

CONFORMED COPY

LOAN NUMBER 7740-CO

Loan Agreement

(Financial Sector Development Policy Loan)

between

REPUBLIC OF COLOMBIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 4, 2009

LOAN AGREEMENT

Agreement dated September 4, 2009, entered into between the REPUBLIC OF COLOMBIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macroeconomic policy framework.

The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of \$300,000,000 (three hundred million Dollars), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are February 1 and August 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01 The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
- (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that has arisen that has or would have the effect of materially: (i) impairing the Borrower’s ability to maintain an appropriate macroeconomic policy framework; or (ii) reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
 - (b) The Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program; and
 - (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program, including any action listed under Section I of Schedule 1 to this Agreement, in a manner that could adversely affect the achievement of the objectives of the Program.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The legal opinion referred to in Section 9.02 of the General Conditions shall be issued by the Head of the Legal Affairs Group of the Directorate of Public Credit and National Treasury of the Borrower's Ministry of Finance and Public Credit.
- 5.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on February 4, 2011.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Minister of Finance and Public Credit of the Borrower.

- 6.02. The Borrower's Address is:

Ministry of Finance and Public Credit
Palacio de los Ministerios
Plaza San Agustín
Carrera 7ª, N° 6-45, Piso 3
Bogotá, D.C.
Colombia

Facsimile: (571) 350-9344

- 6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD	248423 (MCI) or	1-202-477-6391

Washington, D.C. 64145 (MCI)

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF COLOMBIA

By /s/ Silvia Constain

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Laura Tuck

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

- A. Strengthening of Prudential Regulation and Supervision**
1. The Borrower has initiated a program of administrative, technical and legal actions aimed at strengthening its financial system in order to be better prepared to manage the impacts of an economic downturn, through the adoption of a series of precautionary measures, including, *inter alia*:
 - (a) the resiliency of the credit institutions has been strengthened in order to manage eventual credit losses, through the implementation of a countercyclical policy, issued by the Financial Superintendency, instructing said institutions to retain a portion of their profits earned during the period June-December, 2008 (in a capital reserve), as evidenced by the Letter N° 2009037259-000-000 issued by the Financial Superintendency on May 8, 2009; and
 - (b) the financial sector institutions regulated by the Financial Superintendency – except for insurance companies – are better prepared to manage liquidity risks through the implementation of internal systems (comprising, *inter alia*, policies and procedures to deal with liquidity risk; a framework to measure such risk and a standardized framework to compute the liquidity gap) to measure and administer such risks as required by the issuance of Circular N° 16.
- B. Strengthening of the Framework for the Intervention and Resolution of Unauthorized Financial Intermediation Activities**
1. The Borrower has strengthened its ability to conduct the administrative intervention of the entities that carry out unauthorized financial intermediation activities, by collecting resources or cash from the public without proper authorization or regulation by the Financial Superintendency, through a series of actions aimed at:
 - (a) providing the Superintendency of Companies with the legal mandate to take strategic and precautionary measures, including *inter alia*: taking control of said entities, taking possession and/or ordering the freezing of their assets, and returning resources or funds to the affected persons, as evidenced by the enactment of Decree N° 4334; and
 - (b) providing the heads of local governments (Mayors and Governors) with the legal mandate to take precautionary measures, including those necessary to close the premises of said entities located in their respective jurisdictions, as evidenced by the enactment of Decree N° 4335.

C. Securities Market Reform

1. The Borrower has initiated a program of legal, administrative and technical actions aimed at upgrading the securities market by reducing transaction costs and systemic risks, including, *inter alia*:
 - (a) the strengthening of securities clearing and settlement systems by: (i) providing legal certainty to market participants undertaking securities transactions; and (ii) establishing criteria to determine the finality of said transactions, as evidenced by the enactment of Decree N° 1456;
 - (b) the regulation of automatic trading and registration systems to establish information technology requirements that would provide security and transparency and reduce operational risks, as evidenced by the enactment of Decree N° 1120; and
 - (c) the regulation of the operations of a central counterparty clearing house responsible for the provision of clearing and settlement services for exchange traded derivatives, as evidenced by the enactment of Decree N° 2893.
2. The Borrower has initiated a program of legal, administrative and technical actions aimed at enhancing the transparency of market architecture and operations, by carrying out a series of strategic actions, including, *inter alia*:
 - (a) the establishment of a series of principles, policies and procedures with a view to regulate the securities intermediation and operations activities, by imposing stricter requirements aimed at: (i) improving the professionalism of the intermediaries; (ii) protecting investor rights; and (iii) increasing the transparency of the market by requiring mandatory reporting of all over-the-counter transactions to a securities trading registry regulated by the Financial Superintendency, as evidenced by the enactment of Decree N° 1121; and
 - (b) the regulation of the trading of derivatives products, including through the issuance of accountancy criteria, as well, as the treatment of exposures for the purpose of computing counterparty credit risks in line with international standards, as evidenced by the enactment of Decree N° 1796.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan shall be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Tranche Allocated (expressed in Dollars)
Single Tranche	300,000,000
TOTAL AMOUNT	300,000,000

- C. Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.
- D. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
 2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.
- E. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- F. Closing Date.** The Closing Date is September 30, 2011.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each August 1 and February 1 Beginning August 1, 2017 through February 1, 2035	2.7%
On August 1, 2035	2.8%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3.
 - (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued

on or after the respective Principal Payment Date, the provisions of such subparagraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

1. “Circular N° 16” means *Circular Externa N° 16 de 2008, Reglas Relativas al Sistema de Administración de Riesgo de Liquidez, Modificación del Capítulo VI de la Circular Externa N° 100 de 1995*, the circular establishing the criteria for the administration of liquidity risks, enacted on May 6, 2008 by the Financial Superintendency and published in its webpage www.superfinanciera.gov.co under Bulletin (*Boletín Ministerio de Hacienda y Crédito Público, Capítulo Superintendencia Financiera de Colombia*) N° 96, as amended to the date of this Agreement.
2. “Decree N° 1120” means *Decreto N° 1120 de 2008, Por el cual se reglamentan los sistemas de negociación de valores y de registro de operaciones sobre valores y se dictan otras disposiciones*, the Borrower’s decree regulating the trading and registration of securities, enacted by the Borrower’s Executive on April 11, 2008 and published in the Borrower’s Official Gazette (*Diario Oficial*) N° 46.957 on April 11, 2008 as amended to the date of this Agreement.
3. “Decree N° 1121” means *Decreto N° 1121 de 2008, Por el cual se Reglamenta la actividad de intermediación en el mercado de valores y se dictan otras disposiciones*, the Borrower’s decree regulating the intermediation services in the securities market, enacted by the Borrower’s Executive on April 11, 2008 and published in the Borrower’s Official Gazette (*Diario Oficial*) N° 46.957 on April 11, 2008, as amended to the date of this Agreement.
4. “Decree N° 1456” means *Decreto N° 1456 de 2007, Por el cual se dictan disposiciones sobre los sistemas de compensación y liquidación de operaciones sobre valores*, the Borrower’s decree regulating the clearing and settlement of securities, enacted by the Borrower’s Executive on April 30, 2007 and published in the Borrower’s Official Gazette (*Diario Oficial*) N° 46.615 on April 30, 2007, as amended to the date of this Agreement.
5. “Decree N° 1796” means *Decreto N° 1796 de 2008, Por el cual se reglamentan las operaciones con instrumentos financieros derivados y productos estructurados, tanto en el mercado mostrador como en sistemas de negociación de valores, realizadas por las entidades sometidas a inspección y vigilancia de la Superintendencia Financiera de Colombia y se dictan otras disposiciones*, the Borrower’s decree regulating the issuance of derivatives and structured financial products, enacted by the Borrower’s Executive on May 23, 2008 and published in the Borrower’s Official Gazette (*Diario Oficial*) N° 46.998 on May 23, 2008, as amended to the date of this Agreement.
6. “Decree N° 2893” means *Decreto N° 2893 de 2007, Por el cual se regulan las Cámaras de Riesgo Central de Contraparte y se dictan otras disposiciones*, the Borrower’s decree regulating central clearing of counterparty risk, enacted by the Borrower’s Executive on July 31, 2007 and published in the Borrower’s Official Gazette (*Diario Oficial*) N° 46.706 on July 31, 2007, as amended to the date of this Agreement.
7. “Decree N° 4334” means *Decreto N° 4334 de 2008, Por el cual se expide un procedimiento de intervención en desarrollo del Decreto N° 4333 de 17 de noviembre de*

2008, the Borrower's decree regulating the intervention and liquidation of institutions engaging in unauthorized financial operations, enacted by the Borrower's Executive on November 17, 2008 and published in the Borrower's Official Gazette (*Diario Oficial*) N° 47.176 on November 17, 2008, as amended to the date of this Agreement.

8. "Decree N° 4335" means *Decreto N° 4335 de 2008, Por el cual se asignan funciones a los Alcaldes y Gobernadores en desarrollo del Decreto N° 4333 de 17 de noviembre de 2008*, the Borrower's decree providing the heads of local governments with authority to take precautionary measures regarding the institutions engaging in unauthorized financial operations and located in their respective jurisdictions, enacted by the Borrower's Executive on November 17, 2008 and published in the Borrower's Official Gazette (*Diario Oficial*) N° 47.176 on November 17, 2008, as amended to the date of this Agreement.
9. "Excluded Expenditure" means any expenditure:
- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, N° 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.4	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Bank);
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
10. “Financial Superintendency” means *Superintendencia Financiera de Colombia*, the Borrower’s regulatory agency, established and operating pursuant to the provisions of Law N° 964 (as hereinafter defined), and its successor or successors thereto, responsible for the supervision of financial institutions.
11. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
12. “Law N° 964” means *Ley 964 de 2005, Por la cual se dictan normas generales y se señalan en ellas los objetivos y criterios a los cuales debe sujetarse el Gobierno Nacional para regular las actividades de manejo, aprovechamiento e inversión de recursos captados del público que se efectúen mediante valores y se dictan otras disposiciones*, the Borrower’s law, enacted by Congress on July 8, 2005 and published in the Borrower’s Official Gazette (*Diario Oficial*) N° 45.963 on July 8, 2005, as amended to the date of this Agreement.
13. “Program” means the program of actions, objectives and policies designed to strengthen the resiliency of the Borrower’s financial sector and deepen securities markets to achieve sustainable growth, set forth or referred to in the letter dated July 1, 2009, from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
14. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
15. “Superintendency of Companies” means *Superintendencia de Sociedades*, the Borrower’s regulatory agency, established and operating pursuant to the provisions of Law N° 58 enacted by the Borrower’s Congress on May 5, 1931 and published in the Borrower’s Official Gazette (*Diario Oficial*) N° 21.684 on May 8, 1931, as amended to

the date of this Agreement, and its successor or successors thereto, responsible for the supervision of commercial institutions.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 4 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

“Section 5.06. Plans; Documents; Records

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:
 - (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition are deleted in their entirety.
- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”).