

## I. Colombian Financial Sector Results (March 2008)

The first section of this report presents aggregate results for the financial sector up to March 2008, including data for institutions supervised by the Financial Superintendence and their managed funds. The second section analyzes risk factors, mainly credit and market risk, followed, in the third section, by a description of recent developments in local financial markets. The fourth section sums the main conclusions of this report and the Appendix presents the main financial accounts for each type of financial institution, and shows additional indicators of loan performance.

### Aggregate Results

**Table 1**  
**Consolidated Financial Sector Accounts (Institutions and Managed Funds)**  
Figures in million pesos and percentages

Financial Intermediaries	Mar-2008					Annual growth <sup>1</sup>				
						Mar-2008 / Mar-2007				
	Assets	Investment	Loans <sup>2</sup>	Net worth	Profit <sup>3</sup>	Assets (%)	Investment (%)	Loans (%)	Net worth (%)	Profit (\$ m)
<b>Credit Institutions</b>	188,035,614	35,090,436	128,695,950	21,900,519	1,324,065	15.9%	0.9%	23.1%	17.2%	339,596
Insurance Industry <sup>4</sup>	17,581,319	11,917,459	339,856	4,006,337	-1,237	2.6%	9.3%	15.9%	-19.2%	-111,010
Pension and Severance Fund Managers (AFP) <sup>5</sup>	1,248,310	847,719	-	974,123	47,851	15.7%	24.0%	-	16.0%	888
Trust Fund Managers	1,040,272	622,216	-	772,638	50,983	17.4%	19.7%	-	12.1%	16,474
Brokerage Firms <sup>6</sup>	3,733,211	472,252	-	929,004	-18,552	11.8%	36.6%	-	18.4%	-6,752
Investment Fund Managers <sup>6</sup>	49,883	23,307	-	37,610	-304	0.1%	-19.1%	-	10.1%	-70
Financial Infrastructure Providers <sup>6</sup>	1,152,055	208,169	704	808,221	8,358	-7.5%	-26.4%	41.4%	-1.7%	-6,134
Specialized State-Owned Institutions (IOE)	29,782,470	11,970,200	14,978,822	6,249,932	126,785	8.5%	-4.3%	23.8%	-0.1%	42,595
<b>TOTAL FINANCIAL INSTITUTIONS</b>	<b>242,623,135</b>	<b>61,151,758</b>	<b>144,015,332</b>	<b>35,678,385</b>	<b>1,537,950</b>	<b>13.7%</b>	<b>1.8%</b>	<b>23.1%</b>	<b>7.9%</b>	<b>275,587</b>
<b>Mandatory Pension Funds (FPO)</b>	50,827,481	49,710,084	-	50,792,460	-1,590,120	15.8%	16.0%	-	15.8%	-1,039,691
<b>Voluntary Pension Funds (FPV)</b>	6,543,542	5,008,743	-	6,216,555	-79,997	6.0%	1.3%	-	1.4%	-48,010
<b>Severance Funds (FC)</b>	5,045,660	4,699,024	-	5,010,268	-72,342	3.2%	-2.1%	-	3.8%	-10,707
<b>Ordinary Mutual Funds (FCO)</b>	9,771,544	4,705,885	-	9,624,906	185,467	11.0%	34.5%	-	10.3%	64,020
<b>Specialized Mutual Funds (FCE)</b>	2,767,833	1,726,758	-	2,687,206	49,612	5.8%	30.5%	-	3.1%	20,683
<b>Other Trust-Fund Assets <sup>7</sup></b>	68,574,704	32,880,250	634,276	43,728,976	6,346	12.4%	16.2%	100%	14.2%	904
<b>Pension Liability Fund (FPP)</b>	28,527,102	27,558,217	-	27,614,268	105,651	24.9%	23.5%	-	23.3%	84,231
<b>FPV managed by Trust Funds</b>	866,678	731,749	-	863,729	11,440	4.3%	27.3%	-	4.3%	5,012
<b>Mutual Investment Funds (FMI)</b>	621,506	521,361	-	600,745	-30,819	-5.1%	-4.1%	-	-	-22,110
<b>Investment Funds (FI)</b>	580,026	446,663	-	563,314	-15,504	13.0%	8.8%	-	13.4%	-9,857
<b>Value Funds (FV)</b>	2,365,642	1,474,081	-	2,336,075	-21,889	-1.3%	-5.2%	-	-1.5%	-24,455
<b>TOTAL FINANCIAL FUNDS</b>	<b>176,491,720</b>	<b>129,462,816</b>	<b>634,276</b>	<b>150,038,504</b>	<b>-1,452,153</b>	<b>14.2%</b>	<b>16.5%</b>	<b>204.4%</b>	<b>14.4%</b>	<b>-979,980</b>
<b>CONSOLIDATED FINANCIAL SECTOR</b>	<b>419,114,855</b>	<b>190,614,574</b>	<b>144,649,608</b>	<b>185,716,889</b>	<b>85,796</b>	<b>13.9%</b>	<b>11.3%</b>	<b>23.5%</b>	<b>13.1%</b>	<b>-704,393</b>

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Variation in assets, investment and net worth are percentage change (%), whereas profit variation is presented in absolute values in million pesos (\$m).

(2) Gross loans = Net loans + Provisions

(3) Profits correspond to PUC account 5700 ("expected return") for pension funds, FCO, FCE, and other trust fund assets; for the remaining institutions profits correspond to PUC account 5900 ("profits and

(4) Insurance companies report financial statements on a quarterly basis, figures here presented correspond to March 2008.

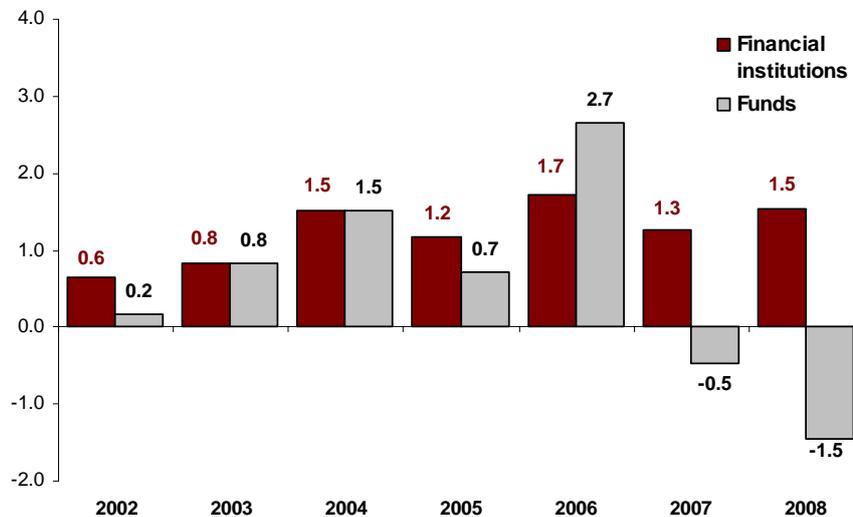
(5) Pension fund financial statements excludes information for the "defined-benefit" pension regime.

(6) Investment data corresponds to PUC account 1200, excluding derivatives and repurchase operations.

(7) Other Trust-Fund Assets report financial statements on a quarterly basis, figures here presented correspond to March 2008.

Financial statements published by the Financial Superintendence are summarized in Table 1; these are categorized by type of financial intermediary and include all financial institutions as well as their managed funds. The first few months of 2008 were particularly difficult for most financial institutions, as intermediaries suffered losses on their investments as a result of market volatility. Fears of a possible recession in the US and financial market turmoil affected investments for most Colombian financial intermediaries. Towards the end of the first quarter, most financial institutions accommodated to this turbulence and managed to reduce the losses from previous months. The end results for the financial sector during the first quarter showed profits that reached \$85 billion pesos, which lie well below profits from the first quarter of 2007 of \$790 billion.

**Figure 1**  
**Financial Sector Profits**  
 (Figures in trillion pesos)



Note: Data corresponds to March of each year upto 2008.

Source: Financial Superintendencia. Financial statements subject to revision by the SFC.

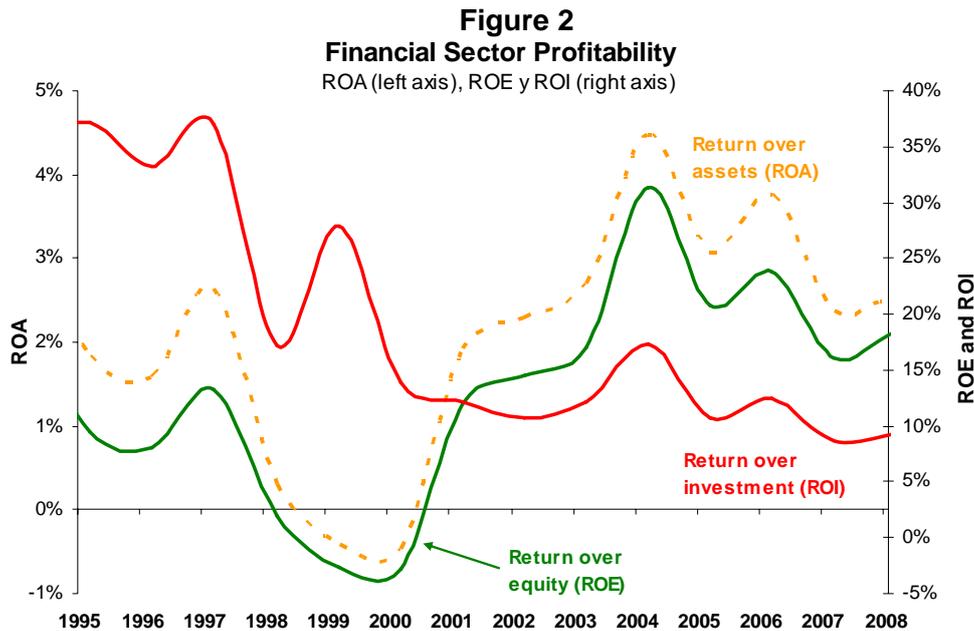
As market sentiment deteriorated and investments (fixed-income as well as stocks) weakened, some financial institutions managed to hedge these losses by turning to their core business, as is the case of credit institutions. Others, mainly funds, were unable to do so and experimented heavy losses during the first quarter of 2008. Figure 1 shows how financial institutions (led by credit institutions) were able to accumulate profits worth \$1.54 trillion, whereas financial funds reported losses of \$1.45 trillion. Fund losses were almost entirely attributed to negative results on behalf of severance and pension funds (-\$1.74 trillion).

Despite a slight slowdown of the credit boom in recent years, credit institutions continue to outperform most financial intermediaries, reporting an annual profit growth of almost 14%. Overall, economic growth and strong indicators of internal demand continue to support a favorable environment for loans, and therefore favorable results for credit institutions.

## Profitability

The overall profitability of the financial sector has been negatively affected by losses suffered by financial funds. In contrast, profitability of financial institutions increased during the first quarter of 2008 reaching a ROA indicator of 2.6% (compared to 1.8% on February) and a ROE indicator of 18.4% (compared to 12.6% in February). Figure 2 shows the historical trend of these profitability ratios, which shows a profitability boom during the period 2003-2005, followed by a slight decrease in 2007 and a recent improvement during the first quarter of 2008.

Although profitability for the aggregate financial sector increased during the first quarter of 2008, the situation for managed funds is quite different. Table 2 shows profitability ratios discerning by type of financial intermediary. While financial institutions' ROA reached 2.6%, this profitability ratio is negative (-3.3%) in the case of financial funds. Funds that are managed by brokerage firms as well as severance and pension funds were especially affected by market volatility during 2008, therefore impacting their profitability.



Note: As of March 2008. Doesn't include funds.

Source: Financial Superintendencia. Financial statements subject to revision by the SFC.

The fact that most financial funds continue to underperform is closely related to the poor performance of their investments. An interesting approach to this issue comes from looking at the course of the ROI indicator, defined as the difference between incomes attributed to investments and investment expenses (this in turn is expressed as a share of gross investments). Figure 2 shows high correlation, in recent times between the ROI and the aforementioned profitability indicators (ROA and ROE). During the first quarter of 2008, the ROI of financial institutions increased from 8.6% last year to 9.3%; however, the ROI of financial funds fell from -2.0% in March 2007 to -5.7% in 2008.

**Table 2**  
**Financial Sector Profitability Indicators**  
Percentages

Financial Intermediaries	Mar-2008			Mar-2007		
	ROA	ROE	Return on Investment (ROI)	ROA	ROE	Return on Investment (ROI)
<b>Credit Institutions</b>	2.8%	26.5%	12.9%	2.4%	22.8%	11.4%
<b>Insurance Companies <sup>1</sup></b>	0.0%	-0.1%	4.7%	2.6%	9.2%	6.7%
<b>Pension and Severance Fund Managers (AFP) <sup>2</sup></b>	16.2%	21.1%	-5.5%	18.6%	24.3%	-2.5%
<b>Trust Fund Managers</b>	21.1%	29.1%	15.1%	16.5%	21.6%	12.4%
<b>Brokerage Firms</b>	-2.0%	-7.8%	26.7%	-1.4%	-5.9%	39.9%
<b>Investment Fund Managers</b>	-2.4%	-3.2%	-24.2%	-1.9%	-2.7%	-7.8%
<b>Financial Infrastructure Providers</b>	2.9%	4.2%	13.1%	4.7%	7.2%	5.2%
<b>Specialized State-Owned Institutions (IOE)</b>	1.7%	8.4%	3.6%	1.2%	5.5%	2.5%
<b>TOTAL</b>	<b>2.6%</b>	<b>18.4%</b>	<b>9.3%</b>	<b>2.4%</b>	<b>16.2%</b>	<b>8.6%</b>

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

Indicators are calculated as follows:

$$ROA = \left( \frac{\text{profits}}{\text{assets}} + 1 \right)^{12 / \text{month}} - 1, \quad ROE = \left( \frac{\text{profits}}{\text{net worth}} + 1 \right)^{12 / \text{month}} - 1$$

$$ROI = \left( \frac{\text{inv. rev.} - \text{inv. exp.}}{\text{gross investment}} + 1 \right)^{12 / \text{month}} - 1 \quad \text{where} \quad \begin{aligned} \text{inv. rev.} &= \text{investment revenues} \\ \text{inv. exp.} &= \text{investment expenditure} \\ \text{gross investment} &= \text{net investment} + \text{provisions} \end{aligned}$$

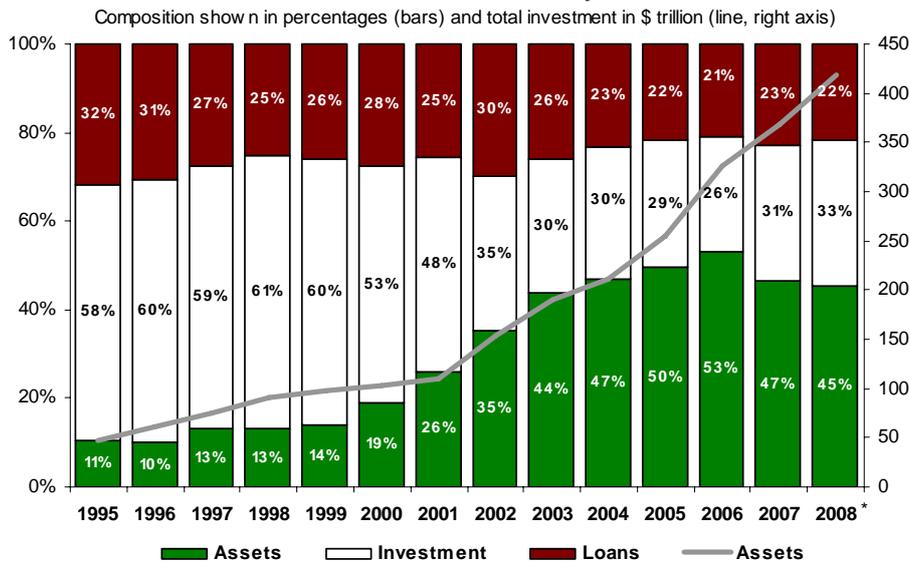
(3) Insurance companies report financial statements on a quarterly basis; figures here presented correspond to March 2008.

(2) Pension fund financial statements excludes information for the "defined-benefit" pension regime.

## Assets and Liabilities

During the first quarter of 2008, total assets of the financial sector showed an overall increase, in line with profit gains. On March 2008 the aggregate financial sector reported a 13.9% annual increase of total assets, reaching \$419.1 trillion. This increase in total assets was led by credit institutions (\$188 trillion), trust funds (\$110.5 trillion) and pension funds (\$62.4 trillion).

**Figure 3**  
**Financial Sector Asset Composition**

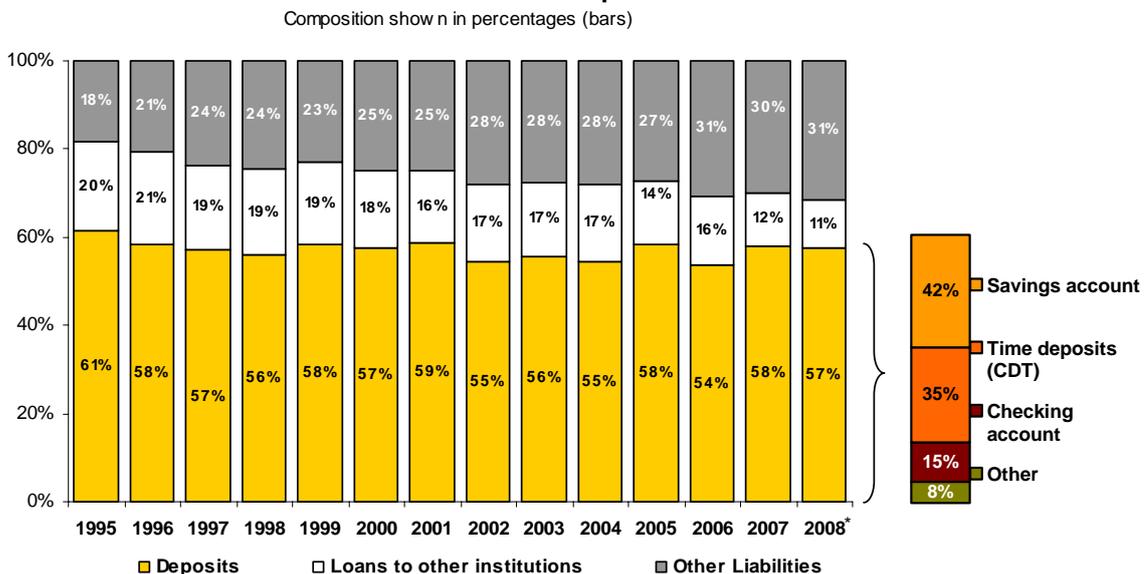


\* As of March 2008.

Source: Superintendencia Financiera. Financial statements subject to revision by the SFC.

Market volatility and the subsequent weakening of investments have led some institutions to migrate their assets from investments towards other assets, mainly loans. Figure 3 displays the evolution of total assets and its composition. In 2006, the financial sector held 53% of its assets in the form of investments and 26% in loans. Nowadays, 45% is held in investments and 33% in loans. This migration from investments to loans not only reflects the difficult situation for affecting investments, but also shows the dynamic demand for credit.

**Figure 4**  
**Financial Sector Liabilities Composition**



\* As of March 2008.

Source: Financial Superintendence. Financial statements subject to revision by the SFC.

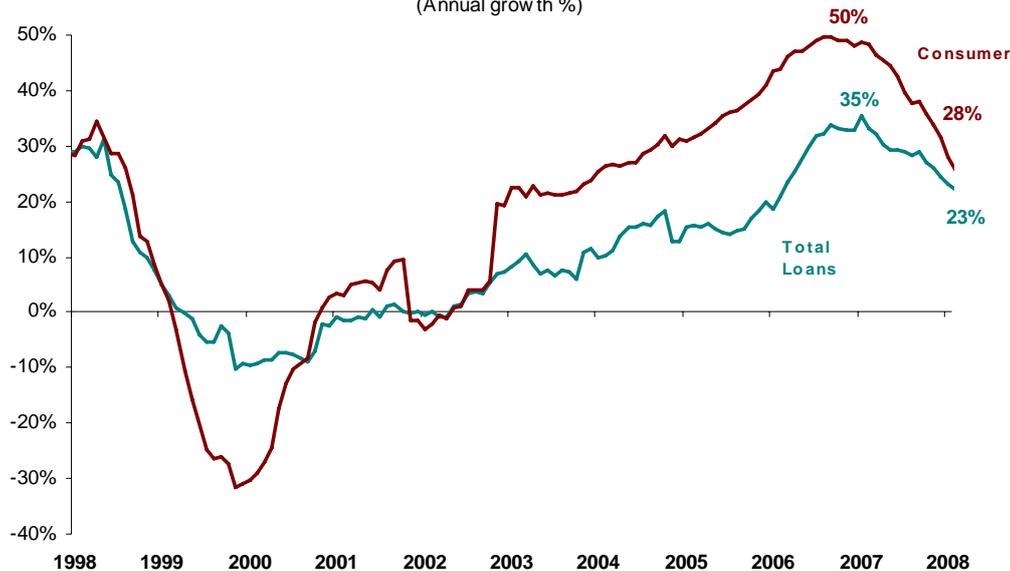
Total liabilities for financial institutions increased 15.8% to \$223.4 trillion on March 2008. Demand deposits amount to \$134.1 trillion, equivalent to 57% of total liabilities as is viewed in Figure 4. In turn, demand deposits are distributed in savings accounts (42%), time deposits (35%) and checking accounts (15%). The share of time deposits (CDT's) has increased substantially in recent months due to an increase in financial market uncertainty and higher risk aversion, tempting investors to more secure forms of deposits.

## II. Financial Sector Risks

### 1. Credit Risk

Throughout the first quarter of 2008, loan growth has slowed down compared to 2007. Gross loans of the financial sector (including leasing operations) reached \$128.7 trillion pesos in March 2008, representing annual growth of 23%, which is well below a peak growth of 35% observed during the first quarter of 2007. Loan growth has decelerated even more aggressively in the consumer segment as is shown in Figure 5. Consumer loan growth reached almost 50% in late 2006, dropping to half this growth during the first quarter of 2008.

**Figure 5**  
**Loans by Type**  
 (Annual growth %)



Note: As of March 2008. Loans including leasing operations. Doesn't include state-owned institutions (IOE).  
 Source: Financial Superintendencia. Financial statements subject to revision by the SFC.

Table 3 summarizes a number of indicators on loan performance of credit institutions. During the first quarter of 2008, past-due loans increased at an annual rate of 75% reaching more than \$5.1 trillion pesos, as observed in Figure 6. By loan type, commercial and consumer past-due loans are the ones that grow at the fastest rate (above 80% on a yearly basis).

## Indicators of Loan Performance <sup>1</sup>

Figures in million pesos and percentages

Mar-2008	LOAN TYPE				
	Commercial	Consumer	Mortgage	Microfinance	Total
<b>Gross loans</b>	79,615,777	37,421,792	9,648,279	2,010,102	128,695,950
Market share (%)	61.9%	29.1%	7.5%	1.6%	100.0%
Annual growth (%)	21.9%	27.9%	17.7%	12.6%	23.1%
<b>Past-due loans</b>	2,000,725	2,615,072	374,523	161,241	5,151,561
Market share (%)	38.8%	50.8%	7.3%	3.1%	100.0%
Annual growth (%)	83.0%	82.5%	17.1%	53.6%	74.6%
<b>Provisions <sup>2</sup></b>	2,863,692	1,892,404	286,033	91,254	5,640,500
Annual growth (%)	65.5%	84.2%	5.9%	48.7%	36.3%
<b>LOAN RATIOS (%)</b>					
<b>Loan Quality <sup>3</sup></b>					
Traditional	2.5%	7.0%	3.9%	8.0%	4.0%
Traditional (Mar-2007)	1.7%	4.9%	3.9%	5.9%	2.8%
By rating	5.4%	10.5%	8.5%	8.8%	7.2%
By rating (Mar-2007)	6.0%	7.4%	8.5%	6.9%	6.6%
<b>Loan Coverage <sup>4</sup></b>					
Traditional	143.1%	72.4%	76.4%	56.6%	109.5%
Traditional (Mar-2007)	158.3%	71.7%	84.4%	58.5%	140.2%
By rating	66.6%	48.2%	35.0%	51.9%	61.2%
By rating (Mar-2007)	44.4%	47.8%	38.6%	50.1%	60.2%

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Loan and leasing operations of credit institutions and credit unions. Doesn't include specialized state-owned institutions (IOE).

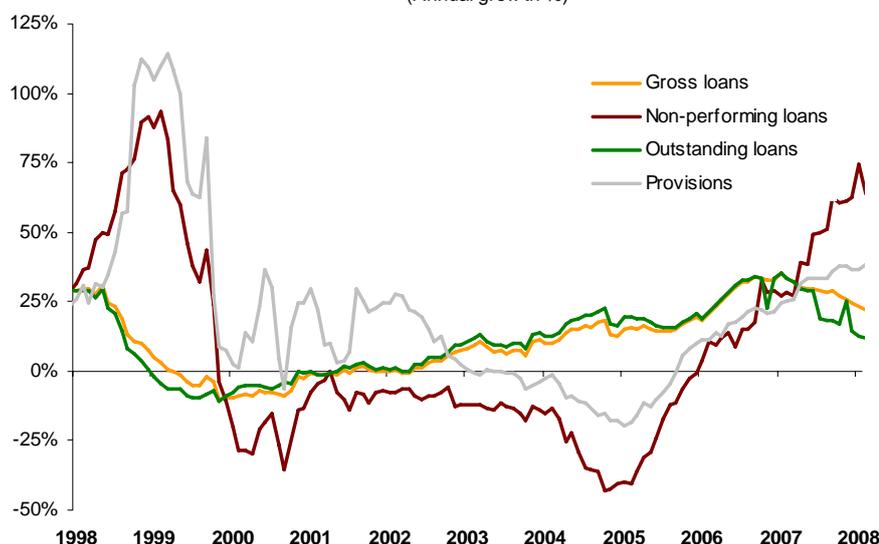
(2) Total provisions includes other provisions.

(3) Traditional Loan Quality = Past-due loans / Gross loans; Calidad por calificación = Loans rated B, C, D y E / Gross loans.

(4) Traditional Loan Coverage = Provisions / Past-due loans; Coverage by Rating = Provisions / Loans rated B, C, D y E

**Figure 6**  
**Credit Institutions Total Loans**

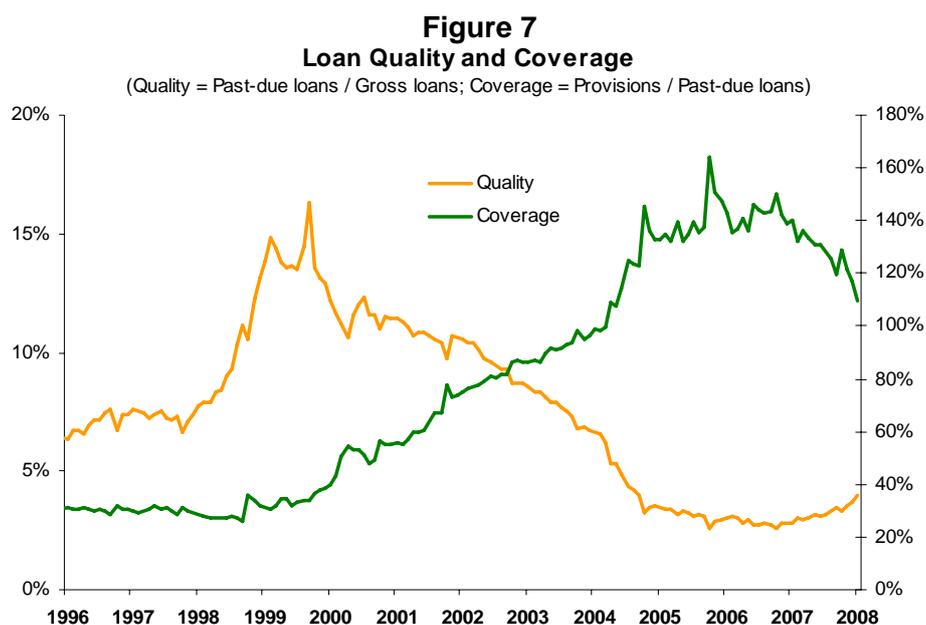
(Annual growth %)



Note: As of March 2008. Loans including leasing operations. Doesn't include state-owned institutions (IOE).

Source: Superintendencia Financiera. Financial statements subject to revision by the SFC.

The recent deceleration of loan growth and a simultaneous increase in past-due loans has resulted in a weakening of most indicators of loan quality (see Table 3). On one hand, loan quality, defined as the ratio of past-due loans to gross loans climbed to 4% in March from a level of 3.3% in December 2007. Loan quality has deteriorated the most in the consumer and microfinance segments. On the other hand, loan coverage reached 109.5%.



Note: As of March 2008. Loans including leasing operations. Doesn't include specialized state-owned institutions (IOE).  
Source: Financial Superintendence. Financial statements subject to revision by the SFC.

The deceleration of loan growth becomes even more evident when looking at loan disbursements (these represent new loans that are different from the stock of loans described at the beginning of this section). Figure 8 shows a seasonal-adjusted series for loan disbursements which showed a peak towards the end of 2006 and started to decline in 2007. Total disbursements increased 11.4% on March 2008, in contrast with a 22% annual increase reported a year earlier. This downturn has been associated to higher interest rates and a recent slowdown of economic activity. Figure 8 also displays loan interest rates which declined throughout 2005-2006 and began an upward trend in 2007. During the first quarter of 2008, loan interest rates have begun to stabilize around the level of 20%.

**Table 4**  
**Loan Disbursements and Interest Rates <sup>1</sup>**  
Figures in million pesos and percentages

	Mar-2008	Mar-2007	Annual growth <sup>2</sup>
<b>Disbursements</b>	21,757,538	19,522,596	11.4%
Commercial <sup>3</sup>	18,929,183	16,107,303	17.5%
Consumer <sup>4</sup>	2,392,250	2,926,806	-18.3%
Mortgage	383,590	426,101	-10.0%
Microfinance	52,515	62,386	-15.8%
<b>Interest Rates <sup>5</sup></b>	20.53%	15.47%	5.1%
Commercial	19.64%	14.86%	4.8%
Consumer	28.53%	19.11%	9.4%
Mortgage	13.20%	11.85%	1.4%
Microfinance	31.41%	26.95%	4.5%

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Loan and leasing operations of credit institutions and credit unions. Doesn't include specialized state-owned institutions (IOE). Loan disbursements and interest rate data is taken from information provided to the SFC (Formato 88).

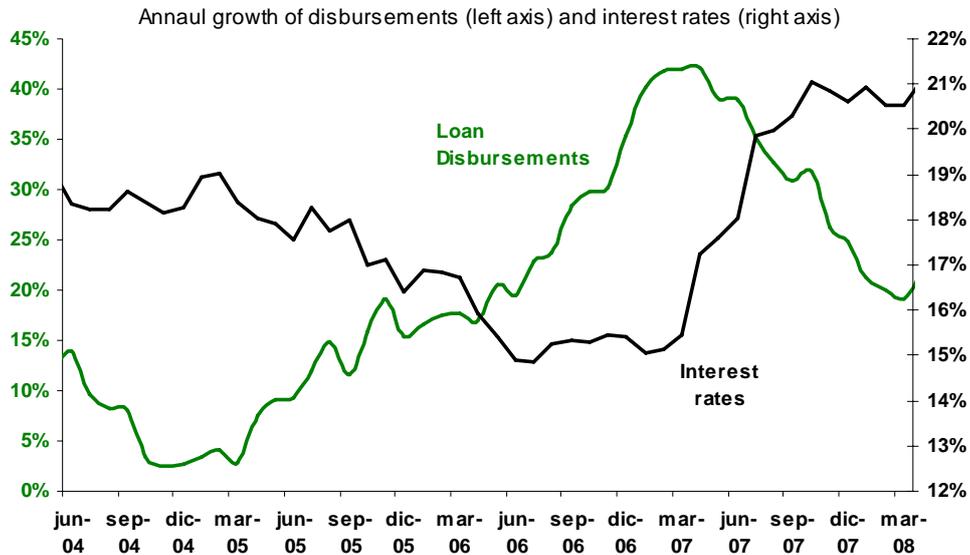
(2) Annual variation of loan disbursements are shown as percentage growth, whereas interest rates are shown as an absolute variation.

(3) Commercial loans include: ordinary, treasury and preferential loans, overdrafts and business credit cards.

(4) Consumer loans include: personal loans and credit cards.

(5) Interest rates are a weighted average of loan amounts and according rates.

**Figure 8**  
**Loan Disbursements and Interest Rates\***



Note: As of March 2008. Loans including leasing operations, including state-owned institutions (IOE).

\* Loan disbursements and interest rate data is taken from information provided to the SFC (Formato 88). Interest rates are a weighted average of loan amounts and according rates. The annual growth of disbursements is an annual accumulated variation in order to account for seasonal effects.

Source: Financial Superintendencia. Financial statements subject to revision by the SFC.

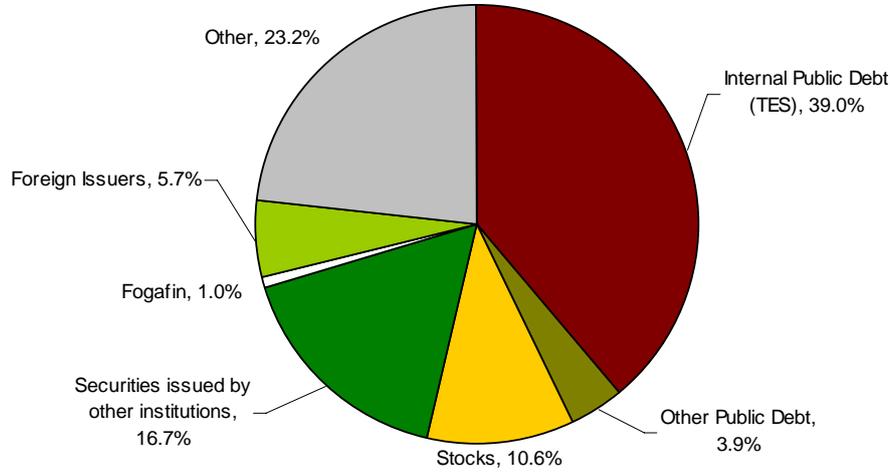
## 2. Market Risk

### Investments

In March 2008 the financial sector reported investments amounting to \$190.6 trillion, showing an increase of 11.3% with respect to March 2007. In Table 1 we reported investments discerning by intermediary type. Investment growth is explained mainly by a positive change in investments managed by financial funds (16.5% with respect to March 2007). Mandatory and voluntary pension funds (FPO and FPV) increased substantially their investments (16% and 13% respectively) despite significant losses suffered during the first months of 2008. Credit institution investments presented an annual growth of 0.9%.

Figure 11 shows the investment portfolio composition for the aggregated financial sector. Data up to March 2008 shows that the financial sector holds 39% of its investments in Colombian government domestic bonds (TES), and 3.9% in other government bonds (such as Yankees). Securities issued by other private institutions make up 16.7% of the portfolio. A look at this composition over recent months shows that government domestic bonds have increased their share. This change in portfolio composition could be explained by a more dynamic fixed-income market during March. Despite lower volatility, uncertainty in stock markets still prevails. Equity's share in portfolio kept decreasing (12 additional bps) while safer securities have become more attractive to investors (foreign issuers and other fixed-income government assets with 13 bps and 8 bps respectively).

**Figure 9**  
**Financial Sector Investment Portfolio**  
(Mar-2008, Total investment = \$190,6 trillion)



Source: Financial Superintendence. Financial statements subject to revision by the SFC.

## Capital Adequacy Ratio <sup>1</sup>

Figure 12 shows the capital adequacy ratio of credit institutions, which reached 13.5% in March 2008, slightly above the level observed in March 2007 (13.1%) and significantly superior to the 9% minimum level imposed by the financial supervisor. This increase in the capital adequacy ratio is due to a substitution between negotiable and available for-sale securities and securities held-to-maturity. A higher amount of securities held-to-maturity decreases the value-at-risk of credit institutions, and therefore increases the capital adequacy ratio.

**Figure 10**  
**Credit Institutions' Solvency Ratio**  
(Percentage)



\* As of March 2008.

Source: Financial Superintendence. Financial statements subject to revision by the SFC.

<sup>1</sup> 
$$CAR = \frac{PT}{APR + \left(\frac{100}{9}RM\right)}$$
 where PT is the regulatory capital, APR are risk-weighted assets and RM is market risk (VaR).

## Value at Risk (VaR)<sup>2</sup>

In Table 6 we present Value at Risk (VaR) for credit institutions and brokerage firms in billion pesos as is reported by these institutions to the Financial Superintendence. Value at Risk is broken down by risk factors.

Credit institutions VaR decreased between February and March 2008 and closed in \$729.6 billion pesos. Interest rate VaR in Credit Institutions decreased notably because of a “better behaved” public debt market during March.

**Table 5**  
**Value at Risk (VaR)<sup>1</sup> according to factors**

Figure in billion pesos

	Credit Institutions		Brokerage Firms	
	Mar-08	Feb-08	Mar-08	Feb-08
Interest rate	562,445	588,917	51,897	42,262
Stocks	111,819	109,913	31,027	30,192
Exchange rate	38,459	34,961	2,513	3,026
Collective funds	18,435	11,215	809	778
<b>Value at Risk (VaR)</b>	<b>729,638</b>	<b>743,101</b>	<b>86,248</b>	<b>76,257</b>

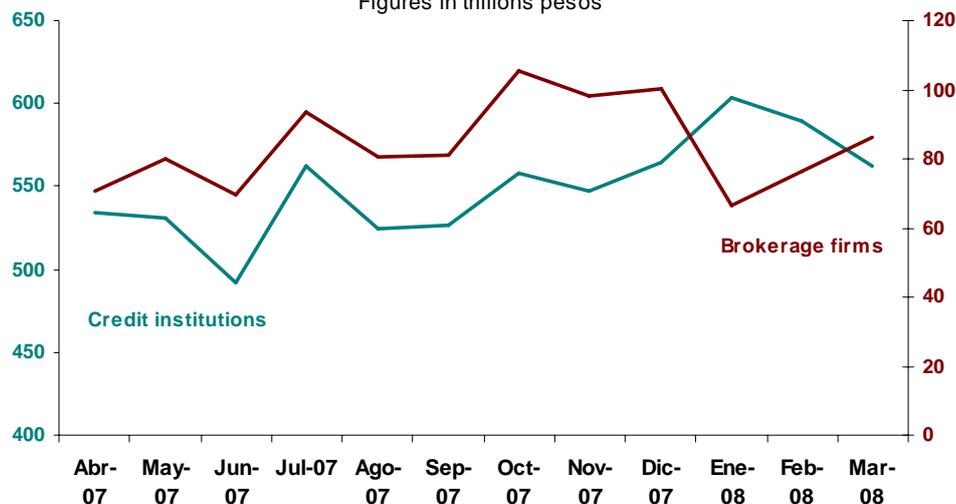
Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Value at Risk (VaR) data is available through Format 386, available since April 2007.

On the other hand, Brokerage firms VaR presented a considerable increase during the month reaching \$86.3 billion pesos. After a large decrease in January 2008 (reduction in amount of investments subject to VaR estimation), VaR has increased substantially. Financial Markets volatility caused an important increase in Equity and Interest rate VaRs.

**Figure 11**  
**Value at Risk (VaR)**

Credit institutions (left axis) and Brokerage Firms (right axis)  
Figures in trillions pesos



Note: VaR data is only available from April 2007 and is reported in Formato 386.

Source: Financial Superintendence.

<sup>2</sup> According to the new Standard Model of market risk measurement, only investments that are classified in treasury-books are considered in the calculation of Value-at-Risk. These positions include negotiable securities and securities available-for-sale. Securities denominated in foreign currency that are registered in banking-books are also taken into account in the VaR

### III. Financial Market Developments

During the first quarter of 2008, turbulence in global markets (spurred by fears of an imminent recession in the US) contributed to greater volatility in Colombian financial markets. In turn, volatility negatively affected the investment portfolio of most financial intermediaries. Even though the outlook for global markets is not yet clear, there is evidence that gives support to the “de-coupling” of emerging markets with respect to developed economies. In Colombia, negative data from international markets has been offset (to some degree) by solid domestic macroeconomic data (high economic growth, lower inflation and more stable interest rates).

Exchange rate volatility is still high, and the price of the dollar oscillated in an \$83.75 pesos interval. Diplomatic crisis with Venezuela, Ecuador and Nicaragua implied a considerable devaluation on the first week of March. The exchange rate kept appreciating after setting solutions to the diplomatic impasse.

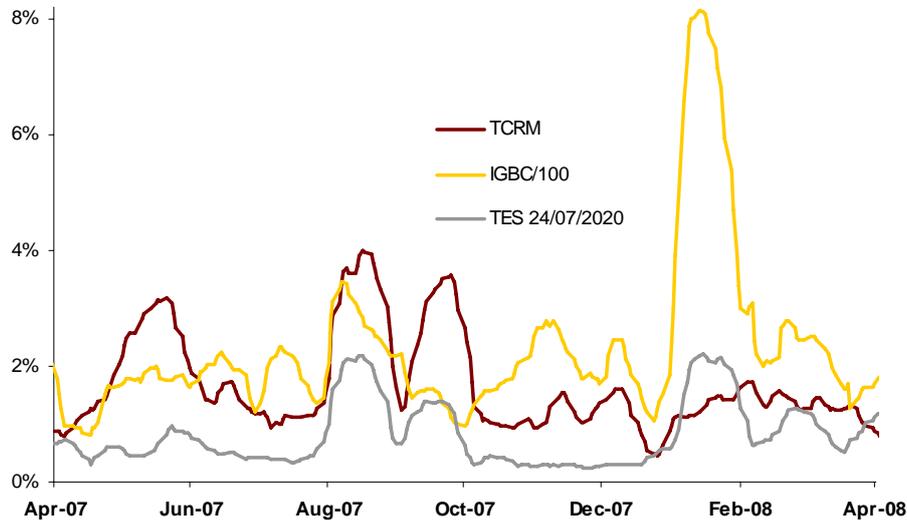


Peso appreciation is partly caused by a widening of the interest rate differential between Colombian and American interest rates. While the Central Bank kept unchanged its intervention interest rate at 9.75%, the FED cut 75 additional bps to its benchmark interest rate (2.25%). Furthermore, most currencies have presented similar behaviors (Euro and Yen for example) showing dollar price deterioration caused by growing fears of a possible recession in US economy.

**Figure 13**

**Asset Price Volatility**

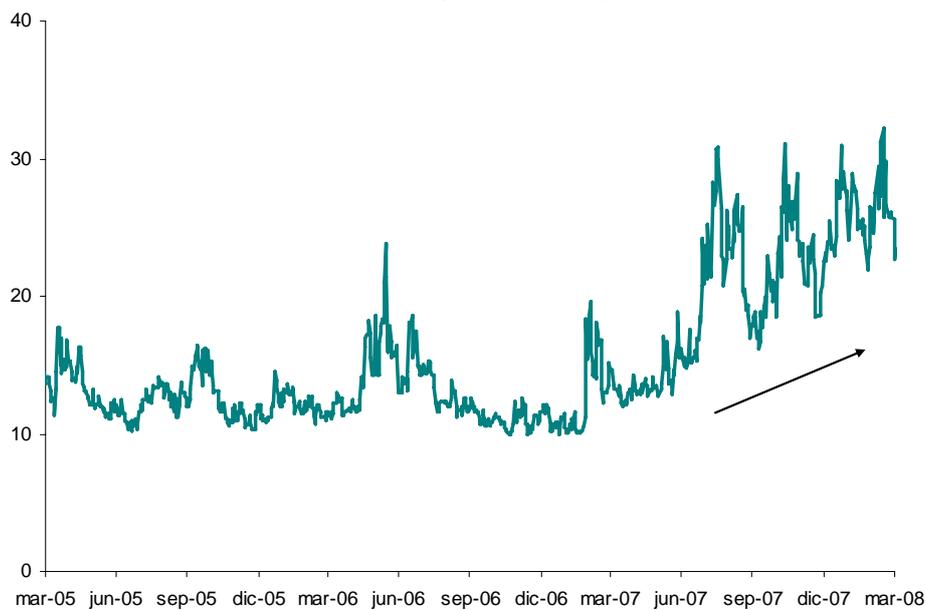
Exchange rate (TRM), Public debt (TES 2020) and Stock index (IGBC)



Note: Volatility = Standard deviation of prices from the last 30 days / average price of last 30 days.  
Fuente: Bloomberg.

Stock Market volatility presented a substantial decrease in March 2008. The Colombian Stock Exchange Index (IGBC) remained mostly unchanged during February and March. World stock exchange indexes described similar patterns as showed in Figure 16 using the VIX Index. On March 17, the VIX Index reached its 2008 highest value (32.24%) after Bear Stearns faced a forthcoming bankruptcy selling 40% of its equity to JP Morgan Chase.

**Figure 14**  
**Volatility Index (VIX)**



Source: Bloomberg

## IV. Conclusions

- The first few months of 2008 were especially difficult for most financial institutions, as intermediaries suffered losses on their investments as a result of market volatility. Fears of a possible recession in the US and financial market turmoil affected investments for most Colombian financial intermediaries.
- Despite a slight slowdown of the credit boom in recent years, credit institutions continue to outperform most financial intermediaries, reporting profit growth of almost 14% on a yearly basis. On the other hand, most financial funds continue to present losses; situation that is closely related to a poor performance of their investments.
- Throughout the first quarter of 2008, loan growth has slowed down compared to 2007. Loan growth has decelerated more aggressively in the consumer loan segment.
- The recent deceleration of loan growth and a simultaneous increase in past-due loans has resulted in a weakening of most indicators of loan quality
- Total investments in March 2008 reached \$190.6 trillion, equivalent to an increase of 11.3% when compared to March 2007. Less risky fixed-income assets have increased their share in portfolio, while equity' share still declines due to high uncertainty prevailing.
- Capital adequacy of credit institutions increased in 2007 and lays 450 bps above the minimum requirement imposed by the Financial Superintendence. This increase is partly due to a larger amount of securities held-to-maturity which in turn reduces the measure of value at risk (VaR).
- Local financial markets' volatility decreased during March 2008 in contrast with previous months, as a result of good news in inflation and US economy. TES prices' behavior has improved, the exchange rate has appreciated, and the stock exchange's volatility has declined.

## APPENDIX 1: FINANCIAL STATEMENTS BY INSTITUTION

### Financial Accounts of Credit Institutions Figures in million pesos and percentages

Financial Intermediaries	Mar-2008					Annual growth <sup>1</sup>				
						Mar-2008 / Mar-2007				
	Assets	Investment	Loans <sup>2</sup>	Net worth	Profit	Assets (%)	Investment (%)	Loans (%)	Net worth (%)	Profit (\$ m)
<b>Commercial Banks</b>	161,116,975	31,299,306	109,259,663	17,528,262	1,127,443	13.2%	-1.5%	20.6%	15.3%	289,387
<b>Financial Corporations</b>	4,139,015	3,013,260	-	2,152,643	93,984	25.5%	21.8%	-100.0%	19.1%	31,576
<b>Commercial Financing Companies</b>	20,427,888	670,091	17,335,330	1,913,917	91,464	29.4%	34.0%	30.8%	26.0%	13,174
<b>Financial Credit Unions</b>	2,259,636	102,832	2,027,852	289,003	11,043	215.8%	208.4%	227.8%	103.2%	5,744
<b>Superior Grade Cooperatives (OCGS)</b>	92,100	4,946	73,105	16,694	131	16.8%	38.2%	13.4%	0.2%	-286
<b>TOTAL</b>	<b>188,035,614</b>	<b>35,090,436</b>	<b>128,695,950</b>	<b>21,900,519</b>	<b>1,324,065</b>	<b>15.9%</b>	<b>0.9%</b>	<b>23.1%</b>	<b>17.2%</b>	<b>339,596</b>

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Variation in assets, investment and net worth are percentage change (%), whereas profit variation is presented in absolute values in million pesos (\$ m).

(2) Gross loans = Net loans + Provisions

### Financial Accounts of the Insurance Industry Figures in million pesos and percentages

Financial Intermediaries <sup>3</sup>	Mar-2008					Annual growth <sup>1</sup>				
						Mar-2008 / Mar-2007				
	Assets	Investment	Loans <sup>2</sup>	Net worth	Profit	Assets (%)	Investment (%)	Loans (%)	Net worth (%)	Profit (\$ m)
<b>Capitalization Companies</b>	1,001,875	872,142	21,747	181,504	-7,459	-33.9%	-22.5%	-24.6%	-69.1%	-21,234
<b>General Insurance</b>	7,112,561	3,601,606	65,407	1,835,937	-11,690	3.3%	7.0%	86.2%	-9.2%	-29,504
<b>Life Insurance</b>	8,947,920	7,274,952	250,473	1,776,388	18,250	8.4%	16.3%	9.2%	-17.7%	-46,270
<b>Insurance Credit Unions</b>	306,914	155,015	2,229	89,951	-338	14.4%	18.6%	97194.6%	16.6%	-444
<b>Insurance Brokerage Firms</b>	212,049	13,744	-	122,557	-	1.2%	-29.3%	-	8.5%	-13,558
<b>TOTAL</b>	<b>17,581,319</b>	<b>11,917,459</b>	<b>339,856</b>	<b>4,006,337</b>	<b>-1,237</b>	<b>2.6%</b>	<b>9.3%</b>	<b>15.9%</b>	<b>-19.2%</b>	<b>-111,010</b>

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Variation in assets, investment and net worth are percentage change (%), whereas profit variation is presented in absolute values in million pesos (\$ m).

(2) Gross loans = Net loans + Provisions

(3) Insurance companies report financial statements on a quarterly basis, figures here presented correspond to March 2008.

### Financial Accounts of Pension and Severance Funds Figures in million pesos and percentages

Financial Intermediaries	Mar-2008					Annual growth <sup>1</sup>				
						Mar-2008 / Mar-2007				
	Assets	Investment	Loans	Net worth	Profit <sup>2</sup>	Assets (%)	Investment (%)	Loans (%)	Net worth (%)	Profit (\$ m)
<b>TOTAL PENSION AND SEVERANCE FUND MANAGERS (AFP) <sup>3</sup></b>	<b>1,248,310</b>	<b>847,719</b>	<b>-</b>	<b>974,123</b>	<b>47,851</b>	<b>15.7%</b>	<b>24.0%</b>	<b>-</b>	<b>16.0%</b>	<b>888</b>
<b>Mandatory Pension Funds (FPO)</b>	50,827,481	49,710,084	-	50,792,460	-1,590,120	15.8%	16.0%	-	15.8%	-1,039,691
<b>Voluntary Pension Funds (FPV)</b>	6,543,542	5,008,743	-	6,216,555	-79,997	6.0%	1.3%	-	1.4%	-48,010
<b>Severance Funds (FC)</b>	5,045,660	4,699,024	-	5,010,268	-72,342	3.2%	-2.1%	-	3.8%	-10,707
<b>TOTAL PENSION AND SEVERANCE FUNDS</b>	<b>62,416,683</b>	<b>59,417,851</b>	<b>-</b>	<b>62,019,283</b>	<b>-1,742,459</b>	<b>13.6%</b>	<b>12.9%</b>	<b>-</b>	<b>13.1%</b>	<b>-1,098,408</b>

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Variation in assets, investment and net worth are percentage change (%), whereas profit variation is presented in absolute values in million pesos (\$ m).

(2) Profits correspond to PUC account 5700 ("expected return") for pension funds, FCO, FCE, and other trust fund assets; for the remaining institutions profits correspond to PUC account 5900 ("profits and

(3) Pension fund financial statements excludes information for the "defined-benefit" pension regime.

### Financial Accounts of Trust Funds and Mutual Funds Figures in million pesos and percentages

Financial Intermediaries	Mar-2008					Annual growth <sup>1</sup>				
						Mar-2008 / Mar-2007				
	Assets	Investment	Loans <sup>2</sup>	Net worth	Profit <sup>3</sup>	Assets (%)	Investment (%)	Loans (%)	Net worth (%)	Profit (\$ m)
<b>TOTAL TRUST FUND MANAGERS</b>	<b>1,040,272</b>	<b>622,216</b>	<b>-</b>	<b>772,638</b>	<b>50,983</b>	<b>17.4%</b>	<b>19.7%</b>	<b>-</b>	<b>12.1%</b>	<b>16,474</b>
<b>Ordinary Mutual Funds (FCO)</b>	9,771,544	4,705,885	-	9,624,906	185,467	11.0%	34.5%	-	10.3%	64,020
<b>Specialized Mutual Funds (FCE)</b>	2,767,833	1,726,758	-	2,687,206	49,612	5.8%	30.5%	-	3.1%	20,683
<b>Other Trust Fund Assets <sup>4</sup></b>	28,527,102	27,558,217	-	27,614,268	105,651	24.9%	23.5%	-	23.3%	84,231
<b>Pension Liability Fund (FPP)</b>	866,678	731,749	-	863,729	11,440	4.3%	27.3%	-	4.3%	5,012
<b>FPV administered by Trust Funds</b>	68,574,704	32,880,250	634,276	43,728,976	6,346	#N/A	#N/A	#N/A	#N/A	#N/A
<b>TOTAL TRUST AND MUTUAL FUNDS</b>	<b>110,507,861</b>	<b>67,602,859</b>	<b>634,276</b>	<b>84,519,086</b>	<b>358,518</b>	<b>15.0%</b>	<b>20.7%</b>	<b>204.4%</b>	<b>16.0%</b>	<b>174,850</b>

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Variation in assets, investment and net worth are percentage change (%), whereas profit variation is presented in absolute values in million pesos (\$ m).

(2) Gross loans = Net loans + Provisions

(3) Profits correspond to PUC account 5700 ("expected return") for pension funds, FCO, FCE, and other trust fund assets; for the remaining institutions profits correspond to PUC account 5900 ("profits and

(4) Other Trust-Fund Assets report financial statements on a quarterly basis, figures here presented correspond to March 2008.

## Financial Accounts of Brokerage and Investment Intermediaries

Figures in million pesos and percentages

Financial Intermediaries	Mar-2008					Annual growth <sup>1</sup>				
						Mar-2008 / Mar-2007				
	Assets	Investment <sup>2</sup>	Loans	Net worth	Profit	Assets (%)	Investment (%)	Loans (%)	Net worth (%)	Profit (\$ m)
Stock Brokerage Firms	3,674,409	454,078	-	896,342	-19,799	11.6%	36.7%	-	18.7%	-6,878
Agricultural Brokerage Firms	57,682	17,334	-	31,592	1,254	31.8%	35.5%	-	11.9%	146
Independent Brokerage Firms	1,120	840	-	1,071	-6	4.7%	8.5%	-	6.1%	-20
Investment-Fund Managers	49,883	23,307	-	37,610	-304	0.1%	-19.1%	-	10.1%	-70
<b>TOTAL BROKERAGE AND INVESTMENT-FUND MANAGERS</b>	<b>3,783,094</b>	<b>495,559</b>	<b>-</b>	<b>966,614</b>	<b>-18,856</b>	<b>11.7%</b>	<b>32.3%</b>	<b>-</b>	<b>18.1%</b>	<b>-6,822</b>
Mutual-Investment Funds (FMI)	621,506	521,361	-	600,745	-30,819	-5.1%	-4.1%	-	-	-22,110
Investment Funds (FI)	580,026	446,663	-	563,314	-15,504	13.0%	8.8%	-	13.4%	-9,857
Value Funds (FV)	2,365,642	1,474,081	-	2,336,075	-21,889	-1.3%	-5.2%	-	-1.5%	-24,455
<b>TOTAL INVESTMENT AND VALUE FUNDS</b>	<b>3,567,175</b>	<b>2,442,106</b>	<b>-</b>	<b>3,500,134</b>	<b>-68,212</b>	<b>0.1%</b>	<b>-2.6%</b>	<b>-</b>	<b>-0.1%</b>	<b>-56,422</b>

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Variation in assets, investment and net worth are percentage change (%), whereas profit variation is presented in absolute values in million pesos (\$ m).

(2) Investment data corresponds to PUC account 1200, excluding derivatives and repurchase operations.

## Financial Accounts of Financial Infrastructure Providers

Cifras en millones de pesos y porcentajes

Financial Intermediaries	Mar-2008					Annual growth <sup>1</sup>				
						Mar-2008 / Mar-2007				
	Assets	Investment	Loans <sup>2</sup>	Net worth	Profit	Assets (%)	Investment (%)	Loans (%)	Net worth (%)	Profit (\$ m)
Foreign Exchange Offices	143,984	3,075	-	76,689	-2,830	-11.1%	44.0%	-	-11.4%	2,867
General Deposit Stores (AGD)	512,590	38,358	704	384,170	-8,948	-17.1%	-56.8%	41.4%	-12.3%	-11,083
Low-value Payment System Administrator	251,813	52,608	-	173,687	5,612	0.3%	-33.6%	-	7.7%	-173
Colombian Stock Exchange (BVC) <sup>3</sup>	109,553	49,298	-	78,055	6,261	9.7%	-21.2%	-	32.8%	-796
Agricultural Stock Exchange <sup>3</sup>	39,929	8,170	-	33,760	2,079	32.3%	173.6%	-	21.8%	773
Agricultural Stock Clearing-house <sup>3</sup>	9,084	2,625	-	7,180	49	11.8%	40558%	-	139.6%	-140
Risk-Rating Agencies <sup>3</sup>	6,174	211	-	4,297	435	6.5%	57.3%	-	111.1%	206
Centralized Deposit Administrator (Deceval) <sup>3</sup>	75,875	53,823	-	48,360	5,404	13.2%	14.1%	-	13.0%	2,052
Stock Market Regulator (AMEV) <sup>3</sup>	3,053	-	-	2,023	297	-5.0%	-	-	10.0%	162
<b>TOTAL</b>	<b>1,152,055</b>	<b>208,169</b>	<b>704</b>	<b>808,221</b>	<b>8,358</b>	<b>-7.5%</b>	<b>-26.4%</b>	<b>41.4%</b>	<b>-1.7%</b>	<b>-6,134</b>

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Variation in assets, investment and net worth are percentage change (%), whereas profit variation is presented in absolute values in million pesos (\$ m).

(2) Gross loans = Net loans + Provisions

(3) Investment data corresponds to PUC account 1200, excluding derivatives and repurchase operations.

## Financial Accounts of Specialized State-Owned Institutions (IOE)

Figures in million pesos and percentages

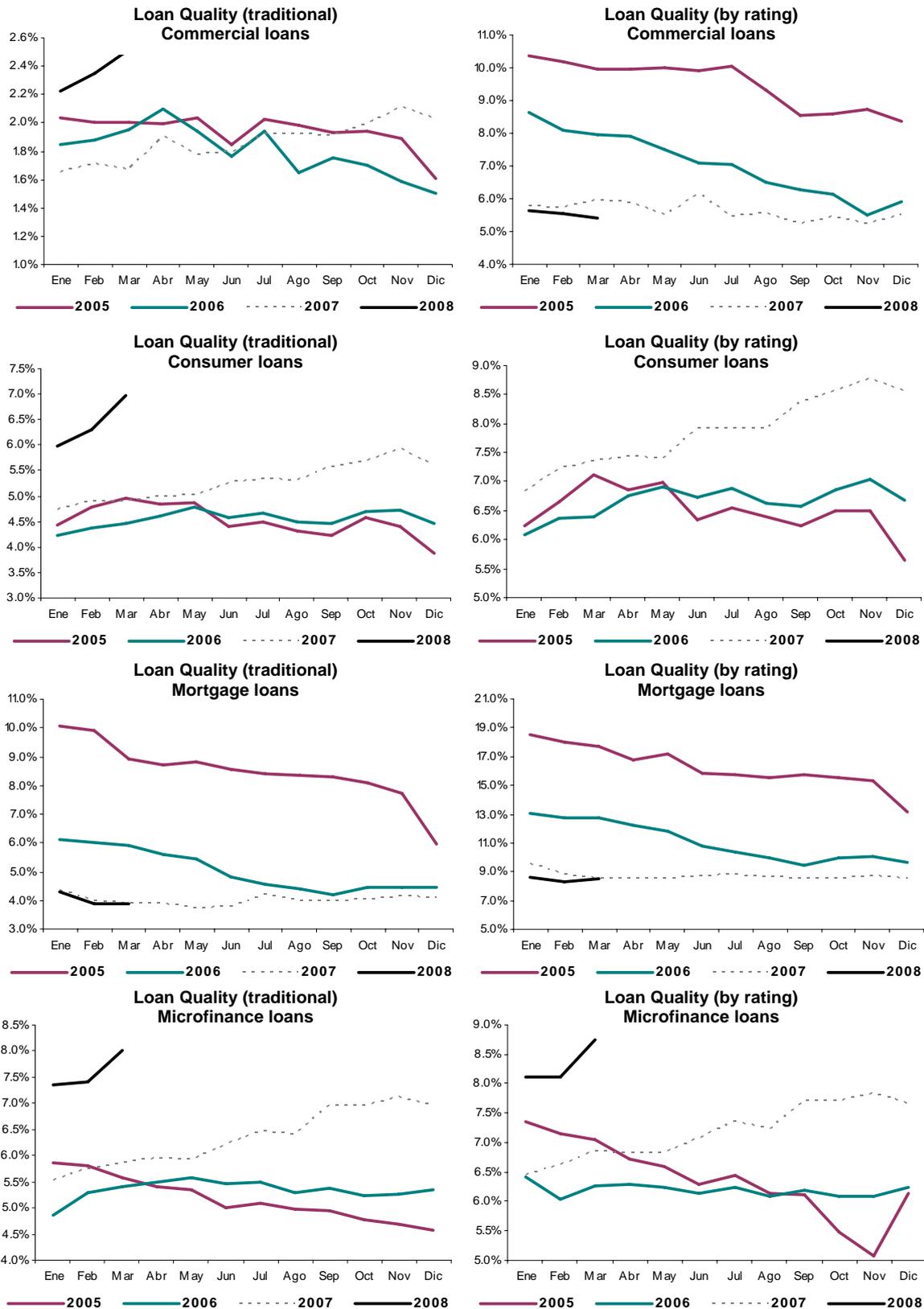
Institution	Mar-2008					Annual growth <sup>1</sup>				
						Mar-2008 / Mar-2007				
	Assets	Investment	Loans <sup>2</sup>	Net worth	Profit	Assets (%)	Investment (%)	Loans (%)	Net worth (%)	Profit (\$ m)
Bancoldex	4,751,769	300,956	4,371,137	1,296,437	29,721	32.8%	-34.5%	43.7%	5.0%	12,001
Findeter	3,386,244	11,228	3,116,699	702,464	10,456	16.9%	-86.2%	22.7%	5.0%	3,331
FEN	991,311	778,396	413,476	950,852	45,057	6.6%	30.5%	-9.1%	9.3%	24,396
Finagro	4,043,964	26,385	3,925,616	409,117	11,211	5.8%	-92.7%	15.5%	14.9%	-618
Icetex	1,169,154	82,266	1,127,521	960,225	7,072	15%	-1%	22%	5%	13,300
Fonade	1,379,016	900,113	6,165	101,582	3,813	2.0%	-16.2%	-62.3%	6.2%	2,832
Fogafin	7,522,192	5,756,253	0	11,193	4,358	-9.6%	-9.3%	-100.0%	-97.3%	-2,648
Fondo Nacional del Ahorro	3,046,299	964,881	1,925,164	1,437,165	15,018	17.6%	12.8%	17.8%	5.0%	-7,685
Fogacoop	249,426	194,354	-	49,048	3,590	12.2%	12.6%	-	16.0%	1,870
FNG	374,555	317,460	86,181	229,056	-1,633	27.9%	30.6%	40.5%	15.9%	-5,345
Caja de Vivienda Militar	2,868,540	2,637,908	6,864	102,794	-1,878	17.8%	18.1%	-66.4%	7.3%	1,161
<b>TOTAL IOEs</b>	<b>29,782,470</b>	<b>11,970,200</b>	<b>14,978,822</b>	<b>6,249,932</b>	<b>126,785</b>	<b>8.5%</b>	<b>-4.3%</b>	<b>23.8%</b>	<b>-0.1%</b>	<b>42,595</b>

Financial statements subject to revision by the SFC. Figures reported until the 22nd of April 2008.

(1) Variation in assets, investment and net worth are percentage change (%), whereas profit variation is presented in absolute values in million pesos (\$ m).

(2) Gross loans = Net loans + Provisions

## APPENDIX 2: ADDITIONAL INDICATORS OF CREDIT RISK Loan Quality Indicators by Loan Type



Fuente: Superintendencia Financiera. Estados financieros sujetos a corrección por la SFC.

## Indicadores de Cubrimiento por Modalidad de Crédito



Fuente: Superintendencia Financiera. Estados financieros sujetos a corrección por la SFC.