

# SUSTAINABILITY REPORT

ECONOMIC, SOCIAL AND  
ENVIRONMENTAL IMPACT OF  
BANCO DE LA REPÚBLICA

J U L Y

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# INTRODUCTION

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José Darío Uribe Escobar, Governor of Banco de la República.

In the course of the first years elapsed in the 21st century, a growing number of companies voluntarily began to produce sustainability reports. They usually present information on enterprise performance in the environmental, social, and corporate governance fields. In some cases, non-financial and financial information have been joined to consolidate integrated sustainability reports which constitute an efficient and effective vehicle for transparency and rendering of accounts.

Although most sustainability reports come from private companies, this concept makes sense in other organizations such as central banks, since they are complex institutions making an intensive use of human, natural, and financial resources. Their efforts invested in generating knowledge and in molding their employees' human capital - and in some cases of other individuals not belonging in the institution - as well as in the consumption of water, electric power, paper, metals and chemicals in its general functioning and in the production of banknotes and coins along with its institutional and governance arrangements, among others, have social, environmental and economic

impacts on the societies where they act, and the future generations. Therefore, there are valid reasons for central banks to report their managing of human, natural and financial resources with the same degree of transparency with which they explain their monetary policy.

As Governor of *Banco de la República*, the Central Bank of Colombia, I am very pleased to offer this first Sustainability Report. I am confident that from this and the next publications, both the Bank and the country will obtain great benefits. Internally, this exercise discloses clearly and accessibly among employees what is going on within the institution, enhancing their degree of commitment to society, to excellence, and to themselves, as well as allowing for better internal decision-making related to resource management. Externally, it broadens and refines the Bank's transparency efforts.

Likewise, this Report contributes to clear and effective rendering of accounts by presenting in a single document the multiple fronts of the activity of this entity in Colombia, either by legal mandate

or by means of practices it has been consolidating over its history of nearly 90 years.

Finally, the publication of this report may be used as a model or example for other state and private sector institutions to publish similar information, and even for other central banks.

Our purpose is to allow for this kind of reports to improve the understanding of how *Banco de la República* is organized in order to meet the challenges of sustainable growth, not only in its economic or financial conception, but also in its social and environmental dimension. This is not a one-time or short-term effort; it constitutes a first step in our search for that better and more advanced report we hope to offer to both the national and the international community. It will be the outcome of continuous work in favor of sustainability, effective communication, transparency and rendering of accounts. There is no need to say that readers' feedback will always be warmly welcomed.



José Darío Uribe Escobar  
Governor

# ABOUT THIS REPORT

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“Sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

Brundtland Commission Report  
(1987)

Sustainability reports offer explanations about the impact of an entity's acting in economic, social and environmental dimensions. These reports are being consolidated inasmuch as organizations have become more and more committed to responding to concerns of shareholders, investors and society at large, regarding their present and future responsibility in the way they manage their financial, human, natural and environmental resources.

The Administration of *Banco de la República* has impacts on sustainability since, just any other organization of similar size and importance in the national activity, it generates economic, social and environmental impacts in the performance of its functions.

## *BANCO DE LA REPÚBLICA'S* CONTRIBUTION TO SUSTAINABILITY

In order to attain sustainable development, it should be ensured that resources used today will not affect the access

to resources by future generations. In this sense, the main contribution to sustainability lies in managing the institution with a long-term vision. For the achievement of this objective, the Bank:

- Contributes to the high and sustained growth of the economy by keeping inflation low and stable and performing responsibly other functions that support the good functioning of the economy, such as production and distribution of cash, foreign reserve management, and the efficient and accessible performance of the payment systems
- Invests in human capital accumulation and knowledge generation; it contributes to the financial and economic knowledge of the population; it has diverse collaborators who respect their differences and cooperate in a very efficient, effective and flexible manner. Also, it preserves and disseminates the country's cultural heritage, and favors the building of collective identities.
- Responsibly manages the natural resources it uses; it efficiently employs

water and electric power, and manages wastes in a proper way; watches over the sustainable production of the goods and services it acquires; it contributes to awareness of preserving the environment and acts accordingly.

The above are only few of the many elements with which *Banco de la República* contributes to sustainability. This Report delves into these and other topics. In general terms, *Banco de la República's* commitment to sustainability is to accomplish the functions assigned to it by the Constitution and the Law and to manage human, financial and natural resources without compromising the future generations' capacities to meet their own needs.

## STRUCTURE OF THE REPORT

This first Sustainability Report issued by *Banco de la República's* was prepared following the directions of the Global Reporting Initiative (GRI), G3 version, and was advised by the external consulting firm BSD, which has broad international experience in the subjects treated herein. The GRI is a network of world's experts, the representatives of business organizations, NGOs and investors working jointly in matters relating to communications on sustainability. Their methodology offers general parameters for report preparation, aimed at producing transparent, material, and comparable information.

The most significant social, environmental and economic impacts of the Bank's action are explained in the report. The information pertains to the Bank's offices at Bogotá and its branches and cultural agencies in the country, and it refers mainly to the period between 1st January and 31st December 2010. It uses historical data in the sections where deemed relevant. According to the GRI methodology, this report has a level C self-declared application.

The report addresses a wide audience of individuals and entities associated with the private and public sectors: Colombian Congress members, national and international civil society organizations, the academy, investors, and citizens. The aforementioned interest groups appear in Diagram 1.

## CONTENTS

In order to define the contents of this document, management and communication practices common to sustainability reports were used. For its development, the opinion of the Governor, the Board of Directors, the executive and technical managers was consulted, as well as the views from the heads of Divisions and employees of the Bank on diverse subjects and matters, in order to determine the most relevant aspects in the different activities of the institution.

This report has been organized according to eight matters identified as most relevant, which are exposed in the same number of chapters. After a brief review of the profile and the presence of *Banco de la República* in the country, the first chapter gathers the main features of its corporative governance, government agencies, and risk management. Likewise, it details the channels used by *Banco de la República* for its rendering of accounts and communication with the major interest groups. All of these are fundamental elements to strengthen confidence and being able to count on society's support and recognition.

Chapters 2 and 3 explain how monetary policy, foreign reserve administration, support and financial stability and payment systems contribute to the country's sustained growth, both economic and social. Likewise, they show how cash production and distribution are carried out efficiently and safely by using advanced practices supporting environmental sustainability.

Chapters 4 and 5 give information on the Bank's contribution to economic and financial knowledge and the preservation and dissemination of the country's cultural heritage. All of these are the Bank's strategic priority matters on sustainability subjects.

Chapter 6 exposes the corporate commitment of the Bank to environmental preservation and the sustainability in the supply chain. The initiatives carried out by the entity in this sense within the framework of environmental normativity and corporate responsibilities are detailed.

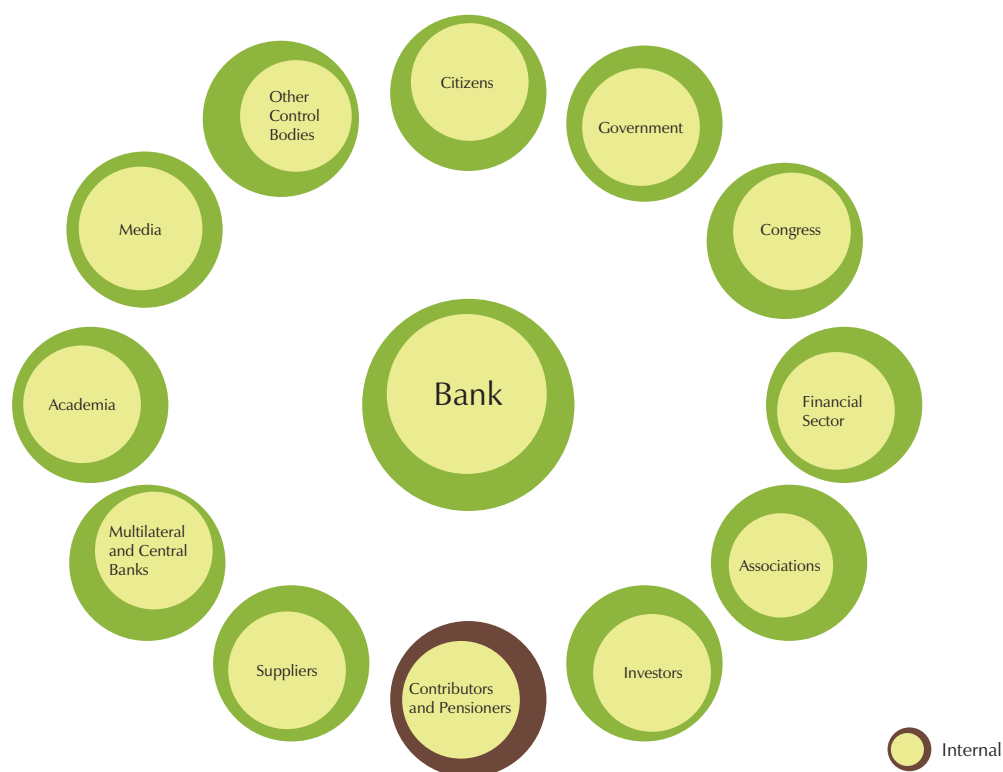
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Banco de la República's commitment to sustainability is to accomplish the functions assigned to it by the Constitution and the Law and to manage human, financial and natural resources without compromising the future generations' capacities to meet their own needs.

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[Diagram 1]  
Main interest groups



Source: Banco de la República.

Chapter 7 explains the management of human talent oriented towards developing employees' potential in a work environment that serves to foster their integral development as well as efficient, effective and flexible cooperation.

In the last chapter, the Bank's financial statements are included to complement non-financial information of the previous chapters.

For further information about this report,  
please contact: [informedesostenibilidad@banrep.gov.co](mailto:informedesostenibilidad@banrep.gov.co)

# PROFILE OF BANCO DE LA REPÚBLICA

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In Colombia, with annual inflations exceeding 30%, the National Constitutional Convention (*Asamblea Nacional Constituyente*) of 1991 provided a space to discuss the idea of an independent central bank, whose main purpose would be inflation control.

Pursuant to the provisions of the Political Constitution and Act 31 of 1992, *Banco de la República* exercises the functions of a central bank in Colombia, and it is organized as a legal entity of public law of constitutional rank, with a legal regimen of its own, and with administrative, patrimonial, and technical autonomy.

## FUNCTIONS OF BANCO DE LA REPÚBLICA AND ITS BOARD OF DIRECTORS

The Political Constitution of Colombia determines that the main purpose of *Banco de la República*, the Central Bank, is to preserve the national currency's acquisitive capacity in coordination with the general economic policy<sup>1</sup>.

According to the Constitution and the aforementioned law, the following are the Bank's main functions:

- Monetary, credit, and foreign exchange regulation
- The issuance of legal tender
- Foreign reserve management
- Banker and lender of last resort to credit institutions
- Banker and trustee of the Government, serving as a fiscal agent

As a part of its functions, the Bank carries out as well a significant cultural activity. In addition, it supports financial stability and promotes the generation of high quality economic information and research.

*Banco de la República's* Board of Directors is the country's monetary, foreign exchange, and credit authority. In exercising this function, the Bank adopts the policy measures aimed at regulating the circulation of money, foreign exchange

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*Banco de la República's* Board of Directors is the country's monetary, foreign exchange, and credit authority.

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<sup>1</sup> 1991 Political Constitution of Colombia, title XII (About the economic regime and public treasure), chapter 6 (about Central Banking).



Members of the Board of Directors of *Banco de la República*

and the liquidity of the financial markets. Likewise, it regulates the normal functioning of the economy's internal and external payments. This includes the regulation of the normal functioning of high-value payment systems as well.

#### THE BANK'S PRESENCE IN THE COUNTRY

The Bank has offices in 29 Colombian cities and towns classified as regional branches, branches, and cultural agencies<sup>2</sup> as seen in Map 1, of which the Main Headquarters and Cash Center (having replaced the old Banknote Printing Works in October, 2005) are located in Bogotá, while the Mint is located in Ibagué.

<sup>2</sup> Generally, besides their cultural activity, they have treasury functions.

#### QUALITY CERTIFICATIONS

Trust and Securities Department: ISO 9001:2008 Certification, Icontec

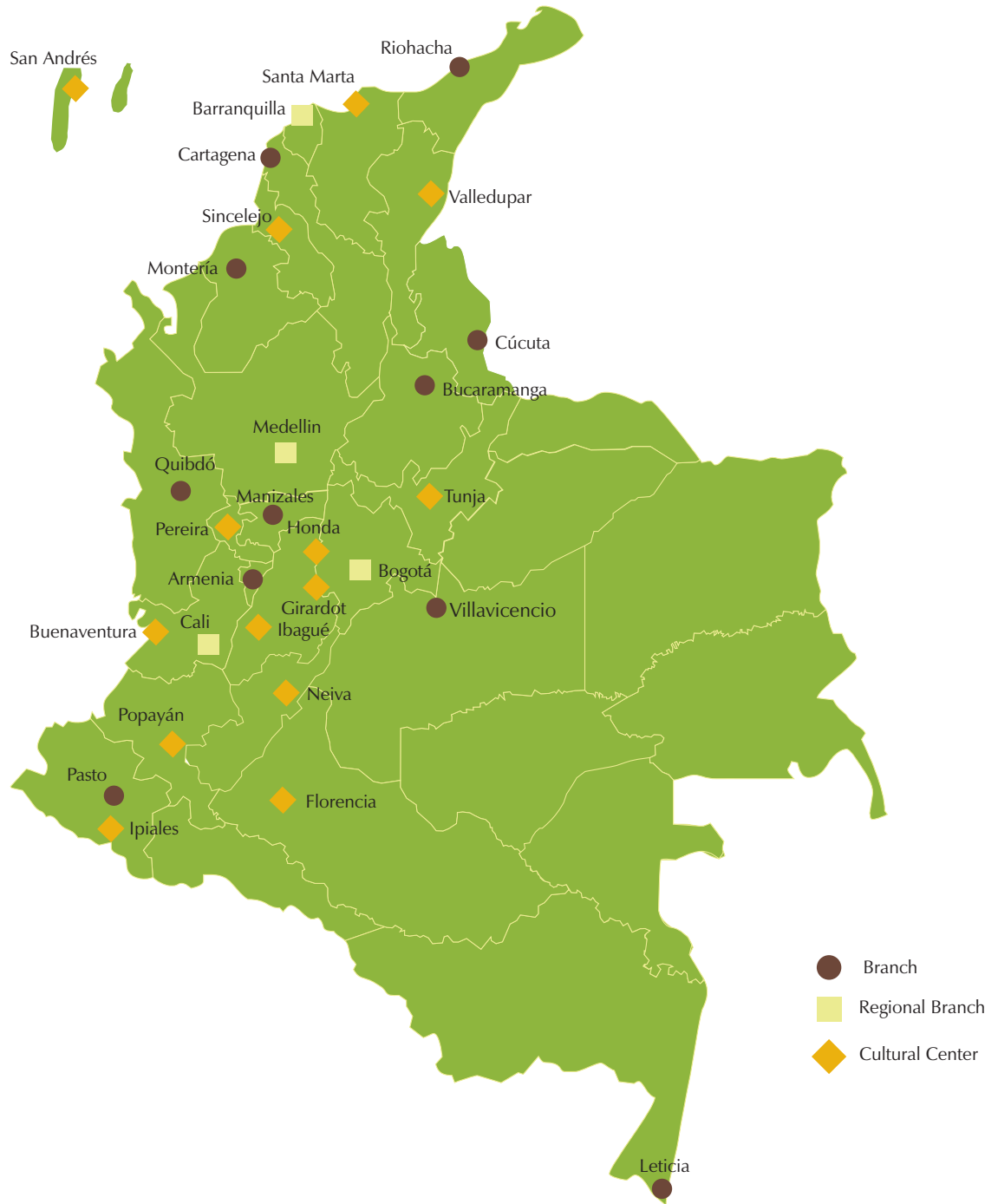
Mint: Presently (the third one) ISO 9001:2008, SGS

Banknote Printing House ISO 9001:2008 certification, SGS

General Technology Management: ISO 9001:2008 and ISO 27001:2005, Icontec.



Map 1  
 Presence of *Banco de la República* in the country



Source: Banco de la República.

## HISTORICAL PERSPECTIVE

*Banco de la República* was chartered as Colombia's central bank in 1923 by Law 25, within the guidelines defined by the Kemmerer Mission. This mission was made up of a group of American financial experts hired by president Pedro Nel Ospina to advise the Government on the modernization of public finances and the financial system. Back then, it was established that the main objective of the central bank should be to keep the gold standard running<sup>1</sup>.<sup>1</sup> According to the central banking theory in that period; the entity was entrusted, on an exclusive basis, the power to issue the Colombian legal tender. Additionally, the Bank was established as a "bankers' banker", a role that it mainly met through rediscount operations, and as the government's bank and fiscal agent.

*Banco de la República* was organized as a limited company with a capital of 10 million Colombian pesos in gold, of which 50% was contributed by the government—for which it used the first disbursement of the compensation made by the government of the United States for the separation of Panama—and the other 50% came from domestic commercial banks, foreign banks and some individuals. Its Board was composed of ten members: three representing the Government, four the domestic banks, two foreign banks and one the public.

After the abandonment of the gold standard in September 1931, a gradual change in monetary thinking began to generate and, in the late forties, early reform proposals to the role *Banco de la República* was having were made. It was considered that the Bank could contribute to economic growth, channeling financial sector credit towards certain productive activities. As a result of these proposals, the Grove Mission Grove, composed of officials from Federal Reserve of the United States officials, was called in order to perform a diagnosis of the Colombian banking system. Following the

recommendations of this Mission, *Banco de la República's* emphasis was centered on promoting economic growth, for which new instruments allowing playing an active role in credit channeling to stimulate economic development were authorized. In particular, *Banco de la República's* Board was granted powers to set ordinary, special or development loan quotas, with subsidized interests, in addition to emergency loans.

Additionally, it was authorized to set and change interest and discount rates, and to stipulate and modify commercial banks' reserve requirements.

The Board of Directors of the Institution was composed of the Minister of Finance, whose vote was necessary for major decisions; two representatives of the Government, one being the Minister of Public Works; three representatives of commercial banks; a director chosen by the Government from lists submitted by agricultural associations; another representative, chosen from lists submitted by traders and industrialists, and finally, by the Manager of the Coffee Growers Federation.

The Grove Mission had proposed *Banco de la República* to become a government entity. In this direction, since 1963, Colombian central banking was divided into two entities: the Monetary Board, responsible for the direction of the monetary, and *Banco de la República*, responsible for its implementation under the guidance of its Board of Directors. The Bank continued with its mixed entity legal structure, but the central banking autonomy concept was abandoned, since the Monetary Board was exclusively formed by Government members plus the Bank's Governor, who was elected by its Board of Directors. The Monetary Board was assigned the conduct of the monetary, credit and foreign exchange policies, but the currency's purchasing power stability was not established as a main objective for it. For its part, *Banco de la República's* Board of Directors was the managing and administrative monitoring body executing this policy.

Years later, the government presented a bill for the nationalization of *Banco de la República*, which was approved in 1973. This figure implied its transformation, from a commercial company with public and private participation on its capital

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<sup>1</sup> In the gold standard monetary scheme, the central bank had to guarantee, at all times, the convertibility of the notes that were put into circulation. For this purpose, percentages that *Banco de la República* had to keep in coined or physical gold in their vaults or abroad were fixed.

composition, to a State entity. The institution kept the functions related to central banking attributions, such as the exclusive issuance of legal tender, the management of the international reserves<sup>2</sup>, and the execution of the monetary policy established by the Monetary Board. Additionally, it continued to provide banking services to the Government and credit establishments, and continued to play its role of administrator of the financial funds through which development credits were granted to sectors that were considered strategic for economic development.<sup>3</sup>

In the seventies, world inflation accelerated, and the fight against this phenomenon became the main concern of monetary policy in many countries. In the late eighties, the central banking institutional autonomy model imposes, passing with a multiple goals model, to one with a single purpose: the stability of the purchasing power of the currency.

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2 *Banco de la República* began managing the international reserves since its charter, by making their deposits in banks abroad, but it was not an explicit function of the Bank. Then, by Decree 340 of 1980, it was explicitly established that the administration of international reserves corresponded to *Banco de la República*.

3 In line with the development policies of the sixties and seventies, *Banco de la República* was assigned the task of administering some financial funds whose resources were destined to provide development credit for activities considered strategic for development, for example: the Agricultural Financial Fund, the Financial Industrial Fund, the Urban Development Fund, the Exports Promotion Fund, among others.

In Colombia, with annual inflation exceeding 30%, the Constituent National Assembly of 1991 generated the space to discuss the idea of an independent central bank, whose main objective would be inflation control. Such goal is achieved with the Constitution of 1991, which increased *Banco de la República's* status to State organ at the constitutional level, following the parameters and prevailing principles of central banking in the nineties. Thus, preserving price stability is "simultaneously, a right of the citizens and a duty of the State" (Court Ruling C-383 of 1999).

This is how the new Constitution establishes inflation control as the main objective of the *Banco de la República*, in coordination with general economic policy, and defines a governance structure that allows the entity to take decisions independently. This power is reflected in the composition of its Board of Directors, in the way their members are chosen and rotated (see the Corporate Governance section, p. 16), and on its administrative, patrimonial and technical autonomy. At the same time, the decisions taken by the Board are based on documents and research made by a highly technical team, which independently raises policy recommendations. This institutional adjustment has supported the reduction of inflation over the last decade, allowing that this being within the long-term goal range defined as price stability (3% +/- one percentage point).



**BUILDING  
CONFIDENCE ON  
TRANSPARENCY  
AND EFFICIENCY**

# BUILDING CONFIDENCE ON TRANSPARENCY AND EFFICIENCY

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Only an organization that generates confidence, evidencing commitment and management capability, may attain the constitutional objective entrusted by society: to maintain the acquisitive capacity of the national currency.

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The major asset of a central bank is its credibility, and the accomplishment of the objectives set forth by the entity is a prerequisite to preserve such credibility.

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The major asset of a central bank is its credibility, and the accomplishment of the objectives set forth by the entity is a prerequisite to preserve such credibility. Only an organization that generates confidence, evidencing commitment and management capability, may attain the constitutional objective entrusted by society: to maintain the acquisitive capacity of the national currency. *Banco de la República* meets this social responsibility by building trust and confidence through an efficient and transparent management addressed to fulfill their tasks. This, among other things, is reflected on its governance structure and the different communication channels with the public.

## CORPORATE GOVERNANCE

### Organizational Structure

The Political Constitution of Colombia establishes that *Banco de la República's* maximum governance organ is its Board of Directors, which is in charge of the direction and performance of the Bank's functions. The Board of Directors consists of seven members: The Ministry of Finance, who presides it as its chairman; the Bank's Governor, elected by the Board itself; and five exclusive full-time dedicated members appointed by the President of the Republic for an extendable four-year

## AN ENTITY THAT GENERATES TRUST

In November 2010, *Banco de la República* was highlighted as the national institution that generates the greatest confidence among Colombians. This was reported by an opinion poll conducted by the *Cifras & Conceptos* between 1,440 national leaders from academia, associations, the media, political parties and social organizations in 14 departments of the country.



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The Bank's organizational structure was modified in 2010 in order to concentrate mission-oriented functions in the Executive and Technical Managements, and support functions in the General Division of Corporate Services, thus creating a synergy which fosters efficiency.

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period. Two of them are replaced in each presidential term of office.

By a provision of Act 31 of 1992, the Board of Directors delegates some functions. The Administrative Council is composed by the five exclusive full-time dedicated members of the Board of Directors and their meetings are attended by the Governor and the Bank's Auditor as guests with a voice but not entitled to vote.

The Bank's organizational structure reflects independence of functions and responsibilities among the different areas and, in turn, between them and the control agencies. The organizational chart was modified in 2010 in order to concentrate mission-oriented functions in the Executive and Technical Managements, and support functions in the General Division of Corporate Services. The synergy so created fosters general efficiency (Diagram 2).

### Control Agencies

According to the constitution, the President of Colombia performs functions of inspection, surveillance and control on *Banco de la República*. The President delegates the inspection and surveillance functions on the office of the Financial Superintendent of Colombia (*Superintendencia Financiera*), and appoints an auditor to undertake the control function.

The auditor's functions include certifying the Bank's financial statements, performing the other tasks set forth by the Code of Commerce for the *Revisor Fiscal* (in Colombia, statutory fiscal auditor), and exercise the control on the management and the results of the entity. The Auditor can be freely appointed and removed by the President of the Republic and, to perform its functions, it has an organizational structure approved by the Board of Directors. The General Auditor's Office ("Auditoria General") operates like a duly independent state agency.

Complementarily, since 2002, the Bank hires the services of an external auditors' firm to express an independent opinion on the entity's financial statements. These firms are replaced on a regular basis. Currently, Price Waterhouse Coopers has undertaken the external auditing.

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Since 2002, the Bank hires the services of an external auditors' firm to express an independent opinion on the entity's financial statements.

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Other external control bodies on the Bank's management are shown in Table 1.

In terms of internal auditing, and in compliance with the functions assigned by Act 87 of 1993, the Bank has an Internal Control Department in charge of administering the Internal Control System ("SCI"), a structure designed to examine the entity's strategy, management and evaluation. Additionally, this department assesses current control instruments for critical processes, thus ensuring the availability of control elements such as verification, double intervention (capture and approval), function segregation, escalation and notification, automation and reconciliation, among others.

Within this context, the Bank has deemed desirable as a good practice the implementation and development of the standard model of internal control *Modelo Estándar de Control Interno, MECI*<sup>3</sup>, according to the policies set forth by the Administrative Department of Public Function (DAFP). In this sense, the Bank has been developing and strengthening the elements that make up this tool in order to ensure a proper control environment and a coherent risk management according to the development of its functions. This is reflected in the fact that the result of the quantitative assessment of the MECI maintenance in *Banco de la República* was 99.9%, as shown in Table 2.

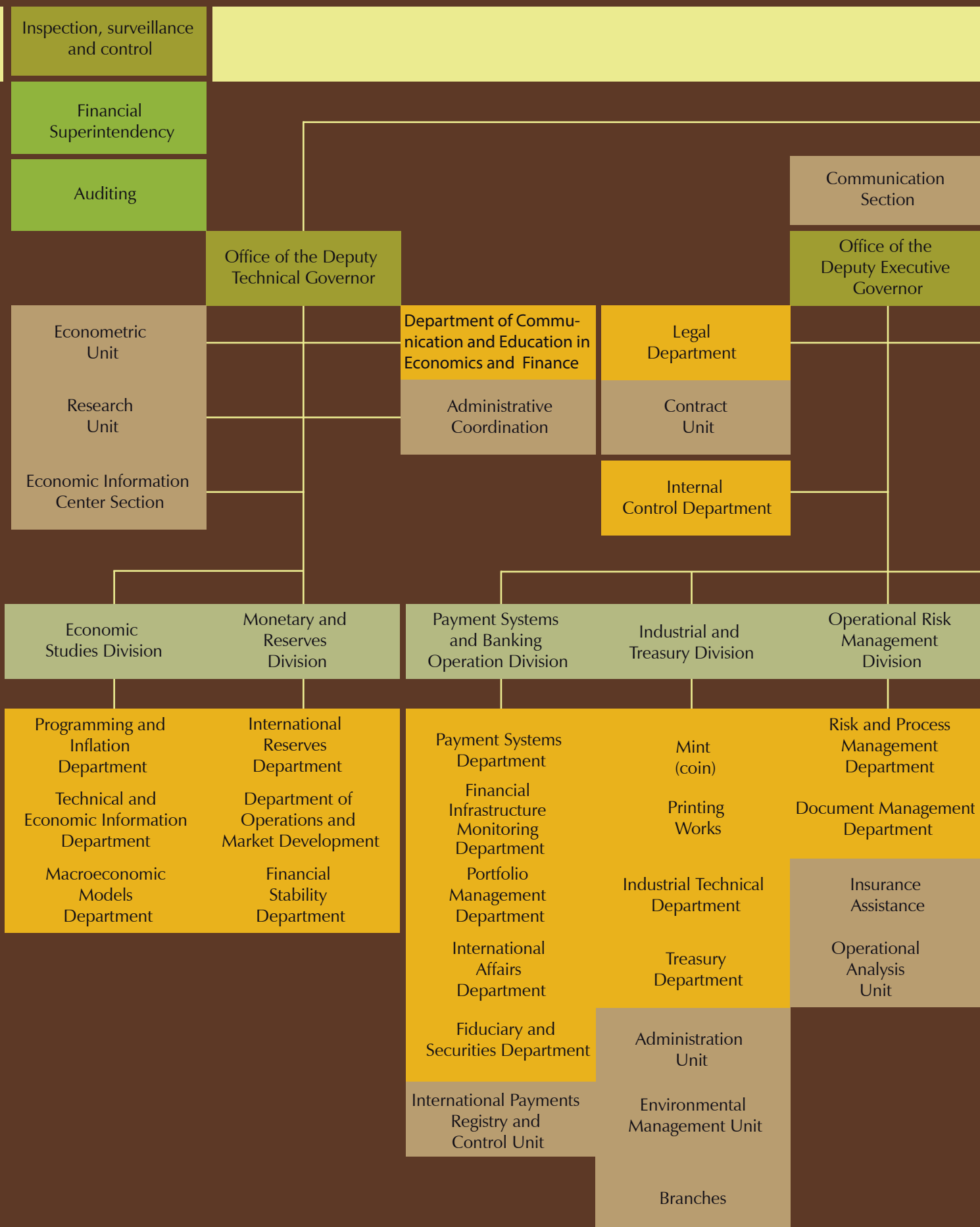
Likewise, since 1996, the Bank has the Internal Disciplinary Control Unit in charge hearing at first instance disciplinary proceedings brought against its staff. The main jurisdiction of this unit is investigating and judging at first instance the official conduct of the Bank's main office staff<sup>4</sup>. With respect to branches, cultural agencies, and the Mint, the Unit performs advisory work, given that the first instance pertains to the respective manager or director. In all these cases, the second instance is the Head of General Division of Corporate Services, upon whom this Unit depends since the Bank's administrative restructuring in 2010.

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3 Management tool allowing the Colombian State entities' internal control system to be structured and standardized in order to ensure the achievement of the objectives of each one of them, as well as compliance with the principles governing public functions. .

4 Excepting the conduct of employees in positions the hierarchy of which is either equal or higher than deputy manager of the main office, since they are subject to special rules and standards.

Diagram 2  
 Banco de la República's Organizational Chart<sup>a/</sup>



a/ As of December 2010.

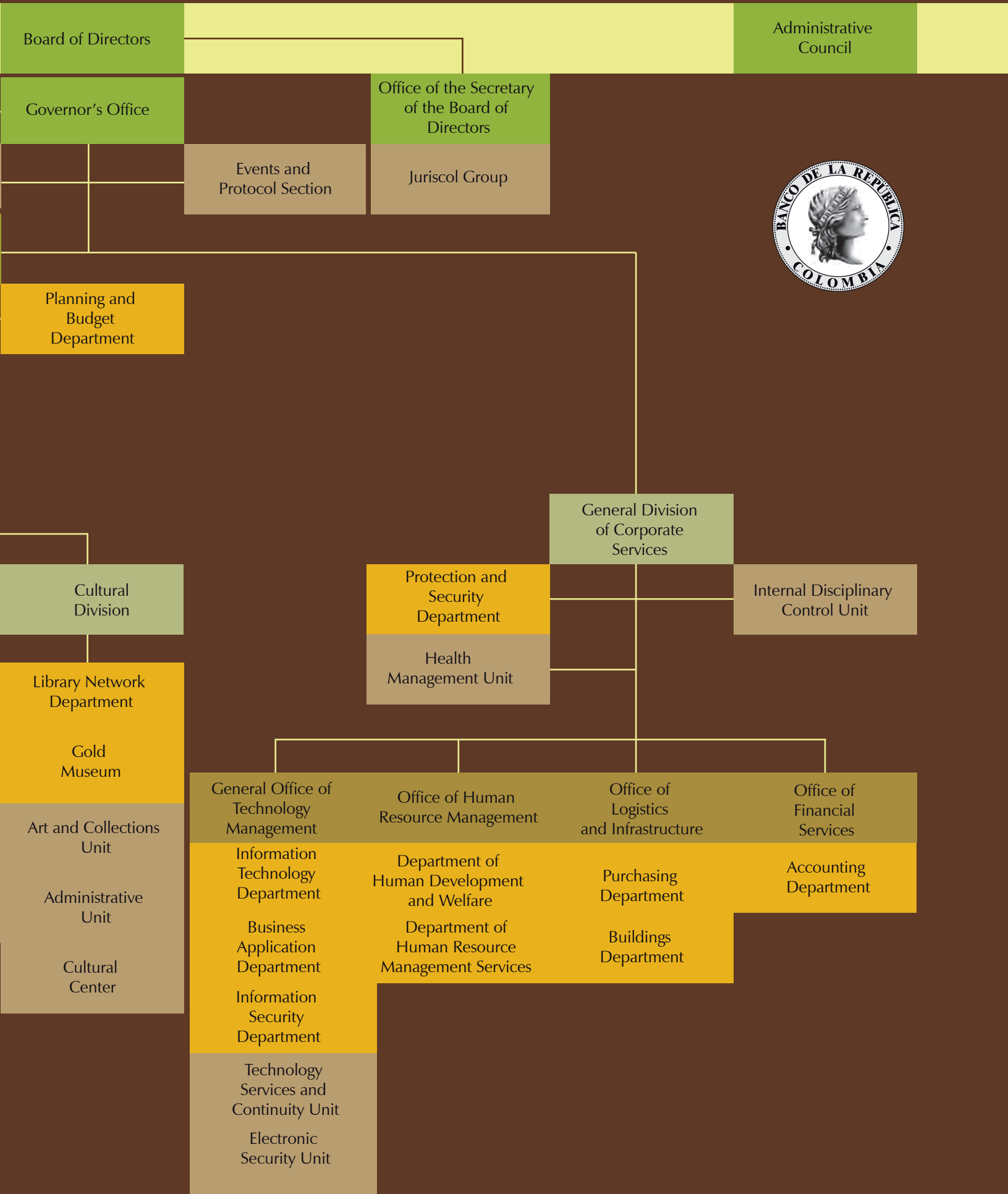


Chart 1  
External entities which exercise control over the Bank's management

Congress

Political control

State Council

Constitutional control over the regulations issued by the Bank

Comptroller General Office of the Republic of Colombia

Monitors the institution in its performances as the fiscal agent of the Government and, in certain processes, such as the destruction of money that can no longer remain in circulation

Office of the Attorney General

Acts in relation to the conduct of employees in cases of disciplinary offenses

Source: Banco de la República.

Chart 2  
Bank's internal control system evaluation, 2010 period

Entity: Banco de la República  
Quality score: 99.97%  
MECI score: 99.98%

Elements	Advance (percentage)	Components	Advance (percentage)	Subsystems	Advance (percentage)
Agreements, commitments or ethical protocols	100				
Human talent development	96.88	Control environment	98.96		
Management style	100				
Plans and programs	100				
Operation by processes model	100	Strategic management	100	Strategic control	99.72
Organizational structure	100				
Strategic context	100				
Risk identification	100				
Risk analysis	100	Risk management	100		
Risk valuation	100				
Risk management policies	100				
Operation policies	100				
Procedures	100				
Controls	100	Control activities	100		
Indicators	100				
Procedures manual	100				
Primary information	100			Management control	100
Secondary information	100	Information	100		
Information systems	100				
Organizational communication	100				
Informative communication	100	Public communication	100		
Media	100				
Control self-assessment	100				
Management self-assessment	100	Self-assessment	100		
Independent assessment from the internal control system	100				
Internal auditing	100	Independent assessment	100	Assessment control	100
Institutional improvement plans	100				
Improvement by processes plan	100	Improvement plans	100		
Individual improvement plan	100				

Source: MECI's implementation evaluation instrument, DAFP's website.

The set of both processes and tasks giving continuity to the strategic planning cycle is called managerial action model.

### Strategic Management

The Bank's strategic management cycle is based on the policies and guidelines defined by the Administration Council and the Governor, Deputy Technical Governor, and Deputy Executive Governor. It is developed over a four-year horizon through strategic objectives and initiatives in each Division. In this manner, the Bank seeks to encourage a participatory exercise where all staff proposals can be included.

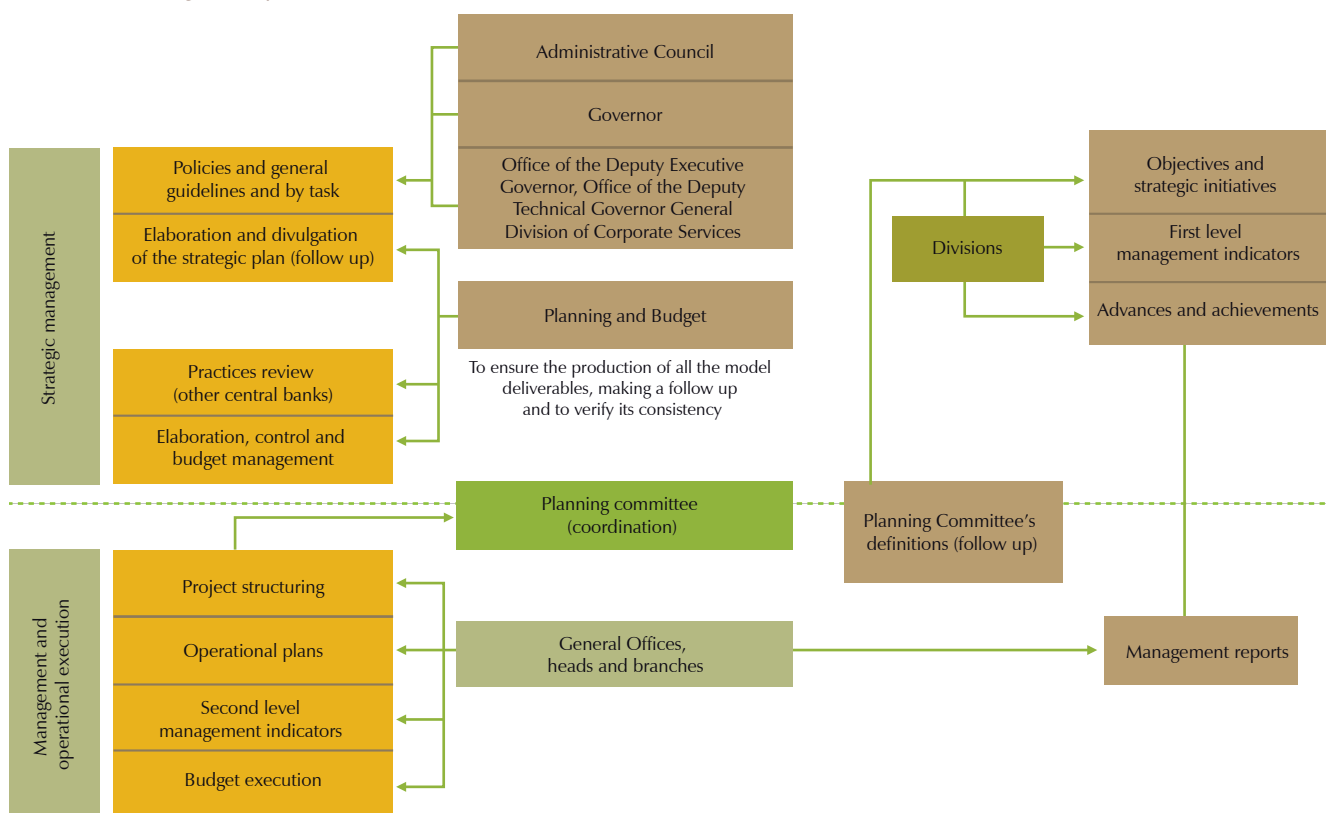
Strategic matters arising during each cycle completion are approached by the Planning Committee, composed mostly by the heads of the Executive Management Divisions and Deputy Executive Governor (Deputy Technical Governor is invited to take part in matters of its own competence). The Committee acts as a link between the Bank's strategic planning and the Bank's operational management, thus making planning a permanent and dynamic exercise. The result is reflected on the Bank's financial planning which includes projection, coordination and control of the estimated income, expenditures, and investments for each budgetary

term, in addition to the investment projected for the next five years. All the above is submitted to the Administration Council on a periodical basis.

The set of both processes and tasks giving continuity to the strategic planning cycle is called managerial action model, shown in Diagram 3. Its development and follow-up, as well as the assurance of its consistency, are led by Executive Management.

The consolidated plans are submitted in a document of public natures, and the advancements obtained in their execution are documented by means of regular management reports. The current plan in force has been named "Our North 2009-2012," and the first relevant management report was submitted in 2010, including advances and achievements for 2009 and 2010. The performance and operational management follow-up is supported on management-indicator systems which currently include all the branches and is being enhanced in Bogotá, taking as reference the mission-based objectives of the Bank in order to further reinvigorate advancement measurements.

Diagram 3  
The Bank's management practice model



Source: Banco de la República.

The Operational Risk Management Division was created in 2010, following the best international central bank's corporate governance practices.

## Risk Management

The Board of Directors, as the monetary, foreign exchange and credit authority, jointly with the Administration Council as a management body, determines the general policies that guide risk management in the Bank's activities. In this sense, the decision-making process at all times involves assessment of the different risks likely to be incurred by the institution. Risk management is coordinated through different committees (Table 3 shows the most important ones), and many Bank areas –both operative and technical- are involved in it.

The Operational Risk Management Division was created in 2010, following the best international central bank's corporate governance practices. Its challenge lies in administering this risk in a generalized, standardized, coherent and continuous manner, enabling the institution to meet its social responsibility derived from its functions as a central bank. One of the mechanisms designed to attain this task has been its leadership in the creation of a risk management and business continuity culture at both *Banco de la República* concerning its own processes and the financial system and Government institutions in general.

In developing this culture, the Bank has created alternate technology and operation centers in addition to contingency and crisis management plans, following the highest international standards. This enables it today to confront contingencies in its operation in the face of major critical events, and places it as an international reference for other central banks and financial institutions.

## Institutional Values

The Bank's framework for corporate values is a behavior guide involving all its officers'

daily routine according to the service obligation entrusted to it by the Nation as a central bank. Each member of its staff is given a printed copy of all these values at the time they are admitted to the entity.

The Bank's corporate values are summarized below:

- **Honesty:** we behave with rectitude and integrity in accordance with the Bank's principles and standards.
- **Responsibility:** we fully meet our obligations timely, with diligence and quality, according to our commitment to society, to excellence and to ourselves.
- **Respect:** we treat other people with dignity and consideration; we respect differences and endeavor to listen and understand other people's opinions, ideas, beliefs, feelings, and actions.
- **Commitment:** we work with devotion, dedication and enthusiasm to achieve our objectives.
- **Loyalty:** we act with sincerity and faithfulness. We always respond to the confidence and trust placed in us by the Bank and the users of its services, and the community in general.
- **Excellence:** we look for the highest levels of quality, productivity, innovation and opportunity in our work.
- **Service-oriented:** we know the needs of our internal and external users, and we try to meet them timely with kind and professional attention.

## RENDERING OF ACCOUNTS

Communication is an essential element for the good performance of a central bank's functions, and it requires, as much as possible, that the public understand its actions. Additionally, communication is a core transparency factor of the activity of

Chart 3  
Risk management related committees

Monetary and Foreign Exchange Intervention Committee	International Reserves Committee	Auditing Committee	Planning Committee
Information Management Committee	Purchases Committee	Operational Risk and Continuity Committee	System Coordination and Internal Control Committee
	Security Committee	Pension liabilities resources investment Committee	

Source: Banco de la República.

## OPERATIONAL ANALYSIS UNIT

In 1996, *Banco de la República* created an Operational Analysis Unit (UAO in Spanish), in order to contribute with the Colombian State and the financial system on combating money laundering. To this end, the UAO designed and implemented at the Bank, the policies that would minimize the risk that the organization was used to launder money in the development of its constitutional functions. In short, these policies seek to know better the potential counterparties of the Bank, emphasizing the economic activities in which they work and that give ground to a possible contractual relationship with it, to avoid links with third parties who may be involved in money laundering related investigations or convictions. With this decision, Banco de la República became the benchmark for central banks in the fight

against money laundering, being the first to adopt explicit policies to combat this scourge. Therefore, in several opportunities the institution has received requests from other central banks to be advised in creating units as the one mentioned.

Another of the UAO's major activities is collaborating with the national judicial authorities in money laundering related investigations. To this end, the Bank strictly attached to the law, deliver information kept in different databases, which, under the consolidation processes of operations made in the foreign exchange or securities trade market, could be related to natural or legal persons who are being investigated. This information is delivered to the competent authorities upon request (for example judges or prosecutors), with the prior fulfillment of a series of requirements that are verified by the entity.

an organization, and must be complete and clear enough for it to meet its obligations regarding rendering of accounts.

Act 31 of 1992 establishes that the Bank's Board of Directors must submit through its Governor a bi-annual report to the National Congress on the performance of the monetary, foreign exchange and credit policies, as well as with respect to foreign reserve management and composition, the entity's financial situation and its perspectives, and any other matters that Congress may request. This report should be submitted within ten days upon beginning each ordinary session, and must include the general outlines of the policies adopted by *Banco de la República* along with an evaluation of results achieved in the previous period, and the objectives, purposes and targets for the next one. Review and discussion of this report are the main mechanisms for Congress to exercise political control on the Board of Directors as an autonomous body established in the Constitution and provided in the law. The report is widely disseminated and discussed at the meetings of the Senate and the House of Representatives' Third Committees —called Commissions—, and sometimes at the plenary or full sessions of the Congress. If changes

occur with respect to the policies informed in the document, the Bank must submit an additional report within a maximum 15-day period explaining both the origin of the situation and the measures adopted.

Beyond this legal obligation, the rendering of accounts and a permanent communication with the society are vital for *Banco de la República* to make its economic policy understandable and trusted, as well as the way it carries them out. This transparency becomes evident by disclosing its actions to the public in a comprehensible, accessible and timely manner, and extends to all other aspects of its management performance.

By taking into account that the Bank needs to address diverse groups, the institution has implemented a set of instruments and activities designed to explain its economic policy decisions in an understandable, equitable and timely way. In addition, within this framework there is a Code of good transparency practices in *Banco de la República's* monetary and foreign exchange policies, account rendering, and guarantees of integrity [*"Código de buenas prácticas de transparencia en las políticas monetaria y cambiaria, rendición de cuentas y garantías de integridad del Banco de la República"*], available at [www.banrep.gov.co](http://www.banrep.gov.co).

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The rendering of accounts and a permanent communication with the society are vital for Banco de la República to make its economic policy understandable and trusted, as well as the way it carries them out.

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Intervention by José Darío Uribe Escobar before the Third Commission from the House of Representatives

## NATIONAL TRANSPARENCY INDEX

Until recently, central banks were considered enclosed institutions. However, since little more than a decade, a major change in the majority of such entities began to take place, and *Banco de la República* was no exception. Independence, access to internal information, as well as accountability exercises, constitute since then three cornerstones of the *Banco de la República's* transparency. Today, the Bank's processes are open to the public, and that effort has been recognized with the award of the first place in the assessment of the national

transparency index, 2007-2008, and the second place on this same assessment on the 2008-2009 version.

Public entities' national transparency index<sup>1</sup>, measures the institutional conditions that promote or prevent the emergence of corruption risks in public entities. Since 2002, *Corporación Transparencia por Colombia* has led this exercise, which aims to strengthen the public sector's institutionality and to encourage corruption risk control measures in such entities.

<sup>1</sup> This is carried out at the public administration's three levels, namely: national, departmental and municipal.



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It is possible to follow live press conferences of Board of Directors' meetings directly online through the Bank's homepage.

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## Account Rendering Mechanisms

The following are the main account-rendering mechanisms used by the Bank:

- The press releases drafted at each meeting of the Board of Directors: These releases are presented at press conferences and published at the website, offering information regarding monetary policy decisions adopted, apart from other subjects dealt with in the meetings. Likewise, they convey the collective opinion of the Board members. In addition, it is possible to follow live press conferences of Board of Directors' meetings directly online through the Bank's homepage.
- The publication of Minutes of Board of Directors' meetings at the Bank's website: This document is disclosed two weeks after the date of each session, containing information about monetary policy decisions. This initiative was first put into practice since the meeting on 15th June 2007, as one more step taken by the Board of Directors towards a higher degree of transparency and account rendering dedicated to the entire society by spreading its members' decision-making process, rationality and scope. Minutes are sent as well to financial market analysts and journalists through mass email communications.
- The Inflation Report: It is published on a quarterly basis and presented live on the institutional television channel by the Bank's Governor, and the document titled Foreign Reserve Management, published for the first time in 2009, where the management of Colombian international reserves is explained. (The public dissemination of the Inflation Report was elected in 2010 by *Transparencia por Colombia* as one of the ten most successful transparency experiences in the country).
- The Board of Directors' Consulting Committees: They have been programmed for over fifteen years now and essentially are work sessions carried out by the Bank with entrepreneurs from diverse economic activities in different zones of the country. They are held on a bi-annual basis and are aimed at giving the Board members an opportunity to exchange opinions and concerns about economic perspectives, and explain and discuss with well-known experts in their own field of activity in a relatively in-

formal environment filled with confidence and cordiality, the long and mid-term monetary policy orientation. The composition of these committees is renewed each year in order to encourage innovation by means of rotation, but nevertheless preserving the continuity of those matters previously discussed or arising in every meeting. In En 2010, the members of the Board of Directors took part in fourteen consulting committees in seven zones in the country.

- The Bank's website ([www.banrep.gov.co](http://www.banrep.gov.co)). It offers information published about intervention operations at the foreign exchange market, as well as monthly and quarterly surveys on inflation and foreign exchange rate expectations, among many other matters. All documents appearing on this homepage offer a general overview of the activities developed by the Bank, so the entity may be freely required to answer for its acts. The homepage is an educational document for permanent consultation, with information in both Spanish and English. At present, the Bank is going through a process aimed at improving its search engines and providing discriminated information depending on the type of users. Moreover, virtual social networks such as Facebook and Twitter (@BancoRepublica) contribute to keep the public informed about the activities carried out by the entity.
- Periodic events organized in order to explain monetary and foreign exchange policy decisions and share opinions with diverse interest groups. These include, among others: breakfasts with members of the Third Committees of the Senate and the House of Representatives, lunches with financial analysts and major media directors, apart from training seminars for journalists.
- First-hand information from the Governor and members of the Board through interviews in the media, lectures, conferences, appearances before the Colombian Congress and, in certain cases, articles and notes in newspapers and magazines, radio and television.

## Other Mechanisms to Communicate with the Public

A two-way communication with all its interest groups is essential to the Bank.

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The homepage is an educational document for permanent consultation, with information in both Spanish and English.

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For this reason, it keeps several channels open and ready to let the public interact effectively and permanently with it. These channels include, among others, mail boxes at the different Bank offices; a toll-free national line (01 8000 911745), and an e-mail account for complaints and claims (quejasyreclamos@banrep.gov.co), subject to continuous follow-up (Table 4)

### Internal Communication

Communication between the Bank and its staff is designed to allow everyone to be informed about institutional topics and keep in mind at all times the importance of their function as the entity's speakers. Creating confidence and trust in the institution begins from inside, by means of diverse initiatives intended to let the staff know and understand what the Bank does and what the Bank's motivations are. For this purpose, the main mechanism for the transmission and dissemination of internal information is an Intranet known as *Infobanco*, through which communication relating to recent information from the entity about news, events, employment opportunities, educational campaigns and many other facts, is centralized. This site is updated on a daily basis and is constantly consulted by the staff nationwide. Since last year, strategies have been designed in order to increase its use, such as interface design, the employment of videos as pedagogical tools, content reorganization, continuous update of last-minute news, and publication of relevant material for the different departments.

### Other Mechanisms to Communicate with the Public:

- Digital and wall billboards used to publish staff-oriented institutional and general information.
- *Revista El Emisor y su Gente* ("The Bank and Its People" magazine), a printed publication dedicated to the Bank's staff. Published bi-annually, it offers administrative and economic subjects and other topics dealing with recent events, news, entertainment, and culture.
- *Boletín El Emisor y su Gente–Pensionados* ("The Bank and Its People – Pensioners Bulletin"), a quarterly printed issue publication, containing administrative, cultural, health, and entertainment information, dedicated to the Bank's pensioners throughout the country.
- *Marca de Agua*, ("Water Mark"), a virtual publication appearing on Infobanco. It offers last-minute information regarding administrative decisions and policies.
- *Noticiero Alto Relieve*, ("High-relief News"), an informative video which highlights administrative, cultural, economic and staff-related news and events in the different Bank areas through several sections.
- Diverse campaigns designed to strengthen concepts and promote cultural changes relating to political decisions or Bank resources and services such as, for example, adaptation to the new organizational structure or the efficient use of resources.
- Mass-emails with brief texts addressed to the Bank's community to provide them with last-minute official information.

Chart 4  
Complaints, demands, compliments or suggestions received and managed by Banco de la República in 2008, 2009 and 2010.

	2008	2009	2010
Toll free line, information points and corporate mailbox (quejasyreclamos@banrep.gov.co)	138	118	89
Luis Ángel Arango Library	653	762	594
Gold Museum	239	101	86
<b>General Total</b>	<b>1,030</b>	<b>981</b>	<b>769</b>

Source: Banco de la República.



**CONTRIBUTION  
TO SUSTAINED  
ECONOMIC GROWTH**

# CONTRIBUTION TO SUSTAINED ECONOMIC GROWTH

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The Bank has reduced inflation on a gradual basis from rates higher than 30% in the early 90s to one-digit levels during the most recent decade.

According to the Constitution, the main objective of monetary policy is to preserve the currency's purchasing capacity in coordination with the general economic policy. To achieve this, the design of the monetary, foreign exchange and credit policies intends to keep inflation low and stable, and contributes to the output growth around its long-term trend.

The Bank has reduced inflation on a gradual basis from rates higher than 30% in the early 90s to one-digit levels during the most recent decade. Since June 2009, annual inflation has remained within or slightly below the long-term target range defined by the Board of Directors (2%-4%)<sup>5</sup>. In December 2010, consumer inflation was 3.17%, this figure being very close to the midpoint of the target range. This is the monetary policy's most significant contribution to the sustained growth of the economy, and the best evidence

of its social responsibility towards the less economically favored population.

## LOW AND STABLE INFLATION

Inflation is a burden affecting the less economically favored population to a larger extent and limiting economic growth opportunities in the long-term. Its impact on society's well-being takes place in different ways through several channels, among which the following are worth mentioning:

- It punishes savings and investment. If inflation is high, even if it is stable, both people and enterprises choose to invest in assets considered a hedge against it like real estate, for example, rather than making productive investments. If, in addition, inflation is unstable, this condition increases uncertainty with respect to its future behavior, thus making it likely to alter or postpone decisions on long-term investments in assets that are necessary for economic growth.

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Inflation is a burden affecting the less economically favored population to a larger extent and limiting economic growth opportunities in the long-term.

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<sup>5</sup> The annual variation of the Consumer Price Index (CPI) was 1.84% in March 2010, and 1.98% in April of the same year.

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Since its complete implementation with foreign exchange flexibility, the Bank attained in 1999 single-digit inflation rates and it was converting to the long-term target range defined by the Board of Directors (2%-4%).

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- It gives place to an inefficient allocation of resources. Inflation distorts information that can be extracted from changes in input-related prices (for instance, labor cost as opposed to capital cost). Due to this, enterprises are prone to make wrong decisions and allocate their resources in inefficient manners (speculative activities versus productive activities).

- It has negative effects on the development of the financial market, and through this channel on economic growth as well. The savers' preference for assets protecting them against inflation reduces the resources available for credit operations. A restricted access to financing sources affects capital accumulation rates and, through this channel, it also affects potential economic growth.

- Inflation uncertainty gives rise to distortions at the labor market. In an inflation scenario, the salaried persons' remuneration loses its value very quickly, and this fact increases negotiation costs while reducing incentives for people to work as well as the duration of employment contract.

- It has a regressive effect on income distribution, since the poorest population either has no access to financial markets or is unable to purchase assets as a hedge against inflation.

Output growth around its long-term trend (smoothing the fluctuations of the economic cycle)

The relationship between economic growth, inflation and monetary policy can be understood if the evolution of the economic output is analyzed in the course of time; then it is possible to see that it exhibits a growing trend in the long term accompanied by medium and short-term fluctuations around it.

The long-term trend in the output depends upon diverse factors such as technological development, physical and human capital quality, and social and institutional aspects determining resource allocation efficiency and affecting the productive economic capacity as well. Although the monetary policy cannot directly contribute



Meeting of the Board of Directors of Banco de la República

to increase the productive potential of the economy, it can do so indirectly by succeeding in maintaining inflation low and stable. Inflation, in its acting as a burden and constituting a source of price variability, distorts resource allocation in the economy and reduces its saving and investment capacity. Therefore, low and stable inflation eliminates in the economy a source of uncertainty that affects its long-term performance.

Short-term fluctuations occur because there are events (“shocks”) of different nature (supply and demand) and of different (external or internal) origin affecting the economic operation, particularly in small and open economies such as the Colombian economy. Therefore, the output may be temporarily deviated from its potential. Since markets work in an imperfect way and do not immediately adjust to the shocks, they create mismatches between aggregate supply and demand which deviate the output from its potential and, consequently, affecting inflation. Monetary policy can then contribute directly to reducing economic cycle volatility if it uses its instruments in a countercyclical manner.

Recently, monetary policy, with the help of financial stability and foreign exchange flexibility, has acted in a countercyclical way by reducing inflation volatility and contributing to the output stabilization around its potential level. The results of this are both the resistance of the Colombian economy and its agile recovery vis-à-vis the recent international financial crisis. In fact, in 2009 it grew 1.5% plus 3 percentage points above the average Latin American economies; in 2010, it recovered rather quickly and grew 4.3%, getting close to its potential rate despite the adverse effects suffered from the suspension of trade with Venezuela.

### Inflation Targeting Strategy

Since the early 90s, some countries including Colombia chose to define quantitative inflation targets as part of a strategy aimed at reducing inflation and keeping it low and stable. This gave way to a strategy known as inflation targeting, by which the central bank is publicly committed to attain a certain level of inflation and contribute to

smoothing the economic cycle. Since its complete implementation with foreign exchange flexibility, the Bank attained in 1999 single-digit inflation rates and it was converting to the long-term target range defined by the Board of Directors (2%-4%).

The main monetary policy instrument in the inflation target scheme is the benchmark interest rate, this being the interest rate at which the Bank supplies liquidity to the financial intermediaries through one-day repo operations<sup>6</sup>. By defining this interest rate, the Bank influences the longest-term interest rates in the economy, as well as asset prices and inflation expectations, and, in this manner it affects consumption smoothing the output cyclical fluctuations around its trend, thus influencing inflation.

For this purpose, the Board of Directors is permanently monitoring the behavior of both the economy and the different markets. In its regular sessions, which are programmed once a month, the Board decides whether to maintain, raise or lower the benchmark interest rate, taking into account that it affects inflation and growth with long and variable lags. Their decision considers, among other elements, the documents prepared by the Bank’s technical staff, the recent evolution and short-term projection of different macroeconomic variables such as inflation and the gross domestic product, as well as the evolution of local and international markets. The purpose of the decision consists on aligning the benchmark interest rate with the forecast and perception of the future behavior of both inflation and the economic activity.

Documents prepared by the Bank’s technical staff are a fundamental part of this analysis. Among other matters, in these documents the following is analyzed: the situation of the Colombian economy and the international context; the behavior of variables likely to affect inflation and economic growth, and their long-term perspectives. Predictions of the economic activity are made, and risk analyses and monetary policy exercises are presented. In addition, inflation

<sup>6</sup> In the one-day repo operations, financial intermediaries obtain liquidity from the Central Bank at the reference rate while giving as collateral a public debt security.

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Since its complete implementation with foreign exchange flexibility, the Bank attained in 1999 single-digit inflation rates and it was converting to the long-term target range defined by the Board of Directors (2%-4%).

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forecasts information is incorporated into these analyses, as gathered by means of surveys among the financial intermediaries, or estimated according to the behavior of the public debt market.

### Instruments for monetary policy analysis

Since inflation and the output react in a sluggish way to changes in the monetary policy benchmark rate level, assessing the possible effects of monetary policy in the future is very important to the Bank. For this purpose, it uses prediction models which estimate the probability to achieve the inflation target established, given a path of the reference interest rate, and economic models which allow to carry out policy simulations as well as mid-term (2-year) forecasts for the GDP, the output gap (the distance between the potential GDP and the observed GDP), and inflation.

An example is the Transmission Mechanism Model (MMT) for forecasting, which associates the predictions of the main macroeconomic variables with *Banco de la República* policy, as it incorporates the response of the monetary authority to different shocks experienced by the economy<sup>7</sup>. A second model called Policy Analysis Tool Applied to Colombian Needs (*Patacon*) incorporates the most recent academic advancements in terms of central banking models which have helped broaden the range of possible simulation and analysis exercises<sup>8</sup>. The model allows for: i) comparing the effects of alternative monetary policies with the effects of effectively adopted measures; ii) simulating and quantifying the impact on the economic activity of marked changes in some macroeconomic variables; iii) summarizing in a coherent manner the information of a wide group of macroeconomic series observed in order to make their interpretation easier, and iv) make predictions based on

7 For further model details, see *Informe sobre Inflación* (Inflation Report) of June 2005, pp. 65-67.

8 More information can be consulted in A. Gonzalez, L. Mahadeva, J. D. Prada, and D. Rodriguez (2011), "Policy Analysis Tool Applied to Colombian Needs: Patacon", Borradores de Economía, Banco de la República, num. 656, may.

exogenous variables, which helps simulating risk scenarios.

### Other monetary policy instruments

To ensure a low and stable inflation, as well a sustained output growth over a long-term horizon, the Bank has to act in a preventive manner to avoid significant unbalances endangering macroeconomic stability and the attainment of the inflation targets. For this purpose it has used an additional set of policy instruments supplementing the interest rate instrument; due to the close relationship of financial stability with these objectives, sometimes these instruments contribute to support such stability.

Interventions in the foreign exchange market are an example of supplementary instruments; they have enabled the country to increase the international reserve balance, therefore allowing it to consolidate its external position in the face of a possible adverse shock in international markets. The Bank may as well use tools like the ordinary legal reserve, the marginal reserve on bank deposits<sup>9</sup>, and the external debt deposit, among others, to control financial unbalances and supplement the interest rate policy. Similarly, for many years now, the Bank established standards to limit banks' foreign exchange and term mismatches<sup>10</sup>, as well as the counterparty risk in derivatives operations.

### Monetary policy communication

Transparency and proper communication of monetary policy decisions play a very important role in the inflation targeting

9 The ordinary banking reserve (*encaje ordinario*) pertains to a percentage of deposits that financial establishments must keep as reserve to meet possible withdrawals by savers. The marginal banking reserve (*encaje marginal*) corresponds to an additional reserve on the deposit amount exceeding a certain threshold that banks must maintain as a reserve.

10 The exchange system regulates, among others, financial intermediaries' external debt operations. With respect to this, active operations (credit placement) must have a term either equal to or shorter than passive operations (external debt). Additionally, exchange exposure or difference between the active positions and passive positions (exchange mismatch) is limited for the purpose of reducing the entities' vulnerability to abrupt exchange rate fluctuations.

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The Bank may as well use tools like the ordinary legal reserve, the marginal reserve on bank deposits, and the external debt deposit, among others, to control financial unbalances and supplement the interest rate policy.

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## MONETARY POLICY DURING THE 2004-2008 PERIOD

During 2004-2008, Colombia, like other emerging countries, benefited from a substantial increase on its terms of trade<sup>1</sup> and external demand for its products. This, coupled with better internal security conditions and increased confidence in the country, led to a boom in economic growth and capital flows.

The increase in aggregate demand (consumption, investment and exports) accelerated since mid-2005, initially driven by investment. However, since mid-2006, acceleration in private consumption above the economy's potential growth rate was noticed, which was generating inflationary pressures that could compromise the compliance of the targets set by the *Banco de la República*.

At that, the Bank reacted by gradually raising interest rates. With this gradual increase, it was sought to moderate inflationary pressures generated by a strong growth in aggregate demand and credit growth, which recorded a strong acceleration, particularly in the consumer and commercial loan portfolios. The slow transmission of monetary policy, and the limited reaction observed in the loan portfolio, indicated the convenience of taking complementary measures. In this context, and with the purpose of mitigating private sector's debt, the decision to establish a marginal reserve requirement on credit institutions deposits was taken. Complementarily, the external

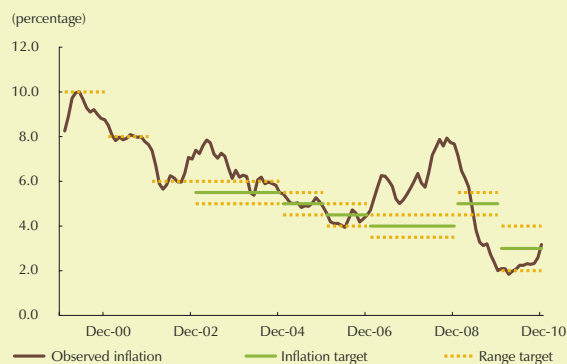
borrowing deposit was reactivated, and a limit to financial institutions exchange rate on derivatives position was put in order to reduce systemic risk.

To complement this, the Ministry of Finance and Public Credit established a deposit on portfolio foreign investment. Meanwhile, the Financial Superintendency, rose provision requirements on commercial and consumer loan portfolios, and guided a financial system's earnings retain process in order to reinforce intermediaries solvency.

This set of macroprudential measures, complemented by the accumulation of reserves during the economic growth boom period, along with other regulatory measures imposed in the past, allowed that the adjustment of the Colombian economy during the 2008-2009 international crisis, to be softer than that of other emerging economies. This made it possible that, in contrast to the observed in previous cycles, the exchange rate would depreciate, helping to absorb the negative external shock, without compromising the inflation target. It also helped that the Board of Directors could aggressively and quickly reduce the intervention interest rate (from 10% in December 2008 to 3% in May 2010), with the purpose of timely mitigating the external shock impact on the economy, keeping inflation stable (Graph A). The product, in annual terms, did not record negative growth rates during the crisis, unlike what happened in other emerging and developed world economies (Graph B).

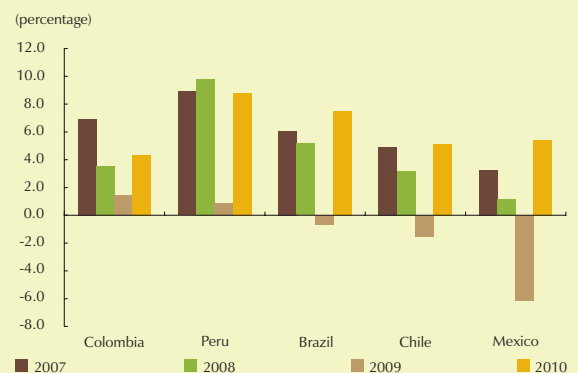
1 Terms of trade are known as the ratio between export prices and import prices

Graph A  
Annual inflation and target range



Source: DANE (National Administrative Department of Statistics), Banco de la República calculations.

Graph B  
GDP annual variation

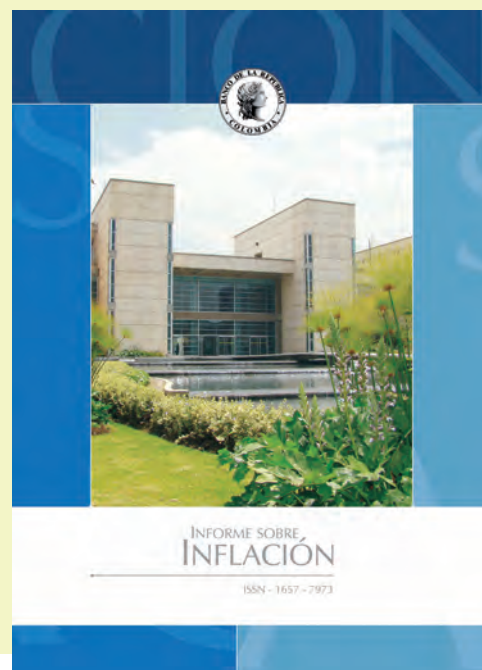


Source: Datastream, Banco de la República calculations.



## INFLATION REPORT

Since 2005, the Governor presents to the general public, live and directly by the Institutional television channel, the *Inflation Report*. These presentations are held four times a year, in developing a systematic two-way communication policy with different audiences, on which the behavior of the indicators that define the country's economic present and future, is presented in a simple and educational manner. At the same time, the respective document is made public.



strategy. For this reason, the Bank publishes the Inflation Report every three months in order to announce the information and analysis combination based on which monetary policy decisions are made.

## SUPPORT TO FINANCIAL STABILITY

The financial system plays a crucial role in economic growth by improving resource allocation. Its proper performance helps resources to flow from savers to the most productive projects, and this contributes to both macroeconomic stability and sustained economic growth. In addition, financial soundness is an essential factor for monetary policy to meet the objective of smoothing economic cycles. Financial instability environments truncate monetary policy transmission mechanisms, which may compromise the attainment of inflation targets and make it difficult for the Bank's actions to have an impact on the economic activity.

Within this context, the Bank is a very important actor in attaining the objective of financial stability. On the one hand, the Political Constitution determines that *Banco de la República*, as the lender of last resort, must support in an exceptional manner those credit establishments facing temporary liquidity problems, provided that these difficulties are not motivated by solvency problems. The Bank's action seeks

to prevent liquidity problems from turning into systemic financial crises understood as those in which access to the credit market is abruptly interrupted with negative effects on economic activity of the real sector.

On the other hand, the Bank is carefully and permanently monitoring the financial markets, particularly the credit market, in order to identify when excessive expansions occur likely to compromise macroeconomic stability, financial stability, and the achievement of inflation targets. For instance, an unsustainable spending expansion driven by excessive household and firms' debts might heighten volatility and asset pricing and exacerbate the economic cycles. Financial system monitoring enables the Bank to identify system trends and risks and adopt timely measures leading to the attainment of its objectives.

Finally, the proper functioning of payment systems is an essential part of the financial system stability. Aware of its relevance and legal responsibility, the Bank supports initiatives to help the payment systems in the economy to perform their operations in a secure, self-confident, efficient and timely manner

## Lender of last resort

The Colombian Constitution has assigned to *Banco de la República* the role as lender of last resort. This typical function of

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The financial system plays a crucial role in economic growth by improving resource allocation.

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The Central Bank is in favorable conditions to lend resources if no other entity has the capacity or the desire to do it, and it is interested in doing it in order to minimize contagion risks likely to lead to “financial panic”.

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central banks worldwide is supplementary of the routine supply of liquidity associated with the performance of monetary policy, and it is materialized through transitory liquidity supports.

The regulation establishes that the Bank may be the credit establishments’ lender of last resort whenever they face temporary liquidity difficulties, provided they are not motivated by insolvency problems, and according to the conditions set forth by the Board of Directors<sup>11</sup>. The central bank is in favorable conditions to lend resources if no other entity has the capacity or the desire to do it, and it is interested in doing it in order to minimize contagion risks likely to lead to “financial panic”<sup>12</sup>.

In normal situations, credit establishments are ready to face moderate withdrawals of their clients’ deposits; however,

if they are sudden and of great magnitude, a financial institution might not have liquidity enough to supply the withdrawn funds, even if they are solvent. For instance, in the face of an unexpected and mass withdrawal of funds, a solvent entity may confront the fact that it cannot sell its assets immediately or, should it be able to do it, it would find it extremely costly; similarly, rumors regarding the financial solvency of a given entity might impede its access to credit without that situation being real.

Because the credit chain in any economy is based on expectations regarding the creditors’ ability to meet their commitments, difficulties in an entity’s liquidity are likely to spread very quickly and infect other entities, in this way creating a financial crisis. This market failure justifies the state action and because this role is played by the central bank, as was already mentioned, *Banco de la República* performs this function in its condition of lender of last resort.

### Monitoring of the Financial Market

The Bank very carefully monitors the financial markets in order to assess the health of the financial system and its major risks, as well as to identify situations which are likely to compromise financial and

### FINANCIAL SAFETY NET STRENGTHENING

One of the most important lessons for Colombia on the financial crisis of the late nineties and the recent international financial crisis, is the need to strengthen the financial safety net consisting of the Ministry of Finance and Public Credit, the Financial Institutions Guarantee Fund (Fogafin in Spanish) and *Banco de la República*<sup>1</sup>, for which the Monitoring of the financial system Coordinating Committee has been established.

The crisis scenarios have been put in evidence the absence of mechanisms to share relevant information, the use of independent monitoring systems, duplicated

or incompatible, and the inexistence of early warning systems and coordination schemes to act against entities in trouble.

En esta dirección, las entidades que conforman el Comité avanzan en el desarrollo de acuerdos de intercambio de información, el fortalecimiento de mecanismos de coordinación, la creación de estrategias de comunicación y protocolos de intervención, con el fin último de contar con un ente más activo para lograr

In this direction, the entities that comprise the Committee, advance in the development of information exchange agreements, the strengthening of coordination mechanisms and the creation of communication strategies and intervention protocols, with the ultimate aim of having a more active entity to achieve a proper monitoring of the financial system and increase the responsiveness of the State before a possible crisis scenario.

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1 The lack of proper coordination mechanisms between the members of such net prevents to develop prevention strategies and successful crisis resolution program

## UNIFIED SYSTEM FOR THE MONITORING AND ANALYSIS OF THE FINANCIAL SYSTEM (SUMA)

In recent years, the Bank has been working on the development of preventive reports on the performance of the financial sector and the analysis of its risks, and has improved its information systems to assess the economic situation of the financial intermediaries.

For this, it developed the unified system for the monitoring and analysis of the financial system (SUMA in Spanish). This is a tool that collects information from financial statements and special formats of the Financial Superintendency, and helps to strengthen the assessment and monitoring of the financial system work.

macroeconomic stability and the achievement of inflation targets. This work is supplemented with information collection through surveys serving to capture the perception of intermediaries with respect to credit and the household financial obligations. Overall, these initiatives offer a clear overview of the financial system trends, which results in a sounder support to better-informed policy decision-making.

The Bank carefully supports the financial system vulnerability analysis on two pillars. On the one hand it carries out the quantitative measurement of its risks in order to obtain an order of magnitude of its likely materialization. On the other hand, it continuously strengthens the measurement and monitoring techniques. Currently, efforts are focused on credit, liquidity, and marketing risks, although an intent is made to include a measurement of the systemic risk of financial institutions in the analysis, particularly in the light of recent events resulting from the international financial crisis. Besides, the Bank is permanently monitoring the local financial markets, the analysis and understanding of which is essential to the authorities in charge of regulation and other participants as well.

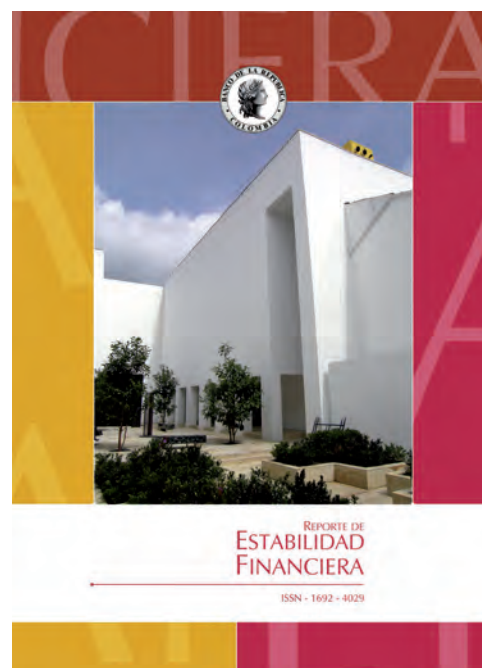
### Publications

The Financial Stability Report (*Reporte de Estabilidad Financiera*)<sup>13</sup> is the most important bi-annual publication of the Bank with respect to this matter, intended to

<sup>13</sup> Available in: [http://www.banrep.gov.co/publicaciones/pub\\_es\\_fin.htm](http://www.banrep.gov.co/publicaciones/pub_es_fin.htm).

keep the public informed about trends and risks concerning the overall financial system. For this purpose, the report describes the recent performance of the financial systems and its main debtors in order to visualize trends and detect the most important risks faced by financial intermediaries.

Additionally, the Bank develops research documents dealing with topics of financial stability including the most recent advances in international literature applied to the Colombian case<sup>14</sup>, which serve as a reference to support decision making in the institution and also to back efforts by other entities such as the Financial Superintendence of Colombia.



<sup>14</sup> They are published in the *Temas de Estabilidad Financiera*, series, available at <http://econpapers.repec.org/paper/bdrtemest/>

Finally, the Financial Markets Report (*Reporte de Mercados Financieros*)<sup>15</sup> is published through the Bank's electronic Website on a quarterly basis. It analyzes and evaluates the behavior of the foreign exchange, monetary, fixed-income, and stock markets. This document includes an analysis of the behavior of the international market allowing its comparison with the local markets. Likewise, a report on derivatives operations is published. Table 5 summarizes the reports published in 2010.

### Surveys

From time to time, the Bank carries out surveys aimed at gathering information on the perception of financial intermediaries with respect to credit in Colombia.

15 Available at [http://www.banrep.gov.co/publicaciones/reporte\\_mercados.html](http://www.banrep.gov.co/publicaciones/reporte_mercados.html).

The main objective of this initiative is to analyze the current and sector credit situation, the changes in allocation policies occurring in the short term, and the financial intermediaries' expectations for the next months. The main results of these surveys are available in the Report of the Credit Situation in Colombia (*Reporte de la situación del crédito en Colombia*)<sup>16</sup>.

### Other initiatives

Within the framework of sustained growth, both savings and investment are fundamental factors for the good functioning of the financial system. Based on this premise, the Bank makes recommendations in terms of financial regulation, aimed at promoting the development of new financial products.

16 Available at [http://www.banrep.gov.co/informes-economicos/ine\\_enc\\_sit-cred-col\\_cp.html](http://www.banrep.gov.co/informes-economicos/ine_enc_sit-cred-col_cp.html).

Chart 5  
Monitoring of the financial system and markets reports releases (2010)

Reports or documents	Number of documents published in 2010
<i>Financial Stability Report</i>	2
<i>Financial Markets Report</i>	4
<i>Financial Stability Issues</i>	10
Derivates Operations Monthly Report	12

Source: Banco de la República.

### SURVEYS FOR MEASURING FINANCIAL BURDEN AND FINANCIAL CAPABILITY

In order to improve both qualitative and quantitative financial information, the Bank has promoted the development of surveys designed to measure the financial burden and the levels of financial capability of households. This initiative allows focusing the financial and economic literacy programs promoted by the Bank, as well as having a clearer panorama on household debt, very relevant information for making monetary policy decisions.

In the particular case of the literacy and financial burden survey<sup>1</sup>, the collected information has allowed improving the understanding of the access that people have to financial services, and the possible difficulties faced in acquiring some of them, thus becoming an ideal tool for monitor advances in banking. In this direction, in the most recent *Financial Stability Reports*, some papers and related boxes on the bancarization topic have been published.

1 Available at [http://www.banrep.gov.co/publicaciones/pub\\_es\\_fin.htm](http://www.banrep.gov.co/publicaciones/pub_es_fin.htm) "Estimación de la carga financiera en Colombia".

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Payment systems are a basic component of the infrastructure of the financial and capital markets, the core function of which is ensuring money circulation safely and efficiently at the national and international levels.

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Along this line, the Bank has prepared research documents focusing on characterizing the micro-credit portfolio risk<sup>17</sup>. Based on these documents, some amendments to the current regulation on provisions and capital regulations have been proposed, for them to more properly reflect the risk inherent in this business activity. Likewise, the institution has taken part in the preparation of a set of programs led by the Government and designed to favor access of the entire population to financial services. Among them, the following stand out: the coming into operation of the non-banking correspondents, the implementation of the Opportunity Bank, and the Rural Opportunities program.

### Support the Operation of the Payment System

Payment systems (“SPs”) make transfers of money and financial instruments easier among economic agents; in this way they contribute in a very important

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17 Available in [http://www.banrep.gov.co/publicaciones/pub\\_es\\_fin.htm](http://www.banrep.gov.co/publicaciones/pub_es_fin.htm). Análisis comparativo del riesgo crediticio: una aproximación no paramétrica”; situación actual del microcrédito en Colombia: características y experiencias”, and “Bank Provisioning and Microcredit”, September 2010.

manner to the good performance of the financial system and the economy in general, therefore also to financial stability and monetary policy implementation. Moreover, the “SPs” are a basic component of the infrastructure of the financial and capital markets, the core function of which is ensuring money circulation safely and efficiently at the national and international levels.

### *Banco de la República* as Provider of Financial Infrastructure

Since its creation, *Banco de la República* has contributed to the good functioning of the payment systems (“SPs”) through the rendering of diverse services to financial entities and the Government. The objective of these systems is to allow for financial and commercial transactions to be carried out efficiently while preserving the public’s confidence in the use of money as an instrument of payment.

At present, the most remarkable of these services is operating the large-value payment system since it is the central axis of the country’s financial infrastructure. The operational platform by which this service is rendered is known as the deposit account system (“CUD”). As shown

### BENCHMARK BANKING INDICATOR

In order to develop the money market and to strengthen the transmission mechanisms of monetary policy, the Bank supported the construction and release of a tool for reflecting the liquidity of the money market. This instrument is known as the benchmark banking indicator (IBR in Spanish), and shows the price at which the agents involved in this scheme are willing to provide or raise funds in the money market.<sup>1</sup> The introduction of a reliable indicator of liquidity conditions is crucial for the development of the Colombian market for various financial

contracts, which, in turn, allow improving financial risk profile and management.

The project of building the IBR emerged from a joint work between the Asobancaria (the bankers association), *Banco de la República* and the Ministry of Finance and Public Credit. The Bank is the entity administering the scheme, which began operating since January 2008, and among its functions, it is to enable and manage the system that allows the sending of prices on which the IBR is calculated, and publishing the results through this system and on the website.<sup>2</sup>

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1 Currently, the IBR is calculated for two terms: one day and one month.

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2 Available at [http://www.banrep.gov.co/series-estadisticas/see\\_ts\\_ibr.html](http://www.banrep.gov.co/series-estadisticas/see_ts_ibr.html)

in Graph 1, both the volume and the value of operations channeled by the CUD exhibit sustained growth in the course of time. For 2010, the daily average of transactions settled amounted to COP33.3 trillion (T), which is equivalent to 6.1% of the annual GDP.

With regard to check clearing, the Bank renders this service since the 20s by offering compensation chambers; these are where the physical exchange of documents is carried out. Credit establishments can take part in this service, as well as the Bank itself. In addition, the electronic compensation system -Cedec- operates in eight major cities in the country since 1999, thus enabling the information of all checks presented for cashing or return to be processed in each one of these cities. Graph 2 allows us to see that during 2010 a daily average of 148.342 checks

were compensated, for an average value of COP1.59 T

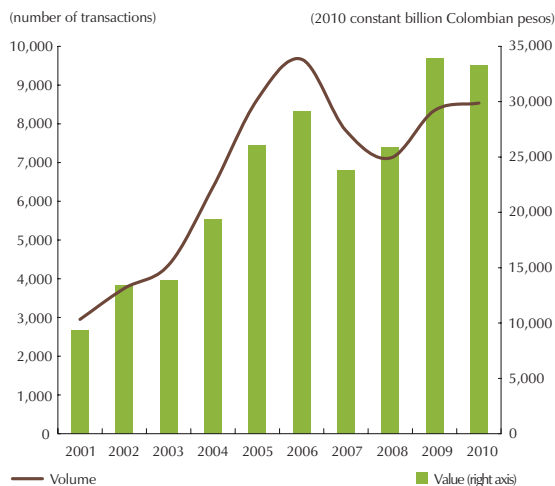
A third service rendered by the Bank is the administration of the ACH-Cenit (national interbank electronic compensation<sup>18</sup>). The following are among the most significant payments made by this chamber: payrolls, social security, suppliers, and drafts to territorial entities. The evolution of value figures and payment volumes made through this mechanism is explained by the public's growing preference for safer and more efficient payment instruments (electronic payments) as compared with cash and checks (Graph 3). During 2010, a daily average of 31,000 payment instructions were

18 This is a compensation chamber designed to offset their participants' debtor and creditor electronic transfers, which they automatically settled against the deposit accounts of the authorized entities at the Bank.

## DEPOSIT ACCOUNTS SYSTEM (CUD)

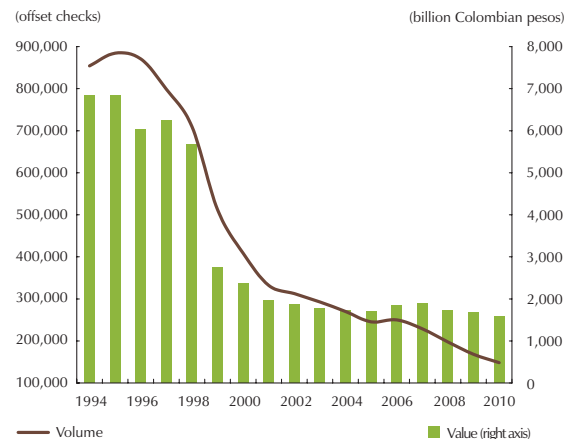
The CUD is the deposit accounts system, and the only high value payments system in Colombia. It is administered by *Banco de la República*, and is the hub and support of the entire financial infrastructure; it is where the settlement of transactions performed with the financial assets of the country and with the payment instruments issued by banks is carried out.

Graph 1  
High value payments system's (CUD) value and volume statistics, daily averages



Source: Banco de la República.

Graph 2  
Value and volume of offset checks at the Cedec and checks clearing houses, daily averages (constant billion Colombian pesos)



Source: Banco de la República.

compensated through this chamber in an amount equivalent to COP460 billion (B)

### Follow-up of the Payment System

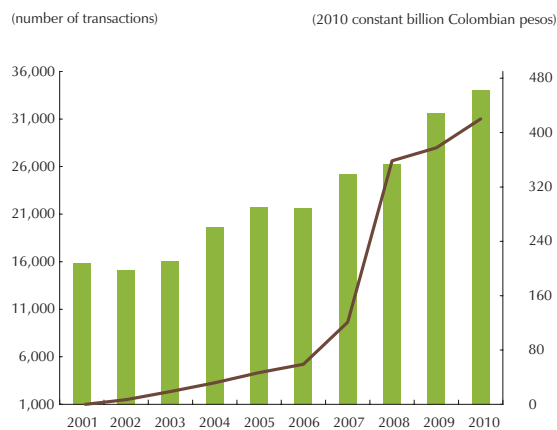
*Banco de la República* has undertaken new activities oriented to strengthen the follow-up of the overall payment

system. On the one hand, in the External Resolution 5 of 2009 of its Board of Directors, the definition of the task dealing with the payment system “follow-up” task stands out, for which the following reference parameters were established: i) its safe and effective functioning; ii) its interaction with other external systems, and iii) its incidence on systemic risk and the overall financial system stability.

A relevant action in that sense is the publication of the Payments Systems Report being prepared annually since mid-2010. By means of this document, the public is informed about the evolution of the main infrastructures composing the country’s payment and settlement systems of securities and other financial assets. It has been planned to reinforce it on a gradual basis by means of more thorough analysis regarding the safety and efficiency of these financial infrastructures. For more detailed information, go to: [http://www.banrep.gov.co/publicaciones/pub\\_rep\\_sist\\_pag.htm](http://www.banrep.gov.co/publicaciones/pub_rep_sist_pag.htm)

Likewise, in the modification of the organization structure carried out in 2010, the Bank created the Financial Structure Follow-Up Department of

Graph 3  
ACH Cenit’s transactions value and volume



Source: Banco de la República.

### ELECTRONIC CLEARING SYSTEM (CEDEC)

Cedec is the electronic clearing of checks and other payment instruments system. This system allows processing electronic information from checks presented for collection and those who have been returned in every city, making their registration and calculating net positions. The physical exchange of documents takes place in the clearing houses of Banco de la República.

### ACH-CENIT

ACH-CENIT is the domestic interbank electronic clearing system administered by *Banco de la República*. It is an automated clearing house (ACH), which processes electronic payment orders and low value transfers of funds or collections. This payment system can be used for any purpose but, increasingly, it is being used for recurrent or mass payments (salaries, pensions and suppliers, as well as for utility billing, the purchase of all types of goods and services, etc.) by electronic means, charged to current or savings accounts at any bank office and city in the country. An application that has presented a special dynamic in Colombia is that of social security payments.

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In the modification of the organization structure carried out in 2010, the Bank created the Financial Structure Follow-Up Department of Financial Infrastructure Oversight within the Payment Systems and Banking Operations Division.

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Financial Infrastructure Oversight within the Payment Systems and Banking Operations Division. The follow-up work to be performed by this department consists of monitoring the financial infrastructure from an integral perspective thereof, as well as the interconnections among the systems composing it and its participants. This monitoring process will allow for the identification and dimensioning of likely functioning risks. Besides, with the creation of this area the entity is seeking to strengthen research in this subject, as well as to develop methodologies for the analysis of the overall payment systems stability, as a component of other resources used by the Bank so support financial stability.

## CHALLENGES

### Low and stable inflation

- To improve the predictive ability of the different forecasting models.

- To use additional monetary market instruments to extract information on the benchmark interest rate expectations.

### Support financial stability

- To strengthen monitoring and achieve a better understanding of the non-banking financial system.
- To keep both analysis and development of risk models and macro-prudential supervision at the highest international levels.
- To modernize and strengthen the rendering of services to the financial system.
- To improve the quality of information pertaining to the household debt in order to reinforce the analysis of its main risks.
- To support initiatives to encourage access to banking services and financial capacity in order to foster financial stability in the long term.
- To analyze the way to support temporary liquidity problems of financial entities other than credit establishments within the Financial Security Network.





RESPONSIBLE MANAGEMENT  
OF OTHER FUNCTIONS OF  
CENTRAL BANKING

# RESPONSIBLE MANAGEMENT OF OTHER FUNCTIONS OF CENTRAL BANKING

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The responsible performance of functions such as banknotes and coin production and distribution, foreign reserve management and the rendering of services to the Government are an important part of the Bank's commitment to sustainability.

In the exercise of other central banking functions, *Banco de la República* produces and distributes banknotes and coins, manages foreign reserves, and renders diverse services to the National Government, among other activities. Performing these activities responsibly is part of the Bank's commitment to society.

These functions include: cash production and distribution while controlling their impact on the environment, and using safe and efficient processes; investment of resources entrusted by employing modern asset administration theories within a safety and liquidity framework, ensuring an appropriated return; rendering of services to the Government in a safe and efficient manner, enabling it to meet its obligations towards the citizens.

## CASH PRODUCTION AND DISTRIBUTION

By Constitutional mandate, *Banco de la República* has been assigned the function of issuing the legal tender consisting of

banknotes and metal coins. In performing this function, the institution must ensure the timely provision of currency with the quality standards demanded by both the economy and the general public to carry out cash transactions.

A relevant evidence of this managing action is the development of banknote and coin production programs, accounting for 100% and 99.92% on average, respectively, in the past five years. Table 6 shows this information in detail.

In the cash management cycle, the Bank receives and classifies the banknotes and coins deposited by financial entities to their deposit accounts. Through this classification process, banknotes suitable for circulation are separated from those destined for destruction, which are replaced due to their deteriorated condition. The indicator related to this activity shows 100% compliance with banknote and coin classification according to the policies and time schedules established.

In order to meet cash demand with excellent quality standards and a good cost-benefit relationship, the Bank

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The institution must ensure the timely provision of currency with the quality standards demanded by both the economy and the general public to carry out cash transactions.

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Chart 6  
Banknotes and coins production, 2006 to 2010

Activity	2006			2007			2008		
	Number of planned pieces (millions)	Number of produced pieces (millions)	(percentage)	Number of planned pieces (millions)	Number of produced pieces (millions)	(percentage)	Number of planned pieces (millions)	Number of produced pieces (millions)	(percentage)
Banknotes production	887.8	887.8	100.0	942.7	942.7	100.0	1,075.6	1,075.6	100.0
Coin production	290.8	290.2	99.8	366.8	366.2	99.8	436.4	436.4	100.0

Actividad	2009			2010		
	Número de piezas planeadas (millones)	Número de piezas producidas (millones)	(porcentaje)	Número de piezas planeadas (millones)	Número de piezas producidas (millones)	(porcentaje)
Banknotes production	1,063.9	1,063.9	100.0	1,029.8	1,029.8	100.0
Coin production	126.7	126.7	100.0	261.9	261.8	100.0

Source: Banco de la República.

establishes in addition diverse improvement plans for several stages in the cash production and distribution processes within its various strategic plans. The current plan intends to increase productivity in industrial plants by means of technological changes and a revision of the existing processes. The Banknote Printing House has been granted the ISO 9001:2008 certification, while the Mint has held it since 2004.

### Banknote Production

The construction of the Cash Center<sup>19</sup>, one of the most modern cash production and processing in Latin America, was very significant to meet the increasing demand of banknotes. This project involved the development of an advanced industrial complex essentially oriented to three main purposes:

i) to enhance the production and operation capacity of the Banknote Printing House and the Treasury' Department (the

<sup>19</sup> Information regarding the Cash Centre can be consulted at [http://www.banrep.gov.co/billetes\\_monedas/index.html](http://www.banrep.gov.co/billetes_monedas/index.html).

### HOW MANY BANKNOTES AND COINS ARE THERE IN COLOMBIA?

The provision of banknotes and coins results from the demand of monetary species by the public, and is reflected in the amount of banknotes and coins in circulation. The demand for currency has introduced a gradual increase, partly explained by the growth of the economy: it rose from 957 million banknotes and 6.305 million coins at the end of 2001, to 1.997 million in banknotes and 8.643 million in coins in 2010. In percentage terms, banknotes in circulation doubled, and for coins it increased by 37%.

Including population growth in these calculations, in 2001 there were 23.1 banknotes per capita, while in 2010 this figure was of 38.8.<sup>1</sup>

<sup>1</sup> See the statistical series at [http://www.banrep.gov.co/billetes\\_monedas/bm\\_estadistic.htm](http://www.banrep.gov.co/billetes_monedas/bm_estadistic.htm).

areas of the Bank in charge of cash production and distribution; ii) to heighten productivity in banknote manufacturing and distribution; and iii) to reduce risks and costs associated to this activity.

The commissioning of this Center involved the technological renovation of the old Printing House with the acquisition of new equipment for one of the two existing production lines. The new technology allowed printing in a larger paper format and using more effective systems while reducing natural resource consumption and ensuring safer operations.

This is how the Printing House has increased its production by 16% in the past five years by shifting from 887.8 million pieces in 2006 to 1,029.7 million in 2010. Reaching this goal also demanded significant efforts to improve both processes and invest in additional equipment for them. The following are examples of these initiatives: the acquisition of a banknote varnish-coating machine, and the automatic printed-paper inspection

system to prevent bottlenecks in the production process.

As was already mentioned, the new technology also contributed to increase the number of prints from 20 to 60 banknotes per sheet of paper due to a slight reduction in the size of banknotes for the Colombian peso of \$1,000 and \$2,000 denominations, which are the most circulated, by shifting from 7.0 x 14.0 cm to 6.5 x 13.0 cm. This accounted for a productivity increase in the course of the entire printing process and a cost reduction of 14.5% for the COP\$1,000 banknote and of 8.8% for the COP\$2,000 banknote.

### Coin Manufacturing

In the past five years, the Bank made significant efforts in terms of renovating the equipment of the Mint located at Ibagué. The purpose of this renovation was to prevent bottlenecks in the manufacturing process for products preceding



An employee from the Bank verifies the quality of a sheet of COP \$1,000 peso banknotes at the Printing Works facility.

## LONGER LIFESPAN FOR BANKNOTES FOR A LOWER ENVIRONMENTAL IMPACT

In 2007, the Bank<sup>1</sup> completed a study on varnish technology, which consists of protecting the finished note, which has been printed on standard paper with a transparent layer which seeks to extend the time the note in circulation remains clean, thus increasing its durability. Based on this study, the Bank acquired one varnishing machine, which began operation in the second half of 2008, with the denominations of \$ 1,000, \$ 2,000 and \$ 20,000 Colombian pesos. So far, the obtained result is an increase in

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1 See the description of the notes printing process at [http://www.banrep.gov.co/billetes\\_monedas/bm\\_imp.html](http://www.banrep.gov.co/billetes_monedas/bm_imp.html).

lifespan of 74.5% for the \$ 1,000 note, and of 72.5% for the \$ 2,000 one.

The varnishing helps better quality and more resistant to dirt notes to circulate, making it easier for citizens to recognize and validate their safety elements. This process also represents an advantage for the Bank's Treasury, as the amount of damaged banknotes to be classified and destroyed decreases by about 50%, as well as the movement of values from other cities to the capital.

To increase the lifespan of notes, does not only have a direct effect on production costs, but it also has a positive environmental impact, by reducing the use of paper, inks and production inputs, while lowering transport and distribution requirements, and generates less waste from the destruction of banknotes out of circulation at the end of their useful life.

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The integration of banknote printing and cash distribution in a single place generates synergies in cash transportation, manipulation and storage, thus reducing associated costs and risks.

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minting, known as strips and coin blanks or planchets.<sup>20</sup> The biggest obstacle was the production of bimetallic coins like the COP\$500 denomination. However, due to the renovation of the coinage equipment, this difficulty was overcome, and therefore it was possible to meet the demand of this coin in the past five years while improving the processes in order to achieve more efficient and clean production in environmental terms. In addition, an important reduction of rejected material from 12.6% in 2006 to 3.9% in 2010 was possible. The newly acquired technology will be very useful in the production of higher denomination bimetallic coins, since it makes it possible to incorporate coins features that make falsification very difficult.

Likewise, equipment update served to introduce modern operation technologies and automated control in the process, which made preventive and predictive maintenance of machines easier<sup>21</sup>. In this manner, the effective availability improved

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20 See coin manufacturing description at [http://www.banrep.gov.co/billetes\\_monedas/bm\\_fab\\_proceso.html](http://www.banrep.gov.co/billetes_monedas/bm_fab_proceso.html).

21 Exercise consisting of a diagnosing when a failure can be expected in an equipment or equipment element in order to schedule the necessary human resources, spare parts, and general availability that may be required to attend to the inconvenience before its occurrence.

in several production stages, obtaining, in some cases, increases from 60% to 90% of the original equipment's capacity, some of which have been used on a permanent basis for almost thirty years.

It is worth highlighting as well the modernization of the power supply infrastructure by means of a new electric substation, and the internal network redesign, allowing for a continuous and safer operation. This contributed to counteract frequent shutdowns and damages suffered by the equipment as a result of electric cuts. Shutdowns produced as collateral of power outages were reduced by almost 40%.

## Cash Distribution

The impact of the Cash Center on the distribution of monetary species has been remarkable. The integration of banknote printing and cash distribution in a single place generates synergies in cash transportation, manipulation and storage, thus reducing associated costs and risks. The new scheme has simplified these activities: previously, two weekly remittances were required from the old Banknote Printing House located in the industrial zone to the Treasury, located downtown. Besides this displacement, the previous



Quality verification of \$200 peso coins at the Mint, located in Ibagué.

scheme involved the deployment of complex security measures.

Following up cash needs in the economy is a permanent task of the Bank's specialized areas. On the one hand, this makes it necessary to update demand-forecasting models on a regular basis, and secondly, to create operation agreements designed to correct inefficiencies in the cash cycle. In this manner the production improvements have been accompanied by the development and consolidation of cash distribution mechanisms to ensure the quality and availability of monetary species at the national level. For that purpose, the bank has signed contracts with carriers of values in order to establish vault extension agreements with these companies, by means of a *Banco de la República* cash fund to carry out exchange operations and supply low-denomination banknotes (COP\$5,000, \$2,000 and \$1,000), whether new or in good condition, to the financial establishments and the real sector clients. In addition, these companies carry out metallic-coin payment and deposit transactions with financial institutions which are reflected in the balances of these entities

in the Bank. Through this channel it was possible to improve the quality of the low-denomination banknote by meeting the demand for these pieces more timely and for the metallic coin as well. In the past two years, circulation of low-denomination banknotes increased by 7%.

Likewise, the Issuing Bank has been making significant efforts in equipment renovation for better classification of returning banknotes according to their degree of deterioration, as well as to verify their authenticity. The Bank has improved its banknote classification and distribution capacity and has succeeded to process, on average, 1,510 million pieces, 84% of the entire country's cash on hand, thanks to the revision made to the operation scheme in treasuries and branches.

#### Other Initiatives

Another fundamental task addressed to maintaining the quality of money in circulation while counteracting counterfeiters' work is citizen training. This allows the public to enhance their awareness regarding the proper care and handling of

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Another fundamental task serving to maintain the quality of money in circulation while counteracting counterfeiters' work is citizen training.

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banknotes and coins, along with a good knowledge of the features of notes and coins.

In the performance of this task, the Bank has developed wide educational campaigns broadly spread through national and regional written, radio, and television media as well as by direct dissemination through the Bank's branches. Likewise, it has designed and offered workshops for both the general public and the financial and commercial sectors regarding the security features incorporated into banknotes.

Moreover, at the time of launching the COP\$50,000 banknote, the Bank introduced on the back in high relief (intaglio printing) the number 50, using the Braille system to make its identification easier

for blind and visually impaired users. This socially-oriented initiative was first incorporated into the COP\$2,000 banknotes and, after 2010, it will be extended to all the other denominations.

## FOREIGN RESERVE MANAGEMENT

The Constitution and Act 31 of 1992 assigned *Banco de la República* the function of managing foreign reserves. Likewise, they also stipulated that the criteria to manage foreign reserves are safety, liquidity and return. An external asset is considered as a reserve asset if it satisfies two conditions: first, it must be under the direct and effective control of the monetary authority. Second, it must be available for immediate use.

The main component of the country's foreign reserves is the investment portfolio which is invested in financial instruments, with a 92.4% share of the total as of December 31 2010 (USD 26,308 m). As of the same date, the remaining balance was distributed into:

- The quota and Special Drawing Rights (SDR) holdings at the International Monetary Fund -IMF (5%)
- Contributions to the Latin American Reserve Fund (*Fondo Latinoamericano de Reservas*, FLAR) (1.4%)
- Investments in gold (1.1%)
- Contributions to the international agreement with the Latin American Integration Association (*Asociación Latinoamericana de Integración*, Aladi) (0.1%).



Braille system incorporated to the \$50,000 and \$2,000 peso banknotes.

## NOTES AND COINS: VALUE AND ART

The educational campaign "Notes and coins: value and art", is intended at that the public values and recognizes the authenticity of banknotes. The campaign includes radio and television broadcasting, distribution of educational materials and direct training with *The Inspector* and *Rodolfo "The Hound"* characters in high traffic locations in the city. Moreover, the Issuer conducts workshops to train participants on banknotes security.

In 2010, the direct marketing campaign with *The Hound* and *The Inspector* had a coverage of about 24,000 people, and 146 workshops on the banknotes safety, which were attended by 6,583 people between actors in the financial, commercial and educational sector and from the general public, were performed.

The contributions to the IMF and the FLAR allow Colombia to access lines of credit with these entities; on the other hand, international agreements such as Aladi's serve to facilitate trade among member countries. Graph 4 shows the composition of the international reserve as of December 31 2010.

### What is the purpose of international reserves?

The Bank holds what it deems to be an adequate amount of foreign reserves to intervene in the foreign exchange market and facilitate access of the Government and the private sectors to international capital markets, as follows:

- Foreign exchange intervention: this is one of the instruments available to the Bank to reduce external vulnerability and pursue a low and stable inflation rate within the long-term target range, as well a sustained output growth around its long-term trend. This tool can also be employed for the purpose of controlling "disorderly" movements of the exchange rate, characterized by high volatility and a large difference between the price an agent is willing to receive and the price the same agent is willing to pay (bid-offer spread). Controlling these movements is important since they may affect the performance of other financial assets linked

to the foreign exchange market and compromise the financial stability and proper functioning of the payment systems.

- Access to the international capital markets: a sufficient reserve amount facilitates access of the Government and the private sector to the international capital markets, since this is a determining factor in the perception of the national borrowers' payment capacity. Risk rating agencies and external lenders consider that an adequate reserve level enables residents to meet their obligations in foreign currency, such as payment of imports and the service of the external debt in case the country faces problems of access to external finance. This function is particularly important in times of crisis when investors and lenders tend to reduce their exposure to countries perceived by them as most risky. The importance of reserves is highlighted by the recent use given by international capital market agents to the reserve payment capacity indicator as a country's liquidity measure. In addition, it can be said that the IMF has approved Colombian access to the Flexible Credit Line (FCL), which operates as insurance, enabling countries to confront deterioration in external conditions should this occur.

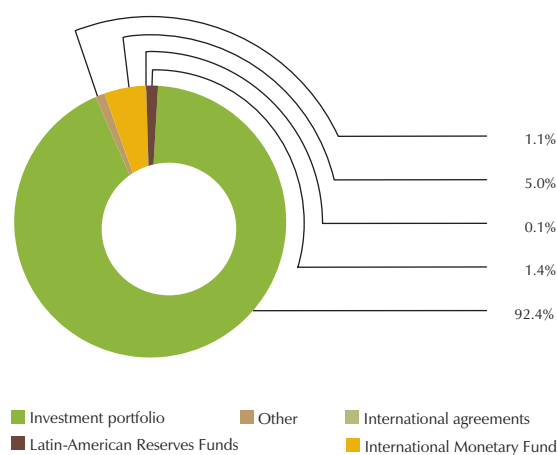
### Foreign Reserve Management

The objectives, principles and general policies on the management of foreign reserves are established by the International Reserve Committee presided by the Bank's Governor. The Board of Directors and the Ministry of Finance and Public Credit or its deputy sit on the committee, which meets at least once every two months.

Within its mandate to set policies on the management of foreign reserves, the Reserve Committee establishes investment guidelines and defines a benchmark or theoretical portfolio. These criteria define the composition of the investment portfolio, the types of eligible assets, the authorized transactions, and the tolerable exposure to different risks.

The Bank has hired high-level external professional portfolio administrators in order to diversify the portfolio, have better analysis capacity, and access

Graph 4  
Gross reserves composition  
(as of 31 December 2010)



Source: Banco de la República.



additional resources. Additionally, the contracts with these administrators include a knowledge-transfer program enabling the Bank's staff to be permanently trained in the international financial markets' avant-garde trends.

In operational terms, it is important to highlight the separation of functions assigned to the front office (investment management) from the back office (accounting, confirmation, conciliation and settlement for operations undertaken during the investment process), minimizing fraud risks. Likewise, it is worth highlighting that the Bank uses leading-edge technology and has formed a work team that stands out among other central banks due to its technical abilities. This has been achieved through a training plan which includes obtaining certificates duly acknowledged in the international environment, such as the Chartered Financial Analyst (CFA) and the Financial Risk Manager (FRM) certificates, as well as the opportunity to pursue graduate studies at first-level international universities.

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The Bank uses leading-edge technology and has formed a work team that stands out among other central banks due to its technical abilities.

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## Foreign Reserve Management

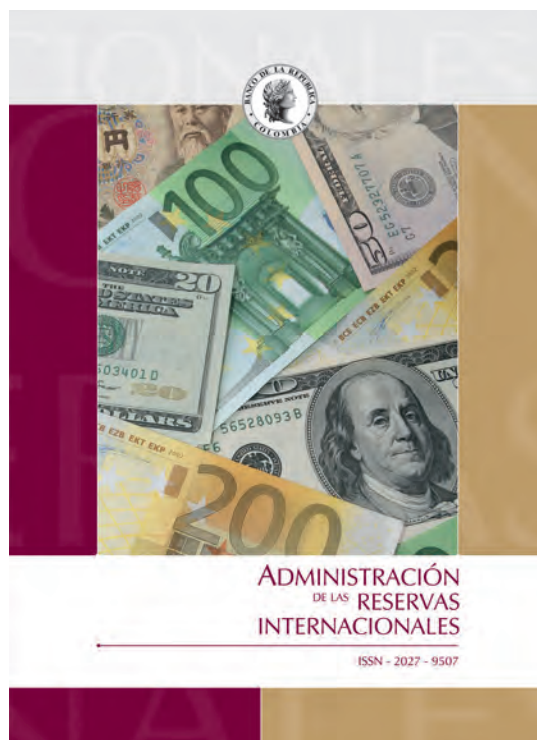
Reserve management policies strictly reflect the safety, liquidity and profitability criteria. To meet the safety criterion, the investment portfolio is structured to have a low probability of registering a loss in a one-year horizon. For this purpose, assets with low volatility of prices are selected and limits to risk exposition are set so as to have a low probability of registering a significant devaluation (low market risk). Likewise, a diversified portfolio of issuers is selected, each one of them with a low expected probability of default. This is reflected in a portfolio with a high proportion of qualified AAA securities (low credit risk – Graph 5).

In order to meet the liquidity criterion, the investment portfolio is divided into different tranches according to the scenarios of possible liquidity needs; Furthermore, investment instruments likely to be converted into cash very quickly and at a low cost are chosen.

Once the safety and liquidity criteria have been met, a portfolio that is capable of generating a maximum return is



Work team at the Trading Desk of Banco de la República.



Foreign Reserve Management Report, available at [http://www.banrep.gov.co/publicaciones/pub\\_infi\\_reservas\\_inter.htm](http://www.banrep.gov.co/publicaciones/pub_infi_reservas_inter.htm)

looked for. This is important because reserve profitability is critical for both the Bank's functioning and the national budget. Graphic 6 shows the historical return of reserves in the past ten years.

With respect to 2010, the net return on international reserves was USD159.7 m, which is the equivalent of a 5.9% return rate. This result can be explained by

the low interest-rate level at the major international markets, and the low risk assumed by the Bank to guarantee investment safety and liquidity.

For more detailed information about how the Colombian reserves are managed, the Bank publishes the Foreign Reserves Management Report. The first version of this report was presented in

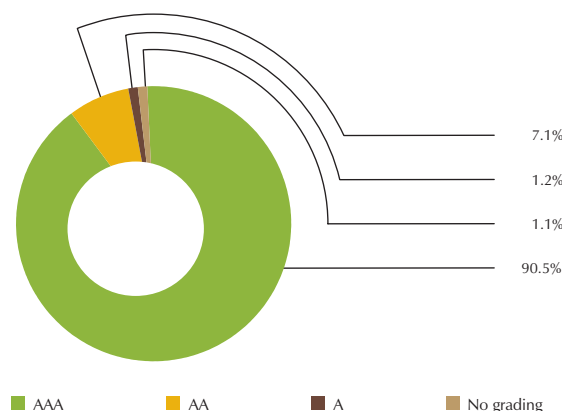
## WORLD BANK VISIT

On a recent visit that included a review of the environment for authorizations, corporate governance, delegation of authority to invest reserves, investment management operations and report environment, the World Bank concluded that the reserves management framework at *Banco de la República* has the following features:

- A first level corporate governance structure, based on clearly segregated responsibilities and accountability.
- A sound risk management, complemented by an adequate compliance and control structure.
- A process of strategic asset allocation based on portfolio theory. A robust operational framework, including automated systems to implement decisions.
- A highly qualified and trained team of specialists in front, middle and back office.<sup>1</sup>
- An internal team, responsible for managing the portfolio, with a well deep and disciplined approach for active management, which is higher than the observed in most central banks and multilateral institutions.

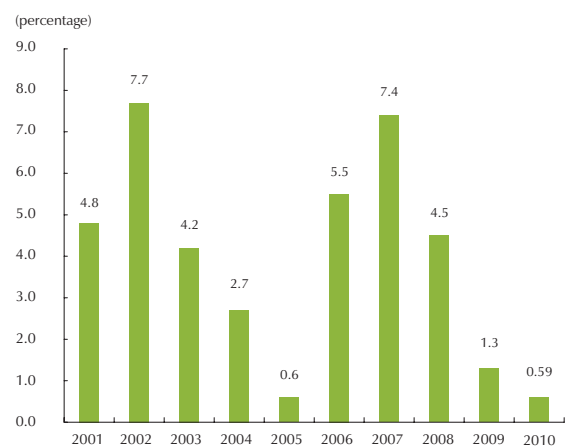
<sup>1</sup> Front office is known as the area where investment operations are performed. Middle office is responsible for managing and monitoring portfolios risks and the verification of the fulfillment of the investment guidelines. Back office is the area in charge of the settlement, recording and accounting of operations.

Graph 5  
Investments distribution by credit grading  
(as of 31 December 2010)



Source: Banco de la República.

Graph 6  
Reserves historical profitability  
(percentage)



Source: Banco de la República.

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The purpose of the DCV is to eliminate the risk involved in handling physical certificates, the facilitation of transactions in the secondary market, and the safe, agile and timely collection of capital or financial revenues.

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2009 and is available in both Spanish and English (with information as of 2008). The most recent version of this report, with information as of 2010, is available at the Bank's website. With this document, the Bank supplements the information it delivers every semester to the Colombian Congress.

#### SERVICES RENDERED TO THE GOVERNMENT

According to its legal regime, *Banco de la República* is in charge of performing certain functions related to the Government. The following stand out: acting as a fiscal agent<sup>22</sup> in the issuance, placement, and administration at the market of public debt bonds, the acquisition of external and domestic credits, and other operations compatible with the Bank's purposes. The Bank also receives the Nation's and public entities' funds in deposit, and offers technical assistance in matters similar to those of the Bank's nature and functions. Later, the law assigned the Bank the task of administering the Savings and Oil Stabilization Fund (*Fondo de Ahorro y Estabilización Petrolera - FAEP*), and the Reserve Fund for Mortgage Portfolio Stabilization (*Fondo de Reserva para la Estabilización de la Cartera Hipotecaria - FRECH*).

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22 As a fiscal Agent, Banco de la República acts as a depository of the treasury funds, and serves as a Government agent or intermediary in the contracting of loans and the placement and administration of public debt certificates. The services of a fiscal agent and the other specialized support functions the Bank is able to offer to the Government are listed in article 13 de la Act ["Ley"] 31 of 1992 and in the Bank's By-laws. The Bank is in charged to perform all the aforementioned activities to the extent they are agreed upon by the Bank with the Government.

#### Government Agent in the Administration of Public Debt Bonds

The issuance, placement and market administration of internal public debt bonds are carried out through the system known as the Centralized Securities Deposit (*Depósito Centralizado de Valores del Banco de la República - DCV*). It is a system designed for the deposit, custody and administration of securities in the form of dematerialized registers. The purpose of the DCV is to eliminate the risk involved in handling physical certificates, the facilitation of transactions in the secondary market, and the safe, agile and timely collection of capital or financial revenues. The functioning of the DCV has allowed to: promote and ensure the capital market development; eliminate credit risk by means of securities liquidation under the delivery versus payment mechanism; mitigate the liquidity risk and facilitate the access of the Government to the capital market. The results of this task can be appreciated in the evolution of both volume and value in the average daily transactions performed by the DCV (Graph 7).

As can be seen, the transactions settled by the DCV have had an important growth in relation to the continuous development of the internal public debt market. In 2010, the daily average of the nominal value liquidated amounted to COP25.02 T, accounting for 4.6% of the annual GDP. For more information, see the Payment Systems Report<sup>23</sup>.

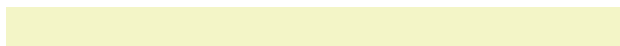
As a sample of standardization, quality and safety of the services offered by the DCV, it was certified under the ISO 9001:2000 standard in 2009, and this

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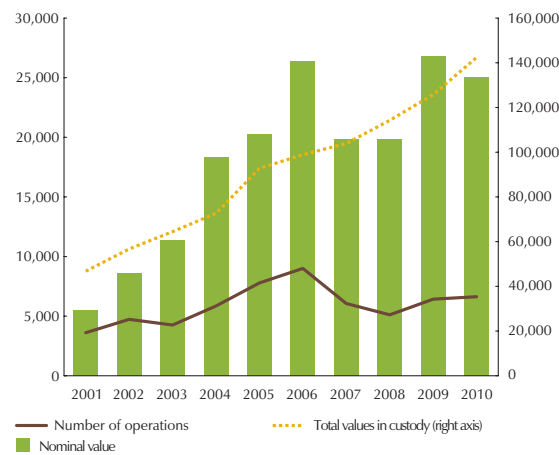
23 Available at [http://www.banrep.gov.co/publicaciones/pub\\_rep\\_sist\\_pag.htm](http://www.banrep.gov.co/publicaciones/pub_rep_sist_pag.htm).

#### SECURITIES' CENTRAL DEPOSIT (DCV)

The DCV is a system designed for the deposit, custody and administration of securities in the form of electronic records or dematerialized securities. Such platform is a component of the infrastructure of the financial sector, which is not part of the payments system, but is closely interconnected with it. It is a system that clears and settles securities transactions, and which interacts with the high value payments system (CUD) for carrying out the liquidation of money corresponding to its operations.



Graph 7  
 Securities' Central Deposit (DCV)  
 Performed operations, daily averages  
 (2010 constant billion Colombian pesos)



Source: Banco de la República.

certification was updated to version ISO 9001:2008 in 2010.

#### Fiscal agent in the contracting of credit and other operations

Among the many services rendered to the Government by *Banco de la República* is to serve as a fiscal agent in the contracting of external and internal credits and in such operations as may be compatible with the purpose of the Bank.

In this context, the Government manages a foreign currency portfolio abroad with resources obtained from the contracting of external credits or other resources deriving from transactions such as the issuance of debt bonds in international markets and the sale of assets. To carry out this action, the Government requests *Banco de la República* to transmit on its behalf the instructions or confirmations required by its counterparties abroad.

Likewise, through *Banco de la República*, the Government receives the disbursement of external credits contracted by the Nation (the Ministry of Finance and Public Credit) and attends to the service thereof through the processing of the relevant instructions, i.e. the credit transfer to pay abroad the principal and interests plus the other costs relating to

debt. In 2010, the Bank processed 317 requests valued in USD 9,476 million.

*Banco de la República* also receives the Government's instructions concerning the payment of contributions to international agencies such as the World Bank and the Inter-American Development Bank, of which Colombia is a member, against the resources held by the Public Credit and National Treasury Authority (DGCPTN) in its accounts with *Banco de la República*.

#### Fund Deposit of the Nation and Public Entities

The Bank renders the service of receiving funds in deposit from the Nation and public entities through the high-value payment system CUD and the compensation chamber Cenit.

Through the CUD, *Banco de la República* renders the Ministry of Finance and Public Credit an administration service for its deposit accounts by means of which Government collections, payments and transfers are managed, as well the excess of liquidity in remunerated deposits.

In 2010, the average daily amount of tax collections accounted for COP274.7 B; government payments were made for the internal debt service in the amount of COP130.3 B, and remunerated deposits amounting to COP5,333.6 B were managed. These services rendered to the Government accounted for 17% of the daily average amount registered in the CUD during 2010.

Likewise, in 2010, the share of the DGCPTN transactions in the total debit and credit transfers offset through the ACH-Cenit was 8.9% of the number of transfers with a daily average of 2,763 operations. Nevertheless, with respect to their value, these transfers amount to 72.5% of the total with a daily average of COP335.5 B.

#### Technical Assistance in Matters similar to the Bank's Nature and Functions

In the past few years, the Bank has accompanied the Government and the Ministries of Finance and Public Credit and Social Protection in diverse initiatives agreed

upon between them and the private agents for payment modernization in Colombia.

Among these initiatives, the following stand out:

- The concentration of multiple Government payments such as utilities through electronic credits at the Cenit
- The payments to central Government suppliers through direct deposits to the beneficiary's account (electronic transfers)
- The development of a model for the collection and transfer of social security contributions by information operators through Cenit electronic transactions of special nature
- The development of a model for safe exchange of information of social security contributions among information operators
- The Bank's participation in the inter-institutional technical committee where a proposal for the fiscal rule design was analyzed and submitted.

#### Administration of the Savings and Oil Stabilization Fund (FAEP)

Act 209 of 1995 entrusted *Banco de la República* with the administration of the Savings and Oil Stabilization Fund (FAEP), which was created for two purposes: first, safeguarding the Cusiana-Cupiagua and Caño Limón-Coveñas oil production resources into a savings fund in the name of the central Government and the regional governments; second, mitigate the impact that the economy could suffer if the resources from oil exploitation of these wells were introduced abruptly in the country, since this could result in an appreciation of the foreign exchange rate and affect some economic sectors. For this reason, the overall FAEP investments are denominated in foreign currency. At present, the FAEP belongs to the departments (geographical and administrative divisions) and municipalities receiving royalties and monetary compensations, and to the National Royalties Fund (*Fondo Nacional de Regalías*).

The Fund's investment policies are defined by the Directive Committee composed by the Ministry of Finance and Public Credit and the Ministry of Mines

and Energy, the Director of the National Planning Department, the President of the Colombian oil company Ecopetrol, the Governors of each one of the oil-producing departments, the mayor of one oil-producing municipality for each department, and two representatives of the non-producing departments and municipalities.

*Banco de la República* administers the FAEP resources in accordance with the Law, the agreement signed with the Minister of Finance and Public Credit and the Minister of Mines and Energy, and the policies defined by the Directive Committee. As of December 31 2010, FAEP assets amounted to USD983.6 million.

#### Administration of the Mortgage Portfolio Stabilization Reserve Fund (FRECH)

Article 48 of Act 546 of 1999 authorized the creation of the Mortgage Portfolio Stabilization Reserve Fund (FRECH), and established that it would be administered by *Banco de la República* as a Nation's fund-account under the terms and conditions set forth in Decree 2670 of 2000 and other rules having amended or regulated them, and under the administration Agreement entered into with the Ministry of Finance and Public Credit.

According to the rules governing this matter, *Banco de la República* mainly develops the following activities in its quality as FRECH administrator: i) temporary security transfer transactions with authorized credit establishments; ii) management of the special sub-account to attend interest rate hedging for housing credit debtors, and iii) registration and payment of the interest rate conditioned hedging agreed upon in new credits granted by credit establishments to individual debtors of mortgage loans granted to purchase a new home (Decree 1143 of 2009) that, in the credit establishments' judgment, comply with the regulatory conditions.

#### CHALLENGES

##### Cash Production and Distribution

- Introduce a new family of banknotes with the incorporation of modern tech-

nologies and designs, making them safer and optimizing the Banknote Printing House productivity.

- Improve the current cone of metallic coins in order to produce them with new alloys and designs to protect them from forfeiting while reducing production costs.
- Improve cash distribution by enhancing national coverage and optimizing distribution costs.

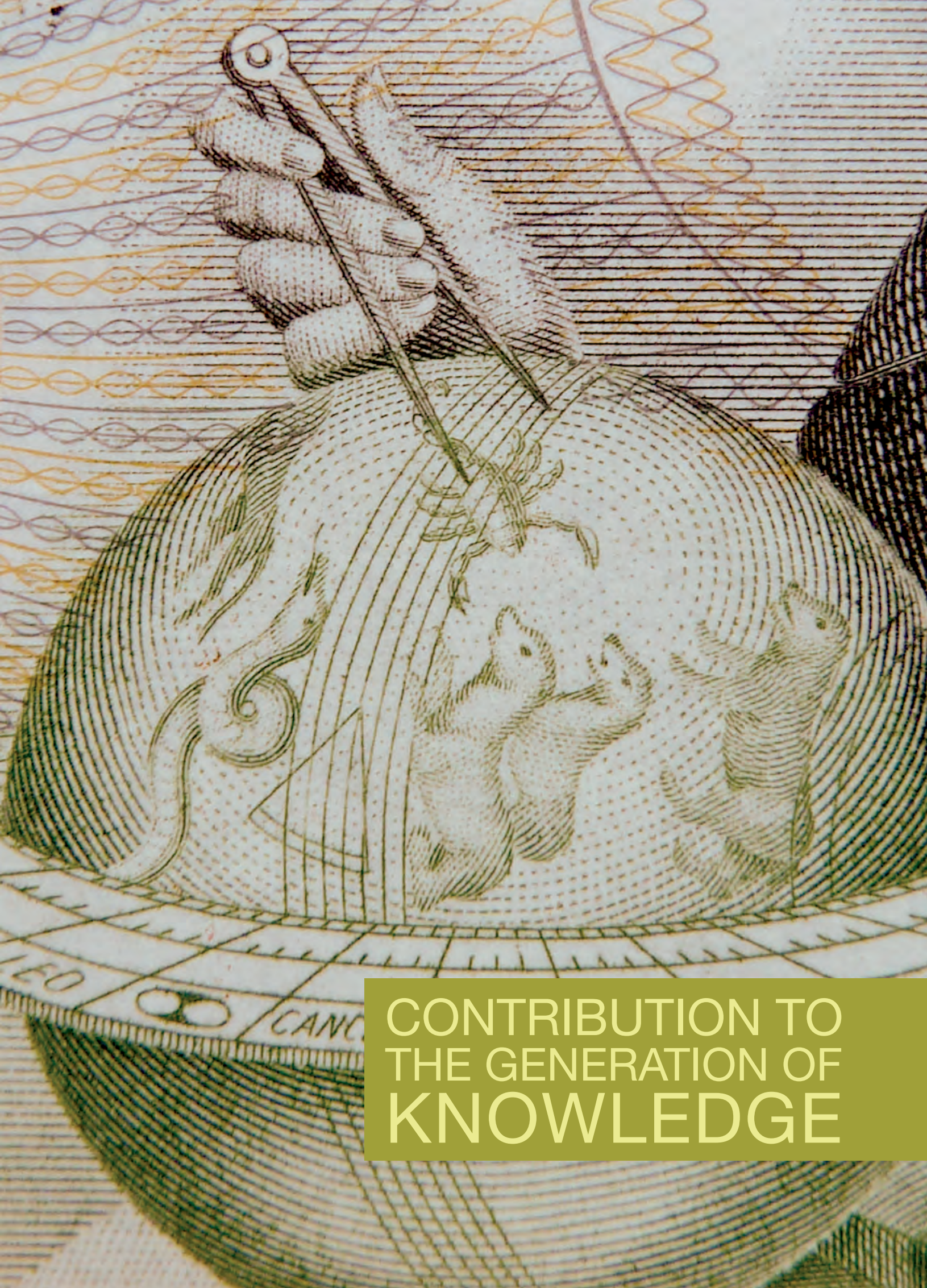
#### Foreign Reserve Management

- Invigorate research in order to build an investment portfolio capable of generating sustainable benefits to Colombia.
- Be one of the leading central banks in the creation and dissemination of reserve administration ideas.
- Improve the analysis of the risks to which investments are exposed, in line with the most recent advances in financial literature and best international practice.

- Actively take part in the quality certification processes undertaken by the Bank, in order to improve efficiency in portfolio administration.

#### Services Rendered to the Government

- Invigorate safety, efficiency and timeliness in the services rendered to the Government and facilitate the development of new services.
- Cooperate with other public authorities to the design of policies and activities to support Government's initiatives in the area of payments to social security.
- Contribute to broadening the use of electronic payments in order to deepen access to financial services.
- Support the Government in the creation of the Savings and Stabilization Fund and the Savings and Macroeconomic Stabilization Account by incorporating the best international practices in the handling of sovereign funds.



CONTRIBUTION TO  
THE GENERATION OF  
KNOWLEDGE

# CONTRIBUTION TO THE GENERATION OF KNOWLEDGE

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The Bank contributes to economic and social development through the generation of knowledge on economic, financial and cultural matters. This includes the production and dissemination of research and high quality statistics, as well as diverse initiatives it develops in order to encourage education.

For the Bank, contributing to knowledge generation is a strategic objective that supports its main functions, as well as an activity that impacts economic and social development in the country. *Banco de la República* pursues this objective particularly through relevant economic and financial research along with the production and dissemination of statistical information with the highest quality levels, and the encouragement of economic and financial education. In addition, the institution contributes to the improvement of education and specialized knowledge by sponsoring studies for both individuals and Bank's employees.

## ECONOMIC RESEARCH

The economic and financial research carried out by *Banco de la República* is mainly aimed at giving support to the Board of Directors in their decisions as a monetary, foreign exchange and credit authority. Apart from backing these policy decisions, research contributes to economic debate in the country, thus enriching the

analysis and understanding of economic and financial phenomena.

*Banco de la República* uses a number of strategies to focus and invigorate economic and financial research in both its main office and the branches where regional economic study centers operate. One of them has been the development of a research agenda defined by the Board of Directors and the Governor about important subjects of relevance to the national economic sphere. The coordination of this project is usually entrusted to two Bank researchers, pursuant to guidelines established by a committee (known as COSI<sup>24</sup>). The advancements in documents produced are discussed at internal seminars, and then submitted for assessment to independent entities in order to obtain remarks and in this way strengthen research findings and conclusions. In some cases, the final product may be a book, which is of general circulation.

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24 The COSI is a committee composed by members of Banco de la República's Board of Directors and the Technical Manager. It meets once a year.



## MONETARY POLICY TRANSMISSION MECHANISMS IN COLOMBIA

Based on its research agenda, *Banco de la República* published the *Mecanismos de transmisión de la política monetaria en Colombia*, which was published with *Universidad Externado de Colombia* in 2010. This book compiles several empirical studies on the way interest rates and other monetary policy instruments affect such important macroeconomic variables for the country as inflation and economic growth.

The book is unique in its kind, since there are few studies that focus on the transmission mechanisms of monetary policy in a specific country, much less in the Colombian case.

The Bank may also carry out research in other kind of economic and financial matters, either to reinforce functions or projects of the Bank's areas or to develop other specific issues with the consent of Technical Management. Moreover, the Bank develops a financially-oriented research agenda, and mostly all of its subjects are presented in the Financial Stability Report which incorporates the most recent advances of international literature dealing with this area of knowledge.

As a dissemination mechanism, the institution uses a publication titled Working Papers on Economics, which enables researchers and other Bank employees to publish working papers dealing with different matters of interest to the Bank or to the country due to their nature as conjunctures, in some cases obtaining feedback from the academic community.

On the other hand, *Essays on Economic Policy (Ensayos sobre Política Económica, ESPE)* is a regular economics publication, with the objective of spreading high-quality articles of technical nature. In ESPE, emphasis is made on Colombian and Latin American economic problems, though this publication is not limited to works dealing exclusively with these two areas. Having been granted Colciencia's indexation, ESPE is now recognized both nationally and internationally as a scientific journal.

## Other Initiatives in Economic Research

Additional initiatives in economic research focus on relevant economic matters for both the regions and the country, as well as on original studies on economic history.

With regard to regional economic research, it is conducted mainly at the Regional Economic Study Centers (CEER)<sup>25</sup> being in charge of following up the developments of local economies. The CEERs agenda includes the publication of the *Essays on Regional Economy (Ensayos sobre Economía Regional)* in which works prepared by this group of researchers are gathered.

Among the CEERs, the center in the city of Cartagena stands out. It was established in 1997 and since the beginning it has edited and published about seventy documents in the series *Journal of Economic and Business History* and working papers on regional economy (known as the *Cuadernos de Historia Económica y Empresarial* and *Documentos de Trabajo sobre Economía Regional*, respectively). Likewise, it has disseminated 29 articles in books published by both *Banco de la República* and other

25 Northwest: Antioquia and Chocó. Southwest: Valle del Cauca, Cauca, and Nariño. The Caribbean: Bolívar, Atlántico, Magdalena, Cesar, Córdoba, Sucre, La Guajira, and San Andrés y Providencia; Center: Tolima, Huila, Cundinamarca, and Caquetá. Northeast: Santander, Norte de Santander, Boyacá, and Arauca; Eje Cafetero (The Coffee Axis): Caldas, Quindío, and Risaralda; Southwest: Meta, Amazonas, Casanare, and the new departments (Guainía, Guaviare, Vaupés, and Vichada).

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Regional economic research is mainly conducted at the Regional Economic Study Centers (CEER) being in charge of following up the developments of local economies.

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## PENSIONS AND PORTFOLIOS: THE CONSTRUCTION OF A PUBLIC POLICY

During 2010, *Banco de la República* published the *Pensiones y portafolios: la construcción de una política pública*. This work was published with *Universidad Externado de Colombia* and includes several research papers on the Colombian pensions system.

institutions, and has taken part in the organization of three symposia on the economy of the Caribbean Coast and four on the History of Cartagena de Indias, in association with some academic institutions in the region. In 2010, the center published the books titled *Cartagena de Indias in the 16th Century*, and *Art in Cartagena through the Collection at Banco de la República* (*Cartagena de Indias en el Siglo XVI* and *El arte en Cartagena a través de la colección del Banco de la República*, respectively).

Research at the Center of Economic Studies in the Medellín Branch focuses on examining the country's labor and social economy in matters such as poverty, inequity, subsidy focalization, employment, health, and education, among others. The Center publishes on a regular basis in magazines and in the document series Labor and Social Economy (known as *Economía Laboral y Social*). These works are also included in the above-mentioned Economy Drafts. Besides, it holds work gatherings with regional thematic research groups to discuss issues such as social protection, employment, and domestic utilities. Worth highlighting is the organization in 2010 of the Latin American and Caribbean Economics Association (LACEA) meeting in Medellín, jointly with the Center of Social Thought and the Eafit and Antioquia universities, as well the dissemination of the book titled "Opportunities for the Colombian Children: how much have we advanced in this decade?" (*Oportunidades*

*para los niños colombianos: cuánto avanzamos en esta década*).

With respect to economic history research, this initiative was born in 1997 within the frame of *Banco de la República's* 75th anniversary celebration. It has been backed by the Board and has had as well the support of outstanding economists, historians, and demographers, both national and foreign.

In this academic line, the Bank has published a collection of works among which the following stand out: i) Colombian Economic Growth in the XX Century (*El crecimiento económico colombiano en el siglo XX*, 2002); ii) Colombian Agriculture in the Twentieth Century (*La agricultura colombiana en el siglo XX*, 2006); iii) The Transport Infrastructure in Colombia during the Twentieth Century (*La infraestructura de transporte en Colombia durante el siglo XX*, 2006); iv) Colombian Economy in the Twentieth Century: a Quantitative Analysis (*Economía colombiana del siglo XX: un análisis cuantitativo*, 2007), and v) Colombian Economy in the Nineteenth Century (*Economía colombiana del siglo XIX*, 2010). Currently, the book titled "Colonial Economy of the Nueva Granada" (*La economía colonial de la Nueva Granada*), to be issued in 2012, is in process.

The main objective of these series is to help understand the long-term evolution of Colombian economy. They include works by an important group of economists and historians having been commented by



Some economic research publications by Banco de la República.

## BICENTENNIAL WORKS

The Bicentennial Collection project is an initiative of the Governor's Office to commemorate the bicentennial of the Colombian independence through a collection of 19 books that will begin to be published in 2011. The editorial board of the project consists of renowned scholars, aimed to choose a series of works on the Colombian economy that have been written during the nineteenth and early twentieth century, which will be reedited and reprinted by the Bank.

During 2011 the following volumes will be published: economic writings of Antonio Narváez and José Ignacio de Pombo, with a foreword by Jorge Orlando Melo, and *Colombia: A Commercial and Industrial Handbook*, of P.L. Bell, with a foreword by Miguel Urrutia.

renowned both national and foreign colleagues.<sup>26</sup> In most cases, they have used primary information sources, therefore providing an important database for further research on the country's economic history.

### Leaders in South America

A good way of measuring the quality of research carried out by the Bank is with the use of regional rankings like the one published by Ideas-Repec<sup>27</sup>. In this ranking, the entities listed are those having produced the most consulted works in economic research. In

26 Albert Berry, Carlos Caballero-Argaez, Stanley Engerman, Luis Lorente, Juan Camilo Restrepo, among others.

27 Research Papers in Economics (Repec) is a collaboration effort by hundreds of volunteers in 74 countries, intended to support the dissemination of economic research. The core of this project is a decentralized database including articles and works under process. All material is freely available to all public.

Table 7, the first ten institutions in this ranking are shown, with *Banco de la República* occupying the fourth position in the region and the second place among central banks.

## PRODUCTION AND DISSEMINATION OF STATISTICS

A priority to *Banco de la República* is the production and dissemination of statistics series with the highest quality standards; the availability of reliable economic and financial information invigorates economic and financial research and contributes by enabling society to evaluate and demand results in policy implementation based on sounder criteria.

In its statistics production task, the Bank has attempted to adopt the general principles set forth in good international practices. They include a rigorous application of the most advanced information collection, processing, and dissemination methods.

Chart 7  
Economic research consultations indicator (Repec)

Rank	Institution
1	Faculty of Economics and Business Sciences, <i>Pontificia Universidad Católica de Chile</i> (Santiago, Chile)
2	<i>Banco Central de Chile</i> (Santiago, Chile)
3	<i>Instituto de Economía</i> , Faculty of Economics and Business Sciences, <i>Pontificia Universidad Católica de Chile</i> (Santiago, Chile)
3	Economics Department, <i>Universidad Torcuato Di Tella</i> (Buenos Aires, Argentina)
4	<i>Banco de la República</i> de Colombia (Bogotá, Colombia)
5	School of Business, <i>Universidad Torcuato Di Tella</i> (Buenos Aires, Argentina)
6	Faculty of Economics and Business, <i>Universidad de Chile</i> (Santiago, Chile)
7	<i>Universidad del CEMA</i> (Buenos Aires, Argentina)
8	<i>Escola de Pós-Graduacao em Economia</i> , <i>Fundacao Getulio Vargas</i> (Rio de Janeiro, Brazil)
9	Faculty of Economics, <i>Universidad de los Andes</i> (Bogotá, Colombia)
10	Economics Department, <i>Universidad de San Andrés</i> (Buenos Aires, Argentina)

Source: <http://ideas.repec.org/top/top.samerica.html>

Likewise, the Bank executes data exchange agreements with public institutions in order to avoid duplicities and delays. Within the framework of this initiative, work agendas have been established with the Financial Superintendence and Superintendence of Societies. Finally, through a new information source monitoring, the institution fosters the enhancement of both volume and quality of its statistics.

### Center for Economic Information

Technical Management, in its efforts to improve Colombian economic statistics in terms of both quality and opportunity, created the Center of Economic Information in 2000; its function consists of providing, developing and administering high-quality computer information solutions to improve and simplify processes for economic information analysis. The results of these efforts are credible, transparent, timely, precise,

true, coherent, comparable, accessible, and clear statistics.

As part of these efforts, the Technical Management has developed the economic information system “Sisec”, as well as the Information system “Serankua”. These platforms are databases that develop automatic processes of reception, validation, transformation, and loading of economic information. In addition, Serankua allows for economic information to be disseminated through other Bank systems, the economic indicators auto-responder service, the mobile device application, and the institution’s intranet and Internet pages. The system has a business intelligence tool available for internal users as well, and makes data analysis and integration easier.

Currently, official statistics relating to foreign exchange rates, price indexes, auctions and the UVR (Real Value Unit) can be consulted through this system, among many others.

### CERTIFICATION OF EXCELLENCE IN THE ECONOMIC EXPECTATIONS MONTHLY SURVEY

In 2010 the *National Administrative Department of Statistics* (DANE in Spanish) conducted an evaluation of the statistical quality of the economic expectations monthly survey, and gave to *Banco de la República* the Grade A certificate (excellent), which corresponds to the maximum rating. The duration of this certification is of three years, and the criteria taken into account are related to the quality of the requirements of the statistical sampling process, database and dissemination of results.

### COLOMBIAN ECONOMIC GROWTH STUDY GROUP (GRECO)

One of the most relevant effort to reconstruct the history of the country’s macroeconomic statistics, was achieved with the Colombian Economic Growth Study Group (Greco) project, which reconstructed the demographic and economic statistics of early twentieth century.

On its first 1988 version, Greco published a compilation of statistical macroeconomic series, useful for analyzing the performance of the Colombian economy in the last century. There, macro economical historical series from different sources, were collected, reviewed and compared and, where necessary, were spliced using consistent historical methodologies and criteria. In 2002, Greco published *El desempeño macroeconómico colombiano: series estadísticas 1905-1997 (segunda versión)*, where criteria were revised and initial sources were corrected. Also, variables on which there was no information were estimated from alternative sources or with econometric estimation methods. With the reconstruction of statistical series, the comparative study of other economies and the literature review, Greco made a number of hypotheses about the determinants and characteristics of the Colombian economy growth.

In regional terms, the Bank spreads statistical information through the publication of several bulletins as part of a policy leading to the decentralization and expansion of autonomous knowledge in the Colombian regions.

## Dissemination Mechanisms

The most important dissemination mechanism for statistics produced by the Bank is its webpage (<http://www.banrep.gov.co/SeriesEstadisticas>) provided with robust computer platforms capable of supporting the existing information volume (Graph 8).

Information is likewise spread by means of books, magazines, journals, reports and newspaper notes or articles of very diverse nature such as ESPE, Economy Drafts, Financial Stability Report, and Payment Systems Report, among many others. Other statistics are incorporated in different regular reports such as the Report of the Board of Directors to the Colombian Congress, the Inflation Report, and Reports from the Issuing Bank (*Reportes del Emisor*), among others.

In regional terms, the Bank spreads statistical information through the publication

of several bulletins as part of a policy leading to the decentralization and expansion of autonomous knowledge in the Colombian regions. The following are the most important bulletins:

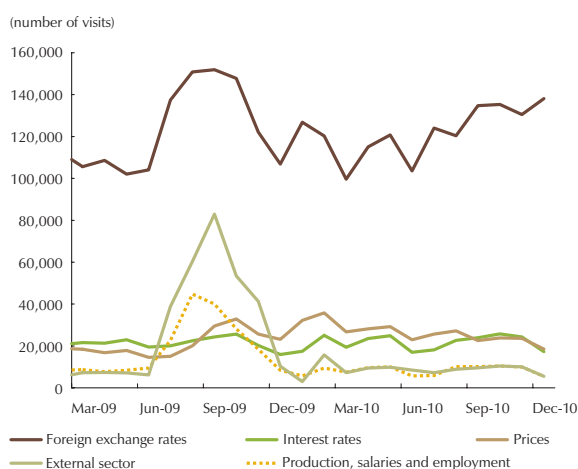
- The Regional Economic Bulletin (*Boletín Económico Regional, BER*). Published quarterly, it offers information on the evolution of the major economic activity variables in the country's regions and the departments, i.e., the geographic-administrative divisions composing them.
- The Report on Regional Economic Conjuncture (*Informe de Coyuntura Económica Regional, ICER*) This is a yearly document produced under the agreement with the National Administrative Department of Statistics (DANE); it consolidates statistical information and indicators relating to the departmental economic activity.

## ECONOMIC AND FINANCIAL EDUCATION

The economic and financial education task carried out by the Bank is part of one of the institution's strategic objectives, which aims at making the general public understand *Banco de la República's* functions, policies, decisions and other economic and financial aspects of relevance to the country.

In this context, this task helps citizens understand monetary policy objectives and the effects of inflation on their lives, while supporting the effectiveness of policies in anchoring inflation expectations. Even more, economic and financial education generates positive effects on the general citizens' well-being since it can be used to make better decisions in the course of their lives while protecting their personal finance and demanding their rights vis-à-vis the financial entities.

Graph 8  
Consultations on "statistical series" at Banco de la República's website



Source: Banco de la República.

## BANCO DE LA REPÚBLICA'S JOURNAL

*Banco de la República's Journal*, which has circulated without interruption for more than 80 years, could be considered as the country's oldest economic publication. In it, social and economic researchers rely on historical and systematic statistical series of every kind on the main indicators of the Colombian economy. Additionally, situational and sectorial studies produced based on these statistics, maintain a high academic quality, raise the level of discussion on economic policy in the country, and create an institutional memory.

## DOCUMENTS, FILES AND INFORMATION MANAGEMENT

Since 1932, *Banco de la República* has been developing its documents and archive work as part of its institutional responsibility. By its own initiative, in 1983 it incorporated more strict technical criteria to this task and initiated an ambitious consolidation project of its archive system, which currently allows responding to the conservation, preservation and corporate information consultation of the Issuer needs, both from the organization as from the general public.

The Bank's General Archive, built in 1998 following the guidelines from Unesco and with the advice of the General Archive of the Nation, is one of the highest impact components of the said project because at this lie the documents containing its institutional memory, decisions and actions. Its facilities ensure the conservation and preservation of the documentary heritage of the institution, thanks to which, in 2009, the Colombian Society of Archivists gave the Issuer the "Jorge Palacios Preciado" award, in the category of outstanding archival institution, in

recognition for the contribution of the Bank's General Archive for the development of this activity in Colombia.

On the other hand, in 2006 the project to restore the historical archives of the Bank started; it is comprised of documents generated in entities that complied with central banking functions from the late nineteenth century up to the charter of the Issuer in 1923, as were *Banco Nacional*, *Junta de Conversión* and the Central Bank. Also, other documents from historical documents funds were included, such as: Banco de la República's Fund (from 1923 to 1960), the Mint, the Salinas Concession, *Fondo de Estabilización*, the Chase Manhattan case (US\$ 13.5 million fraud), *Fondo de Crédito Industrial*, among others. Once the project is completed, it is expected to provide an information service for making it available, allowing to use it as a source of research for the country.

The Bank's General Archive attends the visits from both persons interested in the model, methodologies and our archival practices, as well as researchers, historians, economists and students of different educational levels who approach for consultation.

### *Banco de la República* in the Classrooms

Since 1999, *Banco de la República* began to consider actions leading to foster economic and financial education in the country, particularly aimed at getting the general public acquainted with the institution's functions and responsibilities as a central bank. This strategy started with annual training seminars for journalists in topics of conjuncture, and it was institutionalized in 2007 with the program known as *El Banco de la República en las aulas* (literally, *Banco de la República* in the Classrooms). In 2010, the Bank created a Department of Economic and Financial Education, in an attempt to broaden financial education coverage and take in different audiences.

Within the framework of this program, the institution has developed several initiatives focused on reinforcing the knowledge of basic economic and financial matters among elementary, secondary, and high

school students, and the general public as well. The purpose of this program is to contribute to the instruction of future economically responsible citizens while establishing a clear identity of the institution which facilitates the familiarity of the society with the functions of the Bank and its constitutional objective of maintaining a low and stable inflation. Among these initiatives, the following stand out.

#### Access "For Students and Teachers" on the Website<sup>28</sup>

This portal allows downloading information regarding all the activities offered by the Bank to students and teachers. Among others, the following materials can be found:

<sup>28</sup> All materials and activities by *Banco de la República* are access free and cost free.

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Within the framework of this program, the institution has developed several initiatives focused on reinforcing the knowledge of basic economic and financial matters among elementary, secondary, and high school students, and the general public as well.

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### Educational Material for Children

- Video: “The inflation ghost” is addressed to primary school students, and its objective is to allow the little ones to learn in a pleasant, enjoyable and simple way what *Banco de la República* is and means.
- A series of booklets on economics adapted from the Central Bank of Venezuela, addressed to primary students in the form of tales, enabling small children to understand basic economic concepts, with titles such as: “What is money?” “What is a bank?” “The inflation ghost,” “Magic payment,” and “Mr. Republican, the Money Guardian.”

### Educational Material for Youngsters

- A series of booklets addressed to secondary school students, including a teacher’s manual and four titles: “The economic system,” “Money and the monetary policy,” “The Government’s role and fiscal policy” and “Economic globalization.” Having been adjusted to the curricular outlines for social sciences established by the Ministry of Education, this material is aimed at familiarizing students with basic economic concepts and relations.
- Video: “Money, Inflation and Monetary Policy,” addressed to the general public, for the purpose of explaining concepts such as money and inflation, as well as the role of monetary policy. Graph 9 shows website visitor statistics.

### Contest: “From the School Bench to Central Banking”

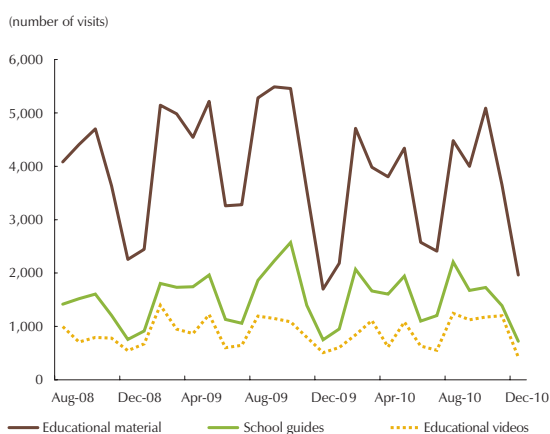
This national contest known as *De la Banca Escolar a la Banca Central* (the name of which is a play on words in Spanish, since the word “banca” is the same for “bench” and “banking”) consists of a short essay contest for young Colombians in grades 10, 11, and 12, aimed at asking students to answer a question posed by the institution with respect to a relevant economic subject from a personal, commonplace, and day-to-day perspective. Since its first version in 2006, this contest has had the participation of 31,830 students from all the departments (geographic-administrative divisions) in the country (Graph 10).

### Interactive Monetary Exhibition (EMI)

The Interactive Monetary Exhibition (*Exhibición Monetaria Interactiva, EMI*) was opened to the public since March 2007 at *Banco de la República’s* Cash Center. It is a didactic room composed by eleven interactive modules enabling visitors to learn in an enjoyable manner about several subjects related to money, inflation, the economic system, monetary policy, and the history and attributions of the Colombian central bank. It also has a monetary policy simulation game.

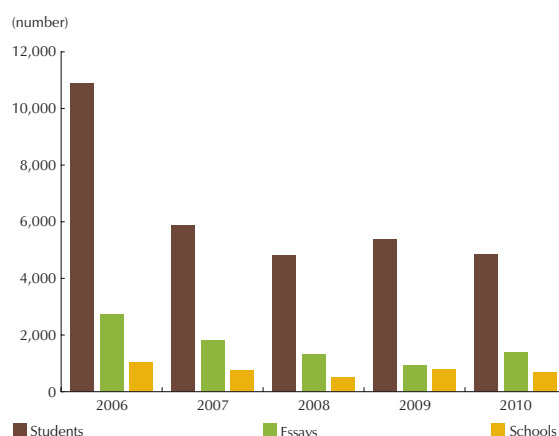
While visiting the EMI, people have the additional opportunity of touring the banknote production corridor to

Graph 9  
Number of searches with keyword “education” at Banco de la República’s website



Source: Banco de la República.

Graph 10  
Participants in the contest De la banca escolar a la banca central



Source: Banco de la República.



Winners of the fifth version of the contest "From the School Bank to Central Banking."



Students at the Interactive Exhibit Room at the *Central de Efectivo* in Bogotá.

watch this process in real time. Between 2007 and 2010, the EMI received about 27,000 visitors, including high school and university students as well as employees from different companies (Graph 11).

### Finance for Change

Under an alliance with the Citibank and *Dividendo por Colombia* Foundations,

the Bank carries out economic and financial training programs for secondary school teachers at public schools in Bogotá, Medellín, Cartagena, and Cali. In these training sessions, the basic concepts of economics and some personal finance tools are explained, as well as the nature and functions of *Banco de la República*, how monetary policy works, and why it is important that the Bank keeps inflation at low and stable levels. Within the program



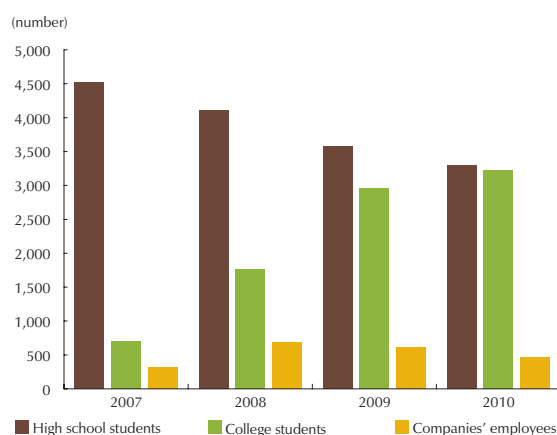
## ASSESSMENT OF THE FINANCES FOR CHANGE PROGRAM

In order to estimate the short-term contribution of the Finances for change financial education program, the Bank made the first evaluation of the impact of such programs in the country. For the assessment, the Propensity score matching methodology was used, with a sample of 1,518 tenth graders of public schools in Cartagena and Medellín.

The exercise concluded that Finances for Change program improves young

people's knowledge level participating in the program, but not their skills, attitudes, capabilities and behaviors, both economic and financial, level. Nonetheless, it was found that, taking only students from strata 3 and 4, the program's impact increases in knowledge, while a positive effect on behaviors is noticed. Overall, the initiative requires making pedagogical adjustments, strengthening teachers support in the classroom, and bringing parents to the program to enhance its impact on the variables that currently fails to improve.

Graph 11  
EMI's visitors, by type



Source: Banco de la República.

framework, follow-up visits in the classrooms and student evaluations take place. Between 2007 and 2010, 400 teachers were trained. In turn, they have instructed about 18,000 students in these matters.

### Educational Talks

The Bank offers educational talks to high school and university students, at which they are told what *Banco de la República* is and what its functions are, as well as how the monetary policy operates and what are the tools it has to control inflation. Between 2006 and 2010, 8,142 students attended these talks.

## HUMAN CAPITAL DEVELOPMENT

Aware that knowledge is a key element for the country's progress, *Banco de la República* sponsors graduate studies in Colombia and abroad for both employees and external individuals. People benefiting from these sponsorships are subject to compliance with certain debt-repayment obligations at completion of their studies or upon returning to Colombia. In general terms, they have the option of working in any state institution or renowned university or non-profit research entities devoted to teaching activities or economic research.

The total number of beneficiaries of these studies from 1980 through 2010 is shown in Table 8.

### Sponsorships for individuals not employed by *Banco de la República*

Programs for individuals are listed below. Statistics thereof are shown in tables 9 and 10.

- **Young Talents:** This program was created in 1985 in order to encourage the perfecting processes of young artists in areas of music and plastic arts. It stresses and ratifies the interest of *Banco de la República* in its cultural action.
- **Doctorate in Economics and Economic Law:** currently, the Bank grants five sponsorships for a PhD in Economics and Economic Law, and one for professionals in Law wishing to pursue graduate studies, preferably PhD in the field of Economic Law.

## BANCO DE LA REPÚBLICA: COLOMBIA'S REPRESENTATIVE BEFORE OECD'S INTERNATIONAL NETWORK ON FINANCIAL EDUCATION (INFE)

*Banco de la República* is the representative of Colombia before the Network on Financial Education (INFE) of the Organization for Economic Cooperation and Development (OECD). In that capacity, it has participated in the preparation of various documents that provide guidelines and best practices for the development of national strategies of economic and financial education, and that develop concepts such as financial inclusion. These serve as a reference for the development of strategies for economic and financial education and financial inclusion programs in the 88 countries that make up the INFE, as well as for countries that, although are not part of the Network, aim to develop such initiatives. Additionally, in 2012, *Banco de la República* will be in charge of organizing INFE's seventh financial education meeting, which will take place in Colombia.

Chart 8  
Beneficiaries total (collaborators and individuals) between 1980 and 2010

Type of beneficiary	(number)	(percentage)
Bank	281	64.3
Individuals	156	35.7
<b>Total</b>	<b>437</b>	<b>100.0</b>

Source: Banco de la República

Chart 9  
Individual beneficiaries total (Jóvenes Talentos program) by type between 1980 and 2010

Type of program	(number)	(percentage)
Music	13	54.2
Arts	11	45.8
<b>Total</b>	<b>24</b>	<b>100.0</b>

Source: Banco de la República

Economic Law, PhD in Economics program  
Number of individual beneficiaries abroad by areas of study between 1980 and 2010

Area of study	(number)	(percentage)
Economics	115	87.1
Economic Law	10	7.6
Other <sup>a/</sup>	7	5.3
<b>Total</b>	<b>132</b>	<b>100.0</b>

a/ Public policies, law, jurisprudence, public administration, among others.  
Source: Banco de la República.

### Sponsorship for Employees

These sponsorships are mainly aimed at training outstanding professionals at specialization, master or doctorate levels in prestigious foreign and national university

centers, thus enabling the institution to enhance further its performance of the functions entrusted to it. Statistics relating to these sponsorships are shown by study areas in Table 11, and by program types in Table 12.

Chart 11  
Number of collaborator beneficiaries abroad by area of study between 1980 and 2010

Area of study	(number)	(percentage)
Economy	119	42.3
Business, Industrial Engineering, Accounting and similar	80	28.5
Computer Sciences and System Engineering	54	19.2
Fine Arts, Cultural area and Languages	16	5.7
Law and Legal Sciences	10	3.6
Architecture and Engineering	2	0.7
<b>General Total</b>	<b>281</b>	<b>100.0</b>

Source: Banco de la República.

Chart 12  
Number of collaborator beneficiaries abroad by type of program, 1980 to 2010

Type of program	(number)	(percentage)
PhD <sup>a/</sup>	78	27.8
Masters	196	69.8
Other <sup>b/</sup>	7	2.5
<b>Total</b>	<b>281</b>	<b>100.0</b>

a/ One post-doctoral degree.  
b/ Cultural area programs, 1 year period.  
Source: Banco de la República.



An employee from *Banco de la República* receiving his Masters' Degree in Economic Sciences at the University of Illinois at Urbana-Champaign.

## CHALLENGES

### On Economic Research

- To successfully complete the research agenda relating to labor market in Colombia, and develop a new one regarding the macroeconomic effects of external conditions in Colombia (2012).
- To publish the books *Formación de precios y salarios en Colombia*, and *Variables inobservables* (literally: *The Shaping of Prices and Salaries in Colombia*, and *Unobservable Variables*) in English.

### On Production and Dissemination of Statistics

- To subscribe new information exchange agreements and covenants with public agencies and institutions in order to further improve information flow efficiency.
- To homologate the production of balance-of-payment and financial account statistics with the DANE (the National Administrative Department of Statistics) in order to achieve better consistency with the general national and macroeconomic accounts system.

- To update the Technical Management's central information system (Sisec) in order to integrate and centralize the stages for capture, processing, calculation and dissemination of information.
- To publish the regional economic pulse (PER), which is a leading economic activity indicator.

#### On Economic and Financial Education

- To promote and support the national economic and financial education strategy within the framework of the National Development Plan.
- To consolidate the national economic and financial education network with the

Bank's branches, in order to homogenize treatment of these topics.

- To extend the number of beneficiaries of economic and financial education programs to new audiences.
- To update the EMI (Interactive Monetary Exhibition) modules with three modules in two other branches.
- To carry out initiatives related to economic and financial education, such as launching economics and economic policy videos on the Webpage, holding savings seminars for children between 6 and 12 years of age, and launching, under an alliance with the SENA (the National Learning Service), a free virtual course dealing with basic economic subjects.



**CULTURAL  
ACTION**

# CULTURAL ACTION

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In terms of sustainable development, cultural activity is in line with the concept of opportunities and capabilities exposed by economist Amartya Sen, insofar as it offers opportunities for citizens to develop their capabilities in an autonomous, independent and free manner.

Article 25 of Act 31 of 1992, declared cultural activity as linked to central banking functions, and determined that *Banco de la República* may continue to perform only the cultural and scientific functions it had been developing to that date. According to this mandate, the Bank works in the rescue, preservation, analysis, study, and dissemination of the Colombians' cultural heritage by developing its cultural policy through four action lines: The Libraries Network, the Gold Museum, the Arts and other Collections Unit, and the musical work. These lines of action are supported on a varied cultural and academic programming which, in addition, works as an instrument for disclosure and dissemination in Bogotá and 28 branches of the Bank nationwide.

In sustainable development terms, cultural activity is in line with the concept of opportunities and capabilities exposed by economist Amartya Sen, insofar as it offers opportunities to the citizens to develop their capabilities in an autonomous, independent and free manner. Moreover, the preservation of the cultural heritage, as well as access

to the collections, contribute to the construction – or reinforcement – of collective identities, and ensure social sustainability.

In order to emphasize the above, the Bank supports its action on a national network and frames it within the following principles: attend to regional diversity by invigorating the network of national cultural centers; using and making available to the public the most recent technological advances; and instructing and training their human resources.

## THE BANK'S CULTURAL ACTION TODAY

At present, the Bank develops its cultural action according to the guidelines of the Cultural Division and has succeeded in positioning itself as one of the most committed and respected cultural agent not only in the country but with international impact. Its cultural programming goes from small readers' clubs that meet every week to talk about subjects like astronomy, maps or literature, to musical groups' concert tours, or exhibitions of artists of international stature.

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The preservation of the cultural heritage, as well as access to the collections, contribute to the construction – or reinforcement – of collective identities, and ensure social sustainability.

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## WHY BANCO DE LA REPÚBLICA PERFORMS CULTURAL ACTIVITIES<sup>1</sup>

Often, even within the same institution, the question of why *Banco de la República* develops collections containing cultural heritage arises. In this regard, there are both historical and pragmatic convenience reasons.

Regarding the historical nature reasons, the intent that the Bank collaborates with cultural heritage, was expressed in the Kemmerer mission, which gave creation to the Bank. The facts themselves put into practice this intention since the founding of the Bank in 1923, as this period coincides with the gold standard dogma and the gold buying monopoly by central banking for the support of its issuances. Beside the alluvial gold and vein gold coming into the coffers of the Bank, pre-Columbian gold figures began to arrive, an issue that facilitated the formation of the pre-Hispanic gold collection. Not melting these pieces was a visionary decision by the Bank's first Governor's, because back in that time they were not as valued as they came to be soon after, when the pre-Hispanic and indigenous

was claimed due to the Mexican Revolution, the muralism and the literature that would be written in the thirties decade of the twentieth century.

Similarly, the bibliographic and newspaper archives collections, consulted by the Bank's technicians since its founding, led for it to open them as a public library since February 1958. For its inauguration, the first national art exhibition was made, giving birth to the art collection. Over the years, Colombian art, international, coins and notes collections were consolidated; musical work began at the *Luis Angel Arango* Library in 1966.

In practical terms, developing a cultural activity bring the public to an institution whose main asset is the confidence of the citizenry. Moreover, an organization that works to preserve the value of the currency, and has the infrastructure to keep notes and coins, is ideal for promoting long-term cultural policies and to preserve and promote valuable cultural collections such as the ones the Bank has.

In short, cultural collections are part of the Bank since its foundation, and its role as a central bank makes it an ideal institution to ensure its care and promotion.

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<sup>1</sup> Source: Darío Jaramillo Agudelo, "*Banca central y cultura*", conference, Santiago de Chile, 2005.

The Bank owns a cultural website ([www.banrepcultural.org](http://www.banrepcultural.org)) serving to collect both institutional information and the cultural activity programming in its different cultural agencies across the country. From this website it is possible to access the bibliographical catalogue of the "Red de Bibliotecas", the library network, as well as collections online at the Unit of Arts and Other Collections, and a virtual Gold Museum exhibition, among others. Additionally, it communicates with its users through its own pages at the main social networks (Facebook, Youtube, Flickr) and directly by e-mail with those registered in its database.

In 2010, 9,092,747 users took part in some of the several cultural activities developed by the Bank (Table 13), and 8,020,969 visited its cultural website.

Many of the cultural projects are carried out through alliances with other

institutions aiming at expanding their impact and promoting reciprocal learning. In 2010, about 317 inter-institutional alliances were made by the Bank (Table 14), which reaffirms the fact that both public and private sector organizations believe in the entity and trust it as an efficient agent, promoter and administrator regarding cultural matters in the country. It is worth highlighting the alliances made with the Goethe Institute, the Alliance Française, the Ministries of Culture and Education, the Mapfre Foundation, the Deutsche Bank, the *Asociación Colombiana para el Avance de la Ciencia*, (Colombian Association for the Advancement of Science), the Andes, Eafit and National Universities, and the Humboldt Institute, among others. Likewise, the application of the Central Bank's cultural policy has acted as a referent for other central banks

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Many of the cultural projects are carried out through alliances with other institutions aiming at expanding their impact and promoting reciprocal learning.

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Chart 13  
Cultural activity: number of users - assistants

Indicator	2009	2010
Libraries network	4.519,073	4.593,677
Art and Collections Unit	1.328,798	2.492,571
Gold Museum	1.322,685	1.877,665
Concerts and music programs	179,809	128,834
<b>Cultural activities total</b>	<b>7.350,365</b>	<b>9.092,747</b>

Source: Banco de la República.

Chart 14  
Interinstitutional cooperation: number of alliances-projects

Areas	Numbers of interinstitutional alliances	Number of performed projects
Libraries network	27	38
Art and Collections Unit	26	12
Gold Museum	24	14
Branches	240	324
<b>Total</b>	<b>317</b>	<b>388</b>

Source: Banco de la República.

in the region to formulate and implement similar actions, as in the case of Costa Rica, Ecuador, Honduras, and Paraguay.

#### THE LIBRARY NETWORK

The Library Network comprises the *Biblioteca Luis Angel Arango* in Bogotá, aside from 18 more libraries, 10 cultural areas, and 7 regional documentation centers in 28 cities and towns throughout the country.

These headquarters have children rooms, music halls, audiovisual and multiple-activity auditoriums for conferences and exhibitions; they are open to all kinds

of public for consultation or enjoyment of books, magazines, records, microfilms and videos, among others, and for special events like arts and book exhibitions, conferences, plus a varied program of concerts and recitals by national and international interpreters. Additionally, reading, writing and learning are encouraged through workshops and other educational activities.

The strategic objectives of the Library Network include its development as a collection system for diverse audiences in response to regional needs, aimed also at offering an excellent service. Within the framework of the Network's concept and these purposes, the fact that the

#### WATER PROJECT: MEMORY AND FUTURE

During 2011 and 2012, the Bank will lead the Water project: Memory and future, which seeks to provide information about the Andean watersheds, while allowing the appropriation of the concept: I live, I inhabit and I affect an environment. In addition to offering an informative and affective component, the project aims that participants of the different activities generate initiatives and actions to promote good water management practices.

Planned activities include: an international meeting on water and economics, exhibitions throughout Colombia and the Andean Community, more than 77 activities in 24 cities across the country, a numismatic project, the publication of the book *Crónicas del agua*, and various educational components, such as traveling boxes and the water science week among others.





Visitors at one of the reading rooms at *Biblioteca Luis Angel Arango* in Bogotá.

library itself lies at the core of citizenship construction is worth highlighting. Understanding reading and writing as cultural rights of citizens has to do with enhancing, broadening, decentralizing and making accessible any and all reading, writing and communication spaces, making formats and supports flexible, reaching different places and audiences, inviting and welcoming diverse cultural expressions, and fostering social inclusion and cohesion.

The library supports researchers from all the country by making documentary resources available to them, as well as implementing and supporting research works to develop collections according to beneficiary communities of the network. In addition, it promotes new products such as web pages, funds for the virtual library, bibliographic exhibitions, and

special programs for diverse audiences, and all this on its collections. The material acquired by the Library Network in 2009 and 2010 is detailed in Table 15.

#### Services Offered by the Library Network.

The main consultation mechanism in the Libraries' Network is the catalogue, to which access is available from any place in the world through the Internet. It contains the database of all books, records, CDs, videos and other existing materials. Likewise, through a Library Network's association service, members enjoy certain privileges such as book reservations, bibliography production and forwarding to electronic mails, and material lending in any *Banco de la*

Chart 15  
Collections development: acquired material amount for the Libraries Network by purchase, exchange and donation

	2009	2010
Acquired material amount	96,229 <sup>a/</sup>	62,836

a/ Includes the Gómez Dávila collection.  
Source: Banco de la República.

The Virtual Library, created in 1996, can be accessed from the virtual portal. It makes accessible to the public information about Colombia than can be consulted on the web from any place in the world.

República library in the country, regardless of the user's place of residence.

In addition, this Library Network offers instruction and training projects for audiences inside and outside its headquarters. Those carried out in the libraries include readers' clubs, thematic visits, services for the blind, and chats and conferences about their readings. Extension programs are oriented towards the promotion of reading among vulnerable urban population, and are carried out with inmates in prisons, children in nurseries or kindergartens, third age groups, and people in disability conditions, among others (Table 16).

The Virtual Library, created in 1996, can be accessed from the virtual portal. It makes accessible to the public information about Colombia than can be consulted on the web from any place in the world. This is a basic library organized under the thematic-encyclopedia structure model, presenting information in books, images, sound and video files, interactive pages, and online exhibitions.

In 2010, the Library Network counted 4,593,677 users at national level.

Finally, the Luis Angel Arango library distributes the Cultural and Bibliographical Bulletin, a bi-annual monographic publication aimed at spreading academic research about Colombian matters. Every issue contains articles about a specific subject. These articles, along with bibliographical reviews on Colombian editorial production, constitute the main contents of the Bulletin. Likewise, it includes unpublished work by Colombian poets, and information regarding *Banco de la República's* collection and works of art. For 2011, a special issue published every ten years was projected.

#### THE UNIT FOR ARTS AND OTHER COLLECTIONS

The Unit for Arts and other Collections manages a selection of 4,624 works of art, 8,407 coins, 6,083 banknotes and 35,084 stamps, and works for its constant

Chart 16  
Public formation at the Luis Ángel Arango Library: number of attendants and activities

Indicator	2009	2010
Number of attendants	14,907	23,712
Number of activities	164	423

Source : Banco de la República.

#### BICENTENNIAL: 200 YEARS OF A NATION IN THE WORLD

As part of the celebration of 200 years of independence, the Libraries Network launched a series of activities aimed to promote a repertoire of texts and images that are part of the collection of the Bank, as well as encouraging reflection and debate on these two hundred years of the history of Colombia. This project sought to raise new questions about the 200th anniversary of a nation in the world.

Among the most important initiatives of this project is found:

- The *Palabras que nos cambiaron* bibliographic exhibition, which took place from 20 April to 27 September 2010 in Bogot

tá, and simultaneously in 28 venues. The exhibition was visited by 56,169 people in Bogotá, and at the branches and cultural centers by about 71,000 people.

- The *Ensamblando la Nación* bibliographic exhibition, featured from 27 August to 18 December 2010, with an attendance of 13,110 people.

Other initiatives were developed by the cultural portal, registering over 600,000 visits. An initiative to highlight, is the timeline of the bicentennial, an interactive project for showing in a dynamic way the history of Colombia, linking the contents of the Virtual Library. It was made for the hundred years around the time of independence (1750-1850), and will be updated with events related to ongoing projects.

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The mission of the Gold Museum is to contribute to strengthen Colombian's cultural identity by preserving, researching, cataloguing and exhibiting its collections

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development by means of national and international acquisitions of which the Bank maintains free permanent exhibits at two museums, the Art Museum (*Museo del Arte*) and the Botero Museum (*Museo Botero*) in Bogotá. Through them, the Bank develops a vast exhibition program based on its own collection and other artwork of foreign origin on about 3,000 square areas in Bogotá and other exhibit rooms throughout the country. In the course of time, the exhibitions offered by *Banco de la República* have been recognized as the most significant events of their kind in Colombia (only to mention a few: Andy Warhol, Edgar Degas, and other major impressionists, famous Latin American painters, etc.).

Additionally, the Bank shares joint programs with other entities such as "El Parqueadero" project (in association with the Gilberto Alzate-Avendaño Foundation, and regional initiatives such as the *Obra viva e Imagen Regional* programs (literally: *Living Work and Regional Image*) (Table 17).

Finally, for many years the itinerant exhibitions program throughout Colombia has been invigorated. It consists of exhibiting

original works of the Bank's collection at different branches nationwide, thus enabling the national public to have access to works of significant importance in the Colombian artistic environment. Worth mentioning in this program were, among others, the Ganitsky Collection, Regina Silveira and Hector Aceves in 2010, with 54,431 visitors. A program of temporary exhibitions of the traveling numismatic collection is carried out as well around the country.

In 2010, 2,492,571 spectators attended the events organized by *Banco de la República*, among them 4 international and 7 national exhibits, 4 bibliographic exhibits and 4 laboratory activities within the framework of "El Parqueadero" project. All of them included workshops, lectures, guided visits and other events serving to involve citizens and give context to the exhibitions.

#### **MUSEO DEL ORO: THE GOLD MUSEUM**

The mission of the Gold Museum is to contribute to strengthen Colombian's cultural identity by preserving, researching, cataloguing and exhibiting its collections, which, after 70 years of existence, contain at present an archaeological heritage of 34,202 proprietary gold objects and 19,727 other items made of different materials such as ceramics, textiles, wood, shells, and stones.

In order to ensure the permanence in time of these objects, the Museum has the most advanced preventive preservation technology in its glass cases, stores, deposits and warehouses, as well as a highly professional restoration and research team. Likewise, for its cultural dissemination, it has its main museum in Bogotá and six regional museums across the country: the Tairona Museum in Santa Marta; the Zenu Museum in Cartagena; the Quimbaya Museum in Armenia; the Calima Museum in Cali; the Nariño Museum in Pasto, and the Amazonian Man Ethnographic Museum in Leticia. Under its international diffusion program, collection pieces are temporarily exhibited in other countries.

In the course of 2010, the Gold Museum had nearly 511,000 visitors in Bogotá and 353,006 in its six regional exhibition rooms. Figures have continued to increase since the museum renewal in 2008. Likewise, two of its collections



Visually impaired population visiting *Museo Botero*.

Chart 17  
Artistic creation promotion

*El Parqueadero*

Projects space, documentation and meeting in the different contemporary artistic practices, open to the public and completely free.

More than a showroom is a laboratory for the development of workshops, work production, documentation, and video, among others.

Joint project with the *Gilberto Alzate Avendaño* Foundation.

In 2010, four exhibitions, seven workshops and ten lectures were made.

*Obra viva*

The exhibit in the museum is replaced by an *in situ* production (on site), with the participation of a renowned artist and community residents.

The program replaces the paradigm of the artist as sole author, and provides a space for creating a direct relationship with his audience.

In 2010, it was carried out in ten branches in the country with an attendance of 7,712 people.

*Imagen regional*

Program by which regional artists can participate in exhibitions, the curatorship is in charge of the Bank, with the quality and content that distinguish the organization.

The selected works are gathered in a national exhibition in the arts rooms in Bogotá, allowing making local processes and developments visible.

In the years 2008, 2009 and 2010, the program was carried out in 27 locations across the country.

Source: Banco de la República.

## HABEAS CORPUS

Assuming the body as a cultural experience and a container for history, this exhibition showed great importance for its relationship between art and reality. The curators established a dialogue between fascination for the body of the Baroque and contemporary cultures, and the exhibition was conceived as a counterpoint between works of the neogranadine baroque and contemporary expressions on the corporeity and scientific illustrations.

For the exhibition, works from Art Collection of Banco de la República, the Archdiocese of Bogotá, different museums in Colombia, and from several national and international collectors, were gathered. The exhibition was conducted between March and June 2010 with an attendance of 31,364 people.

## MAN RAY

Man Ray exhibition is the first of the artist who has been featured in Colombia. It included 127 works, besides his famous photographs, paintings, drawings, lithographs, sculptures, collages and intervened objects. The exhibition showed how Man Ray, who is said to have changed the art of the twentieth century with his friend Duchamp, was both protagonist and witness of his time. He condensed in his pseudonym the provocations, manifestos and scandals manifests and the avant-garde Dada (1916) and Surrealist (1924) movement. His imagination and intuitive capability, took him from drawing to the ready mades; from fashion photography to rayographs and from painting to film. The exhibition opened in October 2010 and, by December, it had an attendance of 49,241 people. The closing date of the exhibition was February 2011.

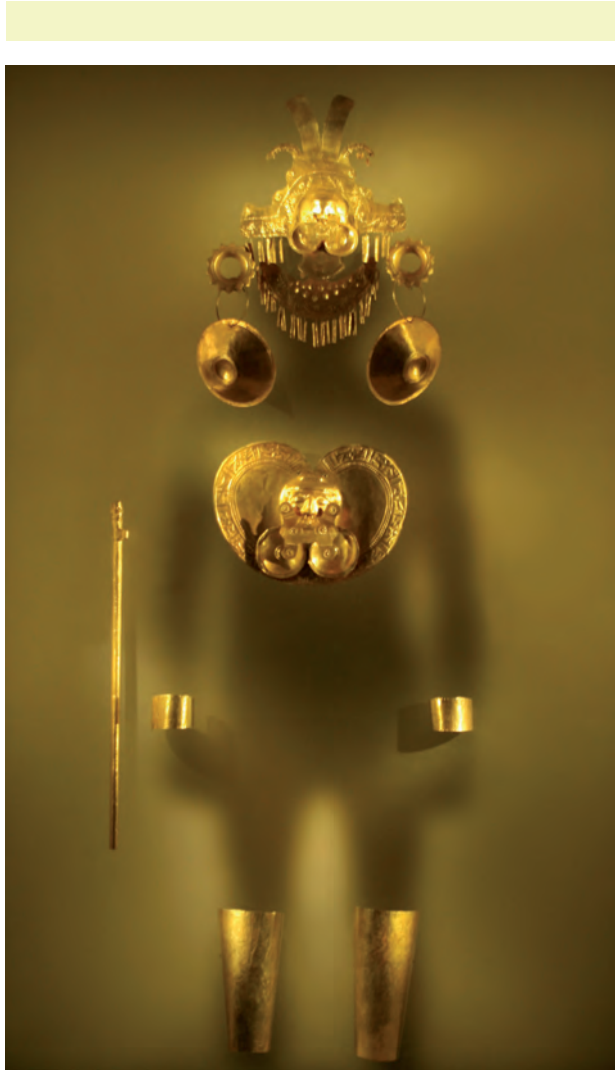
were exhibited in Santiago, Chile, and São Paulo, Brazil, with an attendance of nearly 152,000 people.

With respect to temporary exhibits, “Cuerpos Amerindios” (literally: ‘Amerindian bodies’) took place in Bogotá with 85,000 visitors. Subsequently, “Imperial Dragons of China” in association with the Shanghai Museum, opened to the public

different cultures, and get to know the creative heritage of national and foreign composers. This action is carried out by offering live chamber concerts and producing musical pieces for mass distribution, in means such as compact discs. Additionally, work is being done in the formation of audiences capable of producing and appreciating music by inviting young talents, offering master classes, family recitals, pedagogical concerts and music appreciation lectures and talks, among other similar activities.

In 2010, at the Concert Hall in the Luis Angel Arango library, 88 concerts were offered with attendance of 21,602 people. Moreover, at the Bank’s branches and cultural agencies, 42 concerts took place with international musicians and 75 with national artists for a total attendance of 107,232 people. In this way, public from the different regions was given the opportunity to attend very high-quality events and enjoy the performance of the best world interpreters.

In 2010, with regard to the production of compact discs, the album baptized as *An appointment with the Organ* was launched at the concert hall in the Luis Angel Arango library. This work gathers the efforts carried out by *Banco de la República*, the Embassies of Germany and France, the Goethe Institute and the *Alianza Colombo Francesa* (Colombian-French Alliance) around this instrument in the past few years. It evidences the revival of interest in this instrument and its repertoire in Colombia.



Gold pieces from the Calima culture exhibited at Museo del Oro.

in October; it was visited by 55,417 spectators, and contributed to create strong cultural ties between Colombian and the Popular Republic of China.

## MUSIC

The work developed with respect to music is fundamentally based on the principle of letting public at large have access live to chamber music of all times and from

## Young Interpreters Program

Since 1985, a very important part of the annual Luis Angel Arango Library’s concert hall schedule is the series known as Young Interpreters. In most cases, these recitals are the first professional experience of the best music students in the country, and have proved to be a good support for the advancement of the talent of some artists in both Colombia and abroad.

The musical activity of outstanding artists such as Valeriano Lanchas, Juanita Lascarro, Gaspar Hoyos and Alejandro Roca, among others, started at the Young Interpreters series. Today, they are recognized as very talented musicians in important European and North American stages.



Children during a guided visit to Museo Botero.

## STUDIES AND RESEARCH IN THE CULTURAL FIELD

The Bank's contribution to knowledge also includes contributions in the cultural field. For example, in 2010 the Bank performed archaeo-metallurgy studies in the Tairona and Nariño communities, in collaboration with *University College London* and *Universidad de los Andes*. It also worked in research in archeology, archaeo-music and mathematics, which will nourish the renovations at the Gold Museums of Pasto and Santa Marta, planned for 2012, along with the contents of the educational bags given to schoolchildren across the country.



Research and restoration of archaeological objects at Museo de Oro of Banco de la República.



Eighth grade students from different schools in Bogota attend a performance of the ensemble Sincopa Cinco in the Concert Hall at *Biblioteca Luis Angel Arango*.

Moreover, they continue to be welcome as special guests of the Luis Angel Arango's concert hall as professional interpreters.

One of the most important features of this series is that the musicians taking part in it are selected after a very rigorous audition process forcing them to design a coherent and attractive program, the interpretation of which requires careful preparation – and in some cases memorization. This process is almost as relevant as the concert or recital itself, since it is very similar to those contests that in many countries worldwide determine success or stagnation in the young musicians' musical careers.

Likewise, the artists so selected are introduced by *Banco de la República* at its several branches in the country, in this

way becoming the conveyors of a tradition serving to different national communities. Each year, on average, forty concerts take place for which hundreds of candidates apply.

In 2010, 256 contestants were registered in response to the invitation to take part in the 2011 season.

Guitar, voices, piano and organ are the most popular categories.

## CHALLENGES

### Cultural Action

- Improving the knowledge of audiences in order to perform an inclusive plan-

## SINFONIAE PROFANAE WORLDWIDE RELEASE

A fact to note is the biannual composition commission, which in 2010 corresponded for the world premiere of the play *Sinfoniae Profanae* by composer Diego Vega. This play was commissioned by Banco de la República and released by the Collective Cuivres brass quintet and organist Pascal Marsault. The play was presented on 20 July in Medellín and 21 July in Bogotá.

ning taking into account their needs and expectations.

- Keeping the Libraries Network updated, and enhance the ability to develop digital collections (bibliographic and art) according to technological advances.
- Having development plans from agencies and branches which may allow to

serve regional particularities better, looking for a more effective decentralization of resources.

- Advancing in archaeological collection research from multiple perspectives resulting in new forms of knowledge, appropriation, and valuation of the pre-Hispanic past.





**CORPORATE  
COMMITMENT  
TO SUSTAINABLE  
DEVELOPMENT**

# CORPORATE COMMITMENT TO SUSTAINABLE DEVELOPMENT

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The economic, social and environmental effects of Banco de la República's corporate performance are important; and these impacts are transversal to all the functions carried out by the Bank.

In its efforts to encourage sustainable development, the Bank implements diverse initiatives aimed at preventing and controlling the impacts of its actions, which are kept within environmental regulations, corporate responsibility, and infrastructure management, while promoting optimization processes and minimizing risks. Likewise, the Bank's active management of its supply chain is subject to corporate efficiency and transparency principles and carried out in the benefit of its suppliers' development in a socially and environmentally responsible atmosphere.

- Ensuring compliance with environmental regulations
- Identification, prevention, minimization and control of the generation of negative effects in the environment
- Increasing energetic efficiency, and promoting rational use of resources and process optimization
- Offsetting environmental impact generated on all the Bank's activities.

Having defined these objectives, the Bank established an environmental plan whereby the areas of work were specified involving all the institution's departments. The plan has a three-year time horizon which is reviewed, revised and updated on an annual basis. For the development of the programs defined in these activities, the Bank has destined resources amounting to COP 3,347 m, for the first year, distributed as shown in Graph 12. The highest percentage budgeted for infrastructure adaptation is highlighted since, in many cases, it is through its buildings that the Bank causes impacts on the environment.

## SUSTAINABLE RESOURCE MANAGEMENT

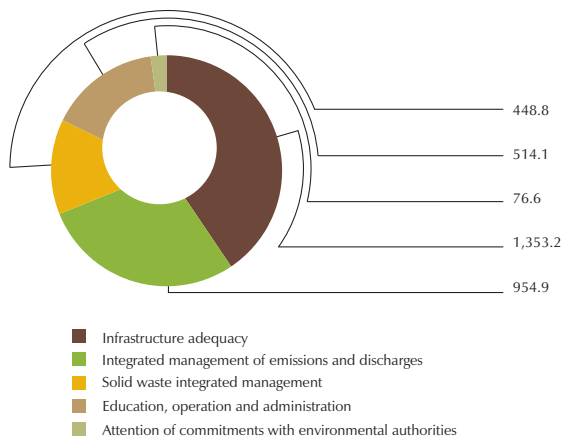
The Bank's commitment to sustainable environmental management is visible through the creation in 2009 of the Environmental Management Unit. This area develops its work through four main and reciprocal supplementary activities:

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The Bank established an environmental plan whereby the areas of work were specified involving all the institution's departments.

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Graph 12  
Environmental expense and investment distribution, 2010  
(million Colombian pesos)



Source: Banco de la República.

### Infrastructure with Environmental Sustainability

The Bank has been developing an adequacy plan for its buildings in the national territory oriented to improve their efficiency, operability and functionality according to the Institution's current administrative situation, and looking after its physical plant optimization for the best performance of its functions and service rendering.

In this line of thought, designs and reformation works of the Bank's buildings are being carried out in a pluri-annual work plan, conceived within the good practices framework vis-à-vis environment preservation and sustainability in the bioclimatic (natural ventilation and green covers), energy (natural lighting, efficient systems and lighting control), air conditioning (ecological coolers not likely to affect the ozone layer, and use of mechanical systems only where necessary, taking advantage of natural ventilation), and water management (grey water reuse by means of internal treatments and storage of rainwater). Other relevant aspects include proper spaces for waste management, constructive system selection, façade coating and weather event isolation covers, and materials manufactured for low environmental impact. The libraries in Neiva and San Andres

At the buildings of cultural agencies and branches of *Banco de la República* technological changes have taken place, aimed at obtaining consumption reductions and efficiency improvements in both the buildings and its working and service conditions.

are pioneering designs that comply with these parameters.

At the buildings of cultural agencies and branches of *Banco de la República* technological changes have taken place in ventilation and air conditioning systems, automation and modernization of lighting and electric substation (in Florencia, Popayan, Ibagué and Barranquilla) among others, aimed at obtaining consumption reductions and efficiency improvements in both the buildings and its working and service conditions.

Simultaneously, within a nationwide plan aimed at obtaining reductions in consumptions and improving efficiency in each property, a technological update program is carried out in the ventilation and air conditioning systems, lighting automation and modernization, electric substations and power plants in their buildings.

Likewise, the Bank has been carrying out a social inclusion program in all its buildings to make access and displacement easier for both employees and users in disability conditions. This project includes integral interventions in its buildings, where other aspects are envisaged, such as: installation of mechanical aids, access routes, proper bathrooms, signaling, and light conditions.

### Electric Power and Water Management

The Bank has defined the preparation of a plan envisaging the efficient use of strategic resources (water, electric power and fuels, among others) which requires reliable information for its implementation. For this purpose, an environmental database was built. It gathers the information dealing with consumption and billing of water and electric energy in the Bank's buildings throughout the country, from which it could be possible to identify critical areas in order to focus its action on them.

### Electric Energy Consumption

As shown in Graph 13, electric power consumption in the Bank was reduced between 2007 and 2009, and increased in 2010.



The water pool at the *Central de Efectivo* collects rainwater, which is used for toilets, garden irrigation, and as a reservoir for the firefighting system.

Taking into account the activities it carries out, and as shown in Graph 14, electric power consumption is concentrated mainly in industrial facilities (the Mint and the Cash Center). In these plants, energy consumed is directly related to production volumes and this in good part explains its increase in 2010 (Graph 13). During this year, it went up by 51.5% on average in the Mint as compared with 2009, as a result of the 85.5% increment in the volume of processed material in carrying out its constitutional and legal functions.

#### Measurements of Greenhouse Effect Due to Energy Consumed

As a first step in the identification of activities likely to help reduce carbon emissions, the Bank measures greenhouse effect emission (GEG) originating in

electric power consumption in its buildings<sup>29</sup>. The institution is examining how these measurements could be made for all the Bank's activities and so advance in the calculation of other components of the carbon footprint in the next few years.

The results of this measurement are published in Infobanco in order to make employees aware of the Bank's energy consumption effect on the environment, and lead them to adopt measures aimed at saving electric power at their workplaces. Graph 15 shows the emission of greenhouse effect gases of the Bank's major electric power consumers.

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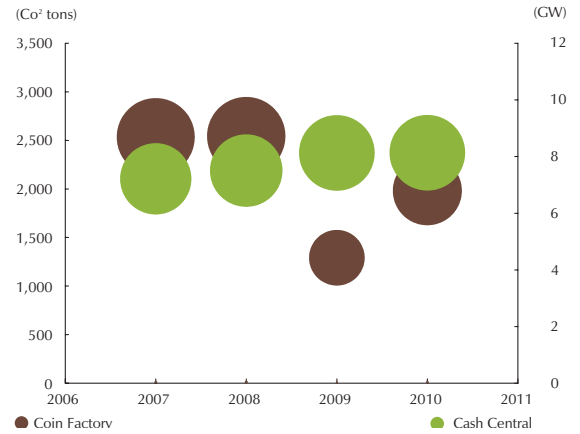
<sup>29</sup> The GEG emission factor for electricity generation was first taken as 0,2849 kg of carbon dioxide/kWh, from the provisions set forth in Resolution number 180..947 of 4<sup>th</sup> June 2010, issued by the Ministry of Mines and Energy.

Graph 13  
Electricity consumption at Banco de la República



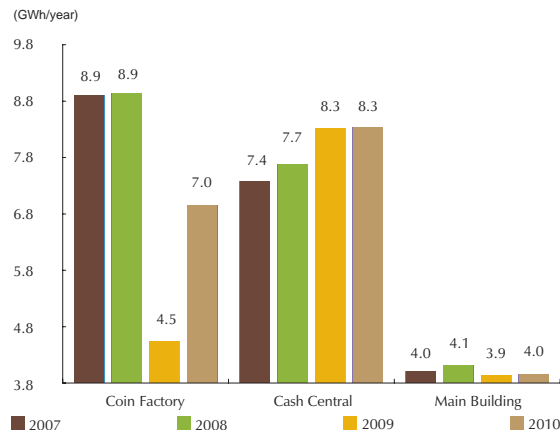
Source: Banco de la República.

Graph 15  
Industrial areas carbon footprint<sup>a/</sup>



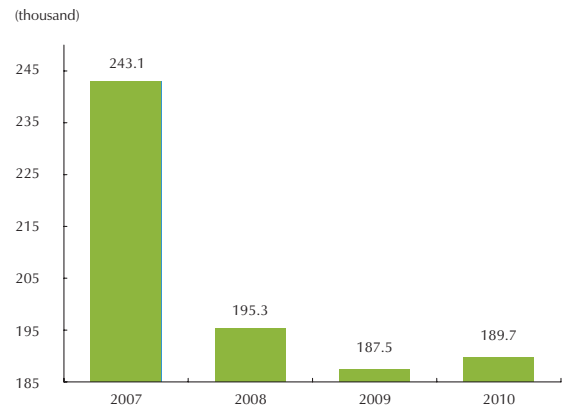
a/ Los datos de toneladas de dióxido de carbono corresponden al consumo energético anual de la edificación multiplicado por un factor que convierte kWh a toneladas de dióxido de carbono.  
Source: Banco de la República.

Graph 14  
Facilities with the greatest energy consumption



Source: Banco de la República.

Graph 16  
Water consumption at Banco de la República  
(figures in m³/year)



Source: Banco de la República.

### Water Consumption

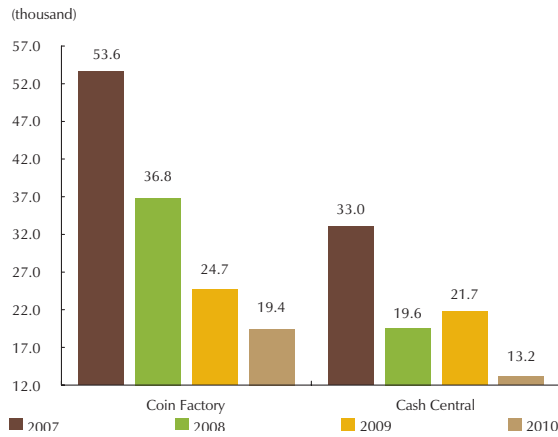
As may be seen in Graph 16, water consumption in the Bank has been reduced in the past few years by shifting from 243,1 thousands of cubic meters in 2007 to 189,7 thousands of cubic meters in 2010, which accounts for a 21.9% reduction.

Also in this case, industrial plants are the sections with higher water consumption (Graph 17); therefore, total reduction

is to a great extent due to the different initiatives propelled by the Bank in these areas.

At the Mint (*Fábrica de Moneda*), a new integrated washing and drying system was implemented for planchets (metal discs also referred as flans or blanks ready to be struck as coins), and the consumption of inputs was reduced by 53.3% in 2010 with respect to 2007. Likewise, the contaminant charge of

Graph 17  
Facilities with the greatest water consumption  
(figures in m<sup>3</sup>/year)



Source: Banco de la República.

effluents decreased<sup>30</sup> since the use of some corrosive substances and oxidants was replaced in the production process. All these measures contributed to cut down water consumption from 3.3m<sup>3</sup>/ton in 2007 to 2.01m<sup>3</sup>/ton in 2010, which means an economy of 36.4%.

Moreover, the Cash Center (*Central de Efectivo*) succeeded to reduce water consumption by 60% in 2010 as compared to 2007, despite the fact that the number of pieces produced grew 9.2% in the same period. Actions introduced to reduce consumption included the installation of water-saving devices in the faucets, as well as the revision of the ventilation and the air conditioning systems operation in the administration building and the printing plant.

### Discharges, Spills and Emissions

The achievement of the strategic objective of identifying, preventing, minimizing and controlling the generation of contaminant charges began with the taking of inventories at the contaminant water discharge and atmospheric emission points. Between years 2008 and 2010, environmental studies were carried out

30 "Effluent" is any liquid discharge poured in a sewer or in a body of water (Resolution No. 339 of 1999 by the *Departamento Administrativo del Medio Ambiente*, DAMA).

in order to determine potential impacts associated with the processes being developed in the Bank's departments, particularly at the industrial plants. It was concluded that both discharges and atmospheric emissions remain within the parameters established by national and local environmental rules.

On the other hand, from the outlook of improvement and prevention, adaptations were made in some areas to reduce contamination risks. Modifications included the construction of dikes to contain hazardous spills of dangerous materials (chemical residues or chemical products), and store fuels. At the Cash Center, hydro-sanitary plans were updated in order to detect possible leaks, and the industrial, domestic and rainwater networks were signaled. Likewise, at the Gold Museum, the discharge of domestic waters was separated from dumping generated at the restaurant, and a biological system for fat control was installed.

Likewise, the Banknote Printing House revised and improved processes in the cleaning modules of the intaglio printing machines designed to add banknote security features. Indeed, the immersion technique was replaced by aspersion systems, in this way succeeding to make savings in the consumption of cleaning solutions, the composition of which is 95% water. In addition, this reflects in a reduction in both discharge volume and contaminant charge.

### Waste Management

In order to reduce the impact caused by the generation of waste resulting from Bank processes, the Integral Waste Management Plan was created in 2008<sup>31</sup>. It started with a process including residue characterization, separation and storage in collection centers specially built for this

31 As per the Ministry of Environment, Housing and Territorial Development, Decree 4741 of 2005, residue or waste is defined as "any object, material, substance, element or product found in a solid or semi-solid state, or is a liquid or gas contained in a vessel or otherwise deposited, which is discarded, rejected or delivered by its originator on account to the fact that its properties prevent it from being reused in the framework of the activity under which it was produced, or the fact that currently applicable legislation forbids its reutilization".



Destruction process of the trimmings from the security sheets used to print banknotes.

purpose at the industrial plants and administration buildings in Bogotá.

The plan includes an external waste management program ensuring the proper final disposal of this kind of materials; it envisages as well, as a first option, the recovery and good use of residues and, as a last alternative, the disposal of waste deemed hazardous in secure cells<sup>32</sup>.

32 In Decree 4741 - Ministry of Environment, Housing and Territorial Development, hazardous waste is defined as "a waste or disposal that because of its corrosive, reactive, explosive, toxic, flammable, infectious or radioactive properties may cause danger or risk for human health and the environment. In the same way, vessels, packages and other containers that have been in contact with such substances."

With respect to the good use of the 452,246 kilograms of residues generated during 2010, 85% was disposed of by means of techniques aimed at taking advantage of waste by reincorporating it into productive processes of both the Bank and other industries (Graph 18).

Based on characterizations made, the following opportunities to reuse residues as raw materials were identified:

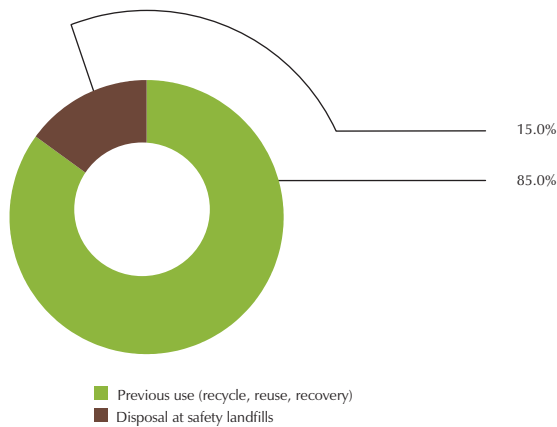
- Nickel chips or shavings generated in the Banknote Print processes: metals waste used in the Mint are recovered. In the past year, 1,200 kg of nickel were retrieved.
- Zinc oxides as residues from the coin manufacturing process: they are sold, and used as a raw material for the preparation of fertilizers.

## SECOND ELECTRICAL AND ELECTRONIC WASTE COLLECTION NATIONAL CAMPAIGN

In November 2010, the Bank participated in this campaign, conducted by Lito S.A. company, and supported by several ministries. The Issuer delivered 22 tons of waste, guaranteeing an environmentally and socially responsible disposal, with a 27% saving in disposal costs. The participation of the entity in this campaign was also framed within a social initiative to generate employment for people experiencing disability who make the dismantling of these elements.



Graph 18  
Types of final disposal of waste generated in 2010



Source: Banco de la República.

On the other hand, in 2010 222 tons of junk, paper, plastic and carton were recycled.

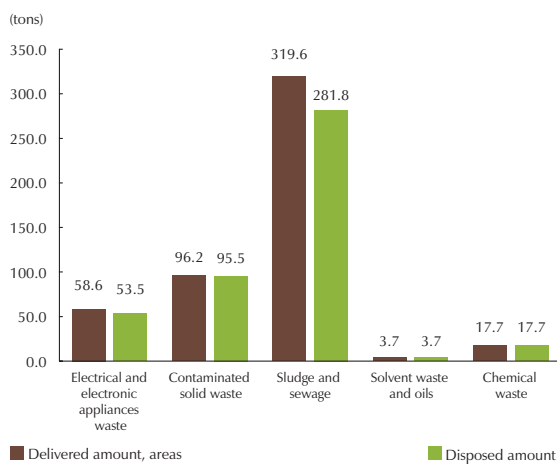
And finally, the definitive disposal - by type - of residues generated is summarized in Graph 19 and Table 18.

### Document Management

For many years now, the Bank has been promoting the use of electronic means



Graph 19  
Waste delivered by areas versus waste delivered to authorized firms for performing waste final disposal



Source: Banco de la República.

in order to rationalize the use of paper. Its main initiatives aimed at reducing the consumption of paper and printing elements are summarized in Table 19.

### Environmental Education

The Bank seeks to create awareness among its employees with respect to their environmental responsibility, by means of internal messages and awareness campaigns. Among these initiatives, the campaign for the Best Use of Resources (*Mejor Aprovechamiento de los Recursos, MAR*) stands out.

Additionally, contests dealing with knowledge in environmental topics encouraging ecologic culture and motivating employees to do research and understand the impact of their own activities in the Bank are carried out.

### SUSTAINABILITY IN THE SUPPLY CHAIN

The Bank sets the supply chain management within the corporate principles of transparency and efficiency, and in the development of initiatives that promote suppliers' progress as well as the respect of its employees' rights and environment sustainability.

In 2010, 16,412 contracts with 4,030 suppliers of goods and service were executed in the amount of COP252,388 m, of which COP192,776 m were signed with national providers and COP59,613 m with foreign suppliers<sup>33</sup>. Of this amount, COP21,604 m were channeled by means of contracts made with 2,446 enterprises in cultural agencies and branches, thus fostering regional economic development.

### Transparency in Contracting Processes

*Banco de la República* is subject to its own legal regime, and contracts signed by it are governed by the rules contained in the Political Constitution of Colombia, in Act 31 of 1992 and in the Bank's bylaws,

33 This last area incorporates inputs for the manufacture of banknotes and coins that are exclusively produced abroad.



Chart 18  
 Disposed waste class and technics used in 2010

Generated waste	Final disposal technic
Contaminated solids	Tapped under co-processing technics: 52%; disposed at safety landfill: 48%
Sludge and sewage	Tapped under co-processing technics: 75%; tapped with previous biological treatment: 25%
Solvents and used oils	Used in solvents recovery, or oils, o alternative fuel
Chemicals	Disposed at safety landfill Disassembling .
Electrical and electronic appliances	Part of the waste is submitted to previous treatment to convert it to raw material for other processes, the other part, corresponding to dangerous waste, receives the treatment in accordance to environmental regulations.

Source: Banco de la República.

Chart 19  
 Initiatives for reducing paper and printing elements consumption

Electronic storage of accounting vouchers: started in 2003 and allows an average annual saving of 4,400 reams of paper.

Disclosure via website, since 2007, the external regulation of the Bank, including newsletters, resolutions and external regulation circulars: represents an average annual saving of 25 reams of paper, in addition to the reduction in the use of envelopes, labels and dispatch processes.

Adoption of email as a means of internal communication: the use of paper memoranda decreased by 33% since 2006.

Use of electronic means to provide services to external customers, as well as the dissemination of information on the web portals of the Bank: letter production decreased by 25% since 2006, when 45,500 communications were generated.

Outsourcing of the document reproduction service: it began in 2005, and contributes to the conservation of the environment, due to the contractor providing multifunctional printers (printing, copying, faxing and scanning) configured with trays for printing on previously used paper, allowing two-sided printing, receiving fax documents in an image file, and making the automatic reproduction of copies only until the user enters his password on the computer. Similarly, the contractor is committed to collecting and destroying empty ink cartridges using techniques that guarantee the preservation of the environment.

Source: Banco de la República.

as well as in *Banco de la República's* General Contracting System and its Regulations.

Transparency in the Bank's management begins by making the purchase plan for the effective term in force, the contracting conditions for potential suppliers (as contained in the General Contracting System and its Regulations), and contracts

performed (with one-month lag) public through its homepage.

In this transparency framework, while encouraging competition, the Bank promotes market exploration in order to find new suppliers and ensure goods and services acquisition under optimal terms and conditions. Since the late 80's, the

## MAR CAMPAIGN

It is designed to promote the better use of resources; it became an instrument for promoting culture and environmental responsibility at the Bank's community. The campaign encourages to rationalize the use of resources, and is diffuses through *Infobanco* and by information on visible sites for collaborators. In this direction, efforts from each branch into saving energy are regularly published in *ECOreto*, which is a ranking on consumption variation, estimated from the consumption database, and is published in *Infobanco*.

The Bank demands from its suppliers environmental management standards certificates and plans, certifications of electric power consumption, and environmental certifications from foreign countries' competent bodies.

Bank started an approaching process to providers, inviting them to present and offer their products and services. The development and evolution of this initiative is shown in Graph 20.

Finally, in *Banco de la República's* contracting processes, the administrative function principles are applied (i.e. equality, morality, efficiency, effectiveness, economy, celerity, impartiality and publicity), as well as those of fiscal administration (efficiency, economy, equality and environmental cost evaluation), together with the goodwill, transparency and responsibility standards. For the purpose of orienting its employees' ethical actions, the Bank follows since 2003 the outlines of a Guide to Conduct and Ethics (*Guía de ética y conducta*)<sup>34</sup> which points out the behavior expected with regard to technical, efficiency and risk-prevention criteria, while determining in an explicit manner that the relationship with suppliers and goods and services purchasing must be guided by these criteria.

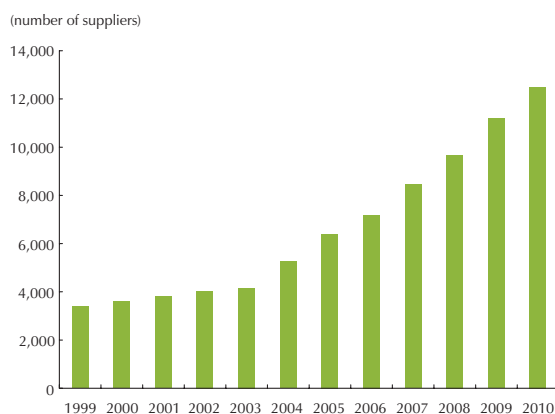
### Supplier Management and Development

In its relationship with its suppliers, *Banco de la República* seeks to contribute to the

34 Available at: <http://www.banrep.gov.co/documentos/el-banco/pdf/Guia-etica-y-conducta.pdf>



Graph 20  
Bank's suppliers database evolution



Source: Banco de la República.

well-being of employees working with them, and promotes their development through diverse initiatives.

In the first place, the Bank demands from suppliers compliance with basic standards such as refusing to hire minors to perform service-rendering tasks, respecting staff and workers' rights, and ensuring not only that they are paid their salaries and benefits but also that they are given all the protection elements they need to safely perform their tasks.

Secondly, within the framework of approaching new suppliers, and taking into account that *Banco de la República* in the development of its functions as a Central Bank has particular and unique needs in the country, provides different entrepreneurs the opportunity to offer solutions to meet any such needs and broaden their catalogues of inputs, goods and services. In this manner, it promotes its suppliers' evolution by inviting them to submit their offers. As a result of this initiative, different entrepreneurs have developed new products with the resulting good impact on the introduction and improvement of technologies, and job creation.

### Contracting with Environmental Responsibility

In relevant cases, suppliers are required by the Bank to guarantee their compliance with environmental management standards and plans, certifications of electric power consumption, environmental certifications from foreign countries competent bodies, among others. In the particular case of unused asset donation to public entities, the Bank contractually requires that final disposal of any such assets is carried out in compliance with the environmental standards in force.

Likewise, the institution takes into account the environmental impact of new acquisitions: for example, in the most recent evaluation process carried out with respect to computing equipment purchases, the lowest power consumption factor was considered as a decisive element among other criteria in the award procedure: equipment selected uses only one-fourth of the electricity consumed in the second best option. Another recent example is the contract executed in 2010

## SUPPLIERS' DEVELOPMENT FEATURED CASES

- Production of polypropylene bags, tie muzzled for transportation of currency, a product that was developed with the company *Tejiplast Ltda.*
- Manufacture of containers for the movement of securities system, developed with the firms *Disarchivo Ltda.* And *Colditec Ltda.*
- Manufacture of trays for processing banknotes, developed with the company *Sensaplast Colombia Ltda.*
- Manufacture of parts for banknotes sorting machines, products that were developed with the firm *Rema Ltda.*
- Manufacture of paper for wrapping coins, developed with the firm *Fabupel Ltda.*
- Production of perforated polyethylene shrink, made with the firm *Megaplast.*
- Making of telescopic cardboard boxes, product that was developed with the firm *Carton Colombia S.A.*
- The developing of new software applications to support the payment systems managed by the Bank, such as the deposit accounts system (CUD) is also highlighted.

for the supply of inputs destined to printing equipment. In anticipation to the Ministry of Environment's Resolution 1512 of 2010, whereby the selective recollection of computing and printing equipment beginning in 2012 is required, the Bank prompted suppliers to comply with these environmental standards for final disposal of these elements.

The same principles apply to contracting processes in other areas or services as, for example, in the case of gold and silver melting, analysis and refining and in the separation of platinum contained in the auriferous material purchased by the Bank in the gold-acquisition agencies, the supplier was required to carry out platinum separation without contaminant elements, particularly mercury, due to its adverse effects on the ecosystem and its employees' health.

## CHALLENGES

### Sustainable Resource Management

- Updating the buildings owned by the Bank by applying good sustainability practices and criteria. For this purpose, the modernization of the existing buildings will continue as to achieve its operational, technical and functional update with a view to equipping the bank with a more efficient, economic and environmental-friendly infrastructure.
- Carrying on interventions in the Bank buildings nationwide for their adaptation, so that people with disability problems may have access, move independently in the facilities, and make use of the services rendered by the entity.
- Measuring the carbon footprint in all the Bank's activities, based on which it will defined and subsequently implemen-

## COMPUTADORES PARA EDUCAR

In 2010 the Bank provided 522 computers to public educational institutions within the *Computadores para educar* campaign, an activity which is coordinated by The Ministry of Information Technology and Communications.

ted all programs focused on minimizing CO2 generation and offsetting the carbon footprint. In this manner, *Banco de la República* is seeking to become an environmentally “neutral” institution in the future.

- Broadening the scope of coverage relating to the efficient use of resources in aspects such as water reuse and the application of new clean power-generation technologies.
- Finding new alternatives in the reuse of residues and spare materials generated in industrial processes, in order to

achieve less impact and environmental sustainability.

#### Sustainability in the Supply Chain

- Encouraging greater competence and participation of suppliers in contracting processes by enriching the contents of the Bank’s information portal and invigorating market intelligence in the purchasing area, as well as requiring from suppliers and contractors full compliance with internationally accepted environmental standards.



HUMAN TALENT  
DEVELOPMENT

# HUMAN TALENT DEVELOPMENT

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The institution endeavors to position itself as the best place to work by building an environment where employees are enabled to enhance their knowledge, improve their abilities, skills and competences, and looking for opportunities of personal growth and promotion through self-development.

Management of human talent at *Banco de la República* is oriented to the development of its staff's potential in a work environment designed to foster their integral evolution and attract the best talents. Within this framework, the institution endeavors to position itself as the best place to work by building an environment where employees are enabled to enhance their knowledge, improve their abilities, skills and competences, and looking for opportunities of personal growth and promotion through self-development. In order to improve the well-being, quality of life and integration of its staff and their families, the Bank fosters recreational, cultural and leisure activities.

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*Banco de la República* has a staff of 2,235 people, consisting of 707 women (31.6%) and 1,529 men (68.4%).

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## THE PEOPLE AT THE BANK<sup>35</sup>

*Banco de la República* has a staff of 2,235 people, consisting of 707 women (31.6%) and 1,529 men (68.4%). Those working in Bogotá amount to 1,555 (69.6%), while in

branches and cultural agencies there are 597 and 83, respectively. Of these, 104 are of African descent, and 10 are in a disability situation. The Bank employs 48 apprentices from the SENA (the National Learning Service); 35 of them work in branches and agencies, and 13 in Bogotá.

## Distribution by Age and Gender

The average age for the Bank's working population is 40.6 years, 37 for women and 42 for males. This information is shown by age and gender groups in Graph 21.

## Distribution by Job Positions

The distribution of the Bank's staff is shown in Table 20 by job positions.

During the past four years, the increasing participation of professionals in the Bank's staff (7.5%) as a result of a professionalization and profile-improvement strategy stands out (Graph 22).

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35 Figures as of 31st December 2010.

## Distribution by Length of Service and Gender

Table 21 shows the Bank's staff classified according to length of service and gender. The percentage of people having worked at the Bank for less than five years shifted from 10.3% in 2006 to 23.7% in 2010 as a result of the number of retirements of staff members to enjoy their pension. Likewise, in the past years a proportionally higher number of women have joined, but always according to merit criteria.

become undefined term contracts, depending on the employee's performance. As of 31st December 2010, 1,870 people (83.7%) had undefined term contracts, 359 (16.1%) were working under fixed-term contracts, and the remaining 6 (0.2%) pertain to members of the Board of Directors.

Moreover, 2,066 people accounting for 92.4% of the staff benefit from the *Convención Colectiva de Trabajo* (Collective Labor Agreement), while, for contractual reasons, 169 executives are excluded from it.

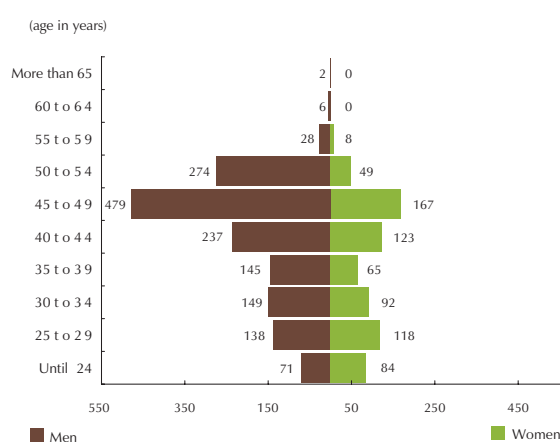
## Distribution by Type of Contract

New members of the Bank's staff are hired by means of fixed-term employment contracts for two years, upon which they

## TRANSPARENCY IN STAFF SELECTION

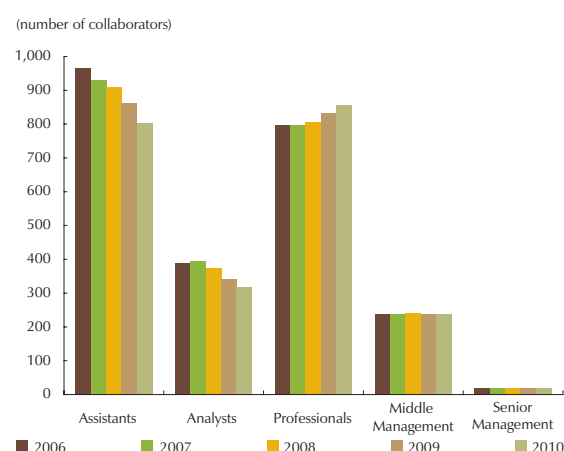
The Bank's employee screening and selection policy focuses on choosing the

Graph 21  
Number of collaborators by age and gender



Source: Banco de la República.

Graph 22  
Staff of collaborators evolution between 2006 and 2010



Source: Banco de la República.

Chart 20  
Collaborators by position groups

Groups according to position	2010	
	Number	Percentage
Assistants	802	35.9
Analysts	319	14.3
Professionals	857	38.3
Middle Management	239	10.7
Senior Management	18	0.8
<b>Total general</b>	<b>2,235</b>	<b>100.0</b>

Source: Banco de la República.

Chart 21  
Number of collaborators by seniority and sex ranges

Working time (years)	2010			
	Men	Women	Total	Percentage
Up to 5	257	273	530	23.7
5 to 9	110	56	166	7.4
10 to 14	120	73	193	8.6
15 to 19	255	94	349	15.6
20 to 24	364	175	539	24.1
25 to 29	408	34	442	19.8
More than 30	15	1	16	0.7
<b>Total</b>	<b>1,529</b>	<b>706</b>	<b>2,235</b>	<b>100.0</b>

Source: Banco de la República.

best candidates with no gender, race or age discrimination, in the different regions of the country where it operates. The screening and selection processes, whether for admission or promotion, are carried out following strict merit criteria.

In 2010, 148 internal contests and invitations to cover 158 vacancies took place, with a 51% increase with respect to 2009. These activities are described in Table 22. Through this action added to horizontal transfers, a total mobility (horizontal rotation plus promotions) of 23.2% has been obtained.

With respect to open calls, the Bank is seeking to ensure transparency and, in addition, implement its screening and selection policy in an efficient manner by disclosing information about the engagement processes and the employment opportunities it offers, as well as the procedure it uses to receive résumés via its webpage (see shaded text “Employment Opportunities”), where any citizen

interested in being employed by the Bank may register their curriculum vitae.

In 2010, 45 open calls were published, mainly for professional positions, through which the successful admission of new highly qualified members of staff to fill different positions was possible.

#### EDUCATION, TRAINING, AND DEVELOPMENT

The Bank believes that education, training and development activities are a strategic investment as well as a very important component of competitiveness. These activities are not only intended to close gaps between current employee profiles and those currently required by the institution, but also to update and support high performance levels and prepare staff members to go further and fill other positions. Table 23 shows the major programs carried out in 2010.

Chart 22  
Number of invitations and contests made between 2009 and 2010

Concept	2009	2010
Invitations and contests	98	148
Vacancies	93	158
Covered vacancies	71	115
Registered	500	877
Tested	385	692
Early training <sup>a/</sup>		45

a/ This activity, which has internal development and selection functions, is explained at the Early training highlighted box, page 97.  
Source: Banco de la República.



## CAREER OPPORTUNITIES

In order to ensure plurality and total transparency in the Bank's incorporation processes, in 2007, the *Oportunidades Laborales*<sup>1</sup> link was created on its website, where those interested in being part of the Issuer can know the job options that are offered. During 2010, 54.893 resumes were received by this means (compared to 268 in paper), representing an increase of 81.1% compared to 2009.

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1 [http://www.banrep.gov.co/inf\\_cabezote\\_spa/contactenos.html](http://www.banrep.gov.co/inf_cabezote_spa/contactenos.html)

### Technical Management Career Plan

As an incentive mechanism for knowledge generation, a career plan has been designed for Technical Management staff, whereby they may get rises in the salary scale by means of a scoring scheme.

The publication of research works or the participation in documents supporting decisions of the Board of Directors enables them to increase their job scores. The number of points assigned by each research work depends upon the academic recognition of the magazine where the articles are being published. Thus, the career plan establishes an incentive scheme in line with the Bank's strategic target consisting of producing high quality economic research.

### COMPENSATION AND WELL-BEING

The purpose of the compensation action consists of attracting, engaging and retaining qualified talent within an equity

framework, while encouraging good performance, controlling costs, and improving both efficiency and competitiveness.

The compensation policy is based on salary competitiveness studies carried out by the Bank with external firms seeking to assess its employees' cash remuneration, total compensation, and benefits. As a result of the most recent study, the entity defined in 2010 the overall salary policy for the whole organization. An example of benefits including in the compensation plan are the educational aids for employees' children and mortgage credits (Table 24).

The Bank grants its employees, in addition, merit recognitions for each year of work, in order to motivate outstanding performance and distinguish those having excelled in their work with valuable contributions to the achievement of institutional objectives. Winners are selected on the basis of three criteria: implemented contributions and improvements having an impact on the Bank, the area, or the position; compliance of commitments, results and objectives corresponding to

### EARLY TRAINING

In the past two years, the Bank has developed a program for its collaborators who voluntarily want to prepare in matters that allow them to reach the level required for taking positions of greater responsibility. This program offers them the opportunity to strengthen job skills and personal growth with a comprehensive approach.

The first class of collaborators who participated in the early training program between 2009 and 2010, was integrated by 82 people who sought to hold assistant positions in the future. Also, a training program for taking the positions of analysts was imparted, where 110 collaborators took part, and 48 people for positions in the cultural centers. In total, 240 collaborators were trained, of whom, 45 were promoted to greater responsibility positions.

Chart 23  
Training activities performed in 2010

Strategies	Training and development activities	Coverage percentage
<b>Executives development<sup>a/</sup>:</b>	Organizational atmosphere management	<b>296</b>
	Work teams leaders	
-To strengthen leadership and feedback skills.	Change leadership	62
-Sensitize, develop and provide tools to bosses, for facilitating their effectiveness..	Efectividad personal	26
-To lead change processes.	Individual counseling	76
	Feedback	24
	Team alignment	68
<b>Competences and skills development:</b>	<b>Course-contest</b>	<b>100</b>
-To close gaps between collaborators' current profiles and those defined by the Bank.	Competences strengthening	87
<b>Induction:</b>		
-To orient and facilitate the adaptation of new collaborators	Induction for new collaborators and chiefs	72
<b>Retraining:</b>		
	IT's regional scheme	10
	Training programs in the cultural area	100
	Diploma in international changes update	55
-Update in subjects that would allow collaborators to perform in accordance to the challenges and responsibilities of the position.	Specialized training for drivers program	100
	Early training: assistants and cultural centers analysts	37
	Administrative processes: payment, accounting and budget	75
<b>Self-development planning<sup>a/</sup>:</b>	Self-development planning	93
-Reflection opportunities that contribute to personal and career development	Development Thursday	1258
<b>Business training:</b>		
-To strengthen specialized skills to improve tasks performance	Specialized writing	80
	Specialized Office	56
<b>English language:</b>		
To strengthen training for executives and employees whose positions require it to	English courses	67
<b>Working environment and coexistence:</b>		
	Preventing conducts that do not favor a healthy interaction	70
-To promote a healthy working environment	Values and finances strengthening	100
	Social program support	95
<b>Technical area career plan<sup>a/</sup>:</b>		
-To provide career plans to the technical area collaborators	Requirements fulfillment	17

a/ Number of participants  
Source: Banco de la República.

the position, and personal development leading to the improvement of individual competences. En 2010, merit awards were conferred on 196 staff members.

In order to contribute to the well-being of employees and their families, the

organization promotes recreational, sports, ludic, entertainment, leisure and integration activities. Table 25 shows a summary of well-being events carried out for employees and their families in 2010.

Chart 24  
Collaborators with educational aid for their children and housing loan (2010)

Office	Educational Aid		Housing Loan	
	Number	Percentage	Number	Percentage
Main Office	852	63.4	896	70.3
Branches	491	36.6	379	29.7
<b>Total</b>	<b>1,343</b>	<b>100</b>	<b>1,275</b>	<b>100</b>

Source: Banco de la República.

## HEALTHY AND PRODUCTIVE WORK ENVIRONMENT

The Bank identifies and aligns all aspects contributing to promote healthy coexistence within the framework of corporate values, and it carries out diverse initiatives designed to consolidate that purpose. The process “performance management” makes part of these initiatives. The timely and permanent communications between heads, chiefs and employees, facilitates matching area objectives with bank goals. It makes employment development easy as well as

acknowledging accomplishments, while providing feedback on those aspects deserving to be preserved or improved. Staff involvement in the performance process was 88.3% in 2010, as compared with 81.8% in 2009. Table 26 shows other strategies used in 2010 to generate a healthy work environment.

## OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY

The Bank understands safety, security and health in the work environment as

Chart 25  
Welfare activities for the collaborators and their families

Activities	Type	Attendants
<b>Ludic <sup>a/</sup></b>		
	Arts and crafts workshops <sup>b/</sup>	279
	Ecological walks	300
<b>Recreational and acknowledgement</b>		
	Costume party (kids)	2.400
	Wind festival	1.500
	Integration activities by departments	561
	Special dates	4.568 <sup>c/</sup>
	Christmas festival <sup>d/</sup>	815
	Recreational vacations for employees children	98
<b>Sports practice</b>		
	Sports activities <sup>e/</sup>	6.564
<b>Diners <sup>f/</sup></b>		
	Main Office	166
	Cash Central	421
	Library	30
<b>Gym <sup>g/</sup></b>		
	Bogotá	60

a/ The Librélula reading club is also carried out, where around 10 books are lend per week.

b/ Music, cooking, painting and drawing, handicrafts, physical activities, photography.

c/ Mother's Day: 744 people, father's day: 1,548 people, Employees' birthdays: 2,276 people.

d/ Directed at employees children up to 11 years old.

e/ Training and physical fitness programs, sports schools, internal and external tournaments, sports scheduling, Olympics, etc.

f/ Service provided in Bogotá, in a daily services average.

g/ Daily average assistance.

Source: Banco de la República.

Chart 26  
Strategies for creating a healthy work environment

Strategy	Indicator
<b>Organizational climate:</b> To strengthen a healthy work environment, promoting a sense of belonging, commitment and satisfaction.	Action plans to improve the climate, with emphasis in interpersonal relationships and boss-collaborator communication. Six workshops on working environment management directed at 31 new bosses were made
<b>Comité de convivencia laboral:</b> To strengthen healthy and kind work relationships, keeping harmony and a good environment.	The workshops had the attendance of 368 people in Bogotá and seven branches.
<b>Occupational counseling:</b> To offer a space for support, orientation, information and help about work life. To facilitate decision making over career plans, conflict solution and transfer logistics.	Attended by 181 collaborators
<b>Social development program (Cash Central):</b> To favor good positive relationships in work teams and help to improve life quality.	250 collaborators participated in interpersonal relations and leadership workshops. Along with talks regarding alcoholism, personal finances, personal orientation and families involvement.
<b>Change management:</b> To facilitate the change generated by the retirement of a large number of collaborators.	Talks: "Pasión por el trabajo", with 90 participants. Testimonies: "Nuestro banco", with 35 participants. Change management workshops: personal effectiveness, with the participation of 26 executives.
<b>Internal communication:</b> To support the communication and information process regarding the pensions issue, and to promote change management.	Around 700 national enquiries were attended at the "Hablemos de mi pension" program. Video at the Bank's Intranet and communication at <i>Marca Agua</i> around the pensions issue. Communication of the human resource management on Intranet, <i>Marca Agua</i> and <i>El Emisor y su Gente</i> journal.

Source: Banco de la República.

In 2010 it was possible to reduce down to 18 the number of work-related accidents reported, as compared with 25 in 2009.

an essential component of the continued improvement and quality assurance required to develop productivity and competitiveness. In this sense, and within the framework of the current legal regulation in force, the occupational health program is intended to preserve staff health by offering good care conditions and minimizing risks relating to work accidents and occupational diseases. In this respect, worth highlighting is the fact that in 2010 it was possible to reduce down to 18 the number of work-related accidents reported, as compared with 25 in 2009. Table 27 summarizes the major occupational health and industrial safety initiatives.

## CHALLENGES

### Human Management

- Positioning the Bank as the best place to work
- Consolidating in the staff a leadership capable of promoting communication, organizational clarity, and the development of work teams, while encouraging creativity and innovation.
- Assessing compensation schemes serving to support work excellence and continuity of functions.
- Contributing to improve the staff's quality of life by consolidating a healthy and productive work environment designed to foster a change-adaptation culture while encouraging motivation and a sense of belonging based on what the Bank is and the Bank does.

Chart 27  
Initiatives in occupational health and industrial safety

Initiative	Indicator
To decrease accidents: mandatory use of safety elements at work campaigns, training in risk management and monitoring strengthening by bosses.	28% decrease in work accidents
Occupational health training: Training to all collaborators regarding the decrease of risks at work, work related diseases and emergency attention.	935 trained collaborators
Ergonomics program: office posts conditions diagnose ergonomics adaptation workshops.	80% of work posts with a computer were checked 80% of the collaborators at the Main Office make active pauses. 3 ergonomics videos and guide for the making of active pauses.
Sport injuries prevention program: previous evaluation by sports medicine.	450 collaborators
Promotional campaigns: campaigns regarding occupational health issues.	Influenza promotional campaign
Occupational health week; training, contests, theater plays and visits to areas with ludic activities for knowing and controlling risk factors.	173 participants at 8 conferences on subjects such as: prevention and emergency attention system, ergonomics and cargo management, family and work, and psychological benefit of exercise. 395 participants.
Peer Committee on Occupational Health. Makes periodical inspections to the areas, supervises the development of the Occupational Health Program, and involvement in work accidents investigations.	22 risk factors were identified at the work areas, from which 17 have been solved and 5 are pending.

Source: Banco de la República.

## REPÚBLICA LATINA

Within integration activities, the creation of *República Latina* is remarked; a tropical orchestra composed of Bank's collaborators that after five years of continuous work, has reached a level close to music professionals. With the orchestra, a double purpose is achieved: first, their members find a space for musical expression and, in turn, the Bank has a group bring the community together and brightens up the events programed for collaborators and pensioners of the institution.



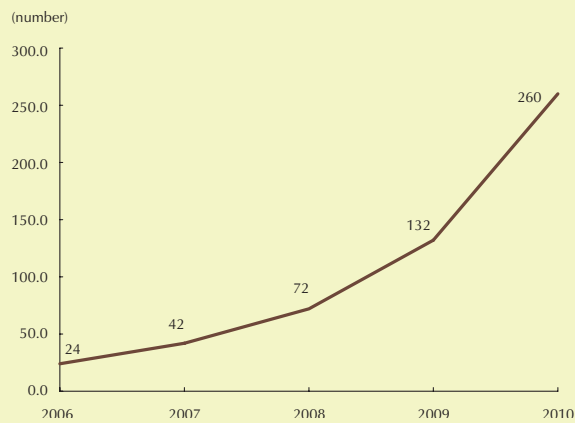
Employees from Banco de la República who make part of the ensemble *República Latina*.

## BANK'S FUNCTIONS CONTINUITY

With the prospect of a pension for an important number of collaborators, concurring with Legislative Act 1 of 2005<sup>1</sup>, the Bank developed several strategies to

1 Starting from the effective date of this Legislative Act, it should not be included in pacts, collective work agreements, decisions or any legal act, pension conditions different from those established in the pensions general system.

Graph A  
Number of pensions recognized by year



Source: Banco de la República.

continue to count with the proper and necessary personnel for the performance of its functions.

A working group identified the critical, key, expert and support positions. In that sense, succession plans were established, effective mechanisms for position covering were identified, and risks in processes were managed with area leaders.

These strategies allowed to mitigate the impact caused by the pension of 530 persons, representing 96% of collaborators with pension requirements met as of July 31, 2010, and also to gradually adjust the staff, which was done with profile improvements and promotion and development opportunities.

Graph A presents the distribution of pensioners by year during 2006 to 2010. 74% of these people made the decision to retire between 2009 and 2010.

REINANDO DON FERNA  
REINCORPORO EN SU REAL DONDE  
DE ESTA REAL CASA

DO VI<sup>EL</sup> JUSTO  
SIO REDIPICO AMPLIO I ACABO  
DE MONEDA

SIENDO VIRREI  
E IEX<sup>NO</sup> SOR  
D<sup>NO</sup> JOSEPH SolisFolch Cande

Y PRIMER SU<sup>TO</sup> INTENDEN<sup>TE</sup>  
EI SEÑOR  
D<sup>NO</sup> MIGUEL DE SANTIESTAN

FINANCIAL  
PERFORMANCE

# FINANCIAL PERFORMANCE

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Building confidence with transparency and efficiency is strengthened through a responsible management of public resources and a proper financial-information dissemination policy.

Building confidence with transparency and efficiency is strengthened through responsible management of public resources and a proper dissemination of financial-information policy. This is to a great extent provided by the publication of financial statements consisting of a general balance sheet, the statement of income, the statement of changes in net equity, and the relevant explanatory notes including a description of the main accounting policies used and the evolution of the different items composing these accounting documents.

This chapter is a summary of the presentation relating to *Banco de la República's* financial situation as of December 2010, the complete version of which is included in chapter IV of the March 2011 Report of the Board of Directors to the Colombian Congress. More detailed information relating to the financial statements and notes, the General Auditor's opinion, and the External Auditors' report, can be found in *Banco de la República's* home page at [http://www.banrep.gov.co/el-banco/ef\\_1.htm](http://www.banrep.gov.co/el-banco/ef_1.htm).

## *BANCO DE LA REPÚBLICA'S* FINANCIAL STATEMENTS

### General Balance Sheet Composition as of December 2010

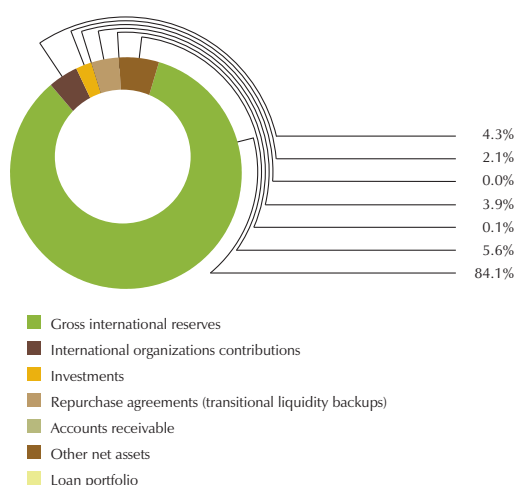
#### **Assets**

The Bank's balance sheet assets, as classified with economic criteria, are mainly integrated by gross international reserves as seen in Graph 23. As of 31st December 2010, *Banco de la República's* assets recorded a balance of COP 64,800 B, higher by COP2,415 B (3.9%) than the balance observed in December 2009 (Table 28).

The COP54.479 B (USD28,464 m) balance of gross international reserves accounted for a 5.1% growth with respect to the closing of 2009. The asset's variation is mainly due to foreign exchange purchases (COP5,822 B), the return on reserves (COP272 B), peso exchange adjustment with respect to the US dollar – which reduced by COP3,014 B the peso balance of gross international reserves,



Graph 23  
Asset composition in the balance sheet, classified by economic criteria (2010)  
(percentage)



Source: Banco de la República.

and the reduction of foreign currency deposits for COP314 B of the DGCPTN in *Banco de la República*.

### Liabilities and Equity

The Bank's liabilities are composed mainly by the monetary base (69.3% of total liabilities and equity), constituted by banknotes and coins in circulation, and deposit accounts of financial

intermediaries in *Banco de la República*. The liabilities and equity composition is seen in Graph 24.

As of 31st December 2010, the liability balance was COP54,186 B, higher by COP5,641 B than at the 2009 closing. This increment is explained by a monetary base increase by COP5,330 B, an increase of the national Government's peso deposits for COP763 B and a reduction of obligations with international organisms for COP142 B as compared with the 31st of December 2009 record.

Equity accounted for 16.4% of the Bank's total assets. The most important concept in this item is capital surplus, with a 12.1% share in the total asset. In this item is registered the foreign exchange adjustment on reserve assets resulting from peso devaluation vis-à-vis the US dollar. On the other hand, statutory reserves include those for currency fluctuations, monetary and foreign exchange stabilization, and asset protection.

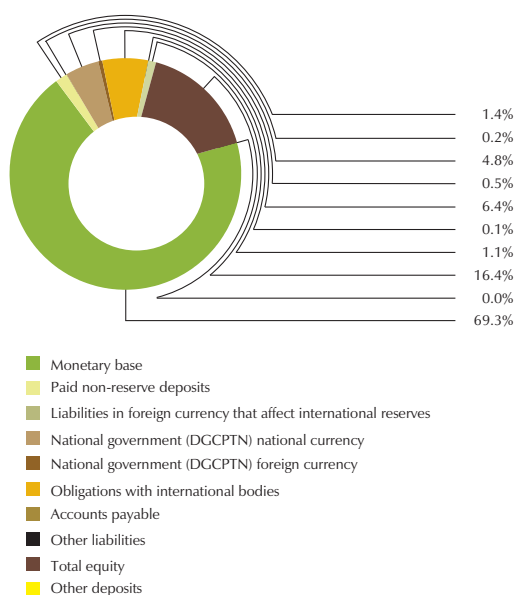
Equity rose to COP10,614 B in December 2010, thus decreasing by COP3,226 B with respect to the level observed in December 2009. The explanation for this decrease lies mainly in the reduction of the foreign exchange adjustment account by COP3,014 B, due to peso appreciation vis-à-vis the US dollar, and the year's negative operational result for COP271.5 B. A summary of the liabilities and equity account is shown in Table 29.

Chart 28  
Asset composition in the balance sheet, classified by economic criteria (2009-2010)  
(Billion Colombian pesos balances)

Accounts	December 2009		December 2010		Variation	
	Balances	Percentage Share	Balances	Percentage Share	Absolute	Percentage
Assets	62,385	100.0	64,800	100.0	2,415	3.9
Gross international reserves	51,852	83.1	54,479	84.1	2,627	5.1
International organizations contributions	2,802	4.5	2,798	4.3	(4)	(0.1)
Investments	3,597	5.8	1,334	2.1	(2,263)	(62.9)
Loan portfolio	2	0.0	1	0.0	0	(29.8)
Repurchase agreements (transitional liquidity backups)	460	0.7	2,539	3.9	2,079	452.3
Accounts receivable	32	0.1	43	0.1	11	35.2
Other net assets	3,640	5.8	3,605	5.6	(35)	(1.0)

Source: Banco de la República.

Graph 24  
Liabilities and equity composition in the balance sheet,  
classified by economic criteria (2010)  
(percentage)



Source: Banco de la República.

## STATEMENT OF INCOME

The functions assigned to *Banco de la República* determine its unique financial structure. Unlike the private environment (where decisions adopted are intended to maximize profit generation), in the case of the Bank policy decisions are adopted for the purpose of meeting its objectives, incurring costs, while social benefits are not reflected in the Bank's accounting results.

All income and expenditures incurred by the Central Bank in developing its constitutional objective and all its other functions (including personnel and overhead expenses) affect its income statement. For administrative and budgetary purposes, income and expenses are classified under monetary, corporate, and pensioner criteria.

- The monetary budget groups the results of the Bank's constitutional functions as a monetary, exchange, and credit authority, as an issuing bank and adminis-

Chart 29  
Liabilities and equity composition in the balance sheet, classified by economic criteria (2009-2010)  
(Billion Colombian pesos balances)

Accounts	December 2009		December 2010		Variation	
	Balances	Percentage Share	Balances	Percentage Share	Absolute	Percentage
<b>Liabilities and Equity</b>	<b>62,385</b>	<b>100.0</b>	<b>64,800</b>	<b>100.0</b>	<b>2,415</b>	<b>3.9</b>
<b>Liabilities</b>	<b>48,545</b>	<b>77.8</b>	<b>54,186</b>	<b>83.6</b>	<b>5,641</b>	<b>11.6</b>
Liabilities in foreign currency that affect international reserves	19	0.0	22	0.0	4	19.1
Monetary base	39,545	63.4	44,875	69.3	5,330	13.5
Paid non-reserve deposits	830	1.3	935	1.4	105	12.7
Other deposits	62	0.1	101	0.2	39	61.9
National government (DGCPTN) national currency	2,351	3.8	3,115	4.8	763	32.5
National government (DGCPTN) foreign currency	609	1.0	295	0.5	(314)	(51.5)
Obligations with international bodies	4,260	6.8	4,118	6.4	(142)	(3.3)
Accounts payable	99	0.2	38	0.1	(61)	(61.6)
Other liabilities	770	1.2	686	1.1	(84)	(10.9)
<b>Total equity</b>	<b>13,840</b>	<b>22.2</b>	<b>10,614</b>	<b>16.4</b>	<b>(3,226)</b>	<b>(23.3)</b>
Capital	13	0.0	13	0.0	0	0.0
Reserves	2,867	4.6	3,019	4.7	152	5.3
Surplus	10,805	17.3	7,854	12.1	(2,951)	(27.3)
Results	155	0.2	(272)	(0.4)	(427)	(274.8)

Source: Banco de la República,

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During 2010, average external interest rates were 0.65% below those observed in 2009 (0.95%).

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trator of international reserves, lender of last resort for credit establishments and Government's fiscal agent. .

- The corporate budget groups the result pertaining to the Bank's administrative action as a fiduciary agent, and income from bank services commissions and purchases and sales of precious metals. With respect to expenditures, it records personnel, operation and cultural expenses belonging in the activities of the library, plastic arts, music, and the numismatics, and Gold Museum areas.

- Pensioner expenses are separated from corporate expenditures. A self-sufficient financing scheme has been shaped with pension liabilities, according to which resources are administered by fiduciary entities through the pension trust and their revenues cover part of pension-related expenses.

#### Results for 2010

In 2010, the Bank recorded losses for COP271.5 B, with a COP426.9 B impairment with respect to the previous year's result, due to income amounting to COP761.1 B and expenditures for COP1,032.6 B. This deterioration is mostly explained by the sharp contraction of monetary income (COP497.7 B), despite the drop in total expenditure (COP103.1 B) (Table 30).

Lower monetary income as compared to 2009 can be explained by the decrease in the return of international reserves (accounting for 84% of the Bank's assets as of December 2010). This income, lower by COP413.3 B than those of 2009, are the result of lower interest rates at the international markets, and the euro devaluation vis-à-vis de US dollar. Indeed, during 2010, average external interest rates were 0.65% below those observed in 2009 (0.95%), which results in lower accrual interest. On the other hand, the euro devaluation (6.5%) had a negative effect on the portfolio return.

Additionally, as compared to 2009, less income was registered for both interest perceived in monetary expansion repo transactions for COP86.7 B and the return of public debt securities through which the Bank grants permanent liquidity (lower by COP11.6 B). In the first case, the explanation for a lower income is the lower number of operations carried out in 2010 and a reduction in the Bank's intervention rates; in the second case, it is explained by the increase of the public debt market negotiation interest rates at the end of the year and the lower TES balance held by the Bank.

In brief, the main income reduction was caused by factors external to the Bank's action, such as low international interest rates and euro depreciation vis-à-vis the US dollar.

#### INTERNATIONAL RESERVES PROFITABILITY DETERMINANTS

International reserves are the main source of income of the Bank and its most important asset. They are valued at market prices, and are affected by changes in interest rates and changes in foreign exchange rates on which they are constituted, as stated below:

- Increased interest rates negatively affect the portfolio value of international reserves given the inverse relationship between asset prices and interest rates (market risk). By contrast, for new investments, lower interest rates mean lower returns due to the accrual of interest.
- Because the accounting registry of reserves is calculated in US dollars, the depreciation of other reserve currencies against this currency (e.g. euro and yen) causes losses during the exercise. For an appreciation, the opposite phenomenon occurs.
- Finally, the devaluation or appreciation of the Colombian peso against the dollar generates gains or losses for the Bank, by converting into Colombian pesos the returns generated in foreign currency.

Chart 30  
Banco de la República's profits and losses, 2010  
(Billion Colombian pesos)

	Executed		Annual Variations	
	December 2009	December 2010	Percentage	Absolute
	A	B	B / A	B - A
<b>1. Profits and Losses Earnings</b>	<b>1,291.1</b>	<b>761.1</b>	<b>(41.1)</b>	<b>(530.1)</b>
<b>A. Monetary earnings</b>	<b>1,133.8</b>	<b>636.0</b>	<b>(43.9)</b>	<b>(497.7)</b>
1. Interest and returns	1,035.8	530.5	(48.8)	(505.3)
International reserves	685.0	271.8	(60.3)	(413.3)
Other interests	70.9	77.2	9.0	6.4
Liquidity operations	192.8	106.0	(45.0)	(86.7)
TES valuation	87.1	75.4	(13.4)	(11.6)
2. Exchange differences	26.3	5.9	(77.4)	(20.3)
3. Metallic currency	51.1	76.3	49.2	25.2
4. Other	20.6	23.3	13.3	2.7
<b>B. Corporate Earnings</b>	<b>157.4</b>	<b>125.0</b>	<b>(20.5)</b>	<b>(32.3)</b>
1. Commissions	140.3	106.7	(24.0)	(33.6)
Banking services	72.0	55.1	(23.5)	(16.9)
Trust business	51.2	51.6	0.9	0.4
Other commissions	17.2	0.0	(100.0)	(17.2)
2. Other	17.1	18.4	7.6	1.3
<b>2. Profits and Losses Expenses</b>	<b>1,135.8</b>	<b>1,032.6</b>	<b>(9.1)</b>	<b>(103.1)</b>
<b>A. Monetary expenses</b>	<b>853.9</b>	<b>616.0</b>	<b>(27.9)</b>	<b>(237.9)</b>
1. Interest and returns	601.6	349.0	(42.0)	(252.6)
Reserves remuneration	69.1	0.0	(100.0)	(69.1)
DGCPTN accounts remuneration	392.7	271.3	(30.9)	(121.4)
Flexible commitment with the IMF commission	38.4	27.9	(27.2)	(10.5)
International reserves management expenses	26.6	21.6	(18.8)	(5.0)
Monetary contraction operation expenses	74.8	28.2	(62.3)	(46.6)
2. Exchange differences	132.9	117.2	(11.8)	(15.7)
3. Monetary species issuance and distribution cost	114.0	144.3	26.6	30.4
4. Other	5.4	5.4	(0.0)	(0.0)
<b>B. Corporate expenses</b>	<b>332.9</b>	<b>329.9</b>	<b>(0.9)</b>	<b>(3.0)</b>
1. Personnel expenses	216.9	213.6	(1.5)	(3.3)
2. General expenses	50.3	50.5	0.3	0.2
3. Discounted VAT recovery (CR)	(2.5)	(4.1)	64.5	(1.6)
4. Taxes	7.3	6.9	(6.1)	(0.4)
5. Insurance	6.4	6.6	3.2	0.2
6. Contributions and memberships	3.0	3.7	24.8	0.7
7. Gastos culturales	9.1	8.9	(2.9)	(0.3)
8. Depreciations, provisions, amortizations and other (includes deferred software)	42.2	43.8	3.6	1.5
<b>C. Pensioners expenses</b>	<b>(51.0)</b>	<b>86.7</b>	<b>n.a.</b>	<b>137.8</b>
<b>3. Operational result</b>	<b>155.4</b>	<b>(271.5)</b>	<b>n.a.</b>	<b>(426.9)</b>

n.a. Not applicable  
Source: Banco de la República.

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In the case of corporate expenses, they were lower by COP3.3 B than in the previous year, this accounting for a 2.9% reduction in real terms.

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With respect to expenditure, the reduction seen with respect to 2009 is mainly explained by the monetary expenditure drop and, particularly: i) the reduction in interest paid to the government for its deposits in the Bank (-COP121.4 B), as a result of the intervention rate reduction; ii) legal reserve remuneration (-COP69.1 B), which was eliminated in August 2009, and iii) lower expenses in contraction operations (-COP46.6 B), due to a lower Bank's intervention rate.

In the case of corporate expenses, they were lower by COP3.3 B than in the previous year, this accounting for a 2.9% reduction in real terms. The reduction of personnel expenses (4.5%) and overhead (2.7%) is highlighted as a result of the managing action carried out by Banco de la República in the past few years with respect to corporate expense rationalization and the better use of resources program (see highlighted paragraph, p. 89).

Finally, pensioner expenditure registered a COP137.8 B increase mostly due to devaluation of the pension liability portfolio as a result of the TES behavior of interest rates.

## CONSTITUTION OF RESERVES AND PROFIT DISTRIBUTION

According to the by-laws of *Banco de la República*, the remainder of annual profits, once reserves have been appropriated<sup>37</sup>, belongs to the Nation. In the event of losses occurring, they must be covered in the first place against the monetary and foreign exchange stabilization reserve created for this specific purpose; and, should it be insufficient, they should be covered by the Nation's General Budget. The payment to or collection from the Nation of profits or losses, as the case may be, is made in cash within the first quarter of each year, pursuant to the provisions of Act 31 of 1992.

The Board of Directors determined that negative results of 2010 should be covered by making partial use of reserves for currency fluctuations and monetary and foreign exchange stabilization. For this reason, it was not necessary to resort to the Nation's General Budget. Hence, the capital reserve balance is as follows: i) reserve for currency fluctuation, COP2,425.5 B ii) reserve for asset protection, COP0.1 B; and ii) monetary and foreign exchange stabilization reserve, COP320.2 B. The latter will be used to cover losses likely to occur in 2011.

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37 Banco de la República By-laws establish that the institution must constitute the following reserves in each accounting period:

- Monetary and exchange stabilization reserve, aimed at absorbing contingent losses of the Bank before resorting to the relevant appropriations established in the Nation's General Budget. This reserve shall be constituted in the necessary amounts, according to the loss provisions produced by the Bank budgets for the next two exercises.
- Reserve for exchange gains and losses: the differences in foreign currency purchase and sale operations at the foreign exchange market with respect to the daily market price are income - expenditures for the Bank, as the case may be, but they are posted at the end of each period to this reserve if they are positive. This reserve may be used to recoup losses registered by the Bank in its foreign exchange purchase and sale operations..
- Reserve for currency fluctuations: It is constituted by the portion of profits in each period relating to the highest net value of the Bank's assets and liabilities in foreign currency having originated in exchange variations between the US dollar and the other currencies of their denomination, provided that profits have been produced in the relevant exercise. If currency fluctuations have generated a negative net result, it may be recouped against this reserve.
- Reserve for asset protections, constitute by the profit portion determined by the Board of Directors for the purpose of preventing possible and contingent risks of asset losses.

## CORPORATE EXPENSES DECREASING TREND

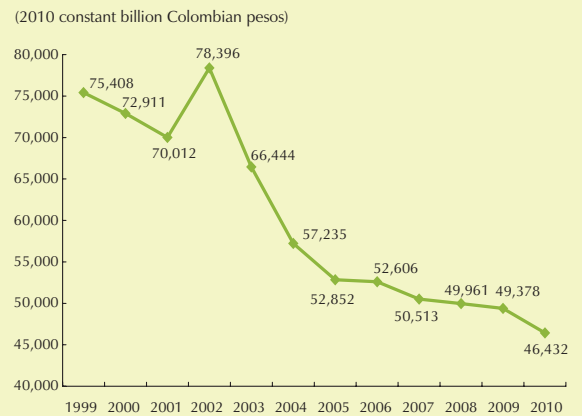
In the last ten years, personnel and general expenses presented a decreasing trend (Graphs A and B). In the first case, they have decreased by 13.5% in real terms, and in the second they have done by 38.4%. This behavior is associated with staff reductions, which went from 3,188 to 2,235 collaborators, and was achieved by early pension plans and retirements with bonus, and with the exclusive coverage of essential vacancies. Moreover, general expenses reduction resulted from the spending rationalization program, and the emphasis on monitoring budget execution and savings goals compliance.

Graph A  
Banco de la República's personnel expenses



Source: Banco de la República.

Graph B  
General Expenses



Source: Banco de la República.

# GLOBAL REPORTING INITIATIVE (GRI) CHART

GRI	Description/Comment	Reported	Reference
Profile			
<b>1</b>	<b>Strategy and analysis</b>		
1.1	1.1 Sustainability relevance statement		Letter from the Governor
1.2	1.2 Main impacts, risks and opportunities Comment: In the process of defining material matters regarding sustainability, a matrix analyzing the main risks and impacts was developed. This was the main input for the definition of the chapters in the report.	Yes	GRI Chart
<b>2</b>	<b>Profile of the Organization</b>		
2.1	Name of the organization	Yes	Profile
2.2	Main trademarks, products and services	Yes	Profile
2.3	Operative structure	Yes	Building trust transparently and efficiently
2.4	Location of the Organization's headquarters	Yes	Profile
2.5	Where does it operate?	Yes	Profile
2.6	Nature of the property and legal status	Yes	Profile
2.7	Markets served	Yes	Profile
2.8	Dimension of the Company	Yes	Financial performance
2.9	Significant changes	Yes	Responsible management of other functions of central banking, Corporate commitment with sustainable development
2.10	Awards and distinctions received during the reporting period	Yes	Profile
<b>3</b>	<b>Parameters of the Report</b>		
3.1	Period covered	Yes	About this report
3.2	Date of the most recent previous report Comment: The present report is Banco de la República's first Sustainability Report.	Yes	About this report
3.3	Issuing cycle of the Report Comment: The Report is intended to be issued yearly or biannually.	Yes	GRI Chart
3.4	Contact area for issues related to the report or to its contents	Yes	About this report
3.5	Process to define the contents of the Report	Yes	About this report
3.6	Coverage of the Report	Yes	About this report
3.7	Limitations in Range or Coverage	Yes	About this report

GRI	Description/Comment	Reported	Reference
<b>Profile</b>			
3.8	Base for including information in the case of joint businesses, subsidiaries, leased facilities, subcontracted activities, and other entities that may significantly affect the comparison between periods	It is not material	
3.9	Data and database measuring technics for performing calculations <b>Comment:</b> Due to the nature of Banco de la República, proprietary calculations were used to measure management regarding functional missions, given that GRI indicators do not fully reflect them.	Yes	GRI Chart
3.10	Restatement of information from previous reports <b>Comment:</b> The present report is Banco de la República's first Sustainability Report.	Yes	GRI Chart
3.11	Relevant changes in the valuation methods of previous reports <b>Comment:</b> The present report is Banco de la República's first Sustainability Report.	Yes	GRI Chart
3.12	GRI table of contents	Yes	
3.13	Policy and verification of the Report <b>Comment:</b> it is expected to be performed on future reports.	Yes	GRI Chart
<b>4 Governance, commitment and participation of interest groups</b>			
4.1	Government structure description	Yes	Building trust transparently and efficiently
4.2	Chairman of the Board and his or her executive position as head of the organization	Yes	Building trust transparently and efficiently
4.3	Highest governing body (Board of Directors)	Yes	Building trust transparently and efficiently
4.4	Mechanisms for shareholders and employees to communicate recommendations or indications to the highest governing body	Yes	Building trust transparently and efficiently, contributing to the economy's sustained growth
4.5	Link between the retribution by the members of the highest governing body, high officers, and executives (including agreements for abandonment of post) and organization's performance (including its social and environmental performance)	Yes	Building trust transparently and efficiently
4.6	Procedures to avoid conflicts of interests at the highest governing body <b>Comment:</b> Election methodology for the members of the Board of Directors ensures control and power balance.	Yes	Building trust transparently and efficiently
4.7	Procedure to determine training and experience demandable from the members of the highest governing body in order to guide the organization's social, environmental and economic strategy	Yes	Building trust transparently and efficiently
4.8	Statements of mission-vision, values, code of conduct, and relevant principles <b>Comment:</b> The Bank's mission is associated to the compliance of the regulations provided in the Political Constitution and Law 31 of 1992.	Yes	Building trust transparently and efficiently, GRI Chart
4.9	Procedures of the highest governing body to supervise identification and management of the organization's economic, environmental and social performance, including related risks and opportunities as well as adherence or compliance with internationally agreed standards and codes of conduct and principles.	Yes	Building trust transparently and efficiently, GRI Chart



GRI	Description/Comment	Reported	Reference
Profile			
4.10	Mechanisms for the Board of Directors' self-assessment Comment: The Board of Directors must submit a biannual report to Congress on the execution of the monetary, foreign exchange and credit policies, as well as policies for administration, composition of international reserves, financial statements, and its outlook on other subject matters requested by Congress.	Yes	GRI Chart
4.11	Adoption of cautionary principle	Yes	Corporate commitment with sustainable development
4.12	Social, economic and environmental programs developed externally	Yes	Responsible management of other functions of central banking, Contribution to the generation of knowledge.
4.13	Main associations to which the organization belongs, or domestic or foreign organisms supported by the organization	Yes	Contribution to the generation of knowledge, Financial performance.
4.14	Interest groups that have been included.	Yes	About this report, Building trust with transparency and efficiency.
4.15	Methodology to select interest groups Comment: The Governor's Office and experts within the organization were consulted.	Yes	About this report, GRI Chart.
4.16	Interest groups selection criteria. Comment: The criteria to select interest groups were their importance and impact on the Bank's operations.	Yes	GRI Chart
4.17	Concerns collected from interest groups	Yes	Building trust transparently and efficiently
Management Approaches			
G3EG	Description		
EG EC	EC Management Approach		
Aspects	Economic performance	Yes	Financial performance
	Indirect economic impacts	Yes	Contribution to sustained growth of the economy
EG EN	EN Management Approach		
Aspects	Materials; energy; water; emissions, effluents and waste; products and services; general compliance	Yes	Corporate commitment to sustainable development
	Biodiversity	It is not material	
	Transport	Information is not available	
EG LA	LA Management Approach		
Aspects	Employment; work relations; health and occupational safety; entertainment and education; diversity and equal opportunities	Yes	Human talent development
EG HR	HR Management Approach		
Aspects	Investments and provision practices, child labor	Yes	Corporate commitment to sustainable development
	Non-discrimination, freedom of association and negotiation	Yes	Human talent development
	Forced labor, rights of indigenous people	It is not material	
	Safety practices	Information is not available	
EG SO	SO Management Approach		
Aspects	Community, public policy, behavior of unfair competition	It is not material	

GRI	Description/Comment	Reported	Reference
Management Approaches			
	Corruption, compliance	Yes	Building trust transparently and efficiently
EG PR	PR Management Approach		
	Consumer health and safety, marketing and communications, compliance	It is not material	
	Products and services labeling	Yes	Building trust transparently and efficiently
	Consumer privacy	Information is not available	
GRI G3 Indicators List			
Economic Indicators			
Economic Performance			
EC1	Distributed and generated direct economic value, including earnings, exploitation costs, employee remuneration, donations and other investments in the community, non-distributed benefits, and payments to capital suppliers and governments	Yes	Financial performance
EC2	Financial consequences and other risks and opportunities for the organization's activities due to climate change Comment: There is no information available regarding financial consequences.	Yes	Corporate commitment to sustainable development
EC3	Coverage of the organization's obligations due to social benefit programs	Yes	Human talent development
EC4	Significant financial aids received from governments Comment: Banco de la República is an independent institution, with patrimonial and technical autonomy.	Does not apply	GRI Chart
EC6	Policy, practices and proportion of expenses corresponding to local suppliers in places where significant operations are performed.	Yes	Corporate commitment to sustainable development
EC7	Local hiring procedures and proportion of high officers coming from the local community at places where significant operations are performed Comment: The Bank does not have a clause specifying hiring of locals; yet, in the regions it does prioritize hiring of local population as long as it fulfills the merit criteria established.	Yes	GRI Chart
EC8	Development and impact of investment on infrastructure and services provided mainly for public benefit via commercial, pro bono or in kind commitments.	Yes	Cultural management
EC9	Understanding and description of significant indirect economic impacts, including the scope of such impacts.	Yes	Contribution to sustained growth of the economy, Responsible management of other central banking functions
Environmental Indicators			
EN4	Indirect energy consumption disaggregated by primary sources Comment: The main energy source is the electricity provided by the utility company in every city.	Yes	Corporate commitment to sustainable development
EN5	Energy saving due to conservation and efficiency improvements	Yes	Responsible management of other central banking functions

GRI	Description/Comment	Reported	Reference
Environmental Indicators			
EN6	Initiatives to provide efficient products and services for energy consumption, or based on renewable energies and energy consumption reductions as the result of such initiatives Comment: No reductions in energy consumption are reported as a result of such initiatives.	Yes	Responsible management of other central banking functions, Corporate commitment to sustainable development.
EN7	Initiatives to reduce indirect energy consumption, and reductions achieved with such initiatives	Yes	Corporate commitment to sustainable development
EN8	Total water collection by sources Comment: volume collected in 2010 from the city's water supply: 189,727 m3. Volume collected from rainwater (m3): 1,616 m3 Volume of treated waters, including rainwater and PTAR pouring (estimated): 4,330 m3.	Yes	Corporate commitment to sustainable development / GRI Chart.
EN10	Percentage and total volume of recycled and reused water Comment: Recycling water is a practice that is being developed.	Yes	Corporate commitment to sustainable development
EN16	Total emissions, direct and indirect, greenhouse gases, in weight Comment: The report presents a partial carbon footprint calculation.	Yes	Corporate commitment to sustainable development
EN18	Initiatives to reduce emissions of greenhouse effect gases and reductions achieved Comment: Reductions achieved are not reported.	Yes	Corporate commitment to sustainable development
EN21	Total pouring of served waters, per nature and destination Comment: Total pouring is not reported.	Yes	Corporate commitment to sustainable development
EN22	Total weight of managed waste per type and method of treatment	Yes	Corporate commitment to sustainable development
EN23	Total number and volume of the most significant accidental spills Comment: In 2010, no spills occurred. Besides, moderate quantities of substances are used at the Bank indoor facilities; therefore a spill would have a very low impact.	Yes	GRI Chart
EN26	Initiatives to mitigate environmental impacts of products and services, and reduction degree of that impact	Yes	Corporate commitment to sustainable development, Responsible management of other central banking functions.
EN28	Cost of significant fines and number of non-monetary sanctions for non-compliance of environmental regulations Comment: No fines were received in 2010 because of environmental regulations violations.	Yes	GRI Chart
EN29	Significant environmental impacts caused by the transportation of products and other goods and materials used for the organization's activities as well as for staff transportation Comment: The Bank has a collective transportation system for employees at the main headquarters and the Mint.	Yes	GRI Chart
EN30	Disaggregation of total environmental expenses and investments	Yes	Corporate commitment to sustainable development
Social Indicators: Labor Practices and Work Ethics			
LA1	Disaggregation of employees per type of employment, contract and region	Yes	Human talent development
LA2	Total number of employees and average rotation, disaggregated per age group, sex and region	Yes	Human talent development

GRI	Description/Comment	Reported	Reference
Social Indicators: Labor Practices and Work Ethics			
LA3	Social benefits for employees with a full workday, not offered to temporary or half-workday employees, disaggregated per main activity	Yes	Human talent development
LA5	Minimum period of prior notice relative to organizational changes, including if these notifications are specified in the collective agreements Comment: Issues related to changes in the organizational structure are under the competence of the Bank's management.	Yes	GRI chart
LA6	Percentage of the total workers represented in health and safety management-employees joint committees, established to help control and counsel health and occupational safety programs Comment: In compliance with Resolution 2013 of 1986, the Bank has an Occupational Health Joint Committee composed by 4 representatives of employees and 4 representatives from the administration, with their respective deputies.	Yes	GRI chart
LA8	Education, training, assessment, risk prevention and control programs applied to workers, their families or community members regarding serious illnesses.	Yes	Human talent development
LA9	Health and safety issues covered in formal agreements with unions Comment: See LA6.	Yes	GRI Chart
LA10	Average of yearly training hours per employee, disaggregated by employee category Comment: For this indicator, a system to measure the coverage percentage or number of participants in training activities was employed.	Yes	Human talent development
LA11	Skills management and continuous training programs, which foster workers' employability and support them in managing their late professional careers	Yes	Human talent development, Contribution to the generation of knowledge.
LA12	Percentage of employees that receive frequent performance and professional development assessments Comment: Banco de la República has a performance management system which allows performing yearly assessments with periodical monitoring by the leader and the employee.	Yes	GRI Chart
LA13	Composition of corporate governance bodies and staff, disaggregated per sex, age group, belongingness to minorities, and other diversity indicators Comment: The current Board of Directors is fully composed by men over 40 years of age.	Yes	GRI Chart
Social Indicators: Human Rights			
HR1	Percentage and total number of significant investment agreements which include human rights' clauses or which have been subjected to analysis in regards to human rights Comment: Due to the nature of the Bank, it does not subscribe this kind of agreements or partnerships.	Yes	GRI Chart
HR2	Percentage of main distributors and contractors which have been subjected to analysis in regards to human rights and the measures adopted henceforth Comment: The Bank's policy is that 100% of the main contractors are analyzed in order to check that they do not incur in practices such as child labor and non-payment of salaries and welfare benefits.	Yes	Corporate commitment to sustainable development

GRI	Description/Comment	Reported	Reference
Social Indicators: Society			
SO2	Percentage and total number of business units analyzed in relation to corruption-related risks	Yes	Building trust transparently and efficiently
SO3	Percentage of employees trained in the organization's anti-corruption policies and procedures Comment: All employees mandatorily attend money-laundering prevention training.	Yes	GRI Chart
Social Indicators: Responsibility over Products			
PR3	Types of information regarding products and services required by present procedures and regulations, and percentage of products and services subject to these informative requirements Comment: Banknotes and coins cannot have a labeling indicating the source of their components, neither of the content of substances that may have an environmental or social impact, safe use of the product or service, product's disposal procedure, and its environmental or social impact.	Yes	GRI Chart
PR4	Total number of cases of non-compliance of the regulation and voluntary codes related to product and services information and labeling, distributed per type of result of such incidents Comment: Banknotes and coins are not labeled, and would not be subject to regulations of this kind.	Yes	GRI Chart
PR5	Practices regarding customer satisfaction, including the results of customer satisfaction studies.	Yes	Building trust transparently and efficiently

With respect to indicators EC5, EN1, EN2, EN17, EN19, EN20, EN27, LA4, LA7, LA14, HR4, HR8, SO4 and SO8: at the moment of writing of this report, there was no information available, because they have not been implemented or because the processes that would allow to obtain such information are beginning to be implemented.  
Indicators EN3, EN9, EN11, EN15, EN24, EN25, HR3, HR5 to HR7, HR9, SO1, PR1, PR2 and PR6 to PR9 are not material because they do not have a direct relationship with the Bank's management, or because of their proportion per volume or value, with respect to the ones accumulated for the organization.  
Indicators SO5, SO6 and SO7 are not material due to the nature of Banco de la República.

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This document is the result of a participative exercise of all the Bank areas led by their Division heads.

Worth highlighting is the involvement of the following staff in subject-definition workshops and content creation: Adalgisa Abdala, Luis Francisco Álvarez, Claudia Arias, Paola Ayala, Fernando Barona, Óscar Bautista, Sandra Concha, Orlando Chipatecua, Bernardo Duarte, Consuelo Durán, María del Pilar Esguerra, Nidia García, Clara Lía Machado, Andrés Murcia, Julián Pérez, Margarita Quintero, Marco Ruiz y Rafael Salazar, and likewise the remarks and contributions of Germán Camacho, Jairo Contreras, María Andrea Díaz, Jorge Gil, Sandra González, Johanna Gutiérrez, Franz Hamman, Claudia Herrán, Martha Lili Herrera, María Teresa Ramírez, Javier Sepúlveda, Francisco Torres, Melanie Triana and Diego Vásquez, as well as Alberto de Brigard's full text review and revision.

Advising for the preparation of this Report was provided by Marcela Romero, Mariana Escobar and Juliana Márquez from BSD Consulting.

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The illustrations appearing on the cover and for each chapter are details from Colombian peso banknotes issued by *Banco de la República*: Cover: details of the \$5,000 banknote (first issue -1995); 1. Building confidence with transparency and efficiency: \$1,000 banknote (first issue - 2002); 2. Contribution to sustained economic growth: \$50 banknote (first issue - 1969); 3. Responsible management in other Central Banking functions: \$5,000 banknote (first issue - 1995); 4. Contribution to the knowledge generation: \$20 banknote (first issue - 1966); 5. Cultural action: \$20 banknote (first issue - 1966); 6. Corporate commitment to sustainable development: \$10,000 (first issue - 1992); 7. Human talent development: \$2 banknote (first issue - 1972), and 8. Financial performance: \$2,000 banknote (first issue - 1996).

***Banco de la República* - Communication Section and Cultural Division.**

Photographs

**Documentary management Department, Support Section**

Printing Coordination

**Editora Geminis Ltda. publishing house**

Printing

This report was printed on recycled acid-free and totally chlorine-free 100% natural Kimberly-Reciklart paper.

