Colombia's Sovereign Rating

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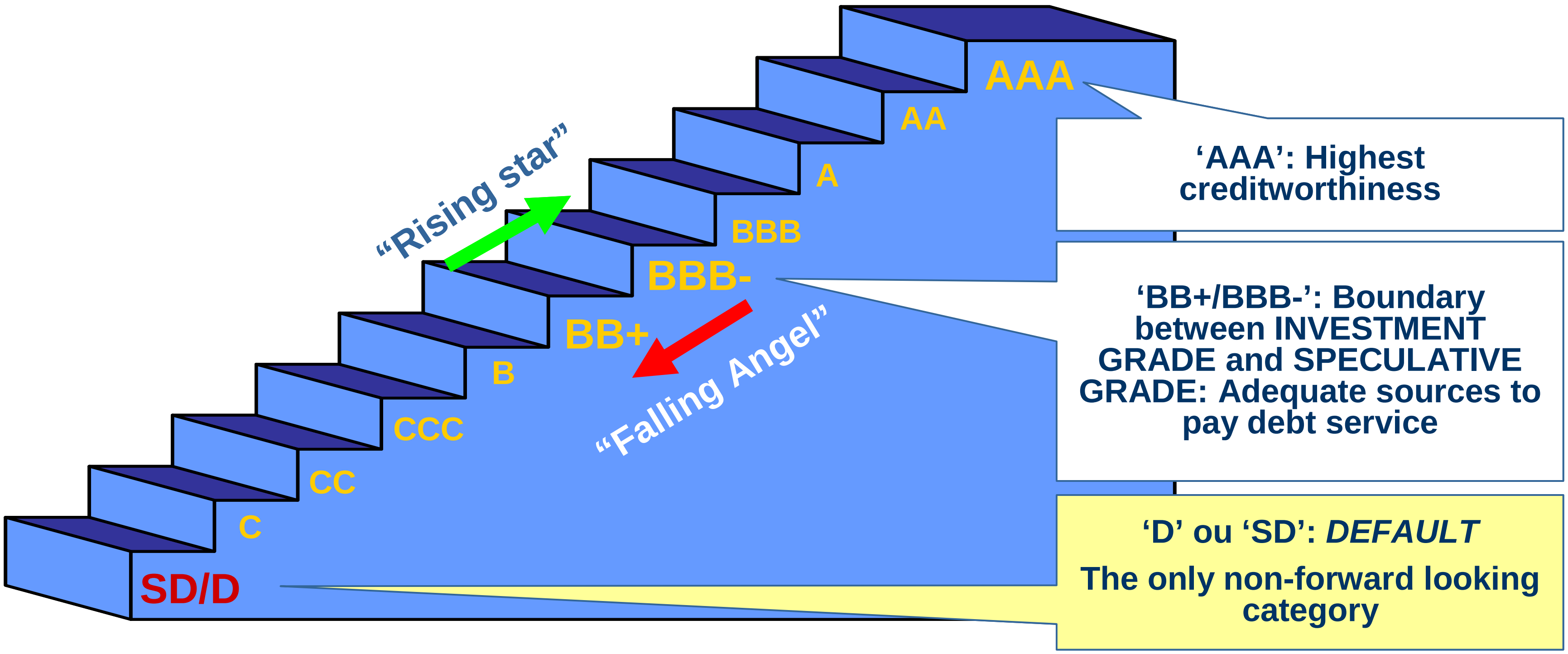
Agenda

- Review of Standard & Poor's sovereign rating methodology
- Latin American sovereign credit ratings facing global financial uncertainty
- Colombia from a sovereign rating perspective

Sovereign Rating Methodology

Standard & Poor's Ratings



Sovereign Rating

- Reflects the sovereign government’s ability and willingness to service its debt in full and on time
- Is a forward looking estimate of default probability
- Is not a recommendation to buy or sell a security or a prediction of the stability or volatility of a security price
- It's not an endorsement or a condemnation of a set of governmental policies, except to the extent that they have an impact on ability to service debt.
- Addresses the relative credit standing of governments vs. other issuers globally.
- Is not a “Country Rating”

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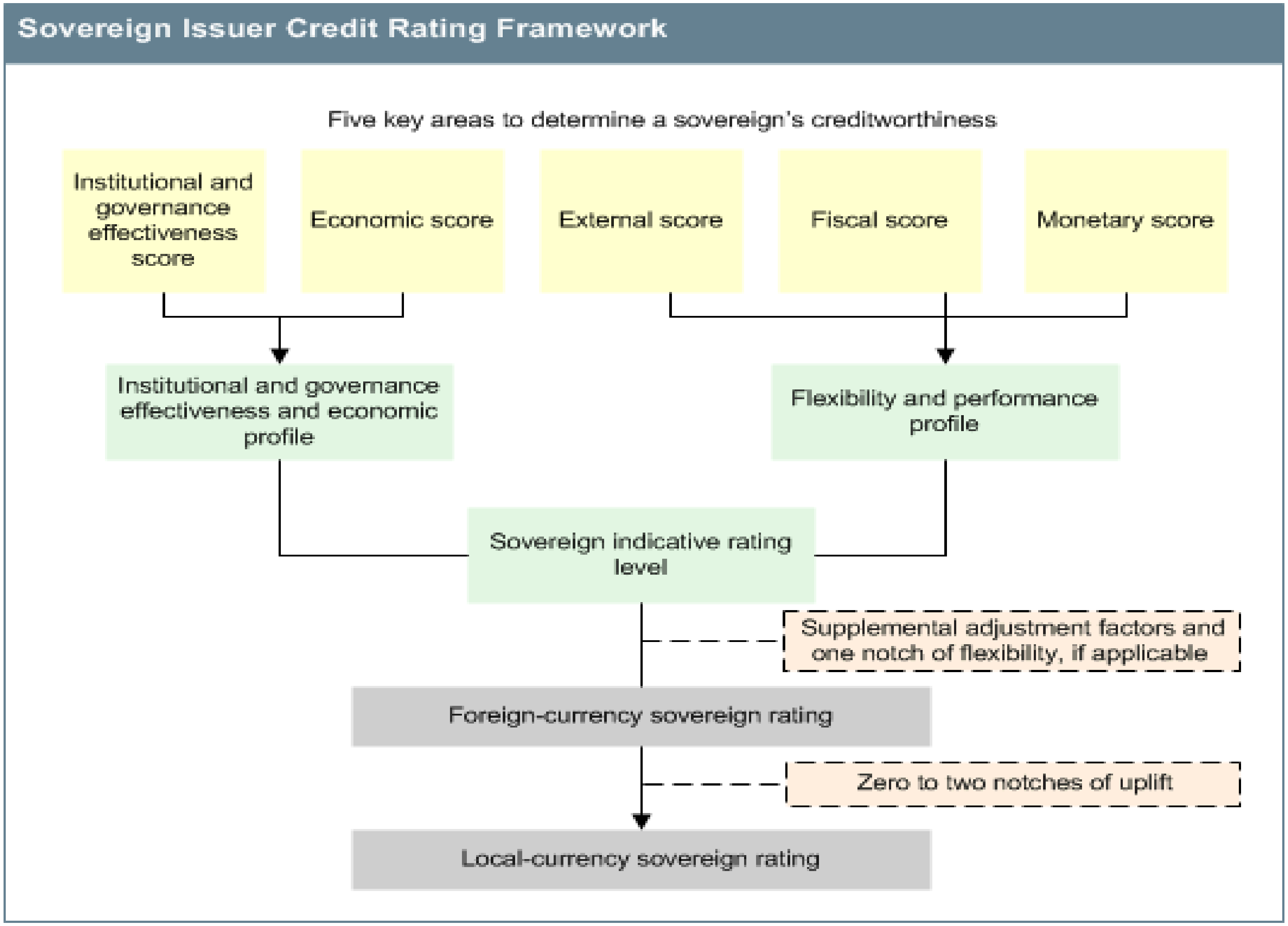
Sovereign Rating Criteria

- **Institutional and governance effectiveness**
- **Economic structure and growth prospects**
- **External liquidity and international investment position**
- **Fiscal performance and flexibility, as well as debt burden**
- **Monetary flexibility**

Sovereign Rating Criteria



Growing Latin American Resilience But Challenges Remain

Latin America Facing Global Financial Instability

- The region has benefited from favorable terms of trade
- In addition, improving economic management contributed to anchor stability in the region by reducing main vulnerabilities.
- External debt levels have declined extensively and fiscal vulnerabilities have moderated.
- Still, real economic links could still affect economic activity in Latin America and deteriorate credit quality over time.

Sovereign Ratings: Latin America & Caribbean (June 2015)

Chile *AA-/AA+*

Bermuda *A+/A+*

Trinidad & Tobago *A/A*

Curacao *A-/A-*

Mexico *BBB+/A*

Peru *BBB+/A-*

Aruba *BBB+/BBB+*

Turks and Caicos Islands *BBB+/BBB+*

Colombia *BBB/BBB+*

Panama *BBB/BBB*

Uruguay *BBB/BBB*

Bahamas *BBB/BBB*

Brazil *BBB-/BBB+*

Montserrat *BBB-/BBB-*

Guatemala BB/BB+

Bolivia *BB/BB*

Costa Rica *BB/BB*

Paraguay *BB/BB*

Suriname *BB-/BB-*

Dominican Republic *BB-/BB-*

El Salvador *B+/B+*

Ecuador *B+/B+*

Honduras *B/B*

Barbados *B/B*

Belize *B-/B-*

Jamaica *B/B*

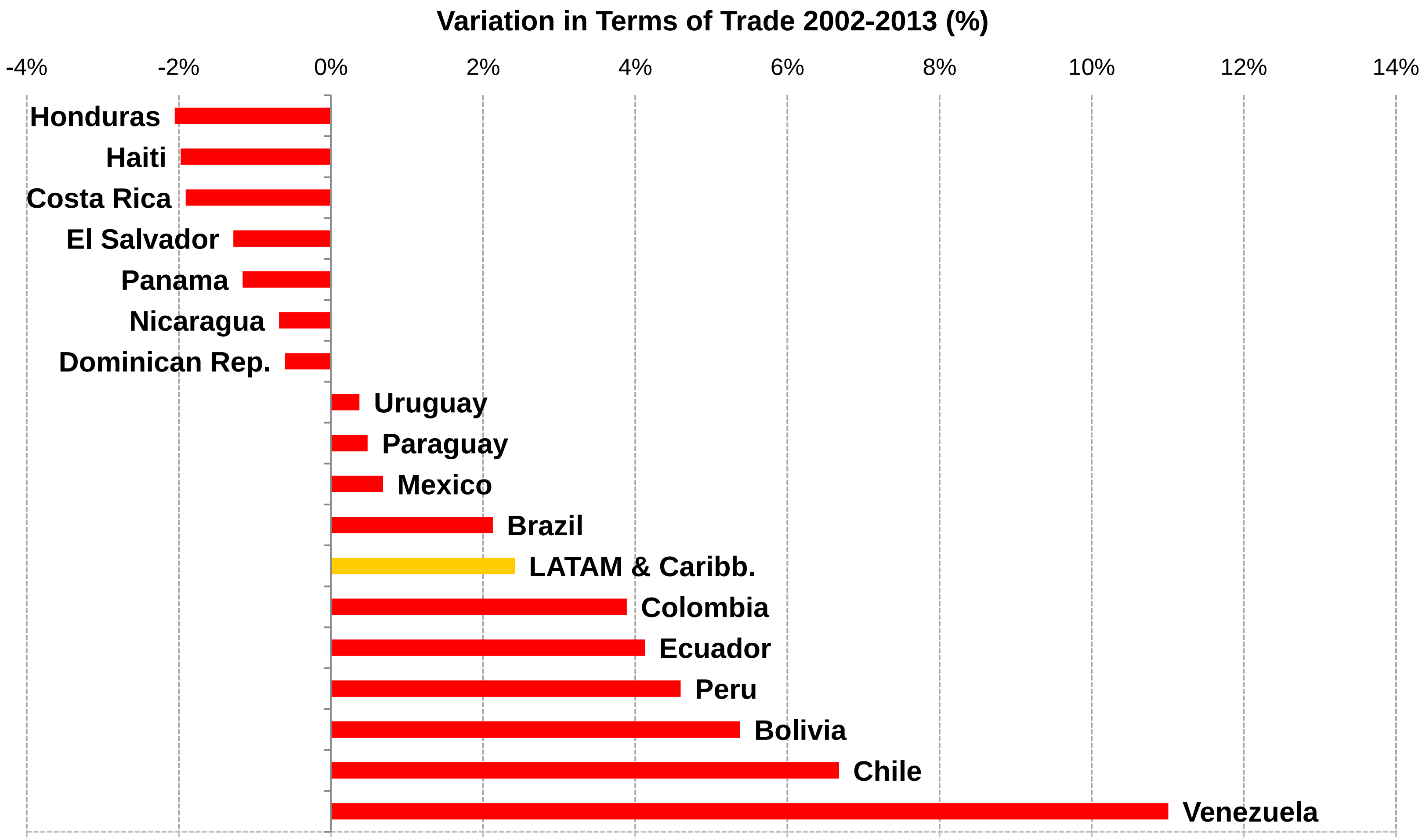
Venezuela *CCC/CCC*

Argentina *SD/CCC+*

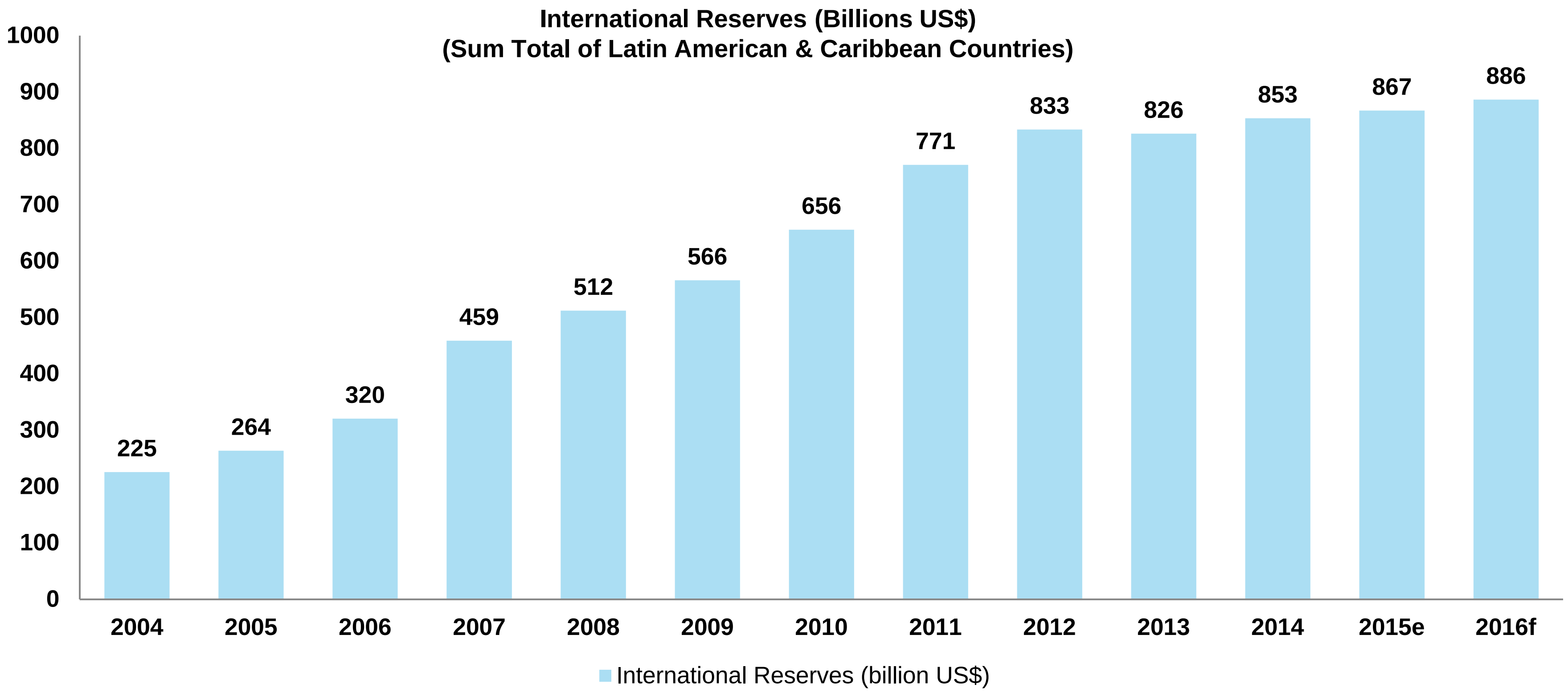
Outlook/CreditWatch: Stable, Positive, Negative

Rating: Foreign Currency/ Local Currency

Latin American Sovereigns: Main Indicators

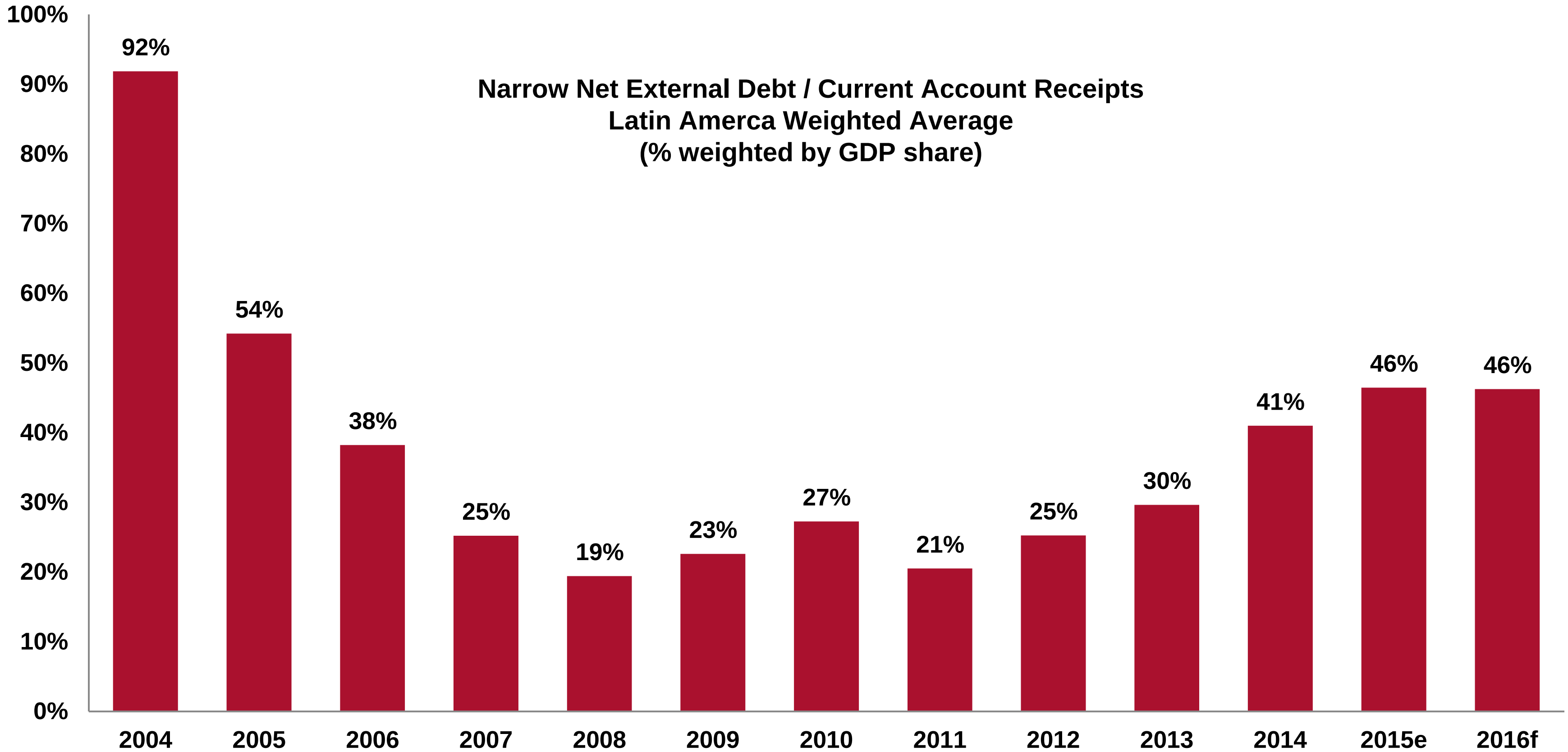


Latin American & Caribbean Sovereigns: Accumulation of Reserves



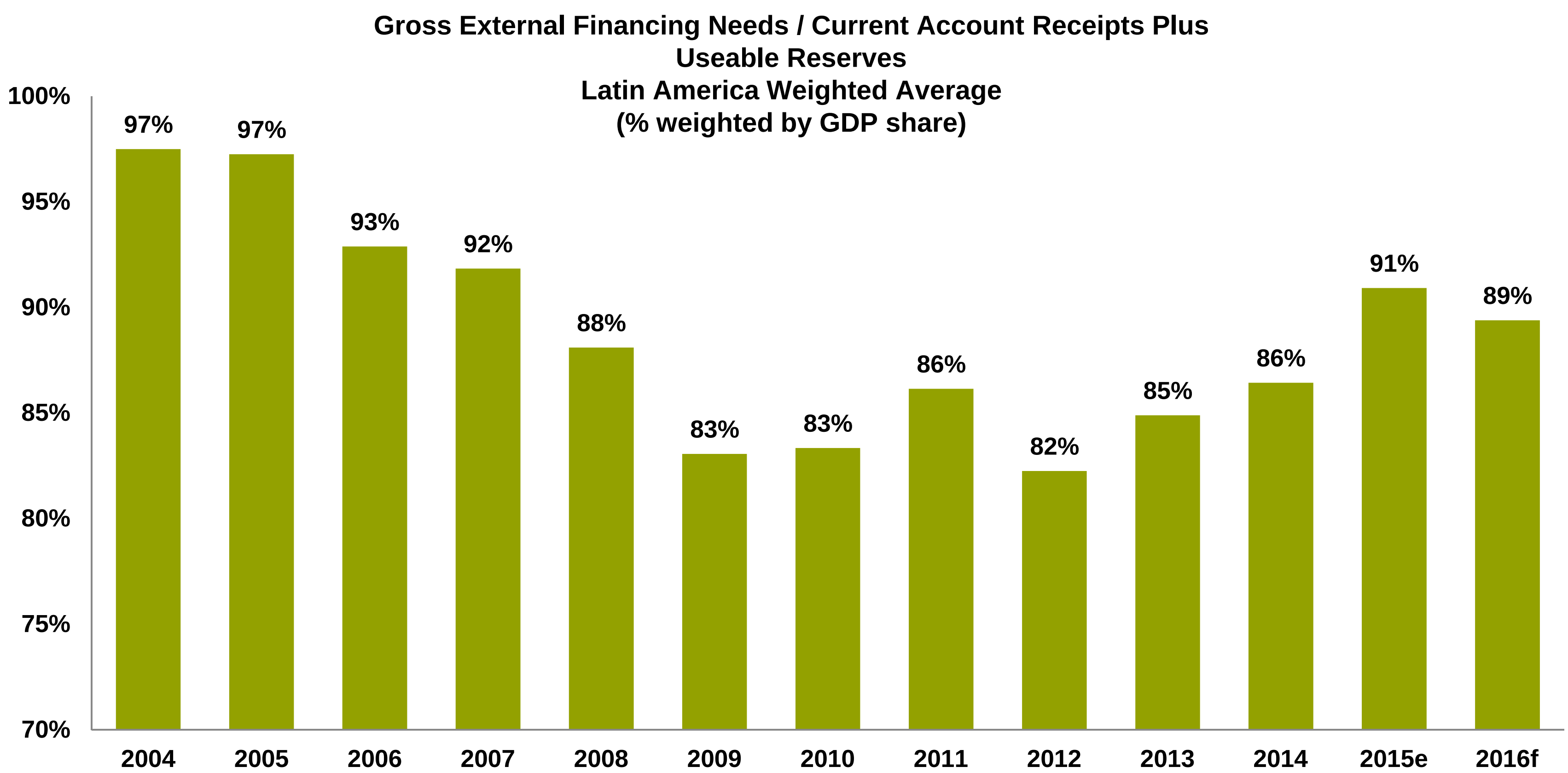
Source: Sovereign S&P Database, March 2015

Latin American & Caribbean Sovereigns: External Debt



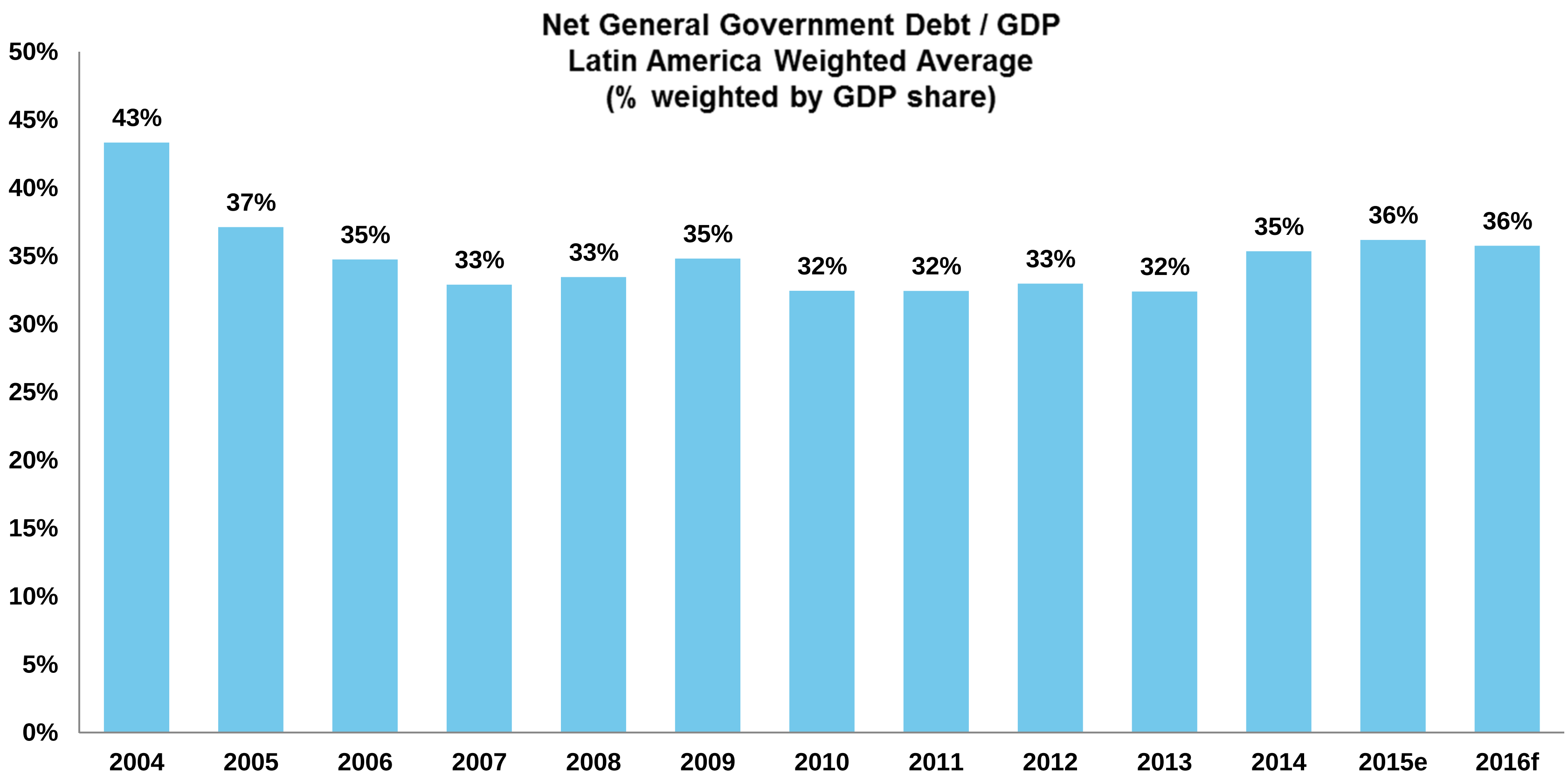
Source: Sovereign S&P Database, March 2015

Latin American & Caribbean Sovereigns: External Liquidity



Source: Sovereign S&P Database, March 2015

Latin American & Caribbean Sovereigns: Government Debt



Source: Sovereign S&P Database, March 2015

Latin American & Caribbean Growth

Average real weighted GDP Growth (3.7%) 2004-2014

Source: Sovereign S&P Database, June 2015

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Colombia

Colombia's Credit Profile

- **Downgraded to 'BB+' from Investment Grade 'BBB-' in September 1999**
- **Downgraded to 'BB' in May 2000**
- **Upgraded to 'BB+' in March 2007**
- **Upgraded back to Investment Grade 'BBB-' in March 2011**
- **Upgraded to 'BBB' in April 2013**

Colombia: Stable Outlook Confirmed on April 28, 2015

The stable outlook reflects that the government will staunch any fiscal slippage, particularly in 2016, with a combination of spending cuts and increased revenues, and adjust its fiscal accounts over several years to accommodate structurally lower oil prices.

We expect growth in Colombia to slow further this year, given the decline in global oil prices and its impact on domestic demand, growth should pick up next year, owing to investment under the government's 4G-infrastructure program and some recovery in exports.

We expect Colombia's fiscal deficit to widen this year and next (given lower growth and oil prices), in line with the government's structural budget rule, but then narrow thereafter.

Colombia: Sovereign Credit Rating

Strengths:

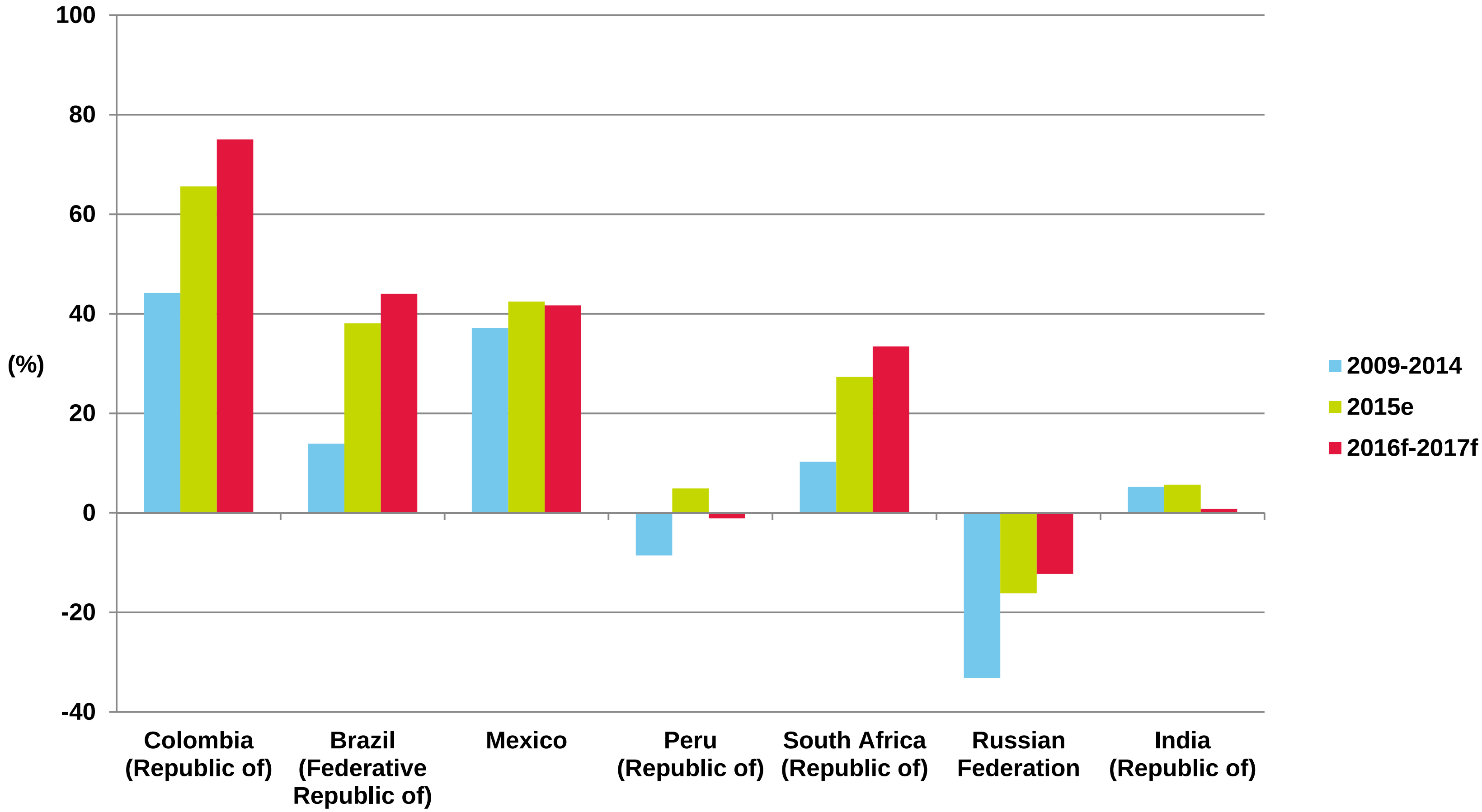
- Investment program in infrastructure under the name “4G” to boost the economic growth.
- Use of countercyclical fiscal policy to offset the drop in oil prices.
- Fiscal and monetary policies to support investment, growth and resilience of the economy in terms of trade and other external shocks

Weaknesses:

- Slower growth of the economy due to a weaker domestic demand and the impact of oil prices on investment.
- Political challenges for the Administration to try to end the long-standing conflict with Revolutionary Armed Forces of Colombia (FARC)
- Important current account deficits.

External Flexibility

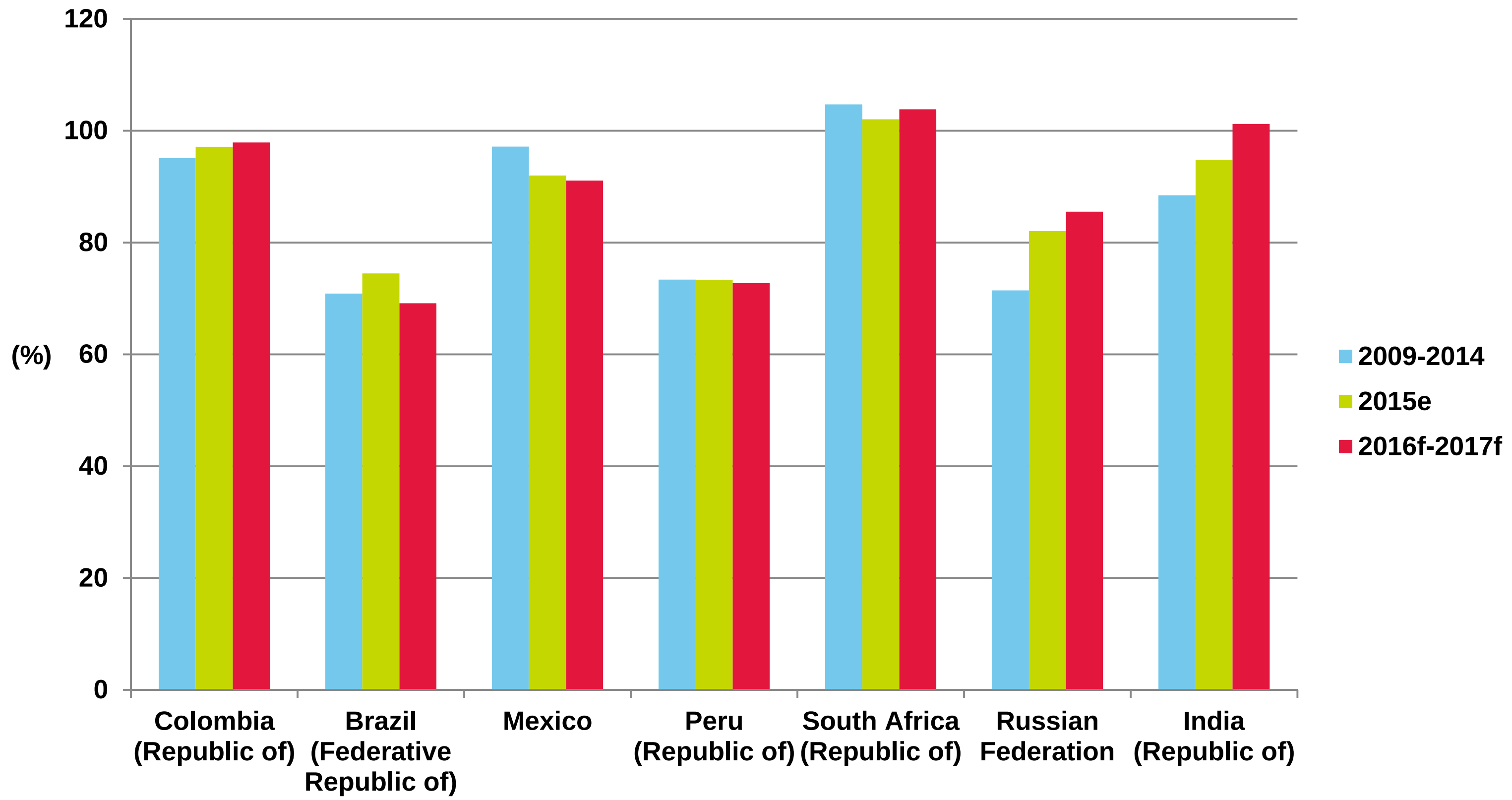
Narrow Net External Debt / CAR (%)



e: Estimate. f-Forecast. *Long-Term Foreign Currency Sovereign Rating

Source: Sovereign S&P Database, June 2015.

Gross External Financing Needs / CAR + International Reserves



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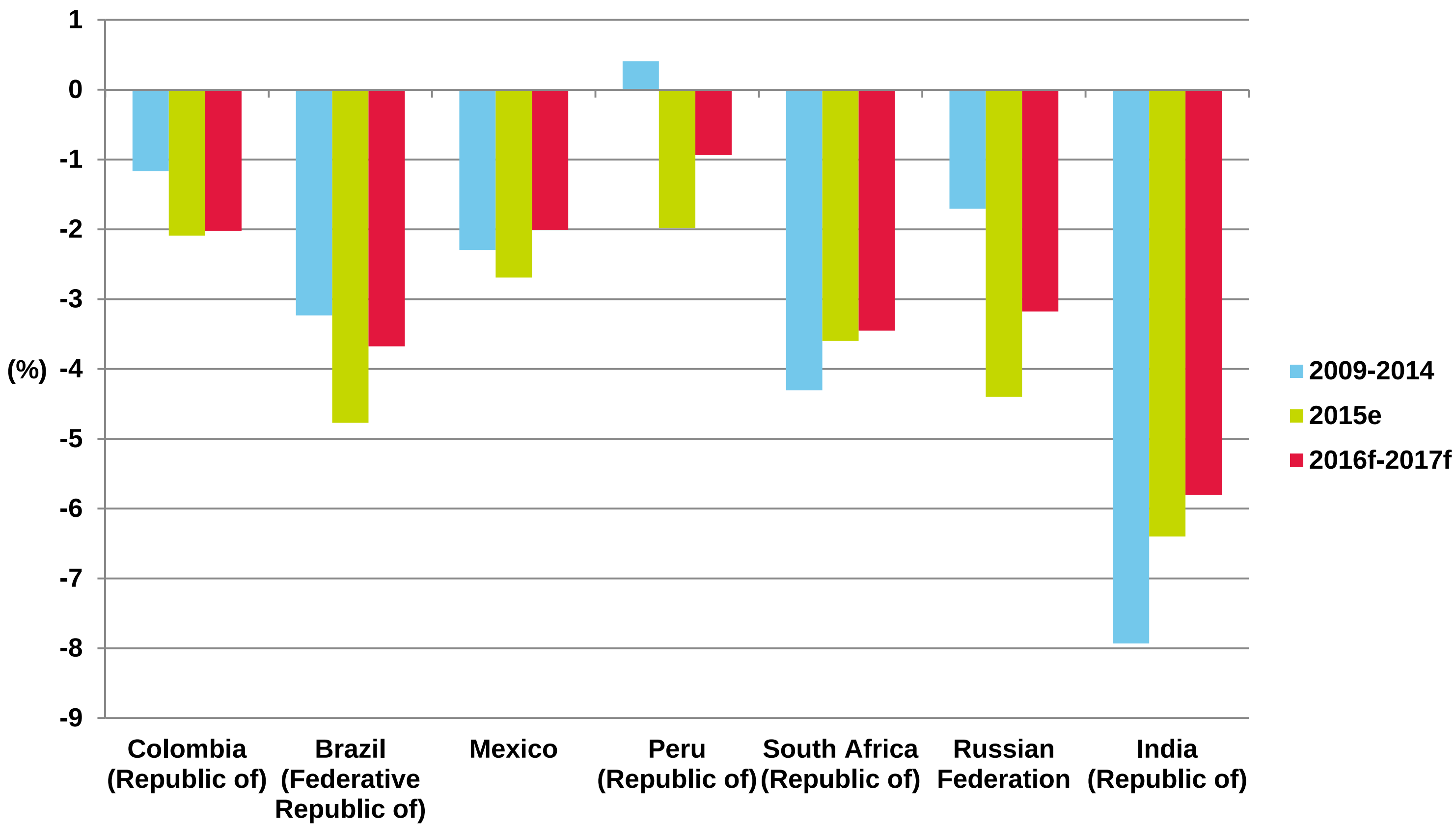
Source: Sovereign S&P Database, June 2015.

Fiscal Flexibility

General Government Balance / GDP (%)



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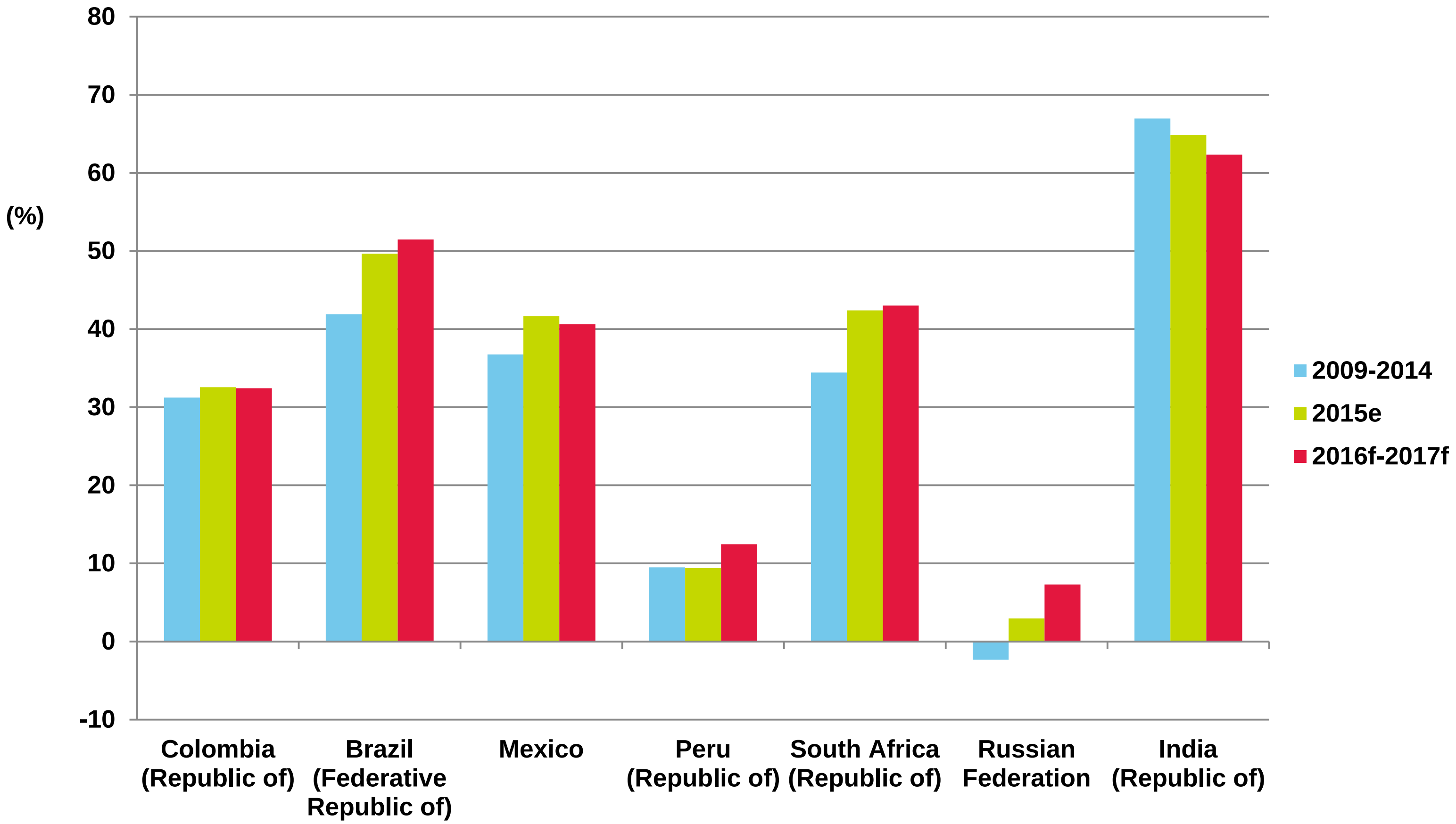
Net General Government Debt / GDP (%)



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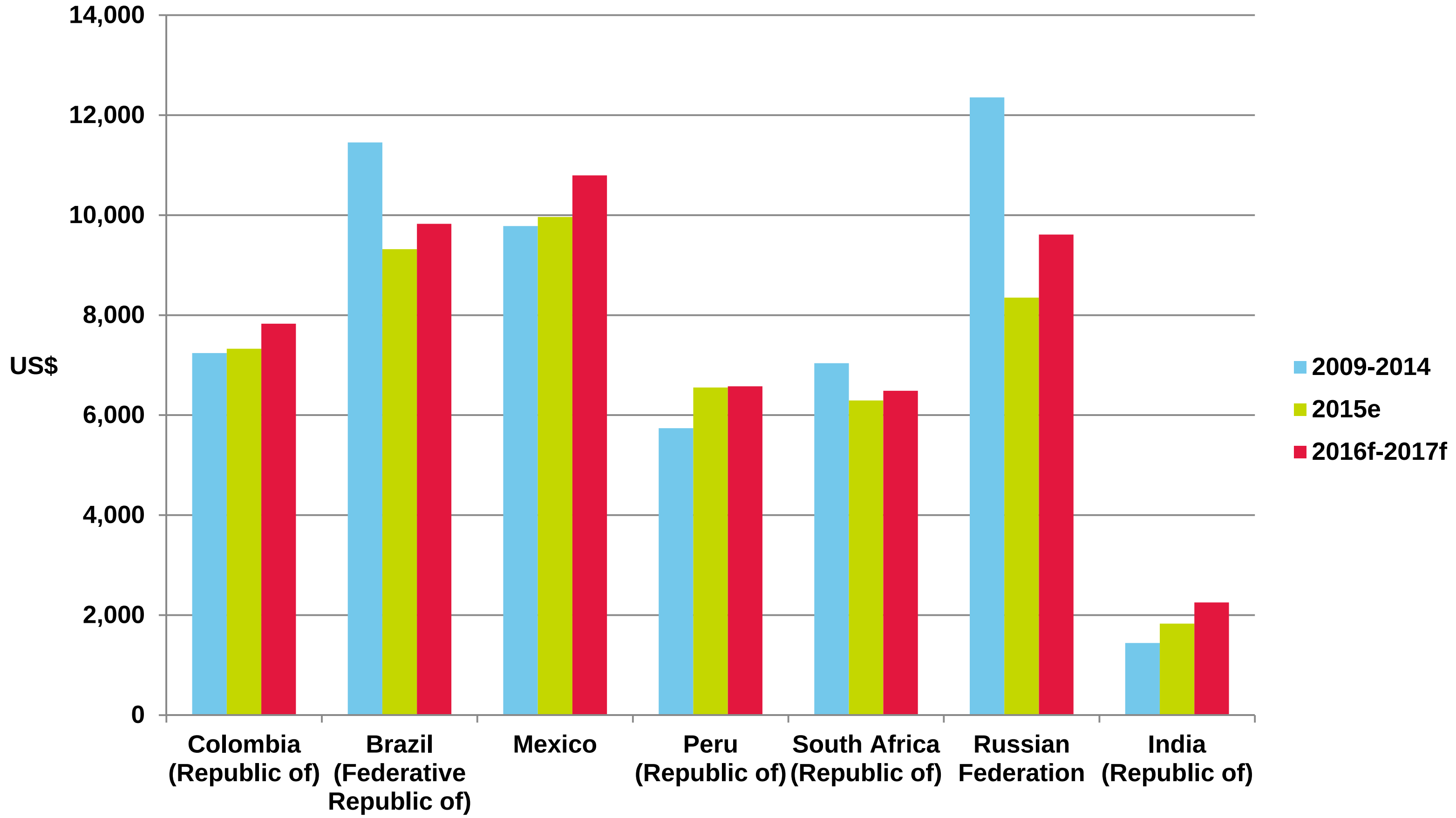
Economic Structure

GDP per Capita (US$)



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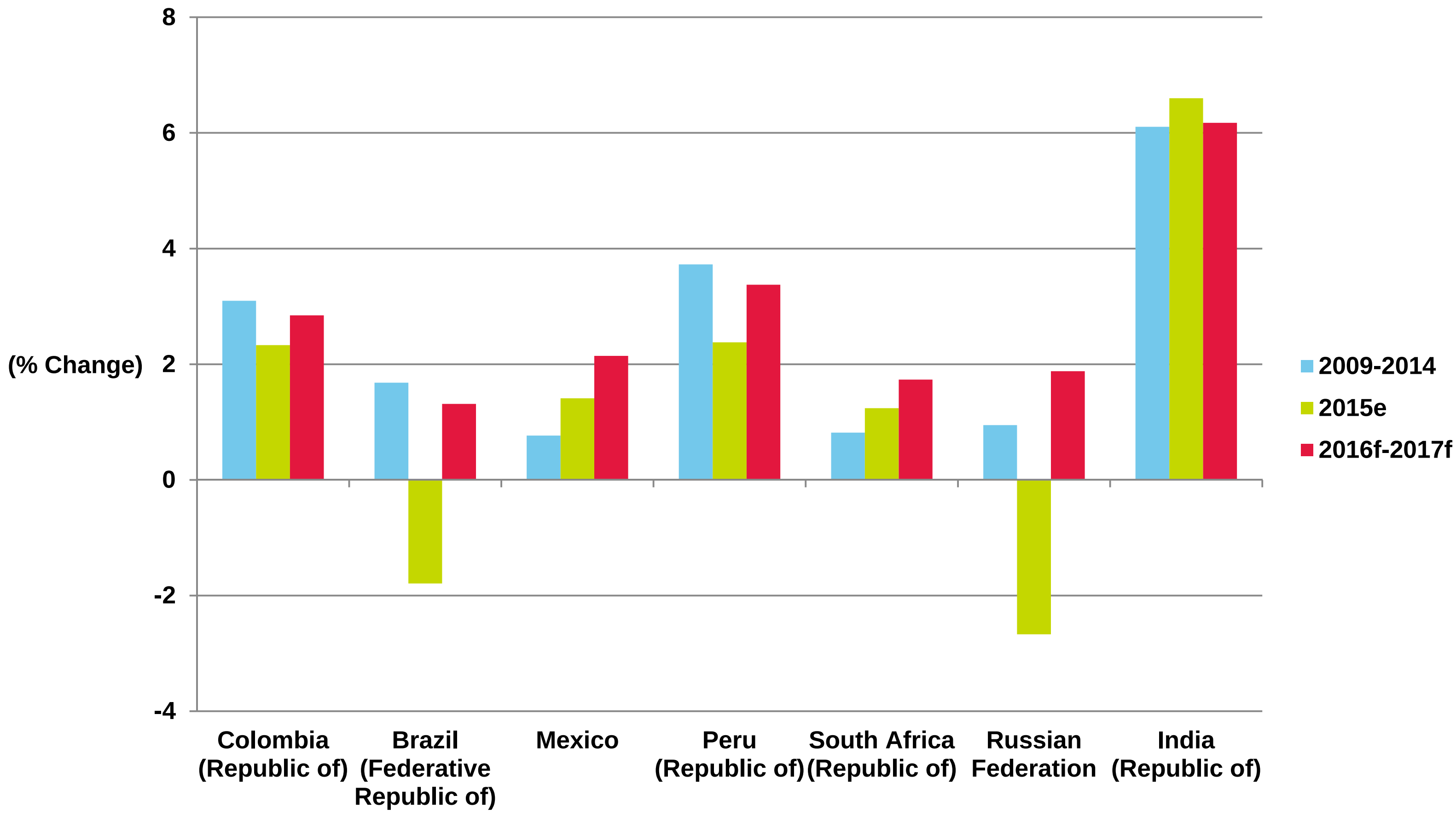
Source: Sovereign S&P Database, June 2015.

Real GDP Per Capita Growth (%)



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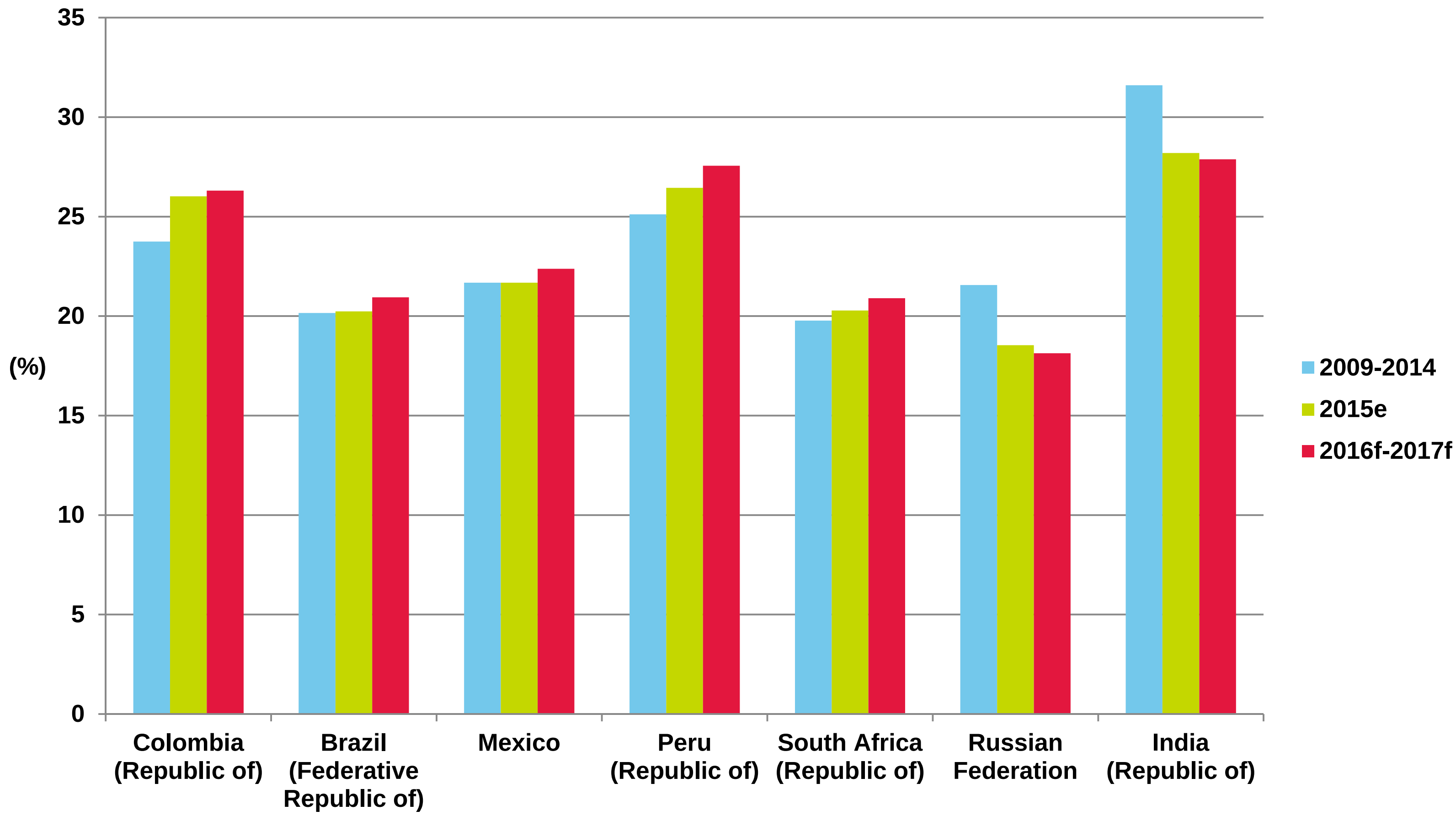
Gross Domestic Investment / GDP (%)



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Source: Sovereign S&P Database, June 2015.

Colombia: Selected Economic Indicators

Selected Indicators	2008	2009	2010	2011	2012	2013	2014	2015e	2016f	2017f	2018f
Nominal GDP (bil. US$)	243.98	233.82	287.01	335.42	369.66	366.91	377.74	344.92	359.48	389.99	423.12
GDP per capita (US$)	5,618	5,321	6,456	7,458	8,126	7,974	8,117	7,329	7,553	8,103	8,694
Real GDP growth (%)	3.5	1.7	4.0	6.6	4.0	4.9	4.6	3.5	4.0	4.0	4.0
Real GDP per capita growth (%)	2.3	0.5	2.8	5.4	2.9	3.7	3.4	2.3	2.8	2.8	2.8
Change in general government debt/GDP (%)	3.3	3.8	3.8	2.4	0.5	4.8	5.1	2.1	3.1	1.9	1.8
General government balance/GDP (%)	(0.1)	(2.2)	(2.6)	(1.0)	1.1	(0.9)	(1.5)	(2.1)	(2.2)	(1.9)	(1.8)
General government debt/GDP (%)	38.0	40.0	40.8	38.3	36.2	38.6	41.4	40.7	40.5	39.3	38.0
Net general government debt/GDP (%)	29.5	31.3	32.6	30.7	29.3	30.7	32.8	32.6	32.8	32.0	31.2
General government interest expenditure/revenues (%)	11.9	12.0	11.7	10.1	9.0	8.5	8.7	8.6	8.5	8.2	8.0
Other dc claims on resident nongovernment sector/GDP (%)	31.8	31.1	33.8	36.0	38.9	40.8	44.0	46.4	48.3	49.6	50.5
CPI growth (%)	7.0	4.2	2.3	3.4	3.2	2.0	2.9	4.0	3.5	3.5	3.5
Gross external financing needs/CARs plus usable reserves (%)	93.3	88.3	91.7	100.7	100.5	91.9	97.7	97.1	97.7	98.1	98.1
Current account balance/GDP (%)	(2.6)	(2.0)	(3.0)	(2.9)	(3.1)	(3.4)	(5.2)	(5.8)	(4.8)	(4.1)	(3.5)
Current account balance/CARs (%)	(12.7)	(10.3)	(16.4)	(13.4)	(14.6)	(16.2)	(27.0)	(29.1)	(23.6)	(20.2)	(17.6)
Narrow net external debt/CARs (%)	34.8	41.8	48.5	44.8	36.7	42.3	51.0	65.6	73.9	76.1	76.1
Net external liabilities/CARs (%)	105.1	126.1	123.4	103.5	113.1	126.7	145.2	170.8	177.8	178.1	175.6

e--Estimate. f--Forecast.

Other depository corporations (dc) are financial corporations (other than the central bank) whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. CARs--Current account receipts.

The data and ratios above result from S&P's own calculations, drawing on national as well as international sources, reflecting S&P's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Source: Sovereign S&P Database, June 2015.

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