2017 Social Performance Report

Measuring what really matters

913,977
Total clients

44%
Rural environment

Colombia

Bancamía

54%
Women

USD 347,206,155
Amount disbursed

For nine years Bancamía has been working to achieve sustainable development for over 900,000 Colombians, who are changing their futures thanks to their micro-enterprises and contributing to the country's economic and social growth.

Banco de las Microfinanzas - Bancamía, S.A (Bancamía). is a well-known social bank, one of the first to serve micro-enterprises in Colombia, which opened its doors in 2008 with the aim of promoting the development of entrepreneurs, thus transforming their quality of life and the country's economy with small businesses. It came about from the merger of three non-profit organizations: Corporación Mundial de la Mujer Colombia, Corporación Mundial de la Mujer Medellín and BBVA Microfinance Foundation.

Bancamía's main client base is made up of financially excluded vulnerable entrepreneurs. It provides financial and non-financial products and services that are tailored to their needs, such as microloans, savings accounts, sight and 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 runs 200 branch offices, with a footprint in 30 of Colombia's 32 provinces, and serves 913,977 people located in 905 municipalities. It also has over 3,600 banking agents.

Commitment to rural areas and to peace

Bancamía is faithful to its commitment to the development of its remotest areas, to help eradicate poverty. With this goal it has made a concerted effort to provide products that meet the needs of rural areas, where 44% of the institution's entrepreneurs live and where there is the highest rate of financial exclusion.

It also works intensively in 200 municipalities that have been put on a priority list by the State in the peace process. This is done in cooperation with the government bodies concerned and with international organizations such as the United States Agency for International Development (USAID), through the *Rural Finance* program, reinforcing its commitment to the victims of the armed conflict, particularly those in the countryside.

Bancamía operates through 200 branch offices and over 3,600 banking agents; it remains firm in its commitment to working in the most remote areas

Headline figures

Data at December 31st, 2017

Total credit clients	Nº of disbursements in 2017	People receiving financial education
913,977	265,887	202,220
Gross loan portfolio (USD)	Average disbursement in 2017	Nº of branch offices
403,048,633	1,306	200
Amount disbursed in 2017 (USD)	Deposits & others (USD)	Nº of employees
347,206,155	171,558,299	3,485

Source: Bancamía. BBVAMF calculations.

Total clients

913,977

With over 910,000 clients, Bancamía retains its position as one of the leading players in Colombia's social development with a proven vocation of serving low-income clients: 84% of new credit clients served in 2017 are in *vulnerability*. Furthermore, the micro-enterprises that are financed have reported sustained growth, even in rural areas where poverty is more widespread and where 44% of all the institution's clients are located. In these rural environments, more of the entrepreneurs initially classified as poor succeeded in making their businesses grow, overcoming the national poverty line.

Total credit clients

330,718

79%
Vulnerability[1]

54%
Women

44%
Rural environment

54%
Primary education at best[2]

New credit clients in 2017

87,763

84%
Vulnerability[1]

51%
Women

45%
Rural environment

42%
Primary education at best[2]

987 USD
Average disbursement[3]

150 USD
Monthly net income *per capita*

3.4 people
Household size

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 in *vulnerability*. **2.** Proportion of all credit clients who have completed primary education, at best. **3.** Average disbursement: average disbursement of new clients served in 2017.

Source: Bancamía. BBVAMF calculations.

1. Our clients

SDGs impacted

Socio-economic profile

• 84% of new clients are in *vulnerability*, evidence of the efforts made to keep the focus on target groups even as scale increases. In 2017, Bancamía managed to reach 87,763 new credit clients.

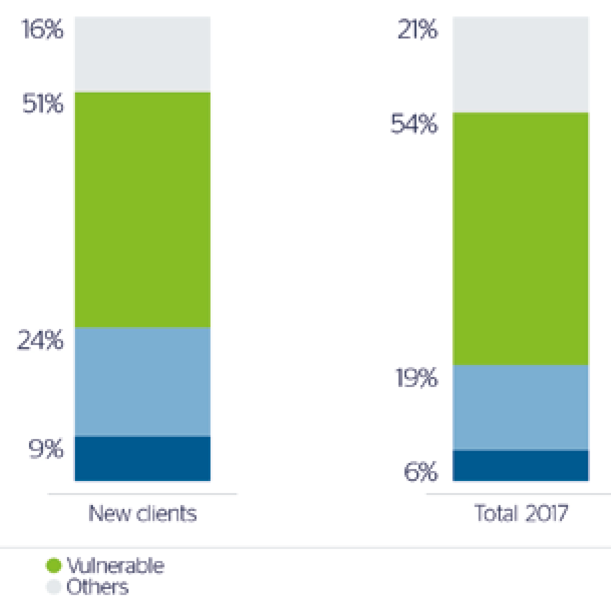
• Of total credit clients, 79% are in a situation of *vulnerability*: 25% have microenterprises that generate *per capita (p.c.)* monthly net incomes below the poverty line, and 54% are *vulnerable*, with the likelihood of falling back into poverty in the event of an economic shock.

• Poverty is more frequent and severe among women, and for this reason serving vulnerable clients involves a disproportionate number of women. 54% of all Bancamía credit clients are entrepreneurial women, of whom 83% are in a situation of *vulnerability*.

• A high percentage of these (50%) attended only primary school, an obstacle to their entering the job market. Meeting the need to access financing to set up a business is essential if they are to develop.

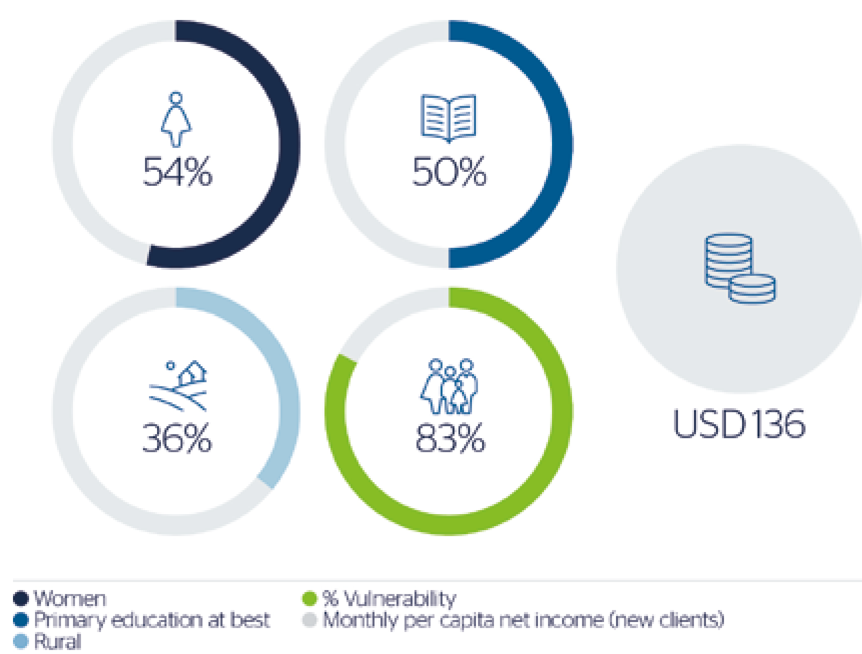
1. According to the DANE poverty line (distinguishing between rural and urban environments). Clients whose net income (i.e. profit obtained from their microenterprise) divided by the number of people in the household unit is above the poverty line but no more than three times the poverty line of their corresponding country and are classified as *vulnerable*. 'Total' shows the number of clients current at 12.31.2017.
2. Proportion of clients current as of 12.31.2017 New clients (no previous loans) signed up over the year.

1. Client economic vulnerability



Source: Bancamía. BBVAMF calculations.

2. Women's profile



Source: Bancamía. BBVAMF calculations.

• 36% of women served live in rural areas, which typically have limited access to financial services and indeed to basic services.

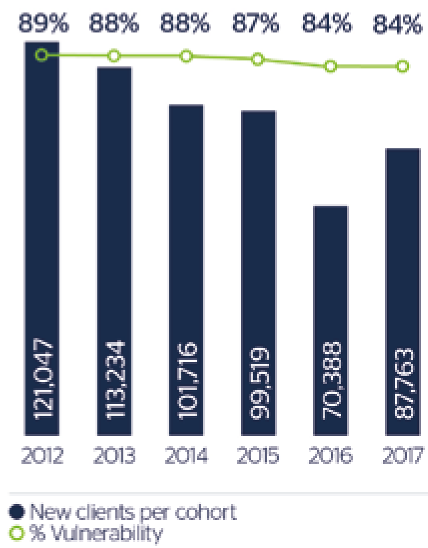
• Proof of good performance in 2017 can be seen in the increased number of new clients served over the year, and in the continued focus on serving *vulnerable* people.

• Bancamía remains firm to its commitment to reduce inequality. 51% of new clients served in 2017 were women. They account for 60% of clients under the poverty line, and for 56% of *extremely poor* clients *(see graphs 4 and 6)*.

• New *poor* clients have average *per capita* net incomes of USD 60 each month, very close to the poverty line (PL) defined by DANE, whereas clients in *extreme poverty* only have USD 26 monthly, and would have to increase the income per household member by more than double to rise above the poverty line.

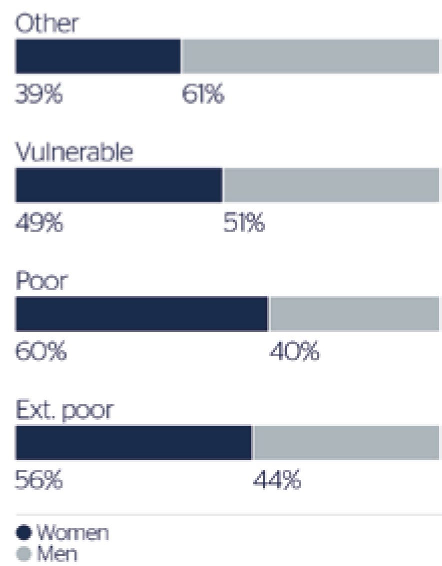
• Of the client segments served, there is one with a very high level of poverty (50%), which is those women entrepreneurs who live in homes made of non-durable materials (adobe, cardboard). This segment currently accounts for 9% of new clients served. In this case the housing material is the differentiating poverty factor *(see graph 7)*.

3. New credit clients



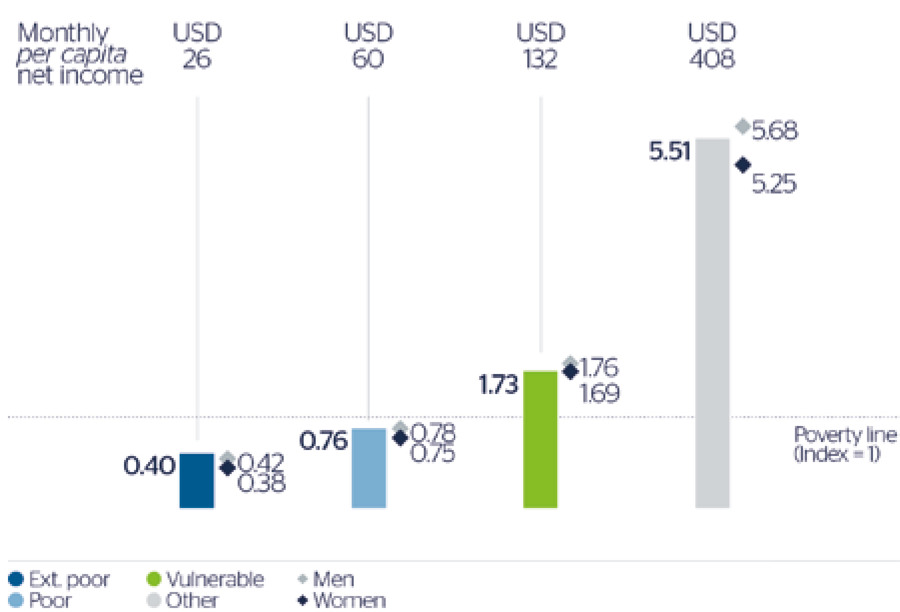
Source: Bancamía. BBVAMF calculations.

4. New credit clients' vulnerability, by gender



Source: Bancamía. BBVAMF calculations.

5. Relative net income of new clients



Source: Bancamía. BBVAMF calculations.

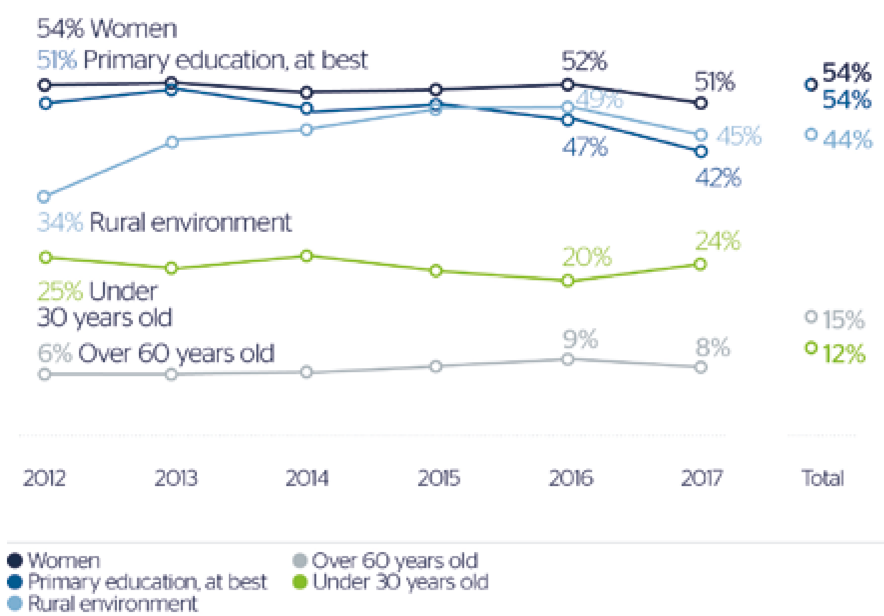
3 & 4. New clients (no previous loans) signed up over the year. **5.** According to DANE poverty lines differentiating between rural and urban environments. Considers clients signed up during the year (no previous loans).

1. Our clients

• One of the factors that determines poverty level is the level of schooling: another segment with high poverty is made up of women who, even though their standard of living is somewhat better (their housing is of better quality), have limited education (neither secondary education or apprenticeships). Of this segment, 37% are in a situation of poverty.

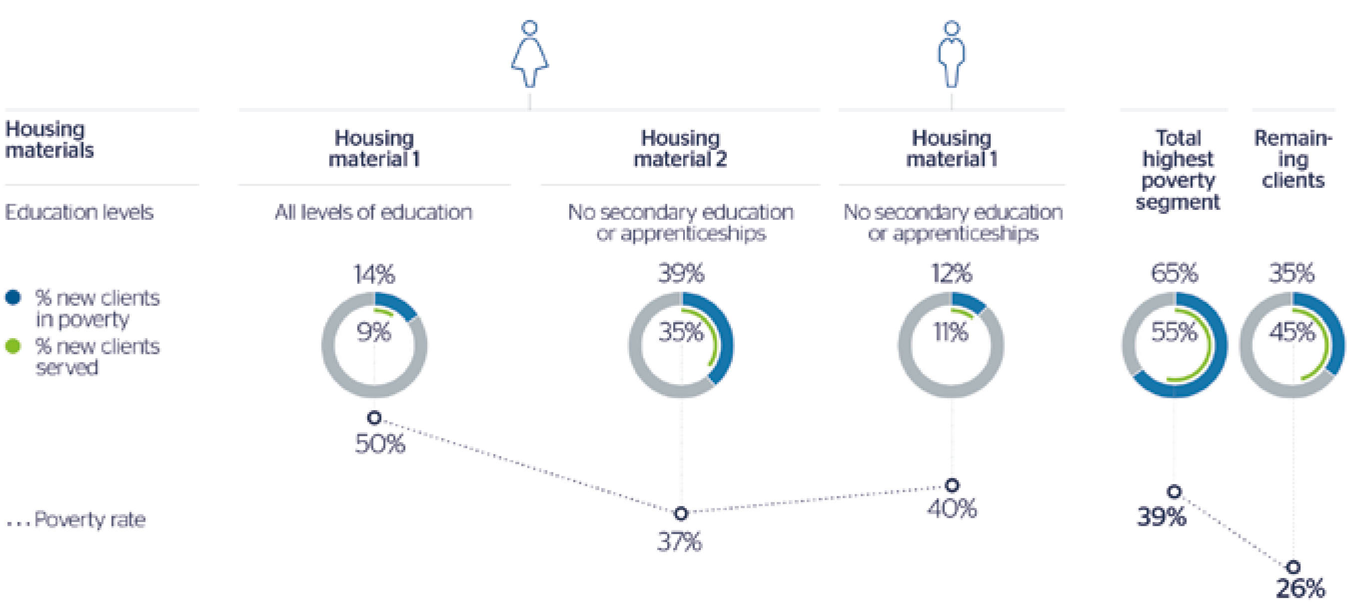
• In the case of men, there is a small segment (11% of new clients served in 2017) with high rates of poverty. Not only do members of this group live in homes made of temporary materials but neither do they have secondary education or apprenticeships. In this segment four out of every ten clients are *poor*.

6. Profile of new credit clients



Source: Bancamía. BBVAMF calculations.

7. Clients with the highest poverty rates



Housing material 1: Adobe, cardboard, metal sheeting or wood.
Housing material 2: Gray work, unfinished constructions or prefabricated houses.

Source: Bancamía. BBVAMF calculations.

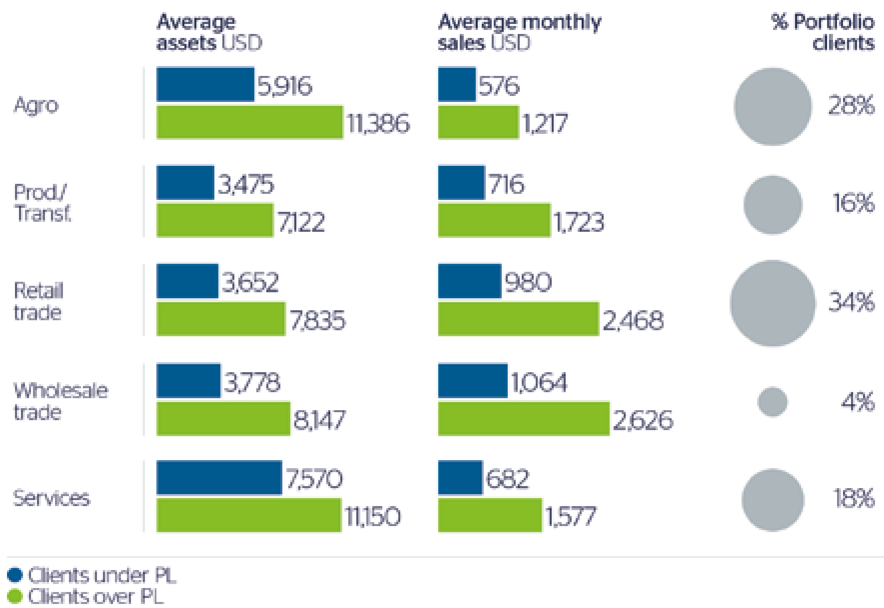
Profile of their businesses

• The entrepreneurial profiles of Bancamía clients display considerable diversity. Most work in Trade (38%), particularly in the sale of clothing and accessories, and non-specialist establishments, followed by Agriculture (28%), in which coffee growing and animal husbandry are the most popular. There is a clear disparity between average sales and assets, which are nearly double in the case of *non-poor* clients, over the *poor*, especially in the Trade sector.

• With higher overheads, clients in the Trade sector spend USD 6.6 of every USD 10 on keeping their businesses running, whereas in the Services sector they spend an average of USD 4.6.

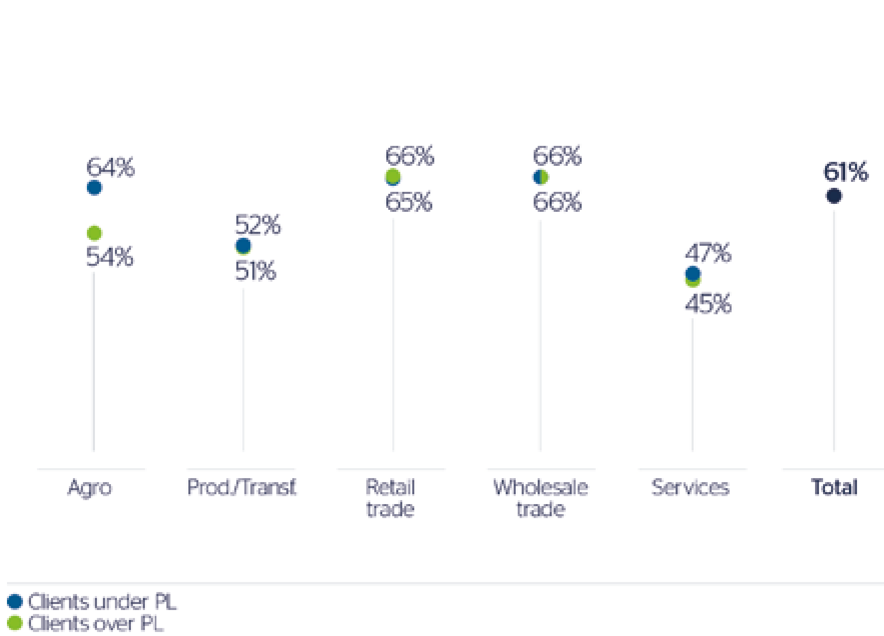
• For clients in the Agro sector, there is a greater difference in the margins between clients who are above, and those who are below the poverty line (PL); average costs among *poor* clients are 64%, while for the *non-poor* they are 54%.

8. Average monthly sales and assets - clients under and over the poverty line (PL)



Source: Bancamía. BBVAMF calculations.

9. Average expenses as percentage of sales, by sector - clients under and over the poverty line (PL)



Source: Bancamía. BBVAMF calculations.

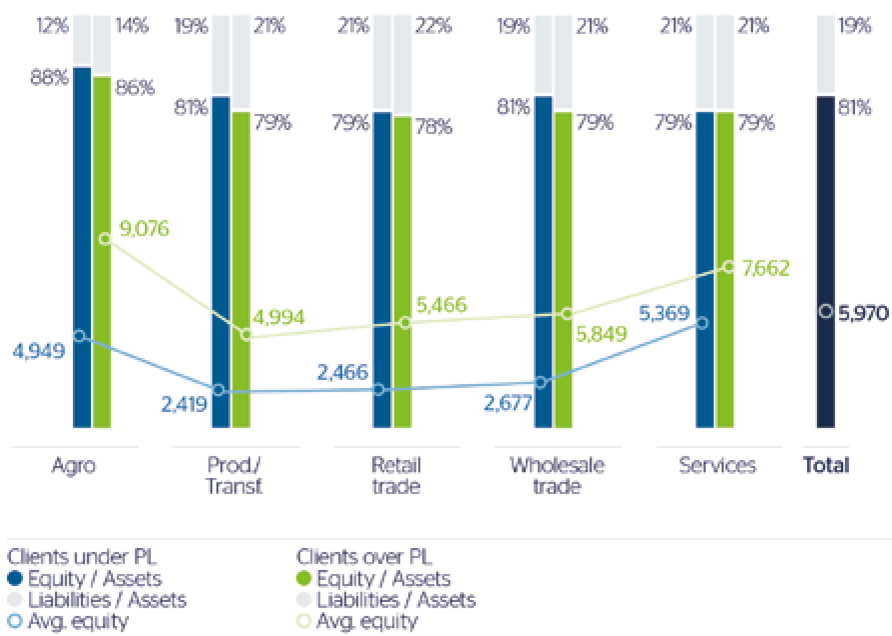
6. Covers new clients (no previous loans) signing up during the year. 'Total' shows the number of clients current at 12.31.2017. **7.** Represents new clients (no previous loans) joining throughout the year. Total' shows the sum of the participation of the segments analyzed, calculated over total new clients served in 2017. "Remaining" is the participation of segments not included in the graph, calculated from the total of new clients served in 2017. **8 & 9.** Average monthly sales and assets in each sector, segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*) clients. Covers clients current at 12.31.2017.

1. Our clients

• There are variations in the degree of leveraging, depending on the sector. The Agro sector has the least debt as a proportion of its total assets (12%).

• Clients in the Agro sector are in rural areas and although their asset levels are high in comparison with other sectors, they are not big enough to access traditional financing sources. Micro-lending provides a solution.

10. Assets, liabilities and equity, by sector - clients under and over the poverty line (PL)



Source: Bancamía. BBVAMF calculations.

10. Data on the assets, liabilities and equity, together with their ratios, for each sector, segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *other*) clients. The loan granted by the institution is not included in liabilities. Covers clients current at 12.31.2017.

Where our clients are

• The institution reaches over 90% of provinces. The map to the right shows the 10 provinces which have signed up the highest proportion of new *poor* clients over the year. More than a third of all the institution's clients come from this group.

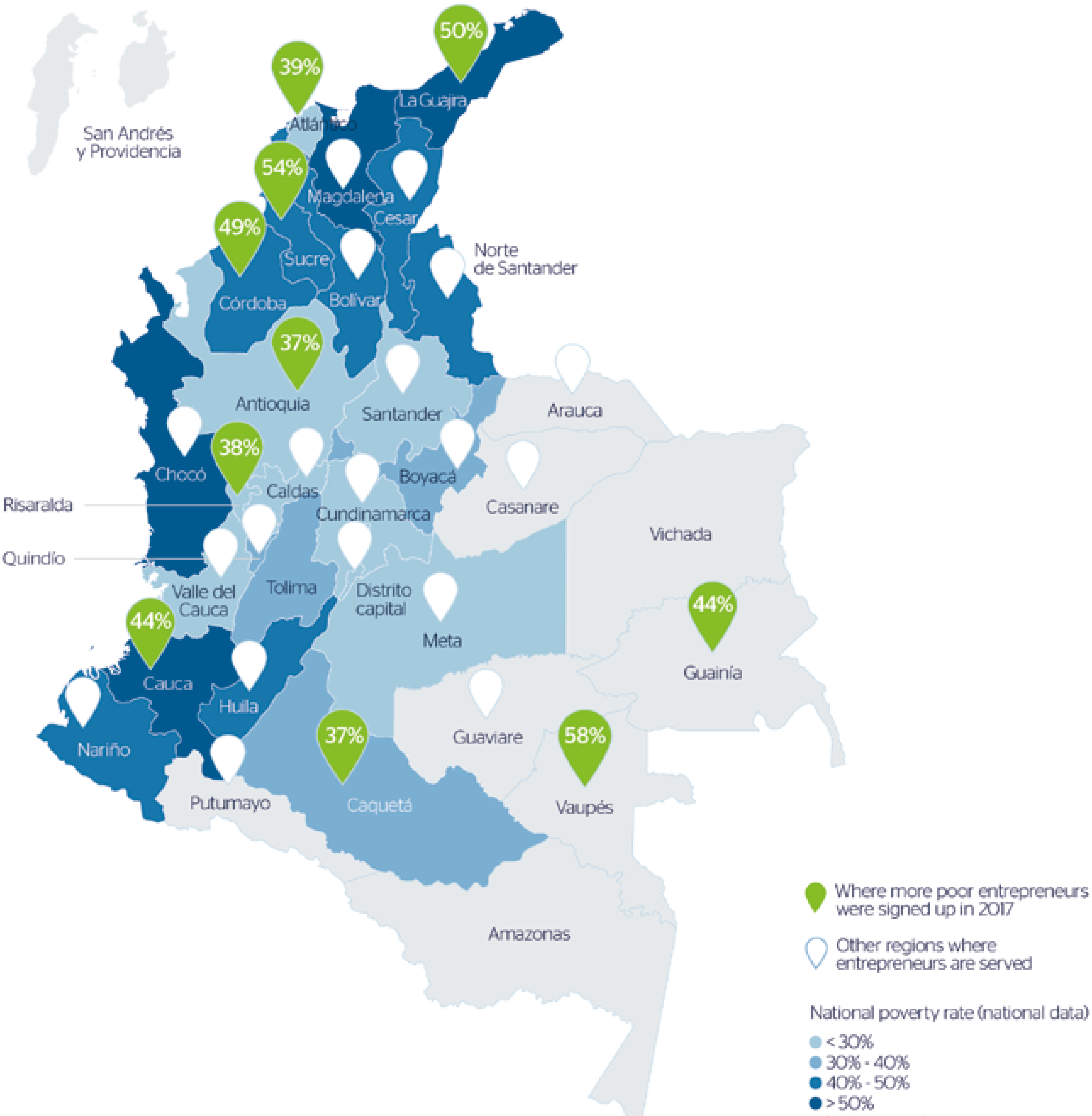
• On the north coast, the linkage of clients below the PL is greater in percentage terms, in step with the national poverty levels. It is particularly noticeable in the provinces of la Guajira, Sucre and Vaupés, where the poverty rate is particularly high: on average, one of every two clients served is *poor* or *extremely poor*.

• In addition, Bancamía has a significant presence in these areas (Guaviare, Guainía, Chocó, Córdoba and la Guajira), compared to the rest of the microfinance sector.

• A number of technological breakthroughs have enabled us to reach more clients in remote areas, achieving good results over the year: in 2017 in the provinces with the highest rates of poverty, 28,540 *poor* clients were served, 30% more than in 2016, continuing the commitment to support low-income clients.

A number of technological breakthroughs have enabled us to reach more clients in areas that are remote and in greater vulnerability

11. National poverty rate and sign-ups of poor entrepreneurs in 2017



Source: Bancamía. BBVAMF calculations.

11. Proportion of poor households by administrative department (2016). DANE. The 10 regions with the highest percentage of *poor* new clients served during 2017 are shown.

2. Our clients' development

SDGs impacted

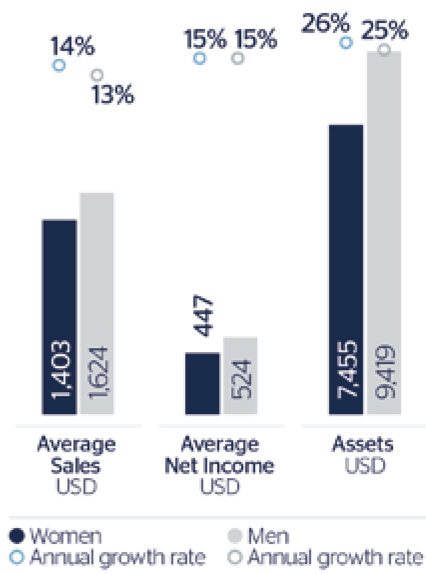
Growth of their businesses

• Bancamía clients continue to register double-digit growth in sales, net income and assets, with assets particularly buoyant, at an average growth rate between 2012 and 2017 of 25%. Due to greater sector diversification, average growth in all these financial indicators slid a little compared to 2016.

• Women's enterprises, with average assets of USD 7,455, 21% less than men's average current assets, nevertheless achieved greater growth in their annual average sales (14.4% vs. 13.2%). This shows a more intensive use of assets on the part of women: their sales ratio against assets, is higher.

• Growth in monthly sales by sector was similar across the board and remained at 14%, without important variations apart from the Agro sector, which posted at 10%.

12. Avg. growth rates of monthly sales, net income and assets, by gender



Source: Bancamía. BBVAMF calculations.

13. Avg. growth rates of monthly sales, by sector

Source: Bancamía. BBVAMF calculations.

14. Avg. growth rates of monthly net income, by sector

Source: Bancamía. BBVAMF calculations.

15. Avg. growth rates of assets, by sector

Source: Bancamía. BBVAMF calculations.

12. Current clients at some point in the year who have made a disbursement or update in the last 12 months of their relationship with the institution. The compound annual growth rate (CAGR) of the 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented by gender. **13, 14 & 15.** Current clients at some point in the year who have made a disbursement or update in the last 12 months of their relationship with the institution. The compound annual growth rate (CAGR) of the 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented for each sector

Escaping poverty

- Their good business performance enables 48% of our clients in poverty to overcome this after their first two years with the institution, while after five, this figure increases to 65%. This shows the importance of creating long-term relations with clients to guarantee their growth.

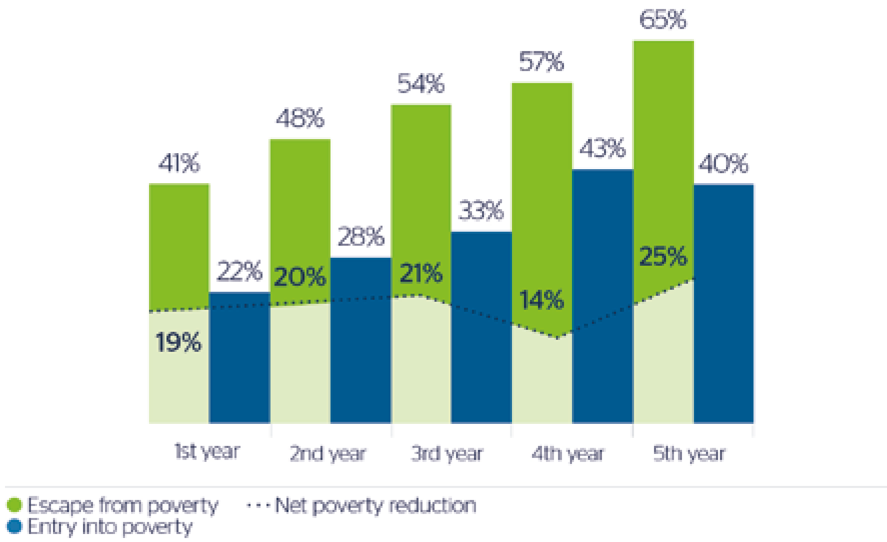
- There is also a group of clients whose net incomes shrink, and that may fall into poverty for the first time or back into it: around 16% of clients (*vulnerable* and *others)* fall into poverty and this proportion is stable over time *(see graph 17).*

- The *poverty* segment has a net fall of 20% after two years of banking with Bancamía.

- The better-performing entrepreneurs are those who live in rural environments, where we see high rates of *escape from poverty* on the part of *extremely poor* and *poor* rural clients, even with low assets for their sector *(see graph 18).*

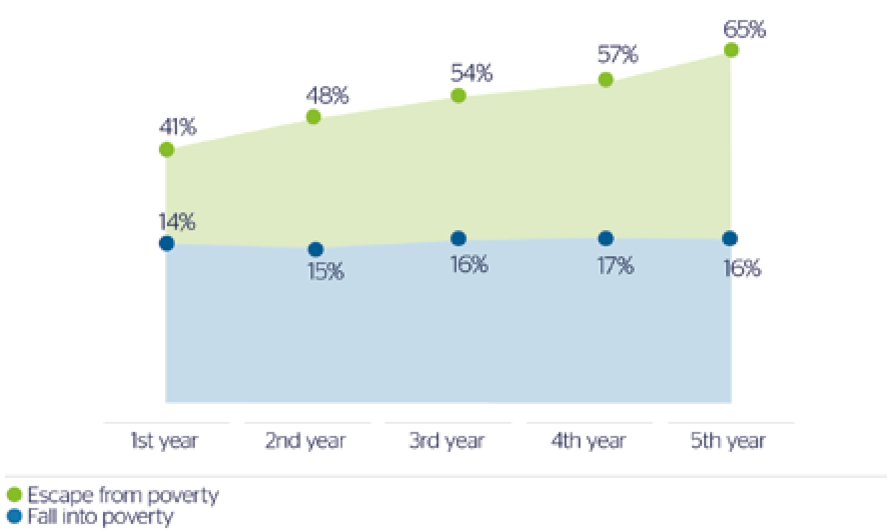
16. Clients current at some point in 2017 whose data was updated in the last 12 months of their relationship with the institution. Clients who have been written off are excluded from the escape from poverty figure. • Escape from poverty: Clients in poverty (classified as *extremely poor* and *poor*) at the outset, who have climbed above the poverty line, as a percentage of all those in poverty at the outset. • Entry into poverty: Clients not in poverty (classified as *vulnerable* or *other*) at the outset, who have fallen into poverty, as a proportion of clients in poverty at the outset. • Net poverty reduction: Escape from poverty – Entry into poverty. **17.** Clients current at some point in 2017 were recorded and their data updated in the final 12 months of their relationship with the institution. Clients who have written-off are excluded from the escape from poverty figure. • Escape from poverty: Clients in poverty (classified as *extremely poor* and *poor*) at the outset, who have climbed above the poverty line, in terms of their own segment (*poverty*). • Fall into poverty: Clients not in poverty (classified as *vulnerable* or *other*) at the outset, who have fallen into poverty, divided by the number of *non-poor* clients at the outset.

16. Net poverty variation



Source: Bancamía. BBVAMF calculations.

17. Clients falling into and escaping poverty



Source: Bancamía. BBVAMF calculations.

2. Our clients' development

• The segment with the best *poverty escape* rates is that of *poor* clients with a high rate of assets for their sector. In other words, their poverty is less critical since they have a slight cushion. These account for 56% of clients escaping poverty *(see graph 19)* after their first year of banking.

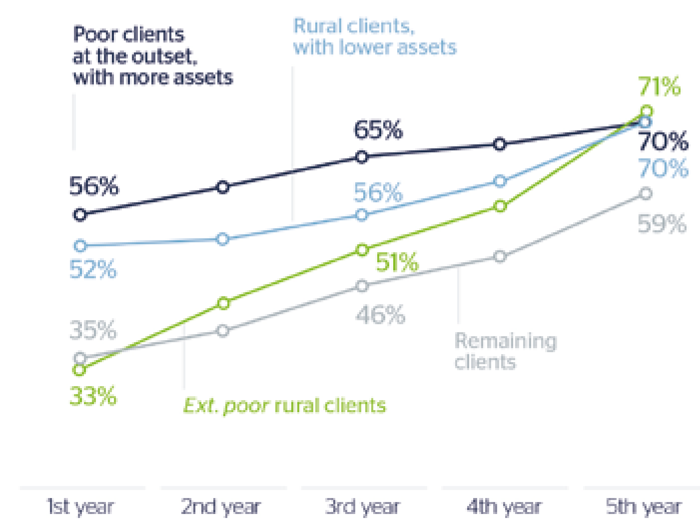
• There is sustained growth in clients' net business income the longer they remain with the institution. Thus, their contribution to the household (monthly *per capita* net income relative to the poverty line) shows a steady trend over time; it shows how clients have been growing in every credit cycle since 2011 *(see graph 20)*.

• *Extremely poor* clients take two cycles to get over the poverty line, whereas, on average, *poor* clients manage it with the first loan. Clients renewing a credit during 2017 have posted higher growth than historical rates and the *poor*, on average, get over the poverty line in the first cycle.

• Relative *per capita* net income growth rates reflect differences by *vulnerability* segment: the poorer segments show greater relative growth, whatever credit cycle they are in. Furthermore, these differences remain over time. That is, if a client's situation at the outset is one of

18 & 19. Clients current at some point in 2017 who have updated their data during the last 12 months. Clients who have defaulted are excluded from the "escaping poverty" category. Proportion of those escaping poverty over those who were *poor* at the outset. Indicator by segments. **20.** Client sample served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at the outset (the first credit) and shows the change in monthly *p.c.* net income in each credit cycle, relative to each country's official poverty line. Relative *per capita* monthly net income takes the value of one when equal to the poverty line.

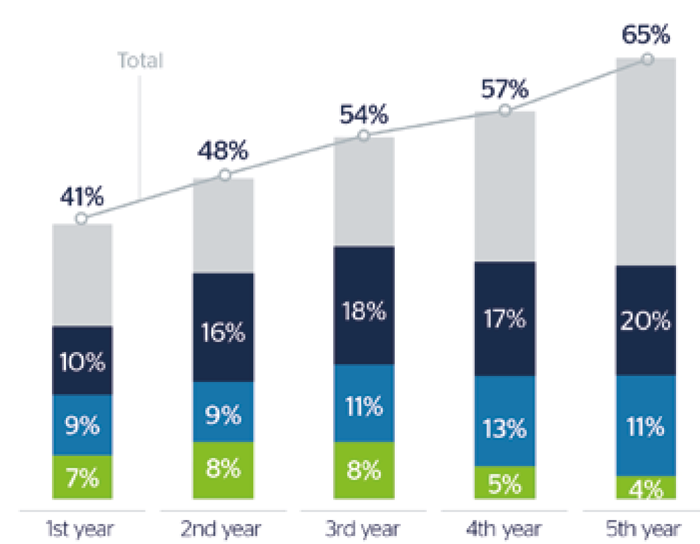
18. Clients escaping poverty, by best performing segments



Poor clients at the outset, with more assets, for their sector
Extremely poor rural clients
Rural clients, poor at the outset, with lower assets, for their sector
Remaining clients

Source: Bancamía. BBVAMF calculations.

19. Distribution of clients escaping poverty



Poor clients at the outset, with more assets, for their sector
Extremely poor rural clients
Rural clients, poor at the outset, with lower assets, for their sector
Remaining clients
Total escaping poverty

Source: Bancamía. BBVAMF calculations.

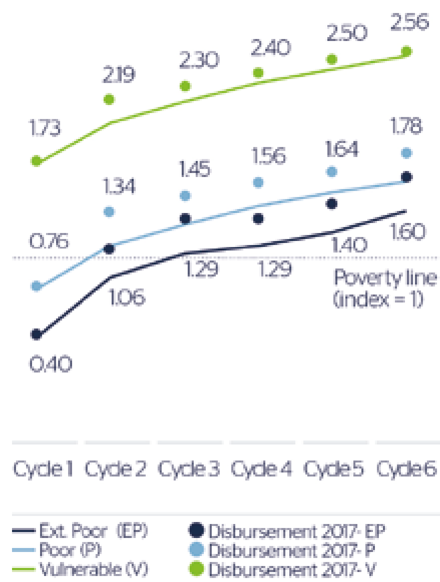
extreme poverty or they fall into poverty subsequently, they will look for investment options that enable them to make their net income increase at high rates, close to 100%. As their poverty lessens, the client will invest so as to achieve more moderate, but more stable, growth rates over time.

- When looking at clients that have taken out at least five credits with the institution, those under the PL have a high probability of escaping poverty. 55% will overcome this situation and only 19% will remain *poor*. Income instability (or volatility) is a major contributing factor to poverty; 26% of these clients will report ups and downs in their incomes, that is, they will overcome poverty and fall back into it again over the period monitored.

- In terms of clients who were *non-poor* at the outset, 10% will fall into poverty and another 13% will do so temporarily and climb back out again. This demonstrates the importance, not only of achieving income above the poverty line but also of stabilizing them, for which financial products need to be developed to tackle this instability.

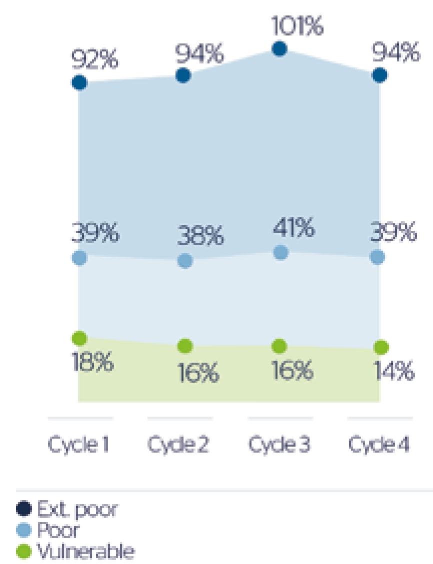
21. Client sample served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at each credit cycle. **22.** Clients served between 2011 and 12.31.2017 who have had at least five disbursements. The classification by *vulnerability* considers their situation at the (first loan) and is segmented by under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*). • Volatile: client who crosses the poverty line at least twice. • Escape from poverty: client who escapes poverty and doesn't fall back in. • Fall into poverty: client enters poverty in one cycle and does not escape it again. • Stable: client who remains *poor* or *non-poor* throughout the five disbursement cycles.

20. Net income relative to the PL



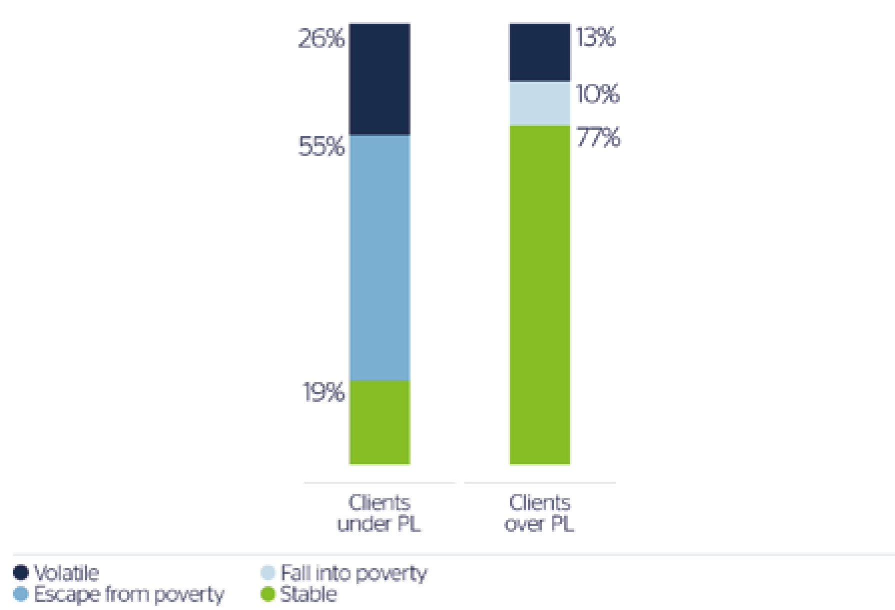
Source: Bancamía. BBVAMF calculations.

21. Average net income growth relative to the PL



Source: Bancamía. BBVAMF calculations.

22. Net income volatility relative to the poverty line



Source: Bancamía. BBVAMF calculations.

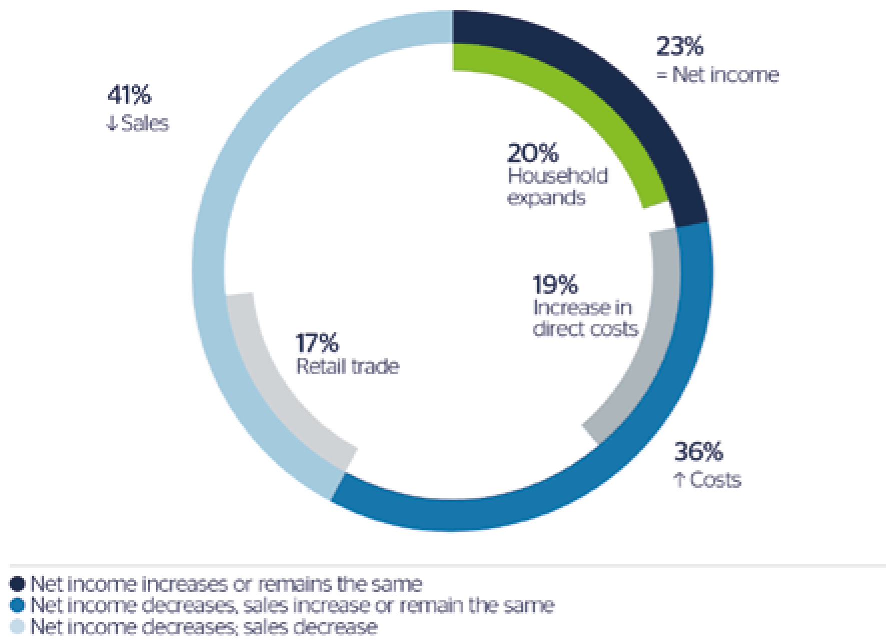
2. Our clients' development

• Looking closer at the factors dragging clients into poverty, we see that 41% of clients do so because of a reduction in their sales, whereas in 36% of cases it is due to an increase in costs: here, direct costs are the main cause. The remaining 20% enter poverty mainly due to the increase in the number of household members.

Indirect impact

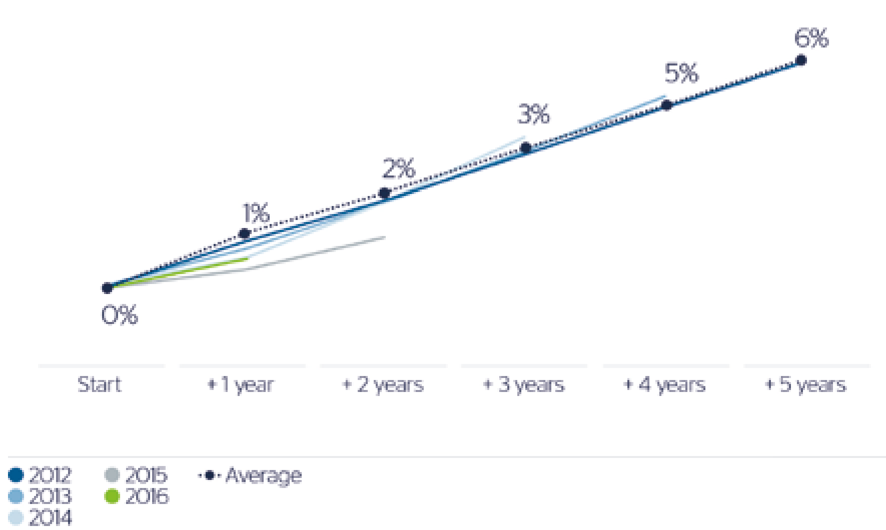
• We continue to see a positive correlation between having a link with Bancamía and indirect improvements enjoyed by its clients: 6% of the bank's clients improve their level of education after five years. This represents progress in the client's whole development.

23. Clients falling into poverty



Source: Bancamía. BBVAMF calculations.

24. Client improvement in education (by cohort)



Source: Bancamía. BBVAMF calculations.

23. Clients who have been current at some point in 2017 and have updated their data in their last 12 months with the institution. Shows those clients who at the outset were classified as *non-poor* and who are currently under the PL. **24.** Proportion of clients current as of 12.31.2017, from each cohort that has improved their educational attainment.

3. Relationships with clients

SDGs impacted

• Bancamía offers savings, credit and insurance products. 98% of our clients have savings accounts and 34% also have a credit account. Just 2.4% of clients only have a loan.

• By contrast, 29% of all our clients have taken out savings, credit and voluntary insurance, showing their interest in diversifying their product portfolios.

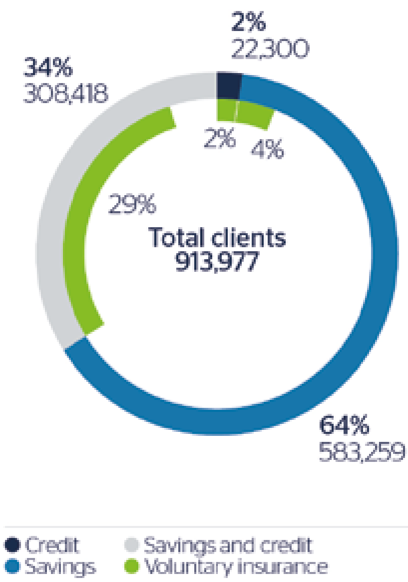
Relationship with our credit clients

• Bancamía's new credit clients in 2017 receive an average disbursement of USD 987, 4% less than last year. As a result, the financial burden (installment payment / monthly sales) has edged down from 2016, by 23 base points (b.p.).

• As clients grow, so do their investment and financing needs. The relationship with the institution and their good performance enable them to access higher sums and take bigger risks. In their first disbursement, entrepreneurs receive an average of USD 856; after five years, their disbursements are twice as large (USD 1,886).

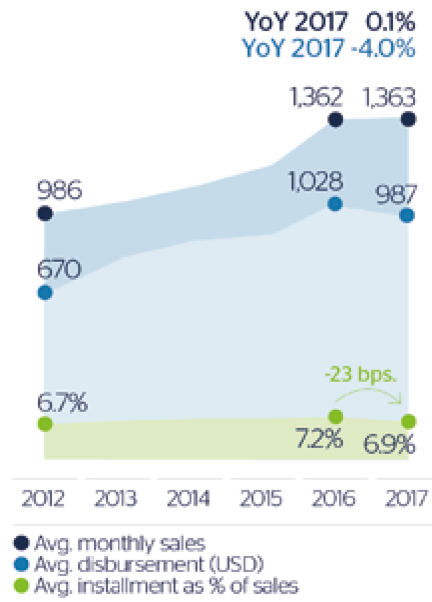
25. Clients current at 12.31.2017. **26.** New clients (no previous loans) signed up over the year. Average disbursement, calculated as the average of the first disbursement for new clients in each year. Weight of the installment calculated as a ratio average (installment over sales). YoY: 2016-2017 annual growth rate. **27.** Variation in the average disbursement per transaction by length of time since the client signed up. "Value at the outset" is the average of the outset value of 2012-2017 cohorts to which the average growth of the disbursement of cohorts 2012-2017 is applied. **28.** *See next page.*

25. **Client linkage by product type**



Source: Bancamia. BBVAMF calculations.

26. **Sales, disbursements** (USD) **and weight of installment for new clients**



Source: Bancamia. BBVAMF calculations.

27. **Average disbursement per transaction (by cohort)**

Source: Bancamia. BBVAMF calculations.

28. **Credit client retention and recurrence**

Retention	
Start	100%
+ 1 year	78%
+ 2 years	48%
+ 3 years	32%
+ 4 years	24%
+ 5 years	19%

Recurrence		Distance (days)
Cycle 1	100%	0
Cycle 2	49%	461
Cycle 3	26%	442
Cycle 4	15%	363
Cycle 5	9%	309
Cycle 6 or +	6%	271

Source: Bancamia. BBVAMF calculations.

3. Relationships with clients

• Bancamía has confirmed its position as a bank that is committed to its clients, with a credit client retention rate of 48% after two years.

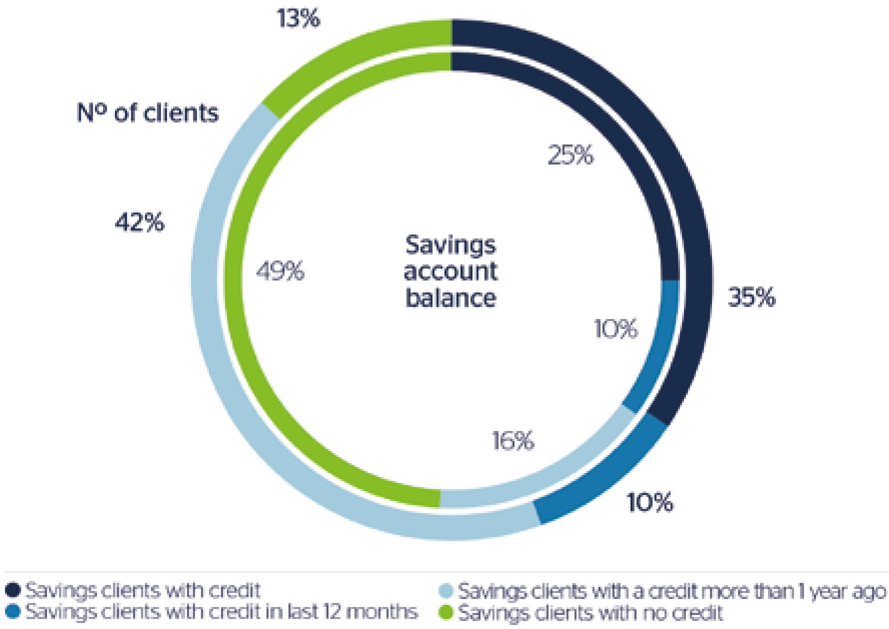
• 49% of clients access a second credit, an indicator that has grown by two percentage points (p.p). from last year. This shows that not only has our focus on new clients grown, but our existing clients have retained their reliance on the institution, and even increased it *(see graph 28)*.

Relationship with our savings clients

• Bancamía succeeded in increasing the savings balances in 2017 (+18.8% YoY) and the number of savings clients (+13.5% YoY).

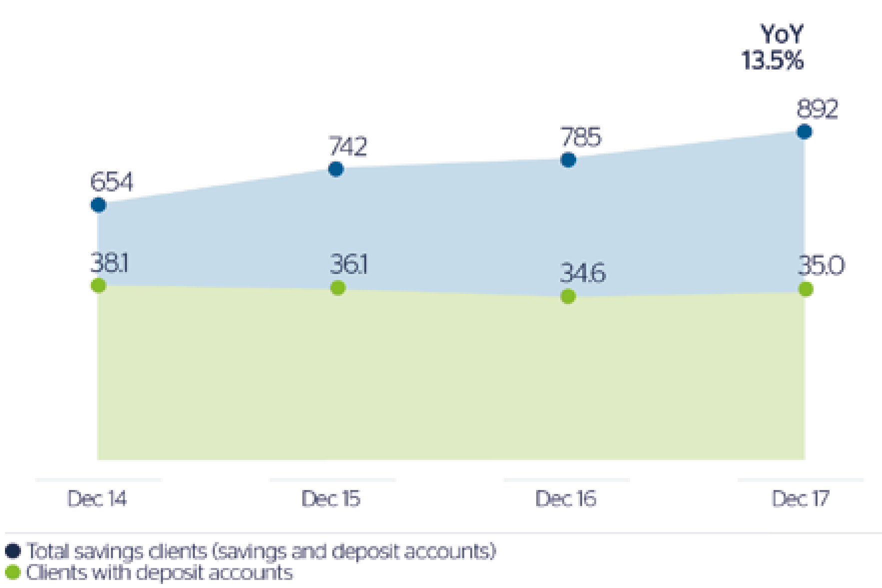
• 35% of savings clients have a performing loan with Bancamía, and 52% have had one at some point. Those who have never had a loan account for 13% of all clients, but 49% of the institution's savings balance. The balance in deposits is continuing to grow at +19% YoY, visible proof of the confidence our clients have in the institution.

29. Linkage of savings clients



Source: Bancamía. BBVAMF calculations.

30. Clients with savings and deposit accounts ('000)



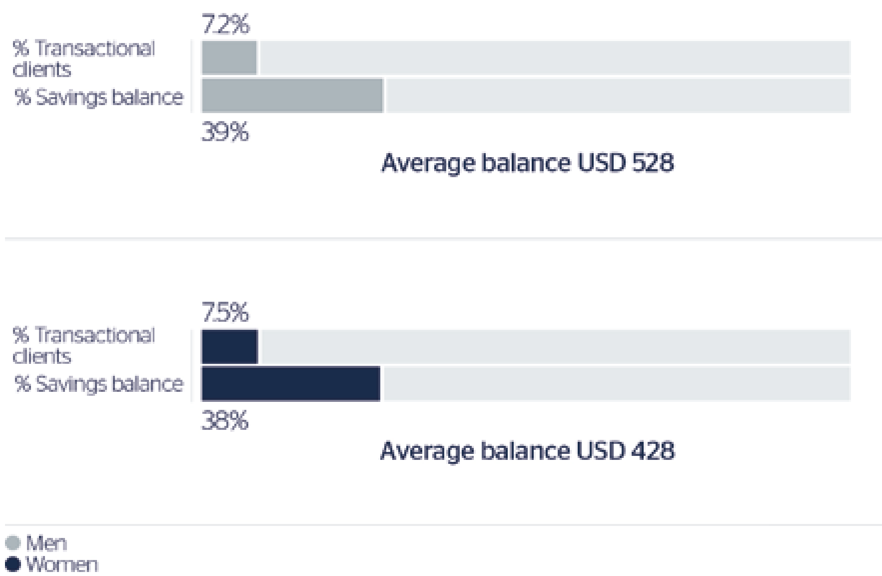
Source: Bancamía. BBVAMF calculations.

28. 'Retention': Percentage of credit clients in each cohort still current at each year-end and to 12.31.2017; shows averages from 2012-2017 cohorts. 'Recurrence': Clients served since 2011. % of clients that, after an initial loan, accesses another. Distance between cycles is the number of days between two successive disbursements. **29.** Clients and savings balances at 12.31.2017. **30.** Clients with savings products (savings accounts & deposits) on each date.

- 7% of clients have three or more movements in their bank account and there are differences by gender. Men have higher balances: USD 528, compared to USD 428 for women, a gap of 23%.

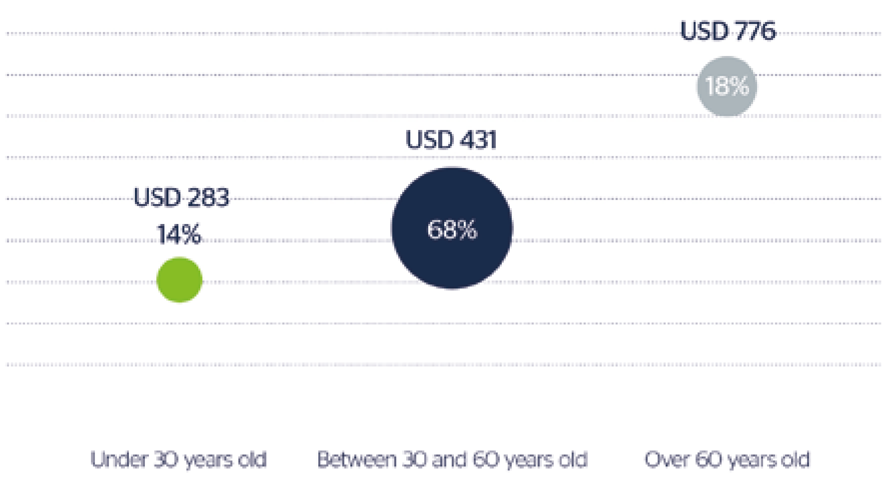
- In Bancamía older people have higher average balances (>60 years old have USD 776), while young people have the lowest balances (<30 years old, USD 283 on average), exposing them to greater short-term risk because of uncertainty.

31. Transaction figures, by gender



Source: Bancamía. BBVAMF calculations.

32. Savings account balance, by segment



Source: Bancamía. BBVAMF calculations.

31. Clients who conduct transactions (nº of movements in the last three months), excl. administrative movements (interest, fees) in their overdrawn balances at 12.31.2017. **32.**Clients who have conducted three transactions in the last three months), excl. administrative movements (interest, fees) on their savings balances at 12.31.2017.Percentages represent the number of clients in each segment.

Note: In 2017, a methodological change to the way in which clients' net business income was calculated, and in the rural vs. urban category to which they belong was made. So as to retain the capacity to compare indicators across the measurement timeline, the historic figures have been adjusted, which now show different data from those published in earlier Social Performance Reports.

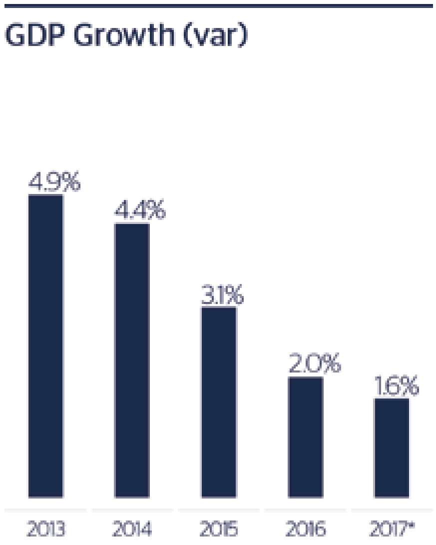
Macroeconomic analysis

Colombia

The country has gone into its fourth consecutive year of growth slowdown, against a backdrop of higher inflation and unemployment, which has driven an uptick in poverty, with some improvement in inequality levels, although these are still among the highest in the region[1].

Economic context

Economic growth: the least dynamic since 1999



Source: Central Bank (Banco de la República)
* Estimate: BBVAMF Research.

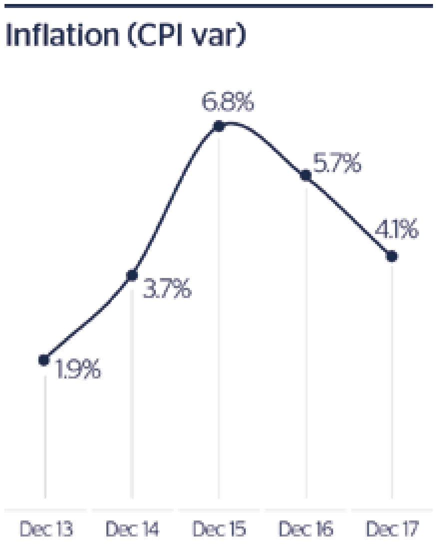
In 2017 the Colombian economy grew by 1.6% due to the slow recovery of internal demand, well below the figures in the 2000-2016 period, when the economy expanded by an average of 4%[2]. The weakness of private consumption and the limited growth of investment after the sharp contraction in 2016 were the key factors underlying the sluggishness of the economy.

The negative impact on economic activity is accounted for by low consumer confidence, the increase in household indebtedness, the negative shock of the tax reform and a rise in unemployment, together with brusque contraction in the Construction sector and delays in the execution of 4G contracts, among others. The Mining, Construction and Manufacturing sectors shrank the most, while Trade edged up by just 0.8%.

The first semester was less active: at 1.2%, growth was weak. In the second half activity recovered, expanding by 2.3%, mainly because of the recovery in oil prices and production, added to the uptick in other sectors, such as Coffee.

Shrinking investment and public consumption, together with the meteorological El Niño Costero phenomenon had an impact on the first half

Inflation: converging with central bank targets



Source: Central Bank.

The effects associated with the meteorological El Niño phenomenon and the strikes in the freight and agricultural transport segments caused annual food inflation to reach historic highs in 2016, topping 15%. When these factors are stripped out, inflation has been dropping, and posts lower than the long-term inflation targets.

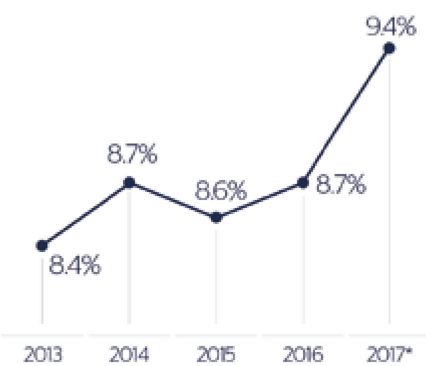
Meanwhile, weak demand means that the output gap is in negative territory because of economic growth operating under its potential. This suggests a production overcapacity which has absorbed the impact on inflation of both indirect taxation and the increase in the minimum wage and the index-linking of certain items to inflation in 2016.

1. Conducted to the end of November 2017. **2.** All estimates by BBVAMF Research.

Economic context

Labor market: the slowdown weakens the labor market

Unemployment rates (% of the workforce)



Source: Central bank .
* Estimate: BBVAMF Research.

In 2017 the year-on-year unemployment rate (December 2016 – November 2017), was 9.4%, while the global participation rate was 64.4% and the occupation rate posted at 58.4%, a deterioration from 2016. Average unemployment spiked up in the 13 most important metropolitan areas, coming in at 10.7%. In fact, unemployment rose in all geographical areas, apart from in the countryside. Quibdó, Cúcuta, Armenia and Riohacha were the regions with the highest rate of unemployment.

The sector providing work for most people was Trade and hospitality (27%), followed by Shared, social and personal services (20%), Agriculture, stockbreeding, hunting, forestry and fishing (17%) and the Manufacturing industry (11%).

A wider indicator of the labor market situation is subjective underemployment, which came in at 26.5%, unchanged from 2016, and reflects the wish, as expressed by the worker concerned, to increase his/her income, number of hours worked or to having a job better matched to his/her individual abilities.

The number of waged workers in the formal economy slipped a little, recording growth in non-waged employment in the informal economy. Stagnant employment levels and the increase in unemployment are accounted for by the slowdown in economic activity.

Financial inclusion: financial coverage extends to the whole country

According to official data, financial inclusion in Colombia[3], measured as the percentage of adults with one or more financial product, rose to 79.1%, equivalent to 26.6 million people, up from its 2016 level of 77.4% in 2016. This increase of 1.7% in the last year translates into a figure of around 1,017,000 adults having a financial product for the first time.

The star product for inclusion is the savings account. 74% of adults, around 25 million people, possess this product, of whom 72% carry out some kind of economic activity. On the credit side, 27% of adults use credit cards, while 23% use other financial consumer products.

52% of the population with financial products are women, meaning that women are more active users of financial products.

Nationwide coverage has been achieved, with the presence of some kind of access point to the financial system. 75% of these access points are chip-and-pin terminals, 20% are banking agents, 3% are automatic teller machines and the remaining 2% are bank offices. In the latter category, payments made up 40% of the transactions carried out, 32% were deposits and 15%, withdrawals.

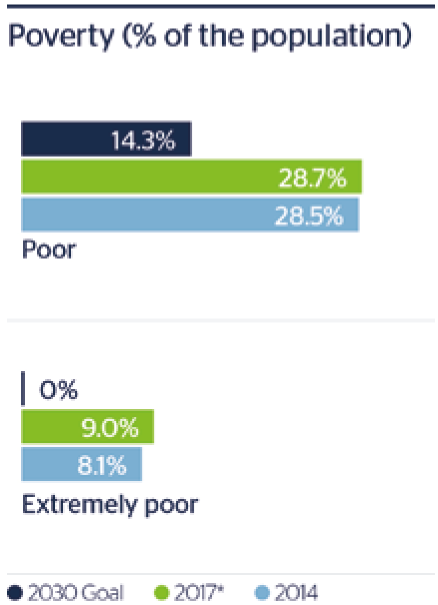
3. Banca de las Oportunidades: Quarterly Financial Inclusion report, September 2017. **4.** All estimates for 2017 are by BBVAMF Research.

Social environment

For banking agents, installment collections were the most frequent type of transaction, accounting for 52% of the total, followed by withdrawals at 18%, deposits with 16% and 11%, payments. This channel needs to become ubiquitous in order to continue making progress with financial inclusion, since it brings down transactional costs for people living in rural areas, where populations are more disperse, as well as underpinning a whole range of transactions between individuals and companies.

The rise in poverty is a result of higher inflation between 2015 and 2017, together with greater unemployment because of more sluggish growth

Poverty: higher inflation and slower growth put a brake on progress made against poverty



Source: DANE. *Estimate: BBVAMF Research. UN

In 2017, 28.7% were economically poor, an upward variation of 0.2 percentage points from 2014, when it was 28.5% of the population, in turn a 0.9 percentage points variation from the minimum recorded in 2015[4].

The upturn in poverty is explained by the increase in inflation between 2015 and 2017, reflected in an adjustment in the value of goods and services that make up the basic food basket defining the poverty line, as well as the rise in unemployment, associated with a lower rate of economic activity.

Poverty in rural areas, represented by the municipal capitals, increased from 24.6% in 2014 to 25.3% in 2017. Poverty in populated and remote rural areas was 38.8%, a reduction of 2.6 percentage points from 2014, when it was 41.4%.

The city with the highest rate of economic poverty in 2016 was Quibdó, at 49.2%, followed by Riohacha with 45.5% and Valledupar with 35.5%. In the provinces of Chocó, La Guajira, Cauca and Magdalena, over half the population was in a situation of monetary poverty.

In 2017 the poverty gap, the indicator that measures the amount of money a poor person needs to stop being poor, that is, for their economic position to rise above the poverty line, reached a value of 10.5%, slightly lower than in 2014, when it stood at 10.8%. This indicator has shown a marked improvement in recent years: in 2005 it was around 22%, that is, the effort expended to obtain the necessary income to be able to overcome poverty was double the effort currently required.

Social environment

Reduction in inequality

Inequality (Gini ratio)

Source: DANE.

In 2016, income inequality as measured by the Gini indicator ratio (that takes values between 0 and 1, ranging from absolute equality to maximum inequality), stood at 0.517 nationally, compared to 0.538 in 2014. In urban areas the ratio was 0.495, compared to 0.458 in populated and remote rural areas.

Colombia has one of the highest rates of inequality in the region, despite having reduced this ratio since 2002 by an average of 0.8% every year, a reduction which has doubled in speed between 2014 and 2016.

Income levels in the richest quintile (quintile V) account for around 34% of household income, whereas average income in the quintile with the least resources (quintile I) is just 5% of the total.

Supply factors put a great deal of pressure on inflation in 2016; these factors having subsided, it has settled at below long-term target levels

Other dimensions

When we analyze the households facing deprivation in terms of their educational, health, and work conditions, together with their access to public services and their housing conditions, we see that 46% of households show low educational achievement, 28% lag behind at school, 74% work in the informal economy, 11% are long-term unemployed and 5% face entry barriers to healthcare. 5% live in housing made out of inadequate flooring and exterior wall materials, 12% of this housing does not have proper sewage and drainage, and 2% does not have electricity.

While 97% of urban households have running water, in the rural areas only 60% of homes have piped water. 98% of urban households have a waste collection service, but this is only available in 27% of rural households.