Fitch affirms Bogota, Capital District of Colombia´s International Ratings, Outlook remains Positive

Fitch Ratings – Monterrey – 28 June 2013. Fitch Ratings has affirmed the 'BBB-' long-term foreign currency (LTFC) debt rating, including the US$300 million equivalent, 9.75% Colombian Peso-denominated notes due 2028, also the long-term local currency (LTLC) debt rating was affirmed in 'BBB'. The Rating Outlook remains Positive.

KEY RATING DRIVERS
The affirmations are the result of the financial strength that Bogota has shown over the past years, as well as manageable debt metrics. It considers the strong socio-economic profile of the District and weight in the national economy in terms of GDP contribution. It also incorporates the political risk associated to the public sector and quality management of the current administration, and the financing plans. According to Fitch's methodologies and criteria, the ratings of the District are capped by Colombia's sovereign risk, which Outlook has been revised to Positive on March 6, 2013.

The District has strengthened its financial position through a solid fiscal management, controlled operational expenditure performance and prudent financing structure. In 2012, Bogota's total revenues amounted to COP$8.4 billion (approximately US$4,343.7 million) whereas fiscal revenues account for the most part with a share of 56%, increasing over the previous year explained by their fiscal management model, the payment culture of its taxpayers and the economic recovery of the entity. The dynamics of income has been positive in the last three years recorded nominal growth above 9% during the period mentioned

The strategies focused to strengthen and gain efficiencies in local revenues remain as a high priority for the administration. Other credit strengths include the highly valuable assets of the District that generate a consistent stream of capital revenues, strengthening its financial flexibility.

Operational expenditures have presented an important control. The Fitch-adjusted operating surplus before interest expenses remained high as percentage of current revenues. Bogota has maintained 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.

Regarding debt, Bogota's direct debt balance continue with a declining trend as a result of a restrictive policy and its favorable liquidity position, registering COP$1.5 billion (US$780.2 million), as of May 31, 2013. Of such balance, 20% is internal debt and 80% is external debt, where most of it is hedged to currency risk. The main risk associated to 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. 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.

The current administration through its Development Plan Bogotá 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´ve also considered accessing to additional credit resources through the adoption of new debt limits (COP$4.3 billion, approximately US$2,226.8 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.

The main risk or limitations for Bogota are the increasing social and infrastructure needs of a growing population, particularly those related to transportation; and the contingent liabilities regarding pension and retirement payments of employees that have been funded partially.

KEY ASSUMPTIONS AND 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 and/or long-term), a substantial deterioration in its operating margins and cash levels, and persistent budget deficits.

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Additional information is available at www.fitchratings.com.

Applicable criteria and related research:
--'Tax Supported Rating Criteria' dated August 14, 2012;
--'International Local and Regional Governments Rating Criteria, Outside the United States', dated April 9, 2013.