

Investigaciones Económicas
Corficolombiana

Cost of Equity (K_e): December 2025 Update

Financial Analysis
March 2026



December 2025 Key Findings: Why does the Colombian Ke in COP continue rising?

- The Ke in USD downward trend was reversed in 4Q25 for LAC5 countries, among which Colombia had the largest rise (+69 bps) amid more moderate decreases for Chile, Peru, and Mexico. Thus leading to a year-end cycle of stability on average in a favorable year for Ke figures regionally.
- As for local currency Ke, Colombia featured a notorious hike (235 bps in 4Q25) in contrast to the average reduction for the rest of LAC5 (-35 bps). This spread stems chiefly from its rising exchange rate premium evident in the gap between USD and COP Colombia figures.
- There was a remarkable rise in the exchange rate premium of Colombia contrary to what happened in the rest of the LAC5 as it surpassed Brazil this past November. It follows the changes in the USDCOP forward curve where the recent appreciation in the spot has had no impact on long-term expectations implicitly found in forward curves.
- The ranking of LAC5 sovereign yields in local currencies remained a close reflection of relative Ke standings despite a slight downtick from Colombia relative to Brazil around late December. As regards yields in USD specifically, they maintained their close alignment with CDS placements and followed the yearly downward trend before slowing down in 4Q26.

Ke Results Summary

This document summarizes the main results of our periodic update of the expected cost of equity, or shareholders' equity (commonly referred to as Ke or cost of equity).

We perform the calculations from the perspective of a foreign investor in USD seeking to invest in one of the LAC5 countries: Brazil, Mexico, Colombia, Chile, and Peru.

Detailed method applied including formulas found in the appendix to our full report (*see: "Methodology" in our [January 2025 Update of the Expected Cost of Equity Report](#)*)

Breakdown of the cost of equity by component found at the end of this report

Formulas used to derive Ke in USD and in local currency

$$\text{Cost of Equity}_{USD} = \text{Risk-free Rate}_{US} + (\beta \times \text{Market Premium}_{US}) + \left((\text{CDS}_{COL,CHL,MEX,PER,BRZ} - \text{CDS}_{US}) \times \frac{\sigma_{\text{Stock Market}_{COL,CHL,MEX,PER,BRZ}}}{\sigma_{\text{Sovereign Bonds}_{COL,CHL,MEX,PER,BRZ}}} \right) *$$

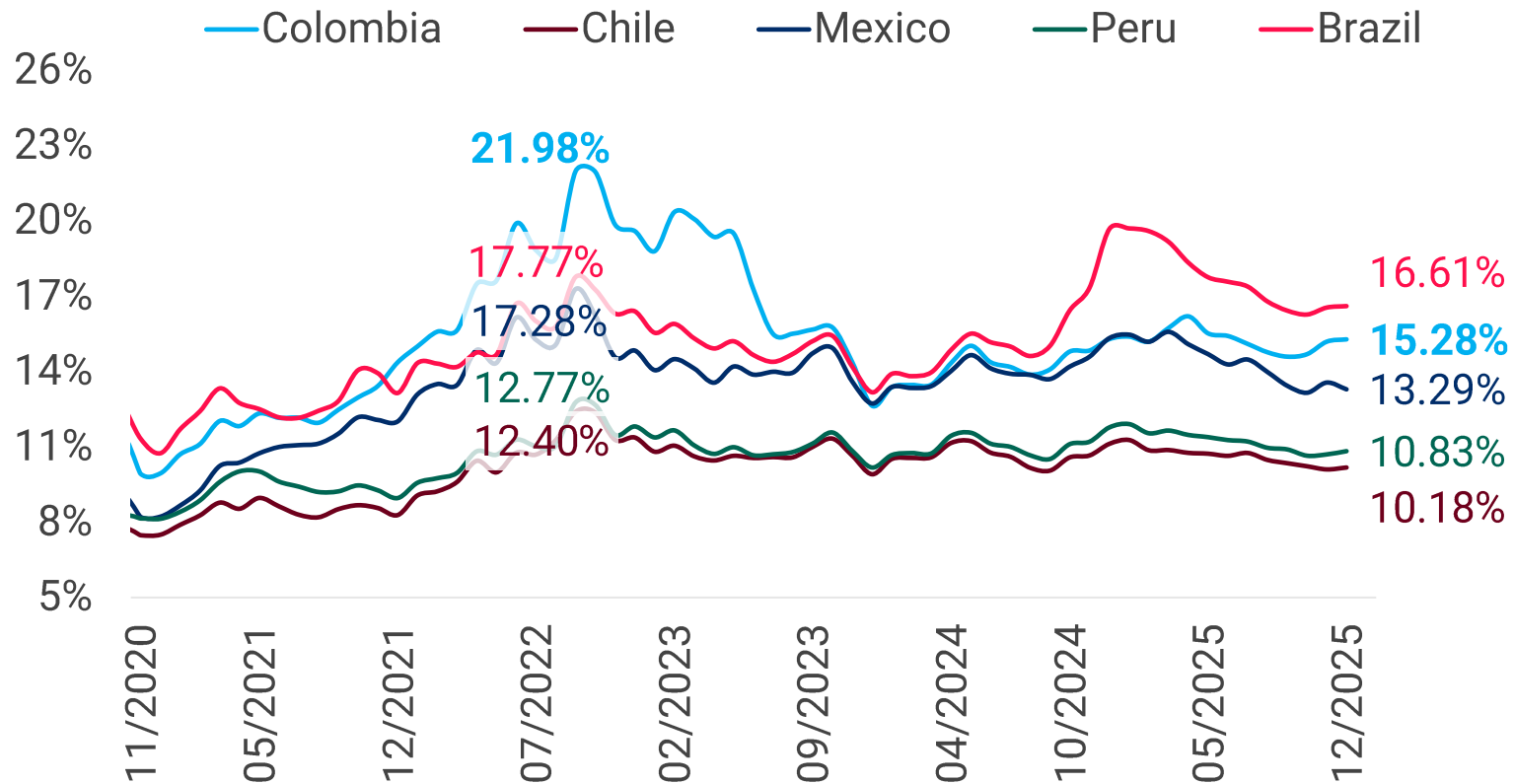
*The ratio between equity market volatility and sovereign bond market volatility is referred to as the 'scaling factor' throughout this report.

Required Return on Equity_{Local Currency}

$$= (1 + \text{Return on Equity}_{USD}) \times (1 + \text{Implit Devaluation in Forward Curve}) - 1$$

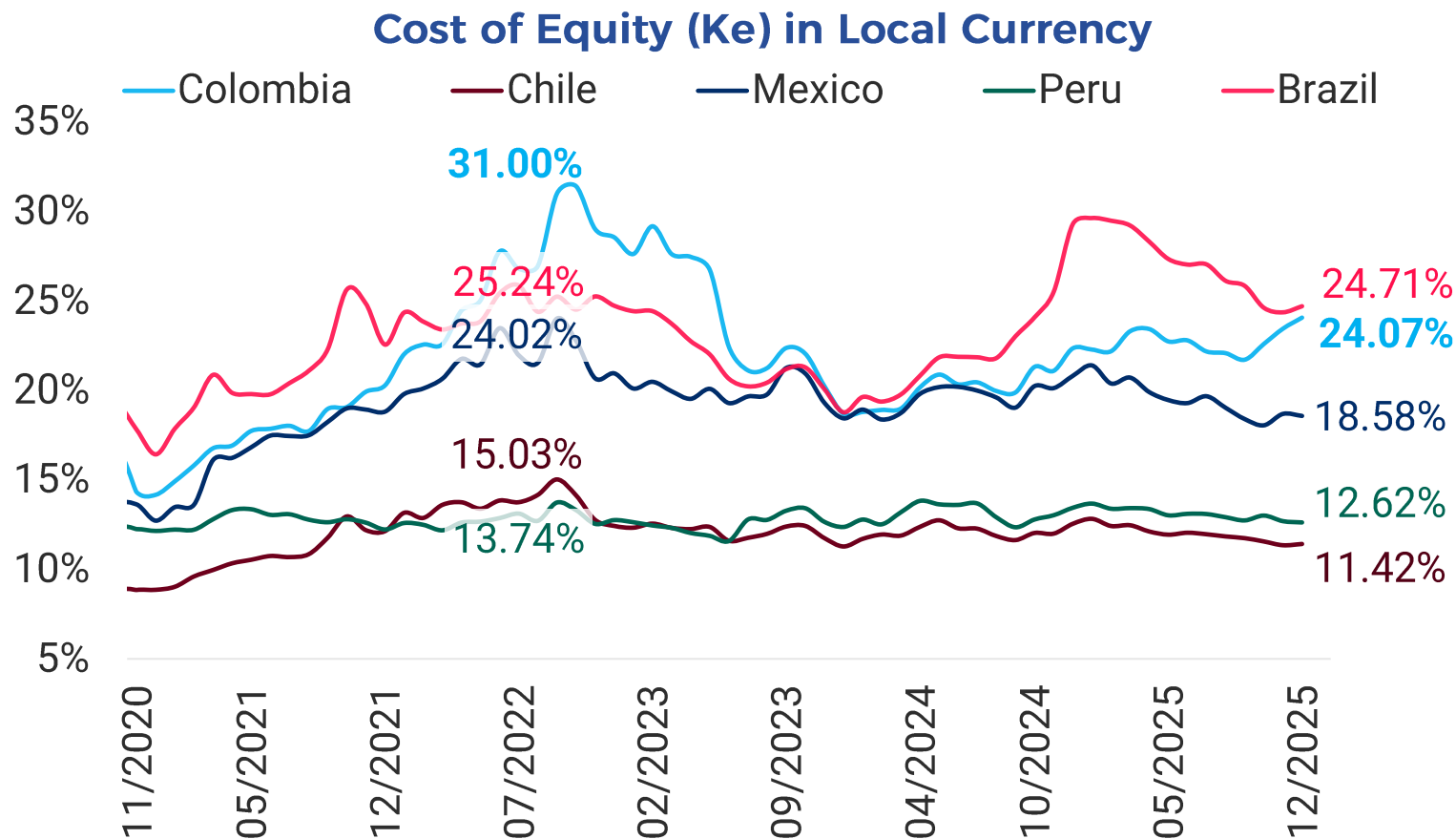
The downward trend seen in LAC5 countries was reversed in 4Q25, wherein Colombia had the largest rise (+69 bps) amid more moderate decreases for Chile, Peru and Mexico. Thus leading to a year-end cycle of stability on average in a year of lower Ke results regionally.

Cost of Equity (Ke) in USD



Source: LSEG Workspace, Corficolombiana

As for local currency Ke, Colombia featured a notorious hike (+235 bps in 4Q25) in contrast to the average reduction for the rest of LAC5 (-35 bps). This spread stems chiefly from its rising exchange rate premium evinced in the gap between USD and COP Colombia figures.

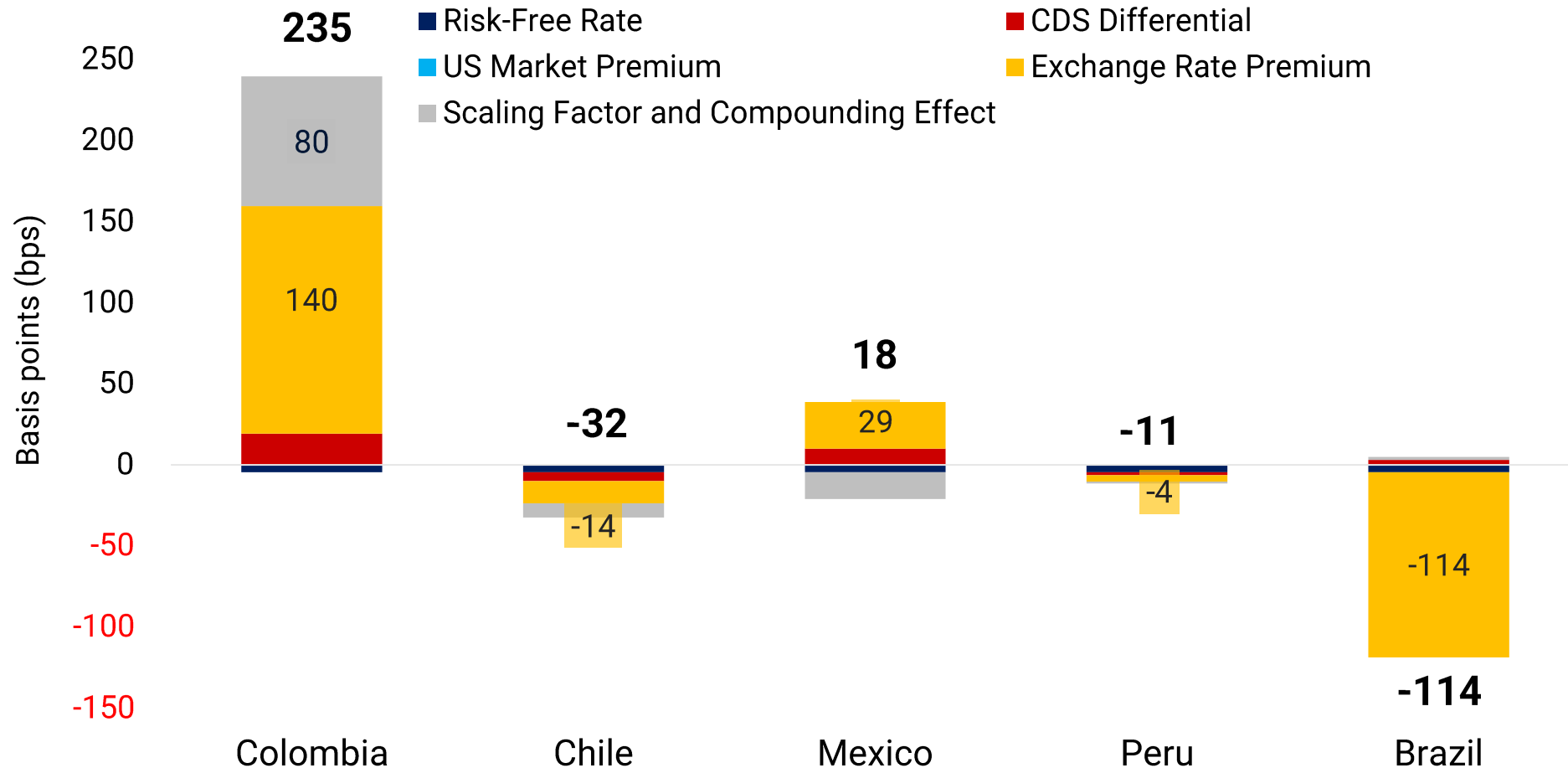


Source: LSEG Workspace, Corfi colombiana

Ke is converted from USD to local currency for each country. This is done by incorporating the 10-year expected depreciation of each currency, which reflects the cost of the corresponding exchange-rate hedge implied by the local-currency/USD forward curve for each country.

As the only country with a significant quarterly increase in Ke, Colombia's increase is explained by: its exchange rate premium (140 bps), higher scaling factor, which magnifies its already high CDS. Regarding shared factors, the risk-free rate had small variations in 4Q, while the US market premium remained unchanged (yearly update).

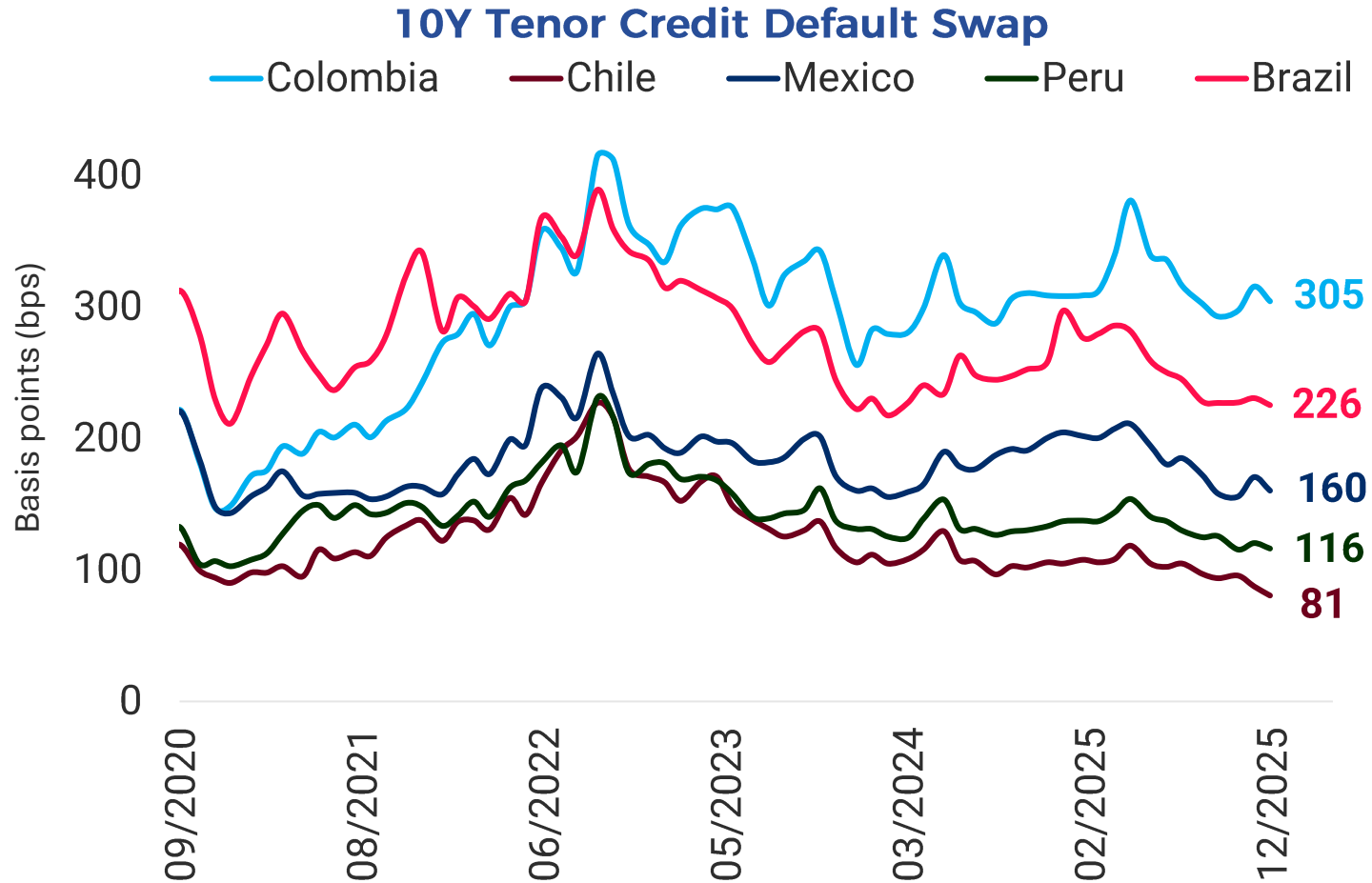
Parameter Changes Between September and December 2025



Fuente: LSEG Workspace. Construcción Corfic Colombiana

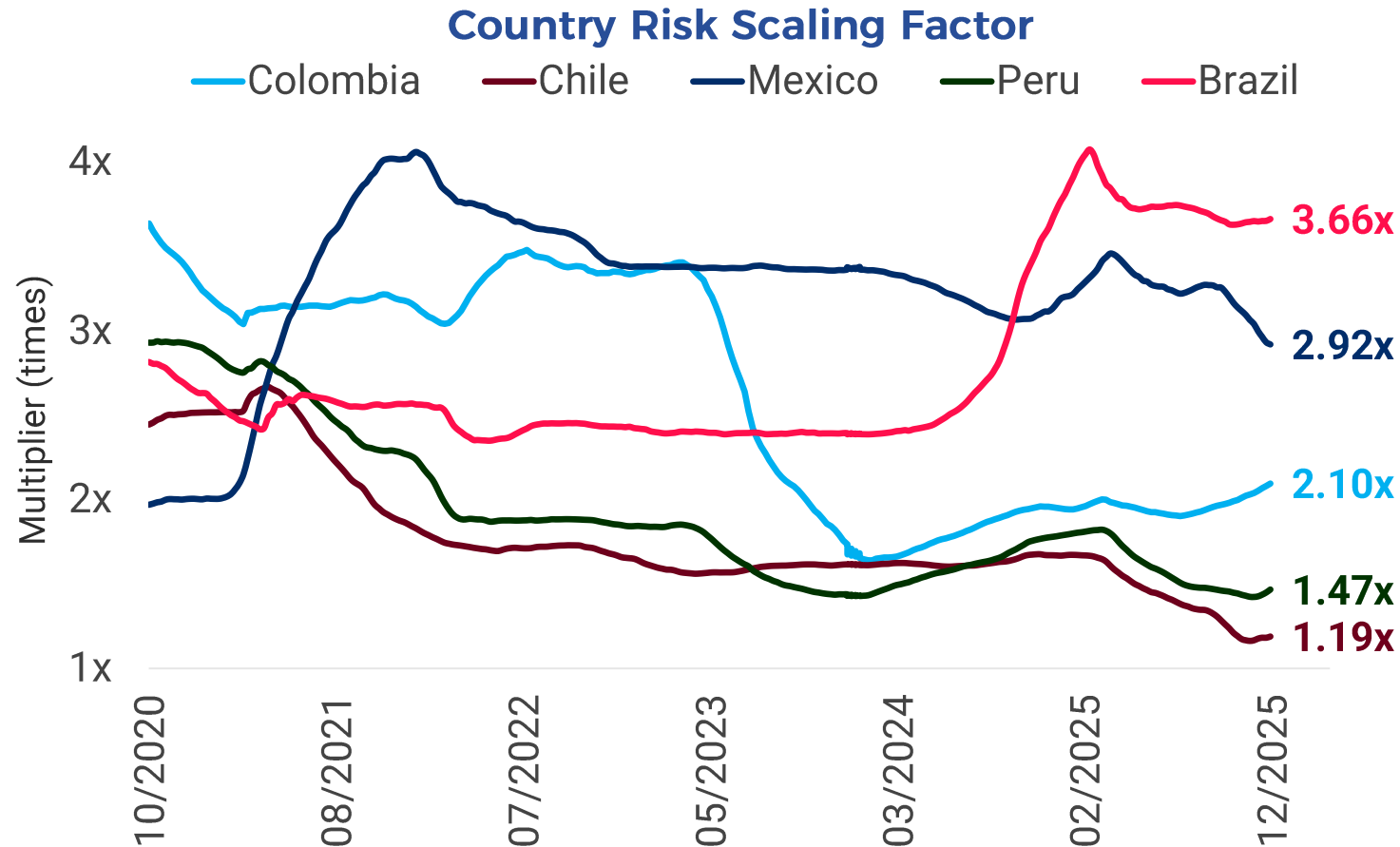
Variations in Ke cannot be attributed exclusively to changes in its components individually. There is a compounded impact coming from both the scaling factor and currency conversion formulas. This interaction effect is thus found in the "Compounding and Scaling Factor", though in practice we see most of it stems from variations in the scaling factor stemming from 5Y moving volatilities in their corresponding stock and fixed income markets.

10-year CDS is the chosen variable for long-term sovereign risk, and it showed a falling trend until the end of 2025. This matches default probabilities scaling back moderately in line with recent and anticipated political events in 2026 as well as fiscal pressures in Brazil and Colombia.



Source: LSEG Workspace, Corficolombiana

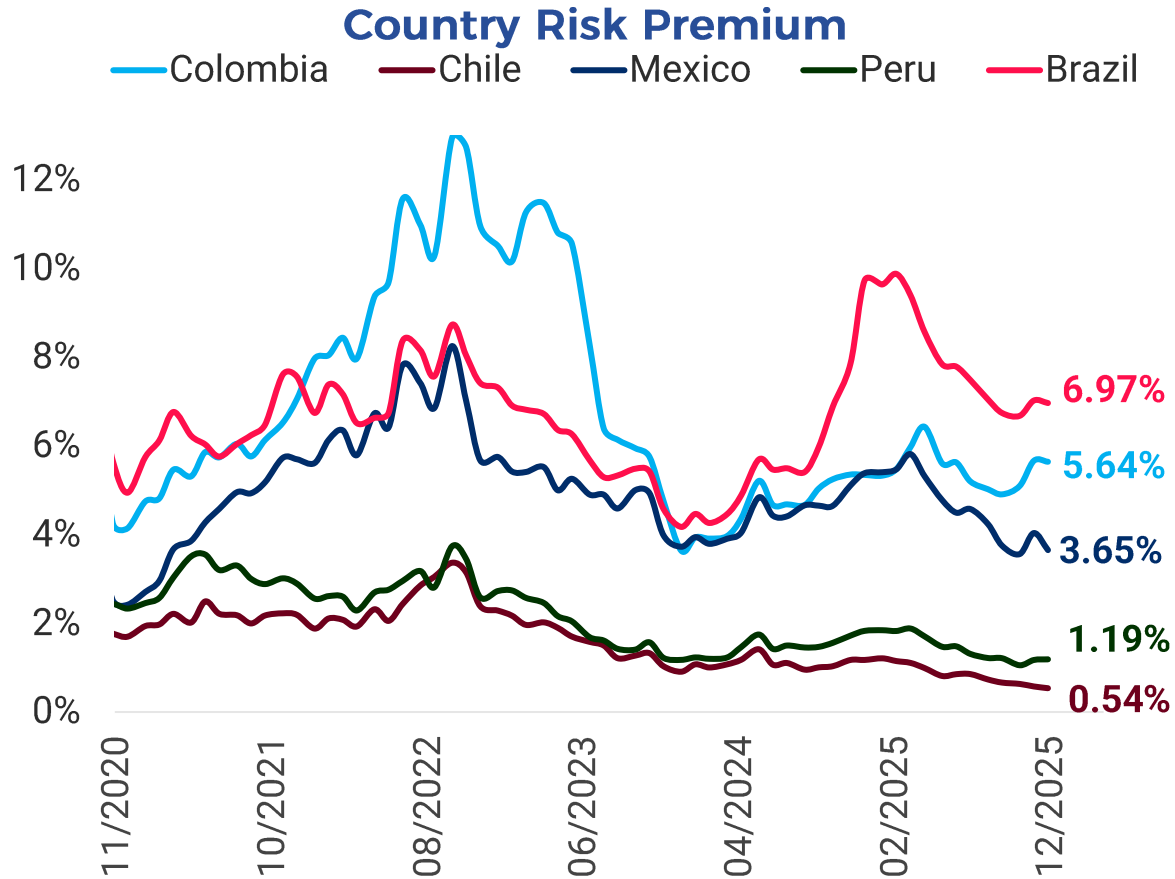
The scaling factor –which amplifies the CDS differential on Ke– fell through 2025 on average among the LAC5. This factor stabilized in 4Q25 except for Mexico as downward pressures from increased volatility in its fixed income market made it fall; and Colombia, whose factor rose aligned with the recent heightened volatility in its stock market.



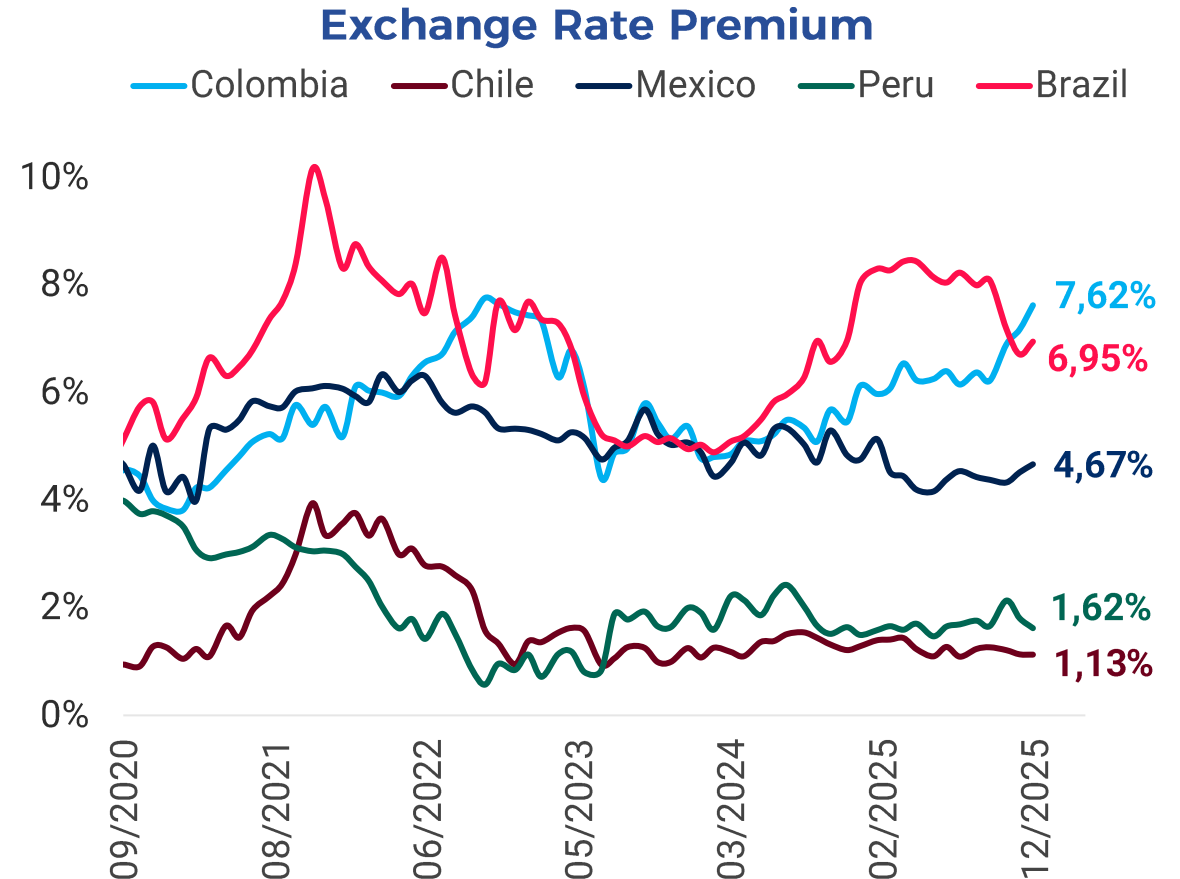
Source: LSEG Workspace, SPDJI, Corficolombiana

The country risk scaling factor multiplies the CDS differential (spot figure of a given country minus the US spot) by the ratio between the volatility of the stock market and local fixed income market. This allows the results to factor in the way Ke estimates the expected return on equity and not debt.

There was a remarkable rise in the exchange rate premium of Colombia contrary to what happened in the rest of the LAC5 as it surpassed Brazil this past November. It follows what goes on regarding the USDCOP forward curve where the recent appreciation in the spot rate has had no impact on long-term expectations implicitly found in forward curves.



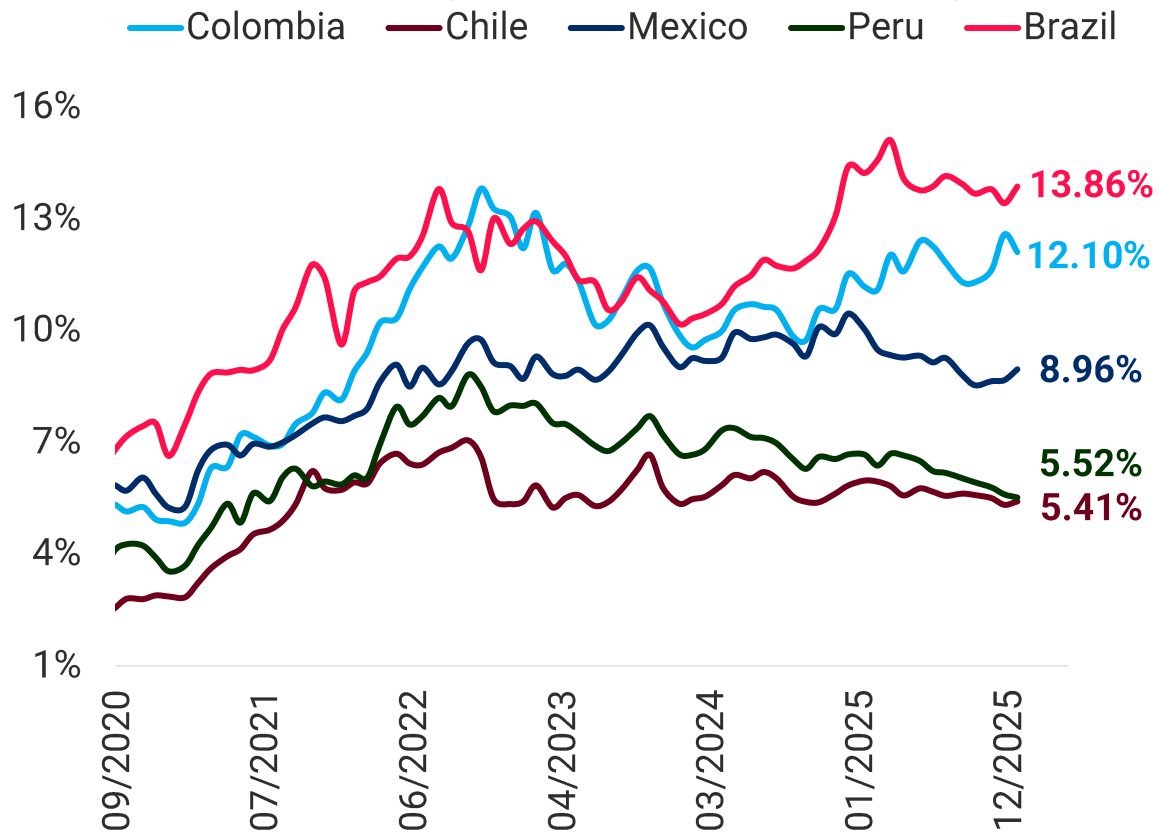
Source: LSEG Workspace, Corficolombiana



Source: LSEG Workspace, Corficolombiana

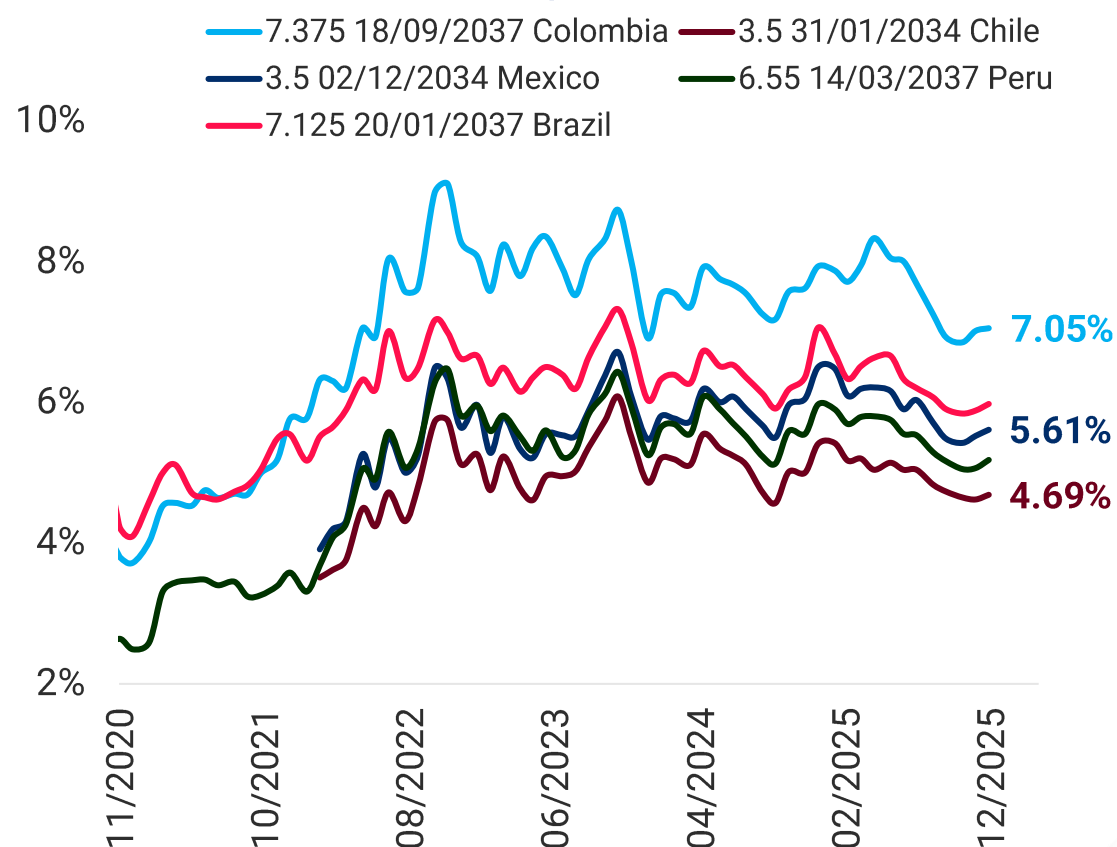
The ranking among LAC5 sovereign yields in local currencies remained a mirror of relative Ke standings despite a slight downtick from Colombia relative to Brazil around late December. As regards yields in USD specifically, they maintained their close alignment with CDS placements and followed the yearly downward trend before slowing down in 4Q26.

10Y bond yields in Local Currency



Source: LSEG Workspace, Corficolombiana

10Y* bond yields in USD



Source: CIQ, Corficolombiana

*The maturities of the USD sovereign bonds selected do not exactly match the 10-year horizon, as the sample was chosen as a set of proxies to enable a consistent comparison of yield differentials across LAC5 countries.

Cost of Equity: Breakdown by Component

Factor	Colombia	Chile	Mexico	Peru	Brazil	Variable Details
10Y US Treasuries	4.17%	4.17%	4.17%	4.17%	4.17%	(A) US Government 10-Year Treasury Bonds
US Market Premium	5.47%	5.47%	5.47%	5.47%	5.47%	(B) = (F) × Average(G;H)
Leveraged Beta	1	1	1	1	1	(F) Leveraged Market Beta
Country Risk Premium	5.64%	0.54%	3.65%	1.19%	6.97%	(C) = (I) × (L)
Sovereign Default Risk Factor	2.69%	0.45%	1.25%	0.81%	1.90%	(I) = (J) - (K)
Target Country 10Y CDS	3.05%	0.81%	1.60%	1.16%	2.26%	(J) Negotiated rate for issuer risk insurance for the 10Y Sov. Bond of the Target Country
US 10Y CDS	0.35%	0.35%	0.35%	0.35%	0.35%	(K) Negotiated rate for issuer risk insurance for the 10Y Sov. Bond of the Target Country
Stock Market/Bond Scaler	2.10	1.19	2.92	1.47	3.67	(L) = (M) / (N)
Market Index St. Deviation	19.96%	12.31%	14.43%	14.48%	15.31%	(M) St. Deviation of the respective Stock Market Index total returns (5-year moving average)
Sovereign Bond Index in USD St. Deviation	9.2%	10.35%	4.94%	9.86%	4.18%	(N) St. Deviation of the respective inflation-linked S&P Sovereign Bond Index total returns (5-year moving average)
Expected Return on Equity (USD)	15.28%	10.18%	13.29%	10.83%	16.61%	(D) = (A) + (B) + (C)
Exchange rate premium	7.62%	1.13%	4.67%	1.62%	6.95%	(E) Devaluation calculated with 10Y Forward Curve Nodes in USD-Local Currency: Precia
Expected Return on Equity (Local Currency)	24.07%	11.42%	18.58%	12.62%	24.71%	Ke = (1 + D) × (1 + E) - 1

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