

Bancamía **Colombia**

Social Performance
Report 2016



**Measuring
what really
matters**

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“Human beings do not come into the world perfectly formed, never to be changed, the day their mothers give them birth; life forces them to give birth to themselves over and over again”.

No One Writes to the Colonel
Gabriel García Márquez

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Supporting productive activities

Bancamía is the bank for low-income Colombians, whether they live in cities or in rural areas, offering them financial and non-financial services adapted to their needs. In a country like Colombia, immersed in a peace process, it is critically important to reinforce businesses in order to encourage growth and reduce inequality.

Banco de las Microfinanzas - Bancamía, S.A. is a well-known social bank specializing in microfinance that first opened its doors in 2008 with the aim of improving the standard of living of low-income families. It was the result of the merger of three non-profit institutions: Corporación Mundial de la Mujer Colombia, Corporación Mundial de la Mujer Medellín and the BBVA Microfinance Foundation. In 2010, the International Finance Corporation (IFC) joined the body of shareholders.

Bancamía mainly serves vulnerable entrepreneurs located in both urban and rural areas, who are financially excluded because of their economic conditions. It provides financial and non-financial products and services that are adapted to their needs, covering microloans, savings

accounts, sight or term deposit certificates, insurance and international wire transfers, channels and services, such as mobile banking and debit cards, as well as financial education.

The institution believes in the capacity and abilities of these people and recognizes their natural aspiration to make progress by generating productive activities. The clients whom the entity supports with loans are mainly involved in trade, services, production and farming.

The bank runs 199 branch offices, with a footprint in 29 of Colombia's 32 departments (91% of its departments), serving clients in 905 municipalities, which represent 80% of the nation's territory. It also has over 3,400 banking correspondents with its own, well-positioned network.



The 50 Most Valuable Brands in Colombia in 2016 report has again recognized Bancamía as one of the country's most valuable brands, ranking it at n° 16 in the services sector.

In 2016, the President of the World Bank, Jim Yong Kim, visited Bancamía during his trip to Colombia in support of the peace

process, where he chatted with some of the institution's entrepreneurs who have made progress thanks to its loans. The World Bank's view is that it is critical to strengthen businesses in order to encourage growth and reduce inequality, particularly in a country like Colombia, which is immersed in a peace process.

In September of the same year, Bancamía signed an agreement with the Colombian Reintegration Agency (part of the Ministry of Defense, in charge of rolling out the reintegration roadmap for demobilized combatants). In this way it will contribute to the efforts being made to enable demobilized people and their families to access financial services and training to help them re-join society.

The President of the BBVA, Francisco González, had a meeting in Bogotá with



the Management Board and shareholders of the institution. He saw at close quarters the reality of a number of clients in their homes, which are also their enterprises, in Soacha, a significant region for the United Nations in that it has become a refuge for a large number of people who have been displaced by the conflict.

The institution has taken part in the *Macro-Round Reconciliation*, that finds resources for programs to rebuild and reconcile the country's social fabric, bringing together public and private institutions, international cooperation and regional peace initiatives.

The 50 Most Valuable Brands in Colombia in 2016 report has again recognized Bancamía as one of the country's most valuable brands, ranking it at nº 16 in the services sector in this year's awards. Bancamía has gone up two places since 2015 in this ranking, conducted by the branding consultancy Compass, supported

by Raddar. This classification analyzes Colombian brands by their approval rating, reputational classification, recognition levels, governance and sustainability, this last in the financial social and environmental dimensions.

Bancamía was also a finalist in the *Andesco Award for Enterprise Social Responsibility* in the category of *Best Social Performance*, which evaluates companies that are neither public services nor communications.

The institution believes that the best way of combating poverty and inequality is by sowing a future for families with lower incomes. Responsible Productive Finance becomes an effective tool for the social and economic development of the most disadvantaged communities, by providing them with products and services designed to generate revenues and net incomes through building up a business. This will also be the institution's goal in 2017.■

Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)

380,562,145

Amount disbursed in 2016 (USD)

325,768,413

Nº of disbursements in 2016

256,520

Average disbursement in 2016 (USD)

1,270

Deposits & others (USD)

183,675,808

Nº of employees

3,542

Nº of offices

199

People receiving financial education

160,382

Management team and board

Management Team

María Mercedes Gómez
Executive President

Margarita Correa
Executive Vice-President

Olga Lucía Calzada
Vice-President, Legal

Germán Reyes
General Auditor

Miguel Achury
Vice-President, Planning

Marcelino Romero
Vice-President, Finance

Oscar Romero
Vice-President, Risk

Edison Mejía
Vice-President, Client
Production Development

Juan Manuel Rincón
Vice-President,
Staff Development

Luis Enrique Collante
Vice-President,
IT & Resources

Germán Millán
Compliance

Board

Ignacio Rojas-Marcos
President

Edith María Hoyos
Vice-President

José Antonio Colomer
Member

Pedro Saiz
Member

Jaime Ospina
Member

Javier M. Flores
Member

Adriana Senior
Member

Measuring

Bancamía’s clients stand out in terms of development, with a sustained growth in sales, net incomes and assets of their microenterprises. This is reflected in that the segment of clients classified as *poor* shrinks by 27% in the first year of the relationship with the bank and by 32% in the second. Furthermore, the direct and positive correlation between staying with the institution and client improvements in education and quality of life, continue to be evident.



Total clients
828,499

Total credit clients
325,712

New credit clients
70,386

(1) According to the DANE poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three, are classified as *vulnerable*.

(2) Proportion of all credit clients who have completed primary education, at best.

Total credit clients as of Dec 31, 2016

71%	56%	55%	44%	11%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Rural	Under 30 years old

New credit clients 2016

74%	47%	52%	48%	20%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Rural	Under 30 years old

Our clients and our scale

Going beyond *economic vulnerability*, Bancamía focuses on serving clients with vulnerable profiles, such as people in rural environments, those with little education, and young people.

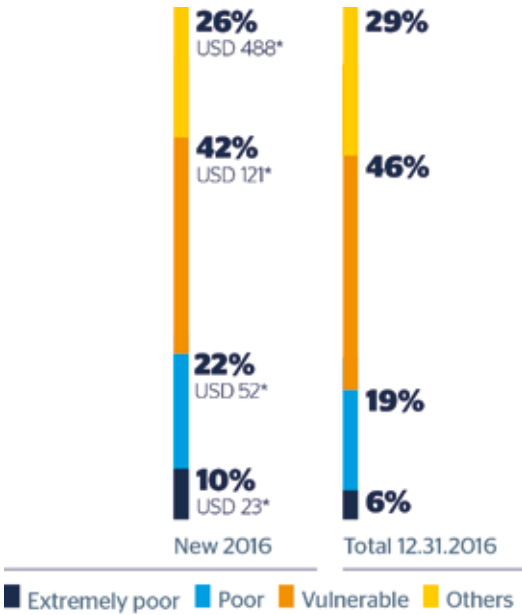


74% of new clients classified as *vulnerable* generate an average income of USD 2.9 per person/day from their microenterprises, while the 32% classified as *poor* generate USD 1.4 per person/day.

- Against a turbulent political and economic backdrop, and with the institution in the midst of its transition to the new core banking system, the rate of new client acquisition has gone down since last year, as has the *vulnerability* of these clients (74.4% in 2016 vs. 79% in 2015).

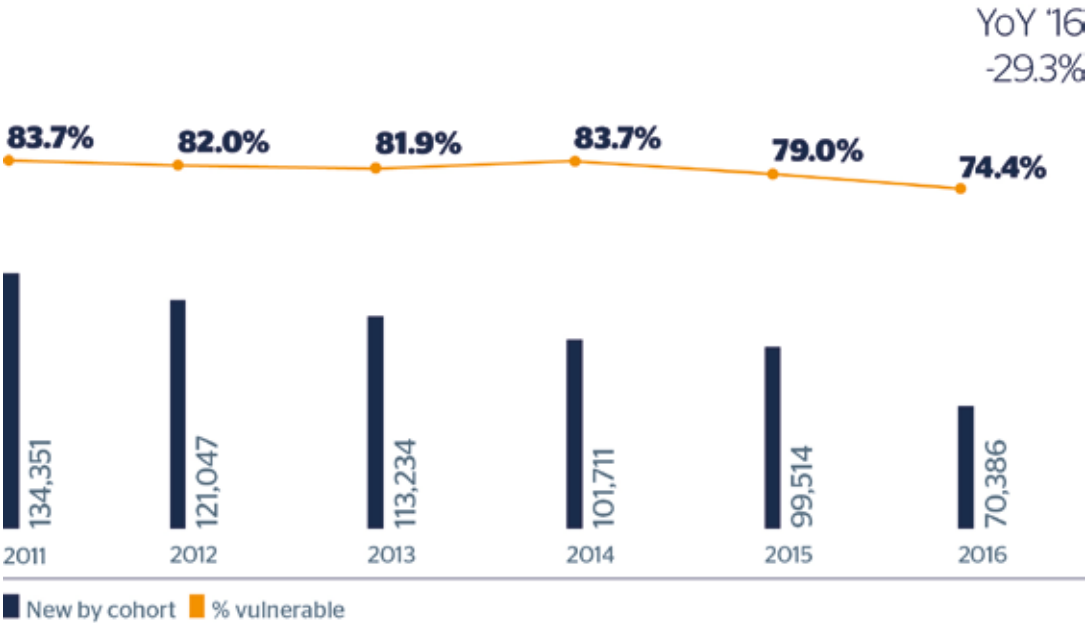
(1) According to the DANE poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three, are classified as *vulnerable*.

Clients’ economic vulnerability (1)



* Monthly net income per capita.
Source: Bancamia. BBVAMF calculations.

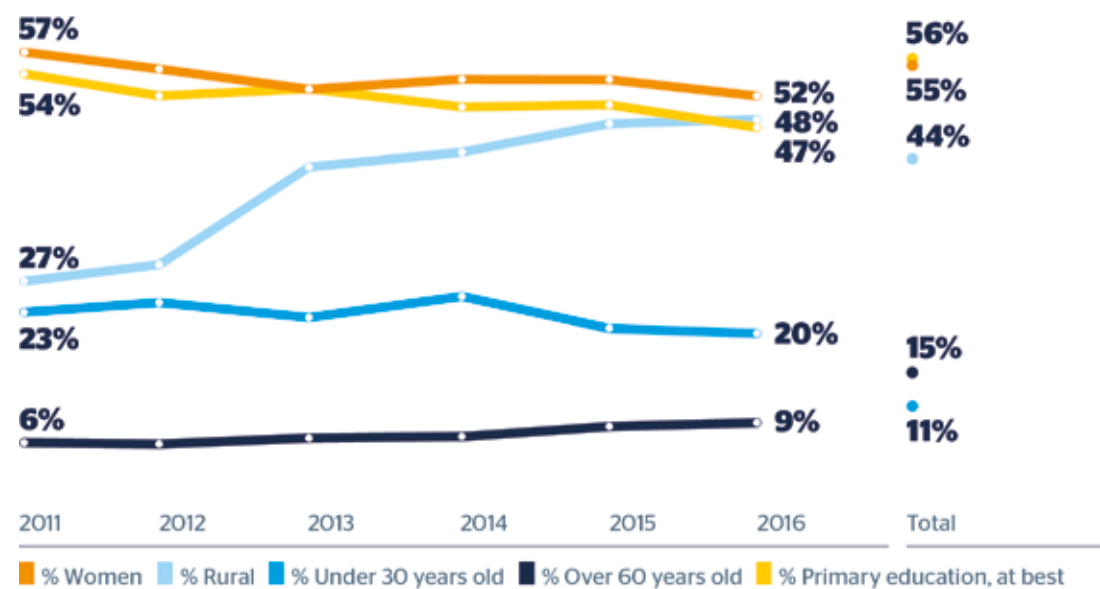
New credit clients (2)



(2) New clients (without previous loans) signed up over the year.

Source: Bancamia. BBVAMF calculations.

Profile of our credit clients (3)



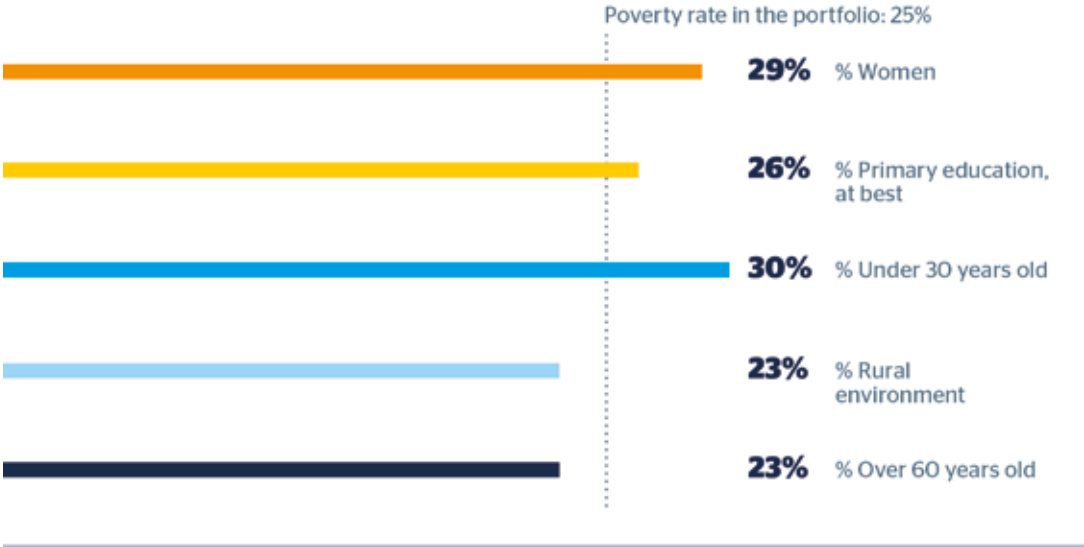
Source: Bancamía. BBVAMF calculations.

Young people, women and clients with primary education at best are the poorest segments (30%, 29% and 26% classified as *poor*, respectively).

- The profile of new clients has remained stable compared to 2015; there has been a marked increase over the years in the number of clients from the rural environment, where the poverty levels are higher.
- The average value of new clients' sales and first disbursement have both risen, while the weight of the credit installment over sales remains stable, confirming that there is a trend to sign up less economically *vulnerable* clients.

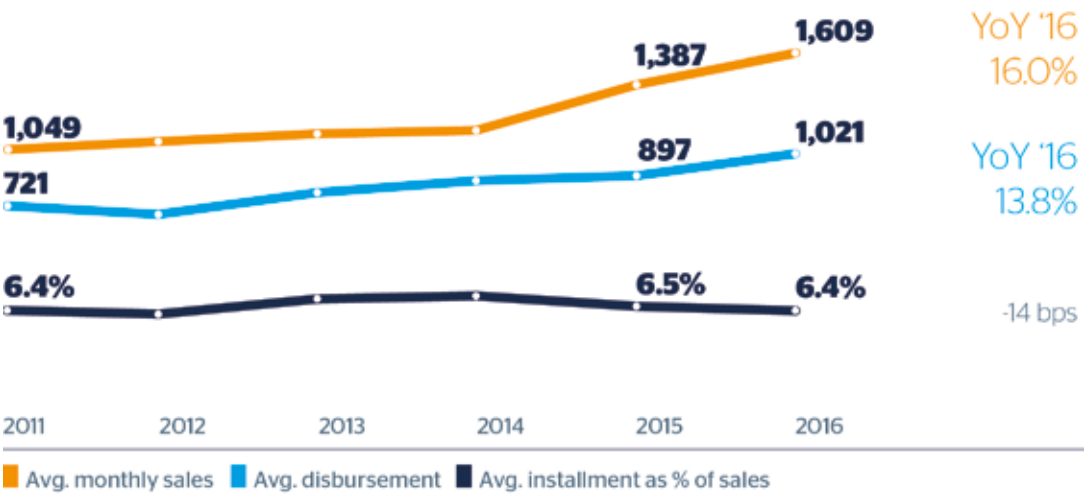
(3) New clients (without previous loans) signed up over the year. The total gives clients current as of 12.31.2016.

Poverty profile (4)



Source: Bancamía. BBVAMF calculations.

New clients' sales, disbursements USD & weight of installment (5)



(4) Clients current as of 12.31.2016.
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

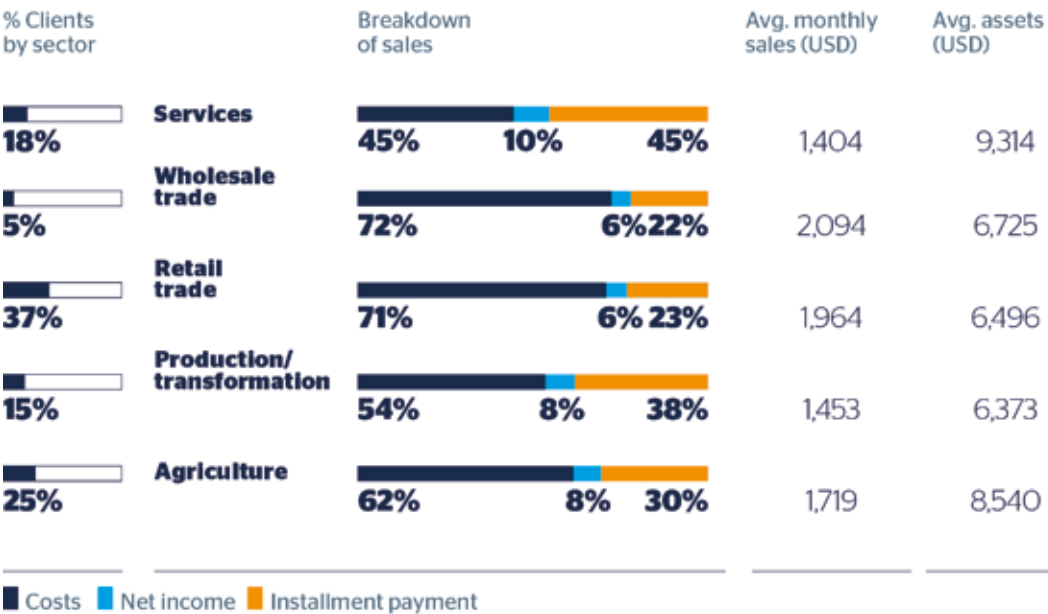
Source: Bancamía. BBVAMF calculations.

Our clients' businesses

Bancamía's vulnerable clients mainly work in *trade* and *farming*, which returns smaller margins than *services*.



Average margins, sales and assets, by sector (6)

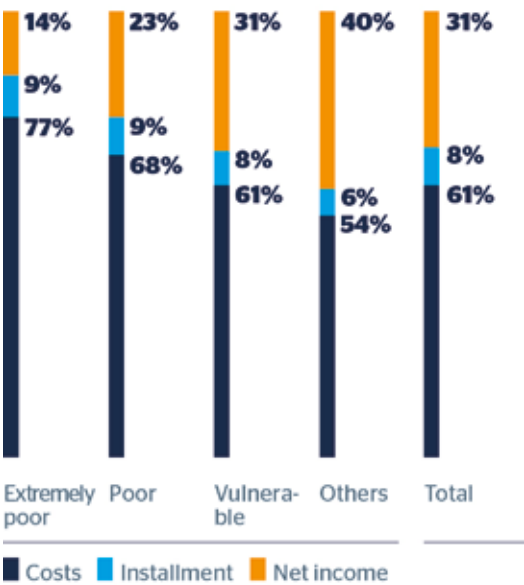


Source: Bancamía. BBVAMF calculations.

(6) Clients current as of 12.31.2016.

- *Trade*, in which most clients work, is the segment with the lowest margin (22-23%, after paying the loan installment) and, perhaps for that reason, clients need to have quick stock rotations to make profits (higher sales/assets ratio).
- The *services* sector has the highest margin (45% of net income over sales, after paying the installment) and the investment in assets is greater than that required for trade (USD 9,314 vs. approx. USD 6,500), which is a barrier to entry for clients with very low resources. It is worth noting that it is the sector with the highest level of educational attainment (clients with primary education at best account for 44%) as compared to the *farming* sector (74% of whom have primary education at best).
- The most vulnerable entrepreneurs - looking at factors beyond economic vulnerability - work in activities that have lower barriers to entry (in terms of training and investment); in Bancamía they are concentrated in *trade* and *agriculture*.
- *Extremely poor* clients have improved their margins considerably (10% in 2015 vs. 14% in 2016), perhaps because of the lower cost of certain raw materials and growth in the sectors where they work.
- The cost structure diminishes as clients' *vulnerability* lessens, showing major variations (from 77% for *extremely poor* to 54% for *non-vulnerable* clients), reflecting a potential for efficiency improvement.
- *Extremely poor*, *poor* and *vulnerable* clients spend nearly 8-9% of their sales on paying the credit installment, whereas this represents only 6% for the *non-vulnerable*.
- Client leveraging is higher for less *vulnerable* segments and, on average only 20% of assets are financed with liabilities. It is a challenge to promote financial inclusion, particularly for the most vulnerable segments: 39% of adults applied for a loan in the last year nationwide; of these, only 15% did so through a formal financial institution (see *Macroeconomic context*).

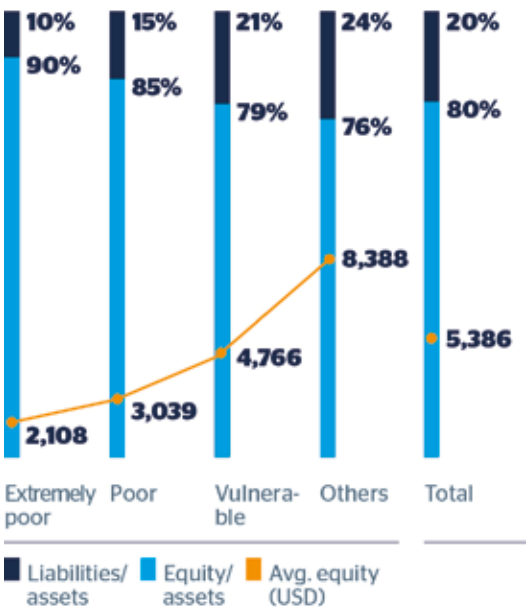
Expenses and margins as % of sales by vulnerability (7)



Source: Bancamía. BBVAMF calculations.

(7 & 8) Clients current as of 12.31.2016.

Assets, liabilities and equity by vulnerability (8)



Source: Bancamía. BBVAMF calculations.

Our clients' development

Bancamía supports its clients' businesses; whatever their degree of vulnerability, they achieve a sustained percentage growth in their *per capita* net income relative to the poverty line.



- Bancamía retains nearly 80% of its new clients after a year and 47% of them after two, in line with the Group's trend.
- Retention after three years has improved slightly (30% in 2015, vs.33% in 2016).
- Only 47% of Bancamía's clients take out a second loan with the institution; this coincides with the two-year retention rate (a reflection of average terms of more than one year). The flight rate of clients falls in subsequent cycles.

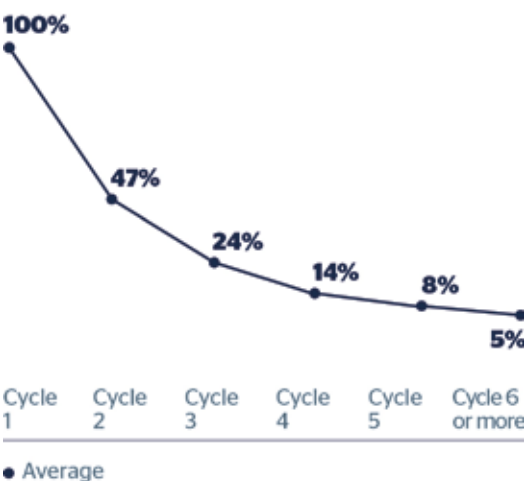
(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention (por cohorte)(9)



Source: Bancamía. BBVAMF calculations.

Credit client recurrence (10)

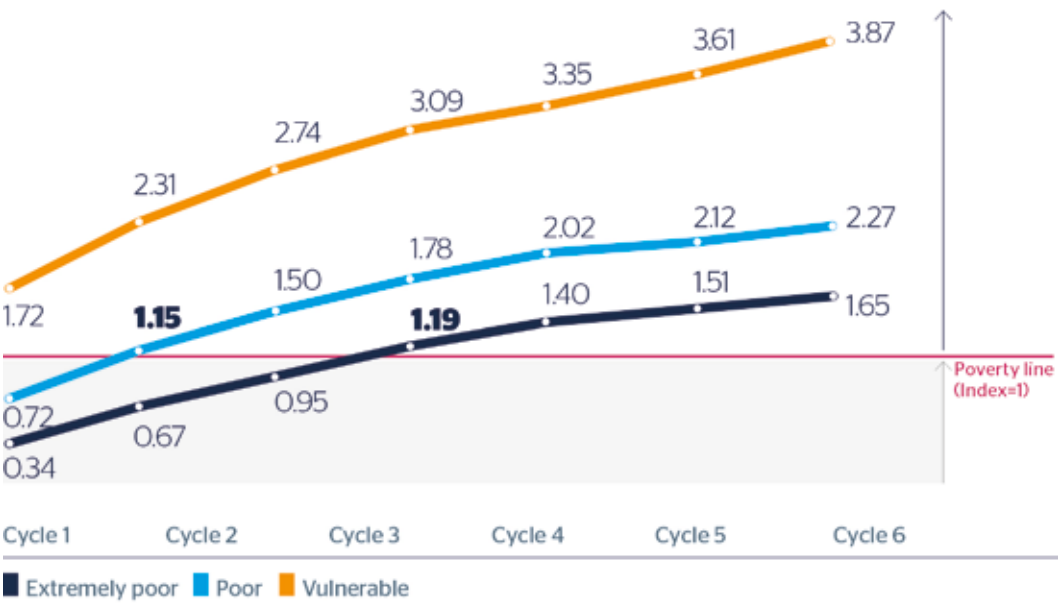


Source: Bancamía. BBVAMF calculations.

- Clients in all economic *vulnerability* segments make sustained progress; in the case of the *vulnerable*, they increase their *per capita* net incomes to more than three times the poverty line in the fourth cycle.
- Bancamía's client development stands out in terms of sustained growth in net incomes.
- The *poor* segment succeeds in breaking through the poverty line in a single cycle (average duration 408 days).

(10) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle one and two is 442 days, between cycle two and three is 418 days; between cycle three and four is 330 days, between cycle four and five is 272 days and between cycle five and six is 232 days.
(11) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of one when it is the same as the poverty line.

Per capita net income relative to poverty line (11)



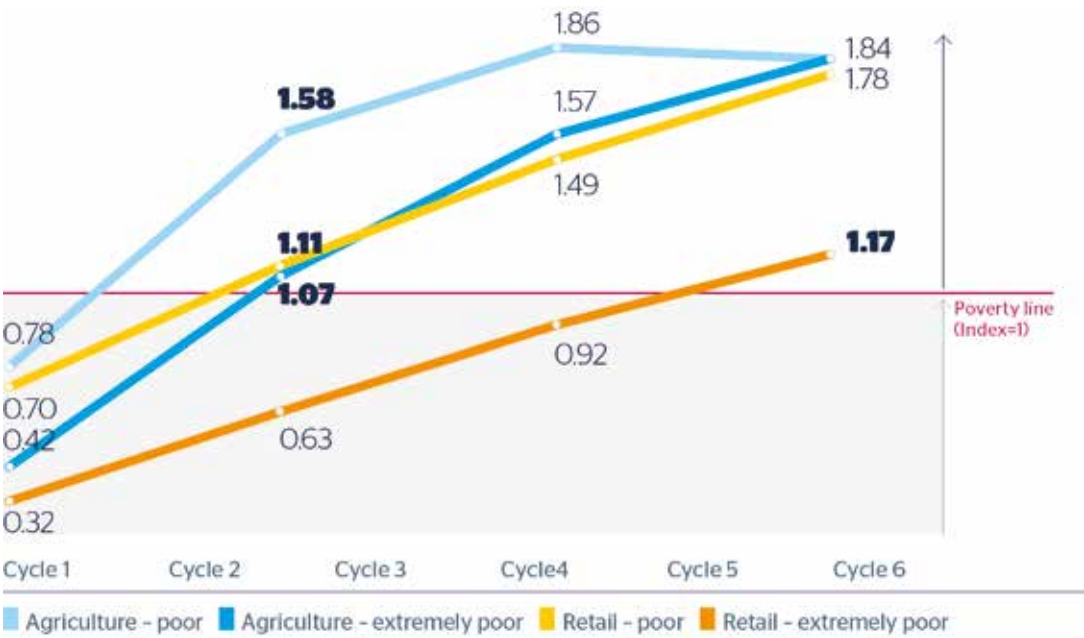
Source: Bancamía. BBVAMF calculations.

Clients working in agriculture increase their per capita net incomes (especially in the first cycle) faster than clients in retail trade.

- Agricultural clients classified as poor and extremely poor at the outset manage to overcome poverty after one cycle.
- Bancamía's farming business clients grow fast, which suggest that these activities are positive for development and beating poverty.

- In a context of macroeconomic growth and with inflation standing at 5.7% in 2016, the growth rates of Bancamía's clients' microenterprises are still positive, high and recurring. This highlights the positive correlation between staying with the institution and client progress. Growth rates taper over time, as is to be expected.
- Assets are being accumulated and reinvested, given that the former are growing faster than sales and net incomes. This suggests that improvements are being consolidated and equity created (see graphs 13, 14 and 15).

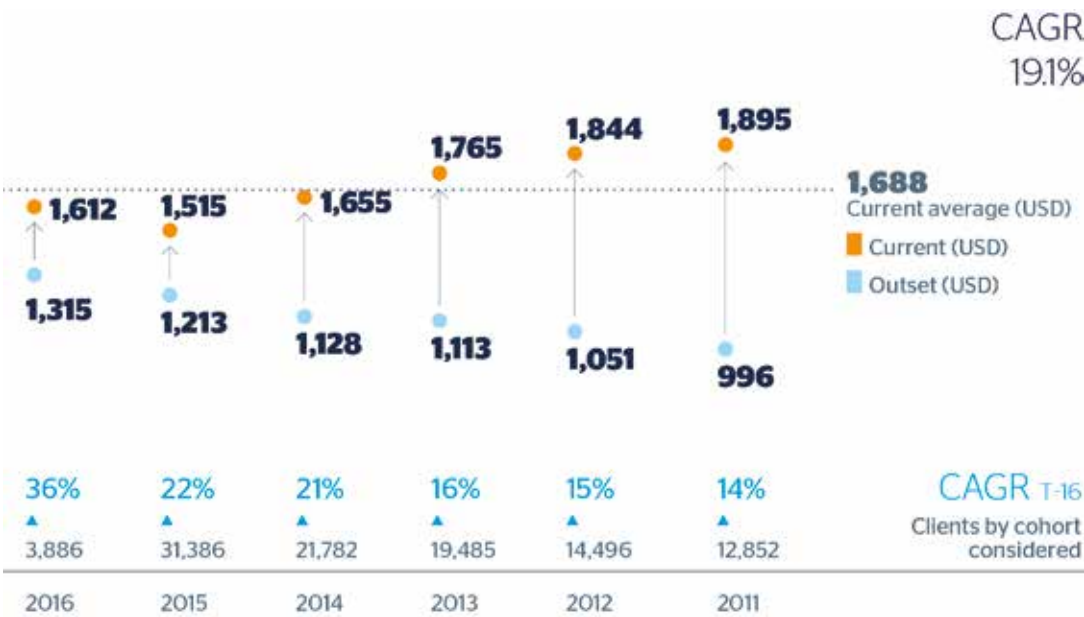
Per capita net income relative to poverty line by sector (agriculture vs. retail trade) (12)



Source: Bancamía. BBVAMF calculations.

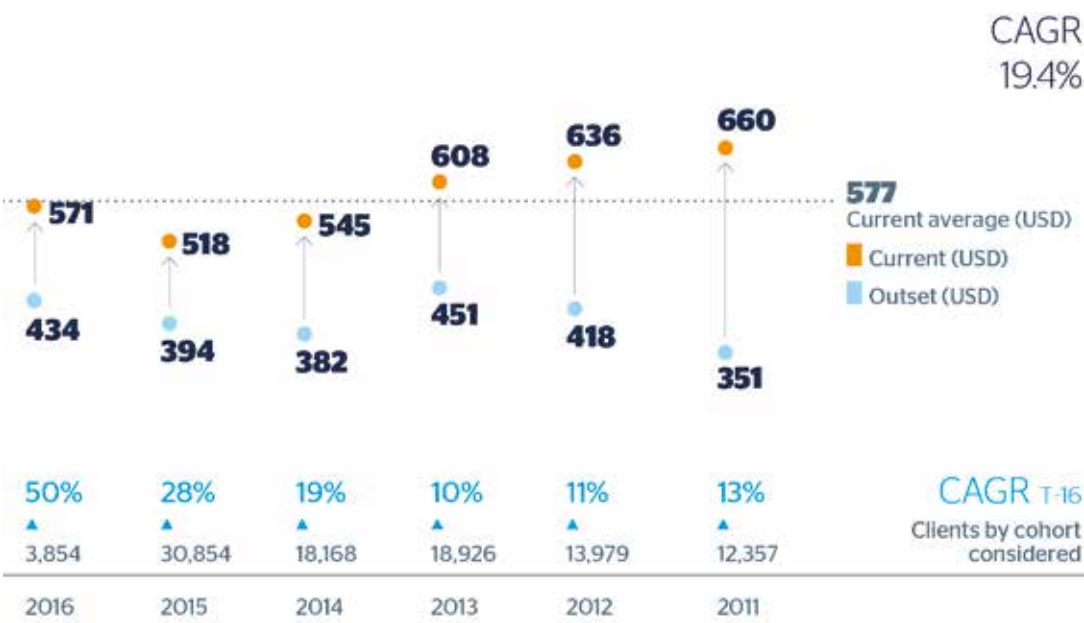
(12) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income per capita at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income per capita takes a value of 1 when it is the same as the poverty line.

Average monthly sales (by cohort) USD (13)



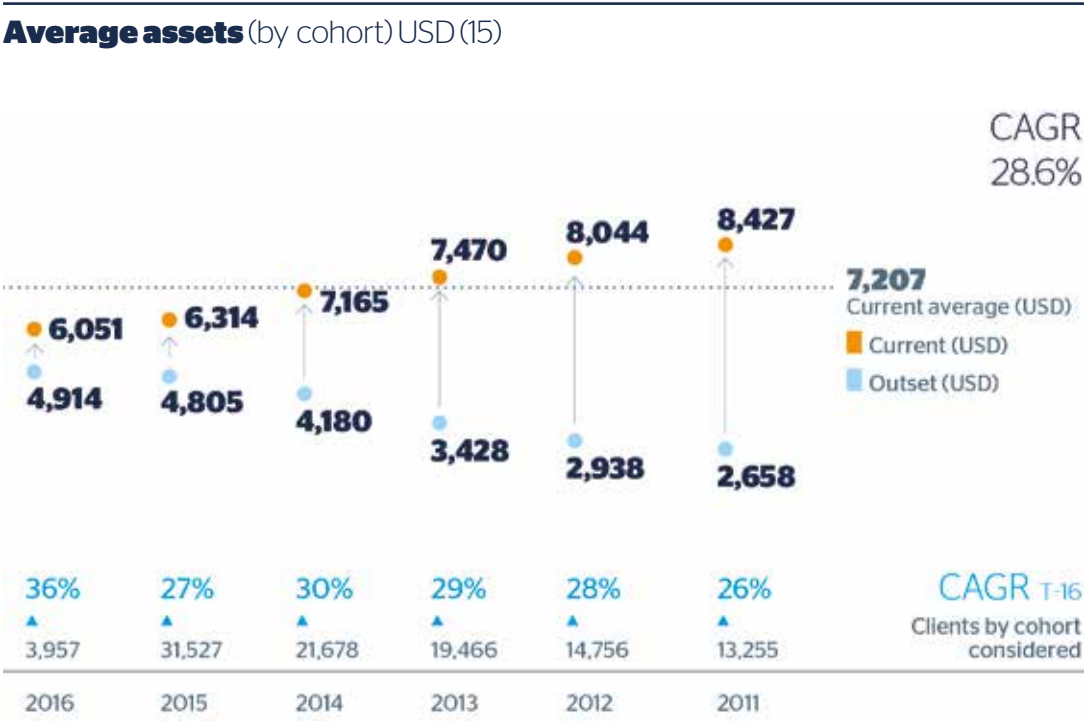
Source: Bancamía. BBVAMF calculations.

Average monthly net incomes (by cohort) USD (14)



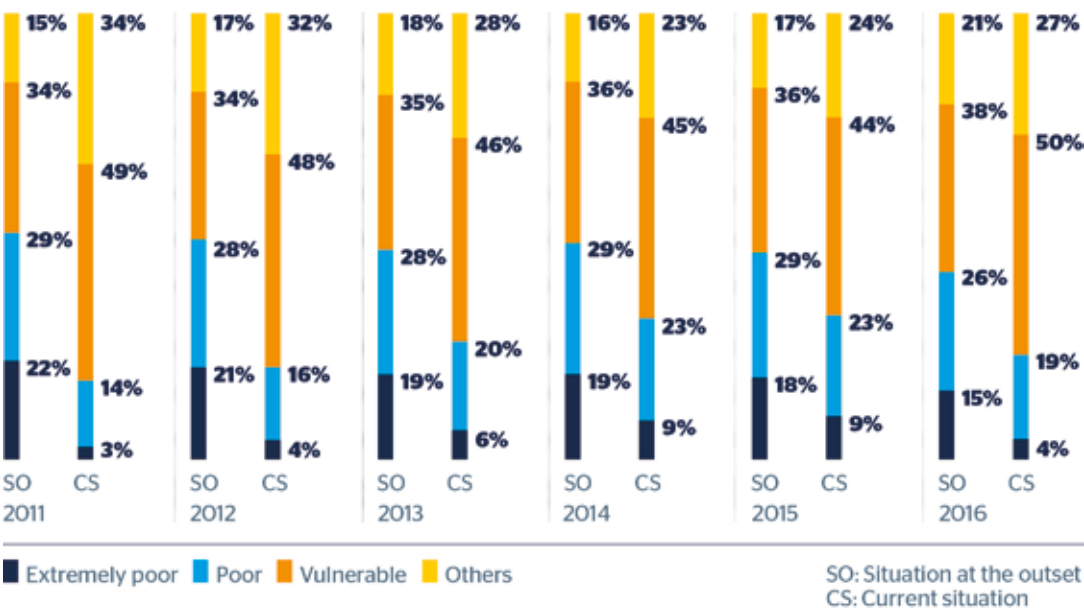
Source: Bancamía. BBVAMF calculations.

(13 & 14) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.



Source: Bancamía. BBVAMF calculations.

Change in vulnerability levels (16)



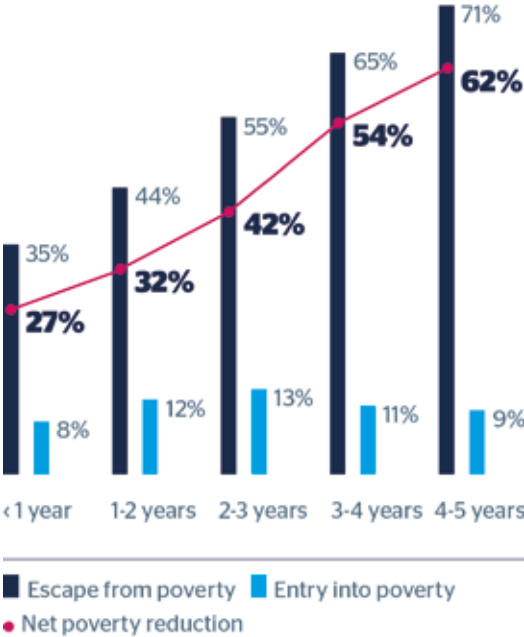
Source: Bancamía. BBVAMF calculations.

(15) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate. (16) Situation at the outset (SO) and the current situation (CS). • Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.

Over time, a higher proportion of clients initially classified as *poor* manages to overcome the poverty line: the *poor* segment falls by 27% during the first year with the institution and by 32% during the second. This improvement is sustained over time, and performance in 2016 is better than in 2015.

(17) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty. • Escape from poverty: clients classified as *poor* at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as *poor* at the outset. • Entry into poverty: clients classified as *non-poor* at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as *poor* at the outset. • Net reduction: escape from poverty, less entry into poverty. (18) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.

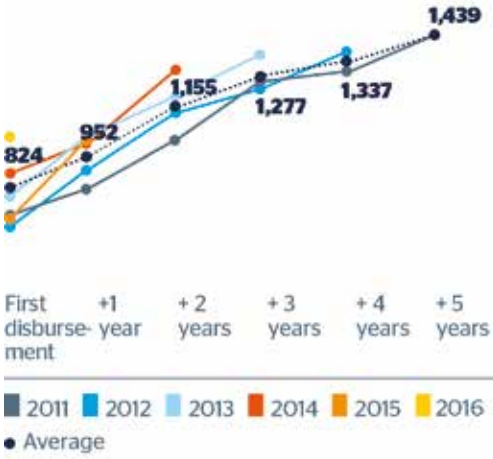
Net poverty reduction (17)



Source: Bancamía. BBVAMF calculations.

- At the same time, there is a percentage of clients whose *per capita* net incomes fall below the poverty line thereby increasing the *poor* segment, but it should be noted that this percentage remains stable over time at around 10%.
- Bancamía supports its clients' development, as the growth rates of their sales, net incomes and assets can bear witness. In 2016, of 159,246 clients who renewed a loan or updates their income data, 80,174 improved their *per capita* net incomes from their microenterprises by more than the rate of inflation, and 18,908 escaped the poverty segment.
- Over time, clients' credit capacity and the amount that Bancamía lends them, both increase. After two years on average, the sum they borrow has risen by about 40%.

Average disbursement per transaction USD (18)



Source: Bancamía. BBVAMF calculations.

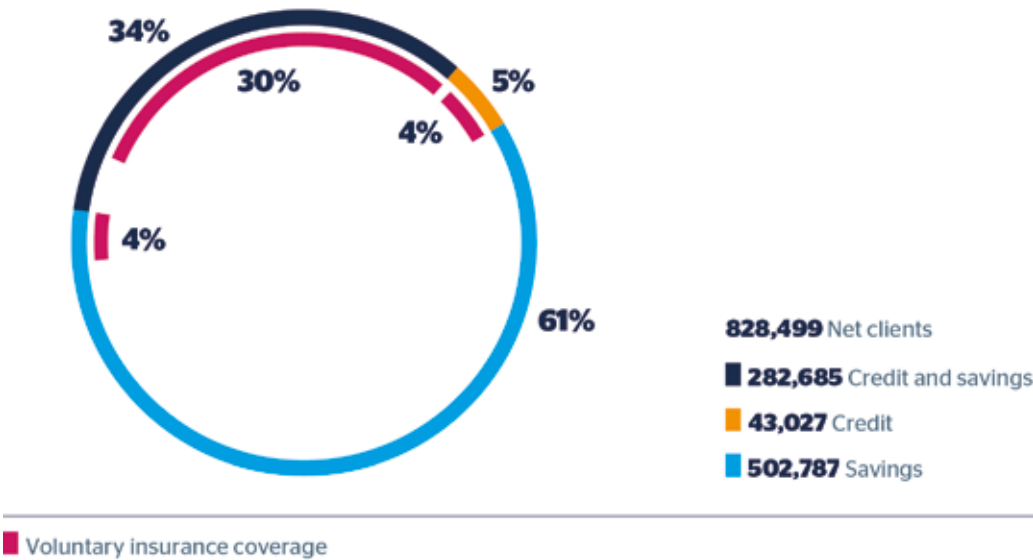
Our clients' **development**

- In Bancamía, clients with credit products have more linkage and in a high proportion of cases have additional products (savings, insurance). Specifically, nearly 90% of credit clients have a voluntary insurance policy. Savings clients have less linkage and only take out insurance in 3.7% of cases.
- After two years, 10% of clients improve their housing conditions. In terms of education, the outcomes are slower, and after three years 4% have improved their education levels.

There continues to be a positive relationship between partnering with Bancamía and improvements in both housing standards and educational attainment.



Client linkage by product type (19)



(19) Clients current as of 12.31.2016.

Source: Bancamía. BBVAMF calculations.

Client improvement in housing (by cohort) (20)



(20) Proportion of clients still current as of 12.31.2016 in each cohort who have made home improvements (e.g. bathroom, fuel) improved the construction materials and/or increased the number of rooms from when they registered at the outset. Averages of 2013-2015 cohorts are shown.
(21) Proportion of clients current as of 12.31.2016, from each cohort that has raised their educational attainment. Averages of 2011-2015 cohorts are shown.

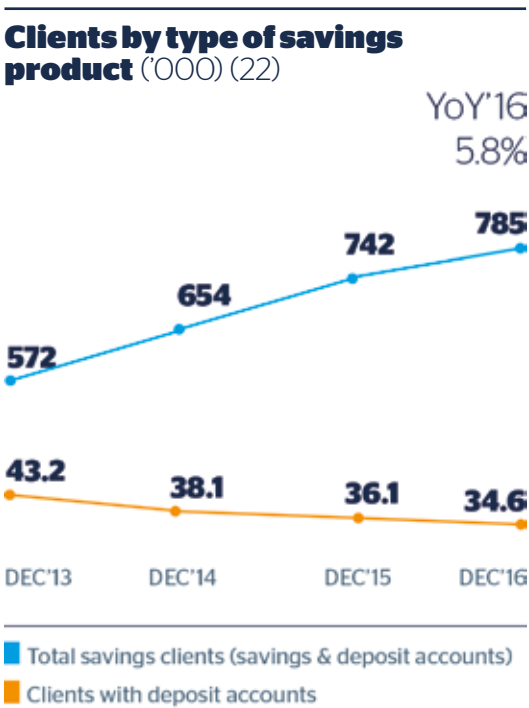
Source: Bancamía. BBVAMF calculations.

Client improvement in education (by cohort) (21)

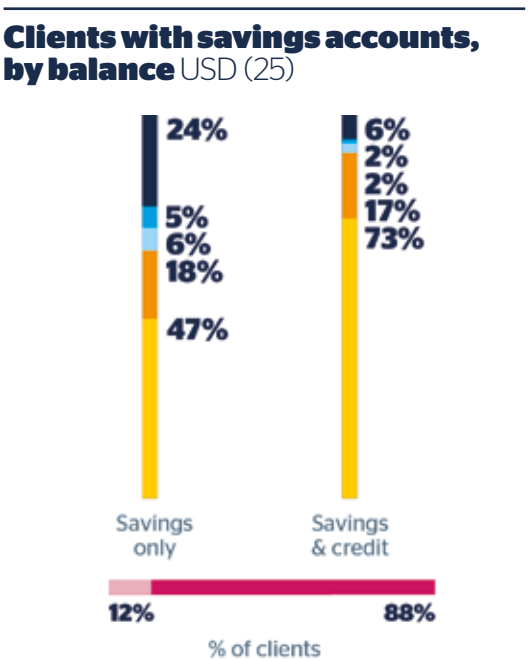


Source: Bancamía. BBVAMF calculations.

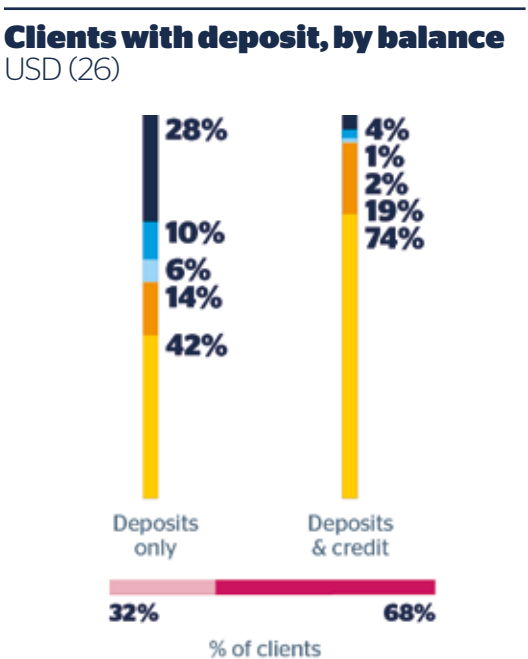
- Savings clients have grown by 5.8% in 2016. Deposit clients (who make up 4% of all savings clients) have dropped slightly, so growth has come from clients with savings accounts.
- Nearly half of savings clients (48%) have a current credit with Bancamía, or have had one in the last year.
- Savings clients have low transaction figures. Only 4% of them show more than three movements in the last three months, a pattern that has remained unchanged over time.
- Clients who only have savings products with the institution have higher balances, both for savings accounts and for deposits.



Source: Bancamía. BBVAMF calculations.



Source: Bancamía. BBVAMF calculations.



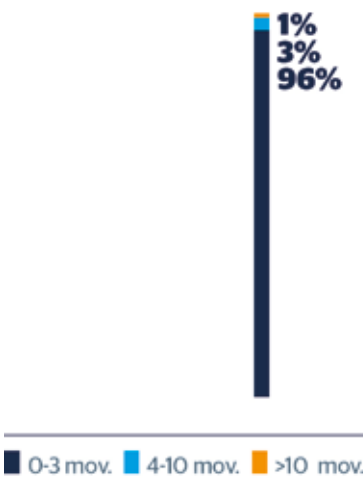
Source: Bancamía. BBVAMF calculations.

Linkage of savings clients (23)



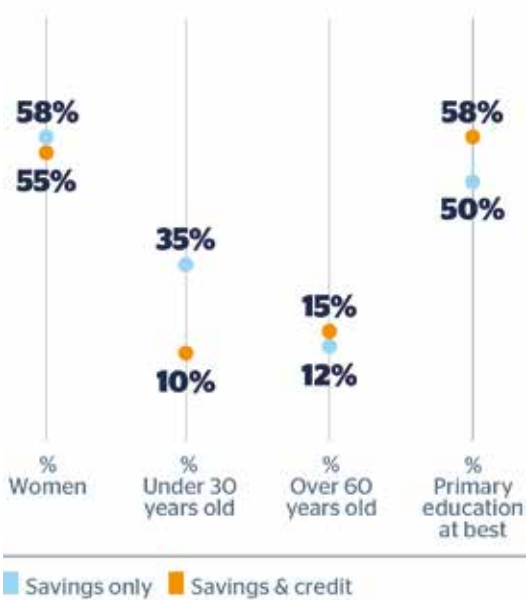
Source: Bancamía. BBVAMF calculations.

Client breakdown by bank movements/transaction figures (24)



Source: Bancamía. BBVAMF calculations.

Profile of savings clients (27)



Source: Bancamía. BBVAMF calculations.

(22) Clients with savings products (savings or deposit accounts) at the end of every year.
(23) Clients with savings products (savings or deposit accounts) as of 12.31.2016.
(24) Breakdown of clients with savings products (savings and deposit accounts) as of 12.31.2016, by nº of account movements in the previous 3 months, excluding administrative movements (interest payments, fees, etc.).

(25 & 26) Breakdown of clients with savings products (savings accounts/deposits) as of 12.31.2016, by balance held as of 12.31.2016, differentiating between those who are only savings clients and those who have savings and credits (who have had a loan with the entity).
(27) Breakdown of clients with savings products (savings/deposit accounts) at 12.31.2016, differentiating between those who are only savings clients and those who have savings and credit (who at 12.31.2016 had one loan or more with the entity).

- Most clients with savings accounts have been or still are credit clients (88%), but only 27% have balances higher than USD 5.
- The percentage of deposit clients who don't have credit products is somewhat higher (32%), in comparison with those with savings accounts without credit (12%), and most of them have high balances.
- Indeed, clients who have a loan in Bancamía have less saving capacity.
- Savings-only clients are younger and better educated. The proportion of women in this segment is 58%.

What really matters

Lives brimming over with hopes and drive. These stories are a sample of thousands of examples of effort that inspire Bancamía's work each and every day.

Astrid Orjuela's dream is to create a goat semen collection plant. Ana Judith Martínez decided to create her own business selling ice cream, fruit pulp and smoothies. Norma Viviana Ordóñez has taken 50 child victims of the Colombian conflict into her small home. And Sandra Patricia Hernández serves the small businesses of stall holders and store owners, living Bancamía's vision: to reach the most vulnerable clients.



The genetics of perseverance

Astrid Orjuela and her husband bought a farm. They were given a nanny goat which, together with another nanny and a billy, was the start of a milk-selling business. Bancamía's loans have helped her to expand her infrastructure. Now Astrid's dream is to set up a goat semen collection plant.



Scan the QR code and discover the story of Astrid



Astrid is an accountant by training. She didn't like the stress of life in the city and decided to make a complete change. 22 years ago she moved to Subachoque, a peaceful rural area, less than 2 hours from Bogotá. She and her husband live on a farm they bought, surrounded by nature. Knowing that they had enough land to allow it, some friends gave them a nanny goat as a pet. Although Astrid and her husband would never have guessed it at the time, that present was the origin of the Aprisco Villa La Esperanza goat farm.

That first nanny goat was lonely on her own, so they bought another, and then a billy goat. They learned how to milk them and started selling the milk. And like any business that is starting and growing, they

needed financing. They had to adapt the farm facilities in order to build suitable spaces for keeping the goats, for milking them, etc.

That is why Astrid became a Bancamía client. Ten years have gone by since her first loan, which has been followed by another three to buy livestock and build a barn. The business has grown steadily, as have Astrid's dreams of doing well. She needed more financing to buy technical equipment and modernize the premises so that they are prepared for the next challenge: for her farm to become a benchmark for the sector.

Bancamía's loans have helped her to expand her business and enabled her to provide the farm with good infrastructure. And the result

Today she has 62 goats producing 23 liters of milk a day, which Astrid sells to companies manufacturing cheeses and yogurt. She is happy to share her knowledge and opens the doors of her farm so that students and professionals can have free training and work practice.

has been surprising: they have succeeded in crossing French and American goats genetically, creating a new cross, and have already exported 27 of these animals to Peru.

Astrid sees the institution as being part of her success: "I like Bancamía. They don't just look at whether you have the financial collateral to pay them; they look at what plans you have to develop and expand, so that you grow. The support they have given us has meant peace of mind. One call to Bancamía and everything is under control: they back you up, they advise you, they design the entire payment plan around the client", she explains.

Today she has 62 goats which produce 23 liters of milk a day, which Astrid sells to firms

Name: Astrid Orjuela.
Age: 59.
Business: Aprisco Villa La Esperanza, goat husbandry and milk production farm.
Location: Subachoque (Cundinamarca, Colombia).
Employees: Works with her husband and takes on temporary staff when the farm needs it.
Total loan figure: four loans totaling USD 8,666 (COP 26,000).
Other products and services: Savings account.



Astrid looks after one of her 62 goats.

that produce cheese and yoghurt. She also wanted to share the skills she has acquired, and opens up their farm to medical and veterinary students and of similar courses so that they can have practical training.

Astrid and her family have raised their living standards and have plans for the future to continue growing. Now she has a new dream. And she is sure she is going to reach it. She wants to set up a high tech center in the middle of the Colombian countryside to collect goat semen. She is an active woman with drive, who puts everything she has into what she does. That is why she knows that sooner or later this center will see the light of day.

When she achieves it, she will set her sights on another enterprise. “I am going to need

Astrid and her family have raised their living standards and have plans for the future to continue growing. The goat semen collection plant and breeding center that she is dreaming of now is her next challenge.

Bancamía’s help, because they meet my needs efficiently, provide advice and work out the payment options”, she concludes.■



Astrid relaxes with her family during a break.



Astrid's husband works on the goat breeding farm.

Fruit brings forth fruit: a house, a car and a job for her children

With four children and a low family income, Ana Judith Martínez started work selling fruit in Bogota's central food market. There she found that she had an innate talent as a saleswoman and decided to set up her own business selling ice cream, fruit pulp and smoothies.

Corabastos market is the biggest in Colombia. One of its fruit and vegetable stands is owned by Ana Judith, who has been selling these products retail and wholesale for 21 years. Apples, strawberries and grapes are interspersed with seasonal vegetables in a riot of color, carefully displayed in small boxes that she positions around the stand as she tells her story.

At 16 years old she had her first child and moved to Bogota, leaving Líbano (Tolima) behind, the town where she was born, to go with her husband in search of work. The beginnings were hard: the family kept growing and her husband's income was not enough to support them. That is why, when her fourth child was just 10 months

old, Ana Judith started selling fruit at the weekends in the main food market in Bogota. It was then that she discovered she had a natural gift as a saleswoman and decided that she wanted to have her own business selling fruit.

From the central food market she moved to Plaza de Mercado de las Flores, in Bogota's Patio Bonito neighborhood. She saved up for three years to buy a stand and became an independent entrepreneur. She fulfilled her dream and set up a business as her own boss selling ice cream, fruit pulp and smoothies.

One day a Bancamía advisor went to see her, offered her a first loan, and that is how

she entered the formal financial system: "Bancamía believed in me and gave me the opportunity to show that I was capable of paying off a loan", says Ana Judith, who

"I recommend to all women that they take that first step, and not be frightened. Bancamía gives you excellent advice and they are on your side, giving you the support you need to access the loans to invest".

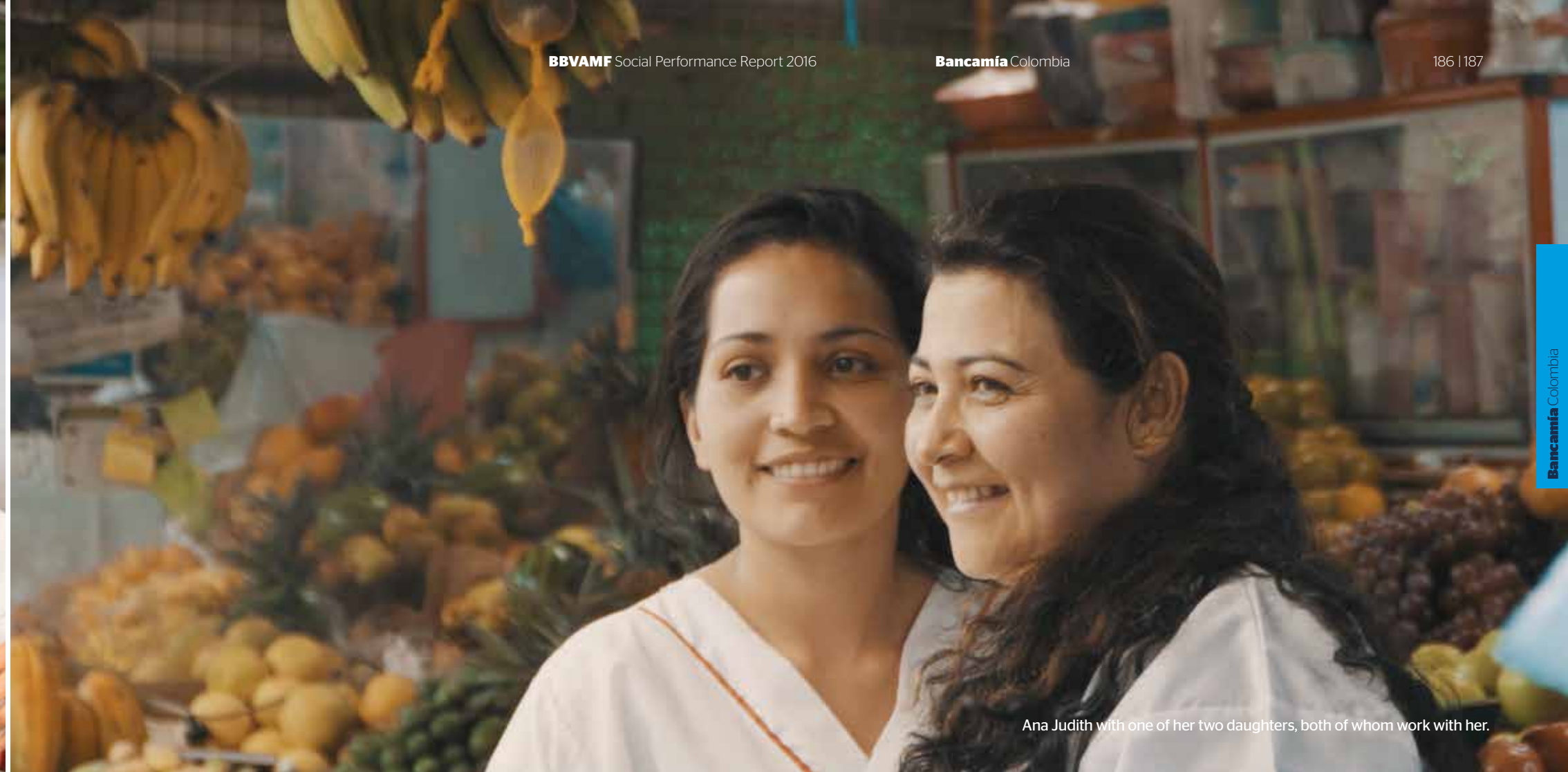
is sure that this was the moment her life changed. "I became independent, we started enlarging our business, we improved our capacity and we were able to take on several people", she explains. "We were so happy when Bancamía granted our first loan! I had never had that kind of money in my pocket and I soon found an opportunity to invest it in a business: I knew it was going to go well".

The business began to grow and she set herself the new challenge of getting a place to sell fruit, vegetables and pulses. She rented larger premises, with new shelves, fridges and display cabinets, and she kept on going back to Bancamía. Thanks to six productive loans she has bought merchandise and

Name: Ana Judith Martínez.
Age: 57.
Business: Fruit and vegetable stand in Las Flores market square.
Location: Bogota D.C. (Colombia).
Employees: Works with her family.
Total loan figure: Six, totaling USD 26,421 (COP 79,264,200).
Other products and services: Voluntary life insurance, certificate of deposit (CD) and savings account.

Scan the
QR code and
discover
the story
of Ana Judith





Ana Judith with one of her two daughters, both of whom work with her.

equipment: “Now everything is different: I can go for a stroll, I have my own home and two of my children work with me. The store has expanded, I sell a wider range of goods, all of them good quality”, this plucky entrepreneur tells us, who has built a future one step at a time, bringing up four children along the way.

She feels that Bancamía has enabled her to improve her life, and is grateful that they granted her financing without requiring a credit history. “Bancamía’s support for me, for my children and for my business has been exemplary, it has been a huge help. My standard of living has improved a lot. We started with Bancamía when I was 18 years old, and every day I have noted progress; now you can see that we have done really well”, she says, smiling proudly.

She wants to continue making improvements, to carry on carving out her dreams: she loves farming and is convinced that in the near future she could buy a farm. Until then, she will continue selling her produce in the market square because she wants her two younger daughters, who have given her two grandchildren, to be able to study: “I will be there to support them”, she states, firmly.

“I recommend to all women that they take that first step, and not be frightened. Bancamía gives you excellent advice and they are on your side, giving you the support you need to access the loans to invest, knowing what the loan is for. You can do it! I’m telling you from experience, you can do it...”, she exclaims.■



Ana Judith at her fresh fruit and vegetable stand in Las Flores market.

Not just a business, this is a refuge for homeless children



Norma Viviana Ordóñez started fostering child victims of the Colombian conflict in a small bedroom in her home. She started with 18 children and now she looks after around 50. This playschool is a refuge for these minors, who are learning to live a normal childhood. For many of them, a basic right that is difficult to obtain.

Norma lives in Soacha, a town 20 kms. from Bogotá, one of the most marginal areas in the country and one that has received the highest number of displaced victims of the Colombian conflict. 16 years ago she opened a playschool in her own home. She started with a small group of children and now she looks after around 50 infants, who are between two and five years old.

This playschool is a refuge for these tiny tots, many of whom are victims of the armed conflict in Colombia, members of one-parent families or orphans in the process of being adopted. They spend most of the day there: they have breakfast, lunch, they learn to read and to enjoy a normal

childhood. For many of these children, this is a basic right that is difficult to experience.

Poverty, an unsafe environment and violence are the scourges of this town, where the United Nations runs a large number of development projects. But Norma decided to challenge the lack of opportunities and to start up something that goes beyond a mere business. The microloans she has received from Bancamía have enabled her to employ five people in the playschool and to enlarge her house, which now has enough space for these children to feel at home.

Norma's two children view her as a role model and thanks to her have been able

Name: Norma Viviana Ordóñez.

Business: Playschool.

Location: Cazuca, Soacha region (Colombia).

Employees: Five.

Total loans: Four, totaling USD 7,545.

To highlight: Has succeeded in carving out a future for herself and her two children in a municipality with a high number of vulnerable people, with few work opportunities.



Norma and the teaching team, in front of the nursery school.



At Norma's nursery, around 50 children try to live a normal childhood.



Norma wants to take in older children, up to twelve years old, to guarantee they eat at least one meal a day. She wants as many children as possible to get away from hostile environments. And at her playschool she is achieving it.

to continue higher education. The elder, Brandon, combines his tertiary education in Sports Science with the sports clothing business he has set up, like his mother, with support from Bancamía. The younger, Dylan, is finishing high school. All three are living proof that Bancamía's work is for the long term, improving entrepreneurs' lives now and in the future for new generations.

Norma wants to consolidate her school and take in older children, up to twelve years old, to guarantee they get at least one meal a day. She wants as many children as possible to get away from hostile environments. At her playschool she is achieving it. That is what she told the President of BBVA, Francisco González, when he visited several

entrepreneurs on his trip to Colombia. She also told him about her other dream: to renovate the courtyard in the building and put a simple play area in it, so that the children can go out and play safely: "we can't let the children out to play on the streets of Soacha because it is dangerous and we are not going to take the risk, even if that means being cooped up all day. If they had that space it would be wonderful", Norma explained to Francisco González. ■

“Serving these clients has enriched me as a person: they are very humble, hardworking people”

Sandra Patricia Hernández’s professional life has been as successful professionally as it has been from a human perspective. Every morning she travels, on foot or by public transport, adapting her working day around the businesses of the clients she serves, stall keepers and store owners. Her job has enabled her to live Bancamía’s vision: reaching the most vulnerable clients.

Sandra has gradually taken on additional responsibilities and roles at Bancamía, as her experience has deepened. In 2005 she began to work in Corporación de la Mujer Colombia as an assistant bank cashier in the Suba Villa María office, where she stayed for six months before transferring to the recently opened Bosa La Libertad branch office. A period that holds happy memories for her because of her team of work colleagues.

In 2006, the institution supported her in a housing subsidy, enabling her to buy an apartment. “That moment was, and will always be, one of the most special of my life”, recalls Sandra. She knew that she could achieve her projects and goals if she carried on showing the same sense of responsibility, honesty and commitment to her work that

are natural to her. She went on to enroll in Business Administration at university, a degree that allowed her to grow and educate herself as a person, as well as standing her in good stead for promotion.

New opportunities

Her daughter Sandra Sofía was born in 2008 and is now eight years old, studying third grade. The support of her co-workers at Bancamía, who lived through that marvelous time with her, is something that Sandra will never forget. She went back to work and soon afterwards was appointed transactions cashier at the Tejar branch. “My aim was to be a microfinance executive; I applied for the job and did the tests for the position with the backing of my immediate boss, Javier Ramírez. This great

opportunity came up and I made a commitment to carry on working even harder, to be one of the best executives, because I knew that working hard and feeling that I belonged would bring me success in my new role”, comments Sandra on her career path at Bancamía.

She began her training for this new stage of her career in the Primero de Mayo office. The positive energy and determination she displayed in her job gave their fruit as solid professional results. After that, she filled a substitution in the Patio Bonito branch, with her boss giving her a positive performance review, which led to her being assigned a portfolio at that branch.

In less than a year Sandra was already a senior executive. “I think that hard work and loving your job lead you to be better every day and to the best outcomes. I love what I do, spending time with people to whom I can give advice, and being a part of helping them to grow in their businesses and to raise their standard of living. Being able to contribute to that is a great motivator for my professional performance and for me personally”, she explains.

In 2014, as a result of her commitment and professional performance in Bancamía, Sandra was chosen to represent her branch at the bank’s annual convention. In 2015 she was chosen *Best Executive of the Year*, an award that honors the best employees from a sales network of 100 professionals. “It was a marvelous experience, because the best executives of the country attend that convention and I felt very honored”, Sandra recalls with emotion, and she proudly displays the trophy in her office. That year her second son, Santiago, was born.

A very personal style of advice

She is currently working in the Patio Bonito branch, where she has been able to get to know other entrepreneurs in more depth. Many of them work in the Plaza de Corabastos market. “Serving these clients has enriched me as a person: they are very humble, hardworking people. This helps me to live Bancamía’s vision: to reach the most vulnerable clients”.



Sandra visits one of her customers at the Plaza de Corabastos market.

Judy Jackeline Salgado is one of those entrepreneurs. “When she heard about Bancamía she was selling coffee on the street. She took out her first loan, using it to rent premises inside the market square, where she set up a vegetable stall. With the help of loans, she diversified her merchandise and was able to buy a car”, Sandra tells Judy’s story, an example of how entrepreneurs can get ahead by their own efforts.

Sandra has adapted her working day to that of the entrepreneurs she advises, even though that means starting work in the small hours of the morning. Every morning she visits, on foot or by public transport, the small enterprises of the stall keepers and store owners she serves, before going to her office. “I took on this new challenge with determination and I am very happy in my new area”.

She sees herself in Bancamía in the future, committed to what she does. She will carry on seeking the chance to improve and carry out the projects in her life. Her priority is to do well by her children, the key driver in her life. “My family and I are grateful to Bancamía for being part of our lives and for helping me to achieve what I have today and what I am”.■

Mobile banking, a new channel set to grow exponentially

Mobile banking is a new transaction channel that brings services to wherever the client is, enabling them to manage their savings, their loans and to make monetary and non-monetary transactions free of charge. Transactions made through mobile banking now make up 9% of all transactions made using alternative channels, representing exponential growth since launch.

The pilot mobile banking program was launched in 2015 and extended in 2016. This new service represents a great opportunity for clients living in remote areas since they will no longer have to travel to their branches, with the resulting savings in time and money.

Mobile banking offers a number of functionalities to its users, among them:

- Checks/enquiries: loan installment payment due date, balance in the savings account, movements made on the account.
- Conducting transactions: transfers between Bancamía accounts, cell phone top-ups (Claro, Tigo, Movistar), paying the loan installment and purchases from participating merchants.

Bancamía offers added value by continuing to reach agreements with more merchants

(ie. additional stores and suppliers) to enable its clients to pay for their products and/or services using this channel. There is a mobile banking application for participating merchants through which they can receive and confirm payments made by the *BancaMóvil* application, at no cost.

Although mobile banking transactions accounted for only 9% of total transactions through alternative channels as of September 2016, the growth of this channel has been exponential since its launch.

At the moment clients are mainly using this channel for non-monetary transactions (98% of the total), with enquiries as to movements, balance and obligations being the most popular. Monetary transactions continue to be a challenge, according to the

Bancamía clients find this channel useful for checking their balance, movements and obligations, while its use for monetary transactions is starting gradually.

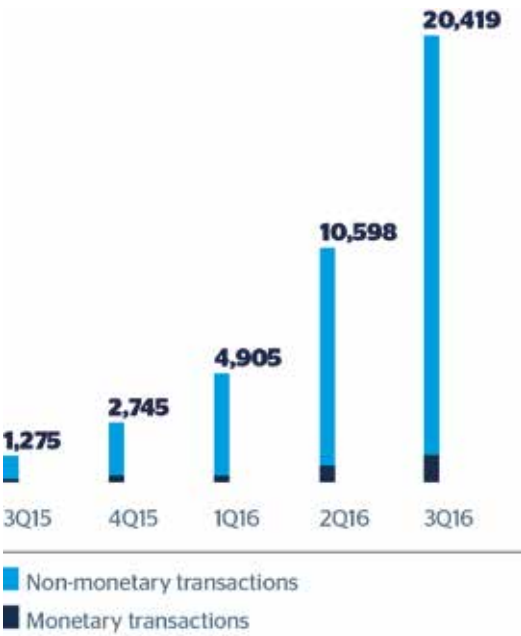
World Bank: in Colombia, only 2.4% of the low-income population has a mobile banking account⁽¹⁾. The predominant monetary transactions in Bancamía accounts are cell phone top-ups (4%) and transfers (2%). Its use for installment payments and purchases is still very limited.

A channel that brings technology to all Colombians

Bancamía will continue striving to create awareness about the advantages of mobile banking (according to the World Economic Forum, 86% of the population of Colombia uses cell phones, but only 52% uses the internet)⁽²⁾ and to add more participating merchants to the commercial circuit. This new channel seeks to break paradigms in terms of the technology used by the most vulnerable Colombians, because as of now they will have a bank available to them on their cell⁽³⁾.

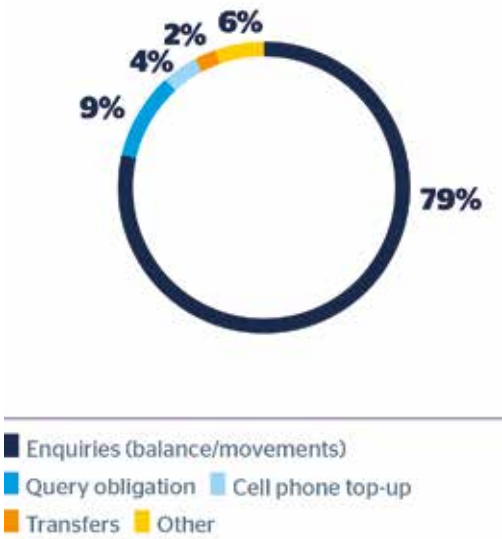
The products used by clients who have so far adopted mobile banking have a similar distribution pattern to that of the total client portfolio, but these clients live in less rural areas and have higher levels of education.

Number of transactions made per quarter using mobile banking (a)



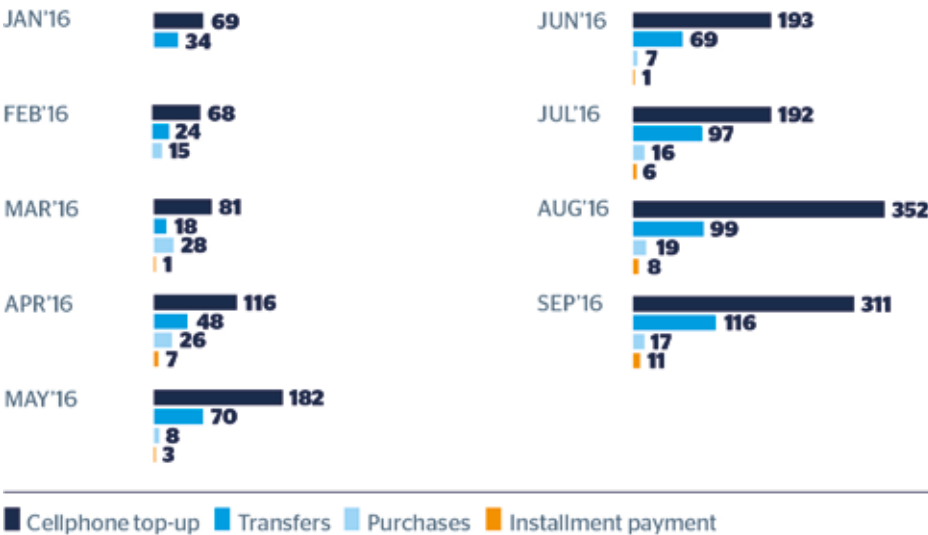
(a) Number of transactions made per quarter using mobile banking. Non-monetary transactions: enquiries about balance, movements and obligations, opening an account, closing an account, programming transactions. Monetary transactions: installment payments, purchase payments, transfers and cell top-ups. (b) Number of mobile banking transactions during the year accumulated to September 2016. Distribution by type of transaction.

Distribution by type of transaction (accum. 3Q 2016) (b)



Source: Data provided by Bancamía as of September 2016. BBVAMF analysis.

Monetary transactions 2016 (c)



Source: Data provided by Bancamía as of September 2016. BBVAMF analysis.

Mobile banking, client profile (d)



Source: Information provided by Bancamía. BBVAMF calculations.

Notes (1) World Bank databank, 2014 (2) The Global Gender Gap Report 2015, World Economic Forum (3) <https://www.bancamia.com.co/sala-de-prensa/detalle/bancamia-lanza-banca-movil-ac7>

(c) Monthly monetary transactions using mobile banking, by transaction type.
(d) Total portfolio as of 09.30.2016 vs. portfolio of clients who have used mobile banking in 2016.



Banking agents: proximity and service

Banking agents are places close to clients where transactions can be conducted in real time in the name of Bancamía. They are commercial establishments served by a person who saves time and money for the client by bringing the bank closer to them.

Bringing service to clients

Clients are right at the heart of the group's strategy, which is why programs designed to bring services closer to the client are fundamental. Their purpose is to reduce both costs and time for the clients, with a positive impact on their welfare and their relationship with their bank.

In 2016 Bancamía built further on its alternative channels policy, amongst them its partner and external agents, the *Linea-mía* call center, Mobile Banking, collection agreements and ATMs, as a strategy to achieve greater penetration, reach remote areas and provide financial access and greater closeness to clients who previously lacked these facilities.

By September 2016, 17% of transactions were being carried out using alternative channels, with agent banking the most popular of these, at 42% of these transactions. The partner agent channels were used 28% of the time.

(a) Percentage of transactions by channel, for all channels other than branches. Data to September 2016.

Transaction breakdown by alternative channel (a)



Source: Data provided by Bancamía. Collated by BBVAMF.

Banking agents

Banking agents are places close to clients where transactions can be conducted in real time in the name of Bancamía. They are commercial establishments open to the public managed by one person, with whom Bancamía signs a correspondent banking contract so that the individual can provide financial services in the bank's name.

Bancamía started developing its partner banking agent channel in 2012, called *Servimía*, in order to make it easier for people to become 'banked' and to extend the bank's geographic penetration. Today it has 58 partner agents, located in rural areas and on the outskirts of conurbations. Furthermore, it has developed an additional agent strategy, one of shared agents, a commercial alliance that enables clients to operate through using any of over 3,400 service points throughout the country.

Partner agents

Partner agents are clients chosen after analyzing their potential, distance (they must be two hours at the most from their supervisory branch) and their abilities, to form a long-term alliance, and with whom a service provider agreement for clients in the area is signed. Clients can conduct the most common banking operations: checking their balance, payment of loans, paying in deposits and making withdrawals from savings accounts. This is better for the client in terms of time and money, as well as bringing the low-income population into the banking system because of the service's greater proximity, convenience, and flexible opening hours.

Partner agents have a contract tailored to them, and operate like a branch of the institution itself; because of this, signing up each agent is a strategic decision that requires a number of procedures. On average⁽¹⁾, every partner banking agent carries out 14 transactions a day in the name of the bank, a high transaction frequency.

Transactions carried out through agents to the end of the third quarter 2016 grew at a year-on-year rate of 7.4%.

Correspondents make it easier for the client to keep up with their loan installment payments and to manage their savings accounts from very close to their home or business, thus reducing risk and time spent traveling to the bank branch.

Shared agents

Bancamía has also made available to the client a network of shared banking agents, in over 3,400 points throughout the country, through a commercial partnership that provides the physical and technological infrastructure so that the correspondent banking service can be rolled out on a massive scale. Of all the Bancamía transactions carried out using an alternative channel, 14% were through these correspondents.

Shared agents make it possible to have a bigger footprint and a single alliance gives access to a large number of service points, their main advantage being their low cost and high number of access points. However, they are not exclusive, and so may be used by other companies, with the result that the service has less linkage with Bancamía. As of September 2016, 33% of transactions carried out through agents came through one of these shared service points.

Number of quarterly transactions conducted through agents (b)



Source: Data provided by Bancamía. Collated by BBVAMF.

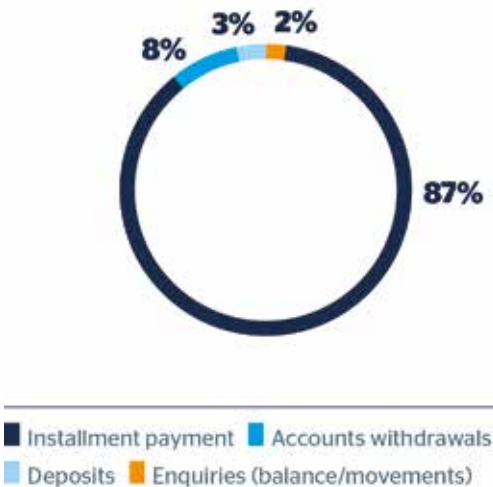
An analysis of transactions throughout the year reveals that clients mainly use this channel to make their loan installment payments and withdrawals from the savings accounts, which shows the importance of setting up these channels to bring the institution's products and services to the client.

Banking agents make it easier for the client to keep up with their loan installment payments and to manage their savings accounts from very close to their home or business, thus reducing risk and the travel time to the bank branch.

Clients, who are mainly rural, use the agents to make their loan installment payments.

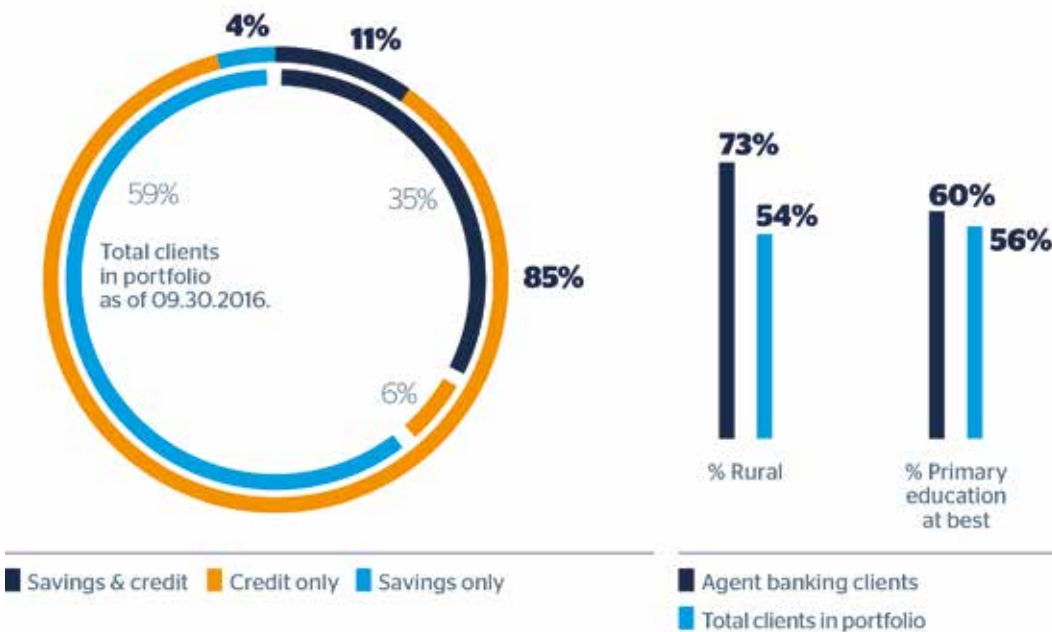
(b) Number of quarterly transactions. Includes partner and shared agents.
(c) Breakdown of transactions carried out to September 2016, by type.

Breakdown of transactions by type (c)



Source: Data provided by Bancamía. Collated by BBVAMF.

Clients making transactions using agents, profile (d)



Source: Data provided by Bancamía. BBVAMF analysis.

Note how the most frequent transaction is the loan installment payment, given that the clients who most use agents are the ones with loans, whether this is their only product (84.54%) or combined with savings (11.05%).

These clients mainly operate in rural environments (73%) and their lower levels of educational attainment (60%) are not an obstacle to using the service, which shows the strategic importance of these channels for financial inclusion.

Using agents mean it is possible to get closer to clients, to save them time and money on transport and to improve the institution's efficiency.■

(d) Breakdown of clients by agents calculated from number of clients served between January and September 2016, by products held in Bancamía. Total portfolio, breakdown by product held, as of 09.30.16.

Bancamía has 58 partner agents in its own network. It also has a commercial alliances with shared agents enabling it to operate in over 3,400 service points throughout the country.

Notes (1) Average monthly transactions between January and September 2016, by number of partner banking agents (58).

Financial education, added value for the future

Given their vulnerability, Bancamía clients have limited access to education, so the support they are given by the institution through its financial education is of high added value for them. Financial assessments have been conducted, helping 113,403 clients, as have face-to-face financial education workshops in which 13,088 people have taken part, of whom 3,055 are clients.

One of Bancamía's key strategic objectives is to guide its clients' productive development if they need it, with financial and non-financial products and services, including financial education, with its *Echemos Números®* [Let's do the numbers] program. Available since March 2013, this program provides techniques and tools to beneficiaries so that they can manage their money better, take informed financial decisions on their own and achieve greater control over the risks to which they are exposed. Part of the program includes a range of different activities designed for clients, associates and the community. The bank has defined two strategies for managing financial education for its interest groups:

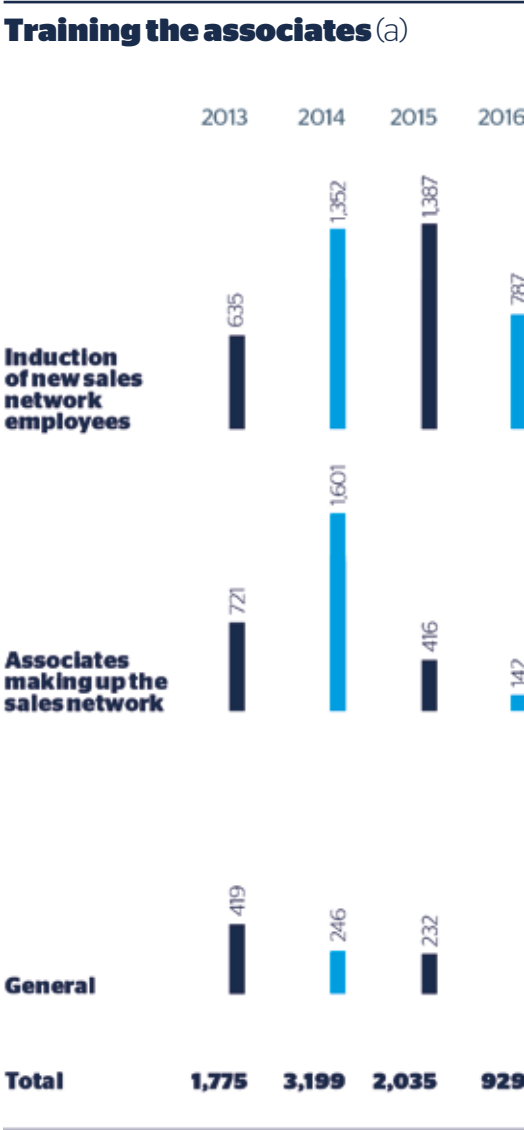
- Financial assessment
- Face-to-face workshops

These two financial education training strategies are organized by the bank's branch managers and Productive Development Executives (PDEs) who themselves receive

appropriate training, in which they are taught the methodology for adult education and they are supplied adult teaching tools and materials so that they can subsequently give the courses. Similarly, every associate in the sales network who joins the institution for the first time receives this training as part of their induction.

In conjunction with the Corporación Mundial de la Mujer Medellín [World Corporation for the Medellín Woman] and the Corporación Mundial de la Mujer Colombia [World Corporation for the Colombian Woman], founding NGOs and shareholders of the bank, the associates are tutored in how to introduce, update and reinforce the methodology for managing financial education efficiently, so that the associates can consolidate the knowledge they have already acquired and increase their skillset, which contributes to deepening their capabilities.

As the graph shows, the bank made a big push in training associates in 2014 and



Data provided by Bancamía. Collated by BBVAMF.

2015. All employees who were in the sales network in 2014 received a major training drive so that they could provide financial education, thus creating a robust network of educators. In addition, every year new recruits to the sales network are trained (in the induction process); 1,387 people were trained in 2015 and 787 in 2016. This investment in training means that the bank has installed capacity to help large numbers of clients during the process of learning about and understanding their finances, offering complete solutions to their needs.

(a) Number of associates trained each year. Source: Data provided by Bancamía. Collated by BBVAMF.

The program provides techniques and tools to beneficiaries so that they can manage their money better, take informed financial decisions and achieve greater control over the risks. The program has gathered momentum since it started in 2013, which has enabled it to train over 126,000 people in 2016.

The outcome of this strategy, as shown below, is the high number of clients who received training, particularly since 2015.

Financial assessment

This is an exclusive individual strategy for bank clients, in which the productive development executives (PDEs) supply clear, timely and impartial information, at each contact visit. The information is on issues relating to handling their finances, so that they can take well-informed decisions to achieve sound financial outcomes and use the products and services they have with Bancamía effectively.

This activity has printed support material which lays out financial definitions in a way that is easy for the client to understand. Likewise, there are practical exercises that enable these concepts to be applied immediately on an everyday basis. The modules offered are:

- Saving
- Budgets
- Managing debt
- Credit rating agencies and client ombudsmen
- Risk and insurance

- Financial negotiations
- Mobile banking
- Debit card

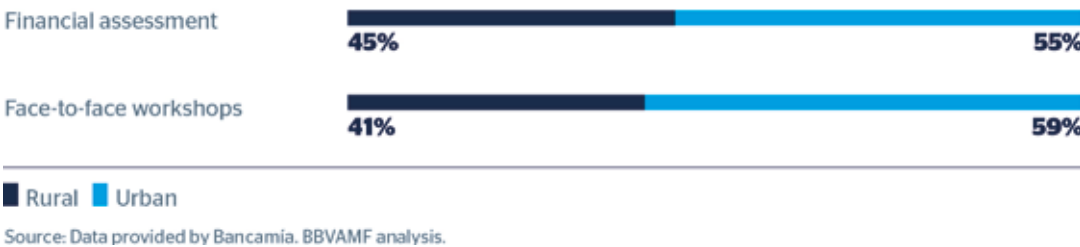
Issues are discussed at every contact visit as needed by the client at the time. Between January and September 2016, 123,039 financial assessment sessions were conducted, helping 113,403 clients.

Face-to-face workshops

The second financial education strategy consisted in carrying out face-to-face workshops for clients and the community. The training is held for groups and focuses mainly on the community, although clients frequently take part, and is given by each branch's Manager and PDEs. In 2016, 726 face-to-face workshops were held on financial education, helping 13,088 people in all, of whom 3,055 are clients.

There are two types of client training, which are given to clients in both the rural and urban environments.

Clients who have received training, by environment (b)



Educational attainment reached by clients receiving training (c)



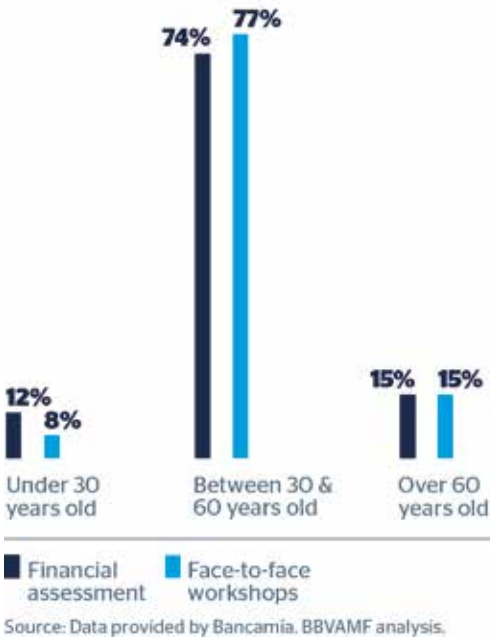
(b) Percentage of clients by environment that have received training in 2016 (up to September), specifying environment.
(c) Percentage of clients receiving training in 2016 (up to September) by education level, specifying education.

Bancamía clients, given their vulnerability, have limited access to education so the support they are given by the institution through its financial education is of high added value for them, since it enables them to assess their financial options and the potential for development. This has been the case for the clients who have received financial assessment, 57% of whom had primary education at best. In the case of the face-to-face workshops, as many as 60% of course recipients have only had primary education.

Clients who have attended face-to-face workshops have lower levels of education. This is probably due to the fact that the age structure is rather different. They are older, with only 8% being under 30, at which point educational levels start improving; 12% of the clients receiving financial assessment, on the other hand, are under 30 years old.

Most of the clients being trained are women, both those receiving financial assessment and those attending face-to-face workshops. The gender breakdown on the courses is similar, with just 2% more women attending the face-to-face workshops.

Age of clients receiving training (d)



(d) Percentage of clients by age receiving training in 2016 (up to September), specifying age.
(e) Percentage of clients by gender receiving training in 2016 (up to September), specifying gender

Clients receiving training in 2016, by gender (e)



In the case of the clients who have received financial assessment, 57% had primary education at best. In the case of the face-to-face workshops, as many as 60% of course recipients have only had primary education.

The number of clients receiving financial assessment has grown steadily every year, as well as the number of training activities.

The figure shows how the number of clients receiving financial training grew substantially in 2015, both in financial assessment (an increase of 48%) and in face-to-face workshops (46% growth). Bancamía is thus reinforcing its commitment to its clients' development through their financial inclusion and empowerment.

Beyond training clients: workshops in the community

Carrying out face-to-face workshops educates and trains clients and members of the community, giving them skills and promoting the development of abilities and attitudes which help to reinforce and/or change participants' financial behavior. Bancamía works continually to set up partnerships that enable it to reach the vulnerable population,

covering some of the needs it has identified around financial education issues and obtaining positive outcomes, as shown below.

Training in the community (h)

2013	9,173
2014	9,869
2015	8,285
Sept. 2016	10,033

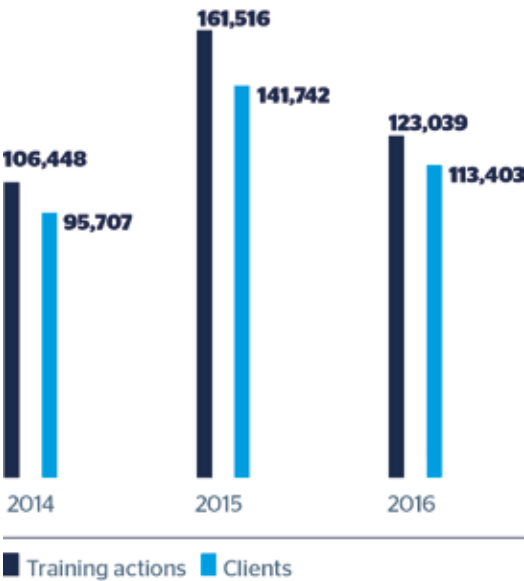
(h) Number of non-clients attending workshops to the end of September 2016.

■ Year ■ Nº of non-clients

Source: Data provided by Bancamía. Collated by BBVAMF.

In 2016, thanks to its partnership with the Bavaria Foundation and the Sustainable Development Foundation (FUNDES), Bancamía has been able to support storeowners' training journeys in their business empowerment program, including the personal finance model taught by Bancamía associates, that have reached over 1,300 storeowners across the country. This partnership also opens up access to the bank's products and services, offering them a special service and a lower interest rate for microcredit applications.■

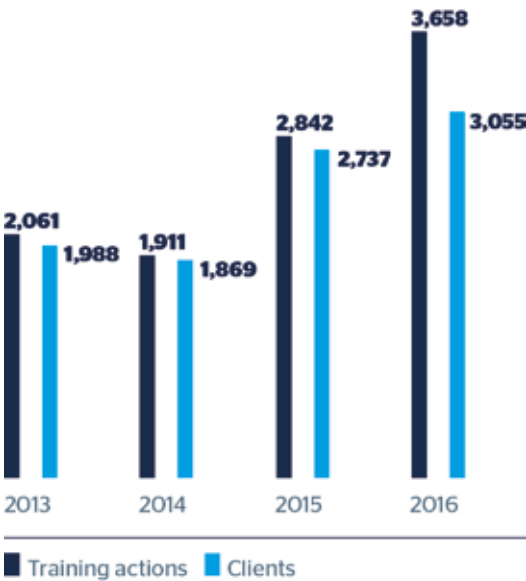
Training actions and financial assessment clients (f)



Source: Data provided by Bancamía. BBVAMF analysis.

(f & g) Data for 2016 to the end of September. Workshops training activities include the number of clients trained in workshops.

Training actions and face-to-face workshop clients (g)



Source: Data provided by Bancamía. BBVAMF analysis.



Lower rate of growth, but achievements in poverty and inclusion

Colombia continues to adjust its economic growth. In 2016 it grew by 2%; nevertheless, the occupation rate expanded by 40 basis points (b.p.), with the most hopeful indicator being the drop in poverty: after just five years, 4.5 million people are no longer poor. Access to the financial system has also improved by 8 percentage points.

The Colombian economy⁽¹⁾ continues the correction it started in 2014. It grew by only 1.9% in the first three quarters of the year, driven by manufacturing and construction, which expanded by 3.9% and 4%, respectively, while mining and agriculture contracted by 6% and 0.3%, respectively. We estimate that the Colombian economy will have maintained this weak trend for 2016 as a whole, and that the final figure will be 2%.

The momentum of GDP has been conditioned by the behavior of both internal and external demand. Sluggish revenue is reflected in less momentum from internal demand (1%), a 4.5% contraction in investment, while final consumption expanded by 2.1%, as a consequence of household (2.3%) and governmental sector (1.5%) performance.

Private consumption, which had increased at rates of over 4% in recent years, moderated swiftly, in line with falling household confidence and grew by only 1.2% in the third quarter; this slowdown was an outcome not only of lower spending in durable goods, but also in other goods classes.

The external sector added a percentage point (p.p.) to growth, a result of a 4% drop in total imports, while exports grew by 1.7%, despite lower growth on the part of trading partners, which can be seen in the poor performance of exports other than basic goods.

After peaking at 8.97% in July, inflation has corrected, closing the year at 5.4%. This is mainly explained by the slower rate of expansion in food prices and, to a lesser degree, moderation in the increase in price of

The slowdown in the Colombian economy after the oil shock continues to be gradual and orderly.

goods and services that had been impacted by the sharp nominal depreciation in 2015, as well as the impact on supply because of *El Niño*, which had a heavy repercussion on food prices.

Furthermore, the performance of demand has contributed to the slowdown in inflation, mainly in the final quarter. As inflation returns to expected limits, price indexing mechanisms will be more compatible with the target, and monetary policy can be less restrictive and in line with growth.

The central bank's monetary policy rate was raised seven times, peaking at two p.p. above where it closed at the end of 2015 (5.75%) and then began to correct downwards, by the end of the year, as inflation began to be contained. One of the factors affecting the correction to inflation has been the adjustment to the exchange rate, which has had a nominal appreciation of nearly 5%, after its sharp depreciation in 2015.

The drop in oil prices continued to affect the progress of fiscal sustainability. Since 2013, total petroleum revenues have fallen by 20%, equivalent to 3.3% of GDP, which ended up evaporating in 2016. Even with the reduction in public spending, Colombia will find it tough to comply with the Fiscal Rule without taking on structural tax reform. In 2016 the deficit stood at 4% of GDP, nearly double the structural deficit limit set in the fiscal regulations.

Labor market

Turning to the labor market⁽²⁾, the unemployment rate posted at 8.6%, participation was 65% and occupation was registered as 59.4%, increases of 40 and 30 b.p. respectively. The activities driving employment and that have kept the rate of unemployment stable are: the real estate sector, agriculture, trade, the restaurant sector and manufacturing industry. These sectors have also absorbed the increase in the participation rate, despite the weakness in growth.

The lowest rates of unemployment were recorded in Barranquilla, at 7.8%, and in Bucaramanga and Pasto, at 8.2%. The cities with the highest unemployment rates were Quibdó, at 17.1%, Armenia, at 14.3% and Cúcuta, at 13.9%.

Subemployment stands at 27.6%, but has dropped by 1.6 p.p from the year 2015.

Real GDP growth



Source: Central bank (Banco de la República).
BBVAMF Research estimates.

Subemployment includes work on the part of those who say they want to raise their incomes, the number of hours they work, or who want to have a job more in line with their professional qualifications. Self-employment accounted for 1.7% in the employment variation, while working for someone else contributed 10 b.p.

Of all those occupied, 30.5% had finished secondary school, 10.7% had gone through vocational and technical education, and 7.2% had a university education. Of those occupied who had completed their undergraduate and/or postgrad course, 44.2% were employed, and 27.2% were self-employed.

Of all those occupied with no educational attainments, the largest group were the self-employed, at 67.2%. Of all those occupied and who had completed professional technical or technology-related education, 60% were employed (as day workers or private employees).

The proportion of informal occupations was 48.4%. 42.7% of those occupied in the informal economy worked in trade, hotels and restaurants. The self-employed accounted for 61.7% of the informally occupied population. Most of those occupied informally worked in a permanent location, with a participation of 32.2%.

Poverty and inequality

The poverty rate⁽³⁾ in Colombia has dropped from 40.3% to 27.8% in just five years. In this period, 4.5 million people came out of poverty. That is, 900,000 a year, on average. In 2015, the latest figure available, around 178,000 people were lifted out of poverty, but there are still 13 million people in this situation.

Economic growth has been the main factor behind the reduction in poverty, as well as the programs to indemnify victims and the displaced. Extreme poverty fell by 6.6 p.p. over this 5-year period, down from 14.5%

to 7.9% in 2015. This means that during this time, around 2.6 million people have escaped extreme poverty.

This drop in poverty in Colombia is explained by a combination of growth and distributive effects. Higher income growth accounted for 69% of the total accumulated reduction, with the distributive effect making up 31% of the total impact.

Nevertheless, inequality, although down over this period, has not made the same progress as general poverty, with the Gini coefficient only edging down from 0.553 in 2009 to 0.522 in 2015. This means that Colombia remains one of the most unequal countries in the region and in the BBVA Microfinance Foundation footprint.

Poverty (% total population)



Source: National Administrative Statistics Department (DANE).

Financial inclusion

In terms of access to the financial system⁽⁴⁾, measured by possession of an account, in Colombia 38% of adults have access to the financial system, a 8 percentage point improvement from the previous assessment. Around 20 million adults are excluded from the financial system, with 4.2 million adults having joined it in the last three years.

The main gap in financial inclusion is determined by schooling levels. 45,7% of adults with secondary education or higher are financially included, whereas among those with primary education or less, only 18.3% are included, a gap of 27 percentage points.

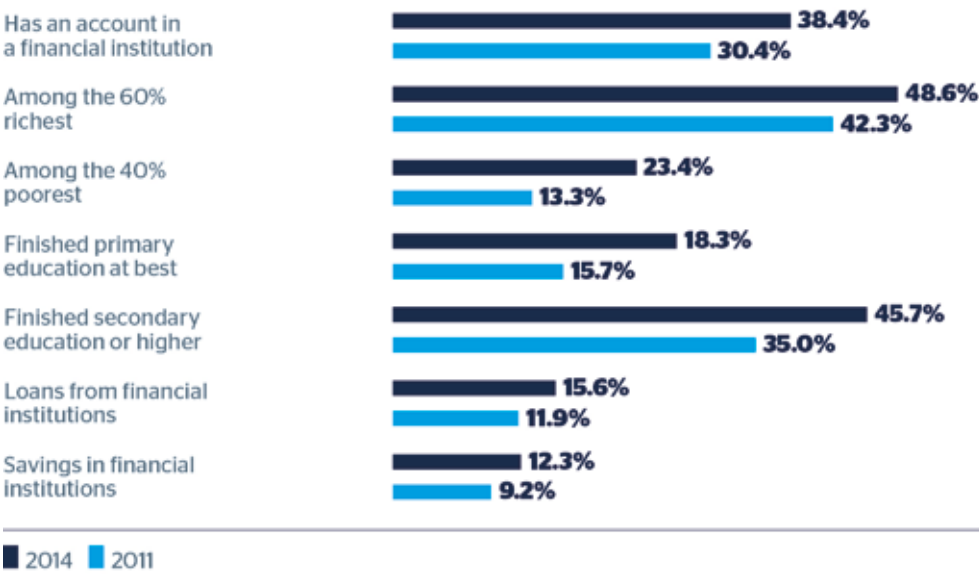
The financial inclusion gap by income is 25 percentage points. 48% of the segments of the higher income percentiles (the highest

60%) have access to the financial system, while among those with lower incomes (the lowest 40%), this is true of only 23%.

39% of adults applied for a loan in the last year, but only 15% did so through a formal financial institution, while the remaining 24% went to family members, friends and/or informal lenders. 44% said they had saved some money last year, but only 12% did so in formal financial institutions.

Cash continues to be the main transaction medium: 54% receive their wages in cash, and 99% pay services and bills this way too. In terms of usage, 24% do not make any transactions during the month, and only 16% of adults make more than three transactions a month, whereas in developed countries the figure is 58% of clients.■

Financial inclusion (% adults)



Source: World Bank Global Findex.

Notes (1) To the end of November 2016. (2) All information is from the National Administrative Statistics Department [Departamento Administrativo Nacional de Estadística], DANE. (3) Ministry of the Economy, Planning & Development (MEPYD), National Statistics Office [Oficina Nacional de Estadística], ONE. (4) Global financial inclusion.