Shaded section 1: **Importance of Monitoring Credit Institutions' Consolidated Balance Sheets**

In recent years, the institutions of the Colombian financial system have expanded their operations and have made their ownership structures more complex given the presence of different financial groups in various lines of business (such as banking intermediation). The existence of a common capital to support the activity of these different niches, and the presence of cross trades between institutions in the same group have generated the necessity to analyze the consolidated financial statements[1] of the entities in order to more accurately measure their balance sheet and their exposure to risks.[2]

A particularly relevant case in which the analysis of consolidated balance sheets becomes necessary is that of the presence of Colombian subsidiaries abroad, which constitutes a more complex and dynamic scenario, and one in which supervision and monitoring at the consolidated level becomes more relevant from a financial stability perspective.

Expansion into other jurisdictions may bring different benefits to financial institutions. For example, authors such as Berger et al. (2000) mention some, such as value maximization, cost reduction, and risk diversification. However, the analysis of these structures presents challenges, considering the economic scope, the interconnection between entities, and the coexistence of different regulatory systems (BIS, 2012).

The assets of Colombian banks abroad represented COP 317.3t(USD 79.711 million) in December 2021. The highest concentration of foreign banking assets is in Panama (44.5%). However, the participation of these entities in the Panamanian banking system is 26%. The countries that follow Panama in terms of asset representation are El Salvador and Costa Rica with 14.1% and 13.9% respectively (Graph A).

References

Berger, Allen; DeYoung, Robert; Genay, Hesna; Udell, Gregory F. (2000). "Globalization of Financial Institutions: Evidence from Cross-Border Banking Performance", FRB Chicago Working Paper, no. 1999-25.

The Basel Committee on Banking Supervision (2012). "Principles for the Supervision of Financial Conglomerates".

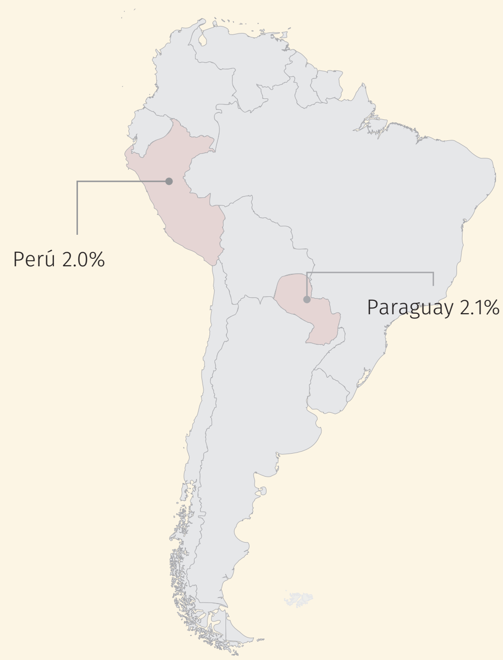
1 According to Chapter X of the Basic Accounting and Financial Circular of the Office of the Financial Superintendent of Colombia, consolidated financial statements are those that "[...] present the financial position, results of operations, changes in equity as well as cash flows of a parent or controlling entity and its subordinate or dominated entities, all of which are subject to the inspection and surveillance of the Office of the Financial Superintendent of Colombia, as if they were those of a single company. This implies the elimination of reciprocal operations and transactions between the entities subject to consolidation."

2 Not all financial groups account at the consolidate level their component entities on their balance sheets through a holding company. An example of this is insurance companies, for which the regulations prevent a credit institution from consolidating them. Despite the above, both can be consolidated by group rather than in a particular entity.

Graph A
Foreign Bank Subsidiaries by Region

A. Central America

B. South America



Note 1: the percentages represent the share of the assets of subordinate banks in each jurisdiction to the total foreign assets of Colombian banks.
Note 2: there is also a Colombian presence in other countries such as Barbados, Puerto Rico, Cayman Islands, and Bahamas. They are not shown on the graph since they represent less than 2.0% of the total.
Source: Office of the Financial Superintendent of Colombia; calculations by *Banco de la República*.