuant to Decree 98 of 1994, any transaction resulting in a foreign investment fund holding 5% or more of a financial institution's capital stock must receive prior authorization from the Superintendency of Banking.

In addition to the foregoing restriction, pursuant to Resolution 400 of 1995 ("Resolution 400") of the Superintendency of Securities, any transaction involving the sale of publicly traded stock of any Colombian company, including any sale of the Preference Shares (but not a sale of ADSs), in an amount of Ps 500,000 (nominal) or more must be effected through one of the Colombian Stock Exchanges. The prior authorization of the Superintendency of Securities also is required pursuant to Resolution 400 in order to offer to purchase in the public market 5% or more of the issued and outstanding capital stock of a Colombian company (including the Preference Shares and Common Shares of BC), unless the purchaser will be acquiring such stock in response to a stock offering directed to all the shareholders of such company.

(c) EXCHANGE RATES

The following table sets forth the peso/dollar Official Rate (as defined below) at the end of each period indicated and, for each such period, the average monthly high, average monthly low, average monthly average rates and end of period Representative Market Rate for U.S. dollars. The Federal Reserve Bank of New York does not report a noon buying rate for Colombian pesos. The Superintendency of Banking calculates the Representative Market Rate based on the weighted averages of the buy/sell foreign exchange rates quoted daily by certain financial institutions, which includes BC, for the purchase and sale of foreign currency. The Central Bank calculates the *Tasa del Banco de la República* (the "Official Rate") used for certain limited purposes. Since January 31, 1995, the Official Rate has not been used as an exchange rate.

	Peso/US\$						
	Official		Representative Market				
	Period End	% Change from prior period end	Low	High	Average(1)	Period End	% Change from prior period end
1994.....	1,018.4	11.0	815.6	843.0	826.3	831.3	3.6%
1995.....	—	—	856.4	998.2	916.0	986.8	18.7%
1996.....	—	—	998.4	1,071.9	1,008.8	1,004.0	1.7%
1997.....	—	—	1,005.3	1,307.5	1,141.1	1,287.1	28.2%
1998.....	—	—	1,293.6	1,599.2	1,420.1	1,511.0	17.4%

(1) The average monthly average rates during the relevant period.

Source: *Revista del Banco de la República* December 1998 and the Superintendency of Banking.

ITEM 7. TAXATION.

(a) TAXATION OF DISTRIBUTIONS

Pursuant to Resolution 56 of 1992, issued by CONPES, the Deposit Agreement constitutes a *Fondo Institucional de Capital Extranjero* (a "foreign institutional capital investment fund"). Under Law 6 of 1992, dividends paid to foreign institutional capital investment funds are not subject to Colombian income, withholding, remittance or other taxes, provided that such dividends are paid in respect of previously taxed earnings of the Company. Therefore, provided that distributions are made by BC to the holders of ADSs through the Depositary, all distributions by BC made on account of Preference Shares to holders of ADRs evidencing ADSs who are not residents in Colombia, as defined below, will be exempt

from Colombian income, withholding and remittance taxes, except in the case of distributions paid out of non-taxed earnings of BC (which would bear a 35% Colombian tax that BC would be required to withhold and pay over to the Colombian tax authorities).

Dividends paid to a holder of Preference Shares (as distinguished from the ADSs representing such Preference Shares) who is not a resident of Colombia, as defined below, and who holds the Preference Shares in his own name, rather than through another institutional or individual fund, will be subject to Colombian income taxes at a flat rate of 7 % for 1998 and thereafter, which tax must be withheld by the payor. However, if such dividends do not correspond to BC profits that have been taxed at the corporate level, the applicable rate is 39.5%. BC would in all such cases withhold and pay to the Colombian tax authorities, within the legally prescribed period, the appropriate percentage of the amount of such dividends, and would have no liability or obligation to any holder of Preference Shares with respect to any amount properly so withheld and paid over.

In the event that a holder of ADSs who is not resident in Colombia chooses to surrender its ADSs and withdraw the underlying Preference Shares, dividends to such non-resident holder would be subject to withholding tax at the rates set forth in the preceding paragraph, unless such non-resident holder takes the necessary actions under Colombian law to hold such Preference Shares through either an “institutional fund” or an “individual fund” under Article 40 of the Foreign Investment Law, in which case dividends payable with respect to the Preference Shares would receive the same preferential treatment accorded the ADSs.

For purposes of Colombian taxation, a natural person is a resident of Colombia if he or she is physically present within Colombia for more than six months during the calendar year or taxable period ending within such calendar year. For purposes of Colombian taxation, a legal person other than a natural person is a resident of Colombia if it is organized under the laws of Colombia.

(b) SALES AND OTHER DISPOSITIONS

Gain or loss realized by a non-resident of Colombia from the sale or other disposition of ADSs, including by way of redemption or liquidation, will not be subject to Colombian taxation, regardless of the place at which such sale or disposition occurs. Gain or loss realized by a non-resident of Colombia from the sale or other disposition of Preference Shares including by way of redemption or liquidation (as distinguished from sales or other dispositions of ADSs representing such Preference Shares) will not be subject to Colombian taxation provided the sale or other disposition is effected on or through the facilities of a recognized stock exchange. Deposits and withdrawals of Preference Shares in exchange for ADSs will not be subject to Colombian taxation.

In all cases in which the gain or loss realized upon a sale or other disposition of Preference Shares is subject to Colombian taxation, such taxation will correspond to a 14% income tax applied over the gain and a 1% remittance tax applied over the total sale amount. Such gain or loss will be measured by the difference, if any, between the amount realized upon the sale or disposition and the cost of acquisition plus inflationary adjustments (“tax basis”) of the Preference Shares or ADSs, as the case may be, sold or disposed of by the holder. The tax basis of Preference Shares withdrawn by a holder in exchange for ADSs immediately after such withdrawal shall equal the holder’s tax basis in the ADSs exchanged for such Preference Shares immediately before such withdrawal. The tax basis of ADSs received by a holder in exchange for a deposit of Preference Shares immediately after such deposit shall equal the holder’s tax basis in the Preference Shares deposited in exchange for such ADSs immediately before such deposit. The tax basis of additional Preference Shares or ADSs distributed to a holder of Preference Shares or ADSs on account thereof, whether by stock dividend, revaluation of the assets of the Company or otherwise, shall equal the value of such additional Preference Shares or ADSs at the time of such dividend or revaluation.

(c) OTHER TAX CONSIDERATIONS

As of the date of this report, there is no income tax treaty and no inheritance or gift tax treaty in effect between Colombia and the United States. Transfers of ADSs to non-residents of Colombia by gift or inheritance are not subject to Colombian gift or inheritance taxes. Transfers of Preference Shares (as distinguished from the ADSs representing such Preference Shares) will be subject to Colombian gift or inheritance tax at a flat rate of 35% of the unrealized appreciation, if any, in the value of the Preference Shares transferred. There are no Colombian stamp, issue, registration, transfer or similar taxes or duties payable by holders of Preference Shares or ADSs.

ITEM 8. SELECTED FINANCIAL DATA.

(a) SELECTED FINANCIAL DATA

The following constant December 31, 1998 peso data, insofar as it relates to each of the years 1994 through 1996, has been derived from financial statements audited by Price Waterhouse, independent accountants, and the following constant December 31, 1998 peso data, insofar as it relates to the years 1997 and 1998, has been derived from financial statements audited by KPMG Peat Marwick, independent accountants. The following information should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements, including the Notes thereto.

The Financial Statements included herein have been prepared in conformity with Colombian GAAP, which differs in certain significant aspects from U.S. GAAP. Note 33 to the Financial Statements provides a discussion of the principal differences between Colombian and U.S. GAAP as they relate to the Bank and a reconciliation of net income and shareholders' equity for the Bank as of and for the years ended December 31, 1996, 1997 and 1998 to amounts calculated in accordance with U.S. GAAP.

Dollar equivalent information set forth below has been included solely for the convenience of the reader, and is translated from pesos at the Representative Market Rate in effect on December 31, 1998 of Ps 1,510.99 to \$1.00. Such translation should not be construed as a representation that the Colombian peso amounts represent, or have been or could be converted into, United States dollars at that rate or any other rate.

Unless otherwise indicated, all financial information included in this annual report has, for comparability purposes, been restated in constant pesos as of December 31, 1998 by indexing historical amounts using the CPI. Although the restatement of nominal pesos into constant peso amounts reduces the distorting effect that an inflationary environment has on comparisons of financial statements over time, such restatement does not wholly eliminate those distortions and evaluation of period-to-period trends may be difficult.

All financial information for the year ended December 31, 1998 included in this report reflects the effects of the Merger.

As of and for the year ended December 31,

	1994	1995	1996	1997	1998	1998
	<i>(in millions of constant pesos and thousand of dollars, except per share and ADS amounts(1))</i>					
CONSOLIDATED INCOME STATEMENTS:						
Colombian GAAP:						
Interest income.....	Ps 362,264	Ps 457,760	Ps 517,512	Ps 502,475	Ps 1,306,180	\$864,453
Interest expense.....	190,120	267,654	286,405	280,353	870,345	576,010
Net interest income	172,144	190,106	231,107	222,122	435,835	288,443
Provisions for loans and accrued interest losses(2).....	(6,474)	(12,490)	(16,846)	(16,081)	(126,823)	(83,933)
Net interest income after provisions.....	165,670	177,616	214,261	206,041	309,012	204,510
Other operating income	121,982	185,716	150,413	142,336	338,439	223,985
Operating expenses.....	163,741	177,368	202,762	208,849	578,541	382,889
Merger expenses.....	—	—	—	—	(76,402)	(50,564)
Non-operating income (expense).....	42,038	1,475	(8,164)	(235)	35,942	23,787
Net monetary inflation adjustment.....	(34,819)	(37,363)	(60,574)	(47,170)	(29,195)	(19,322)
Income (loss) before taxes.....	131,130	150,076	93,174	92,123	(745)	(493)
Income taxes.....	(20,763)	(43,499)	(29,039)	(30,264)	(9,795)	(6,483)
Net income (loss).....	Ps 110,367 (3)	Ps 106,577	Ps 64,135	Ps 61,859	Ps (10,540)	\$ (6,976)
Weighted average of Preference and Common Shares outstanding(4).....	143,131,839	152,464,776	163,470,255	163,470,255	234,941,295	
Net income per share(3)(4)(5)	Ps 771	Ps 699	Ps 393	Ps 378	Ps (45)	\$ (30)
Net income per ADS(6).....	3,084	2,796	1,572	1,514	(179)	(120)
Cash dividends declared per share(7)	371	421	347	350	0	0
Cash dividends declared per ADS(6)	1,484	1,685	1,386	1,400	0	0
U.S. GAAP:						
Net income		Ps 82,292	Ps 65,683	Ps 67,393	Ps (42,467)	\$ (28,105)
Net income per share(8)		522	399	421	(253)	(168)
Net income per ADS.....		2,087	1,596	1,684	(1,012)	(672)

As of and for the year ended December 31,

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1998</u>
	<i>(in millions of constant pesos and thousands of dollars, except per share and ADS amounts(1))</i>					
CONSOLIDATED BALANCE SHEET						
Colombian GAAP:						
Assets:						
Cash and due from banks	Ps 425,570	Ps 400,038	Ps 256,837	Ps 207,875	Ps 480,220	\$ 317,818
Overnight funds	25,690	21,520	68,951	166,972	234,673	155,311
Investment securities, net	335,347	569,524	678,486	1,239,416	1,380,755	913,808
Loans, net	1,417,128	1,686,645	1,566,366	1,952,191	4,025,770	2,664,326
Accrued interest receivable on loans, net ..	17,422	22,495	26,888	32,816	141,020	93,330
Customers' acceptances	36,503	23,878	12,305	16,986	20,706	13,704
Accounts receivable, net	19,778	56,709	41,048	55,979	171,256	113,340
Premises and equipment, net	70,851	85,837	93,445	132,459	382,654	253,247
Foreclosed assets, net	233	189	124	4,745	130,638	86,459
Prepaid expenses and deferred charges	32,436	34,659	24,018	21,072	106,126	70,236
Goodwill	—	—	—	—	209,223	138,467
Lease, net	—	38,387	54,867	86,399	183,939	121,734
Other assets.....	2,743	3,862	2,592	13,737	111,582	73,847
Reappraisal of assets.....	109,808	71,677	89,204	89,128	290,508	192,263
Total assets.....	<u>Ps 2,493,509</u>	<u>Ps 3,015,420</u>	<u>Ps 2,915,131</u>	<u>Ps 4,019,775</u>	<u>Ps 7,869,070</u>	<u>\$ 5,207,890</u>
Liabilities and shareholders' equity:						
Deposits.....	Ps 1,545,186	Ps 1,620,343	Ps 1,676,284	Ps 1,965,897	Ps 4,628,811	\$ 3,063,429
Borrowings.....	426,943	566,501	523,762	1,150,376	1,662,873	1,100,519
Other liabilities.....	111,334	303,426	173,261	358,996	788,592	521,904
Shareholders' equity.....	410,046	525,150	541,824	544,506	788,794	522,038
Total liabilities and shareholders' equity	<u>Ps 2,493,509</u>	<u>Ps 3,015,420</u>	<u>Ps 2,915,131</u>	<u>Ps 4,019,775</u>	<u>Ps 7,869,070</u>	<u>\$ 5,207,890</u>
U.S. GAAP:						
Shareholders' equity.....		Ps 483,513	Ps 479,413	Ps 491,703	Ps 684,413	\$ 452,957
Shareholders' equity per share(9).....		3,171	2,933	3,008	2,913	1,928
Shareholders' equity per ADS(5)		12,684	11,732	12,032	11,652	7,712

Year ended December 31,

	1994	1995	1996	1997	1998
SELECTED RATIOS:(10)					
Colombian GAAP:					
Profitability ratios:					
Net interest margin(11)	11.19%	11.45%	11.66%	9.94%	8.29%
Return on average total assets(12)	3.23(13)	3.59(14)	2.45	2.08	(0.14)
Return on average shareholders' equity(15).....	21.12	21.55	14.34	12.96	(1.17)
Efficiency ratio:					
Operating expenses as a percentage of net operating income(16)	55.57	47.19	53.15	57.30	74.72
Capital ratios:					
Period-end shareholders' equity as a percentage of period-end total assets.....	16.44	17.42	18.59	13.55	10.02
Period-end regulatory capital as a percentage of period-end risk-weighted assets(17)	9.48	13.75	12.64	9.35	11.56
Credit quality data:					
Nonperforming loans as a percentage of total loans(18)	1.33	1.24	1.24	1.50	3.72
"C", "D" and "E" loans as a percentage of total loans(19).....	1.56	1.63	1.84	1.73	4.81
Allowance for loan and accrued interest losses as a percentage of nonperforming loans.....	51.17	84.8	123.34	101.3	118.07
Allowance for loan and accrued interest losses as a percentage of "C", "D" and "E" loans.....	43.69	64.62	85.21	85.34	91.42
Allowance for loan and accrued interest losses as a percentage of total loans.....	0.68	1.05	1.57	1.5	4.40
Operating data:					
Number of branches(20)	98	101	106	113	376
Number of employees.....	3,458	3,710	3,716	3,582	9,477

- (1) Amounts stated in dollars have been translated at the rate of Ps 1,510.99 to \$1.00 which approximates the Representative Market Rate at December 31, 1998.
- (2) Includes a provision for accrued interest losses amounting to Ps 759 million, Ps 2,382 million, Ps 3,201 million, Ps 3,878 million and Ps 21,876 million for the years ended December 31, 1994, 1995, 1996, 1997 and 1998, respectively.
- (3) Reflects a nontaxable, nonrecurring gain on sale of securities of Ps 42,601 million for the year ended December 31, 1994.
- (4) Includes Common Shares and for 1995, 1996 and 1997, 19,500,000 Preference Shares and for 1998, 58,060,558 Preference Shares.
- (5) Reflects all stock dividends distributed through December 31, 1998. Calculated on the basis of average outstanding shares during the period.
- (6) For 1994, calculated on the basis of historical number of Common Shares converted to ADSs at a ratio of four to one.
- (7) This data is presented on an annualized basis.
- (8) Reflects stock dividends distributed up to December 31, 1998. Under U.S. GAAP, these shares are considered outstanding since the beginning of the earliest period presented. Net income per share under U.S. GAAP is presented on the basis of net income available to common stockholders divided by the weighted average number of Common Shares outstanding (144 million in each of 1995, 1996 and 1997 and 191 million for 1998). See Note 33 to the Financial Statements.
- (9) Shareholders' equity per share is calculated based on Common Shares plus Preference Shares. Shares outstanding amounted to 152 million for the year ended December 31, 1995, and 163 million for the years ended December 31, 1996 and 1997, and 235 million for the year ended December 31, 1998.
- (10) Ratios were calculated on the basis of daily averages, except the ratios for 1994 which were calculated on the basis of monthly averages.
- (11) Defined as net interest income divided by average interest-earning assets.
- (12) Net income divided by average total assets.
- (13) Does not reflect a nontaxable, nonrecurring gain on sale of securities of Ps 42,601 million included within non-operating income (expense). Return on average total assets and return on average shareholders' equity with this nonrecurring gain included would have been 5.27% and 34.40%, respectively, for the year ended December 31, 1994.
- (14) Does not include the marking-to-market of BC's holdings of shares in Corfinsura. Return on average total assets and return on average shareholders' equity with this nonrecurring gain would have been 4.10% and 23.36%, respectively, on a monthly average and 4.51% and 27.09%, respectively, on a daily average.
- (15) Net income divided by monthly average shareholders' equity.

- (16) Net operating income includes net interest income, fees and income from services, net and other operating income.
- (17) For an explanation of risk-weighted assets and Technical Capital, see “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Capital.”
- (18) Nonperforming loans are consumer loans that are past due 90 days or more and commercial and mortgage loans that are past due 180 days and 360 days, respectively (120 days for commercial and mortgage loans at December 1994), or more.
- (19) “C,” “D” and “E” loans include all nonperforming loans and commercial and consumer loans classified “C,” which are considered performing loans in accordance with the regulations of the Superintendency of Banking. “B,” “C,” “D” and “E” loans as a percentage of total loans as of December 31, 1994, 1995, 1996, 1997 and 1998 were 3.63%, 3.4%, 4.9%, 3.23% and 6.43%, respectively. All “B” loans are performing in accordance with the regulations of the Superintendency of Banking.
- (20) Number of branches does not include branches of the Bank’s subsidiaries.

(b) DIVIDENDS

The declaration, amount and payment of dividends are based on BC’s unconsolidated earnings, which include earnings from unconsolidated subsidiaries which are accounted for at cost, and are approved at the annual general meeting of shareholders on the recommendation of the Board of Directors and the President of BC. Under the Commerce Code, BC must, after payment of income taxes and appropriation of legal and other reserves and after off-setting losses from prior fiscal years, distribute at least 50% of its annual net income to all shareholders, payable in cash, or as determined by the shareholders, within a period of one year following the date of the meeting in which the shareholders declare the dividend. If the total amount segregated in all reserves of BC exceeds its outstanding capital, this percentage is increased to 70%. The minimum common stock dividend requirement of 50% or 70%, as the case may be, may be waived by a favorable vote of the holders of 78% of Common Shares present at the shareholders’ meeting pursuant to Law 222 of 1995.

Under Colombian law, the annual net profits of BC is applied as follows: (i) first, an amount equivalent to 10% of the net profits of BC is segregated to build a legal reserve until such reserve is equal to at least 50% of the paid-in capital of BC, (ii) second, payment of the Minimum Dividend (as defined below) is made on the Preference Shares, and (iii) third, the balance of net profits are allocated as determined by the holders of a majority of the Common Shares entitled to vote on the recommendation of the Board of Directors and may, subject to further reserves required by the Bylaws, be distributed as dividends.

BC paid dividends on the Common Shares for each year from 1947 through 1997. As a general policy approximately 60% of the legally available net income of BC had in the past been paid annually to shareholders. However, because BC did not have positive net income in 1998, it was unable to declare and pay a dividend for the year ended December 31, 1998. See “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations — General.”

The following table sets forth the annual cash dividends paid on each Common Share and, where applicable, each Preference Share during the periods indicated.

Dividends declared with respect to net Income earned in:	Cash Dividends per share (1)(2)	Cash Dividends per share (1)(3)
	<i>(in nominal pesos)</i>	<i>(in dollars)</i>
1994.....	186.00	0.21
1995.....	252.00	0.24
1996.....	252.00	0.24
1997.....	300.00	0.23
1998.....	—	—

- (1) Includes Common Shares and for 1996, 1997 and 1998 results, Preference Shares.
- (2) Cash dividends are paid in monthly installments.
- (3) Amounts have been translated from pesos at the Representative Market Rate in effect at the end of the month in which the dividends were declared (February or March).

For a discussion of the exchange rates used in the Bank's financial statements and a history of the Exchange Rate, see "Item 6. Exchange Controls and Other Limitations Affecting Security Holders — (c) Exchange Rates."

ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

(a) MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following discussion should be read in conjunction with the Bank's audited consolidated financial statements included elsewhere in this annual report. The financial statements have been prepared in accordance with Colombian GAAP, including restatement of the financial information in constant pesos as of December 31, 1998, as approved by the Superintendency of Banking on May 19, 1997.

As of January 1998, BC had purchased 51% of the outstanding capital stock of Banco de Colombia in connection with the Merger. As a result of this majority ownership, BC's results of operations for the year ended December 31, 1998 include amounts attributable to Banco de Colombia's results of operations for such period and BC's financial position as of December 31, 1998 includes the assets and liabilities of Banco de Colombia as of that date. The Merger was completed in April 1998 through the exchange of shares of BC for the remaining 49% of the outstanding capital stock of Banco de Colombia. Since the Bank's results of operations for the year ended December 31, 1998 reflect amounts recognized from the combined operations for such period, they cannot be divided between or attributed directly to either of the former entities nor can they be directly compared to prior periods. Financial information presented herein for the years ended December 31, 1996 and December 31, 1997 do not give effect to the Banco de Colombia merger and, as such, reflect only the results of operations and financial condition of the former BIC and therefore cannot be directly compared with future periods. In accordance with Colombian GAAP, the Bank began to consolidate its financial statements to include the results of operations of Banco de Colombia on January 1, 1998. See Note 33 to the Financial Statements.

In substantially all of the Bank's income and expense categories, the increases in the amounts reported for the year ended December 31, 1998 compared to the amounts reported in the corresponding period in 1997 resulted primarily from the Merger. The increases in substantially all of the categories of the Bank's balance sheet between amounts reported at December 31, 1998 and those reported at December 31, 1997 also resulted primarily from the Merger. Other significant factors affecting the Bank's results of operations and financial position are described in the applicable sections below.

Colombian GAAP requires that intra-year monetary purchasing power gains and losses resulting from inflation incurred since January 1, 1992 be recorded as "monetary correction" adjustments. The intra-year inflation adjustments are based on variations in the MCPI, and are made by reference to balances of non-monetary assets and liabilities, to shareholders' equity balances (excluding surplus from reappraisal of assets and cumulative translation adjustments), and to amounts of revenues and expenses during the respective year or accounting period. Accordingly, the "non-monetary inflation adjustment" shown in the income statement of the Bank is the result of netting or offsetting the following items:

- (1) a credit (or income entry) for inflation affecting non-monetary assets;
- (2) a charge (or expense entry) for inflation affecting non-monetary liabilities and shareholders' equity; and

- (3) charges and credits (for expense and income entries) representing inflation adjustments made to expenses and revenues, respectively. Since monetary inflation adjustments are offset in the net monetary inflation adjustment account in the statement of income, the net effect on net income from the expense and income inflation adjustments is zero. The inflation adjustments to revenue and expenses are included in the individual revenue and expense captions in the income statement.

Because expense and revenue inflation adjustments net to zero, the only impact on the statement of income of the effects of inflation is attributable to the restatement of non-monetary assets and liabilities and shareholders' equity accounts.

During the third quarter of 1996 and the first quarter of 1997, the Colombian economy was in a recession resulting in a contraction of the most significant segments of the economy. This recession had an adverse impact on the Bank's results of operations during the latter half of 1996 and the first half of 1997. As the Colombian economy improved in the second half of 1997, the Bank's operations also improved.

In 1998, however, the Colombian economy returned to very slow growth. GDP increased only 0.2% for the year, far below the historical growth levels of the Colombian economy, which averaged annual growth of 4.5% between 1992 and 1996. This reduced GDP growth, a growing fiscal and current account deficit and exchange rate pressures resulting from the global economic instability sparked by the Asian and Brazilian crises in 1998 caused a severe liquidity crisis. As a result, interest rates rose to very high levels.

High interest rates in 1998 adversely affected the Colombian financial sector as a whole and the Bank's results of operations in particular. First, the Bank experienced a sudden decrease in normally low-cost funding from deposits and was forced to seek financing through expensive short-term instruments in the interbank market. And second, the poor economic environment and increased interest rates led many borrowers to be unable to service their debts leading to significant deterioration of the Bank's loan portfolio. The combination of these factors, among other things, led to the Bank's net loss in 1998.

Merger with Banco de Colombia

On April 3, 1998, the Merger of the Bank and Banco de Colombia was completed. As a result, the Bank incurred a charge for the year ended December 31, 1998 for merger-related expenses aggregating Ps 76,402 million, which included amounts attributable to a foreign exchange loss incurred with respect to BC's US\$265 million syndicated loan obtained to finance the cash portion of the Banco de Colombia merger, interest paid on such syndicated loan, amortization of goodwill recorded in connection with the Merger and severance payments for reduction of personnel, among other things. See "— Merger Expenses" below.

Because the Banco de Colombia merger was accounted for using purchase accounting, the Bank recognized total goodwill in connection with the Merger of Ps 226,480 million. This amount is required to be amortized over a period of ten years. Goodwill amortization recorded in 1998 was Ps 16,986 million and for each of the years 1999 through 2007 is expected to be approximately Ps 22,648 million per year.

Banco de Colombia's net income declined by approximately 34% in 1996 compared to 1995 and by approximately 30% in 1997 compared to 1996.

The Merger with Banco de Colombia has also adversely affected the Bank's loan portfolio and certain of its ratios. Prior to the Merger, relative to the Bank, Banco de Colombia had a lower quality loan portfolio, a lower level of capital, a lower level of provisions for non-performing loans, a lower efficiency ratio and

a lower return on average shareholders' equity and return on average assets. For example, at December 31, 1997, 5.2% of Banco de Colombia's total loans were non-performing as compared to 1.5% of BC's total loans at the same date. Given the relatively larger size of Banco de Colombia when compared to the Bank prior to the Merger, the lower ratios of Banco de Colombia had for the year ended December 31, 1998, and are expected to continue to have, an adverse impact on the Bank's condition in these areas and may have an adverse impact on the Bank's future earnings.

Results of Operations for the Three Years Ended December 31, 1998

For the year ended December 31, 1998, the Bank had a net loss of Ps 10,540 million compared to net income of Ps 61,859 million in 1997. The primary reasons for the net loss were an increase in funding costs due to the liquidity crisis, an increase of the level of loan loss reserves which increased to Ps 126,823 million from Ps 16,081 million following the Merger, the reduction in quality of the Bank's loan portfolio associated with low economic growth, and the charge for expenses incurred in connection with the Banco de Colombia Merger taken in 1998.

The Bank's net income decreased 3.6% to Ps 61,859 million in 1997, from Ps 64,135 million in 1996, primarily as a result of a decrease of 16.4% in other operating income, and a decrease in net interest income of 3.9% due to a decrease in interest rates. These decreases were partially offset by a 4.3% increase in fees and income from services, net and a 22% decrease in net monetary inflation adjustment.

The following table sets forth, for the years 1996 through 1998, the principal components of the Bank's net income:

	Year ended December 31,		
	1996	1997	1998
	<i>(in millions of constant pesos)</i>		
Net income:			
Net interest income	Ps 231,107	Ps 222,122	Ps 435,835
Provision for loan and accrued interest losses	(16,846)	(16,081)	(126,823)
Other operating income.....	150,413	142,336	338,439
Operating expenses	(202,762)	(208,849)	(578,541)
Merger expenses	—	—	(76,402)
Non-operating income (expense).....	(8,164)	(235)	35,942
Net monetary inflation adjustment.....	(60,574)	(47,170)	(29,195)
Income before taxes	93,174	92,123	(745)
Income tax.....	(29,039)	(30,264)	(9,795)
Net income	<u>Ps 64,135</u>	<u>Ps 61,859</u>	<u>Ps (10,540)</u>

Net Interest Income

Net interest income increased 96.2% in 1998 to Ps 435,835 million from Ps 222,122 million in 1997, primarily as a consequence of the Merger which increased BC's interest-bearing assets to Ps 5,260 billion in 1998, from Ps 2,307 billion in 1997. This increase was partially offset by a decline in the net interest margin (net interest income divided by total average interest earning assets) which declined to 8.29% in 1998 from 9.94% in 1997. Net interest margin decreased as the Bank, in order to maintain sufficient funding for its operations after the September 1998 devaluation of the peso, was required to borrow funds in the interbank market at high interest rates.

Net interest income decreased 3.9% in 1997 to Ps 222,122 million from Ps 231,107 million in 1996. As discussed below, the decrease in 1997 in net interest income was due primarily to a decrease in interest income of 2.9%, while interest expense decreased 2.1%, primarily due to the low loan demand during the first semester of 1997 and to a decrease in the DTF to 21.16% at December 31, 1997 from 23.85% at December 31, 1996. Net interest was 9.63% in 1997 and 11.7% in 1996.

The components of the Bank's consolidated net interest income before provisions for loan and accrued interest losses are reflected in the following:

	Year ended December 31,		
	1996	1997	1998
	<i>(in millions of constant pesos)</i>		
Interest income:			
Loans	Ps 424,532	Ps 367,753	Ps 1,079,268
Investment securities	83,122	126,247	200,214
Overnight funds	9,858	8,475	26,698
Total interest income	<u>517,512</u>	<u>502,475</u>	<u>1,306,180</u>
Interest expense:			
Time deposits	154,584	147,190	397,883
Savings deposits	43,396	51,803	200,212
Borrowings from domestic development banks	38,752	25,058	58,960
Interbank borrowings	21,252	31,985	74,044
Overnight funds	28,421	24,317	139,246
Total interest expense	<u>286,405</u>	<u>280,353</u>	<u>870,345</u>
 Net interest income	 <u>Ps 231,107</u>	 <u>Ps 222,122</u>	 <u>Ps 435,835</u>
 Average nominal interest rates on loans	 28.6%	 24.0%	 28.8%
Average nominal interest rates on time deposits	21.1	17.4	23.4
Average nominal interest rates on savings deposits	22.1	18.8	18.5

Interest Income

The Bank's total interest income increased 160% in 1998 to Ps 1,306,180 million from Ps 502,475 million primarily as a result of the Merger which increased BC's interest-bearing assets by 128% and the increase in the average nominal interest rate on loans to 28.5% in 1998 from 24% in 1997 due to generally higher interest rates in 1998.

The Bank's total interest income decreased 2.9% in 1997 to Ps 502,475 million from Ps 517,512 million in 1996 due primarily to a decrease in interest rates on loans (Ps 94,554 million), partially offset by an increase in interest income on investment securities of 51.8% in 1997 from 1996, as the Bank increased its amount of investment securities in order to manage the increased liquidity caused by the decrease in demand for credit.

Interest Expense

The Bank's interest expense increased 210% to Ps 870,345 million in 1998 from Ps 280,353 million in 1997. This increase is attributable primarily due to the Merger, which resulted in an increase in interest-bearing liabilities by 162% to Ps 5,184,152 million in 1998 from Ps 1,980,274 million in 1997, and an increase in the average rate of liabilities generating interest to 16.8% in 1998 from 14.2% in 1997 as a result of the increase in the fixed time deposits rate set by the Central Bank in 1998.

The Bank's interest expense decreased 2.1% in 1997 to Ps 280,353 million from Ps 286,405 million in 1996 primarily because of a decrease in the volume of borrowing from domestic development banks. The expense for time deposits decreased 4.8% in 1997 to Ps 147,190 million from Ps 154,584 million in 1996

primarily because of changes in interest rates. Interest expense on savings deposits increased 19.4% in 1997 to Ps 51,803 million from Ps 43,396 million in 1996 because of attractive interest rates compared to the market. Interest expense on interbank borrowings increased 50.5% primarily due to two new syndicated loans entered into by the bank.

Provisions for Loan and Accrued Interest Losses

The Bank's provisions for loan losses (including provisions for accrued interest losses) increased to Ps 126,823 million for 1998 from Ps 16,081 in 1997 primarily due to the reduction of the quality of the Bank's loan portfolio as a result of the Merger and poor economic growth, high interest rates and high unemployment rates in 1998. Approximately 60.4% of past due loans as of December 31, 1998 were non-performing.

The Bank created provisions for loan losses (including provisions for accrued interest losses) of Ps 16,081 million for 1997, a decrease of 4.5% from the Ps 16,846 million for 1996. The Bank's total loan portfolio increased 24.5% in 1997. Approximately 72.4% of past due loans as of December 31, 1997 were non-performing. The decrease in 1997 of provisions for loan losses was due to the general improvement in the risk classification of the loan portfolio.

The allowance for loan losses under U.S. GAAP differs from that which exists under Colombian GAAP. Under Colombian GAAP, an allowance for loan losses is created for each individual loan based on the risk classification system established by the Superintendency of Banking. Under U.S. GAAP, a general reserve, not tied to any specific loans, is established to absorb losses inherent in the existing loan portfolio in future periods. At December 31, 1996, 1997 and 1998, the allowances for loan losses existing under Colombian GAAP were Ps 16,846 million, Ps 16,081 million and Ps 126,823 million, respectively, and the allowances that would have been required under U.S. GAAP were Ps 9,455 million, Ps 10,404 million and Ps 38,752 million, respectively.

While the Bank is diversifying its loan portfolio to small-sized and medium-sized companies, it intends to apply the same credit quality standards to these new loans as it does to all of its loans. There can be no assurances, however, that as the loan portfolio grows, it will not contain a higher proportion of higher-risk loans and a resulting increase in the provisions for loan losses. In addition, there can be no assurances that changes in the Colombian economic environment or continued constraint on the money supply by the Central Bank will not result in increased average nominal interest rates and, therefore, further increases in past due loans and provisions for loan losses.

Other Operating Income

The following table summarizes the components of the Bank's other operating income for the period under review:

	Year ended December 31,		
	1996	1997	1998
	<i>(in millions of constant pesos)</i>		
Other operating income:			
Fees and service charges, net	Ps 80,428	Ps 83,854	Ps 189,495
Foreign exchange gain (loss), net	8,524	13,062	28,328
Dividend income ⁽¹⁾	7,833	8,607	10,076
Forward contracts	24,608	(174)	6,294
Mark-to-market of investment securities	(1,642)	10,949	—
Financing leases	5,186	6,948	43,132
Income from non-financial subsidiaries	—	—	26,572
Gains on sales of investments	19,754	13,499	23,649
Other.....	5,722	5,591	10,893
Total other operating income	<u>Ps 150,413</u>	<u>Ps 142,336</u>	<u>Ps 338,439</u>

- (1) Income from dividends represents only the recognition of income from unconsolidated subsidiaries under Colombian GAAP. Dividend income for 1996 does not include dividends from the shares of Corfinsura, in accordance with the regulations of the Superintendency of Banking. See Note 3 to the Financial Statements.

Fees and service charges, the largest component of other operating income, consist of service charges, credit card merchant fees, credit and debit card annual fees, checking fees, warehouse services, commissions and fees from fiduciary activities and letters of credit. The most significant component is service charges, which are primarily income from money transfer fees, remittances, bank acceptances and automated services.

Other operating income increased 137.8% to Ps 338,439 million in 1998 from Ps 142,336 million in 1997 primarily due to the increase in fees and service charges, net of Banco de Colombia operations obtained by the Bank in the Merger, partially offset by the poor economic growth in 1998. In addition, as a result of the Merger, the Bank had for 1998 Ps 26,572 million in income from non-financial subsidiaries of Banco de Colombia and its income from financing leases increased to Ps 43,132 million for 1998 from Ps 6,948 million in 1997 due to the large lease financing business of Banco de Colombia. The Bank did not recognize any income from the marking-to-market of investment securities due to Communication 070 of the Superintendency of Banking, which requires that such investments be classified as permanent investments and changes in fair value be recorded as a separate component of shareholders' equity.

Other operating income decreased 5.4% in 1997 to Ps 142,336 million from Ps 150,413 million in 1996, primarily due to a decrease in income from forward contracts, which resulted in a loss of (Ps 174) million in 1997 compared to income of Ps 24,608 in 1996.

Operating Expenses

The Bank's operating expenses increased 177% to Ps 578,541 million in 1998 from Ps 208,849 million in 1997. Salaries and employee benefits resulting from the incorporation of approximately 5,900 employees from Banco de Colombia during the course of 1998, increased administrative and other expenses associated with the increased size of banking operations in 1998 following the Merger and an increase in depreciation due to the greater amount of assets and equipment obtained as a result of the Merger.

The Bank's operating expenses increased 3.0% in 1997 to Ps 208,849 million from Ps 202,762 million in 1996.

The following table summarizes the principal components of BC's operating expenses in the period under review:

	Year ended December 31,		
	1996	1997	1998
	<i>(in millions of constant pesos)</i>		
Operating expenses:			
Salaries and employee benefits	Ps 101,833	Ps 102,157	Ps 251,497
Administrative and other expenses	88,804	94,331	281,118
Depreciation	11,652	12,140	45,843
Expense for transition to new severance benefits law	<u>473</u>	<u>221</u>	<u>83</u>
Total operating expenses	<u>Ps 202,762</u>	<u>Ps 208,849</u>	<u>Ps 578,541</u>

Salaries and employee benefits expenses increased 0.3% in 1997 to Ps 102,157 million from Ps 101,833 million in 1996 primarily as a result of the Bank's continuing efficiency program which mitigated the effect of an increase in the Bank's employment level of approximately 8% in 1997. Administrative and other expenses increased 6.2% in 1997 to Ps 94,331 million from Ps 88,804 million in 1996, due to the Bank's modernization program.

Merger Expenses

On April 3, 1998, the Merger of the Bank and Banco de Colombia was completed. As a result, the Bank incurred a charge for the year ended December 31, 1998 for merger-related expenses aggregating Ps 76,402 million, which consisted of:

- Ps 34,247 million foreign exchange loss incurred with respect to BC's US\$265 million syndicated loan obtained to finance the cash portion of the Merger as a result of the 9% peso devaluation which occurred in September 1998;
- Ps 21,651 million in interest paid on the US\$265 million syndicated loan;
- Ps 16,986 million to cover amortization of nine months (April 1998 – December 1998 at Ps 1,887 million per month) of goodwill recorded in connection with the Merger;
- Ps 2,385 million in severance payments for reduction of personnel; and
- Ps 1,133 million for various other merger-related items.

Because the Merger was accounted for using purchase accounting, the Bank recognized goodwill in connection with the Merger of Ps 226,480 million. This amount is required to be amortized over a period of ten years. The Ps 16,986 million included in the merger-related charge for 1998 represented amortization of goodwill for the nine months beginning from the completion of the Merger in April 1998 through the end of 1998. Goodwill amortization for each of the years 1999 through 2007 is expected to be approximately Ps 22,648 million per year.

Non-Operating Income (Expense)

The following table summarizes the components of BC's non-operating income (expense) for the period under review:

	Year ended December 31,		
	1996	1997	1998
	<i>(in millions of constant pesos)</i>		
Non-operating income (expense):			
Other income	2,852	2,930	59,679
Charitable contribution	(8,513)	—	—
Other expense.....	<u>(2,503)</u>	<u>(3,165)</u>	<u>(23,737)</u>
Total non-operating income (expense).....	<u>Ps (8,164)</u>	<u>Ps(235)</u>	<u>Ps 35,942</u>

Non-operating income (expense) increased significantly in 1998 to Ps 35,942 from Ps (235) in 1997 primarily due to recoveries of charged-off loans and in connection with the Merger. The increase in other expenses in 1998 was primarily a result of the Merger.

Non-operating income (expense) increased significantly in 1997 to Ps (235) million from Ps (8,164) million in 1996 primarily because of the lack of the one-time charitable contribution made to educational institutions in 1996.

Net Monetary Inflation Adjustment

Net monetary inflation adjustment was Ps (29,195) million for 1998 compared to Ps (47,170) million in 1997. This change was a result of the recording of Banco de Colombia's assets according to their market value (as opposed to their book value). Because this booking method includes effects of inflation with respect to such assets, the adjustments necessary for inflation are less dramatic.

For 1997, net monetary inflation adjustment was Ps (47,170) million compared to Ps (60,574) million in 1996. This change was primarily due to a decrease in the MCPI.

Income Tax Expense

The Bank's income tax expense decreased 67.6% to Ps 9,795 million for 1998 from Ps 30,264 million for 1997. This is primarily due to the decrease in the Bank's taxable income, and, to a lesser extent, to the tax planning BC conducted during 1998. The Bank owns US\$285 million in debt instruments of the Republic of Colombia, whose interests, commissions and other securities are exempt from taxes and therefore reduce the amount of income upon which tax is assessed.

The Bank's income tax expense in 1997 was Ps 30,264 million, or 4.2% more than Ps 29,039 million for 1996, due primarily to a charitable contribution to educational institutions in 1996.

BC's tax liability is subject to review by Colombian tax authorities for a period of two years subsequent to the submission of the Bank's tax return to the revenue authorities. As a result, taxable income and, therefore, income tax liability, for the years 1997 and 1998, are still subject to revision based on differing interpretations of tax law. In the opinion of the Bank, no significant tax-related adjustments to the Financial Statements are expected for such years.

Net Income Information Under U.S. GAAP

The Financial Statements included elsewhere in this annual report have been prepared in accordance with Colombian GAAP, which differs in certain significant respects from U.S. GAAP. The principal differences between U.S. and Colombian GAAP which affect net income include the methods of accounting for income taxes, inflation, employee benefit plans and allowances for loan losses. For a summary of the most significant adjustments required to calculate net income under U.S. GAAP, see Note 33 to the Financial Statements.

Asset and Liability Management

The Bank's policy on asset and liability management is to maximize its net interest income and return on assets and equity, while providing for adequate liquidity, capital and effective risk management. BC has an asset and liability committee (the "Asset and Liability Committee") which decides funding strategies, sets interest rate levels and terms for both assets and liabilities (in pesos and dollars) and makes decisions regarding maturities and pricing of assets and liabilities. The Asset and Liability Committee is comprised of six Vice Presidents of BC and BC's Treasurer and is chaired by BC's Vice President of Finance; it meets on a weekly basis.

The following tables represent the breakdown of the Bank's assets and liabilities by currency at December 31, 1997 and December 31, 1998, respectively. Most of the Bank's foreign currency assets and liabilities are denominated in dollars.

As of December 31, 1997

	Peso- denominated	Foreign currency- denominated	Total	Percentage
<i>(in millions of constant pesos, except percentages)</i>				
Assets				
Cash and due from banks	Ps 169,455	Ps 38,420	Ps 207,875	5.17%
Other assets(1)				
Less than 1 year.....	1,645,470	854,774	2,500,244	62.20%
From 1 to 4 years	172,029	112,417	284,446	7.08%
More than 4 years	35,122	48,100	83,223	2.07%
Bank premises and equipment and other	393,211	577,628	970,839	24.15%
Allowances for loan losses	(24,087)	(2,765)	(26,852)	(0.67)%
Total assets	<u>Ps 2,391,200</u>	<u>Ps 1,628,574</u>	<u>Ps 4,019,775</u>	<u>100.00%</u>
Percentage of total assets	59.49%	40.51%	100.00%	
Liabilities and shareholders' equity				
Non-interest-bearing deposits	Ps 633,973	Ps 44,137	Ps 678,109	16.87%
Other liabilities (2)				
Less than 1 year.....	974,925	1,446,924	2,421,849	60.25%
From 1 to 4 years	267,702	107,609	375,311	9.33%
More than 4 years	—	—	—	—
Total liabilities	<u>1,876,600</u>	<u>1,598,670</u>	<u>3,475,269</u>	<u>86.45%</u>
Percentage of total liabilities	54.00%	46.00%	100.00%	
Shareholders' equity	<u>508,125</u>	<u>36,381</u>	<u>544,506</u>	<u>13.55%</u>
Total liabilities and Shareholders' equity	<u>Ps 2,384,725</u>	<u>Ps 1,635,051</u>	<u>Ps 4,019,775</u>	<u>100.00%</u>
Percentage of total liabilities and shareholders' equity	59.32%	40.68%	100.00%	

(1) Includes loan and investment securities.

(2) Includes time deposits, savings deposits and overnight funds, interbank borrowings and borrowings from domestic development banks.

As of December 31, 1998

	Peso- denominated	Foreign currency- Denominated	Total	Percentage
<i>(in millions of constant pesos, except percentages)</i>				
Assets				
Cash and due from banks	Ps 399,825	Ps 80,395	Ps 480,220	6.10%
Other assets (1):				
Less than 1 year.....	1,906,689	1,109,092	3,015,781	38.33%
From 1 to 4 years	1,085,081	651,515	1,736,596	22.07%
More than 4 years	715,790	91,820	807,610	10.26%
Bank premises and equipment and other	1,573,347	408,977	1,982,324	25.19%
Allowances for loan losses	(145,065)	(8,396)	(153,461)	(1.95)%
Total assets	<u>Ps 5,535,667</u>	<u>Ps 2,333,403</u>	<u>Ps 7,869,070</u>	<u>100.00%</u>
Percentage of total assets	70.35%	29.65%	100.00%	
Liabilities and shareholders' equity				
Non-interest-bearing deposits	Ps 1,579,801	Ps 99,922	Ps 1,679,723	21.35%
Other liabilities (2):				
Less than 1 year.....	2,847,310	2,089,976	4,937,286	62.74%
From 1 to 4 years	390,725	70,434	461,159	5.86%
More than 4 years	2,108		2,108	0.03%
Total liabilities	4,819,944	2,260,332	7,080,276	89.98%
Percentage of total liabilities	68.08%	31.92%	100.00%	
Shareholders' equity	803,542	(14,748)	788,794	10.02%
Total liabilities and shareholders' equity	<u>Ps 5,623,486</u>	<u>Ps 2,245,584</u>	<u>Ps 7,869,070</u>	<u>100.00%</u>
Percentage of total liabilities and shareholders' equity	71.46%	28.54%	100.00%	

(1) Includes loans and investment securities.

(2) Includes time deposits, savings deposits and overnight funds, interbank borrowings, and borrowings from domestic development banks.

BC's percentage of peso-denominated assets and liabilities at December 31, 1998 increased to 70.35% and 71.46%, respectively, from 59.49% and 59.32%, respectively, at December 31, 1997 primarily as a result of the Merger with Banco de Colombia, which was a much more domestically focused bank, with the majority of its loans and liabilities denominated in local currency.

At any given time, the Bank has outstanding a significant number of commitments related to letters of credit and credit card limits. Since many of the credit commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Credit card limits are issued for four-year periods and are renewable. Unused credit card limits amounted to Ps 661,736 million as of December 31, 1998. In substantially all cases, the maximum credit card nominal interest rate is 45.6%.

Interest Rate Sensitivity

A key component of BC's asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. A mismatch in the maturity or repricing of the Bank's assets or liabilities results in a gap.

The Bank's interest-earning assets and interest-bearing liabilities are shown in the following table as of December 31, 1998. Variations in interest rate sensitivity may exist within the repricing period presented

due to differing repricing dates within the period. Variations may also arise among the different currencies in which interest rate positions are held. The Bank's liabilities are primarily fixed rate but with short maturities while assets are primarily variable rate and reprice in general every three months, although BC does have some fixed rate retail loans.

The Bank has a negative gap for a significant portion of its balance sheet, particularly related to maturities of less than three months and, therefore, an increase in interest rates should normally have a negative impact on net interest income. Thus, in a rising interest rate environment, the Bank's liabilities have been repricing faster than its assets with a resulting negative effect on net interest margin. A declining interest rate environment, however, can normally be expected to have a positive effect on net interest margin as the Bank should be able to take advantage of decreased funding costs more quickly than its assets reprice. The Bank manages the risk of maintaining a negative gap through the pricing of its interest-earning assets and hedging its exposure to interest rate risk by entering into transactions such as interest rate contracts designed to reduce the Bank's risk profile.

**Earlier of Remaining Maturity or Repricing Period
as of December 31, 1998**

	Overnight to 3 months	From 3 to 6 months	From 6 months to 1 year	1-4 Years	More than 4 Years	Total
	<i>(in millions of constant pesos, except percentages)</i>					
Interest-Earning Assets						
Overnight funds						
Peso-denominated.....	Ps 37,230	Ps -	Ps -	Ps -	Ps -	Ps 37,230
Dollar-denominated.....	197,443	-	-	-	-	197,443
Total.....	<u>234,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>234,673</u>
Investment securities						
Peso-denominated.....	105,794	96,998	130,147	202,077	171,454	706,470
Dollar-denominated.....	30,295	27,875	30,194	400,439	77,913	566,716
Total.....	<u>136,089</u>	<u>124,873</u>	<u>160,341</u>	<u>602,516</u>	<u>249,367</u>	<u>1,273,186</u>
Loans						
Peso-denominated.....	803,163	151,497	374,185	883,005	544,336	2,756,186
Dollar-denominated.....	624,812	262,905	114,758	251,076	13,907	1,267,458
Total.....	<u>1,427,975</u>	<u>414,402</u>	<u>488,943</u>	<u>1,134,081</u>	<u>558,243</u>	<u>4,023,644</u>
Total interest-earning assets						
Peso-denominated.....	946,187	248,495	504,332	1,085,082	715,790	3,499,886
Dollar-denominated.....	852,550	290,780	144,952	651,515	91,820	2,031,617
Total.....	<u>Ps 1,798,737</u>	<u>Ps 539,275</u>	<u>Ps 649,284</u>	<u>Ps 1,736,597</u>	<u>Ps 807,610</u>	<u>Ps 5,531,503</u>
Interest-Bearing Liabilities						
Checking accounts (1)						
Peso-denominated.....	Ps -	Ps -	Ps -	Ps -	Ps -	Ps -
Dollar-denominated.....	207,970	-	-	-	-	207,970
Total.....	<u>207,970</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,970</u>
Time deposits						
Peso-denominated.....	797,552	289,857	75,946	390,725	2,108	1,556,188
Dollar-denominated.....	361,979	27,219	40,078	70,434	-	499,710
Total.....	<u>1,159,531</u>	<u>317,076</u>	<u>116,024</u>	<u>461,159</u>	<u>2,108</u>	<u>2,055,898</u>
Savings Deposits						
Peso-denominated.....	1,189,489	-	-	-	-	1,189,489
Dollar-denominated.....	1,331	-	-	-	-	1,331
Total.....	<u>1,190,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,190,820</u>
Overnight funds						
Peso-denominated.....	231,207	-	-	-	-	Ps 231,207
Dollar-denominated.....	-	-	-	-	-	-
Total.....	<u>231,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,207</u>
Borrowings from domestic development banks						
Peso-denominated.....	203,919	-	-	-	-	203,919
Dollar-denominated.....	115,401	-	-	-	-	115,401
Total.....	<u>319,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>319,320</u>
Interbank borrowings						
Peso-denominated.....	-	-	-	-	-	-
Dollar-denominated.....	1,343,553	-	-	-	-	1,343,553
Total.....	<u>1,343,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,343,553</u>
Total interest-bearing liabilities						
Peso-denominated.....	2,422,167	289,857	75,946	390,725	2,108	3,180,803
Dollar-denominated.....	2,030,234	27,219	40,078	70,434	-	2,167,965
Total.....	<u>Ps 4,452,401</u>	<u>Ps 317,076</u>	<u>Ps 116,024</u>	<u>Ps 461,159</u>	<u>Ps 2,108</u>	<u>Ps 5,348,768</u>
Asset/liability gap						

**Earlier of Remaining Maturity or Repricing Period
as of December 31, 1998**

	Overnight to 3 months	From 3 to 6 months	From 6 months to 1 year	1-4 Years	More than 4 Years	Total
	<i>(in millions of constant pesos, except percentages)</i>					
Peso-denominated.....	Ps (1,475,980)	Ps (41,362)	Ps 428,386	Ps 694,356	Ps 713,683	Ps 319,083
Dollar-denominated.....	(1,177,685)	263,561	104,874	581,081	91,820	(136,349)
Total.....	Ps (2,653,665)	Ps 222,199	Ps 533,260	Ps 1,275,437	Ps 805,503	Ps 182,734
Cumulative gap						
Peso-denominated.....	Ps (1,475,980)	Ps (1,517,342)	Ps (1,088,956)	Ps (394,600)	Ps 319,083	
Dollar-denominated.....	(1,177,685)	(914,124)	(809,249)	(228,169)	(136,349)	
Total.....	<u>Ps (2,653,665)</u>	<u>Ps (2,431,466)</u>	<u>Ps (1,898,205)</u>	<u>Ps (622,769)</u>	<u>Ps 182,734</u>	
Gap as a % of total interest- earning assets						
Peso-denominated.....	(156)%	(17)%	85%	64%	100%	
Dollar-denominated.....	(138)%	91%	72%	89%	100%	
Total.....	(294)%	74%	157%	153%	200%	
Cumulative gap as a % of cumulative total interest-earning assets						
Peso-denominated.....	(156)%	(127)%	(64)%	(14)%	9%	
Dollar-denominated.....	(138)%	(80)%	(63)%	(12)%	(7)%	
Total.....	(294)%	(207)%	(127)%	(26)%	2%	

(1) Most of BC's checking accounts do not bear interest and represent 15.12% of total funding (or Ps 989,568 million).

Interest Rate Market Risk

The Bank's earnings are dependent on its net interest income which is the difference between interest income earned on all earning assets, primarily loans and securities, and interest paid on all interest bearing liabilities, primarily deposits. Market risk is the risk of loss from adverse changes in market prices and rates. The Bank's market risk arises primarily from inherent interest rate risk in its lending, investing and deposit-gathering activities. The Bank seeks to reduce its exposure to market risk through actively monitoring and managing its interest rate risk. As described above in "Interest Rate Sensitivity", management relies upon static "gap" analysis to determine the degree of mismatch in the maturity and repricing distribution of interest-earning assets and interest-bearing liabilities which quantifies, to a large extent, the degree of market risk inherent in the Bank's balance sheet. Gap analysis is further augmented by an interest rate risk analysis, which is required by the Superintendent of Banking, to evaluate the amount of the Bank's Technical Capital at risk from a change in prevailing interest rates. The interest rate variation used in this analysis is that provided by the Superintendent.

The following tables illustrate the results of the analysis used by the Company to determine the interest rate risk of its Technical Capital at December 31, 1998.

Value at Risk for Peso-Denominated Assets and Liabilities

Maturities at December 31, 1998

	<u>< 1 Month</u>		<u>1-2 Months</u>		<u>2-3 Months</u>		<u>3-6 Months</u>		<u>6-12 Months</u>		<u>>12 Months</u>		<u>Value at Risk</u>
	<u>Amount</u>	<u>Avg.Mat.</u>	<u>Amount</u>	<u>Avg.Mat.</u>	<u>Amount</u>	<u>Avg.Mat.</u>	<u>Amount</u>	<u>Avg.Mat.</u>	<u>Amount</u>	<u>Avg.Mat.</u>	<u>Amount</u>	<u>Avg.Mat.</u>	
Assets													
Overnight Funds	Ps 37,135	0.98	Ps 0	0.00	Ps 77	2.56	Ps 0	0.00	Ps 0	0.00	Ps 0	0.00	
Investment Securities.....	179,048	0.96	97,327	1.99	93,597	2.95	133,715	4.62	150,746	9.02	33,718	37.01	
Loans.....	805,267	0.88	422,181	1.85	469,093	2.89	248,141	4.81	186,850	9.02	222,690	21.12	
Acceptances	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	89	864.59	
Other assets.....	1,017	0.99	744	1.94	488	2.93	134	3.95	103	6.94	51	12.99	
Contingencies debtors.....	2,560	0.62	2,174	1.59	2,032	1.59	5,291	4.49	8,026	8.78	11,420	23.80	
Total	<u>1,025,027</u>	<u>0.90</u>	<u>522,426</u>	<u>1.88</u>	<u>565,287</u>	<u>2.90</u>	<u>387,281</u>	<u>4.74</u>	<u>345,725</u>	<u>9.01</u>	<u>267,968</u>	<u>23.22</u>	
Liabilities													
Deposits.....	1,608,581	0.99	478,174	1.97	392,757	2.96	281,076	4.58	119,422	9.27	802,405	18.62	
Overnight Funds	238,810	1.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	
Interbank Borrowings	35,164	0.81	31,514	1.90	32,527	2.92	9,405	4.91	784	10.12	4,297	50.42	
Other liabilities	10	0.99	60	1.94	750	2.67	48	3.89	1,036	11.07	4,578	169.43	
Total	<u>1,882,565</u>	<u>0.99</u>	<u>509,748</u>	<u>1.97</u>	<u>426,034</u>	<u>2.96</u>	<u>290,529</u>	<u>4.59</u>	<u>121,242</u>	<u>9.30</u>	<u>811,280</u>	<u>19.64</u>	
Maximum probable interest rate increase(1)	17.74		17.74		17.74		22.26		18.08		19.8		
Change in capital	1,626		37		(650)		(1,069)		(3,496)		18,580		(5,215)
Maximum probable interest rate decrease(1).....	(18.15)		(18.15)		(18.15)		(22.80)		(18.31)		(20)		
Change in capital	(1,663)		(38)		665		1,095		3,540		(19,097)		(20,798)
Maximum decrease in capital													20,798
Percentage of Technical Capital at risk													2.88%

(1) In hundredths of a percentage point.

Value at Risk for Foreign Currency-Denominated Assets and Liabilities

	Maturities at December 31, 1998						Value at Risk
	< 3 Months		3 –12 Months		> 12 Months		
	Amount	Avg. Mat.	Amount	Avg. Mat.	Amount	Avg. Mat.	
Assets							
Overnight Funds	Ps 73,739,710	1.00	Ps 0	0.00	Ps 0	0.00	
Investment securities	7,487,469	2.58	24,234,692	6.49	176,929,697	29.29	
Loans	484,982,938	1.14	88,237,458	5.45	21,528,409	23.51	
Other assets	0	0.00	0	0.00	63,284	12.03	
Contingencies debtors	308,676	1.46	560,004	6.96	211,203	14.85	
Total	<u>566,518,793</u>	<u>1.15</u>	<u>113,032,154</u>	<u>5.68</u>	<u>198,732,593</u>	<u>28.64</u>	
Liabilities							
Deposits	126	2.00	982	6.64	5,788	18.50	
Others	0	0.00	0	0.00	106,846	12.03	
Interbank Borrowings.....	275,717,226	2.05	196,013,035	5.96	534,465,492	37.05	
Other liabilities	0	0.00	0	0.00	73,833	12.03	
Total	<u>275,717,352</u>	<u>2.05</u>	<u>196,014,017</u>	<u>5.96</u>	<u>534,651,959</u>	<u>37.04</u>	
Maximum probable interest rate increase (1)	0.00		0.00		0.00		
Change in capital.....	(663)		4,134		109,579		(663)
Maximum probable interest rate decrease (1).....	0.00		0.00		0.00		
Change in capital.....	663		(4,134)		(109,579)		(113,713)
Maximum decrease in capital....							113,713
Percentage of Technical Capital at risk.....							0.02%

(1) In hundredths of a percentage point.

Exchange Rate Sensitivity

It is the policy of the Bank to fund foreign currency loans with foreign currency borrowings in the same currency as the loan extended and with a comparable maturity. As of January 1, 1996, Colombian commercial banks and private finance corporations no longer are required to maintain a reserve equal to 40.0% of their total foreign currency borrowings as of June 30, 1991. See “Item 1. Description of Business—(g) Supervision and Regulation.” The unconsolidated foreign currency position is marked to market on a monthly basis in accordance with the regulations of the Superintendency of Banking. Accordingly, BC’s foreign currency position at December 31, 1998 reflected the market value of such position. BC was in compliance with the legal requirement at that date.

The Bank monitors and estimates possible losses that may arise from variations in the exchange rates of currencies in which it maintains a position or has acquired commitments. The Bank analyzes its exposure to such exchange rate risk by reviewing its net position in each currency and the estimated maximum probable variation in the corresponding exchange rate (which is calculated based on historical currency volatilities). As of December 31, 1998, the Bank estimates that approximately 1.68% of its Technical Capital was subject to exchange rate risk. This percentage represents the potential loss that may occur as a result of variations in exchange rates. The exchange rate risk of the Bank has typically been between

1.00% and 2.50% of its Technical Capital. The table below describes the components of the exchange rate risk calculation at December 31, 1998:

As of December 31, 1998			
Currency	Value of Position (1)	Maximum Probable Variation	Change in Value of Position
<i>(in millions of constant pesos, except percentages)</i>			
U.S. Dollars	Ps 383,320	(2.0)%	Ps (7,666)
Japanese Yen	2,080	2.0	42
German Marks	(7,018)	1.0	(70)
British Pounds	(52)	-	-
Other.....	2,294	1.0	23
Total.....	<u>Ps 380,624</u>		<u>Ps (7,671)</u>

(1) Includes the value of forward contracts.

Liquidity and Funding

The Bank requires liquid funds in order to honor withdrawals of deposits, to make repayments upon maturity of other liabilities, to extend loans or other forms of credit to its customers and to meet its own working capital needs. The minimum amount of liquidity required is determined by the reserve requirements established by the Central Bank. The Bank's policy is to ensure that sufficient liquidity is available to meet funding requirements, including the replacement of existing funds as they mature or are withdrawn and the satisfaction of demand for additional borrowings. These requirements are met by maintaining a proper balance between maturity distribution and diversity of sources of funds.

In the short term, the Bank has a negative gap position in terms of maturities. The gap is eliminated and reverses as maturities are extended. This is a systemic characteristic inherent to the Colombian financial system which historically resulted from the unavailability of medium- to long-term funding instruments in Colombia. The Bank does not believe that the negative gap results in a currency risk to the Bank based on the Bank's policy to fund loans in the same currency as the loan extended.

Traditionally, Colombian banks, unlike U.S. banks, have not had access to longer-term funding as a result of the high inflation rates in Colombia. Accordingly, investors in Colombia require liquidity and have a preference for short-term investments. BC's deposit base is primarily short term; however, the stable nature of its deposit base has enabled the Bank to offer longer-term loans, such as automobile loans. As a consequence of the development of Colombia's capital markets, the Bank believes that longer-term funding will become available so as to enable credit institutions to minimize liquidity risks, although no assurances can be made in this regard.

BC has various sources of liquidity such as short-term and marketable investments, domestic interbank credit lines, international commercial banks credit lines, interbank borrowings and securities repurchase transactions. The greatest shifts in BC's sources of funding for the four-year period ended December 31, 1998 have been an increase in time deposits due primarily to an increase in interest rates during this period and to a decrease in 1993 of the reserve requirements for time deposits.

Historically, the Bank has experienced some seasonality in checking accounts due to the increase of such accounts at the end of the year when customers need increased liquidity and the decrease of such accounts in the first quarter of the year when customers move their funds from checking accounts to savings and mortgage institutions. In addition, the Bank generally has access to funds from the Central Bank, which

have been used from time to time on a short-term basis. In addition to the existing sources of funding, the Bank expects to raise capital in various domestic and international markets as and when it deems appropriate and subject to market conditions.

Cash flows for the Bank include net cash provided by operating activities, net cash used in investing activities and net cash provided by financing activities. For the years ended December 31, 1998 and 1997, net cash provided by operating activities equaled Ps (385,054) million and Ps 95,116 million, respectively. Net cash provided by operating activities decreased by 404.8% in 1998 compared to 1997 primarily due to a decrease in other assets. For the years ended December 31, 1998 and 1997, net cash used in investing activities equaled Ps (3,207,927) million and Ps (1,407,356) million, respectively. Net cash used in investing activities increased by 227.3% in 1998 compared to 1997 because of an increase in property, plant and equipment and investments due to the Merger. For the years ended December 31, 1998 and 1997, net cash provided by financing activities equaled Ps 3,486,671 million and Ps 1,375,204 million, respectively. Net cash provided by financing activities increased in 1998 compared to 1997 primarily because of the increase in deposits as a result of the Merger.

The Bank's principal sources of funds are customer deposits (consisting of time deposits, checking accounts and savings deposits), interbank borrowings, development fund borrowings, overnight funds and bank acceptances outstanding. Below is a breakdown of the funding of the Bank as of December 31, 1996, 1997 and 1998:

As of December 31,						
	1996	%	1997	%	1998	%
	<i>(in millions of constant pesos, except percentages)</i>					
Checking deposits						
Peso-denominated	Ps 410,449	18.3%	Ps 410,446	12.3%	Ps 989,544	15.1%
Dollar-denominated	<u>54,837</u>	<u>2.5%</u>	<u>109,755</u>	<u>3.3%</u>	<u>207,994</u>	<u>3.2%</u>
Total	<u>465,286</u>	<u>20.8%</u>	<u>520,201</u>	<u>15.6%</u>	<u>1,197,538</u>	<u>18.3%</u>
Time deposits						
Peso-denominated	506,085	22.6%	610,396	18.4%	1,556,188	23.8%
Dollar-denominated	<u>318,726</u>	<u>14.2%</u>	<u>376,557</u>	<u>11.3%</u>	<u>499,710</u>	<u>7.6%</u>
Total	<u>824,811</u>	<u>36.8%</u>	<u>986,953</u>	<u>29.7%</u>	<u>2,055,898</u>	<u>31.4%</u>
Savings deposits						
Peso-denominated	253,521	11.3%	356,381	10.7%	1,189,489	18.2%
Dollar-denominated	<u>42</u>	<u>0.0%</u>	<u>721</u>	<u>0.0%</u>	<u>1,331</u>	<u>0.02%</u>
Total	<u>253,563</u>	<u>11.3%</u>	<u>357,102</u>	<u>10.7%</u>	<u>1,190,820</u>	<u>18.2%</u>
Other deposits						
Peso-denominated	104,988	4.7%	95,174	2.9%	131,963	2.0%
Dollar-denominated	<u>27,632</u>	<u>1.2%</u>	<u>6,467</u>	<u>0.2%</u>	<u>52,592</u>	<u>0.8%</u>
Total	<u>132,620</u>	<u>5.9%</u>	<u>101,641</u>	<u>3.1%</u>	<u>184,555</u>	<u>2.8%</u>
Interbank Borrowings						
Peso-denominated	0	0.0%	0	0.0%	0	0.0%
Dollar-denominated	<u>346,824</u>	<u>15.5%</u>	<u>1,016,001</u>	<u>30.6%</u>	<u>1,343,553</u>	<u>20.5%</u>
Total	<u>346,824</u>	<u>15.5%</u>	<u>1,016,001</u>	<u>30.6%</u>	<u>1,343,553</u>	<u>20.5%</u>
Overnight funds						
Peso-denominated	26,093	1.2%	192,987	5.8%	231,207	3.5%
Dollar-denominated	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0%</u>
Total	<u>26,093</u>	<u>1.2%</u>	<u>192,987</u>	<u>5.8%</u>	<u>231,207</u>	<u>3.5%</u>
Domestic development bank borrowings						
Peso-denominated	82,344	3.7%	82,860	2.5%	203,919	3.1%
Dollar-denominated	<u>94,594</u>	<u>4.2%</u>	<u>51,515</u>	<u>1.5%</u>	<u>115,401</u>	<u>1.8%</u>
Total	<u>176,938</u>	<u>7.9%</u>	<u>134,375</u>	<u>4.0%</u>	<u>319,320</u>	<u>4.9%</u>
Bank acceptances outstanding						
Peso-denominated	4,723	0.2%	2,967	0.1%	7,145	0.1%
Dollar-denominated	<u>7,703</u>	<u>0.4%</u>	<u>14,217</u>	<u>0.4%</u>	<u>14,440</u>	<u>0.2%</u>
Total	<u>12,426</u>	<u>0.6%</u>	<u>17,184</u>	<u>0.5%</u>	<u>21,585</u>	<u>0.3%</u>
Total funding						
Peso-denominated	1,388,203	62.0%	1,751,211	52.7%	4,309,455	65.8%
Dollar-denominated	<u>850,358</u>	<u>38.0%</u>	<u>1,575,233</u>	<u>47.3%</u>	<u>2,235,021</u>	<u>34.2%</u>
Total	<u>Ps 2,238,561</u>	<u>100.0%</u>	<u>Ps 3,326,444</u>	<u>100.0%</u>	<u>Ps 6,544,476</u>	<u>100.0%</u>

The Bank obtains funding from official institutions such as Banco de Comercio Exterior de Colombia S.A. ("Bancoldex") for development projects and export financing. These institutions have historically been the primary sources of long-term funding in Colombia. The originating entity will usually prescribe the use to which the funds will be put but will not impose any other lending criteria. The Bank conducts its own credit analysis in deciding whether to act as intermediary for these on-lending activities and is obligated to repay the loan regardless of the performance of the borrower.

The Bank also uses domestic credit lines from other banks as a source of overnight funding for short-term investments and covering temporary reserve shortages. This source of funds constituted 1.2%, 5.8% and 3.6% of total funding at December 31, 1996, 1997, and 1998, respectively.

Interbank borrowings from foreign banks and from domestic banks in U.S. dollars are based on LIBOR. Interbank peso borrowings are based on the domestic market rate in effect at that time. Peso-denominated development fund borrowings are based on DTF, the Colombian average certificates of deposit rate equivalent. Bancoldex dollar-denominated development borrowings are based on LIBOR and peso-denominated borrowings from development banks are based on DTF. Almost all such borrowings are on a floating rate basis. BC also has a correspondent banking network with other banks in Latin America and elsewhere. At December 31, 1998, the Bank had international trade lines with 58 international banks providing credit facilities for up to US\$996 million.

In November 1997, in connection with the Merger, BC borrowed US\$265 million through a syndicated loan among BC, the Banks party thereto and Morgan Guaranty Trust Company of New York. The loan was repayable in three installments payable annually starting November 26, 2000. The loan bears interest at a rate of LIBOR plus 1.00% for the first year, LIBOR plus 1.10% for the second year, LIBOR plus 1.25% for the fourth year and LIBOR plus 1.25% for the fifth year. As of May 6, 1999, BC had prepaid this syndicated loan in full.

In connection with the Merger, BC assumed the obligations of Banco de Colombia as the issuer of a series of notes (the "Notes") pursuant to a trust deed entered into between Banco de Colombia and Citicorp Trustee Company Limited, as trustee. The Notes had an aggregate principal amount of US\$50 million and bear interest at a rate of 7.5% per annum. The Notes matured on October 21, 1998.

In the event that the Bank has a liquidity shortfall, it might be required to increase liquidity by selling assets at a discount. The Bank manages this risk by analyzing the maturity of assets, liabilities and off-balance sheet positions. In addition, management believes that the relatively high volume and quality of the net liquid assets owned by the Bank helps it to maintain its liquidity position and its ability to meet its commitments when due. However, no assurance can be given that in the event of a liquidity shortfall, the Bank would not be required to sell assets at a discount.

Capital Expenditures

The Bank has made significant capital expenditures in advanced computer systems and other technology in the last three years to further increase the efficiency and volume of its operations, the range of services offered to its customers and its productivity, while maintaining a streamlined work force. The Bank intends to continue to invest in the development of such systems and technologies during 1999. In 1998, Bancolombia began to implement a company-wide plan to prepare its computer systems to be Year 2000 compliant. As of April 30, 1999, the Bank had incurred expenses of Ps 7,771 million in connection with the Year 2000 compliance program. In addition, the Bank is developing and testing a contingency plan in case of failures by Year 2000 problems and has budgeted approximately Ps 200 million for such contingencies. See "Item 1. Description of Business—Year 2000 Compliance."

Also in 1998, of a total budget of US\$27 million for capital expenditures, the Bank spent US\$22 million updating its technology, of which approximately US\$1.2 million was related to technology needed to unify the networks of BIC and Banco de Colombia after the Merger. For 1999, the Bank has budgeted US\$17.5 million for further capital expenditures for further investments in technology. The Bank may also make additional capital expenditures as a result of the Merger which amounts have not yet been budgeted by the Bank.

Capital

Shareholders' Equity. At December 31, 1998, the Bank's shareholders' equity was Ps 788,794 million, an increase from Ps 544,506 million at December 31, 1997. BC's shareholders' equity is comprised of subscribed and paid-in capital, retained earnings and surplus (which is comprised of the reappraisal of assets and cumulative translation adjustments; see Note 3 to the Financial Statements). Of the Bank's shareholders' equity at December 31, 1998, 13.3%, or Ps 104,482 million, consisted of the reappraisal of assets.

As a result of the conversion of historical amounts to constant pesos, the inflation-related revaluation of equity has been distributed to each of the individual equity accounts.

Capital Adequacy. During 1994, the Government issued Decrees 673, 806 and 1722, which established new capital requirements for financial institutions which are based on the framework established by the Basel Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements. Such decrees provide for four categories of assets, with different risk-weights assigned to each category and require each financial institution to maintain its Technical Capital equal to at least 9% of its total risk-weighted assets (the "capital ratio"). In accordance with Decree 673 of 1994, Decree 1811 of October 1995, External Circular No. 41 of 1994 and External Circular No. 009 of 1996, as of January 1, 1996, financial institutions are required to maintain their Technical Capital equal to at least 9% of their total risk-weighted assets. The Preference Shares are treated as primary capital.

The following table sets forth certain information regarding BC's capital adequacy at December 31, 1998:

	As of December 31, 1998
	<i>(in millions of constant pesos, except ratios)</i>
Capital:	
Subscribed capital	Ps 105,474
Legal reserve and other reserves	581,406
Cumulative translation adjustments	7,972
Unappropriated retained earnings	54,957
Less:	
Net loss	(10,540)
Long-term investments	(57,035)
Non-monetary inflation adjustment	(132,632)
Primary capital	<u>Ps 549,602</u>
Reappraisal of assets	Ps 96,116
Non-monetary inflation adjustment	75,698
Computed secondary capital	<u>Ps 171,814</u>
Primary capital	Ps 549,602
Secondary capital (up to an amount equal to primary capital).....	171,814
Technical Capital	<u>Ps 721,416</u>
Capital ratios	
Primary capital to risk-weighted assets	8.8%
Secondary capital to risk-weighted assets	2.8%
Technical Capital to risk-weighted assets	<u>11.6%</u>

At December 31, 1998, the Bank's Technical Capital ratio was 11.6%, which exceeded the requirements of the Government and the Superintendency of Banking. In the past, the Bank's capital has fluctuated from period to period. There can be no assurances that the Bank will not continue to experience such

fluctuations in the future. However, the Bank will maintain and meet all capital requirements under Colombian law.

(b) SELECTED STATISTICAL INFORMATION

The following information should be read in conjunction with “—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Financial Statements included elsewhere in this annual report. Unless otherwise indicated, the information presented for 1998 reflects the effects of the Merger and the results of operations or financial condition of Banco de Colombia and the information presented for prior periods does not.

Average Balance Sheet and Interest Rate Data

Average balances have been calculated in the following manner: for each month, the actual month-end balance was obtained. The average balance for each period is the average of such month-end balances. For purposes of the presentation in the following tables, nonperforming loans have been treated as non-interest-earning assets. In addition, loan fees are immaterial in amount and are included in “loans” in the tables below.

Real Average Interest Rates

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

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

Where:

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

N(p) = nominal average interest rate on peso-denominated assets and liabilities for the period.

I = inflation rate in Colombia for the period (based on the Colombian wholesale inflation rate).

Under these adjustment formulas, assuming positive nominal average interest rates, the real average interest rate on a portfolio of peso-denominated assets or liabilities would be equal to the nominal average interest rate on that portfolio if the inflation rate were zero. The real average interest rate would be less than the nominal average interest rate if the inflation rate were positive, and the real average interest rate would be greater than the nominal average interest rate if the inflation rate were negative (i.e., becomes a deflation rate). In addition, the real average interest rate would be negative if the inflation rate were greater than the average nominal interest rate.

In the table below, the nominal rate for dollar-denominated items is also considered to be the real rate, given that this activity originated outside of Colombia and would not be impacted by the inflation and devaluation levels that would impact domestic activity.

The following tables show average annual balances calculated using actual month-end balances for all of the Bank’s assets and liabilities, interest income and expense amounts, nominal and real rates for the bank’s interest-earning assets and interest-bearing liabilities, for the years ended December 31, 1996, 1997 and 1998:

Year Ended December 31,

	1996				1997				1998			
	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate
<i>(in millions of constant pesos, except percentages)</i>												
ASSETS(1)												
Interest-earning assets(2):												
Overnight Funds												
Peso-denominated	Ps 5,645	Ps 2,138	37.90%	13.4%	Ps 7,923	2,169	27.38%	8.24%	Ps 27,115	18,499	68.23%	44.74%
Dollar-denominated.....	81,185	7,719	9.51	9.51	123,735	6,305	5.10	5.10	165,522	8,199	4.95	4.95
Total	86,830	9,857	11.4		131,658	8,474	6.4		192,637	26,698	13.9	
Investment securities												
Peso-denominated	336,752	77,559	23.0	1.15	508,665	122,444	24.07	5.40	859,632	129,785	15.1	(1.0)
Dollar-denominated.....	73,405	5,563	7.6	7.58	134,269	10,993	8.19	8.2	460,984	70,429	15.3	15.3
Total	410,157	83,122	20.3		642,934	133,437	20.75		1,320,616	200,214	15.2	
Loans (3)												
Peso-denominated	899,526	372,537	41.4	16.27	1,186,292	305,717	26.38	7.39	2,611,424	984,444	37.7	18.5
Dollar-denominated.....	584,775	51,996	8.9	8.89	345,940	54,847	15.85	15.9	1,134,855	94,824	8.4	8.4
Total	1,484,301	424,533	28.6		1,532,232	360,564	24.00		3,746,279	1,079,268	28.8	
Total interest-earning assets(4)												
Peso-denominated	1,241,923	452,235	36.4	12.15	1,702,880	430,330	25.69	6.80	3,498,171	1,132,728	32.4	13.9
Dollar-denominated.....	739,365	65,278	8.8	8.83	603,944	72,145	11.95	11.9	1,761,361	173,452	9.8	9.8
Total	1,981,288	517,512	26.1		2,306,824	502,475	22.09		5,259,532	1,306,180	24.8	
Non interest-earning assets:												
Cash due from banks and Central Bank												
Peso-denominated	233,514				183,871				486,209			
Dollar-denominated.....	31,200				26,053				31,118			
Total	264,714				209,924				517,327			
Allowance for loan losses												
Peso-denominated	16,990				(21,320)				(103,793)			
Dollar-denominated.....	3,704				(3,848)				(6,177)			
Total	20,694				(25,168)				(109,970)			
Nonperforming loans												
Peso-denominated	29,347				22,728				109,285			
Dollar-denominated.....	(13,417)				2,996				15,022			
Total	15,930				25,724				124,307			
Customers' acceptances												
Peso-denominated	62,268				3,811				24,149			
Dollar-denominated.....	-				8,204				(2,632)			
Total	62,268				12,015				21,517			

	Year Ended December 31,											
	1996			1997				1998				
	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate
Accounts receivable, net												
Peso-denominated	510				64,113				209,848			
Dollar-denominated.....	64				532				11,330			
Total	574				64,645				221,178			
Foreclosed assets, net												
Peso-denominated	82,355				669				98,010			
Dollar-denominated.....	47,157				61				126			
Total	129,512				730				98,136			
Premises and equipment, net												
Peso-denominated	134,713				85,783				410,185			
Dollar-denominated.....	31,091				66,340				89,695			
Total	165,804				152,123				499,880			
Other assets												
Peso-denominated	(16,532)				192,220				588,019			
Dollar-denominated.....	(2,461)				34,036				223,552			
Total	(18,993)				226,256				811,571			
Total non interest-earning assets												
Peso-denominated	543,165				531,875				1,821,912			
Dollar-denominated.....	97,338				134,374				362,034			
Total	640,503				666,249				2,183,946			
Total Assets	<u>Ps 2,621,791</u>	<u>Ps 517,512</u>	0.0%		<u>Ps 2,973,073</u>	<u>Ps 502,475</u>	0.0%		<u>Ps 7,443,478</u>	<u>Ps 1,306,180</u>	0.0%	

- (1) Out-of-period items and adjustments have been included in the appropriate line items as of the time they were received.
- (2) Throughout this analysis, the nominal rate for the dollar-denominated activity is also considered to be the real rate, given that this activity originated outside of Colombia and would not be impacted by the inflation and devaluation levels that would impact domestic activity. Individual component interest rate subtotals are based on weighted averages using the average balances of the components.
- (3) Includes performing loans only.
- (4) Interest income and expense resulting from the inflation adjustments are distributed to the individual asset/liability components for the purpose of determining the nominal and real rates.

Year Ended December 31,

	1996				1997				1998			
	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate
LIABILITIES AND SHARE-HOLDERS' EQUITY(1)(2)(3)												
Interest-bearing liabilities:												
Checking deposits												
Peso-denominated.....	Ps -	Ps -			Ps -	Ps -			Ps -	Ps -		4.87%
Dollar-denominated.....	52,030	2,797	5.38%	5.38%	77,917	3,730	4.79%	4.79%	122,105	5,943	4.87%	
Total	52,030	2,797	5.38		77,917	3,730	4.79		122,105	5,943	4.87	
Time deposits												
Peso-denominated.....	456,497	135,036	29.58	6.54	532,141	124,899	23.47	4.92	1,261,403	364,060	28.86	10.87
Dollar-denominated.....	278,217	19,549	7.03	7.03	312,254	22,292	7.14	7.14	415,059	27,880	6.72	6.72
Total	734,714	154,585	21.04		844,395	147,191	17.43		1,676,462	391,940	23.38	
Savings deposits												
Peso-denominated.....	183,130	40,588	22.16	0.44	255,044	48,037	18.83	0.98	1,083,695	200,168	18.47	1.93
Dollar-denominated.....	145	10	6.45	6.45	525	37	7.11	7.11	963	44	4.56	4.56
Total	183,275	40,598	22.15		255,569	48,074	18.81		1,084,658	200,212	18.46	
Overnight funds												
Peso-denominated.....	86,302	1,174	1.36	(16.67)	102,785	24,190	23.54	4.98	429,477	139,201	32.41	13.92
Dollar-denominated.....	-	-			-	-	-	-	-	-		
Total	86,302	1,174	1.36		102,785	24,190	23.54		429,477	139,201	32.41	
Borrowings from domestic												
Development banks												
Peso-denominated.....	87,901	27,247	31.00	7.70	72,760	18,115	24.90	6.13	170,524	54,182	31.77	13.37
Dollar-denominated.....	-	-			83,092	6,942	8.36	8.36	130,359	4,778	3.67	3.67
Total	87,901	27,247	31.00		155,852	25,057	16.08		300,883	58,960	19.60	
Interbank borrowings												
Peso-denominated.....	94,285	29,370	31.15	7.83	-	-	-	-	-	-		
Dollar-denominated.....	110,725	9,381	8.47	8.47	446,819	31,985	7.16	7.16	1,437,391	74,044	5.15	5.15
Total	205,010	38,751	18.90		446,819	31,985	7.16		1,437,391	74,044	5.15	
Fiduciary deposits												
Peso-denominated.....	-	-	-		96,937	126	0.13	(14.91)	133,176	45	0.03	(13.93)
Dollar-denominated.....	272,815	21,253	7.79	7.79	-	-	-	-	-	-		
Total	272,815	21,253	7.79		96,937	126	0.13		133,176	45	0.03	
Total interest-bearing liabilities												
Peso-denominated.....	908,115	233,415	25.70	3.35	1,059,667	215,367	20.32	2.25	3,078,275	757,656	24.61	7.21
Dollar-denominated.....	713,932	52,990	7.42	7.42	920,607	64,986	7.06	7.06	2,105,877	112,689	5.35	5.35
Total.....	1,622,047	286,405	17.66		1,980,274	280,353	14.16		5,184,152	870,345	16.79	
Non-interest-bearing liabilities:												
Checking accounts												

Year Ended December 31,

	1996				1997				1998			
	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate	Average Balance	Interest Earned	Average Nominal Interest Rate	Average Real Interest Rate
Peso-denominated.....	295,669				317,685				724,480			
Dollar-denominated.....	-				-				-			
Total.....	295,669				317,685				724,480			
Other deposits												
Peso-denominated.....	-				22,458				37,073			
Dollar-denominated.....	-				10,703				22,693			
Total.....	-				33,161				59,766			
Bank Acceptances Outstanding												
Peso-denominated.....	20,978				22,458				7,863			
Dollar-denominated.....	28,795				10,703				13,919			
Total.....	49,773				33,161				21,782			
Fiduciary deposits												
Peso-denominated.....	6,240				2,941				-			
Dollar-denominated.....	10,012				9,233				-			
Total.....	16,252				12,174				-			
Other liabilities												
Peso-denominated.....	176,620				133,418				481,218			
Dollar-denominated.....	14,139				18,911				73,270			
Total.....	190,759				152,329				554,488			
Shareholders' equity												
Peso-denominated.....	405,673				432,305				907,203			
Dollar-denominated.....	41,619				45,145				(8,393)			
Total.....	447,292				477,450				898,810			
Total non-interest bearing liabilities												
Peso-denominated.....	905,180				908,807				2,157,837			
Dollar-denominated.....	94,565				83,992				101,489			
Total.....	999,745				992,799				2,259,326			
Total liabilities and Shareholders' Equity.....	Ps 2,621,792	Ps286,405			Ps 2,973,073	Ps 280,353			Ps 7,443,478	Ps 870,345		

- (1) Out of period items and adjustments have been included in the appropriate line items as of the time they were received.
- (2) Throughout this analysis, the nominal rate for the dollar-denominated activity is also considered to be the real rate, given that this activity originated outside of Colombia and would not be impacted by the inflation and devaluation levels that would impact domestic activity. Individual component interest rate subtotals are based on weighted averages using the average balances of the components.
- (3) Interest income and expense resulting from the inflation adjustment has been allocated entirely to peso-denominated assets and liabilities and earnings thereon. These amounts are not distributed to the individual asset/liability components; however, they are considered in the totals for the purpose of determining the nominal and real rate.

Changes in Net Interest Income and Expenses—Volume and Rate Analysis

The following table allocates changes in the Bank's net interest income between changes in average volume, changes in nominal rates and the net variance caused by changes in both average volume and nominal rate for the fiscal year ended December 31, 1998 compared to the fiscal year ended December 31, 1997 and the fiscal year ended December 31, 1997 compared to the fiscal year ended December 31, 1996. 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. The net change attributable to changes in both volume and rate has been allocated to volume.

	1996-1997			1997-1998		
	Increase (Decrease) Due To Changes In			Increase (Decrease) Due To Changes In		
	Volume	Rate	Net Change	Volume	Rate	Net Change
<i>(in millions of constant pesos)</i>						
Interest-earning assets:						
Overnight funds						
Peso-denominated.....	Ps 986	Ps (594)	Ps 392	Ps 13,094	Ps 3,236	Ps 16,330
Dollar-denominated.....	<u>3,221</u>	<u>(3,582)</u>	<u>(361)</u>	<u>2,070</u>	<u>(177)</u>	<u>1,893</u>
Total.....	4,207	(4,176)	31	15,164	3,059	18,223
Investment securities						
Peso-denominated.....	61,830	3,503	65,333	52,988	(45,647)	7,341
Dollar-denominated.....	<u>6,819</u>	<u>447</u>	<u>7,266</u>	<u>49,915</u>	<u>9,521</u>	<u>59,436</u>
Total.....	68,649	3,950	72,599	102,903	(36,126)	66,777
Loans						
Peso-denominated.....	124,957	(140,722)	(15,765)	537,241	141,487	678,728
Dollar-denominated.....	<u>(28,707)</u>	<u>40,717</u>	<u>12,010</u>	<u>65,919</u>	<u>(25,942)</u>	<u>39,977</u>
Total.....	96,250	(100,005)	(3,755)	603,160	115,545	718,705
Total interest-earning assets						
Peso-denominated.....	187,773	(137,813)	49,960	603,323	99,076	702,399
Dollar-denominated.....	<u>(18,667)</u>	<u>37,582</u>	<u>18,915</u>	<u>117,904</u>	<u>(16,598)</u>	<u>101,306</u>
Total.....	<u>Ps 169,106</u>	<u>Ps (100,231)</u>	<u>Ps 68,875</u>	<u>Ps 721,227</u>	<u>Ps 82,478</u>	<u>Ps 803,705</u>
Interest-bearing liabilities :						
Checking accounts						
Peso-denominated.....	Ps -	Ps -	Ps -	Ps -	Ps -	Ps -
Dollar-denominated.....	<u>1,863</u>	<u>(307)</u>	<u>1,556</u>	<u>2,151</u>	<u>62</u>	<u>2,213</u>
Total.....	1,863	(307)	1,556	2,151	62	2,213
Time deposits						
Peso-denominated.....	38,613	(27,891)	10,721	210,476	28,685	239,161
Dollar-denominated.....	<u>6,152</u>	<u>314</u>	<u>6,466</u>	<u>6,905</u>	<u>(1,317)</u>	<u>5,588</u>
Total.....	44,765	(27,577)	17,187	217,381	27,368	244,749
Savings deposits						
Peso-denominated.....	21,567	(6,096)	15,471	153,059	(929)	152,130
Dollar-denominated.....	<u>34</u>	<u>1</u>	<u>35</u>	<u>20</u>	<u>(13)</u>	<u>7</u>
Total.....	21,601	(6,095)	15,506	153,079	(942)	152,137
Overnight funds						
Peso-denominated.....	7,542	(6,560)	983	105,887	9,124	115,011
Dollar-denominated.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total.....	7,542	(6,560)	983	105,887	9,124	115,011

	1996-1997			1997-1998		
	Increase (Decrease) Due To Changes In			Increase (Decrease) Due To Changes In		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	<i>(in millions of constant pesos)</i>					
Borrowings from domestic development banks						
Peso-denominated.....	(2,334)	(5,896)	(8,230)	31,063	5,004	36,067
Dollar-denominated.....	<u>(1,149)</u>	<u>(131)</u>	<u>(1,280)</u>	<u>1,733</u>	<u>(3,897)</u>	<u>(2,164)</u>
Total.....	(3,483)	(6,027)	(9,510)	32,796	1,107	33,903
Interbank borrowings						
Peso-denominated.....	-	-	-	-	-	-
Dollar-denominated.....	<u>17,798</u>	<u>(1,723)</u>	<u>16,075</u>	<u>51,027</u>	<u>(8,968)</u>	<u>42,059</u>
Total.....	17,798	(1,723)	16,075	51,027	(8,968)	42,059
Fiduciary deposits						
Peso-denominated.....	35	(1,062)	(1,027)	12	(93)	(81)
Dollar-denominated.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total.....	35	(1,062)	(1,027)	12	(93)	(81)
Total interest-bearing liabilities						
Peso-denominated.....	65,423	(47,505)	(17,918)	500,497	41,791	542,288
Dollar-denominated.....	<u>24,698</u>	<u>(1,846)</u>	<u>22,852</u>	<u>61,836</u>	<u>(14,133)</u>	<u>47,703</u>
Total.....	<u>Ps 90,121</u>	<u>Ps (49,351)</u>	<u>Ps 40,770</u>	<u>Ps 562,333</u>	<u>Ps 27,658</u>	<u>Ps 589,991</u>

Earning Assets—Net Interest Margin and Spread

The following table analyzes 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, 1996, 1997 and 1998.

	Year ended December 31,		
	1996	1997	1998
	<i>(in millions of constant pesos, except percentages)</i>		
Total average interest-earning assets			
Peso-denominated.....	Ps 1,241,923	Ps 1,702,880	Ps 3,498,171
Dollar-denominated.....	<u>739,365</u>	<u>603,944</u>	<u>1,761,361</u>
Total.....	1,981,288	2,306,824	5,259,532
Average yield on average interest-earning assets			
Peso-denominated.....	36.4%	25.9%	32.4%
Dollar-denominated.....	8.8	11.9	9.8%
Total.....	26.1	22.3	24.8%
Net interest earned(1)			
Peso-denominated.....	Ps 218,820	Ps 225,955	Ps 375,277
Dollar-denominated.....	<u>12,288</u>	<u>7,159</u>	<u>60,763</u>
Total.....	231,108	233,114	436,040
Net interest margin(2)			
Peso-denominated.....	17.62%	13.27%	10.72%
Dollar-denominated.....	1.66	1.19	3.45
Total.....	11.66	10.11	8.29
Interest spread(3)			
Peso-denominated.....	10.71%	5.59%	7.77%
Dollar-denominated.....	1.41	4.89	4.50
Total.....	8.46	8.10	8.05

(1) Defined as interest income less interest paid and includes interest earned on investments.

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

(3) Defined as the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities.

Assets

Return on Equity and Assets

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

	Year ended December 31,		
	1996	1997	1998
Net income as a percentage of:			
Average total assets	2.45%	2.08%	(0.14)%
Average shareholders' equity	14.34	13.83	(1.17)
Dividends per share as a percentage of		92.59	
net income per share(1)	88.20		
Average shareholders' equity as a percentage of		16.06	12.08
average total assets	17.06		
Return on interest-earning assets (2)	26.12	22.09	24.81

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

(2) Defined as net income divided by average interest-earning assets.

Investment Securities

The Bank acquires and holds investment securities for liquidity or other strategic purposes or when it is required by law to do so. Under Colombian law, prior to 1995, banks were restricted from holding equity securities within their investment securities portfolio. Effective April 28 of that year, however, equity securities of liquid, publicly-traded Colombian financial institutions may be held by banks as investment securities. See Note 3 to the Financial Statements. Debt securities which accrue interest at variable rates are recorded at cost, adjusted by premiums or discounts, and equity investments are recorded at cost, adjusted for inflation after January 1, 1992. See Note 3 to the Financial Statements. As of April 28, 1995, debt securities held by Colombian financial institutions are required to be marked-to-market monthly. See Note 3 to the Financial Statements. At December 31, 1998, the value of BC's marked-to-market portfolio of investment securities held for trading on a consolidated basis was Ps 1,273,186 million.

Investments are fully reviewed in June and December of each year and partially reviewed in March and September for impairment by considering the related solvency risk, market exposure, currency exchange and country risk. Solvency risk levels, as defined by the Superintendency of Banking, are classified as A-Normal, B-Subnormal, C-Doubtful recovery and D-Unrecoverable. Depending on the results of the evaluation and on the likelihood of loss of the investment, allowances are recorded for 20% to 100% of the cost of the investment, and for 100% of accrued income. The following investments are excluded from this evaluation: (a) mandatory investments and investments held in reserve against deposits and securities issued or guaranteed by the Colombian Government or issued by the Central Bank; and (b) foreign investments which represent less than 10% of the capital of the issuer or the total investments of the Bank, or which represent fixed-yield securities constituting less than 3% of the amount of the issue or 3% of the Bank's total investments. See Note 3 to the Financial Statements.

As of September 30, 1998 investment securities are to be classified as trading, non-trading, held to maturity, permanent and Hedges. Trading and non-trading investments may have fixed interest or variable yield. Prior to this change, all investments were classified as trading or non-trading and fixed interest or variable yield.

Held-to-maturity investments are fixed-yield investments which expire one year or longer after the purchase date. They must be held until maturity and, if they have a maturity of greater than three years, they must remain in the Bank's portfolio for at least one year to be classified as held-to-maturity. At December 31, 1998, the Bank did not have any investments classified as held-to-maturity.

Permanent investment securities are investments of variable yield which remain in the Bank's portfolio at least three years. These investments have been recorded since October 1, 1998 at cost and their market value adjustments are recorded as follows: if the market value is greater than cost, the difference will be recorded as a reappraisal of investment; if the market value is lower than cost, the difference will be recorded as a reappraisal of investment until the account is reduced to zero and if a difference still exists it will be recorded as an unreappraisal of assets in shareholders' equity.

As of December 31, 1998, all of the investment securities were classified as "A," except for four investments that was classified as "B" and one investment that was classified as "E." See Note 6 to the Financial Statements. As of December 31, 1998, the Bank had no investments classified as "C" or "D."

The following table sets forth the Bank's investments as of the dates indicated in Government and corporate securities and certain other financial investments.

	As of December 31,		
	1996⁽¹⁾	1997	1998⁽¹⁾
	<i>(in millions of constant pesos)</i>		
Dollar-denominated⁽²⁾			
Securities issued or secured by the Colombian Government	Ps 44,275	Ps 50,318	Ps 365,280
Time deposits in financial entities	-	-	-
Loans bought at a discount	3,262	-	-
Euronotes and Eurobonds	60,838	65,823	138,491
Securities issued by foreign governments	11,194	64,909	62,945
Others	<u>1,719</u>	<u>187</u>	-
Subtotal.....	<u>121,288</u>	<u>181,237</u>	<u>566,716</u>
Peso-denominated⁽²⁾			
Securities issued or secured by the Colombian Government	27,188	158,989	146,962
Securities issued or secured by the Central Bank.....	-	25	4,521
Securities issued or secured by government entities	75,113	5,984	271,154
Securities issued or secured by other financial entities	383,341	352,704	269,392
Accounts receivable discounted	1,162	956	2,625
Others	-	<u>22,004</u>	<u>11,815</u>
Subtotal.....	<u>486,804</u>	<u>540,662</u>	<u>706,469</u>
Total.....	<u>Ps 608,092</u>	<u>Ps 721,899</u>	<u>Ps 1,273,185</u>

(1) These amounts are net of allowances for decline in value which were Ps 368 million for 1996 and Ps 1,189 million for 1998.

(2) This table does not include equity securities. Under Colombian law, prior to April 1995, the Bank only held equity securities in certain financial institutions and only as long-term investments. Effective April 28, 1995, the Bank may hold equity securities of liquid, publicly-traded Colombian financial institutions within its investment securities portfolio. See Note 3 to the Financial Statements. The Bank's total long-term investments, net in equity securities were Ps 70,393 million, Ps 517,517 million and Ps 107,569 million for the years 1996, 1997 and 1998, respectively.

The following table shows the Bank's investments that exceed 10% of its shareholders' equity at December 31, 1998:

	As of December 31, 1998			
	Carrying Value ⁽¹⁾	Maturity less than 1 year	Maturity between 1 and 5 years	Maturity between 5 and 10 years
	<i>(in millions of constant pesos)</i>			
Securities issued or secured by the Colombian Government	Ps 159,079	—	159,079	—

(1) As of April 28, 1995, almost all investment securities are marked-to-market and are no longer recorded at book value.

Investment Securities Portfolio Maturity

The following table analyzes the maturities and weighted average nominal yields of the Bank's investment securities as of December 31, 1998:

	As of December 31, 1998							
	Maturity Within One Year		Maturity After One But Within Five Years		Maturity After Five But Within Ten Years		Total	
	<u>Balance</u> (1)	<u>Yield %</u>	<u>Balance</u> (1)	<u>Yield %</u>	<u>Balance</u> (1)	<u>Yield %</u>	<u>Balance</u> (1)	<u>Yield %</u>
	<i>(in millions of constant pesos, except yields)</i>							
Dollar-denominated:								
Securities issued or secured by the Colombian government	Ps 16,640	8.93%	Ps 295,853	7.86%	Ps 52,787	9.64%	Ps 365,280	8.17%
Time deposits in financial entities	-	-	-	-	-	-	-	-
Loans bought at a discount	-	-	-	-	-	-	-	-
Euronotes and Eurobonds.....	71,724	8.67%	49,867	9.16%	16,900	9.38%	138,491	8.94%
Securities issued by foreign governments.....	-	-	62,945	8.58%	-	-	62,945	8.58%
Others.....	-	-	-	-	-	-	-	-
Subtotal.....	<u>88,364</u>	8.72%	<u>408,665</u>	8.13%	<u>69,687</u>	9.58%	<u>566,716</u>	8.40%
Peso-denominated:								
Securities issued or secured by the Colombian Government	19,578	30.52%	76,036	27.89%	51,348	25.89%	146,962	27.54%
Securities issued or secured by the Central Bank.....	4,521	1.50%	-	-	-	-	4,521	1.50%
Securities issued or secured by government entities	181,063	27.48%	53,556	34.75%	36,535	37.25%	271,154	30.23%
Securities issued or secured by financial entities	122,628	37.67%	119,327	35.52%	27,437	37.66%	269,392	36.72%
Accounts receivable discounted.....	2,625	32.98%	-	-	-	-	2,625	32.98%
Other	<u>2,524</u>	39.92%	<u>6,964</u>	42.02%	<u>2,328</u>	41.81%	<u>11,815</u>	41.40%
Subtotal.....	<u>332,939</u>	31.20	<u>255,883</u>	33.17%	<u>117,648</u>	32.48%	<u>706,469</u>	32.12%
Total.....	<u>421,303</u>		<u>664,548</u>		<u>187,335</u>		<u>1,273,185</u>	

(1) These amounts are net of allowances for decline in value which aggregated Ps 1.189 million in 1998.

Loan Portfolio

The Superintendency of Banking requires that banks in Colombia separate their loan portfolio into three categories, commercial, consumer and mortgage, for purposes of determining allowances for loan losses

and the non-performing loan portfolio. The commercial loan portfolio is defined as all peso- and dollar-denominated loans, even if to an individual, with a principal amount equal to or exceeding 300 minimum monthly salaries, or approximately Ps 71 million nominal pesos (approximately US\$ 43,000), and small- and medium-sized commercial customer loans. The commercial loan portfolio also includes loans funded by discounting with the Central Bank and Bancoldex for lending to projects that those institutions approve. At December 31, 1998, BC's commercial loan portfolio amounted to Ps 3,273,791 million, which was an increase of 115.7% from December 31, 1997. This increase was primarily due to the increase in loans resulting from the Merger.

A consumer loan is defined by the Superintendency of Banking as a loan with a principal amount of less than 300 minimum monthly salaries, or approximately Ps 71 million nominal pesos, that may be made to individuals. These loans include all credit card loans and any other loans granted to an individual for purposes of financing the acquisition of consumer goods or the payment of services.

Each of the commercial and consumer loan portfolios is segregated into secured and unsecured loans. A secured loan is one the repayment of which is secured by real property or certain other types of property, whereas an unsecured loan is supported by an undertaking from the borrower or a third-party guarantor, but does not involve the creation of a security interest in property. Mortgage loans are loans secured by real property where such property serves as collateral to secure all or a part of its purchase price.

These categories are used in order to determine the required allowances for loan losses and the required review and classification of the nonperforming loan portfolio.

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

	1994	1995	As of December 31,		1998
			1996	1997	
	<i>(in millions of constant pesos)</i>				
Commercial.....	Ps 900,307	Ps 1,220,980	Ps 1,153,535	Ps 1,517,623	Ps 3,275,211
Consumer.....	520,807	474,901	423,430	444,977	874,058
Mortgage.....	<u>5,317</u>	<u>6,835</u>	<u>12,129</u>	<u>16,443</u>	<u>29,962</u>
Total Loans	1,426,431	1,702,716	1,589,094	1,979,043	4,179,231
Allowance for Loan Losses	<u>9,303</u>	<u>16,071</u>	<u>22,728</u>	<u>26,852</u>	<u>153,461</u>
Total Loans, net	<u>Ps 1,417,128</u>	<u>Ps 1,686,645</u>	<u>Ps 1,566,366</u>	<u>Ps 1,952,191</u>	<u>Ps 4,025,770</u>

The Bank segregates its loan portfolio into corporate loans, retail loans and mortgage loans. Corporate loans include loans to medium and large corporations. Retail loans include loans to individuals, such as personal lines of credit, automobile loans and credit card loans. Mortgage loans consist primarily of mortgage loans to BC employees and a small number of mortgage loans made to customers of the former Banco de Colombia.

The following table shows the Bank's loan portfolio classified by corporate, retail and mortgage:

	As of December 31,				
	1994	1995	1996	1997	1998
	<i>(in millions of constant pesos)</i>				
Corporate					
Trade financing.....	Ps 202,451	Ps 120,765	Ps 74,000	Ps 87,164	Ps 215,572
Loans funded by domestic					
Development banks	112,375	183,167	149,319	139,459	233,786
Working capital loans	482,735	751,025	765,285	1,012,314	2,263,107
Credit cards	-	-	-	-	1,754
Overdrafts	1,056	1,923	1,836	1,155	45,020
Credit lines(1)	18,448	29,491	34,890	32,264	-
Other.....	<u>1,770</u>	<u>406</u>	<u>-</u>	<u>-</u>	<u>5,935</u>
Total corporate	<u>818,835</u>	<u>1,086,777</u>	<u>1,025,330</u>	<u>1,272,356</u>	<u>2,765,174</u>
Retail(2)					
Credit cards	163,331(3)	118,002	108,791	107,554	155,758
Personal loans	149,831	137,918	123,119	145,190	252,609
Automobile loans	67,529	49,552	40,072	40,211	34,758
Overdrafts	29,149	40,042	55,222	32,974	77,754
Loans funded by domestic					
development banks	37,386	54,573	40,134	32,044	80,428
Trade financing.....	33,820	29,176	11,388	14,835	34,146
Working capital loans	<u>121,233</u>	<u>179,841</u>	<u>172,909</u>	<u>317,436</u>	<u>748,642</u>
Total retail	<u>602,279</u>	<u>609,104</u>	<u>551,635</u>	<u>690,244</u>	<u>1,384,095</u>
Mortgage.....	<u>5,317</u>	<u>6,835</u>	<u>12,129</u>	<u>16,443</u>	<u>29,962</u>
Total loans	1,426,431	1,702,716	1,589,094	1,979,043	4,179,231
Allowance for loan losses	<u>(9,303)</u>	<u>(16,071)</u>	<u>(22,728)</u>	<u>(26,852)</u>	<u>(153,461)</u>
Total loans, net	<u>Ps 1,417,128</u>	<u>Ps 1,686,645</u>	<u>Ps 1,566,366</u>	<u>Ps 1,952,191</u>	<u>Ps 4,025,770</u>

(1) In 1994, the Bank stopped its policy of providing corporate credit lines because, under Colombian regulations, the full amount of such credit lines must be included in the calculation of the Bank's capital adequacy ratio.

(2) Includes loans to upper-income individuals and small companies.

(3) Includes Ps 29,007 million at December 31, 1994, which consisted of loans to savings and mortgage banks to cover amounts due on credit cards paid by the Bank to merchants.

The Bank's total loan portfolio increased 111% in 1998 to Ps 4,179,231 million from Ps 1,979,043 million in 1997 primarily due to the Merger. From 1996 to 1997, the Bank's total loan portfolio increased 25% in 1997 to Ps 1,979,043 million from Ps 1,589,094 million in 1996 primarily due to a decrease in interest rates in the local market and an increase of economic activity in Colombia in the second semester of 1997.

Total corporate loans increased 117.3% in 1998 to Ps 2,765,174 million from Ps 1,272,356 million in 1997 due primarily to the Merger. Total corporate loans increased 24.1% in 1997 to Ps 1,272,356 million from Ps 1,025,330 million in 1996 due primarily to an increase of 32.3% in working capital loans and an increase of 17.8% in trade financing and, at December 31, 1996, 1997 and 1998, total corporate loans represented 65%, 64% and 66%, respectively, of the total loan portfolio.

Total retail loans increased 101% in 1998 to Ps 1,384,095 million from Ps 690,244 million in 1997 primarily due to the Merger. Retail loans increased 25.1% in 1997 to Ps 690,244 million from Ps 551,635 million in 1996 primarily due to an increase of 83.6% in working capital loans to small- and medium-

sized businesses and an increase in personal loans of 17.9%. At December 31, 1996, 1997 and 1998, retail loans represented 35%, 35% and 33%, respectively, of the Bank's total loan portfolio.

Trade financing loans, as well as loans funded by domestic development banks, are registered in U.S. dollars, and, therefore, a decrease in such loans will have a greater impact when they are converted into constant pesos, given the relatively high inflation rate and the recent devaluation of the Colombian peso.

At December 31, 1998, the aggregate outstanding principal amount of the Bank's 25 largest borrowing relationships represented approximately 19.7% of the total loan portfolio and no single borrowing relationship represented more than 3.12% of the total loan portfolio. Approximately 42.1% of such loans are denominated in foreign currencies. All of these loans are corporate loans and, as of December 31, 1998, all of these borrowing relationships were classified as "A" credits.

At December 31, 1998, Suramericana owned approximately 29.96% of the Bank and had Ps 93,283 million in loans from the Bank. Parties related to Suramericana, at December 31, 1998, owned approximately 10.65% of the Bank, and had Ps 37,853 million in loans from the Bank.

Loans by Economic Activity

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

	As of December 31,									
	<u>1994</u>	<u>%</u>	<u>1995</u>	<u>%</u>	<u>1996</u>	<u>%</u>	<u>1997</u>	<u>%</u>	<u>1998</u>	<u>%</u>
	<i>(in millions of constant pesos, except percentages)</i>									
Agricultural	Ps 82,338	5.8%	Ps 168,942	9.9%	Ps 39,240	2.5%	Ps 44,630	2.3%	Ps 140,439	3.4%
Mining products and oil ..	11,401	0.8%	8,295	0.5%	21,602	1.4%	17,542	0.9%	17,001	0.4%
Food, beverage and tobacco	118,906	8.4%	202,660	11.9%	171,985	10.8%	184,448	9.3%	269,726	6.4%
Chemical production.....	77,995	5.5%	94,122	5.5%	70,267	4.4%	53,890	2.7%	124,079	3.0%
Other industrial and manufacturing products	406,792	28.5%	423,669	24.9%	364,662	22.9%	349,735	17.7%	631,367	15.1%
Government	70,263	4.9%	52,693	3.1%	36,266	2.3%	24,233	1.2%	518,946	12.4%
Construction	16,207	1.1%	38,691	2.3%	49,558	3.1%	56,687	2.9%	135,847	3.3%
Trade and tourism	131,650	9.2%	155,796	9.2%	207,406	13.0%	218,214	11.0%	381,858	9.1%
Transportation and communications.....	32,207	2.3%	39,429	2.3%	20,328	1.3%	41,100	2.1%	133,282	3.2%
Public services	9,098	0.6%	21,818	1.3%	47,055	3.0%	50,190	2.5%	183,341	4.4%
Consumer services.....	437,520	30.7%	365,270	21.5%	382,603	24.1%	444,427	22.5%	402,173	9.6%
Commercial services.....	<u>32,054</u>	<u>2.2%</u>	<u>131,331</u>	<u>7.6%</u>	<u>178,122</u>	<u>11.2%</u>	<u>493,947</u>	<u>25.0%</u>	<u>1,241,172</u>	<u>29.7%</u>
Total loans.....	<u>Ps 1,426,431</u>	<u>100%</u>	<u>Ps 1,702,716</u>	<u>100.0%</u>	<u>Ps 1,589,094</u>	<u>100.0%</u>	<u>Ps 1,979,043</u>	<u>100.0%</u>	<u>Ps 4,179,231</u>	<u>100.0%</u>

Maturity and Interest Rate Sensitivity of Loans

The following table shows the maturities of the Bank's loan portfolio:

	As of December 31, 1998			Total
	Due in one Year or less	Due from one to five years	Due after Five years	
<i>(in millions of constant pesos)</i>				
Peso-denominated loans:				
Corporate				
Trade financing	Ps 19,950	Ps 0	Ps 0	Ps 19,950
Loans funded by domestic development banks	74,269	24,665	31,030	129,964
Working capital loans	684,415	518,574	264,464	1,467,453
Credit cards	1,028	80	266	1,374
Overdrafts	40,060	0	0	40,060
Other	<u>5,935</u>	<u>0</u>	<u>0</u>	<u>5,935</u>
Total corporate	<u>825,657</u>	<u>543,319</u>	<u>295,760</u>	<u>1,664,736</u>
Retail⁽¹⁾				
Credit cards	116,071	22,233	1,819	140,123
Personal loans	33,757	216,195	2,456	252,408
Automobile loans	6,056	28,702	0	34,758
Overdrafts	77,754	0	0	77,754
Loans funded by domestic development banks	23,450	22,556	11,453	57,459
Trade financing	3,615	0	0	3,615
Working capital loans	<u>389,960</u>	<u>233,035</u>	<u>17,897</u>	<u>640,892</u>
Total retail	<u>650,663</u>	<u>522,721</u>	<u>33,625</u>	<u>1,207,009</u>
Mortgage		<u>122</u>	<u>29,840</u>	<u>29,962</u>
Total peso-denominated loans	<u>Ps 1,476,320</u>	<u>Ps 1,066,162</u>	<u>Ps 359,225</u>	<u>Ps 2,901,707</u>
Dollar-denominated loans:				
Corporate				
Trade financing	Ps 158,202	Ps 34,097	Ps 3,323	Ps 195,622
Loans funded by domestic development banks	85,683	18,139	0	103,822
Working capital loans	611,596	179,789	4,269	795,654
Credit cards	380	0	0	380
Overdrafts	4,960	0	0	4,960
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total corporate	<u>860,821</u>	<u>232,025</u>	<u>7,592</u>	<u>1,100,438</u>
Retail⁽¹⁾				
Credit cards	15,635	0	0	15,635
Personal loans	201	0	0	201
Automobile loans	0	0	0	0
Overdrafts	0	0	0	0
Loans funded by domestic development banks	22,969	0	0	22,969
Trade financing	30,171	360	0	30,531
Working capital loans	<u>63,170</u>	<u>44,580</u>	<u>0</u>	<u>107,750</u>
Total retail	<u>132,146</u>	<u>44,940</u>	<u>0</u>	<u>177,086</u>
Mortgage	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total dollar-denominated loans	<u>992,967</u>	<u>276,965</u>	<u>7,592</u>	<u>1,277,524</u>
Total loans	<u>Ps 2,469,287</u>	<u>Ps 1,343,127</u>	<u>Ps 366,817</u>	<u>Ps 4,179,231</u>

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

As of December 31, 1998, approximately 59.1% of the Bank's loans had a maturity of one year or less. The Bank's policy is not to automatically roll over an existing loan without a thorough credit analysis of the borrower.

The following table shows the interest rate sensitivity of the Bank's loan portfolio at December 31, 1998:

		As of December 31, 1998	
		<i>(in millions of constant pesos)</i>	
Loans with terms of 1 year or more:			
Variable Rate			
Peso-denominated	Ps	988,504	
Dollar-denominated		397,722	
Total		1,386,226	
Fixed Rate			
Peso-denominated		436,882	
Dollar-denominated		95,743	
Total		532,625	
Loans with terms less than 1 year:			
Peso-denominated		1,476,321	
Dollar-denominated		784,059	
Total	Ps	2,260,380	
Total loans	Ps	4,179,231	

Credit Review Policies

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.

Loan applications, depending on their size, are presented for approval to (i) branch managers, (ii) the appropriate zone or regional managers, (iii) the appropriate vice presidents, (iv) the President, (v) the Credit Committee and (vi) the Board of Directors of BC. In general, loan application decisions are made by bank managers in committee. Loan applications up to a maximum of Ps 40 million (approximately \$23,500) have to be also submitted for approval to the Bank's centralized credit scoring department.

The following table sets forth the size limits for loan application approval by authorization level as established by the Board of Directors of BC:

	Maximum loan approval limits (1)	
	Unsecured loans (2)	Secured loans
	(in U.S. dollar amounts)	
Authorization level:		
Branch Managers	\$ 9,380	\$ 18,530
Zone Managers	19,400	38,800
Regional Managers Corporate Banking	270,000	450,000
Middle-corporate and Personal Banking Regional Managers	180,000	300,000
Middle-corporate and Personal Banking Vice Presidents	900,000	1,500,000
Corporate Banking, Finance and International Vice Presidents	900,000	1,500,000
President	2,100,000	3,500,000
Credit Committee	Any loan not requiring approval of the Board of Directors	Any loan not requiring Approval of the Board of Directors

(1) Approval limits are measured in dollars or their equivalent in nominal pesos.

(2) Includes loans with a personal guarantee.

Loans to employees and affiliates of the Bank must be approved by the Board of Directors, which has the authority to grant loans in any principal amount subject to the Bank's legal lending limit. Approval at each level also requires the agreement of each lower level of the approval hierarchy. For example, a loan approval by regional management as referred to in (ii) above would also require approval from the branch managers mentioned in (i) above.

To maintain credit quality and manage the risk arising from its lending activities, the Bank has established general loan policies for (i) evaluation of credits, (ii) lending limits to a single customer or economic group that are co-extensive with those required by law, (iii) the level of management authority required to approve a loan, (iv) maximum terms of loans, and (v) collateral required for certain types of loans and their valuation.

BC's policies require that every credit be analyzed using the following factors: the character, reputation and credit history of the borrower, the type of business the borrower engages in, the borrower's ability to repay the loan, the coverage and suitability of the proposed collateral for the loan, information received from the credit risk center, debt service ability and compliance with the loan terms. The Bank applies this same detailed credit analysis to potential depositors.

In addition to an analysis of the borrower, the Bank engages in the analysis of the different economic sectors to which the Bank makes loans and has established guidelines for financial analysis of the borrower and for participation in investment projects in Colombia and outside Colombia. The Bank applies the lending limits established under Colombian law, which require that (i) an uncollateralized loan to a single customer or economic group may not exceed 10% of the Bank's Technical Capital (the Bank's largest such loan at December 31, 1998 is for Ps 44,835 million and is current and performing in accordance with its terms), (ii) a collateralized loan to a single customer or economic group may not exceed 25% of the Bank's Technical Capital (the Bank's largest such loan at December 31, 1998 is for Ps 67,947 million and is current and performing in accordance with its terms), (iii) a loan to a shareholder

of the Bank, with a share exceeding 20% of the Bank's Capital, may not exceed 20% of the Bank's Technical Capital (the Bank's largest such loan at December 31, 1998 is for Ps 46,500 million and is current and performing in accordance with its terms), and (iv) a loan to a financial institution may not exceed 30% of the Bank's Technical Capital (the Bank's largest such loan at December 31, 1998 is for Ps 166,125 million and is current and performing in accordance with its terms).

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

The Bank has established policies for the valuation of collateral received as well as for the determination of the maximum loan that can be granted against the value of the collateral. The Bank undertakes annually a valuation of collateral held as security for a loan. In addition, when a loan becomes 60 days past due, the loan is given to the Collections Department where various steps are taken to recover on the loan.

With respect to monitoring outstanding loans, the Bank has implemented a review policy in which all loans in the commercial loan portfolio are fully reviewed every six months in accordance with the requirements of the Superintendency of Banking. Commercial loans which exceed Ps 1,000 million are fully reviewed every three months. The Bank generally reviews loans in its consumer and mortgage loan portfolios on a monthly basis. Additionally, the Bank's Control and Credit Risk Division performs an ongoing review of the loan portfolio. When monitoring outstanding loans, the Bank examines current financial statements including, for those material loans which are for a term greater than one year, current cash flow statements. The Bank is currently centralizing its credit review process through its information systems, including the necessary adjustments of credit scoring for automobile loans, credit cards and personal lines of credit. In addition, the Bank has a list of loans it reviews every month and carries out a credit audit process that reviews the 200 largest debtors and randomly reviews a selection of its other debtors.

Classification of the Loan Portfolio

Effective September 1, 1989, the Superintendency of Banking published a series of rules to be followed by Colombian financial institutions to determine the risk of non-payment of loans made by such institutions. The rules also required financial institutions to establish a related allowance for loan losses. The 1989 rules were superseded by a more stringent regime adopted on September 15, 1994, effective September 30, 1994 and subsequently amended and effective on October 7, 1994.

The current loan risk classification rules require Colombian financial institutions to grade 100% of their consumer and mortgage loan portfolios and 75% of their commercial loan portfolio by risk according to the classification described below. The Bank, however, grades 100% of its commercial loan portfolio according to the loan risk classification rules. The risk classification for all loans is based on their past due status and an analysis of the borrower's ability to repay the loan. The risk classification for consumer loans and mortgages is further based on the individual terms as well as any bankruptcy proceedings in which a borrower is a party or any insolvency judgments entered against a borrower. If a loan to a borrower is downgraded by the Bank to a classification of "D" or "E," all loans to that client are similarly downgraded. In addition, the Superintendency of Banking may require additional allowances under certain circumstances.

Under the regulations of the Superintendency of Banking, past due loans are loans that are at least 31 days past the actual due date.

The loan portfolio must be classified, with a frequency determined by the type of loan, in accordance with the following categories:

Risk Classification	Evaluation Criteria		
	Consumer Loans	Commercial Loans	Mortgage Loans
A-Normal	Current loans and loans 1-30 days past due	Current loans and loans past due up to 30 days which do not present non-collection risk.	Current loans and loans 1-30 days past due
B-Subnormal	31-60 days past due	Loans more than 30 and up to 60 days past due and current loans which present potential weaknesses which could affect temporarily or permanently the ability to repay the loan which, if uncorrected, would affect the normal collection of the loan.	31-120 days past due
C-Deficient	61-90 days past due	Loans more than 60 and up to 120 days past due and current loans which present deficiencies in the borrower's or guarantor's ability to repay the loan or in the value of the collateral and which jeopardize the normal collection of the loan.	121-180 days past due
D-Doubtful Recovery	91-180 days past due	Loans to borrowers more than 120 and up to 360 days past due which present serious deficiencies in the borrower's or guarantor's ability to repay the loan and which make normal recovery highly doubtful.	181-360 days past due
E-Unrecoverable	More than 180 days past due	Loans past due more than 360 days and any loan considered uncollectible.	More than 360 days past due

For purposes of classifying commercial loans, the Bank first considers whether the loan is past due and then classifies the loan according to the number of days past due. In addition, the Bank analyzes the loan, whether or not past due, to determine if there are "potential weaknesses," "deficiencies" or "serious deficiencies" based on the existence and magnitude of the following factors: (i) inadequacy of borrower's payment plan; (ii) insufficient or outdated loan documentation; (iii) adverse market conditions negatively affecting borrower's industrial sector; (iv) adverse trends in borrower's financial condition negatively affecting borrower's cash flow; (v) failure to comply with BC's internal lending policies; and (vi) inadequate supervision of the loan as determined by BC's internal credit and audit departments. Consequently, if these factors are present, a current loan could be classified "B," "C" or "D" and a past due loan, otherwise classified, could be downgraded.

The following table presents the Bank's loan portfolio using the classification system of the Superintendency of Banking in effect at the end of each period:

As of December 31,										
	1994	%	1995	%	1996	%	1997	%	1998	%
<i>(in millions of constant pesos, except percentages)</i>										
"A" Normal	Ps 1,374,312	96.3%	Ps 1,645,225	96.6%	Ps 1,510,880	95.1%	Ps 1,915,180	96.8%	Ps 3,909,821	93.6%
"B" Subnormal	29,843	2.1%	29,705	1.7%	48,913	3.1%	29,588	1.5%	68,469	1.6%
"C" Deficient	3,258	0.2%	3,002	0.2%	3,747	0.2%	5,465	0.2%	42,362	1.0%
"D" Doubtful recovery	8,123	0.6%	10,184	0.6%	10,160	0.6%	9,281	0.5%	74,588	1.8%
"E" Unrecoverable	<u>10,895</u>	<u>0.8%</u>	<u>14,600</u>	<u>0.9%</u>	<u>15,394</u>	<u>1.0%</u>	<u>19,529</u>	<u>1.0%</u>	<u>83,991</u>	<u>2.0%</u>
Total	<u>Ps1,426,431</u>	<u>100.0%</u>	<u>Ps1,702,716</u>	<u>100.0%</u>	<u>Ps1,589,094</u>	<u>100.0%</u>	<u>Ps 1,979,043</u>	<u>100.0%</u>	<u>Ps 4,179,231</u>	<u>100.0%</u>
Loans classified as "C," "D" and "E" as a percentage of total loans		1.6%		1.6%		1.8%		1.7%		4.8%

The Bank's policy with respect to the accrual of interest for non-payment of principal or interest (and in accordance with Superintendency of Banking regulations) is that if an installment of principal or interest is for (i) a commercial loan that is more than 120 days past due (180 days past due before the fourth quarter of 1994), (ii) a consumer loan that is more than 90 days past due, or (iii) a mortgage loan that is more than 120 days past due (360 days past due before the fourth quarter of 1994), the Bank classifies the loan as nonperforming. If one installment payment is 31 or more days past the actual due date, then the entire loan is considered past due for purposes of the regulations of the Superintendency of Banking. The Bank continues to accumulate interest on a loan until it is considered nonperforming even though the interest has not been received. Once a loan is nonperforming, an allowance is established for 100% of the interest recorded as income but not received and the Bank stops recording interest on that loan in its income statement but does record it in memorandum accounts. See Note 3 to the Financial Statements.

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

	As of December 31,									
	<u>1994</u>	<u>%</u>	<u>1995</u>	<u>%</u>	<u>1996</u>	<u>%</u>	<u>1997</u>	<u>%</u>	<u>1998</u>	<u>%</u>
<i>(in millions of constant pesos, except percentages)</i>										
Performing past due loans: (2)										
Consumer loans past due 1 to 90 days.....	Ps 5,074	80.2%	Ps 11,882	70.6%	Ps 8,920	57.8%	Ps 9,215	49.9%	Ps 54,379	53.4%
Commercial loans past due 1 to 180/120 days(1)	1,258	19.8%	4,942	29.4%	6,511	42.2%	9,267	50.1%	47,337	46.4%
Mortgage loans past due 1 to 90 days	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>159</u>	<u>0.2%</u>
Total performing past due loans.....	6,332	100.0%	16,824	100.0%	15,431	100.0%	18,482	100.0%	101,875	100.0%
Nonperforming past due loans:										
Consumer loans past due 91 to 180 days.....	7,266	38.2%	3,631	17.1%	2,698	13.7%	3,268	11.3%	24,287	15.6%
Consumer loans past due more than 180 days.....	4,309	22.7%	8,459	40.0%	11,280	57.1%	14,221	49.3%	27,464	17.6%
Commercial loans past due more Than 180/120 days(1)	7,442	39.1%	9,085	42.9%	5,785	29.2%	11,373	39.4%	103,396	66.5%
Mortgage loans past due more than 91 days.....	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>440</u>	<u>0.3%</u>
Total nonperforming past due Loans.....	19,017	100.0%	21,175	100.0%	19,763	100.0%	28,862	100.0%	155,587	100.0%
Total past due loans.....	<u>Ps 25,349</u>		<u>Ps 37,999</u>		<u>Ps 35,194</u>		<u>Ps 47,344</u>		<u>Ps 257,462</u>	
Total nonperforming past due Loans.....	Ps 19,017		Ps 21,175		Ps 19,763		Ps 28,862		Ps 155,587	
Allowance for loan losses.....	(9,303)		(16,071)		(22,728)		(26,852)		(153,461)	
Foreclosed assets.....	401		394		139		4,753		152,595	
Allowance for estimated losses on foreclosed assets.....	(96)		(131)		(15)		(8)		(21,957)	
Other accounts receivable more than 180 days past due	268		720		1,628		2,068		11,938	
Allowance for accounts receivable and accrued interest losses.....	<u>(2,095)</u>		<u>(3,152)</u>		<u>(3,996)</u>		<u>(4,670)</u>		<u>(47,753)</u>	
Total nonperforming assets, net	<u>Ps 8,192</u>		<u>Ps 2,935</u>		<u>Ps (5,209)</u>		<u>Ps (4,153)</u>		<u>Ps 96,949</u>	
Loans at least one day past due as a percentage of total loans.....		1.8%		2.3%		2.2%		2.4%		6.2%
Allowance for loan losses as a percentage of loans at least one day past due		36.7%		42.3%		64.6%		56.7%		59.6%
Allowance for loan losses as a percentage of loans classified as "C," "D" and "E"		41.8%		57.8%		77.6%		78.3%		76.4%
Percentage of performing loans to total loans.....		98.7%		98.8%		98.8%		98.5%		96.3%

(1) In the last quarter of 1994, the Superintendency of Banking changed the classifications for nonperforming commercial and mortgage loans from 180 days and 360 days past due, respectively, to 120 days past due for both categories.

(2) Performing past due loans are loans upon which the Bank continues to recognize income although interest has not been received for the periods indicated. Once interest is unpaid on accrual loans for a longer period than is specified above, the loan is classified as nonperforming. Under Colombian Banking regulations, a loan is past due when it is at least one day past due.

The following table analyzes the quality of the Bank's loan portfolio using the classification system of the Superintendency of Banking in effect at the end of each period:

	As of December 31,		
	1996	1997	1998
	<i>(in millions of constant pesos, except percentages)</i>		
Loans secured by real guarantees as a percentage of total loans	42.8%	36.1%	34.2%
Loans classified as "A" as a percentage of total loans	95.1%	96.8%	93.6%
Loans classified as "B" as a percentage of total loans	3.1%	1.5%	1.6%
Loans classified as "C," "D" and "E" as a percentage of total loans	1.8%	1.7%	4.8%
Total allowance for loan losses as a percentage of nonperforming loans	115%	93%	98.6%
Total allowance for loan losses as a percentage of loans classified as "C," "D" and "E"	77.6%	78.3%	76.4%
Nonperforming loans as a percentage of total loans	1.2%	1.5%	3.7%
Loans classified as "C," "D" and "E"	Ps 29,301	Ps 34,275	Ps 200,941
Total nonperforming loans(1)	19,763	28,862	155,587

(1) In the fourth quarter of 1994, the Superintendency of Banking changed the classifications for nonperforming commercial and mortgage loans from 180 and 360 days past due, respectively, to 120 days past due for both categories.

The following table shows BC's loan portfolio at least one day past due by type of loan:

	As of December 31,									
	1994	%	1995	%	1996	%	1997	%	1998	%
	<i>(in millions of constant pesos, except percentages)</i>									
Corporate										
Trade financing	Ps 65	0.2%	Ps 182	0.5%	Ps 35	0.1%	Ps 18	0.0%	Ps 2,324	0.9%
Loans funded by domestic										
Development banks	0	0.0	0	0.0	296	0.8	1,188	2.5	4,492	1.7
Working capital loans	4,663	18.4	8,767	23.1	4,786	13.6	10,369	21.9	57,797	22.5
Credit cards	19	0.1	1,014	2.6	0	0.0	30	0.1	94	0.0
Overdrafts	1,168	4.6	690	1.8	1,269	3.6	1,441	3.0	5,744	2.3
Other	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	260	<u>0.1</u>
Total corporate	5,915	23.3%	10,653	28.0%	6,386	18.1%	13,046	27.5	70,711	27.5%
Retail(1)										
Credit cards	9,620	38	13,852	36.5	10,224	29.1	9,172	19.4	20,053	7.8
Personal loans	3,556	14	4,655	12.3	3,690	10.5	6,437	13.6	21,925	8.5
Automobile loans	1,652	6.5	1,650	4.3	1,322	3.8	1,833	3.9	2,388	0.9
Overdrafts	2,352	9.3	3,101	8.2	5,089	14.5	4,437	9.4	13,679	5.3
Loans funded by domestic										
Development banks	233	0.9	253	0.7	1,607	4.6	818	1.7	10,190	4.0
Trade financing	418	1.7	663	1.7	392	1.0	330	0.7	3,558	1.4
Working capital loans	<u>1,603</u>	<u>6.3</u>	<u>3,172</u>	<u>8.3</u>	<u>6,484</u>	<u>18.4</u>	<u>11,271</u>	<u>23.8</u>	<u>114,894</u>	<u>44.6</u>
Total retail	19,434	76.7	27,346	72.0	28,808	81.9	34,298	72.5	186,687	72.5%
Mortgage	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	64	<u>0.0</u>
Total past due loans	<u>Ps25,349</u>	<u>100.0%</u>	<u>Ps37,999</u>	<u>100.0%</u>	<u>Ps35,194</u>	<u>100.0%</u>	<u>Ps47,344</u>	<u>100.0%</u>	<u>Ps257,462</u>	<u>100.0%</u>

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

The foregoing tables reflect the quality of the Bank's loan portfolio over the five years ended December 31, 1998. The increase in past due loans in 1998 compared to 1997 was a result of increases in both the amount of corporate past due loans and past due retail loans due primarily to the Merger and to the deteriorating asset quality of the Colombian Financial System. Corporate past due loans increased in 1998 to Ps 70,711 million from Ps 13,046 million in 1997. Retail past due loans increased in 1998 to Ps 186,687 million from Ps 34,297 million in 1997.

The increase in past due loans in 1997 to Ps 47,343 million from Ps 35,194 million in 1996 was a result of increases in both the amount of corporate past due loans, which was primarily caused by an increase in past due loans for working capital and for retail loans.

The Bank believes that future increases in average nominal interest rates may result in additional past due loans. There can be no assurances that the increases in past due performing loans will not continue in the future. If performing past due loans are not made current, they will become categorized as non-performing past due loans and additional allowances for loan losses will have to be established.

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

As of December 31,										
	<u>1994⁽¹⁾</u>	<u>%</u>	<u>1995</u>	<u>%</u>	<u>1996</u>	<u>%</u>	<u>1997</u>	<u>%</u>	<u>1998</u>	<u>%</u>
<i>(in millions of constant pesos, except percentages)</i>										
Secured										
Current	Ps 430,029	30.1	Ps 547,782	32.1	Ps 670,264	42.2	Ps 699,336	35.3	Ps 1,321,503	31.6
Past due from 1 day to 180 days.....	732	0.1	—	0.0	—	—	—	—	—	—
Past due up to 90 days (consumer)	1,173	0.1	1,113	0.1	1,449	0.1	1,225	0.1	8,654	0.2
Past due up to 90 days (mortgage)	—	—	—	—	—	—	—	—	17	0.0
Past due from 91 to 180 days (consumer)..	754	0.1	873	0.1	663	0.0	593	0.0	4,201	0.1
Past due from 91 to 180 days (mortgage) ..	—	—	—	—	—	—	—	—	86	0.0
Past due up to 120 days (commercial).....	—	0.0	3,720	0.2	2,600	0.2	4,274	0.2	26,730	0.6
Past due from 181 days to 360 days (consumer).....	468	0	489	0	886	0.1	1,435	0.1	3,662	0.1
Past due from 181 days to 360 days (mortgage).....	—	—	—	—	—	—	—	—	139	0.003
Past due from 121 to 360 days (commercial)	—	0.0	2,804	0.2	1,194	0.1	4,106	0.2	26,951	0.7
Past due more than 360 days.....	4,654	0.3	6,317	0.4	1,882	0.1	3,873	0.2	36,870	0.9
Total	<u>Ps 437,810</u>	<u>30.7%</u>	<u>Ps 563,098</u>	<u>33.1%</u>	<u>Ps 678,938</u>	<u>42.8%</u>	<u>Ps 714,842</u>	<u>36.1%</u>	<u>Ps 1,428,813</u>	<u>34.2%</u>
Unsecured⁽²⁾										
Current	Ps 971,053	68.1	Ps 1,116,935	65.6	Ps 883,636	55.6	Ps 1,232,363	62.3	Ps 2,600,267	62.2
Past due from 1 day to 180 days.....	3,320	0.2	—	0.0	—	0.0	—	0.0	—	—
Past due up to 90 days (consumer)	8,644	0.6	10,770	0.6	7,471	0.5	7,990	0.4	45,724	1.1
Past due from 91 to 180 days (consumer)...	1,970	0.1	2,758	0.2	2,035	0.1	2,676	0.1	20,086	0.5
Past due up to 120 days (commercial).....	—	0.0	1,222	0.1	3,911	0.2	4,994	0.3	20,749	0.5
Past due from 181 days to 360 days (consumer)	1,259	0.1	7,248	0.4	10,069	0.6	12,184	0.6	19,985	0.5
Past due from 121 to 360 days (commercial)	—	0.0	224	0.0	2,309	0.1	2,525	0.1	20,793	0.5
Past due more than 360 days.....	2,375	0.2	461	0.0	725	0.1	1,469	0.1	22,814	0.5
Total	<u>Ps 988,621</u>	<u>69.3%</u>	<u>Ps 1,139,618</u>	<u>66.9%</u>	<u>Ps 910,156</u>	<u>57.2%</u>	<u>Ps 1,264,201</u>	<u>63.9%</u>	<u>Ps 2,750,418</u>	<u>65</u>
Total current loans	Ps 1,401,082	98.2%	Ps 1,664,717	97.7%	Ps 1,553,900	97.8%	Ps 1,931,699	97.6%	Ps 3,921,770	93.8%
Past due from 1 day to 180 days.....	16,593	1.2	—	—	—	—	—	—	—	—
Past due up to 90 days (consumer)	—	—	11,883	0.7	8,920	0.6	9,215	0.5	54,378	1.3
Past due up to 90 days (mortgage)	—	—	—	—	—	—	—	—	17	0.0
Past due up to 120 days (commercial).....	—	—	3,631	0.3	2,698	0.2	3,269	0.2	47,479	1.1
Past due from 90 to 180 days (consumer)...	—	—	4,942	0.3	6,511	0.4	9,268	0.4	24,287	0.6
Past due from 91 to 180 days (mortgage)	—	—	—	—	—	—	—	—	86	0.0
Past due from 121 to 360 days (commercial)	1,727	0.1	7,737	0.4	10,955	0.7	13,619	0.7	47,744	1.1
Total past due from 181 days to 360 days (consumer).....	—	—	3,028	0.2	3,503	0.2	6,631	0.3	23,647	0.6
Past due from 181 days to 360 days (mortgage)	—	—	—	—	—	—	—	—	139	0.0
Total past due more than 360 days.....	7,029	0.5%	6,778	0.4%	2,607	0.1%	5,342	0.3%	59,684	1.4%
Total past due loans	25,349	1.8%	37,999	2.3%	35,194	2.2%	47,344	2.4%	257,462	6.2%
Total gross loans.....	1,426,431	100.0	1,702,716	100.0	1,589,094	100.0	1,979,043	100.0	4,179,231	100.0
Allowance for loan losses.....	(9,303)	0.7%	(6,071)	0.9%	(22,728)	1.4%	(26,852)	1.4%	(153,461)	(3.7)
Total loans, net	<u>Ps 1,417,128</u>	<u>99.3%</u>	<u>Ps 1,686,645</u>	<u>99.1%</u>	<u>Ps 1,566,366</u>	<u>98.6%</u>	<u>Ps 1,952,191</u>	<u>98.6%</u>	<u>Ps 4,025,770</u>	<u>96.3%</u>

⁽¹⁾ In the last quarter of 1994, the Superintendency of Banking changed the classifications for nonperforming commercial and mortgage loans from 180 days and 360 days past due, respectively, to 120 days past due for both categories.

⁽²⁾ Includes loans with personal guarantees.

Allowance for Loan Losses

The Bank is in compliance with Colombian regulations regarding allowances for loan losses, setting aside specific allowances on past due performing and nonperforming loans based upon the length of time such

loans have been past due and the risk coefficients of each type of loan. The regulations of the Superintendency of Banking require that, at least every six months, specific provisions be considered with respect to each commercial loan and that, at least every month, specific provisions be considered with respect to each consumer and mortgage loan.

The Bank establishes its loan allowances by classifying its loan portfolio according to the loan classification system determined by the Superintendency of Banking and by applying to each such classification the applicable allowance percentage formula, also as specified by the Superintendency of Banking. The Bank believes that its application of the loan classification system and allowance formulae results in the establishment of allowances that are reasonable and adequate for the credit risk associated with BC's loan portfolio. BC's directors review BC's results of operations and financial condition monthly as to whether the loan classification system and allowance formulae have been applied in accordance with the Superintendency of Banking regulations. The Bank's policy is to review commercial loans every six months, unless any such loan exceeds Ps 1,000 million, in which case such commercial loan is reviewed every three months. The Bank's policy is to review consumer and mortgage loans monthly. In addition, the Bank's Control and Credit Risk Division policy is to perform an ongoing review of the loan portfolio from time to time so that if there were an occurrence that required a change in the classification of a loan in between regular review periods, the Bank would be able to adjust its allowances for loan losses as necessary.

Guidelines for the establishment of the allowance for loan losses by Colombian credit institutions, including commercial banks, are set by the Superintendency of Banking.

The following table shows the allowance for loan losses required to be taken, expressed as a percentage of the value of the loan to the extent not covered by collateral (including principal, interest and commissions and fees), for the different types of loans and the risk coefficients as expressed in the Resolutions 1980 and 2195 of 1994; 2410 of 1995; and *Circulares Externas* 100 of 1995 and 005 of 1997 by the Superintendency of Banking:

Commercial loans classified as:

	<u>0% < Risk Coefficient <= 2.86%</u>	<u>2.86 < Risk Coefficient <= 4.34%</u>	<u>Risk Coefficient > 4.34%</u>
“A”	0%	0%	0%
“B”	1%	2%	3%
“C”	20%	30%	40%
“D”	50%	75%	100%
“E”	100%	100%	100%

Consumer loans classified as:

	<u>0% < Risk Coefficient <= 7.04%</u>	<u>7.04 < Risk Coefficient <= 9.95%</u>	<u>Risk Coefficient > 9.95%</u>
“A”	0%	0%	0%
“B”	1%	2%	3%
“C”	20%	30%	40%
“D”	50%	75%	100%
“E”	100%	100%	100%

Mortgage loans classified as:

“A”	0%
“B”	1%
“C”	20%
“D”	50%
“E”	100%

The risk coefficient for each type loan is calculated by dividing the sum of: 1% of loans classified as “B” plus 20% of loans classified as “C” plus 50% of loans classified as “D” plus 100% of loans classified as “E” by the total amount of the type of loan for which the calculation is being made. As of December 31, 1998 BC had a risk coefficient for commercial loans of 4.54% and consumer loans of 6.22%.

The Bank allocates the allowance for loan losses, whether to mortgage, commercial or consumer loans, on the basis of whether the loans are secured and, among those loans that are secured, whether such security is real or personal. The largest percentage of allowances is allocated to consumer or commercial loans that are supported by personal security. The allowance for loan losses is calculated including the value of the underlying security. If the Bank believes that the security is not realizable within one year, only 50% of the security is considered in establishing the allowance for loan losses. If the Bank believes the security is not realizable at all within two years, none of the security is considered in establishing the allowance for loan losses. There are special requirements for the required allowance for loan losses in respect of loans of borrowers involved in proceedings with their creditors. The Bank may make additional allowances not required by the regulations of the Superintendent of Banking when, in its judgment, an additional allowance is warranted. At December 31, 1998, the Bank had not made any such additional allowances with respect to its outstanding loans. Through the office of the Bank’s Credit Vice President, the Bank undertakes a monthly review of its past due and nonperforming loan portfolio.

The following table sets forth the activity in the allowance for loan losses:

	Year ended December 31,				
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
	<i>(in millions of constant pesos)</i>				
Balance at beginning of period (1) (BIC).....	Ps 6,994	Ps 9,303	Ps 16,071	Ps 22,728	Ps 26,852
Balance at beginning of period (Banco de Colombia)	-	-	-	-	70,082
Currency translation adjustment	37	302	0	0	0
Provisions for loan losses (2)	5,717	10,109	13,645	12,203	122,639
Effect of revaluing to constant pesos	(1,508)	(1,939)	(2,983)	(3,208)	(15,539)
Charge-offs	(1,204)	(1,704)	(4,005)	(4,871)	(38,057)
Reclassification to allowance for					
Investments	<u>(733)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Recovering from former fiscal years	0	0	0	0	(12,516)
Balance at end of period (3)	<u>Ps 9,303</u>	<u>Ps 16,071</u>	<u>Ps 22,728</u>	<u>Ps 26,852</u>	<u>Ps 153,461</u>

- (1) New requirements adopted in the fourth quarter of 1994 for the classification of the loan portfolio resulted in an additional allowance of Ps 2,151 million, Ps 1,531 million of which was reflected at December 31, 1994 and Ps 620 million of which was reflected at March 31, 1995.
- (2) The provision for past due accrued interest receivable, which is not included in this item, amounted to Ps 758 million, Ps 2,382 million, Ps 3,202 million, Ps 3,878 million and Ps million for the years ended December 31, 1994, 1995, 1996, 1997 and 1998, respectively.
- (3) The allowance for past due accrued interest receivable, which is not included in this item, amounted to Ps 429 million, Ps 1,885 million, Ps 2,239 million, Ps 2,239 million and Ps 62,399 million for the years ended December 31, 1995, 1996, 1997 and 1998, respectively.

Non-performing loans amounted to Ps 19,763 million, Ps 28,863 million and Ps 155,587 million at December 31, 1996, 1997 and 1998, respectively. The increase from 1997 to 1998 was due mainly to the large amount of non-performing loans obtained by the Bank in Merger and to the general deteriorating asset quality resulting from the crisis in the Colombian financial system.

The following table shows the allocation of the Bank's allowance for loan losses by type of loan:

As of December 31,										
	<u>1994</u>	<u>%</u>	<u>1995</u>	<u>%</u>	<u>1996</u>	<u>%</u>	<u>1997</u>	<u>%</u>	<u>1998</u>	<u>%</u>
<i>(in millions of constant pesos, except percentages)</i>										
Corporate										
Trade financing.....	Ps 8	0.1%	Ps 7	0.0%	Ps 0	0.0%	Ps 6	0.0%	Ps 756	0.5%
Loans funded by domestic										
Development banks.....	0	0.0	47	0.3	21	0.1	1,021	3.8	860	0.6
Working capital loans.....	1,849	19.9	2,347	14.6	234	1.0	5,577	20.8	42,988	28.0
Credit cards.....	7	0.1	12	0.1	7,448	32.8	50	0.2	37	0.0
Overdrafts.....	2	0.0	3	0.0	0	0.0	785	2.9	344	0.2
Other.....	<u>606</u>	<u>6.5</u>	<u>1,600</u>	<u>10.0</u>	<u>313</u>	<u>1.4</u>	<u>1,541</u>	<u>5.7</u>	<u>5,374</u>	<u>3.5</u>
Total corporate.....	2,472	26.6	4,016	25.0	8,016	35.3	8,980	33.4	50,359	32.8
Retail⁽¹⁾										
Credit cards.....	3,885	41.8	5,360	33.4	5,508	24.2	5,030	18.7	7,879	5.1
Personal loans.....	248	2.7	2,665	16.6	1,577	7.0	0	0.0	7,623	5.0
Automobile loans.....	0	0.0	565	3.5	709	3.1	0	0.0	552	0.3
Overdrafts.....	568	6.1	787	4.9	1,328	5.8	1,917	7.2	4,867	3.2
Loans funded by domestic										
development banks.....	75	0.8	63	0.4	690	3.0	112	0.4	1,360	0.9
Trade financing.....	181	1.9	279	1.7	139	0.6	101	0.4	1,639	1.1
Working capital loans.....	1,424	15.3	1,461	9.1	4,744	20.9	10,712	39.9	79,075	51.5
Other.....	<u>450</u>	<u>4.8</u>	<u>875</u>	<u>5.4</u>	<u>17</u>	<u>0.1</u>	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>
Total retail.....	<u>6,831</u>	<u>73.4</u>	<u>12,055</u>	<u>75.0</u>	<u>14,712</u>	<u>64.7</u>	<u>17,872</u>	<u>66.6</u>	<u>102,995</u>	<u>67.1</u>
Mortgage	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>107</u>	<u>0.1</u>
Total allowance for loan losses	<u>Ps 9,303</u>	<u>100.0%</u>	<u>Ps 16,071</u>	<u>100.0%</u>	<u>Ps 22,728</u>	<u>100.0%</u>	<u>Ps 26,852</u>	<u>100.0%</u>	<u>Ps 153,461</u>	<u>100.0%</u>

(1) Includes allowances for loans to upper-income individuals and small companies.

At December 31, 1998, the allowance for loan losses increased 472% compared to December 31, 1997 primarily due to the Merger and deterioration in working capital loans in the retail loan portfolio and the corporate loan portfolio. At December 31, 1997, the allowance for loan losses increased 18.14% compared to December 31, 1996 primarily because of deterioration in the retail loan portfolio, specifically working capital loans.

The following table shows the allocation of the Bank's allowance for loan losses by type of loan using the classification of the Superintendency of Banking:

	As of December 31,				
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
	<i>(in millions of constant pesos)</i>				
Commercial.....	Ps 2,726	Ps 4,470	Ps 8,872	Ps 12,095	Ps 103,822
Consumer.....	6,577	11,601	13,856	14,757	49,532
Mortgage.....	-	-	-	-	107
Total allowance for loan losses.....	<u>Ps 9,303</u>	<u>Ps 16,071</u>	<u>Ps 22,728</u>	<u>Ps 26,852</u>	<u>Ps 153,461</u>

The following table shows the allocation of the Bank's charge-offs by type of loan at December 31, 1994, 1995, 1996, 1997 and 1998:

	Year ended December 31,				
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
	<i>(in millions of constant pesos)</i>				
Trade financing.....	Ps 14	Ps 53	Ps 7	Ps -	Ps -
Loans funded by domestic development banks.....	-	9	-	-	-
Working capital loans.....	210	93	782	1,775	26,944
Credit cards.....	785	1,268	2,154	1,490	4,261
Personal loans.....	56	92	603	954	3,837
Automobile loans.....	-	29	158	121	760
Overdrafts.....	139	160	301	531	2,236
Other.....	-	-	-	-	19
Total charge-offs.....	<u>Ps 1,204</u>	<u>Ps 1,704</u>	<u>Ps 4,005</u>	<u>Ps 4,871</u>	<u>Ps 38,057</u>

The Bank has a policy of actively pursuing collection of charged-off balances. In practice, the manager of the branch where the loan was made and the attorney handling the collection pursue the collection process to judgment. In addition, non-payment by the debtor is reported to the Banking Association of Colombia credit risk center where the creditor's name and the outstanding debt is registered. This credit risk center is consulted by every Colombian financial institution, and any debtor listed in such registry will not be extended credit until the defaulted loan has been satisfied.

Charge-offs are only made after the manager of the branch and the attorney handling the case have exhausted all means to secure payment of the judgment against any known assets of the borrower and the charge-off has been approved by the Board of Directors and the Superintendency of Banking. Recoveries have not been significant in any of the periods presented.

Cross-border Outstanding

The Bank had no cross-border loans outstanding that exceeded 0.75% of total assets as of December 31, 1996, 1997 or 1998.

Average Liabilities

The Bank's deposits consist of checking deposits, time deposits and savings deposits. At December 31, 1998, checking deposits, time deposits and savings deposits represented 19.1%, 44.1% and 28.5%, respectively, of the Bank's total deposits.

Average Maturity of Deposits

As of December 31, 1998, the average balance of maturities of customers' deposits were as follows:

	Year ended December 31, 1998									
	Up to 90 days	%	91 to 180 days	%	181 to 360 days	%	More than 360 days	%	Total	%
<i>(in millions of constant pesos, except percentages)</i>										
Non-interest bearing deposits:										
Checking accounts ⁽¹⁾										
Peso-denominated.....	Ps 724,480	19.09	—	—	—	—	—	—	Ps 724,480	19.0%
Dollar-denominated.....	—	—	—	—	—	—	—	—	—	0.0
Total.....	Ps 724,480	19.0	—	—	—	—	—	—	Ps 724,480	19.0
Other deposits										
Peso-denominated.....	37,073	1.0	—	—	—	—	—	—	37,073	1.0
Dollar-denominated.....	22,693	0.6	—	—	—	—	—	—	22,693	0.6
Total.....	Ps 59,766	1.6	—	—	—	—	—	—	Ps 59,766	1.6
Interest bearing deposits:										
Checking accounts.....										
Peso-denominated.....	—	—	—	—	—	—	—	—	—	—
Dollar-denominated.....	122,105	3.2	—	—	—	—	—	—	122,105	3.2
Total.....	Ps 122,105	3.2	—	—	—	—	—	—	Ps 122,105	3.2
Time deposits										
Peso-denominated.....	711,419	18.7	194,546	5.1	71,181	1.9	284,257	7.5	1,261,403	33.2
Dollar-denominated.....	234,089	6.2	64,015	1.7	23,422	0.6	93,533	2.5	415,059	11.0
Total.....	Ps 945,508	24.9	Ps 258,561	6.8	Ps 94,603	2.5	Ps 377,790	10.0	Ps 1,676,462	44.2
Savings deposits										
Peso-denominated.....	1,083,695	28.5	—	—	—	—	—	—	1,083,695	28.5
Dollar-denominated.....	963	—	—	—	—	—	—	—	963	—
Total.....	Ps 1,084,658	28.5	—	—	—	—	—	—	Ps 1,084,658	28.5
Fiduciary deposits										
Peso-denominated.....	133,176	3.5	—	—	—	—	—	—	133,176	3.5
Dollar-denominated.....	—	—	—	—	—	—	—	—	—	—
Total.....	Ps 133,176	3.5	—	—	—	—	—	—	133,176	3.5
Total deposits										
Peso-denominated.....	2,689,843	70.8	194,546	5.1	71,181	1.9	284,257	7.5	3,239,827	85.2
Dollar-denominated.....	379,850	10.0	64,015	1.7	23,422	0.6	93,533	2.5	560,820	14.8
Total deposits ⁽¹⁾	<u>Ps 3,069,693</u>	<u>80.8%</u>	<u>Ps 258,561</u>	<u>6.8%</u>	<u>Ps 94,603</u>	<u>2.5%</u>	<u>Ps 377,790</u>	<u>10.0%</u>	<u>Ps 3,800,647</u>	<u>100.0%</u>

(1) There is a seasonality in checking accounts which results in an increase in checking accounts in the last quarter of the year.

The following table shows the composition of the Bank's deposits for 1996, 1997 and 1998:

	As of December 31,		
	1996	1997	1998
	<i>(in millions of constant pesos)</i>		
Non-interest bearing deposits:			
Checking accounts	Ps 410,449	Ps 410,462	Ps 989,568
Other deposits	<u>132,620</u>	<u>101,641</u>	<u>184,555</u>
Total.....	543,069	512,103	1,174,123
Interest bearing deposits:			
Checking accounts	54,837	109,739	207,970
Time deposits	824,811	986,953	2,055,898
Savings deposits	<u>253,563</u>	<u>357,102</u>	<u>1,190,820</u>
Total.....	1,133,211	1,453,794	3,454,688
Total deposits	<u>Ps 1,676,280</u>	<u>Ps 1,965,897</u>	<u>Ps 4,628,811</u>

The following table shows the time deposits in excess of Ps 151 million (the equivalent of \$100,000 at the Representative Market Rate at December 31, 1998) held by the Bank at December 31, 1998, by amount and by maturity:

	As of December 31, 1998		
	<u>Pesos</u>	<u>Dollars</u>	<u>Total</u>
	<i>(in millions of constant pesos)</i>		
Up to 3 months	Ps 229,420	Ps 304,845	Ps 534,265
From 3 to 6 months	111,648	24,231	135,879
From 6 to 12 months	21,152	35,559	56,711
More than 12 months	381,188	65,304	446,492
Time deposits less than Ps 151 million	812,780	69,771	882,551
Total	<u>Ps 1,556,188</u>	<u>Ps 499,710</u>	<u>Ps 2,055,898</u>

Interbank Borrowings

The following table sets forth the Bank's short-term interbank borrowings for the periods indicated:

	As of December 31,					
	1996		1997		1998	
	<u>Amount</u>	<u>Rate</u>⁽¹⁾	<u>Amount</u>	<u>Rate</u>⁽¹⁾	<u>Amount</u>	<u>Rate</u>⁽¹⁾
	<i>(in millions of constant pesos, except percentages)</i>					
End of period	Ps 346,824	6.34%	Ps 1,016,001(2)	6.59%	Ps1,343,553	6.71%
Average during period	272,815	7.79	503,475	6.35	1,437,391	6.66
Maximum month-end balance	346,824		1,016,001		1,637,420	
Month of maximum balance	December		December		September	
Interest paid during the year.....	21,252		31,985		95,695	

- (1) At the end of the year, the Bank typically increases its dollar-denominated interbank borrowings, which represent the great majority of interbank borrowings and which have lower interest rates.
- (2) If the Bank's syndicated loan borrowings are excluded, the total amount would be Ps414,632 and the average rate would be 6.1%.

Recently issued U.S. GAAP Pronouncements

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. This Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

ITEM 9A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is contained in Item 9(a) herein under the headings "Interest Rate Sensitivity," "Interest Rate Market Risk," "Exchange Rate Sensitivity" and "Liquidity and Funding."

ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT.

BC is managed by its Board of Directors and President. BC's Board of Directors consists of five directors and their respective alternate directors. Alternate directors participate in and are entitled to vote at meetings of the Board of Directors only when their respective principal directors announce that they will not attend directors' meetings for longer than a month. If a director misses meetings for more than three consecutive months, that director will be removed and replaced with such director's alternate for the remainder of the term. The directors (together with their respective alternate directors) are elected every two years at a general meeting of BC's shareholders. In addition, on the first occasion a person is elected to the Board of Directors, such person must supply the Superintendency of Banking with specified information (including the person's prior professional and credit history) and must be approved by the Superintendency of Banking in order to assume office. Directors may be re-elected indefinitely. The Chairman of the Board of Directors is Nicanor Restrepo Santamaría.

Under the Commerce Code and the Bylaws of BC, directors are re-elected in accordance with the "proportional representation" voting system (electoral quotient system). In general, under the proportional representation voting system, holders of Common Shares are able to elect a director each time the number of votes cast meets a specified quota of votes, even though the quota represents a minority of the total votes cast.

Decree 663 and the Bylaws of BC require that the Board of Directors hold at least one meeting each month. A quorum for a Board of Directors' meeting consists of a majority of directors or their alternates and action may be taken by a minimum of three directors. In the event of a tie, a proposal is considered rejected. If the tie occurs during a nomination, a second vote is taken. If the second vote produces another tie, the nomination is suspended. Pursuant to the Bylaws of BC, BC's President and his alternate are elected by the Board of Directors and serve at the Board's discretion. The President has the power to appoint and remove the Vice Presidents and the regional managers. The Directors and the President must be confirmed by the Superintendency of Banking before assuming their office.

At a general shareholders' meeting, BC's shareholders elect BC's statutory auditor for a two-year term. The statutory auditor is entitled to select a principal representative auditor and one alternate auditor. Under Colombian law, the duties of the statutory auditor include, among others things, the examination of the operations, books, records and any other documents of BC as well as the presentation of a report of such examination at the annual general shareholders' meeting. Before assuming office, the statutory auditor must be approved by the Superintendency of Banking. At BC's 1996 annual general shareholders' meeting, BC dismissed Price Waterhouse and retained KPMG Peat Marwick as its statutory auditor, beginning with respect to BC's financial statements for the fiscal year ended December 31, 1997. This change was not made as a result of any disagreement with Price Waterhouse on any matter of accounting principles or practices, financial statements disclosure or auditing scope or procedures. KPMG Peat Marwick has appointed Raul de la Torre Duque and Israel Osorio Atehortua to serve as principal representative auditor and alternate auditor, respectively.

The following are the current directors and alternate directors of BC and the year during which they were first elected to the Board of Directors:

Directors	Municipalities	Year During Which First Elected	Principal Occupation
Nicanor Restrepo Santamaría Chairman of the Board	Medellín	1984	President of Suramericana de Seguros S.A.
Fabio Rico Calle	Medellín	1982	President of Compañía Nacional de Chocolates S.A.
Jorge Vega Uribe.....	Medellín	1980	Vice President of Compañía de Cementos Argos S.A.
José Alberto Vélez Cadavid	Medellín	1996	Vice President-Investments of Suramericana
Ricardo Sierra Moreno	Medellín	1996	General Manager of Productora Distrihogar

Alternate Directors	Municipalities	Year During Which First Elected	Principal Occupation
Santiago Vásquez Haupt	Bogotá	1986	President of Reaseguradora de Colombia S.A.
Héctor Arango Gaviria	Medellín	1988	Vice President—Finance of Nacional de Chocolates S.A.
Luis Javier Franco Munera.....	Medellín	1997	Independent
Carlos Enrique Piedrahita Arocha	Medellín	1994	President of Corfinsura
Juan Sebastián Betancur Escobar.....	Bogotá	1994	Vice President—Bogotá Region of Suramericana de Seguros, S.A.

The following are BC's executive officers:

Name	Year During Which First Joined the Bank	Responsibilities
President		
Jorge Londoño Saldarriaga.....	1996	President of Bancolombia S.A.
Vice Presidents		
Leonardo Hincapié Naranjo	1983	Credit
Santiago Pérez Moreno	1989	Personal and Middle -Corporate Market Banking
Jaime Alberto Velásquez Botero	1989	Finance
Margarita Rehbein Dávila	1994	Corporate Banking
Leonardo Uribe Correa.....	1984	Legal/General Secretary
Gabriel Jaime Agudelo Tobón	1973	Technology
Gonzalo Toro Bridge.....	1988	International
Andrés Delgado Mallarino	1982	Bogotá Region
Federico Ochoa Barrera	1984	Executive
Hernán Darío Ramirez Giraldo	1985	General Auditor
Carlos Guillermo Posada González.....	1988	Administration
Luis Fernando Montoya Cusso	1973	Operations
Jairo Burgos de la Espriella	1990	Human Resources

ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS.

BC pays each director compensation in the amount of Ps 420,000 per meeting. The directors receive no other compensation or benefit. The aggregate amount of remuneration paid by BC and consolidated

subsidiaries to all directors, alternate directors and officers during the fiscal year ended December 31, 1998 was Ps 24 million.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES.

There are none outstanding.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS.

Certain directors, alternate directors and officers of BC have been involved in credit transactions with BC as permitted by Colombian law. The Commerce Code and certain Colombian laws, including Decree 663, allow a company to enter into transactions with its officers, directors and other affiliates if such transaction is in accordance with prevailing market conditions and is approved by such company's board of directors. Additionally, the granting of credit to persons or entities affiliated with BC is subject to the regulations of the Colombian Government. Such regulations set limits on the amount of credit that can be extended to affiliates based on, among other things, a percentage of BC's net worth. Decree 663 requires that loans to directors, principal shareholders, officers and other related entities must be granted on an equal basis with respect to rates, tenor and guarantees as loans granted to the general public.

As of December 31, 1998, an aggregate of Ps 33,871 million in loans from the Bank were outstanding to employees of BC. Such loans represented 0.84% of BC's net total loans at December 31, 1998. At December 31, 1998, Suramericana owned approximately 29.96% of the Bank and had Ps 93,283 million in loans from the Bank. Parties related to Suramericana, at December 31, 1998, owned approximately 10.65% of the Bank, and had Ps 37,853 million in loans from the Bank.

PART II

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED.

Not applicable. BC is not, pursuant to this Annual Report on Form 20-F, registering any securities under the Securities Exchange Act of 1934.

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES.

None.

PART IV

ITEM 17. FINANCIAL STATEMENTS.

Not applicable.

ITEM 18. FINANCIAL STATEMENTS.

Reference is made to pages F-1 through F-81.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS.

(a) INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

See Index to Consolidated Financial Statements on page F-1.

(b) FINANCIAL STATEMENT SCHEDULES

All supplementary schedules relating to the registrant are omitted because they are not required or because the required information, where material, is contained in the consolidated financial statements or notes thereto.

(c) INDEX TO EXHIBITS

1. Corporate Charter (*Estatutos*) of the registrant, as amended through March 23, 1999, together with an English translation.
- 2.1 Consent of KPMG Peat Marwick.
- 2.2 Consent of Price Waterhouse.

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Medellin, Colombia

Price Waterhouse

Firma miembro de

PRICEWATERHOUSECOOPERS 

REPORT OF INDEPENDENT ACCOUNTANTS

February 18, 1997, except as to Note 33 which is as of June 24, 1997, and except as to the remeasurement in December 31, 1998, constant pesos as to which the date is June 28, 1999 and the United States generally accepted accounting principles earnings per share as described in Note 33 s) as to which the date is June 19, 1998.

To the Board of Directors and Shareholders of Bancolombia S.A.

We have audited accompanying consolidated balance sheet of Bancolombia S.A., legal successor to Banco Industrial Colombiano S.A. and its subsidiaries as of December 31, 1996, and the related consolidated statement of income, of changes in shareholders' equity and of cash flows for the year ended December 31, 1996, all expressed in constant December 31, 1998 Colombian pesos. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Colombia, which are substantially consistent with those of the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit includes examining on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Bancolombia S.A. and its subsidiaries at December 31, 1996 and the result of their operations and their cash flows for the year ended December 31, 1996 in conformity with accounting principles generally accepted in Colombia for financial institutions consistently applied, except for the changes promulgated by the Colombian Banking Superintendency during 1995 relating to the valuation and accounting of investments securities described in Note 3 to the consolidated financial statements.

Accounting practices prescribed by the Colombian Superintendency of Banking as described in Note 2 and 3 to the financial statements, vary in certain significant respect from accounting principles generally accepted in United States of America. The application of the latter would have affected the determination of consolidated net income expressed in constant December 31, 1998 Colombian pesos for the year ended December 31, 1996 and the determination of consolidated shareholders' equity also expressed in constant December 31, 1998 pesos at December 31, 1996 to the extent summarized in Note 33 to the consolidated financial statements.

Price Waterhouse