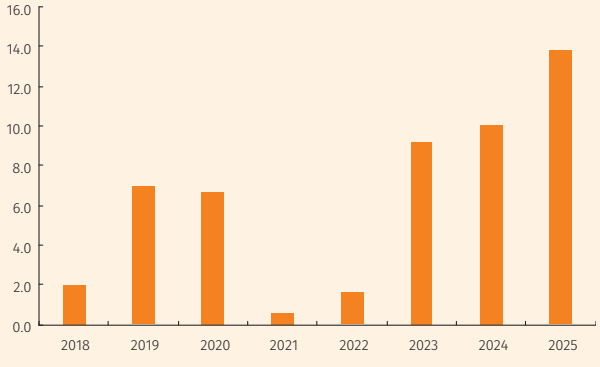
Box 4
Foreign Reserves and Banco de la República's Profits

Graph B4.1
Transfer of Banco de la República's Profits to the Government

(trillions of pesos)



Source: *Banco de la República.*

Every year, *Banco de la República* (*Banrep*) generates profits that, by law[1], must be transferred to the government, after deducting the capital reserves established by law. In 2026, *Banrep* transferred approximately COP 13.9 t in profits to the National Government, generated from its operations in 2025. As shown in Graph B4.1, this level of profits is the highest on record and exceeds the high levels reached in 2023 and 2024.

Foreign reserves constitute *Banrep*'s main asset and were one of the key determinants of its financial results in 2025. In a year in which the Bank's profits reached an all-time high, the net income from the managements of foreign reserves amounted to COP 11.9 t, that is, COP 2.5 t more than a year earlier. Thus, of the total profits generated by *Banrep* in 2025, 86% resulted from the management of foreign reserves during the past year. This result was mainly explained by three factors: high interest income, valuation gains of fixed-income portfolios, and a diversified and prudent investment strategy.

Foreign reserves are managed based on the criteria of safety, liquidity, and return. Therefore, a significant proportion of the portfolio is invested in high credit quality fixed-income instruments, mainly issued by governments and entities in advanced economies. Within this conservative framework, returns come primarily from the interest paid on securities and changes in their market prices.

Consequently, the main determinants of foreign reserve returns are: the level of interest rates, which determines coupon income; movements in market yields, which affect bond prices; portfolio duration, which determines the sensitivity of those prices to changes in interest rates; and diversification across currencies, issuers, and instruments, which helps mitigate risks.

In recent years, the global economy has faced an environment of high interest rates for an unusually prolonged period, as central banks responded to inflationary pressures arising from the pandemic and compounded by those of other recent global shocks. This environment has supported higher returns on financial assets, including those in which foreign reserves are invested.

As a result, foreign reserves have performed favorably in recent years, particularly during much of the past year, when foreign rates remained at elevated levels, boosting interest income from investments. Subsequently, sovereign bond yields tended to decline amid expectations of a less restrictive monetary policy. This combination

1 Law 31 of 1992. General Rules for the Issuance of the Bank's Bylaws, Chapter I, Article 27, paragraph 8, subparagraph e), states: "Profits, losses, and transfers to be borne by the National Government. The remainder of *Banco de la República's* profits, once the reserves have been appropriated in the manner provided for in the preceding subparagraph, shall belong to the Nation. Losses for the fiscal year shall be covered by the Nation, provided that they cannot be covered by the reserve established in the preceding subparagraph.

made it possible to capture recurring interest income and valuation gains on fixed-income securities.

1. Interest Received on Investments

Interest income depends on the contractual interest rates of the instruments in which foreign reserves are invested. Following the pandemic, the economy has faced a prolonged period of high interest rates as a result of the aforementioned actions taken by major central banks to contain inflationary pressures. In this environment of persistently high international interest rates, new securities and portfolio reinvestments generate higher coupons, which translates into a stable source of income for *Banrep*. In fact, interest income was the main component of returns on foreign reserves during 2025.

2. Changes in Investment Prices

The second determinant corresponds to changes in the prices of securities. In fixed-income instruments, there is an inverse relationship between interest rates and bond prices: when market interest rates decrease, the value of bonds increases; when rates rise, their prices decrease. This occurs because these instruments pay predetermined cash flows over their term, while market conditions change constantly. As a result, the economic value of these future cash flows adjusts according to the prevailing level of interest rates. For example, if market rates increase from one period to another, the price of existing bonds falls. This is because investors can obtain higher returns by purchasing new bonds issued at higher rates, and therefore will demand a discount to purchase older bonds whose coupons were set when rates were lower. Similarly, if interest rates decrease, previously issued bonds gain value, as their coupons become more attractive relative to new securities available in the market. In that case, investors are willing to pay a higher price for those bonds to obtain relatively higher returns than those offered by new issues[2]. For this reason, interest rate reductions or expectations of a less restrictive monetary policy, as inflationary shocks gradually dissipate, can generate significant valuation gains in reserve portfolios.

Additionally, the duration[3] of the portfolio amplifies or reduces this effect, as it determines the extent to which the valuation of investments will be affected by movements in interest rates. The longer the duration, the greater the sensitivity of the portfolio's value to changes in interest rates. This is because a greater proportion of cash flows is received at later dates, so their present value depends to a greater extent on the discount rate used to value them. Consequently, small changes in interest rates generate more pronounced changes in the price of these instruments. As illustrated in Graph B4.2, the relationship between interest rates and prices is more pronounced for

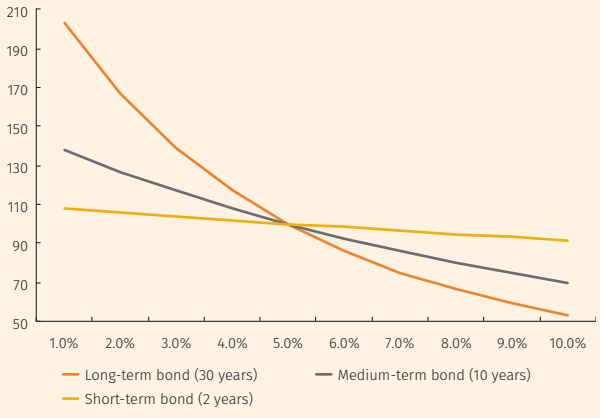
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2 The inverse relationship between a bond's price and the interest rate can also be explained mathematically. The price of a fixed-income instrument is defined as the present value of the cash flows, discounted at a specific interest rate or rate of return, as shown in the following formula, where: P = instrument price; FC = cash flow (coupon rates and principal); i= instrument rate of return; n = number of periods; as follows:

$$P = \frac{FC_1}{(1+i)} + \frac{FC_2}{(1+i)^2} + \cdots \frac{FC_n}{(1+i)^n}$$

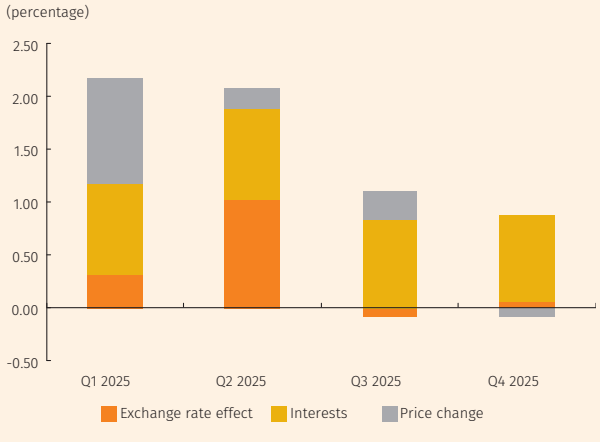
3 The duration of a bond is the average time until the receipt of all the cash flows of that bond; that is, it expresses, in years, how long it will take for the cash flows of that bond to be paid.

Graph B4.2
Duration: Sensitivity of Bond Prices to Changes in Interest Rates



Source: *Banco de la República.*

Graph B4.3
Decomposition of the Return on Foreign Reserves



Source: *Banco de la República.*

longer-term bonds. When interest rates decrease, the price of a long-term bond increases more rapidly than that of medium- or short-term bonds; similarly, when interest rates increase, its price falls more sharply. Intuitively, this occurs because a greater proportion of the economic benefits from these bonds will be received further in the future, making the present value of those cash flows more sensitive to changes in the rate used to discount them.

Therefore, in a scenario of declining yields, a higher duration allows higher valuation gains to be captured. Conversely, it also implies greater potential losses if interest rates rise. The gradual adjustments made in 2023 and 2024 to moderately increase duration allowed foreign reserves to benefit in 2025 from the decline in international yields.

Diversification was also relevant. The distribution of reserves across currencies, issuers, sectors, and instruments helps reduce risk concentration and stabilize returns. In 2025, the depreciation of the U.S. dollar against other reserve currencies increased the value of investments denominated in those currencies, although this effect is mainly recorded in equity accounts and not directly in the income statement.

During 2025, these determinants acted jointly: high international interest rates supported interest income, while the decline in sovereign yields generated valuation gains in fixed-income portfolios. Thus, the two main channels (coupons and prices) contributed to the exceptional performance of foreign reserves and, therefore, to *Banrep*'s profits.

Graph B4.3 shows that the main source of return on foreign reserves during 2025 was interest income, with a positive and stable contribution throughout the year. Valuation gains had a more concentrated contribution, particularly in the first quarter, when expectations of a more accommodative monetary policy stance in the United States increased and U.S. Treasury bond yields declined.

The exchange rate effect contributed positively, mainly in the second quarter, amid the depreciation of the U.S. dollar against other reserve currencies. This performance complemented interest income and valuation gains and highlighted the role of exchange rate diversification as an additional source of portfolio stability.

In summary, the performance of foreign reserves in 2025 was explained by the combination of four determinants: high international interest rates, which boosted interest income; declines in market yields, which generated valuation gains; portfolio duration, which made it possible to capture part of this movement; and a diversification strategy that mitigated risks and complemented financial performance. These factors contributed significantly to *Banrep*'s record profits and to the substantial transfer of resources to the National Government.