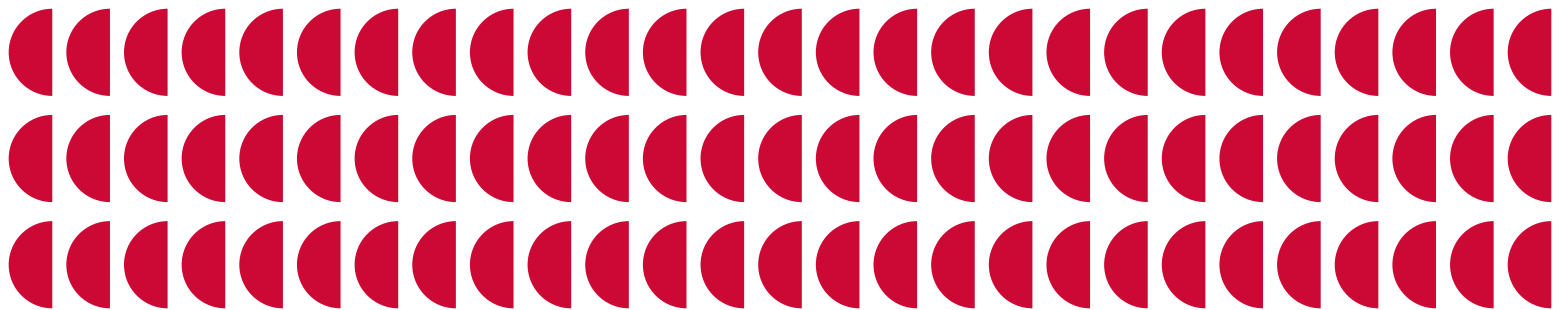


Colombia

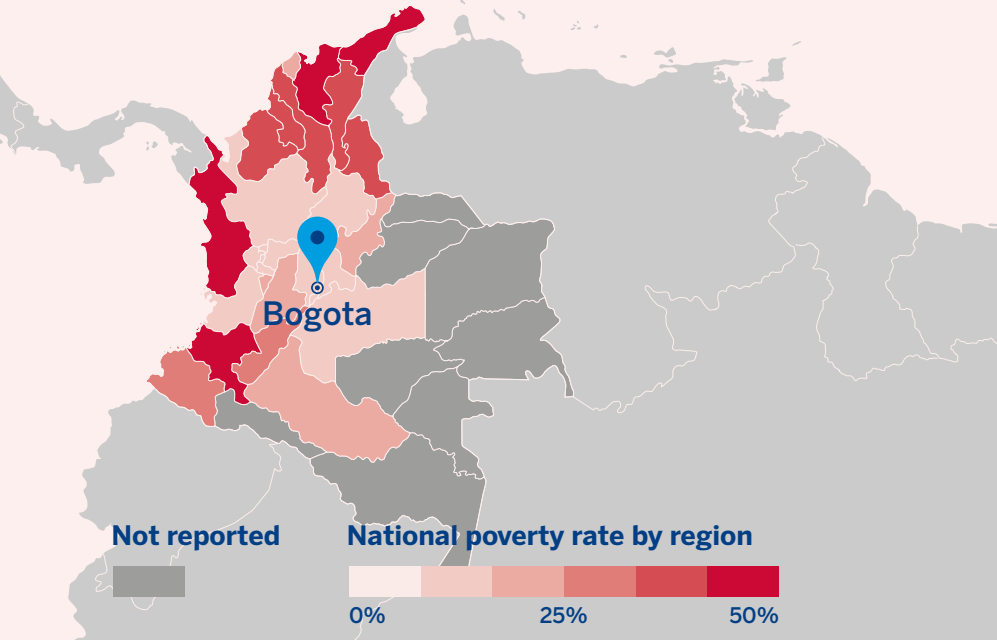
Bancamía

 SOCIAL PERFORMANCE
REPORT **2018**

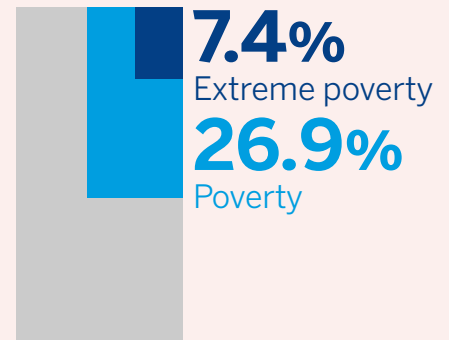


Measuring realities that drive dreams

National data



% Poor
according to the national poverty line¹.



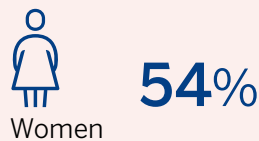
55%
unbanked adults².

1. CLIENTS

Committed to vulnerable people

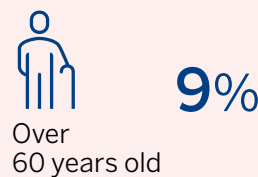
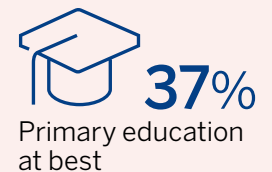
Total credit clients³

339,386



New credit clients 2018

87,617



Source: Bancamía data; calculations by BBVA Microfinance Foundation (BBVAMF).
(1) National poverty rate according to DANE, 2017. (2) Global Findex 2017. (3) Data as of 12.31.2018.



2. PROGRESS

Working with them as they develop...



1 in every 2 renewing clients has improved their income.



In their second year banking with the institution.

...and their projects grow



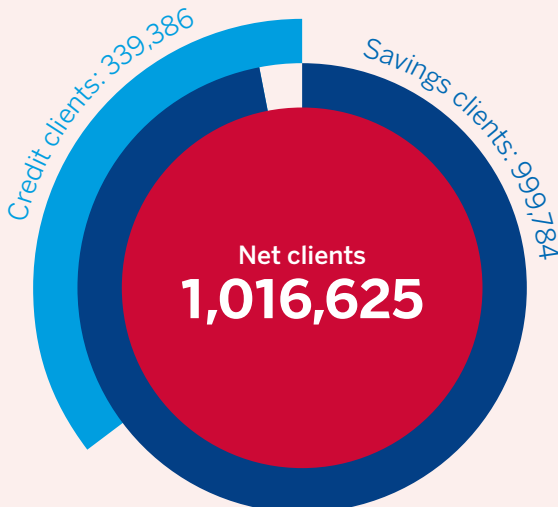
Annual growth rate.



Annual growth rate.

3. RELATIONSHIP

Providing timely and relevant products and services



Average disbursement



Savings

12%

The total n° of savings clients has risen by 12% in 2018.

USD 20

27% of clients save this amount or more in programmed savings products.



Introduction

Currently celebrating its tenth anniversary, over this time Bancamía has stood by more than 1 million Colombian entrepreneurs as they have developed their micro-enterprises on sustainable foundations, contributing in this way to changing their lives and helping the country's economic and social growth.

In 2018, the Colombian economy expanded by 2.7%. The recoveries in consumer and public consumption spending were the drivers of economic momentum with spikes of 3.9%, while investment, growing at 3.5%, also performed slightly less strongly. Inflation continued at a moderate rate, ending the year at 3.2%. Inflation's convergence towards the target range allowed the central bank to take a more expansionary position, cutting its intervention rate twice, each time by 25 base points, posting at 4.25% by year end.

Despite the economy's better performance, the unemployment rate still came to 9.2%, having edged up by 0.2 percentage points in 2018. The gender gap remains unchanged, with women's unemployment at 12%, higher by that of men by 68%.

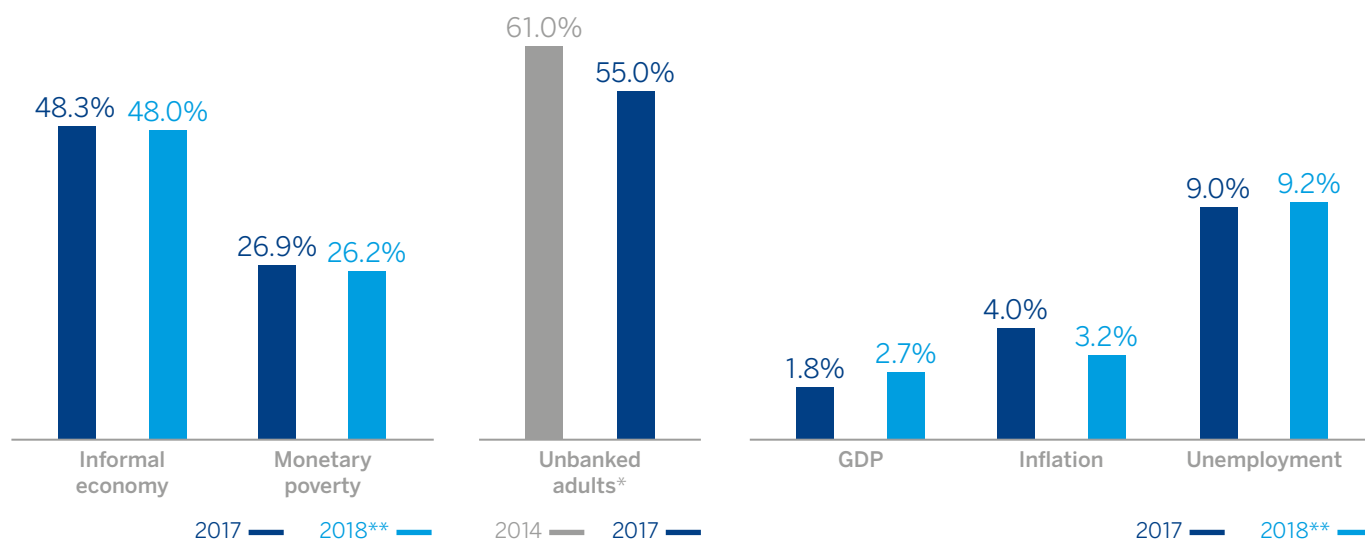
48% of workers still develop their activities in the informal economy, which breaks down into 46.9% for men and 49.2% for women. However, the Colombia's monetary poverty continues to fall, affecting 26.2% of the population in 2018.

There are also major differences between the rural and urban environments: 3 of every 10 people living in rural environments have incomes below the price of a basic basket of food, goods and services. For example, in rural areas, extreme poverty is three times higher than in urban regions (15.4% in rural areas vs. 5% in provincial capitals).

Working with vulnerable people throughout their financial development is a key factor in their progress. Around 45% of adults in Colombia are financially included. But there is a clear gender gap, with men 7 percentage points ahead of women in inclusion.

The Colombian microfinance system is one of the most developed in the world. According to Global Microscope 2018¹, Colombia ranked first place in the ranking that assesses the enabling environment for financial access, and the State has committed to promoting financial inclusion over the long time (through its National Bank of Opportunities Strategy).

¹ Drawn up by The Economist Intelligence Unit.



A sign of Bancamía's leadership of the sector is that it occupies the Chair of Asomicrofinanzas' Board of Directors, Colombia's microfinance institution association, to which 38 entities with microfinance activities are affiliated, representing over 99% of the country's microcredit portfolio.

Bancamía has a firm commitment to the sector's development. Its vision is based around facilitating the productive development of people at the base of the economic pyramid through the provision of financial products and services tailored to their needs.

Colombia has one of the most developed microfinance environments in the world; this represents an opportunity to reduce the country's inequality.

KEY VOLUMES²

Total clients	1,016,625
Number of employees	3,373
Number of branches	200
Gross portfolio (USD)	404,990,650
People receiving financial education	315,220
Client assets under management (USD)	219,867,589
Amount disbursed in 2018 (USD)	352,874,470
Number of disbursements in 2018	280,814
Average disbursement in 2018 (USD)	1,257

Source: Central bank, Colombia.

* Global Findex World Bank, 2014 & 2017.

** BBVAMF Research estimate.

² USD/COP: 3,271.02 at 12.31.2018, BBVA Research.

Introduction

Banco de las Microfinanzas – Bancamía, S.A. is a well-established social bank –the first to specialize in micro-enterprises– that is celebrating 10 years of promoting entrepreneurs’ development and transforming their living standards and the country’s economy with small businesses. Bancamía was the result of the merger of three not-for-profit organizations: Corporación Mundial de la Mujer Colombia, Corporación Mundial de la Mujer Medellín and BBVA Microfinance Foundation.

In 2018, Bancamía’s clients reached the one million mark. The bank provides savings, credit and insurance products, as well as financial education for low-income entrepreneurs the length and breadth of the country.

Using its 200 branch offices, over 3,000 service points (of which 246 are Bancamía’s own), and a growing range of mobile banking options, Bancamía has made great strides in bringing financial services close to entrepreneurs, implementing mobility tools that can bring the office into the client’s home and provide timely information at all times.

It remains faithful to its commitment to working in the most remote areas with the aim of supporting entrepreneurs in generating economic surpluses that are sustainable over time. With this aim, it places particular importance on the rural environment, where 44% of the entrepreneurs who bank with the institution are to be found and where financial exclusion is most widespread.

It also puts special focus on the 58 Colombian municipalities that have been prioritized by the State in the peace process. It does this in partnership with the corresponding governmental departments and international organizations, such as the United States Agency for International Development (USAID), with which it works on the Rural Finances initiative, which reinforces its commitment to the victims of the armed conflict, particularly in the countryside (see Special project, pg. 148).

It has also developed specific projects in the fight against climate change, such as the Microfinance Ecosystem-based Adaptation to Climate Change program (MEbA), which supports entrepreneurs as they improve their environmental resilience (see Special project, pg. 146).

Even though the Colombian economy is showing signs of improvement, Bancamía continues to stand by its commitment to serve clients in vulnerability. So, Bancamía has served 87,617 new clientes and a higher proportion of them are poor or vulnerable.

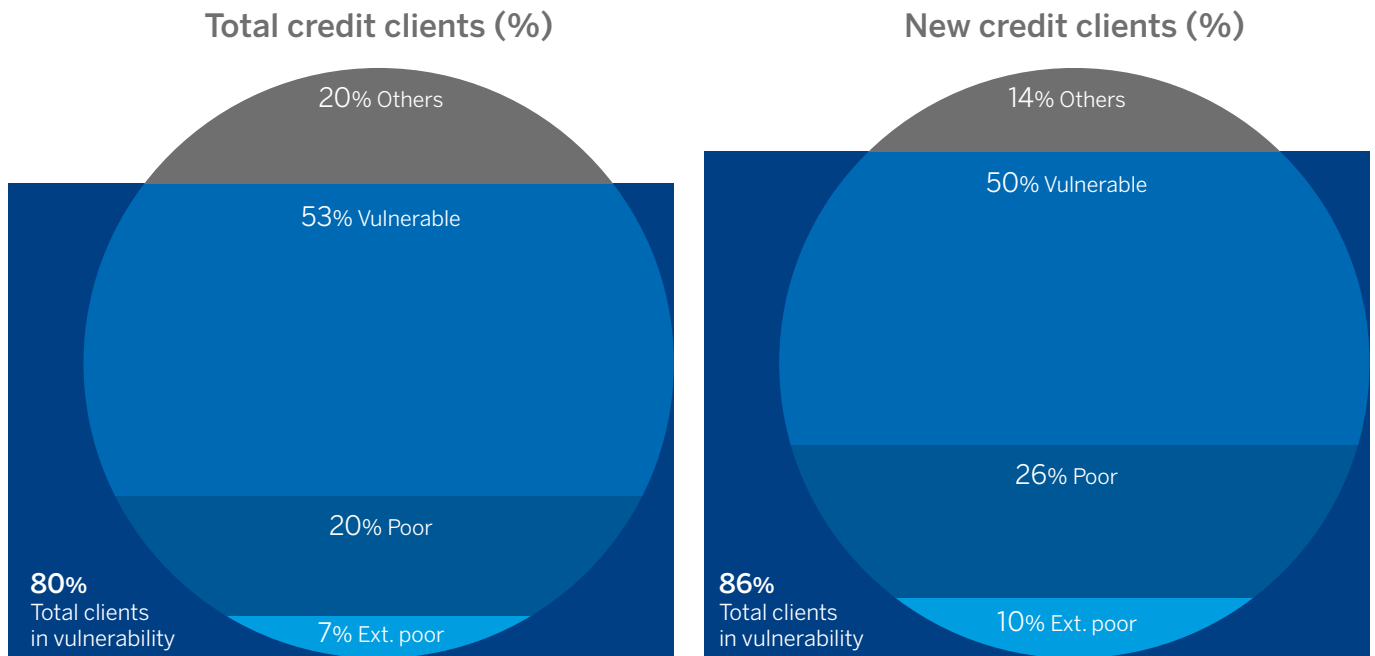
Sales figures in clients’ businesses grew by 12%, compared to 14% in 2017, with the outcome that escape from poverty was slower and enjoyed by fewer people. Solid economic forecasts and growth in certain sectors are expected to have a positive impact on clients’ own economies in the next few months.

Credit clients	16,841
Credit and savings	322,545
Savings	677,239
Total credit clients	339,386
Total savings clients	999,784

Credit clients served in 2018 by Bancamía have average monthly surpluses (net incomes) per household member (per capita) of USD 156, which represents around 4 times the basic monthly food basket in urban areas.



CLIENT ECONOMIC VULNERABILITY*



The price of this basket of goods determines the extreme poverty line. Those entrepreneurs who do not generate enough revenue to acquire this basket are classified as extremely poor. The price of the group of goods consisting of the basic food basket, clothes and housing determines the poverty line. In Colombia this is USD 52 a month in rural areas and USD 87 in urban ones³. Entrepreneurs whose businesses generate revenues below this line are classified as poor. The basic basket mirrors consumption habits of foodstuffs, goods and services. The yawning difference between the urban and the rural poverty lines shows how consumption is changing in urban zones to a more sophisticated, and more expensive, basket of goods.

The category in which the highest proportion of entrepreneurs is to be found is the one made up of those who, while not technically poor, have highly volatile incomes, meaning that any unexpected contingency can cause them to fall back into poverty. These are vulnerable clients. The threshold for this classification is an income equal to the country's poverty line multiplied by three. On this reckoning, 86% of new credit clients fall within this category.

³ National poverty line according to DANE, updated using end-of-year CPI.

* According to the DANE (National Statistics Administration Department) poverty line (differentiating between the rural and urban environments). Clients whose net income per capita (estimated as the net business 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.

1. Our clients

SOCIOECONOMIC PROFILE

During 2018 Bancamía served a larger number of clients in vulnerability (86%) and poverty, true to its mission. Of the 87,617 new clients it has brought into its portfolio, 10% are classified as extremely poor, which means that their business incomes do not cover the basic basket of foodstuffs for every household member.

This greater focus on low-income clients can be seen if we look at the average income of each poverty segment, which has fallen from the previous year. So, on average, poor clients have incomes that come to 76% of the poverty line figure, in other words, USD 61. This means that 26% of the clients we served in 2018 had incomes of just 2 dollars a day for each member of the household.

Bancamía onboarded nearly 90,000 new clients in 2018. The most vulnerable are young women, of whom 90% are in vulnerability.

39,651 new clients were served in rural areas, where the vast majority (69%) work in agricultural activities. A higher percentage of these activities are headed by men, and many of them have low levels of educational attainment (52% have primary education at best). Only 43% of rural clients are women.

The gender gap demonstrates that poverty still strikes women disproportionately hard. 90% of women are vulnerable and this group is concentrated in urban areas, where financial services are more widely available. Women's educational level is higher, on average, than men's, yet the barriers to accessing the labor market, together with self-employment and family structures (on average women are supporting families with 3.4 members) mean that their incomes at the outset are lower. Their average monthly income (USD 119) is 18% lower than that of men.

(1) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.

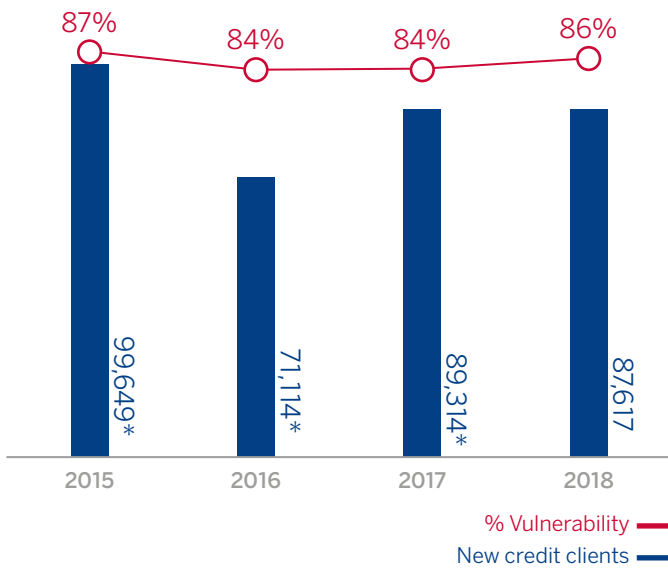
• Exclusive clients: those whose only loans are with the institution between t-12 and t.

(2) According to the country's official poverty line. New clients (no previous loans) signed up over the year.

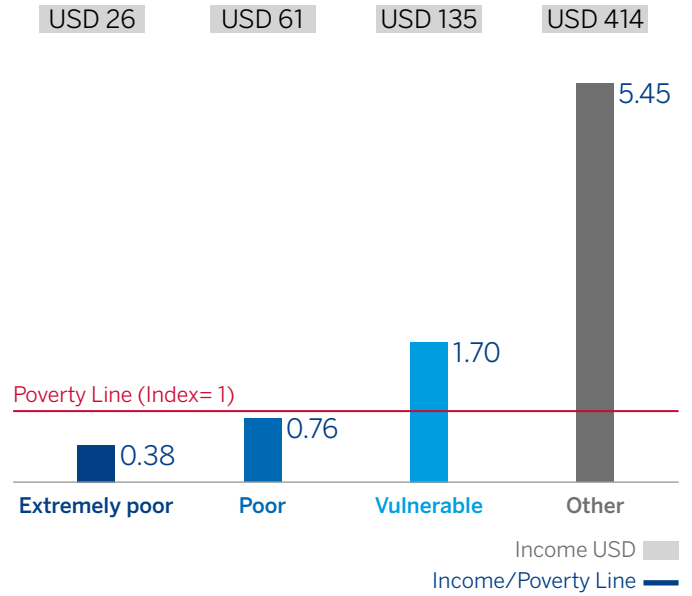
(4) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.

* New clients have changed from previous publications due to a portfolio acquisition in 2018.

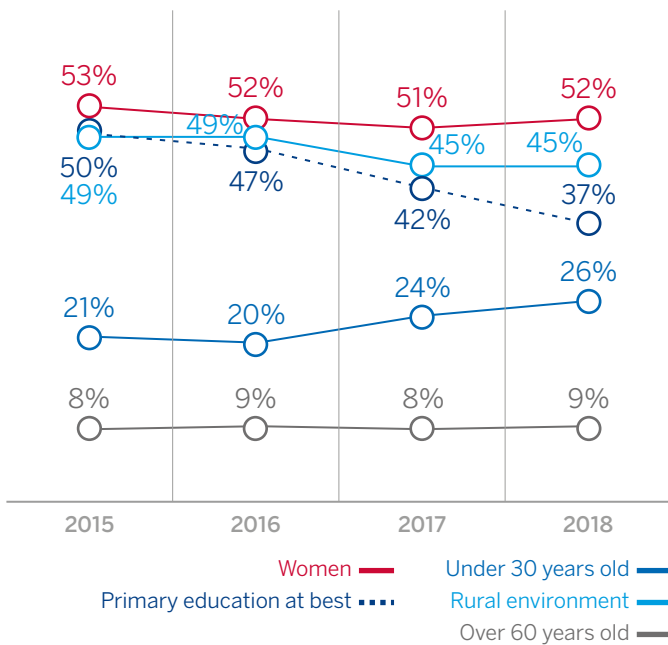
1 NEW ENTREPRENEURS SERVED
New credit clients by cohort
N° exclusive clients 2018: 55%



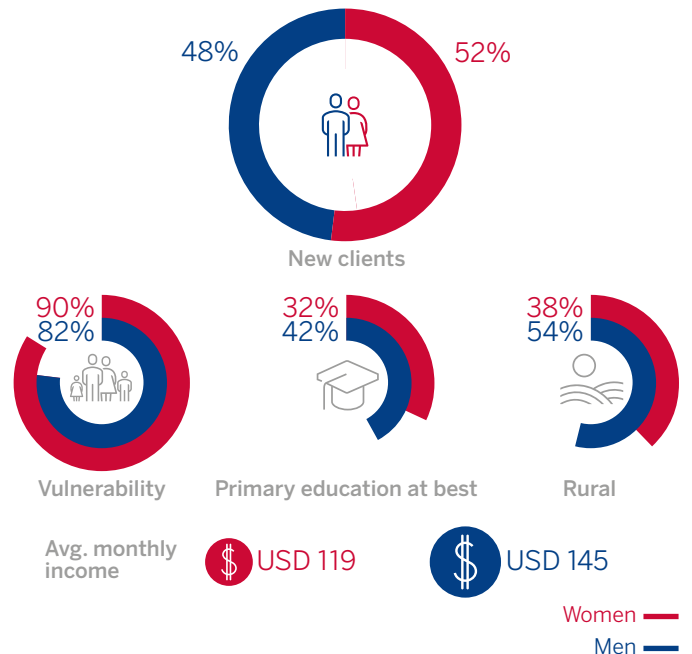
2 ENTREPRENEURS' INCOME
Income against Poverty Line



3 NEW CLIENT PROFILES
New clients by cohort (%)



4 PROFILE BY GENDER
New credit clients (%)



1. Our clients

PROFILE OF THEIR BUSINESSES

Aligned with the institution's strategy, in 2018 Bancamía prioritized the rural environment: 32% of new clients work in agro (this sector now accounts for 29% of all clients served by the entity). Their main activities within the agricultural sector –generally led by men (63%)– are stockbreeding (31%) and crops (mainly coffee). In rural areas, agriculture is the main source of work and household income.

In this sector, asset needs are comparatively higher. Even clients below the poverty line have assets of close to USD 6,000. The overarching difficulty with farming is getting liquidity from a collection of assets (even though they have a high value). For this reason, their leveraging is lower with respect to their assets than in other sectors: 14% liabilities/assets, compared to other sectors such as trade, for example: 21% liabilities/assets. Some studies indicate that better access to financing for companies can translate, among other things, into productivity gains (IDB, 2014; Ibarraran et al., 2009).

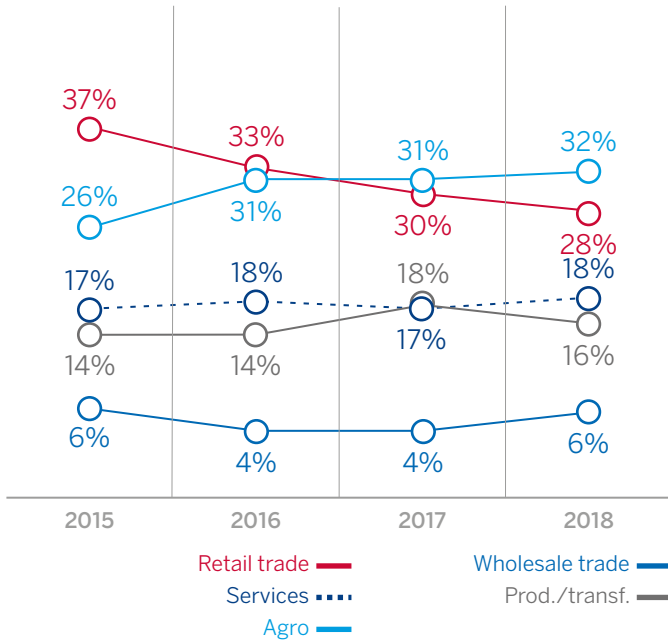
Trade continues to be the most popular activity sector overall for clients in the portfolio (31% of the whole), in particular the sale of clothes and accessories and general-purpose stores. This sector is more flexible and as such attracts more low-income clients in cities. It is a sector in which sales are high and investment in assets is lower, so there are few barriers to entry. Nevertheless, it has lower financial margins (the conversion rate of sales to net income is lower than in other activities) and accounts for a large proportion of women (64%).

(6) Data on average monthly sales and average assets in each sector, segmented by clients below the poverty line (PL: extremely poor and poor) and clients above the PL (vulnerable and others).

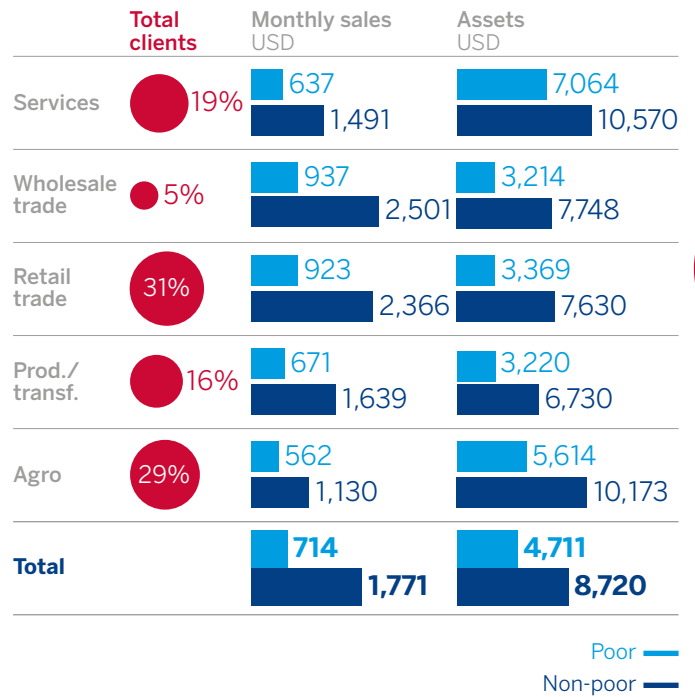
(7) Ratios of average costs over sales in each sector. Earnings are taken after payment of the financial installment.

(8) Data on these clients' average assets, liabilities, equity and ratios, for each sector. Ratios (equity/assets, liabilities/assets) are calculated using each client's average ratio. The loan granted by the institution is not included in the liability figure.

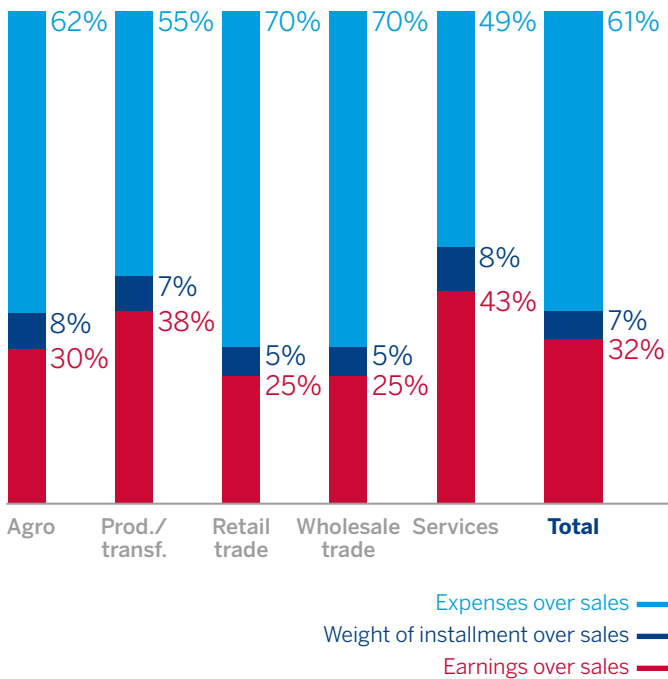
5 ACTIVITY SECTOR
New clients by cohort (%)



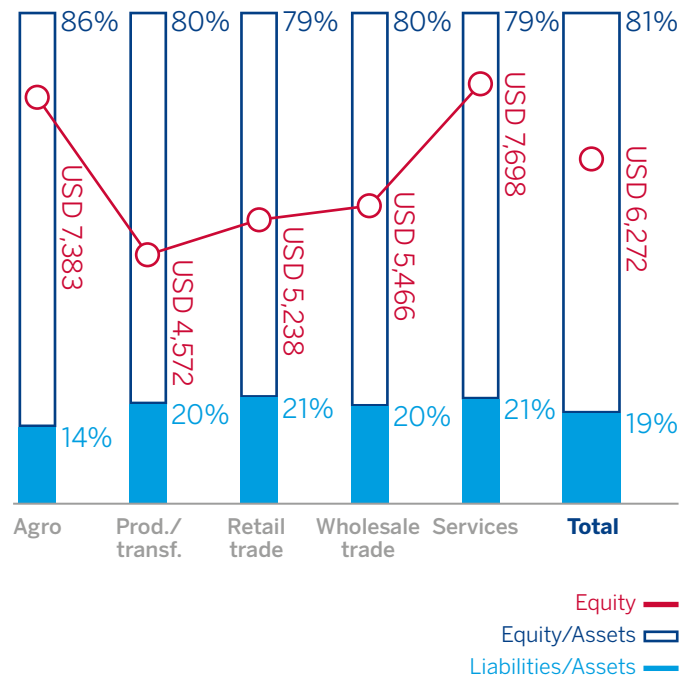
6 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients, poor and non-poor



7 P&L- MARGINS OVER SALES
Total credit clients



8 BALANCE STRUCTURE - LEVERAGING
Total credit clients



2. Our clients' development

GROWTH OF THEIR BUSINESSES

Growth rates remain positive, and above the country's inflation rate, in sales, net incomes and business assets. Nevertheless, despite good economic expectations, the effect on entrepreneurs' growth rates is lagged, and slightly lower than in previous years. Furthermore, greater sector diversification has also been having an impact on aggregate growth rates. Thus, agriculture, which entails high investment in assets and low sales, shows high rates of growth in sales and low rates in assets. Trade, on the other hand, with activities that are low-margin but look for short-term liquidity, shows high growth rates across all business variables (given its low investment in assets it is easier to make the business grow than other sectors).

In general, businesses managed by women are smaller than those run by men, both in terms of their assets and in sales; women's assets are 20% lower on average than those of men. These economic gaps have not varied in recent years, since they would require medium-term policies to be rolled out nationally.

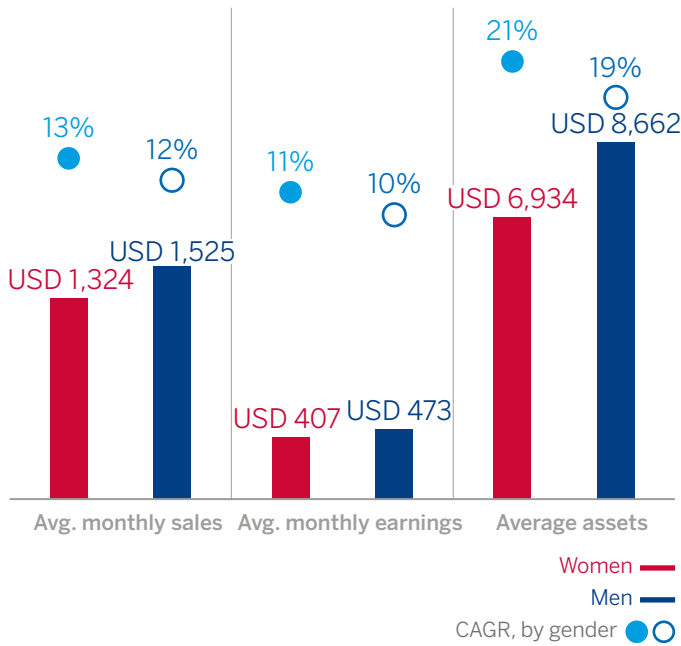
Clients' businesses grow at more than 10% along all financial indicators.

Finally, we should point out that the service sector (catering, hairdressers, etc.), is a growing activity for Bancamía entrepreneurs. While the growth rates are moderate, in earnings terms the margins are high (43% earnings/sales after paying the installment on the loan). This type of business is important in vulnerable communities because it does not depend on a long value chain. If these enterprises are set up as a result of seeing an opportunity (that is, they are satisfying real market demand) they represent a value proposition (eg. a good meat pie) that can translate into sustainability.

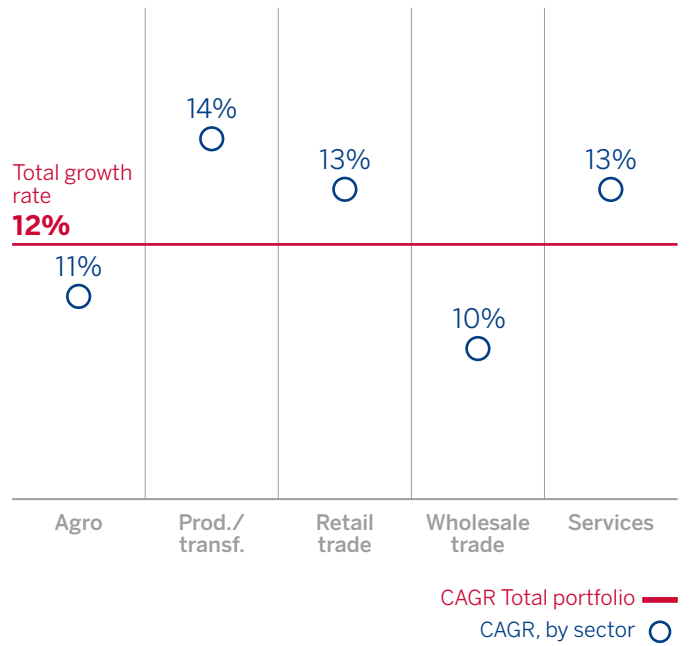
(9) Data on clients current at some point over the year and who have rolled over a product in the last 12 months with the institution (hereinafter "renewing clients"). The compound annual growth rate (CAGR) for cohorts (entry year) between 2013 and 2018 was used for the calculation, taking the weighted average of these rates for each gender.

(10) (11) (12) Data on renewing clients. The compound annual growth rate (CAGR) for cohorts (entry year) between 2013 and 2018 was used for the calculation, taking the weighted average of these rates for each sector.

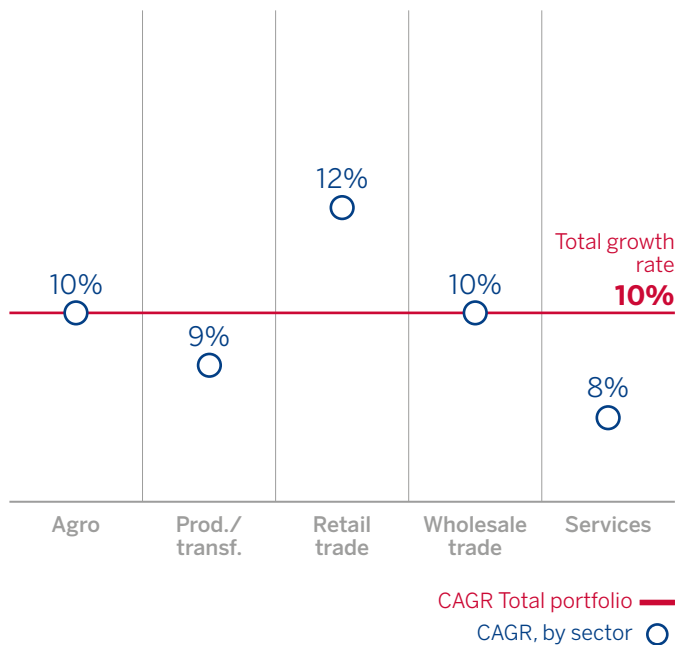
9 GROWTH IN FINANCIAL VOLUMES, BY GENDER
Compound annual growth rates



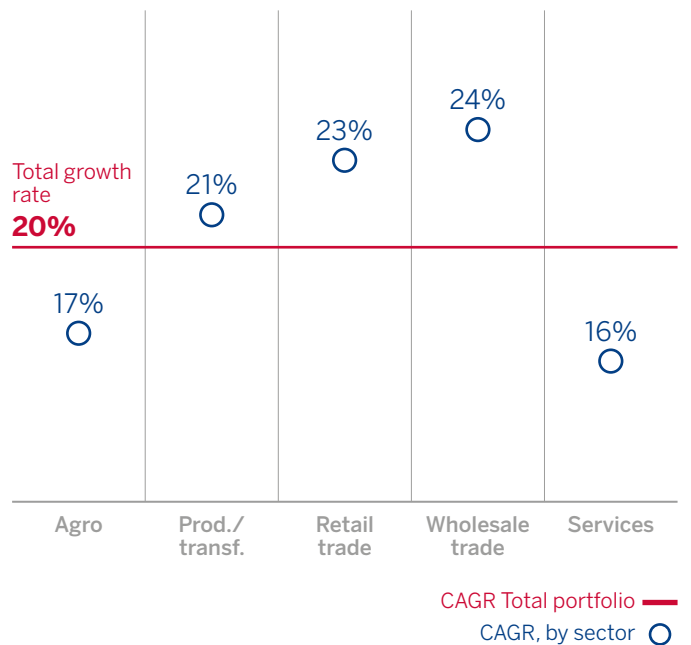
10 SALES GROWTH
Compound annual growth rates



11 GROWTH IN EARNINGS
Compound annual growth rates



12 GROWTH IN ASSETS
Compound annual growth rates



2. Our clients' development

ESCAPE FROM POVERTY

The number of Bancamía clients in poverty continues to shrink. However, since the growth rates of clients' businesses are slowing, this escape from poverty is slower over time, partly due to the fact that it is helping the very poorest sectors of the population. Clients classified as extremely poor need, on average, two credits to get over the poverty line. Entrepreneurs who were poor at the outset only need one. This flags up the importance of creating long-term relationships with clients to guarantee their growth.

When we analyze performance, we see how entrepreneurs –poor at the outset– who live in rural environments enjoy high rates of escape from poverty. Low living costs and less competition may be helping this growth. Within the rural environment, we should highlight non-poor agro clients, who are also more likely to fall into poverty. This indicates that in the rural sector, Bancamía clients experience more volatility. Urban clients working in retail trade post the strongest performance and greatest reduction in net poverty, particularly when they have high assets at the outset.

For non-poor entrepreneurs who fall into poverty, the type of activity they develop is critical. Farmers are more prone to fall into poverty than those working in trade in urban environments. The agro sector requires greater investment of assets and as such presents higher risk. Thus, we can see that the analysis needs to be broader –going beyond the provision of funding–. Issues such as human capital, value chains and resilience to climate change need to be studied, areas that reinforce the benefits of accessing credit to support business growth. Bancamía is a pioneer in this line of work: it acknowledges that on average there is a positive performance in the rural environment for all clients and all segments (see Fig. 15).

“Rural microfinance is not in itself a solution to poverty, but it has certainly been proven to be an instrument which helps to make productive initiatives in the Colombian countryside viable and sustainable. As such it serves as a support mechanism for rural development policies and is a virtuous financing alternative when it employs the methodology of long-term guidance for productive initiatives. That is why it is important to promote and monitor microfinance” (Ramirez Virviescas, National University of Colombia, 2018).

(13) Renewing clients shown. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.

- Escape from poverty: Clients in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.
- Fall into poverty: Clients not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.
- Net reduction: Escape from poverty minus fall into poverty.

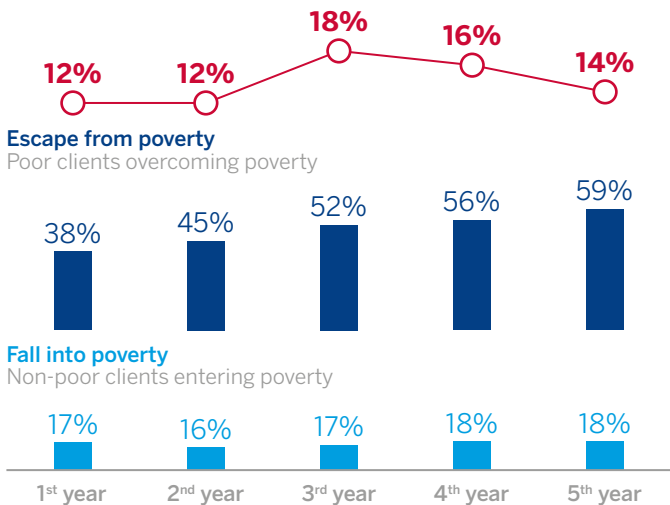
(14) For the sample of clients served during 2018–classified according to their situation when they took out their first loan– net income per capita at each credit cycle is shown, relative to each country's poverty line (current in the year of the disbursement). Relative per capita net income has a value of 1 when it is the same as the poverty line figure.

(15) Renewing clients shown. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.

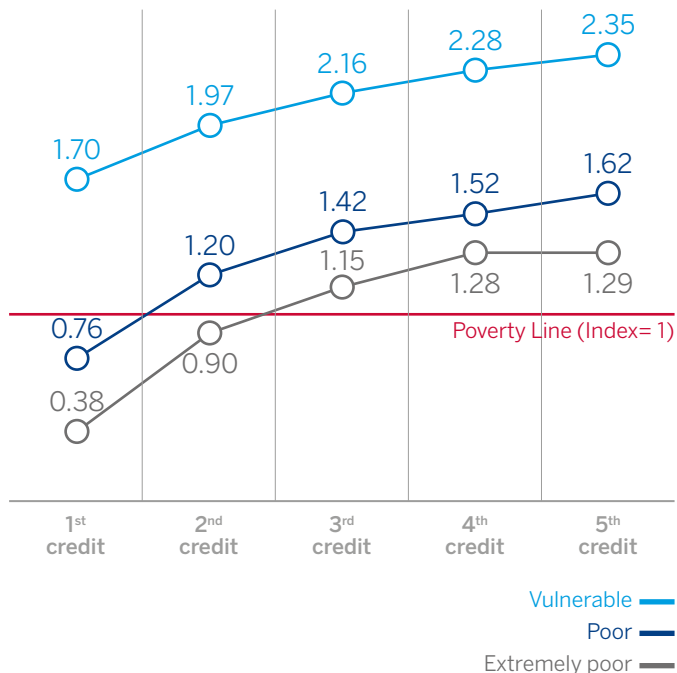
- Escape from poverty for each segment: Clients, by segment, in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.
- **(16)** Renewing clients shown.
- Fall into poverty, by segment: Proportion of clients in each segment not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.

13 VARIATION IN POVERTY SEGMENT

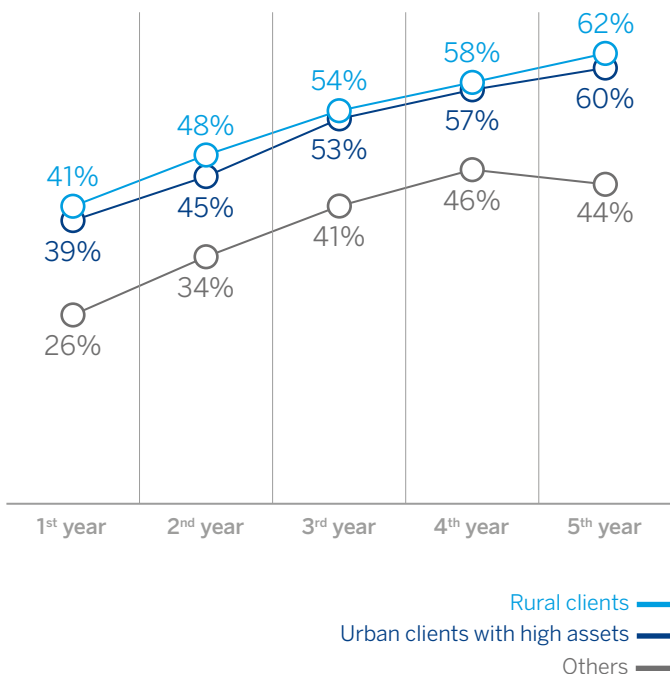
Net poverty reduction



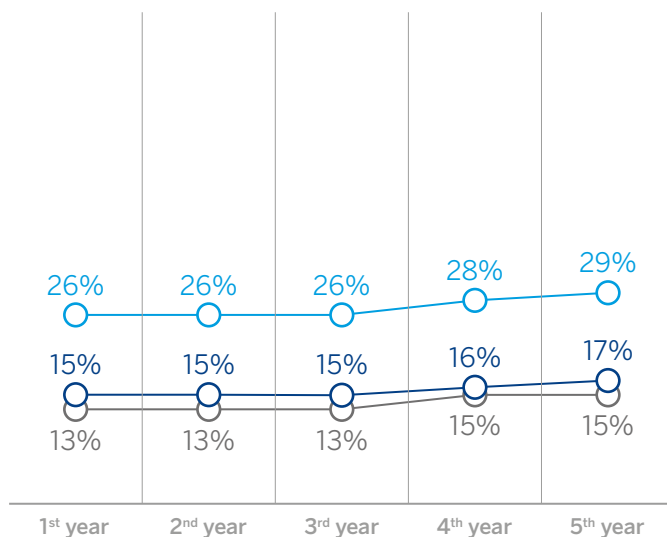
14 GROWTH IN INCOME
Income of segment over Poverty Line



15 ESCAPE FROM POVERTY BY SEGMENT
Poor clients at outset, overcoming poverty (%)



16 FALL INTO POVERTY BY SEGMENT
Non-poor clients at outset, falling into poverty (%)



2. Our clients' development

VULNERABILITY AND ASSET ACCUMULATION

Looking at our clients' long-term behavior (after 5 credits), we see how most of them overcome poverty (52%), although a proportion of them fall back in (30% of the total) at some point. Non-poor clients may also suffer unexpected financial mishaps or shocks which cause their net incomes to fall below the poverty line, although these are fewer (27%). The figures show that for 15% of clients this fall is temporary.

As we saw in the rates at which people enter and escape from poverty, the rural environment in Bancamía's portfolio is characterized by greater volatility of income; whether the client is poor on reaching the institution or not.

When faced with shocks or unexpected events, asset accumulation can be a differential factor, since these assets end up working as a savings buffer that can be made liquid (or are so already) if necessary. We note that those Bancamía clients who manage to overcome poverty and keep out of it are the ones who also manage to accumulate most assets (of poor clients rising above the poverty line, 63% accumulate assets, compared to 39% of poor clients who do not manage to cross this line).

We should also highlight how even those who do not overcome poverty, or who fall into it, achieve significant rates of asset accumulation (39% of those poor at the outset and 48% of those who fall into poverty). This reveals that assets are an important factor, but not the only one. Clients face other challenges such as the liquidity and productivity of these assets.

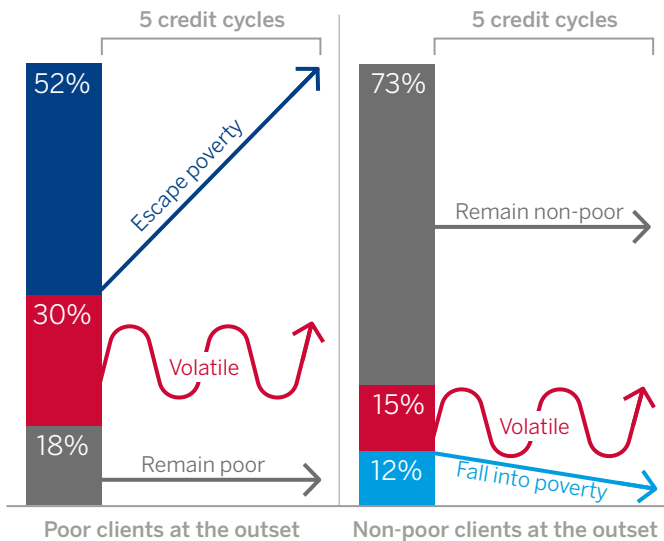
(17) (18) Sample of clients served between 2011 and 12.31.2018 who have had at least five disbursements. The number of times a client crosses the PL is analyzed. Volatile: Clients whose incomes fluctuate across the PL more than once.

- Escape poverty: Poor clients at the outset whose income surpasses the PL (and is not reported as falling back).
- Fall into poverty: Non-poor clients at the outset whose income falls below the PL (and is not reported as recovering).
- Remain poor (or non-poor): Clients who remain poor (or non-poor) throughout the five disbursement periods.

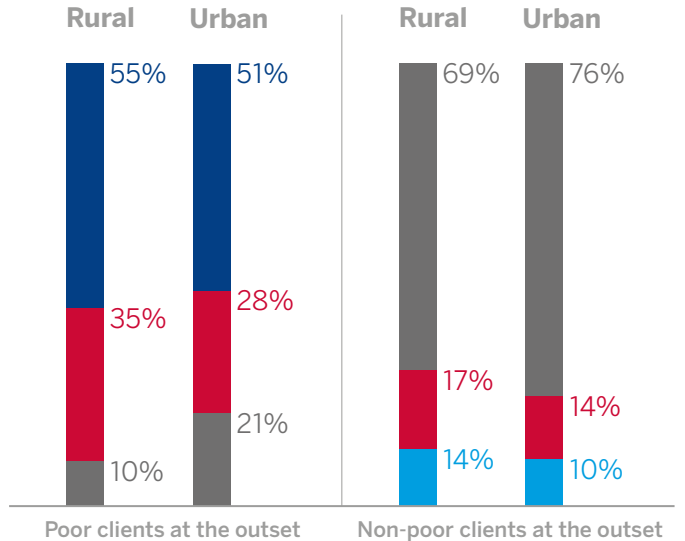
(19) (20) Sample of clients served from 2011 to 12.31.2018 who have had at least five disbursements. The agro sector is not included. Performance is analyzed by looking at the situation at the outset and comparing it to the outcome in two dimensions:

- Income performance by whether clients are still in poverty or not.
- Asset changes are analyzed according to whether the asset levels change, differentiating between the following categories:
 - Very low (between 0 and 20 multiples of the poverty line).
 - Low (between 20 and 60 multiples of the poverty line).
 - Medium (between 60 and 100 multiples of the poverty line).
 - High (more than 100 multiples of the poverty line).

17 INCOME VOLATILITY
 Clients with 5 credits, classified by n° times they fall below/overcome PL

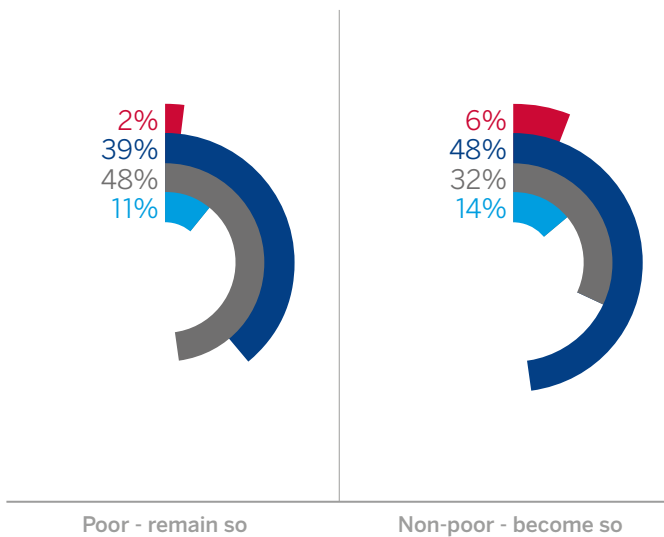


18 INCOME VOLATILITY - RURAL/URBAN
 Clients with 5 credits, classified by n° times they fall below/overcome PL

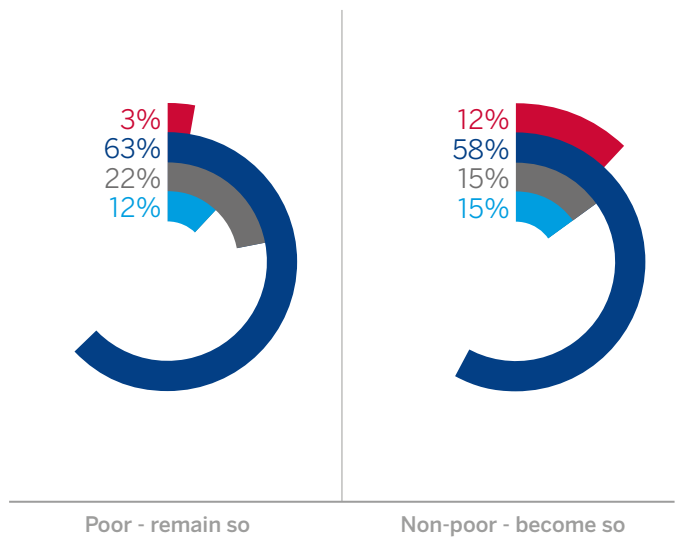


Escape poverty — Volatile —
 Fall into poverty — Remainin poor/non-poor —

19 ASSET ACCUMULATION, POOR FINAL
 Clients with 5 credits, classified by asset growth



20 ASSET ACCUMULATION, NON-POOR FINAL
 Clients with 5 credits, classified by asset growth



Stay high — Accumulate — Stay low or medium — Fall or stay very low —

2. Our clients' development

INDIRECT IMPACT

Impacts on businesses are subsequently mirrored in the improved standard of living of entrepreneurs' families. These improvements tend to be important ones, and so take several years to materialize.

One clear indirect impact, which has a knock-on effect on the community, is job creation. On average, 81% of clients have self-employed businesses, and 19% of them employ at least one more worker.

The level of poverty is directly correlated with job creation. Smaller businesses are unlikely to be able to take on more workers but in nearly 30% of cases, businesses run by clients classified as "others" generate employment. As such this is a way in which the communities where entrepreneurs develop their activity improve.

The challenge of microfinance lies in not only driving the business, but in also improving the quality of life of those families it serves. Thus, we note that 5.5% of clients served who have stayed with the institution for a year have made home improvements, compared to 6.5% of those who have banked with us for two years. These improvements might be having a larger number of bedrooms or upgrades to construction materials.

Clients also make progress in educational terms: after four years, 5% of clients improve their level of education.

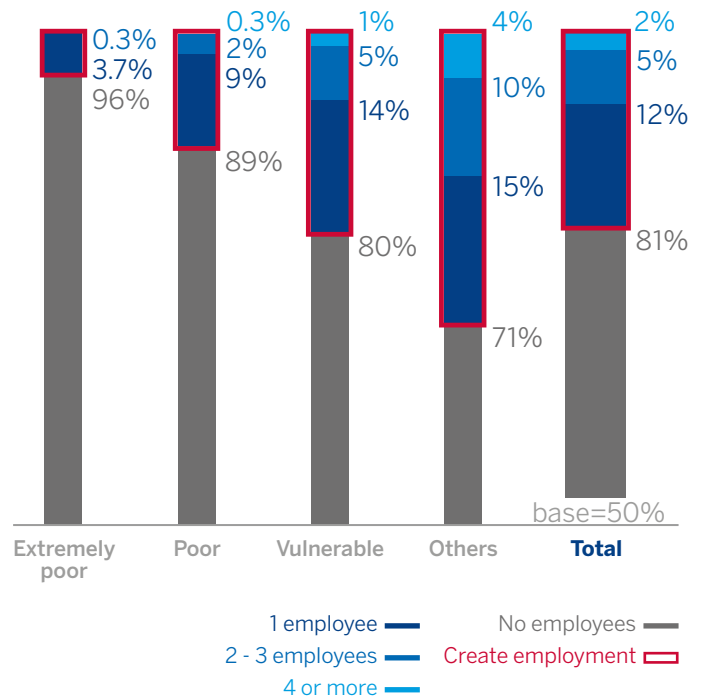
To improve families' welfare, it is essential to maintain long-term relationships with clients which enable them to consolidate their wealth and access a better standard of living.

(21) Number of employees in current clients' business at 12.31.2018.

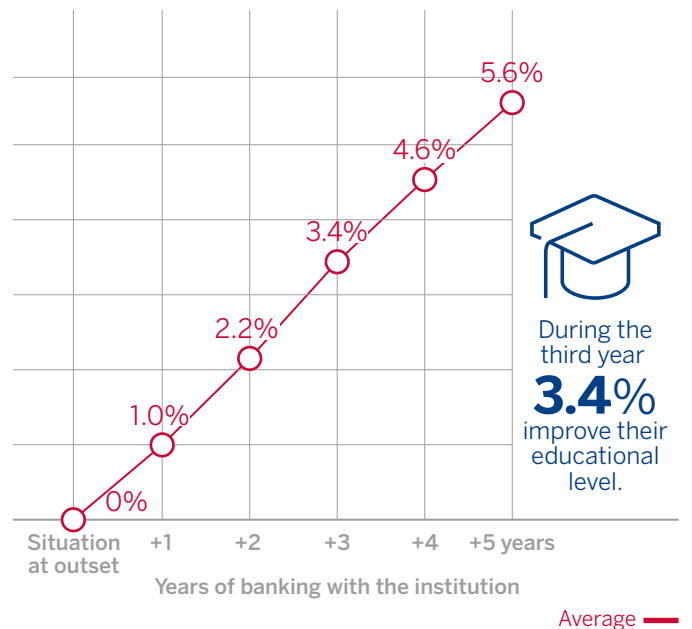
(22) Proportion of clients current at 12.31.2018 of each cohort, who have improved their housing situation (bought their own home). Average for 2013–2018 cohorts (year of entry).

(23) Proportion of clients current at 12.31.2018 who have raised their education level. Average for 2013–2018 cohorts (year of entry).

21 EMPLOYEE BREAKDOWN
Clients according to n° of employees in their business

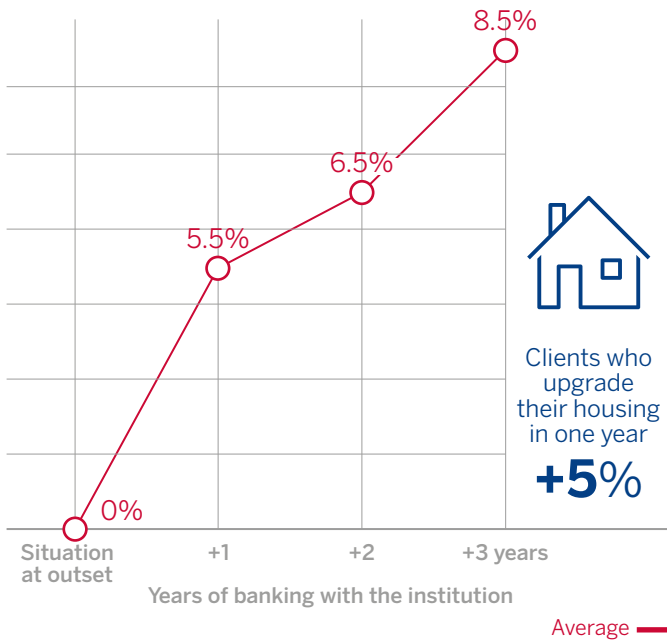


23 IMPROVEMENT IN EDUCATION LEVEL
Credit clients who improve, by years spent banking with the institution (%)



22 HOUSING UPGRADE

Credit clients who improve, by years spent banking with the institution (%)



Entrepreneurs work hard to make their businesses grow in order to make improvements to their housing and to their communities.

17% of the population suffers multidimensional poverty, with informal employment and low educational levels being the most common shortcomings⁴.

In rural areas multidimensional poverty affects 36.6% of the population.

3. Relationships with clients

RELATIONSHIP WITH OUR CREDIT CLIENTS

Of the most frequent factors determining whether someone is unbanked, 67% of adults said that the main motive was insufficient funds, while 21% claimed that the financial institutions were too far away.

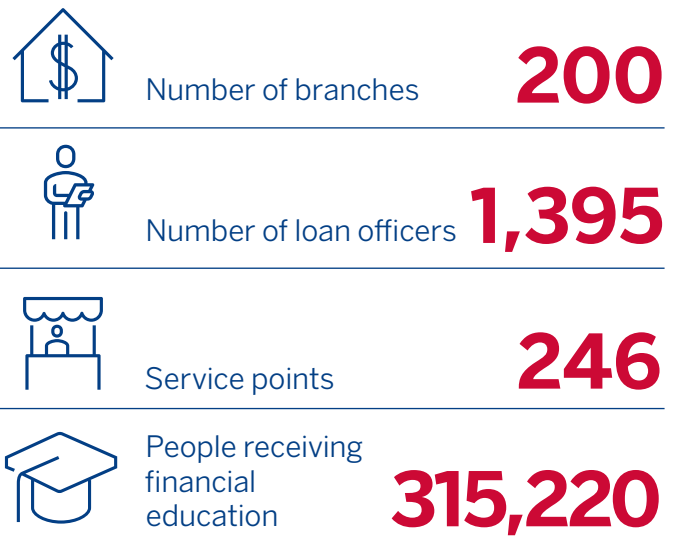
Having a branch office that is nearby and can cover their needs is a basic component of the bank’s strategy of staying close to its clients. In 2018, 125 service points were opened, and over 628,067 transactions were completed using digital channels. In addition, over 1,395 loan officers helped clients on a one-to-one basis. These are the people who help to define clients’ education needs, and 315 thousand people have been trained up over the course of 2018 on 5 different programs. A financial education that enables them to handle their personal microfinance affairs is essential in helping clients over the long term.

17% of the Colombian population has at least one bank loan, 8.6% has one with a cooperative, and 0.2% with an NGO (*El Estudio de Demanda BDO* 2017). The main sources of informal credit are: payday lenders (4%), family and friends (3.8%), a moneylender (2%) and the pawnshop (0.8%). The reality is that men have easier access to formal credit (30.2%) than women (21.4%). A higher proportion of women (63.5%) than men (58.1%) have no access to credit at all.

Supporting low-income households (particularly the women in them) to come into the formal financial system and to build up long-term relationships is critical. Greater knowledge of clients enables them to access bigger loans and invest in assets that are more helpful to their companies. 50% of clients apply for a second credit, and nearly half of them (48%) remain linked to the institution through a loan of some kind for two years.

The average credit for new clients is USD 915, which is twice the annual spend on the basic food basket (urban extreme poverty level) in Colombia. The sum being disbursed grows with each credit, as the microenterprise grows, and its credit history makes this possible. Furthermore, over 34% take out a voluntary insurance policy, particularly in the agricultural sector.

Bancamía is well aware of the importance of financial inclusion for Colombia, and that this should not only offer a good range of products, but also close and personal customer care.



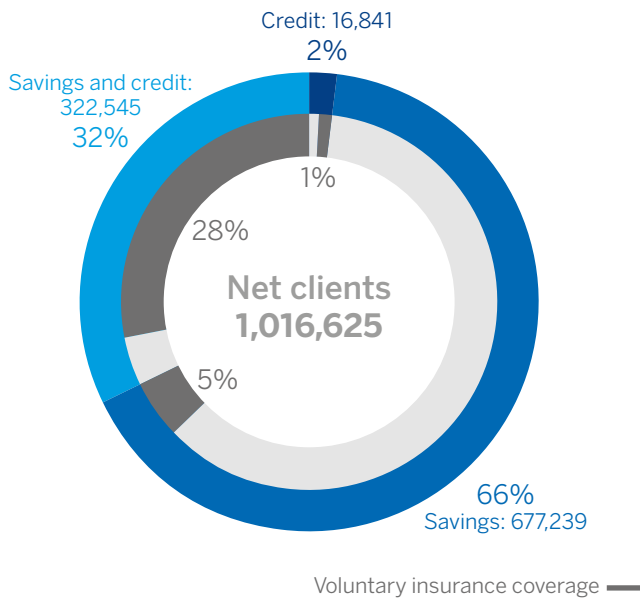
(24) Clients current at 12.31.2018.

(25) New clients. Average disbursement, calculated as the average first disbursement for new clients each year. Weight of the installment calculated as each client’s average ratio (loan installment payment over sales).

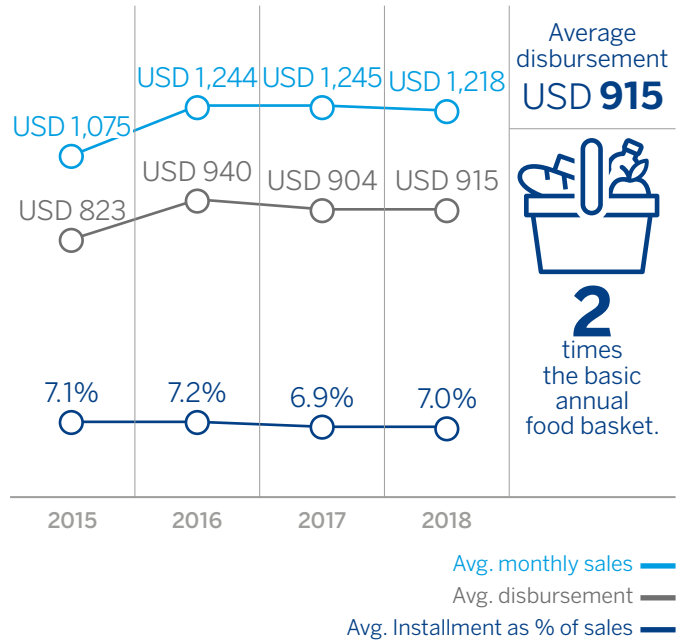
(26) Clients in each cohort on date of each data collection. Value at the outset is the average initial value of the 2013–2018 cohorts, to which the average growth of the disbursement by the 2013–2018 cohorts (year of entry) is applied.

(27) Retention: Percentage of clients in each cohort (year of entry) that remain current at the end of each year and up to 12.31.2018. Averages of the 2013–2018 cohorts. Recurrence: Clients served since 2011. Percentage of clients who, after their first loan, take out another. The distance between cycles is the gap (in days) between disbursements of one credit and those for the next (the first one need not necessarily have been cancelled).

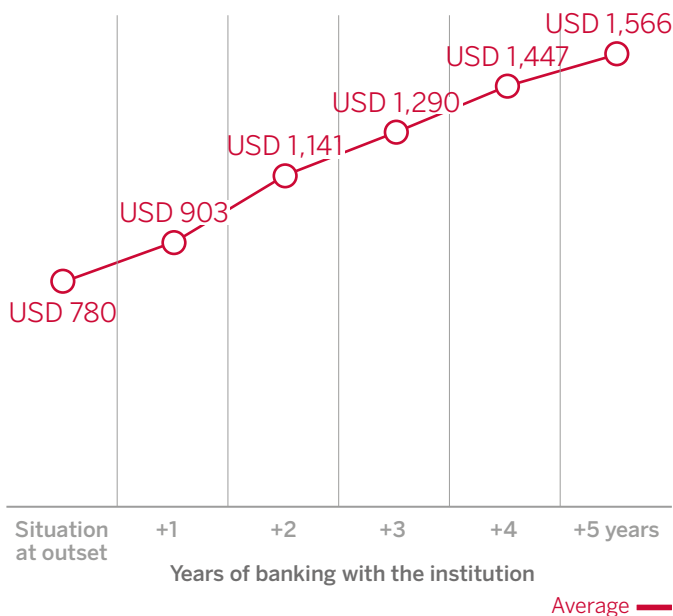
24 CLIENTS BY PRODUCT TYPE
Total current clients



25 SALES, DISBURSEMENT AND WEIGHT IN INSTALLMENT
New clients by year of entry



26 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship



27 RETENTION & RECURRENCE
Of credit clients

Clients with a credit relationship after x years

	Situation at outset	+1	+2	+3	+4	+5 years
Retention	100%	78%	48%	32%	24%	19%

Clients with a 2nd, 3rd... credit

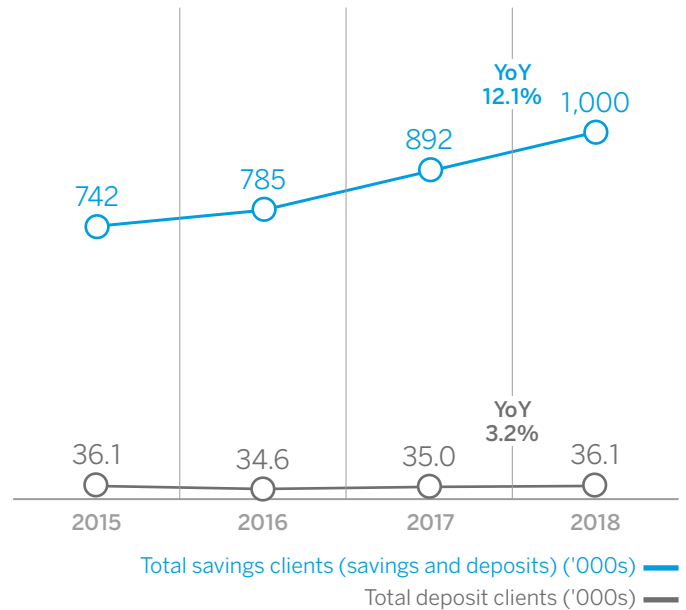
	1 st credit	2 nd credit	3 rd credit	4 th credit	5 th credit	6 th credit
Recurrence	100%	50%	28%	17%	10%	7%
Distance (days)	-	471	454	384	333	297

3. Relationships with clients

RELATIONSHIP WITH OUR SAVINGS CLIENTS

The very limited income generated by Latin American households is a serious drag on their access to appropriate economic instruments. Combined with low levels of financial education, this leads them to adopt informal financial tools. On average, only 16% of adults in Latin American countries keep their savings in banking institutions, compared to 50% of people in advanced economies (IDB, 2016). In Colombia, 39% of adults made some kind of saving in the last year, but only 9% did so in a financial institution. 27% of the lowest-income adults managed to save some money last year (see the Macroeconomic environment section).

28 SAVINGS CLIENTS, CHANGE
Clients with any savings product on each data collection date



30 SAVINGS CLIENTS, TYPES
Core clients (saving & deposits) vs. non-core clients

(28) Clients with savings products (savings and deposits accounts) on each data collection date.

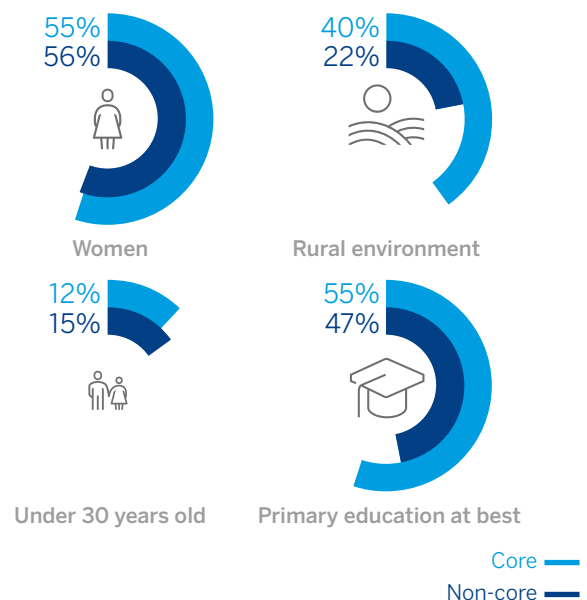
(29) Clients with any kind of savings current at 12.31.2018 (excluding institutional clients and employees).

- Core clients-savings: Clients with a programmed savings product.
- Core clients-deposits: Clients with non-sight products (deposits) who have had a credit with the institution at some point.
- Transactional accounts: Clients with a current savings account.
- Non-core savings: non-core term deposit clients, remittances, etc.

(30) Clients classified as core (core savings clients and core deposit clients) compared with non-core clients. All clients current as of 12.31.2018.

(31) Clients with programmed savings product, comparing balances at t-12 and t. The average saving by client seniority is shown.

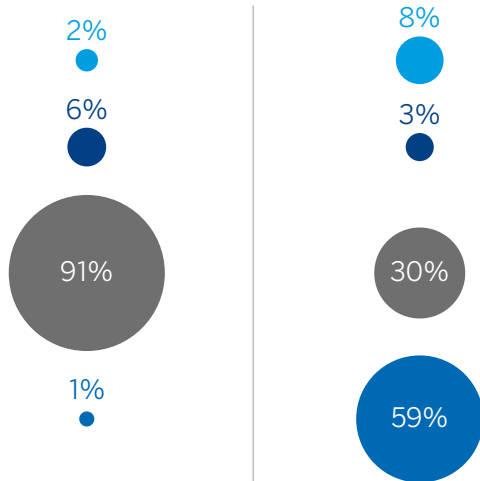
(32) Clients with financial certificates (deposits) current at 12.31.2018 who have had a credit with the institution at some point. Median saving by seniority. The median accumulated saving is shown.



29

SAVINGS CLIENTS BY PRODUCTS

Clients and balances by core/non-core segments (%)



Clients

Balance

- Core clients-deposits
- Core clients-savings
- Transactional savings account
- Non-core savings

TARGET CLIENT TYPE

PURPOSE

CORE

Clients with products designed to capture micro-entrepreneurs' savings or savings contracted by our credit clients



What are the micro-entrepreneurs to whom we sell savings products like? How much do they save?

TRANSACTIONAL

Clients with a savings account where the loan, interest payment, etc. is paid in. They may have other products (credit or savings) or not



Do they really use their transactional accounts

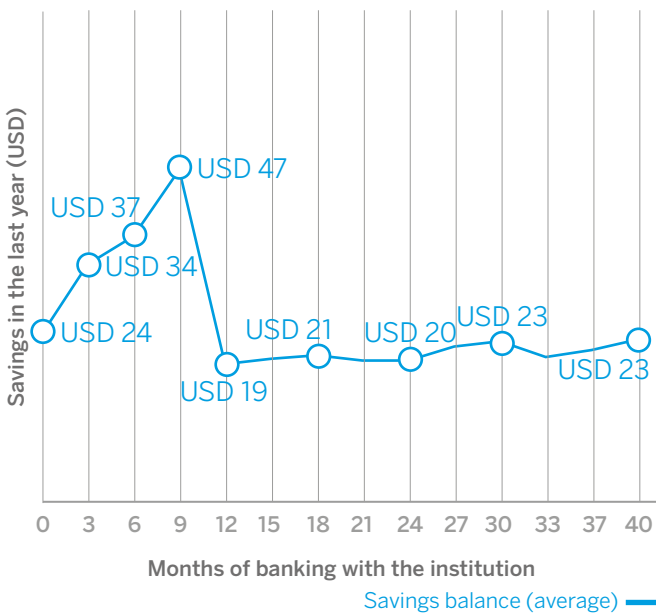
NON-CORE

Remaining clients, source of funding

31

HOW MUCH THEY SAVE - SAVINGS

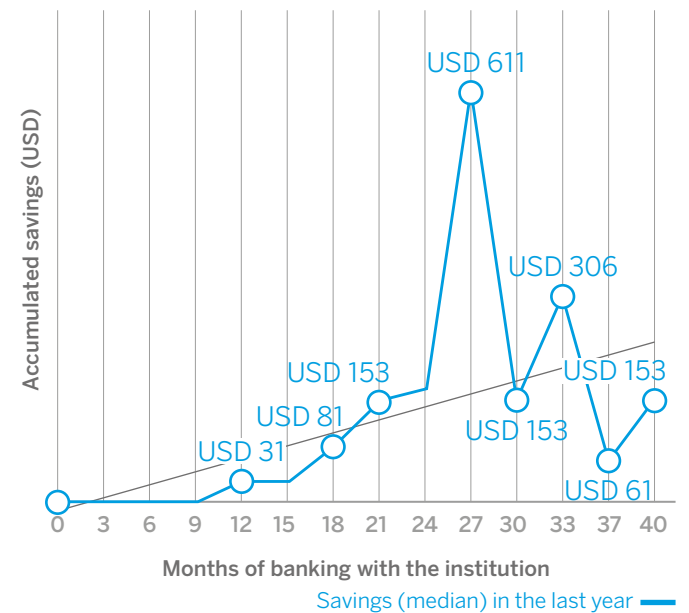
Core savings clients



32

HOW MUCH THEY SAVE - DEPOSITS

Core deposit clients



3. Relationships with clients

Encouraging the habit of saving among low-income groups is of fundamental importance if they are to take on risk more successfully and manage their assets more effectively. In Bancamía, nearly a million clients have savings, representing a 12% growth in 2018.

Using these products is another challenge facing the bank. It is thus backing the strategy of getting to know our clients better in order to differentiate the “savers” from the “transactional” clients and adapting the bank’s product offering to their respective needs.

The total number of savings clients has risen by 12% because Bancamía is launching new savings products to support financial health.

The most popular product is the savings or transactional account. 91% of clients take out this product, which accounts for 30% of the balance, that is, a sight savings account which they use to manage their finances. Many clients have a formal savings account, which represents a major step forward for the Colombian financial system, although the average use that is made of it over time (3 movements or more in the previous 3 months) is not very high. 6% of clients use their transactional account actively.

When we drill down into the products that are adapted to our core clients, we see that they account for 8% of liability clients (excluding institutions and employees), as well as 11% of the balance. These are clients who traditionally have not had any savings, such as, for example, people with low educational levels (55% of our clients have primary education at best) or come from the rural environment (40%), for whom we have designed specific savings products.

On average, our core clients manage to save around USD 35 the first year – using programmed savings products, although after these first 12 months the balance on these products goes down. Core clients who have time deposit accounts register balances that grow the longer they stay with the bank.

The subgroup of clients with the highest balances is the group that has the highest transaction figures, ie. there is a positive correlation between the savings level and the transaction figures. In Bancamía these clients are mainly those who only have savings products (they have not applied for credits with the institution).

Bancamía expects to continue to extend this key offering to the clients it serves.

Financial health: the first step to making a bigger impact

Financial health is a key element in our entrepreneurs' development. Being in good financial health means managing money so that income covers expenses and investments, to meet unexpected eventualities and for use at future stages of their lives. To measure it, Bancamía has joined forces with experts in the sector.

Supported by the Bill & Melinda Gates Foundation and the Center for Financial Services Innovation (CFSI), Innovations for Poverty Action (IPA) has developed a standardized set of metrics to measure financial health that can be applied across a variety of contexts. The survey has been conducted in more than 10 countries and was published in April 2019.

Bancamía has pioneered the implementation of this new methodology:

- **578 clients** interviewed in the Bogotá metropolitan region.
- **40 questions** about financial health

A new dimension that enables us to get to know our clients better and their financial management of their households.



99%

of those surveyed reply that they trust microfinance institutions the most when applying for a loan, followed by banks.



GOOD FINANCIAL MANAGEMENT GENERATES IMPACT



The survey helps us to continue designing effective tools that are adapted to the needs of our entrepreneurs.

PLANNED FINANCIAL MANAGEMENT OF THE HOUSEHOLD IS IN PLACE

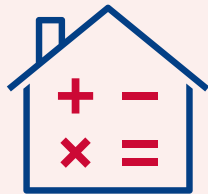
They have their finances under control

70%

reply that they do not behave impulsively.

75%

say that they plan their payments in the short term and slightly more than half acknowledge doing annual planning.



They know when to apply for a loan and for how much

3 out of 4

say that they take sound decisions about the amount of the loan and the right moment to apply for one.



They fulfil their commitments

4 of every 5

say that they make their installment payments on time.



THE LIKELIHOOD OF SUFFERING POVERTY UNDERMINES PLANS FOR THE FUTURE

They have unstable and infrequent incomes

50%

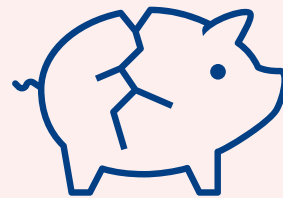
say they don't have stable monthly incomes.

44%

don't receive incomes from their businesses every day.

46%

don't have a regular monthly wage coming into the household.



Economic vulnerability, aligned with criteria for poverty from the national survey of households as defined by the Poverty Probability Index (PPI).

MICROFINANCE IS AN OPPORTUNITY TO SMOOTH SHOCKS

40%

say that they ringfence part of their income as savings for the future, but only 30% say they have done so in the last year.



An appropriate management of their finances at the different stages of the lifecycle, together with suitable products, can help clients to smooth shocks over time.

They are interested in saving

2 out of 5

acknowledge that they have a savings goal for the next 12 months.



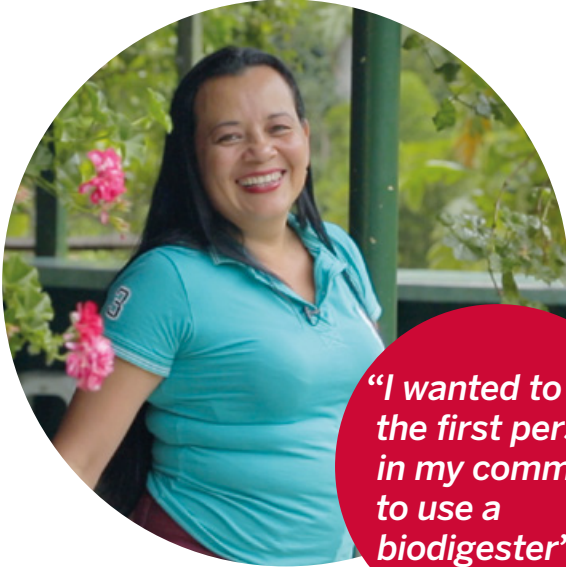
They welcome formal savings, but it remains a challenge

1 in every 6

have recourse to formal savings to deal with unexpected expenses.



The climate is changing, we are adapting



“I wanted to be the first person in my community to use a biodigester”

Sandra Mendoza
Bancamía client

Sandra lives in a rural area with little access to infrastructure, but she wouldn't change it for the city. She is the first Chairwoman of her municipality's coffee growers' committee. She grows coffee on her four hectares and breeds pigs as her second source of revenue.

Thanks to MEbA she was able to install a biodigester which turns manure and other organic matter into biogas. This meant that Sandra could replace wood with compost, a solution that is more sustainable, cheaper and healthier.

“It is organic and much healthier, as well as more environmentally friendly, than using wood”.

She was a pioneer in using this technology in her community and now wants to encourage her neighbors to try it. She is convinced that both she and her community will succeed in improving their standard of living and in getting ahead.

Sustainable growth is a basic tenet for development, which is why Bancamía is working to create new products for clients and their communities that generate positive outcomes which respect the use of natural resources.

The Microfinance for Ecosystem-based Adaptation

(MEbA) program provides vulnerable population groups in rural and peri-urban areas with microfinance products and services that enable them to invest in measures to adapt to climate change, increasing the resilience of their production units and diversifying their revenue streams.

In 2017, a project run jointly with the UN Environment Program and Colombia's ICAM College (Cundinamarca Agribusiness & Environmental Sciences Institute) set up a demo farm, where several MEbA climate change adaptation measures have been rolled out. The farm is a training center where producers, clients and advisors can learn how different measures work and the practicalities of implementing them.

Some of these measures are:

- Organic composting
- Conservation agriculture
- Beekeeping
- Biodigesters
- Solar dehydrators
- Family-run orchards
- Greenhouses
- Worm composting

This program has been piloted in 4 rural areas: Chaparral, Planeta Rica, Ubaté and Pamplona. The key objectives are: to support small agricultural producers affected by climate change; to create awareness among the target population of the potential risks of climate change for their businesses; and to provide technical assistance and follow-up throughout the loan's lifecycle.

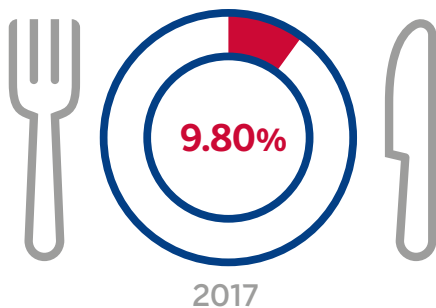
This product line contributes to meeting the targets of SDG 1 (Poverty reduction), SDG 2 (Zero Hunger) and SDG 13 (Sustainable Development), helping to eradicate hunger by creating sustainable and inclusive agri-food systems. According to the FAO, “together with conflicts, climate variability and extreme conditions are two of the key factors in the increase of hunger in the world and are some of the main causes of severe food crises.”



FOOD INSECURITY IN LATIN AMERICA

FAO, Latin America and Caribbean. Population (%)

Sustainable agriculture is an essential part of ensuring the nation's food security.



Severe food insecurity (complete lack of food for one day or more) increased in 2017 in Latin America.

MICROFINANCE FOR ECOSYSTEM-BASED ADAPTATION (MEbA)

475 clients served



MEbA client: Average disbursement USD 831

Key product benefits:

- Reduces problems of food availability
- Increases clients' resilience to extreme climates
- Mitigates the consequences of climate change on their businesses
- Protects the planet, conserving ecosystems

LOAN OFFICERS

Assessment of the client's situation and proposal with the client's best options.

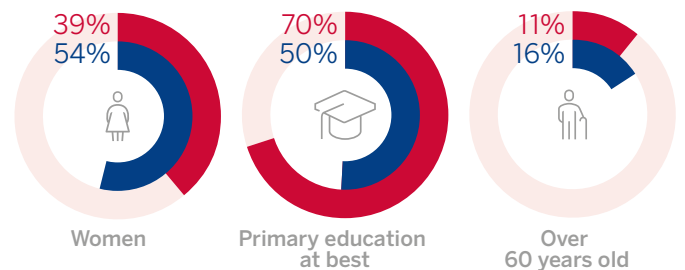


- Best adapted to climate change
- Greater resilience
- Revenue diversification
- Highest environmental productivity

PROFILE OF CLIENTS SERVED

1,710 people

Families served are large (3.6 members on average), so the impact is greater.



MEbA clients — Total Bancamía clients —

Empropaz: Productive enterprises for peace

empropaz

 Emprendimientos  Productivos  para la Paz

Productive Enterprises for Peace

BancaMía
Facilitamos su progreso

Fundación
BBVA MicroFinanzas



USAID
DEL PUEBLO DE LOS ESTADOS
UNIDOS DE AMÉRICA

In partnership with:

DE MIS MANOS
Cooperación Mundial de la Mujer Medellín

CMF
CORPORACIÓN
MUNDIAL DE LA MUJER
COLOMBIA

A REALITY

In Colombia, around 14 million people live in rural areas, with poverty and extreme poverty rates of 36% and 15.4%, respectively, and a Gini inequality ratio of 0.508, one of the highest in the world.

Factors such as economic vulnerability, lack of access to land, the informal economy, insecurity and the absence of productive economic opportunities have affected living conditions, raising the rural poverty indicators and unleashing the displacement of a high number of conflict victims and youth migration towards the cities.

A PROGRAM CREATED TO MAKE A CONTRIBUTION

EMPROPAZ implements an innovative and self-sustaining rural inclusion model that contributes to the social, economic and environmental development of microentrepreneurs in 58 municipalities, located in 9 administrative regions around the country. The intervention zones are aligned with the priority areas defined by the United States Agency for International Development (USAID) in Colombia, as part of its strategy to support Colombia in its efforts to consolidate sustainable and long-lasting peace in the country.

EMPROPAZ offers three services to microentrepreneurs: financial inclusion, management for entrepreneurship with a seed credit fund and entrepreneurial reinforcement.

The origin of this partnership sprang from an invitation by USAID/Colombia to private-sector companies to generate programs centered on security, rural development and post-conflict issues.

EMPROPАЗ WANTS:

- To make access to financial products and services easier for the excluded rural population.
- To generate entrepreneurial capabilities through training and mentoring of women entrepreneurs so that they set up efficient microenterprises, minimizing the risks inherent in starting a new business, and increasing their possibilities of success.
- To work on accelerating the growth of microenterprises so that they can make a qualitative leap in their businesses.

IMPLEMENTERS

Bancamía, in partnership with USAID/Colombia, and together with Corporación Mundial de la Mujer Colombia and Corporación Mundial de la Mujer Medellín, in a joint commitment with the BBVA Microfinance Foundation (BBVAMF), majority shareholder of the Colombian bank, is in charge of working for the productive development of the population being intervened.

RESOURCES AND TIME

Funds approved: USD 7 million, leveraging USD 20.3 million for working together over 5 years in the territories identified.

ECONOMIC EMPOWERMENT OF WOMEN

An important slice of EMPROPАЗ's activity will be focused on strengthening the capabilities, capacities and initiatives of women, especially those living in rural areas, because they experience most inequality and poverty, while having had to cope with the armed conflict, but we are convinced that it is the women who guarantee food security in their communities, contribute to environmental protection and strengthen their economies.

GOALS

Micro business people and entrepreneurs served by the program	112,050
Management for entrepreneurship, with impact on	1,274 new rural microenterprises
Seed fund financing for up to	764 entrepreneurs starting up their microenterprises
Entrepreneurial strengthening for	6,251 rural microentrepreneurs
Women microentrepreneurs served	56,000
Microentrepreneurs with financing for climate change adaptation	300

The program is designed to support greater financial inclusion for rural microentrepreneurs, with more integrated and appropriate inclusion to strengthen and accelerate socioeconomic development. This will contribute to the construction of a more stable and long-lasting peace.

NOTE: The Empropaz report has been possible thanks to the generous support of the people of the United States through the United States Agency for International Development (USAID). The contents are the responsibility of Bancamía and do not necessarily reflect the opinions of USAID or of the government of the United States.

10 years moving forward together

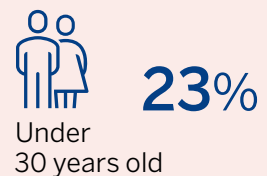
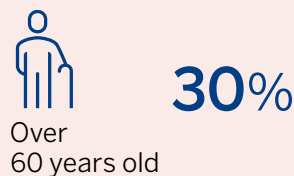
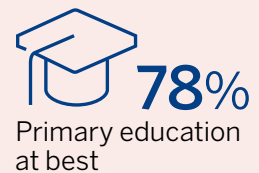
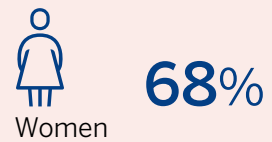
When we began work 10 years ago, a group of clients put their trust in us, clients who have demonstrated their fidelity and perseverance. These figures reflect just some of their entrepreneurial hard work.

Our continuing commitment to vulnerable clients

11% of our current clients have been with us for 10 years. They are mainly to be found in the regions of Cundinamarca (34%) and Antioquia (29%), in the urban areas of Bogotá and Medellín, respectively.



Profile of clients who have been with us for 10 years



Improving their financial health

How we serve them

Credit & growth

x1.4

Their disbursement is typically 1.4 times the entity's average.

They save twice as much

x2

Their average savings are twice the size of other credit and savings clients.

Wider range of products

83%

83% have at least one credit and one savings product with us, and a voluntary insurance policy.

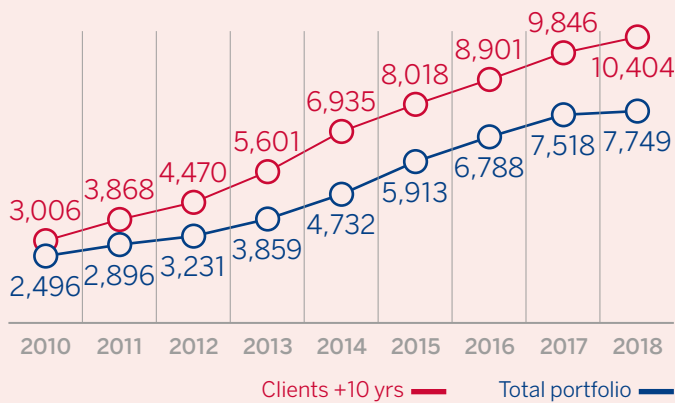
We see a sustained level of growth in their businesses

In the first few years, entrepreneurs' businesses grow at higher rates. Then growth slows. This suggests an initial growth phase, followed by a second one of consolidating and stabilizing the business.

10 YEARS

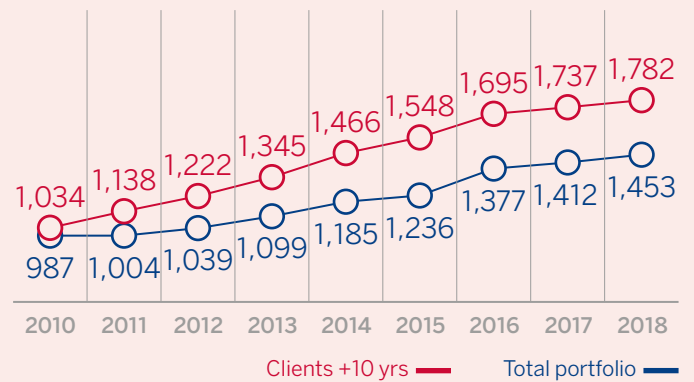
BUSINESS ASSETS (USD)*

Comparison between all clients vs. clients for +10 yrs



MONTHLY SALES (USD)*

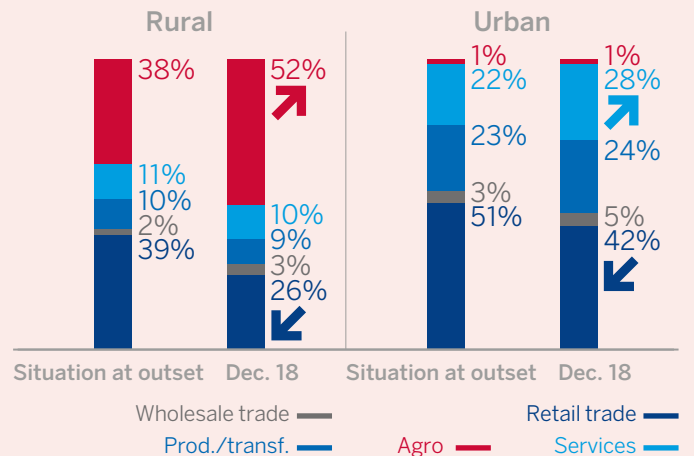
Comparison between all clients vs. clients for +10 yrs



More specialist businesses

Over 10 years, one in every three clients has changed their activity segment (33% in rural areas and 28% in urban ones). Entrepreneurs begin with more accessible and flexible businesses, such as retail trade. But as they grow, they invest and try out bigger, more specialist businesses.

CHANGES IN ACTIVITY SECTORS**



have changed their activity sector.

* Data on clients who have received at least one disbursement in the year.

** All data on clients current at 12.31.2018.

Macroeconomic environment

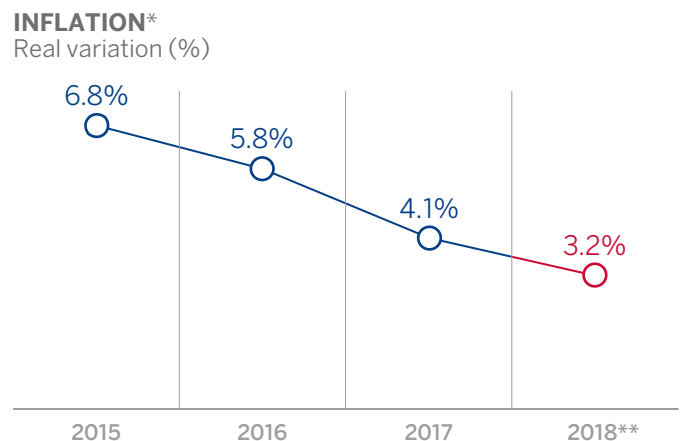
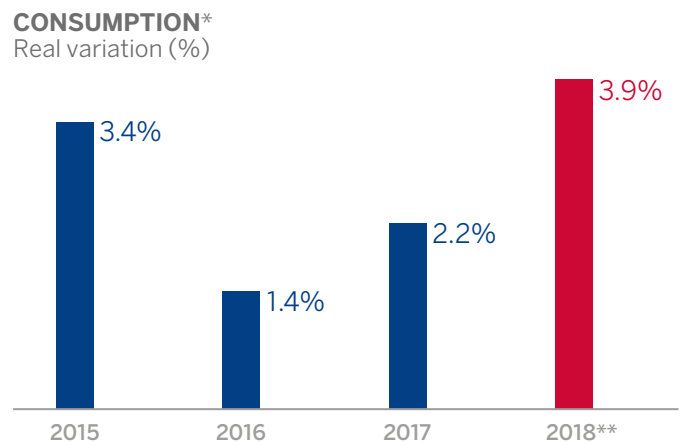
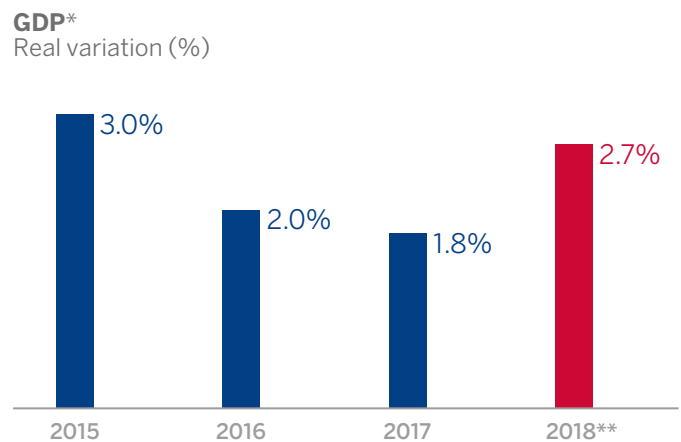
ECONOMY¹

The Colombian economy grew by 2.7% over the year, recovering after two sluggish years (with growth rates of 2% and 1.8% in 2016 and 2017 respectively). The most dynamic sectors, in line with their GDP weighting, were: trade and transport & communications, both with growth rates of 3.1%, following by electricity generation and water, at 2.7%. The public sector and defense, which includes obligatory social security affiliation programs, education, human healthcare and social services, was one of the most dynamic sectors, surging ahead by 4.1%.

The construction sector posted a strong recovery in the second half of the year after seven quarters of slower activity. The accumulated reduction in the first half was 4.7%, as a result of delays due to legal issues around major infrastructure projects and the lack of momentum in housing demand. Nevertheless, the sector grew by 5.4% in the second half, closing the year with a slight rise of 0.3%, but driving job creation in the second half of the year.

Public-sector and domestic consumption were the economic drivers, bouncing up by 3.9%. However, investment reported slower performance, up by 3.5%, most of it in the second half of the year. Exports, meanwhile, after two years of falls, recovered, expanding by 1.2%.

Inflation continued its moderate course, slipping from 4.1% in 2017, to 3.2% in 2018, converging with the long-term inflation target of 3%, and remaining within the target range set. The sectors with the most movement in terms of prices were education, health, transport and housing, which experienced hikes of over 4% and contributed 69% of the total variation in prices in 2018. Food prices helped to keep annual inflation under control, growing by only 2.2%, making up 28% of Colombian households' basket of goods and services.



¹ All data from the central bank of Colombia. Estimates to end of 2018 by BBVAMF Research.

* Central Bank, Colombia.
** BBVAMF Research estimate.

Inflation's convergence with the target range allowed the monetary authority to adopt a slightly looser stance in 2018, with two reductions in the monetary policy rate of 25 basis points each, leaving it at 4.25% from April onwards. This translated into a reduction in the interest rates and in an improvement in households' spending power.

EMPLOYMENT, POVERTY AND WELFARE²

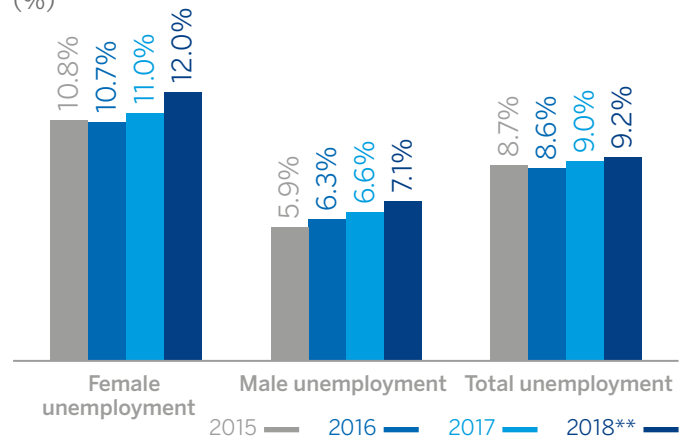
The economy's stronger performance notwithstanding, in 2018 the unemployment rate came in at 9.2% nationally, a 0.2p.p. increase. The economically active population edged down by 0.1p.p., from 64.7% to 64.6% year-on-year, while the occupancy rate slipped 0.3p.p., from 58.9% to 58.6%.

Looking at the figures by gender, there was a 163,000 increase in unemployed women, compared to an increase of only 21,000 in the case of men. Six out of every ten people who have gone into the inactive population bracket are women, most of them of working age (25–54 years old), whereas almost all the men are older than 55, with the 25–54 age-group segment of inactive men actually falling.

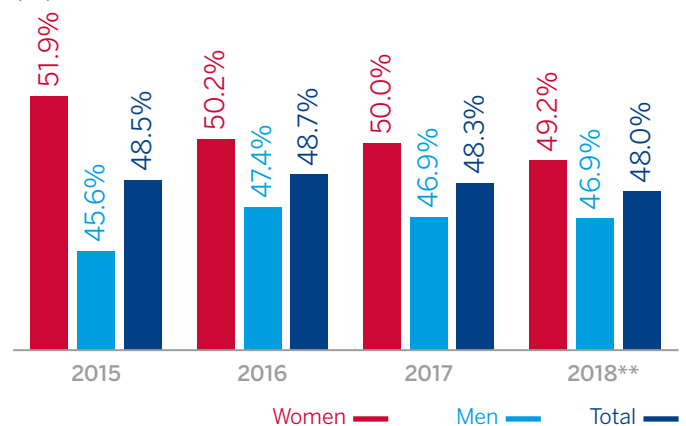
Men's unemployment rate posted at 7.1%, whereas that of women is 68% higher, at 12%, despite women's lower share of the economically active population.

The branches of economic activity with the highest rates of the occupied active population were: trade, hotels and catering, social and personal groups services, agriculture, stockbreeding, hunting, forestry and fishing. These three sectors accounted for 63.0% of the economically active population.

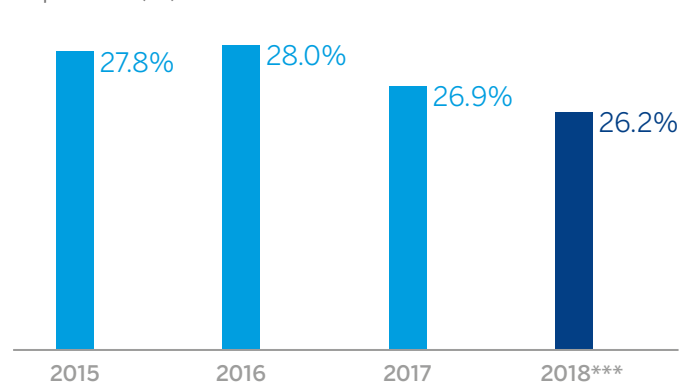
LABOR MARKET*
(%)



INFORMAL SECTOR*
(%)



MONETARY POVERTY*
Population (%)



² DANE data available as of October 2018. BBVAMF Research estimates.

* Central bank, Colombia.
** Moving third quarter average.
*** BBVAMF Research estimate.

Macroeconomic environment

Unemployment rose in 17 of the country's 23 largest cities in 2018. The city with the highest unemployment rate was Quibdó (17.9%), followed by Cúcuta MA (metropolitan area), at 15.9%, Ibagué with 15% and Riohacha with 14.6%. Unemployment in Bogotá DC posted at 9.6%, a rise of 0.3p.p. in the last year. The city with the lowest unemployment was Pasto, at 8.1%, followed by Bucaramanga MA with 8.3%, Pereira MA with 8.6% and Barranquilla MA with 8.8%.

Objective under-employment covers those workers who have made an effort to bring their aspirations to fruition and are prepared to make a change to increase their incomes, the number of hours they work, or to do a job that better matches their personal abilities. The national rate of objective under-employment came in at 10.3%. The cities with the highest rate of under-employment were: Riohacha (17.4%), Barranquilla MA (14.1%) and Cali MA (13.1%).

Meanwhile, the rate of subjective under-employment –which looks only at the desire to improve one's current working situation, as is the case with the previous category– stood at 23.2%. The cities with the highest rate of subjective under-employment were: Cali MA (30.7%), Pasto (30.5%) and Barranquilla MA (28.4%).

48% of people worked in the informal economy, broken down into 46.9% for men, and 49.2% for women.

In 2018 monetary poverty was 0.7p.p. lower than in 2017, at 26.2% of the population. Extreme poverty also fell by 0.5%, posting at 6.9% at the end of 2018. Over the same year, the poverty rate in municipal capital cities was 23.7%, whereas in populated and remote rural areas it was 34.8%.

In 2018 the national Gini ratio was 0.503, an improvement over 2017, when it posted at 0.508, so a modest reduction in household income inequality, but the country remains one of the most unequal in the region.

FINANCIAL INCLUSION

According to World Bank³ figures, in Colombia only 44.9% of adults are banked and have their own account in a financial institution. There is a wide gender gap in financial inclusion: the ratio for men is 7p.p. higher than that for women, whose participation is 41.4%. That is, nearly 6 of every 10 adult women are excluded from the financial system.

The gap is even wider when we measure by income level. Of the poorest 40% of adults, 33.7% are financially included, whereas for the 60% with the highest incomes, 52.3% are banked. This gap resulting from income differences, at 18.7 percentage points, is one of the highest in the region.

Of the main determinants for being unbanked, 67.2% of adults claimed that the main reason was insufficient funds. 20.5% of adults gave their reason as the distance from financial institutions, while 59% said that financial services were "very expensive".

39% of adults saved some money in the previous year, but only 9% did so in a financial institution. 27% of the lowest-income adults managed to save in the previous twelvemonth.

41%, meanwhile, have taken out a loan, but only 14% have obtained it from a financial institution, whereas 20% were lent money by family members or friends. For lower-income adults, although 30% received some kind of loan, only 9% of this segment obtained it from financial institutions, whereas 17% obtained it from family members or friends.

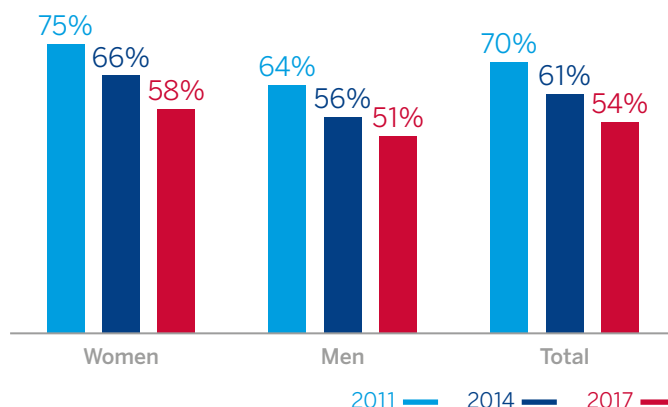
³ Global Findex 2017, World Bank.

According to local sources⁴, financial institutions had a physical presence in 833 (74.2%) of the country's 1,122 municipalities. However, these sources report that since 2015, all 1,122 municipalities have had at least one access point. In total, financial institutions have 532,138 access points, which are distributed as follows: 403,512 dataphones (75.8%), 105,104 banking agents (19.8%), 15,709 automatic teller machines (ATMs), (3.0%) and 7,813 branch offices (1.4%).

According to these sources, the country's financial inclusion penetration rose from 73.9% in 2014 to 80.1% in 2017. 75.6% of adults had at least one deposit product, while 44% had at least one credit product. As the location becomes more rural, financial inclusion falls; the gap between cities and remote rural municipalities is 32.5p.p. in financial inclusion terms. As to the gender composition of adults with some kind of financial product, the figures show that 50.7% are women and 49.1% are men, so there are no significant gender differences in terms of access to financial products.

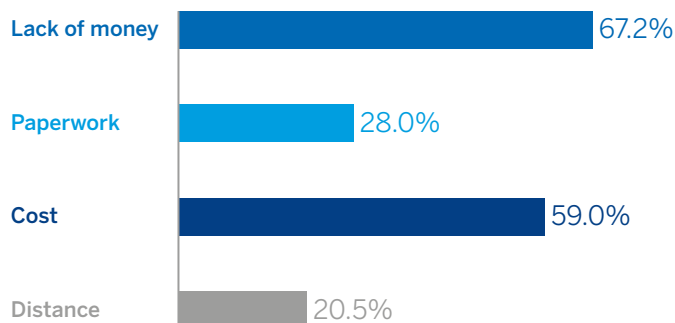
UNBANKED ADULTS*

Total over 15 years old (%)



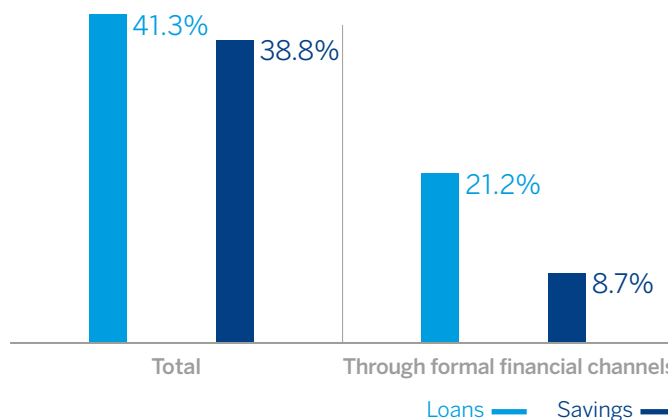
EXCLUSION FACTORS*

Excluded adults (%)



PRODUCTS IN DEMAND

Adults (%)



⁴Banca de las Oportunidades, Financial Authority and central bank, Colombia.

* Global Findex, World Bank.