

QUESTIONS AND ANSWERS ON BANCO DE LA REPUBLICA'S REQUEST FOR PROPOSAL FOR EXTERNAL MANAGERS OF THE FOREIGN RESERVES

April 14, 2010

INVESTMENT UNIVERSE AND GUIDELINES

Please be aware that guidelines for the new external asset manager are under revision. Answers to the following questions provide a general sense of what limits /characteristics (guidelines) of the mandate will be based on current guidelines of similar mandates but they need not be the final ones. Moreover, Banco de la Republica (the Bank) amends these guidelines periodically. Participants should take this into account when evaluating the responses in this Q&A document.

1. What typical investment universe should be considered for the mandate? Which countries will you be allowing investments in?

Colombia's foreign reserves are only invested in high-quality money market and fixed income products such as government debt, quasi-government debt (including supranationals and agencies), agency MBS, bank and corporate debt. Eligible investments must be denominated in a limited pool of currencies and must be issued by countries that comply with minimum credit rating criteria.

2. What typical credit rating should be envisaged and what is the minimum credit rating if any?

Currently the minimum credit rating is A- for governments and quasi-governments and AA- for banks, corporate issuers and local authorities. The minimum rating for short-term investments is A1/P1/F1. The Bank uses as a reference the minimum rating among those of S&P, Moody's and Fitch Ratings.

3. What is the benchmark that the mandate should follow? Do these benchmarks include non-government exposure or cash?

The Bank uses a blended benchmark for investment managers. The benchmark is typically composed of money market investments and government debt issued by the United States, Germany and Japan. Currently the benchmark for the money markets is comprised of 1-month LIBID and Merrill Lynch government bond indices, and the modified duration is 0.51. However the specific composition of the benchmark and its duration are adjusted periodically.

4. When will we be advised about the permissible strategies that are approved by the Board? Do these strategies change?

The firms selected to participate in the second phase of the selection process will receive a copy of a tentative set of investment guidelines. As explained earlier, it is important to highlight that the guidelines are under review and that, even after the mandate begins, the Bank may amend them at any time.

5. Can we buy longer dated bonds than 0-3 years?

Yes, there are no limits on the maximum maturity of individual investments.

6. Will the portfolio be able to use derivatives? If so, which will be the constraints to those derivatives?

At the moment, interest rate futures, FX forwards and TBAs are the only derivatives permitted for active management. They can be used either to hedge duration or to hedge open currency positions. They can also be used to open new interest rate and currency positions. The Bank has specific guidelines for each type of derivative, consistent with the guidelines for cash investments.

7. Will you be allowing IRS? Will you be allowing the use of options (buying calls and/or puts on interest rate futures or currencies)?

Interest rate swaps and options are not currently allowed.

8. Are active currency strategies allowed? Will there be restrictions as to currencies that one can have exposure to and if so which currencies will these be? Are there any limits?

Yes, managers are allowed to implement active currency strategies in Euro, Japanese Yen, Swiss Franc, British Pound, Canadian Dollar, Australian Dollar, Swedish Krone, Danish Krone, Norwegian Krone and New Zealand Dollar. Guidelines include an aggregate and per currency deviation limit (both hedged and unhedged).

9. Would this mandate require currency hedging?

The exposure to the currencies in the benchmark is unhedged. Investment managers can hedge their currency exposure to any allowable investment if they wish to do so.

10. Are Agency Collateralized Mortgage Obligations (CMOs) acceptable within the Agency MBS exposure? If so, a) are there specific Agency CMO structures that are not allowed (i.e. interest only, etc)? b) are there restrictions on minimum issue size and tranche size? c) is there a maximum limit to the % of a tranche that we can invest in? d) is there a minimum Agency MBS pool and % of pool that we can invest in?

CMOs are acceptable under the following conditions: a) only PACs, TACs, unsubordinated floating rate notes, and the first or currently paying tranches of sequentials are permitted; b) there are no restrictions regarding minimum issue and tranche size; c) there is no maximum limit to the % of the tranche that can be held; d) there are no restrictions regarding minimum pool size or % of the pool that can be held.

11. Beyond the TE of 100bps over the benchmark, will you have any static absolute maximum limit exposure to Agency MBS or any of the above?

At the moment, the maximum exposure to agency MBS is around 25% of the portfolio.

- 12. Please confirm that minimum issue size for corporate issues will be US\$250 million and maximum exposure to an issue is 10% of the issue as stated in your march 2009 Document.**

That is the requirement that currently applies to most of the asset classes

- 13. Also beyond the TE of 100bps over the benchmark, will you have any static absolute maximum limit exposure to corporate debt as a % of the portfolio and a static absolute maximum limit exposure to specific sectors of the corporate market as a % of total corporate exposure?**

Currently the maximum exposure to corporate debt is approximately 5% of the portfolio and there are no limits to specific sectors of the corporate market.

- 14. Will Provincial issuers (Canadian, European, Australian etc.) and issues guaranteed by the Provinces be allowed as long as they are above your minimum credit limit of AA-?**

Yes. All issuers that meet the required credit ratings and that are included in the Barclays government-related index are eligible.

- 15. Do you envisage a dedicated external manager mandate for emerging markets fixed income in the short-term?**

No.

OPERATIONAL ISSUES

- 16. On question 36.b, should the report include only positions or valued assets? If it includes the reconciled valuation report, is the custodian in charge of performing the reconciliation?**

The report must show valued assets. We follow up the month-end reconciliation procedure between the custodian and the advisor and both have an active role in the process. It is important that the report specified in 36.b) is consistent with the returns shown on report 36.a) to identify discrepancies when necessary. Please take into account that at this stage of the selection process we are only explaining the minimum set of reports required. In the next stage of the process, we will include additional reports and one of them is the reconciliation report with the custodian.

- 17. On question 36.c, what do you mean by “preliminary daily position file»? Is it a reconciled positions report or could it be a (un-reconciled) mirror valuation report?**

It is important to clarify that this report is required on a daily and not on a monthly basis. The report should show all the positions or holdings in your records (forex, futures, fixed income and any other in the portfolio, except cash). They do not need to be reconciled with the custodian or audited. It is to be sent on a daily basis the next trading day by 12 pm.

18. On question 7.b, kindly provide further details on what you expect under operational issues with futures commission merchant.

By operational issues with the futures commission merchant or futures clearing broker we refer to issues such as:

- a. Arrangements that would apply or how you would set up the Bank's account with the broker.
- b. Controls you have in place to verify that the previous arrangements are met by the broker
- c. Procedures to handle breaches of the conditions initially agreed, for example, delays in cash transfers with the custodian and charges for commissions different from those of the fee schedule.

19. Could you kindly indicate how daily activity reports differ from daily cash reports?

The term "activity" is only used in report 35.b. Report 35.a does not refer to a daily activity report but to an end-of-day trading report. This last report refers to all the investment activity performed during the day regardless their impact on the cash account(s). In other words, it is a summary of all the trade tickets issued during the day for the portfolio. On the other hand, report 35.b) should include all the cash debits and credits taking place for different reasons such as a trade reaching its value date, a maturity or coupon payment, a cash transfer to or from the futures broker or any other having an impact on the cash account. Therefore it should show the opening cash balance, all the debits and credits, and the closing balance. Please take into account that an equivalent cash statement is received from the custodian but we also require the advisor to send it. Finally it is worth mentioning that a cash statement must be sent for every currency where there are positions.

20. On question 36.b, what is meant by audited monthly reporting of end of month holdings? A consolidated (with the custodian) statement?

It is usual for the Advisors to perform additional checks and balances during the preparation of the reports to be submitted to the clients with the end of month information. For example, all of the current Advisors perform the reconciliation procedure with the Custodian. In addition, some might have other internal controls to verify the validity of the reports. By "audited" reports we mean the process you have in place to ensure the reliability of the monthly information that you send to your clients.

21. On question 36.c, is the preliminary daily position file a single file containing the daily positions as sent under daily reporting 35.c or is it a preliminary position report as of the last business day of the prior month?

Please refer to question 19.

RFP AND SELECTION PROCESS

22. Is a Word version of the RFP available?

A Word version of the RFP is posted on the website along with this document.

23. Is there any flexibility to the following restriction?: firms that have worked with the Bank as managers of Foreign Reserves on or after December 31, 2004 will not be considered

No. As other requirements depicted in the RFP, they were decided by the Board of Directors and firms that do not comply with them will not be considered.

24. The due date for the electronic version is April 30, is this also the due date for the hard copy or can the hard copy be postmarked by April 30?

The hard copy must be received no later than May 5th, 2010. Only one hard copy is necessary.

25. Would it be possible to receive a copy of your standard Discretionary Management Agreement at this stage? That would allow our legal department to start checking for any potential differences with our standard.

The firms selected to participate in the second phase of the selection process will receive a copy of the standard discretionary management agreement.

26. With regards to the tables in Excel format, do you prefer to receive the excel files as such or shall we use the files and then copy into the RFP text document?

Receiving the tables in Excel format is preferable but including the information in the document with the responses is also acceptable. Receiving the tables in Excel format and having the information in the document would be ideal.

27. In Section A, question 4, in which size would you like us to show data on assets under management (billion, million, thousands?)

Participants are free to decide how to present the information as long as they clearly explain what the numbers mean.

28. Is it required to have approval from the U.S. Securities and Exchange Commission?

No.

29. Is it possible for firms to participate through consortiums and/or temporary ventures or as agents?

No, firms must participate on an independent basis as principals.

30. When requesting our clients for authorization to disclose their names as references, can we inform that it is for Banco de la Republica de Colombia?

Yes.

31. Could you kindly share whether you differentiate between specialists in interest rates relative to government bonds, agencies, MBS etc. or whether you expect us to show our fixed income specialists in these market segments?

Interest rates in table C3 correspond to specialists in government bonds. If there are specialists in MBS or agencies who participate in the investment process, they should be included in those specific sectors.

32. How does the performance-based fee schedule work? Would Banco de la República be willing to share any ideas about threshold/hurdle rates, split between fixed and variable rate?

All of the current external managers work with performance-based fees. The basic framework for the fee schedule is that the Bank pays the regular fixed fee when the manager meets the target excess return. There is a floor when excess returns are negative and a ceiling when excess returns are over a threshold. At this point, we only expect managers to state whether they are willing to work with a performance-based fee schedule. Once the responses are evaluated, the Bank will request fee proposals from a selected group of candidates and will provide more information about the fee structure.

33. What kind of training requirements does Banco de la Republica have?

The Bank has a well-defined training program for its reserve management staff that includes sponsoring the participation in the CFA and FRM programs as well as postgraduate studies. Consequently, the Bank prefers specialized training and short internships over programs aimed at broader audiences.

34. How can I find out the results of the selection process?

The list of finalists will be published on the website (www.banrep.gov.co/index_eng.html) in early June.

35. How can I find out more about the way that Banco de la Republica manages Colombia's foreign reserves?

The management of foreign reserves in Colombia is explained in the publication "Foreign Reserves Management". The Spanish version can be found at http://www.banrep.gov.co/publicaciones/pub_inf_reservas_inter.htm and the English version at http://www.banrep.gov.co/economic_reports/reserve.htm. Additionally, there is a chapter on foreign reserves on the bi-annual Report to Congress, which is available on the Bank's website.