FitchRatings

Public Finance

Colombia

Bogota, Capital District

Full Rating Report

Ratings

Long Term Rating	BBB–
Local Currency Long Term Rating	BBB
Issuance	
USD300 Mil. Equiv., 9.75% COP-Denominated Notes due 2028	BBB–
National	
Long Term Rating	AAA(col)
Short Term Rating	F1+(col)

Rating Outlooks

Long-Term Rating	Positive
Long-Term Local Currency Rating	Positive
Issuance	Positive
National Long-Term Rating	Stable

Financial Data

Bogota, Capital District (COP Mil.)	12/31/12	12/31/11
Operating Revenue	7,948,972.8	7,859,534.3
Debt	1,477,070.0	1,724,523.5
Operating Balance/ Operating Revenue (%)	38.40	36.34
Debt Service/ Current Revenue (%)	6.32	3.19
Debt/Current Balance(Years)	0.5	0.61
Operating Balance/ Interest Paid (x)	10.7	19.03
Capital Expenditure/Total Expenditure (%)	29.06	26.09
Surplus (Deficit) before Debt Variation/Total Revenue (Excluding New Debt) (%)	11.74	14.74
Current Balance/ Capital Expenditure (%)	133.9	152.63

Related Research

Institutional Framework for Colombian Subnationals (October 2011)

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Key Rating Drivers

Ratings Outlook Positive: Bogota has shown a strong fiscal performance and manageable debt metrics over the past few years. However, in the opinion of Fitch Ratings, Bogota, Capital District's international ratings are capped by Colombia's sovereign risk, which Outlook was revised to Positive on Mar. 6, 2013.

Economic Strength Within the National Context: Bogota is the principal economy in the country, contributing approximately 25% of the Colombian GDP. Its social and economic ratios are among the nation's most favorable.

Strong Fiscal Management: The District has maintained solid fiscal management, controlled operational expenditure performance and prudent financing. Its strategies focus on strengthening and gaining efficiencies in local revenues.

Consistent Budgetary Surplus Position: The Fitch-adjusted operating surplus before interest expenses has remained high as a percentage of current revenues, and margins have remained in excess of 30% over the last few years. Such operating margins are remarkably high compared with international standards and are indicative of the District's strong fiscal flexibility and payment capacity of financial commitments.

Highly Valuable Assets: The District's high-value assets represent another credit strength in that they generate a consistent stream of capital revenues and strengthen its financial flexibility.

Moderate Debt Burden: Bogota's direct debt balance has been lowering for several years and continues its downward trend. As of May 31, 2013, direct debt totaled COP1.5 billion (USD780.2 million). The main risks associated with the debt portfolio (exchange rate exposure, variable interest rates, debt payout concentration and liquidity levels) are subject to constant surveillance by the District.

Sustainable Debt Projections: The administration, through its development plan, Bogota Humana, aims to develop important infrastructure projects such as the Integrated System of Massive Public Transportation. They have also considered accessing additional credit resources through the adoption of new debt limits. Fitch will monitor the development of those projects and the financing plans, which are not expected to pressure the entity's financial flexibility because of the prudent financial policy that has been followed.

Need for Constant Capital Expenditures: Bogota's growing population constantly demands greater social and infrastructure needs, particularly those related to transportation. These needs are being addressed through substantial and growing capital expenditures.

Rating Sensitivities

An upgrade of the sovereign rating, accompanied by Bogota's solid operating performance, could trigger a positive rating action. The current Rating Outlook is Positive; consequently, Fitch's sensitivity analysis does not foresee any developments that would lead to a rating downgrade. However, future developments that may, individually or collectively, lead to a stabilization of the Outlook include stabilization of Colombia's sovereign rating, a significant debt increase (short-term or long-term), a substantial deterioration in its operating margins and cash levels, and persistent budget deficits.

Rating History

Date	Long Term	Local Currency Long Term
June 29, 2011	BBB–	BBB
July 10, 2007	BB+	BBB–
Jan. 10, 2002	BB	BBB–
March 17, 2000	BB+	BBB–
Aug. 23, 1999	BBB–	BBB–
Aug. 15, 1997	BBB	BBB

Related Criteria

Tax-Supported Rating Criteria (August 2012)

International Local and Regional Governments Rating Criteria, Outside the United States (April 2013)

Principal Rating Factors

Political Context and Administration

In January 2012, Gustavo Petro of the Movimiento Progresistas party (a leftist party), took office and replaced Polo Democratico's (a left-wing party) eight-year reign. With this new administration, Fitch expects corporate governance to resume its normal course after corruption problems revealed in the last administration deteriorated the transparency gained in the 1990s and the credibility among tax contributors.

Socioeconomic Profile

Bogota is the headquarters of the nation's most important legislative, judicial and economic institutions. It is also the most populated city of the country with 7.5 million inhabitants (16.3% of the country). In addition, Bogota is recognized as an important cultural, industrial, economic and tourist center.

Bogota contributes 26% to the national GDP, establishing itself as the largest economy in Colombia. Bogota's economic activity in 2011 grew significantly but is expecting smaller growth in 2012. The city has a highly diversified economic ratio above the national average and a favorable tax culture, with a per capita income equivalent to 1.55 times the national average. The economic structure is composed of services, industry, real estate, trade and financial services.

According to the National Bureau of Statistics (DANE), unemployment in Bogota was 8.6% in the quarterly report as of May 2013, reaching levels below the national average (9.4% in the same period).

The coverage of basic services, utilities, education and health present higher ratios than the national average. Bogota's main challenge is the continuous social and infrastructure needs of a growing population, which added to the low dynamism in the execution of this area in the past three years and will involve additional efforts in this sector for the upcoming years. The administration has announced strict control over contracting procedures and severe actions to reduce corruption within the administration.

Bogota faces one of the most important infrastructure projects nationwide: The design and construction of the first metro line. This project will require a strong planning process coupled with co-financing from the nation, requiring an adequate financial structure to avoid over costs that could hurt the District.

Budgetary Performance and Prospects

Bogota benefits from a robust cash flow generated from strong tax collection, continuous improvement in control strategies, and collection and tax simplification, among others. These resources have been used for investment and to accomplish timely payment of financial obligations. Fitch believes that in the medium term Bogota may maintain its financial strength and credibility and expects that future administrations will continue to implement the current public policies.

Given Bogota's treasury policy and model, Fitch believes the District can control and monitor liquidity requirements to minimize this risk. Historically, cash levels have been higher than the minimum levels established by the internal policy of the local administration.

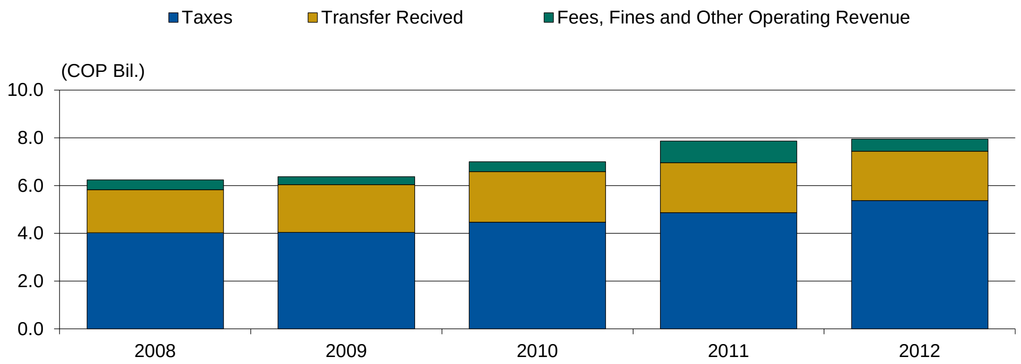
In 2012, Bogota's total revenues amounted to COP8.38 billion (approximately USD4,343.7 million at $1,929 Colombian pesos per dollar) whereas fiscal revenues account for 64%. The collection of local fiscal revenues has been positive in the last three years, recording nominal growth above 9% during this period. The positive trend is explained by Bogota's fiscal management model, the payment culture of its taxpayers and economic recovery of the entity. Bogota's contributors are characterized as having a robust tax payment culture that allows a tax recollection level above 80%.

Account Policies and Adjustments

Accounts and financial reports presented are based on data provided by the head of the Treasury Department of Bogota between 2008 and 2012.

Fitch makes some adjustments for analytical purposes, which explains possible differences between the information presented in this report and Bogota's public information.

Operating Revenues



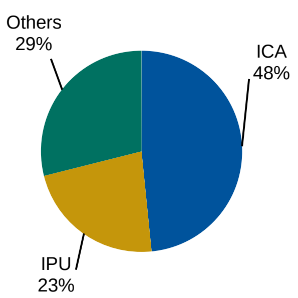
Source: Bogota and Fitch calculations.

Tax performance is based primarily on two sources, property tax (IPU) and an industry and commerce tax (ICA), which together have historically represented over 70% of tax collection. Fitch believes that the positive trend of these taxes will continue as a result of the administration's initiatives.

At the end of 2012, Bogota collected COP2.6 billion from ICA tax, a 10.4% nominal growth over the previous year. For the next few years, Bogota expects to continue modernizing its tax system and updating its technology platform, fostering incentives to increase competitiveness, research, development and innovation. Fitch expects ICA to maintain an important share of the District's total tax revenues.

Improvement in the IPU tax base, and therefore billing, collection and control, has been a key element to the dynamics of the tax. Total collection of IPU tax was COP1.22 billion during 2012, a 13.3% nominal increase compared with 2011, as a result of a permanent property tax level update, the economic recovery and administrative actions to strengthen controls and reduce tax evasion. The District's highly valuable assets have significantly supported its financial flexibility, providing Bogota with a consistent stream of capital revenues from its self-supporting public services enterprises, which operate under a quasi-independent corporate model. However, dividends from its telecommunications corporation, Empresa de Telecomunicaciones de Bogota (ETB) have not been consistent in the last years, as the resources have been invested to be more competitive in the telecommunication market. On the contrary, Fitch believes that the energy conglomerate Empresa de Energia de Bogota (EEB) represents valuable assets for the district.

2012 Tax Revenues



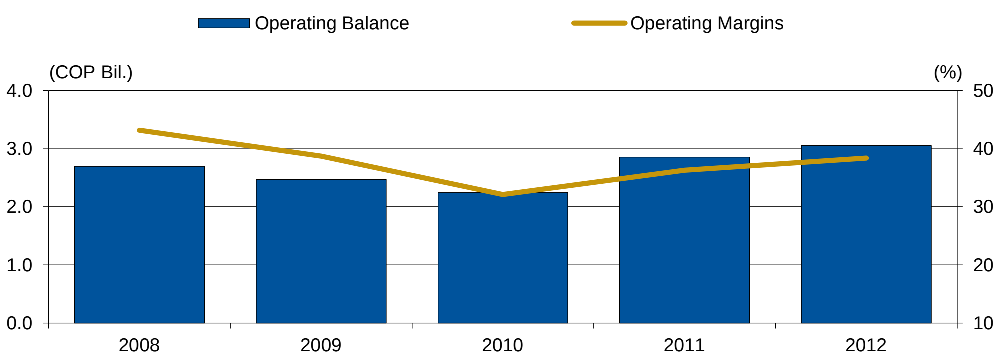
Source: Bogota.

Bogota's operational expenditure has presented an important control. The ratio for Law 617 of 2000 (operational expenditure/current revenues) continues to rank well below the established limit (50%, for subnationals like Bogota). The ratio in 2012 was 32.12%, substantially below the maximum permitted limit. The inflexibility in pension liabilities expenditure is a common feature among local governments in Colombia. In the case of Bogota, this rigidity is not as significant (approximately 20% of operating expenditure), which allows greater potential to generate savings in periods of economic slowdown.

Bogota generated a current balance of COP2.97 billion in 2012, with an operating margin of 38.4%. The chart below shows the evolution of operational balance and the operational margins. Although the operational balance is affected by the decrease of tax revenues in 2009 and the increase in operating expenditure in 2010, the budgetary performance improved in 2011 and 2012.

The Fitch-adjusted operating surplus before interest expenses has remained high as a percentage of current revenues, maintaining margins in excess of 30% over the last years. Such operating margins are remarkably high compared to international standards, denoting the district's strong fiscal flexibility and payment capacity of financial commitments. Fitch expects that the favorable financial position of the district remains in the medium term.

Budgetary Performance



Source: Bogota and Fitch calculations.

Debt, Liquidity and Contingent Liabilities

Regarding debt, Bogota's direct debt balance continues with a declining trend as a result of a restrictive policy and its favorable liquidity position. As of May 2013, the District's consolidated debt amounted to COP1.5 billion.

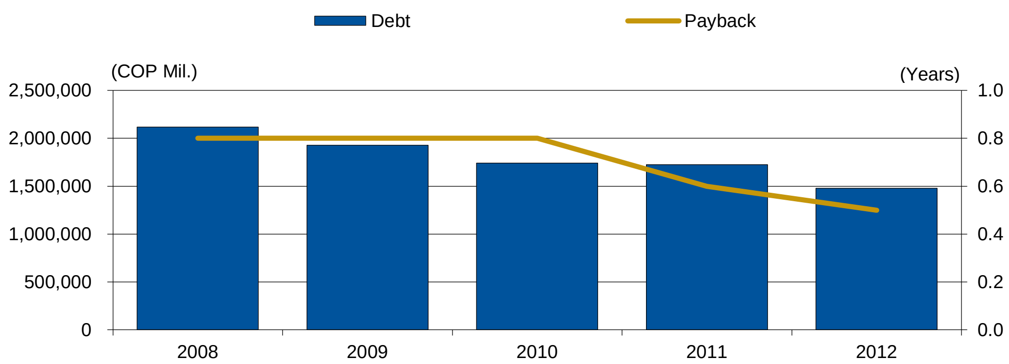
Of the balance, 20% is internal debt and 80% is external debt. Most of it is hedged to currency risk. The main funding mechanism is the bond issues (58.4% of total debt); 40.6% corresponds to foreign currency loans from multilateral banks (IBRD, IDB, CAF and IFC); and 1.0% represents development loans. The main risk associated with the debt portfolio, such as exchange-rate exposure, variable interest rates, debt payout concentration and liquidity levels are subject to constant surveillance by the district under prudent practices to mitigate such risks.

Of the total debt, 67% is placed in local currency, while the balance is exposed to the volatility of the exchange rate (TRM). This factor is not considered a short-term risk because of the revaluation of the Colombian peso (COP) against the U.S. dollar, which has kept its upward trend over the last year. Meanwhile, 48.9% of the debt has a variable interest rate, of which 40.1% is indexed to the inflation rate, giving it a natural hedge against the District's revenue growth. Fitch considers this debt structure moderate for the entity's financial capacity.

Debt ratios (solvency and sustainability), as per Law 358 of 1999, are located well below the regulatory levels. In 2012, interest payments over operating surplus showed a ratio of 2.4%, which is much lower than the 40% maximum established in the terms of Colombian Law 358. The total debt-to-current revenues ratio reached 19.9%, which is also below the 80% limit established by the same law. As seen in Appendix C, Bogota reported relatively lower debt levels in 2012 when compared to the 'BBB' median peer group.

The higher concentration of debt payment will be in 2015 due to the maturity of a local bond issuance, and secondly during 2026–2028 with the amortization of the external bonds.

Debt and Payback



Source: Bogota and Fitch calculations.

The current administration, through its development plan, Bogota Humana, aims to develop important infrastructure projects such as the Integrated System of Massive Public Transportation, basing its financing strategy in higher tax revenue and transfers. They have also considered accessing additional credit resources through the adoption of new debt limits. The initial plan was to obtain COP4.3 billion (approximately US2,226.8 million), but at this moment the administration is considering COP3.8 billion (USD1,998.4 million). Fitch will monitor the development of those projects and the financing plans, which is not expected to press the entity's financial flexibility due to the prudent financial policy that it has followed.

According to Bogota's information, the contingent liabilities regarding pension and retirement payments of employees have been partially funded (41.9%). Because this coverage is different to the information presented by the National Fund for Subnational Pensions (FONPET), it is in a process of revision. Bogota has a policy to comply with local pension regulation and Fitch will monitor the commitment from future administrations to improve this coverage in the long run.

Appendix A

(COP Mil.)	2008	2009	2010	2011	2012
Taxes	4,023,427	4,030,124	4,457,955	4,859,744	5,369,761
Transfers Received	1,798,398	2,009,054	2,122,086	2,099,089	2,073,105
Fees, Fines, and Other Operating Revenue	416,352	336,784	411,919	900,702	506,107
Operating Revenue	**6,238,177**	**6,375,963**	**6,991,960**	**7,859,534**	**7,948,973**
Operating Expenditure	(3,543,788)	(3,908,250)	(4,750,251)	(5,003,558)	(4,896,848)
Operating Balance	**2,694,389**	**2,467,713**	**2,241,710**	**2,855,976**	**3,052,125**
Financial Revenue	224,659	170,094	112,788	127,699	199,982
Interest Paid	(219,163)	(215,157)	(185,865)	(150,059)	284,098
Current Balance	**2,699,885**	**2,422,650**	**2,168,632**	**2,833,615**	**2,968,009**
Capital Revenue	96,812	605,485	205,032	234,915	232,560
Capital Expenditure	(2,896,134)	(3,320,885)	(2,040,898)	(1,856,577)	(2,216,521)
Capital Balance	(2,799,322)	(2,715,399)	(1,835,866)	(1,621,662)	(1,983,961)
Surplus (Deficit) Before Debt Variation	**(99,437)**	**(292,750)**	**332,766**	**1,211,953**	**984,048**
New Borrowing	0	141,064	169,184	78,292	30,101
Debt Repayment	(219,965)	(314,949)	(340,263)	(105,036)	(230,663)
Net Debt Movement	(219,965)	(173,885)	(171,078)	(26,744)	(200,563)
Overall Results	**(319,402)**	**(466,635)**	**161,687**	**1,185,210**	**783,486**
Debt					
Short-Term	0	0	0	0	0
Long-Term	2,116,019	1,928,528	1,740,845	1,724,524	1,477,070
Direct Debt	**2,116,019**	**1,928,528**	**1,740,845**	**1,724,524**	**1,477,070**
+ Other Fitch Classified Debt — Pre-Financing	0	—	—	—	—
Direct Risk	**2,116,019**	**1,928,528**	**1,740,845**	**1,724,524**	**1,477,070**
– Cash, Liquid Deposits, Sinking Fund	2,081,293	1,531,993	2,869,643	4,168,417	3,370,064
Net Direct Risk	**34,726**	**396,536**	**(1,128,798)**	**(2,443,894)**	**(1,892,994)**
Guarantees and Other Contingent Liabilities	9,766	14,195	—	—	—
Net Indirect Debt (Public Sector Entities, Exc. Guaranteed Amount)	611,934	533,734	516,000	516,000	516,000
Net Overall Risk	**656,426**	**944,465**	**(612,798)**	**(1,927,894)**	**(1,376,994)**
Memo for Direct Debt					
Foreign Currency (%)	13.0	15.0	25.5	30.4	31.0
Issued Debt (%)	70.4	67.4	59.7	60.2	59.5
Fixed Interest Rate Debt (%)	47.1	47.0	57.7	56.2	52.5

Source: Issuer and Fitch calculations.

Appendix B

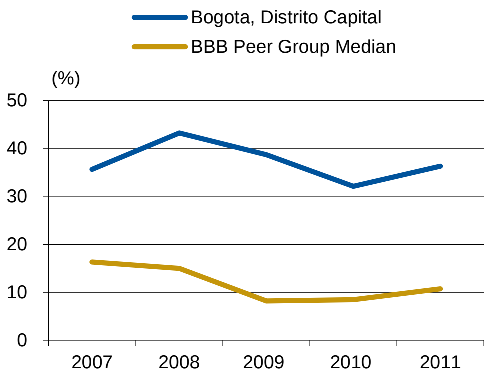
(%)	2008	2009	2010	2011	2012
Fiscal Performance Ratios					
Operating Balance/Operating Revenue	43.19	38.70	32.06	36.34	38.40
Current Balance/Current Revenue[a]	41.78	37.01	30.52	35.48	36.42
Surplus (Deficit) Before Debt Variation/Total Revenue[b]	(1.52)	(4.09)	4.55	14.74	11.74
Overall Results/Total Revenue	(4.87)	(6.52)	2.21	14.41	9.35
Operating Revenue Growth (Annual % Change)	12.92	2.21	9.66	12.41	1.14
Operating Expenditure Growth (Annual % Change)	(0.37)	10.28	21.54	5.33	(2.13)
Current Balance Growth (Annual % Change)	36.71	(10.27)	(10.49)	30.66	4.74
Debt Ratios					
Direct Debt Growth (Annual % Change)	(8.35)	(8.86)	(9.73)	(0.94)	(14.35)
Interest Paid/Operating Revenue	3.51	3.37	2.66	1.91	3.57
Operating Balance/Interest Paid (x)	12.29	11.47	12.06	19.03	10.70
Direct Debt Servicing/Current Revenue	6.79	8.10	7.41	3.19	6.32
Direct Debt Servicing/Operating Balance	16.30	21.48	23.47	8.93	16.87
Direct Debt/Current Revenue	32.74	29.46	24.50	21.59	18.13
Direct Risk/Current Revenue	32.74	29.46	24.50	21.59	18.13
Direct Debt/Current Balance (Years)	0.78	0.80	0.80	0.61	0.50
Net Overall Risk/Current Revenue	10.16	14.43	(8.63)	(24.14)	(16.90)
Direct Risk/Current Balance (Years)	0.78	0.80	0.80	0.61	0.50
Direct Debt/GDP	—	—	—	—	—
Direct Debt per Capita (Local Currency)	295,740	265,638	236,399	230,922	195,096
Revenue Ratios					
Operating Revenue/Budget Operating Revenue	N.A.	N.A.	N.A.	N.A.	N.A.
Tax Revenue/Operating Revenue	64.50	63.21	63.76	61.83	67.55
Modifiable Tax Revenue/Total Tax Revenue	—	—	—	—	—
Current Transfers Received/Operating Revenue	28.83	31.51	30.35	26.71	26.08
Operating Revenue/Total Revenue[b]	95.10	89.16	95.65	95.59	94.84
Total Revenue[b] per Capita (Local Currency)	916,792	985,061	992,637	1,100,984	1,107,055
Expenditure Ratios					
Operating Expenditure/Budget Operating Expenditure	N.A.	N.A.	N.A.	N.A.	N.A.
Staff Expenditure/Operating Expenditure	75.52	73.58	82.88	82.59	79.15
Current Transfer Made/Operating Expenditure	17.88	19.16	7.61	8.37	9.92
Capital Expenditure/Budget Capital Expenditure	N.A.	N.A.	N.A.	N.A.	n.a.
Capital Expenditure/Total Expenditure	42.10	42.80	27.89	26.09	29.06
Capital Expenditure/Local GDP	—	—	—	—	—
Total Expenditure per Capita (Local Currency)	961,433	1,068,766	993,655	952,762	1,007,546
Capital Expenditure Financing					
Current Balance/Capital Expenditure	93.22	72.95	106.26	152.63	133.90
Capital Revenue/Capital Expenditure	3.34	18.23	10.05	12.65	10.49
Net Debt Movement/Capital Expenditure	(7.60)	(5.24)	(8.38)	(1.44)	(9.05)

aIncludes financial revenue. bExcluding new borrowing. N.A. – Not available.
Source: Issuer and Fitch calculations.

Appendix C

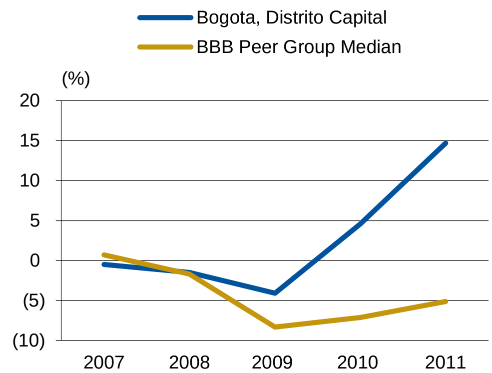
Bogota Peer Comparison

Operating Balance
Operating Revenue



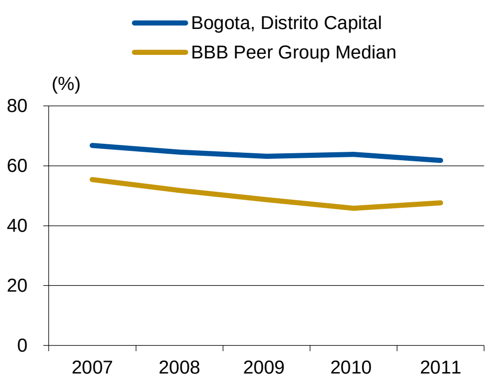
Source: Issuers and Fitch calculations.

Surplus (Deficit)
Total Revenue



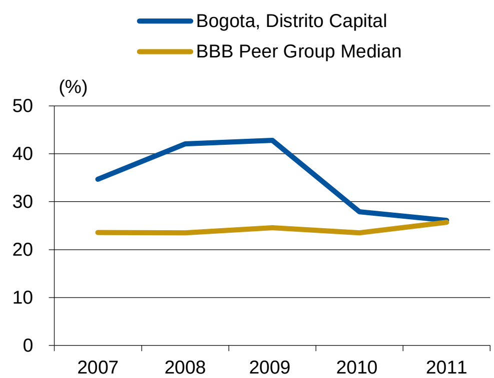
Source: Issuers and Fitch calculations.

Taxes
Operating Revenue



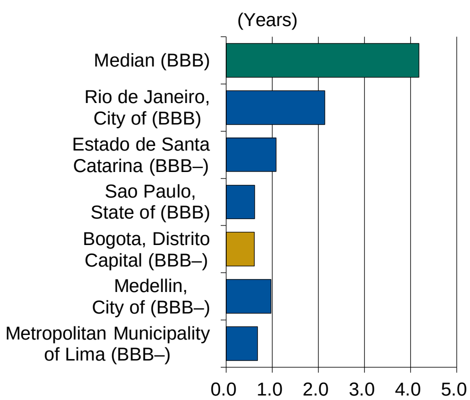
Source: Issuers and Fitch calculations.

Capital Expenditure
Total Expenditure



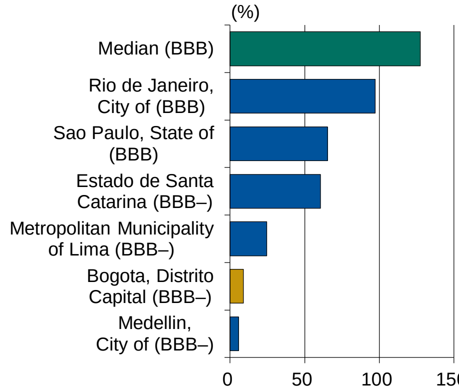
Source: Issuers and Fitch calculations.

Debt To Current Balance — 2011



Source: Issuers and Fitch calculations.

Debt Servicing To Operating Balance — 2011



Source: Issuers and Fitch Calculations.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.