Social Performance Report 2019

Fundación BBVA MicroFinanzas

Measuring what really matters

Social Performance Report **2019**

Social Performance Report 2019

BBVA Microfinance Foundation Group

A foundation and six benchmark microfinance institutions united by a shared purpose.

BBVAMF Group is the leading private philanthropic initiative in Latin America in terms of its social impact. It fuses banking and digital knowhow with its experience and specialization in microfinance, putting all of these at the service of the most vulnerable.

BBVAMF Group is spurring on small businesses

BBVA Microfinance Foundation (BBVAMF or the Foundation) —a non-profit institution that was created as part of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)'s commitment to corporate social responsibility— is the majority shareholder in six microfinance institutions across five countries.

They are all united by **a common goal: the sustainable development of vulnerable entrepreneurs through Productive Finance.** Their methodology is based on one-to-one knowledge of microentrepreneurs and their needs. This enables them to support their clients financially so that they generate economic surpluses that are sustainable over time, enabling them to raise their standard of living, and that of their families and communities.

The Foundation combines its global knowhow and banking experience with the skillset of the microfinance institutions at the service of vulnerable people operating across five Latin American countries. This not only aggregates value but guarantees that the Group's purpose is met, and that financial management is excellent. In turn, the institutions are experts in microfinance methodology in their respective countries. Their close client contact, wide capillarity and great capacity for innovation differentiates them from other institutions in their field.

BBVAMF GROUP VALUES


We generate social impact


The entrepreneur at the center


We aspire to more


We work as a team

OVER A DECADE STICKING TO OUR PURPOSE

USD **1,245 MN**
Gross portfolio
With a solid capital structure

21% **growth in aggregate net profit**
Across 5 Latin American countries

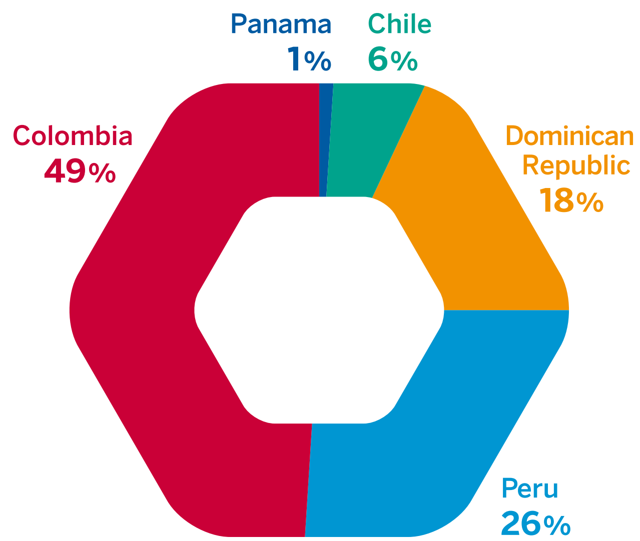
2.2 MN
clients served
With an impact on over 7 million people

BBVA Microfinance Foundation has been recognized as an international leader in development finance, behind only the Bill & Melinda Gates Foundation, according to a report by the Organization for Economic Cooperation & Development (OECD).

BBVAMF Group institutions offer a complete range of financial products and services to more than two million entrepreneurs to whom it also provides training. In 2019 the Group has delivered loans worth USD 1.6 million to vulnerable entrepreneurs.

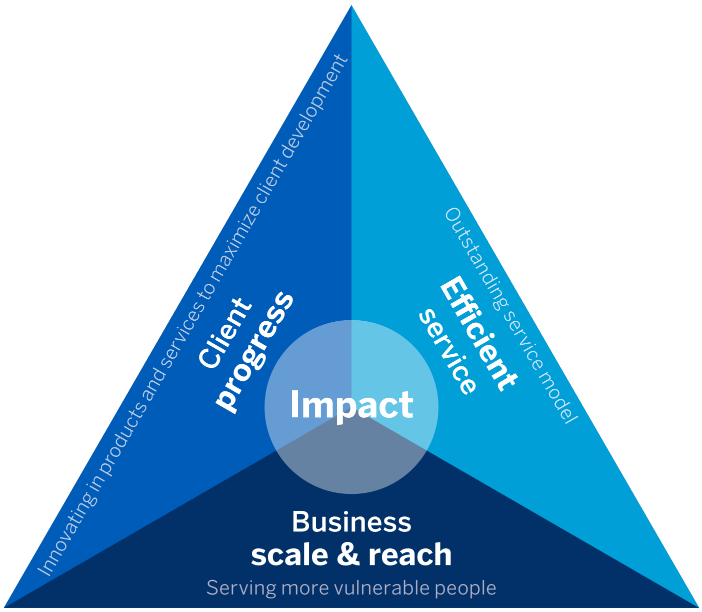
Our value offering focuses on boosting entrepreneurs' progress through our efficient, sustainable and permanently available operations, that enable us to serve a growing number of people.

OUR CLIENT BASES



BBVA Microfinance Foundation is recognized by the OECD as an international leader in development finance.

OUR ASPIRATIONS



For the model to work over time, management must be sustainable

So that our activity is inclusive (scope) and has a positive impact on as many vulnerable people as possible (scale), our business must be sustainable. That is why we need solid financial performance, risk control, an organizational model that encourages human talent and transparent governance.

Recognition of our sound management has materialized in the fact that BBVAMF Group is the leader in individual methodology microfinance in Latin America. It has the greatest social impact of all philanthropic initiatives in the region.

BBVA Microfinance Foundation Group

KEY STRATEGIES

Digital transformation

Advanced management

- Process automation and digitalization (e.g. credit screening)
- Digital and remote access (fingerprint, apps)
- Progress in data management for decision-making (CRM, information, etc)

Digitalizing for a smooth, rapid service

We have been deeply immersed in digital transformation for years, making processes more efficient and agile. These are some of our achievements: a robust, standardized system across all countries, automation of document flow, improvement in the mobility of clients and loan officers, and the strengthening of omnichannel communications. In an environment where personal relationships are key, improving customer service so that it is easier, swifter, and less costly is crucial.

Clients at the center

Innovation to power further progress

- Product and service offering based on intelligence about clients to power progress forward
- Incentives to improve financial health
- New partnerships to increase household standards of living

Client solutions

- New service channels
- Customer satisfaction tools
- 360º vision of the value offering

We put the client at the center, creating relationships that differentiate us

We make a point of getting to know the entrepreneurs, focusing our diagnosis on their opportunities and providing value with our tailored solutions. This means that we design products and services that are adapted to give the entrepreneur the best experience possible. Each of our institutions is upgrading its lending, insurance and savings products, together with its financial education, among others, so that it serves every household in a more integrated and personalized way.

As we look to maximize a client's optimal (financial) life cycle, the social impact produced is a major consideration. Our impact measuring system is transversal, enabling us to put the feedback we obtain into our proposals, wholly aligning the Group's work with its mission to promote the sustainable economic and social progress of every vulnerable entrepreneur.

Commitment to the environment

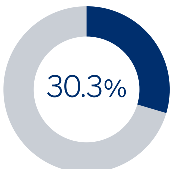
Promoting environmentally positive solutions

- Culture of respect for the environment
- Green products that promote environmental resilience and productivity
- Responsible use of resources, taking care of the environmental footprint
- Appropriate waste treatment

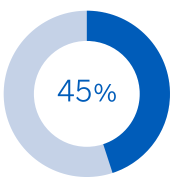
Respecting the environment

We are firmly committed to continuous process improvement to better cope with climate change. Developing products that improve productivity and environmental resilience, protecting resources in our service offering and keeping awareness high among all our staff and clients so that they adopt an environmentally responsible approach are some of the Group's pivotal goals.

THE SIZE OF THE CHALLENGE IN LATIN AMERICA*



186
million people live in **poverty****
on **incomes of under** USD **6/day**



203
million adults **excluded**
from the formal financial system

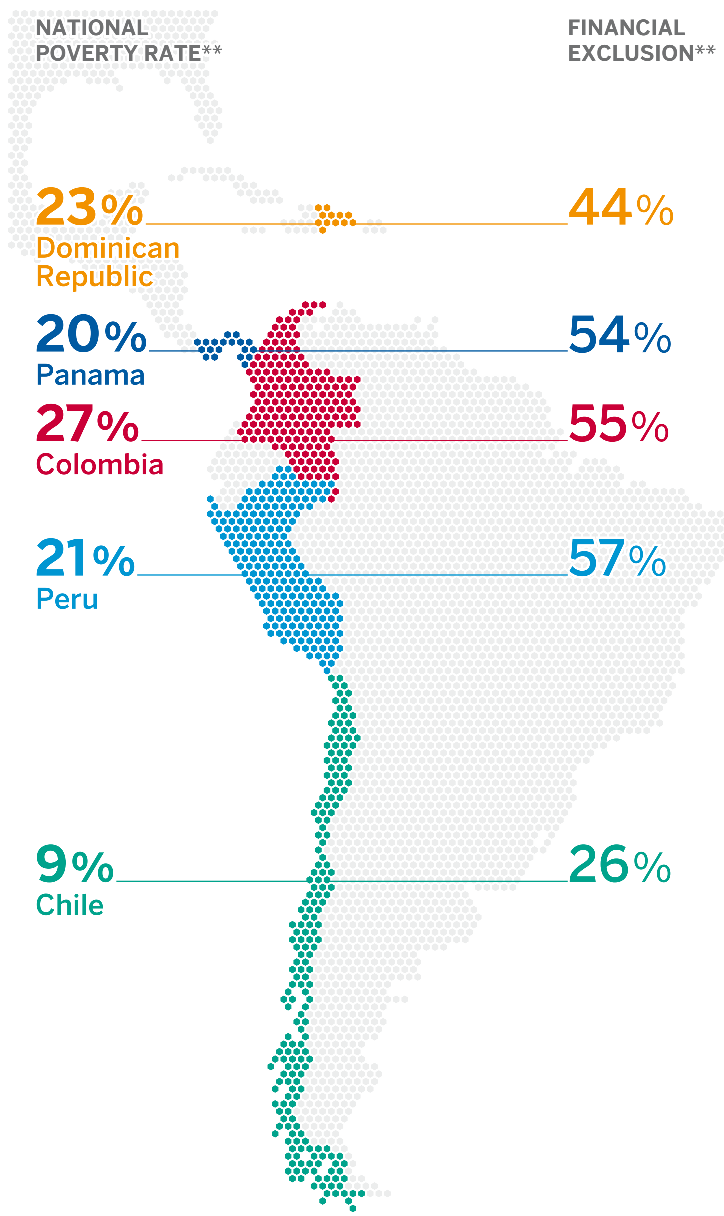
THE MOST UNEQUAL REGION IN THE WORLD***

Gini index 0.467

Region	Gini index
OECD	0.32
Eastern Europe & Central Asia	0.35
South Asia	0.38
Northern Africa & Middle East	0.39
Eastern Asia & Pacific	0.41
Subsaharan Africa	0.44
Latin America	**0.47**

The challenges facing the region are immense; according to the latest estimates, 186 million people live in poverty, while 203 million are excluded from the formal financial system.

The financial sector plays a key part in development. Financial policies that help talented, entrepreneurially minded people to get access to financing are crucial. Because they achieve stability, encourage growth, and make the distribution of resources and capacities more equitable.



* BBVAMF Research.
** Economic Commission for Latin America & the Caribbean (ECLAC), based on the Household Surveys Database (BADEHOG). 2017 estimates. Typical poverty line in medium-high income countries. Based on purchasing power parity in 2015 and a poverty line of USD 5.5. Global Findex, 2017. World Bank.
*** ECLAC. 1 = maximum inequality. 0 = maximum equality.

Management Team

Chief Executive Officer
Javier M. Flores Moreno

Finance & Corporate Expansion
Alejandro Lorca Salañer

Talent & Culture
José Martin Huelves

Communication & External Relations
María Oña Hernández

Client Solutions & Digital Innovation
João Barreira Da Costa

Impact Assessment & Strategic Development
Stephanie García Van Gool

Analysis & Research
Giovanni Di Placido Rosato

Risk
José Luis Blanco Beneit

Compliance
Silvia Duro Vicente

Audit
Joaquín Cortés Hernández

Legal Services
Ernesto Antón Azcoiti

Secretary
María José Gómez García

Chair
Anna Escobedo Cabral

Member
Tomás Alfaro Drake

Member
José Barreiro Hernández

Member
Nancy M. Barry

Member
Claudio González-Vega

Member
Ana Revenga Shanklin

Member
María Begoña Susana Rodríguez Vidarte

Member
Cristina de Parias Halcón

CEO, Non-voting Member
Javier M. Flores Moreno

Secretary to the Board, Non-voting Member
María José Gómez García

From left to right,
Cristina de Parias Halcón, José Barreiro Hernández, Nancy M. Barry, María Begoña Susana Rodríguez Vidarte, Javier M. Flores Moreno, Anna Escobedo Cabral, Claudio González-Vega, Ana Revenga Shanklin, Tomás Alfaro Drake and María José Gómez García.

Our contribution to the Sustainable Development Goals

Financial inclusion and microfinance play an indispensable role in poverty reduction and in making economic and social progress. The 2030 Development Agenda recognizes how this role impacts on several of the targets in the Sustainable Development Goals (SDGs).

The importance of guaranteeing access to financial services for all people is inherent to development and in particular to these SDGs. The sector drives financial inclusion and promotes access to basic services such as health, food security, education, clean energy, and housing, which consolidates its function as a catalyst for integrated and inclusive development. It is especially important for women, since they suffer from lower rates of financial inclusion.

The financial sector is a catalyst for integrated, inclusive development, especially for the most vulnerable, and helps to meet the SDGs.

For the BBVAMF, working in unison with the rest of the industry, financial inclusion makes a contribution to multiple objectives, and particularly SDG 1: End poverty, SDG 8: Decent work and economic growth; and SDG 10: Reduced inequalities.

Financial inclusion is, therefore, a means to an end, while financial services can facilitate achieving several SDGs. Targeted ongoing initiatives and projects are helping to access education, upgrade housing and increase resilience to climate change, among others. Higher standards of living, an indirect effect of financial services, will continue and expand as financial inclusion goes deeper and wider.

Furthermore, we should note that this impact has a spillover effect since entrepreneurs who receive financing improve their conditions, those of their household (those averaging three members) and, in turn, generate employment. Sustainable, productive economic growth is promoted on a steady, continuing basis by generating employment and decent work for all.

We make a contribution towards 12 of the 17 SDGs and in particular our work has a crossover effect on SDGs 1, 8, 10 and 17.

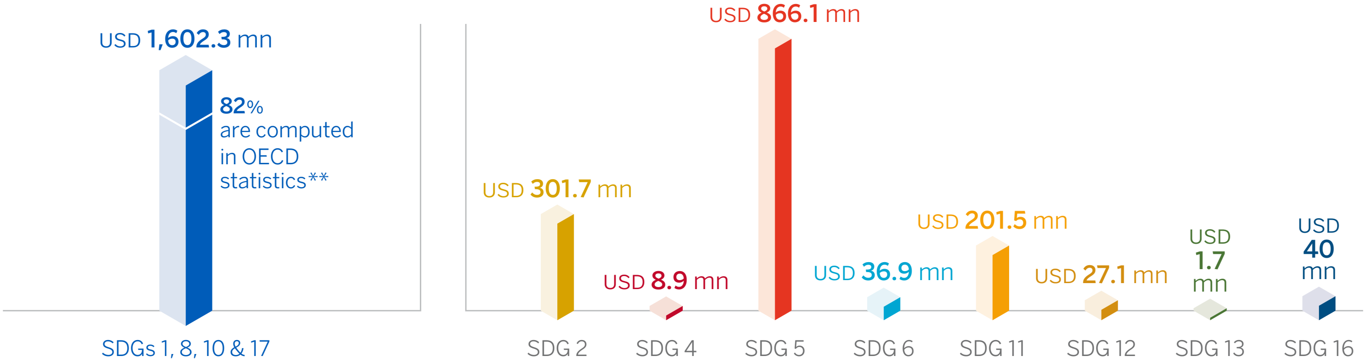
Since 2015, a range of indicators have been tracking our contribution to the SDGs. Some are transversal to our activity (SDGs 1, 8, 10 and 17), while particular initiatives are focusing on others. Furthermore, we link the profile of the entrepreneurs we finance to each of the SDGs we are prioritizing. This enables us to identity gaps and areas for improvement in helping to contribute to more widespread wellbeing.

OECD

The BBVA Microfinance Foundation is working with over 30 of the world's largest philanthropic foundations that are developing the OECD/DAC statistics on Private Philanthropy for Development. Details on donations and investment programs are available on the OECD.Stat website, in the Development section.

OUR CONTRIBUTION IN 2019 TO THE SUSTAINABLE DEVELOPMENT GOALS

Amount disbursed in 2019*



* Loans disbursed in 2019, by goal. ** Weighting of the credit volume disbursed in countries on the list published by the OECD/DAC, with partners eligible to receive Official Development Aid (Colombia, Peru, Dominican Republic and Panama).

SDG 1 · End poverty

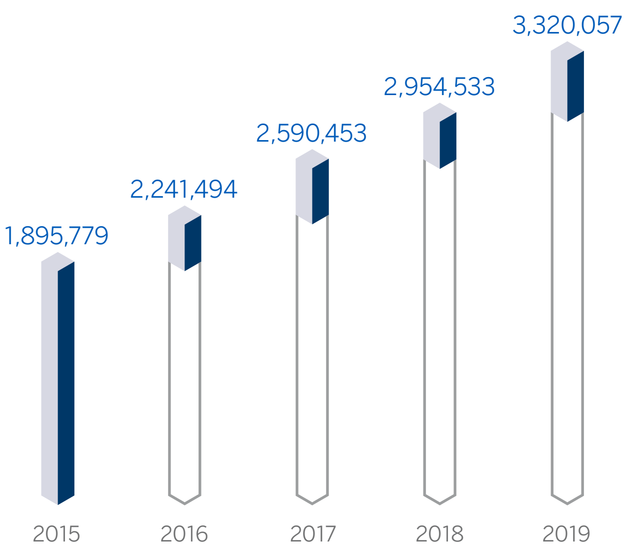
We provide the vulnerable population with access to financial services

848,787 entrepreneurs benefited* in 2019

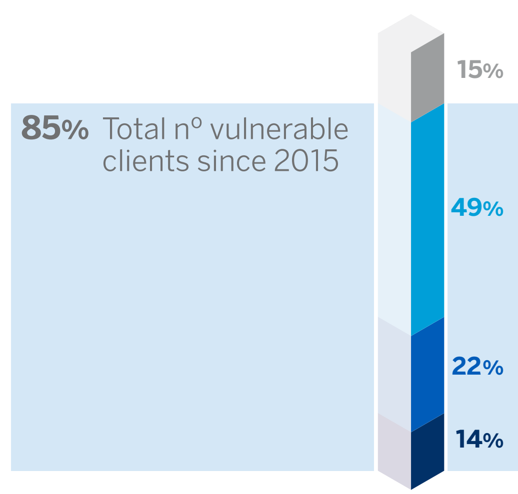
USD **1,602 mn** disbursed in 2019

Our strategy consists of promoting full financial services to a wide number of people. Since 2015 we have given loans to over 2.4 million clients in vulnerability, with special emphasis on the most disadvantaged groups: women, young people, and seniors, those who have received only primary education, together with displaced persons and refugees.

TOTAL Nº OF CLIENTS SERVED
Credit and savings clients served since 2015, accumulated



CLIENTS' INITIAL VULNERABILITY
Credit clients served since 2015, by vulnerability at the outset



* Clients receiving a loan during 2019.

SDG 2 · Zero hunger

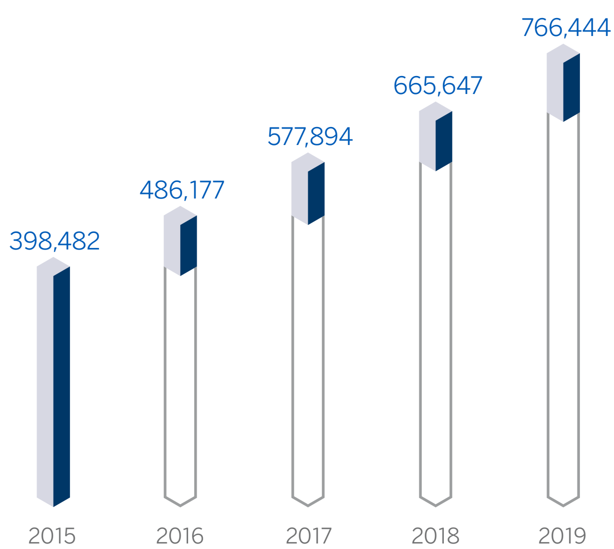
We target our financial resources at small-scale food producers

174,602 entrepreneurs benefited* in 2019

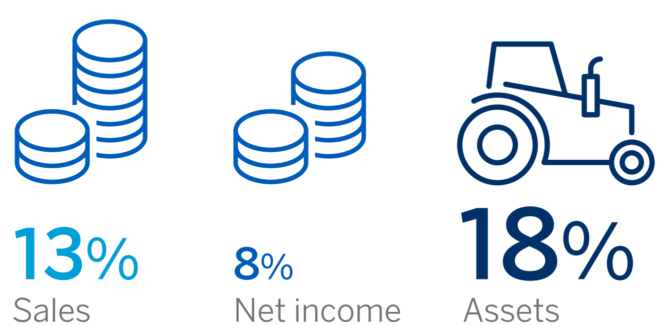
USD **301 mn** disbursed in 2019

Reaching the most remote population is, even today, a real challenge. It is in rural areas where the highest levels of poverty and financial exclusion are concentrated, because of their difficult access. Helped by our microloans, entrepreneurs who live there can take their businesses to the next level, particularly in farming. Traveling these distances and supporting small farmers is a priority in order to achieve SDG 2.

TOTAL Nº OF RURAL CLIENTS SERVED
Credit clients served since 2015, accumulated



GROWTH IN THE FINANCIAL VOLUMES OF ENTREPRENEURS IN THE FARMING SECTOR
Annual growth rates of clients served between 2015 & 2019



* Clients who have received a loan in 2019 and whose productive activity is agriculture-based, or who work in the food processing and preparation industry.

SDG 4 · Quality education

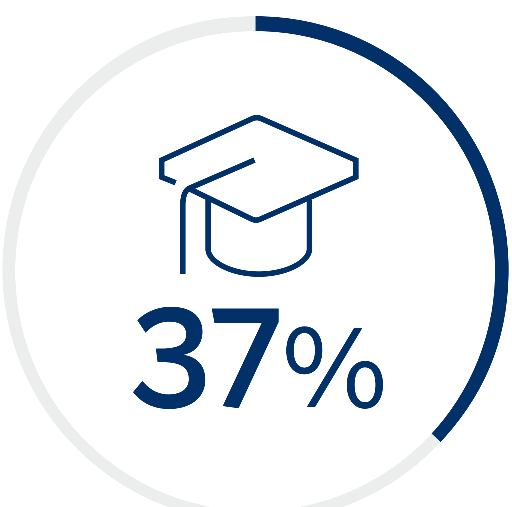
We empower clients through financial education

9,159 entrepreneurs benefited* in 2019

USD **9 mn** disbursed in 2019

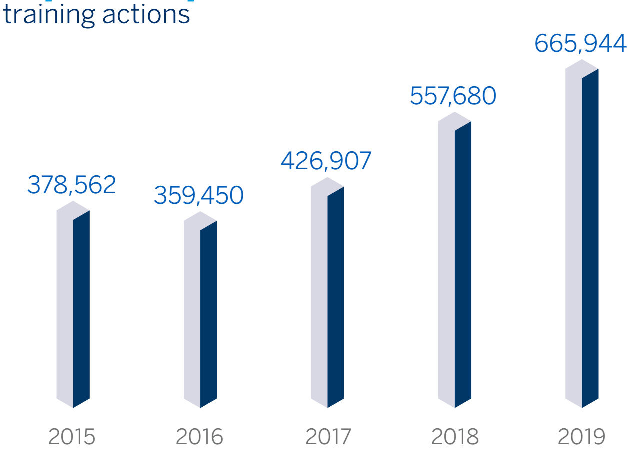
Lack of financial education is a barrier to people's economic and social development, which is why we work towards their accessing skills that improve their decision-making and enable them to enlarge their businesses.

CLIENTS WITH PRIMARY EDUCATION AT BEST
Credit clients current at 12.31.2019



PEOPLE RECEIVING FINANCIAL EDUCATION
Clients & non-clients

2,388,543
training actions



* Clients who have received a loan to pay for education during 2019. These figures also include clients who work in education.

5 GENDER EQUALITY

SDG 5 · Gender equality

We promote equality between men and women

526,457 entrepreneurs benefited* in 2019

USD **866 mn** disbursed in 2019

Gender gaps continue to exist. Women are over-represented in the poorest segments and their sales account for 78% of those achieved by men.

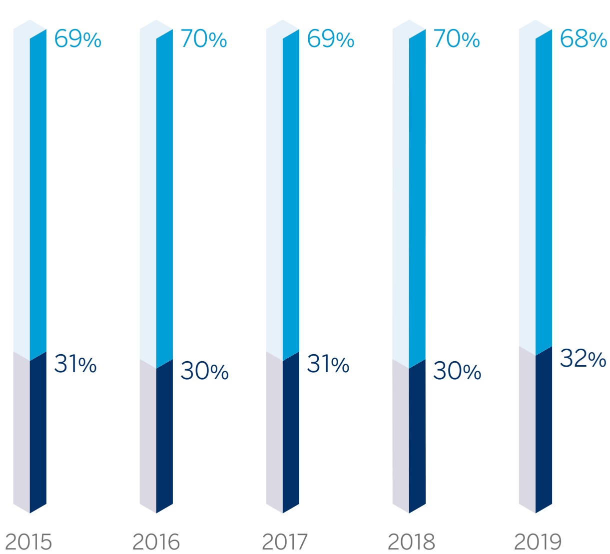
That is why one of BBVAMF Group's strategies is women's development and empowerment. By providing them with financial resources, we contribute to their empowerment and to their economic and social development.

More than eight out of every ten people who have overcome poverty with BBVAMFG in the last five years are women.

60% of clients served in 2019 were **women,** and they are more **vulnerable.**

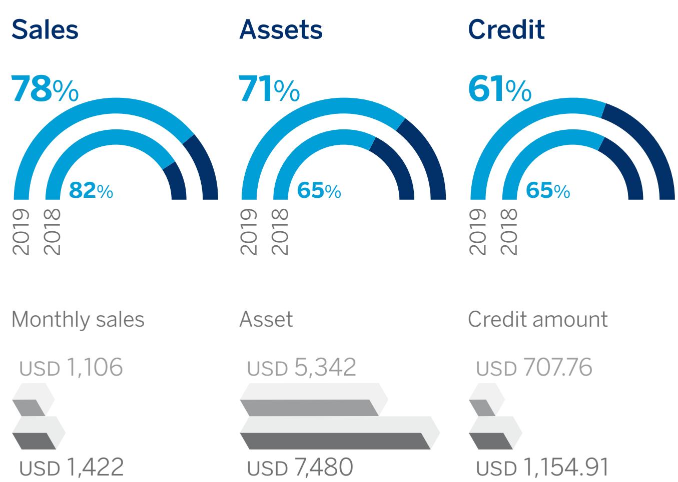
83% of those escaping poverty are **women.**

POVERTY BY GENDER
New credit clients in poverty, by the year they joined the bank



Poor women
Poor men

FINANCIAL GAPS



Women
Men

* Female clients given a loan in 2019, including programs specially created to train entrepreneurial women.

SDG 6 · Clean water and sanitation

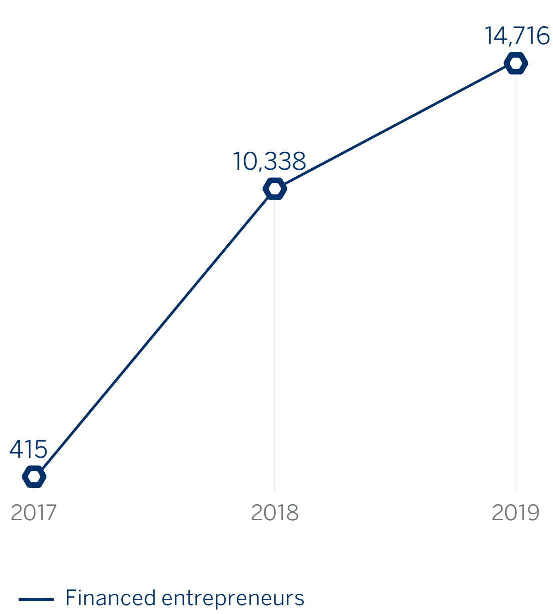
We improve the sanitation of our entrepreneurs' homes

15,051 entrepreneurs benefited* in 2019

USD **37 mn** disbursed in 2019

Thanks to our partnership with Water.org, we are financing sanitation improvements in our clients' homes. In this way we are helping to raise standards of living for them and for their families, as well as reducing risks to health and environmental damage.

WATER.ORG CLIENTS**
Clients financed solely through water.org



** 14,000 clients financed so that they can improve their households' plumbing and sanitation through water.org
The remainder are clients financed so that they can carry out activities relating to water treatment, purification, and distribution, or else removal of waste water.

* Clients who have received a loan in 2019 to finance improvements in their home's plumbing and sanitation.

8 DECENT WORK AND ECONOMIC GROWTH

SDG 8 · Decent work and economic growth

We provide services that encourage their economic growth

848,787 entrepreneurs benefited* in 2019

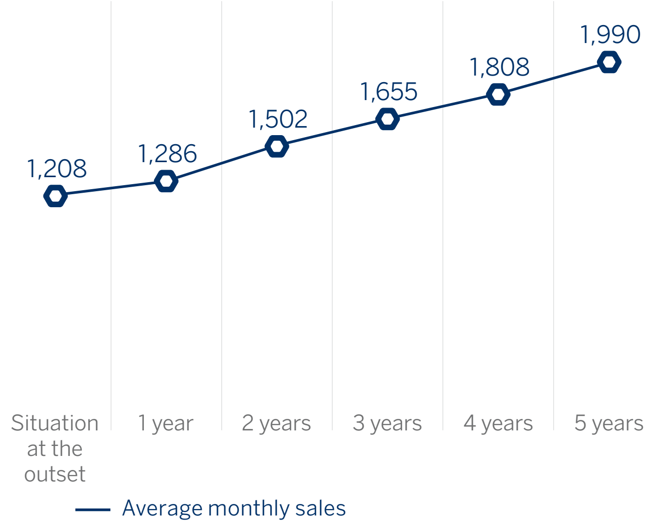
USD **1,602 mn** disbursed in 2019

We put entrepreneurs at the center of our work, and we support them with financial products and services, advice, and training to help sustain their progress over time.

The profits made in their businesses, with an average annual growth of 17%, enable them to look after their families and power the development of their communities. Indeed, for every 10 clients we serve, four additional jobs are created.

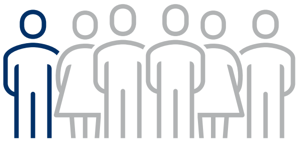
SALES, CHANGE

17% **Annual growth rate**



1 in every 6

clients employs other people from their community in their business



* Clients receiving a loan in 2019.

SDG 10 · Reduced inequalities

We contribute to our clients escaping from poverty and continuing to achieve economic growth

848,787 entrepreneurs benefited* in 2019

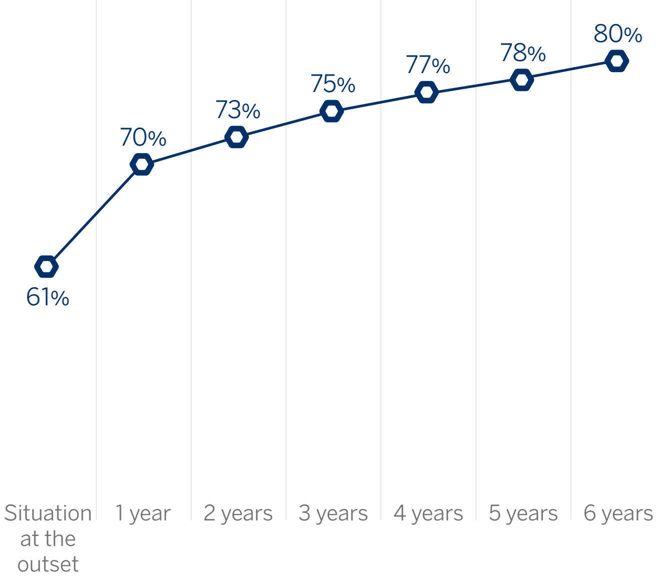
USD **1,602 mn** disbursed in 2019

Guaranteeing equal opportunities is a priority for the Foundation, which brings the financial system to vulnerable people who were previously excluded from formal banking.

We are close to them. Mobile banking, express offices, agreements with other institutions and our offices themselves comprise an ecosystem that, together with banking agents, brings finance to all population groupings. Furthermore, with their tablets loan officers take digital technology to the entrepreneurs so that they can carry out all the transactions they need to and familiarize themselves with the new technologies, to close the digital divide over time.

We are there for them. The longer entrepreneurs remain our clients, the more likely they are to generate income over the poverty line. Forging long-term relationships is a key step towards reducing inequality.

INEQUALITY REDUCTION
% of clients above the poverty line, by time banking with our institutions



Clients served (who were paying back a loan) between 2015 and December 2019, who renewed at least once.

* Clients receiving a loan in 2019.

SDG 11 · Make cities and human settlements inclusive, safe, resilient and sustainable

SUSTAINABLE CITIES AND COMMUNITIES

We help to upgrade housing and basic services, contributing to a better standard of living

70,494 entrepreneurs benefited* in 2019

USD **202 mn** disbursed in 2019

Access to basic services, which in many countries is insufficient, is a first, essential step towards reducing vulnerability. We provide credits that make it easier for people to have a reasonable place to live and work.

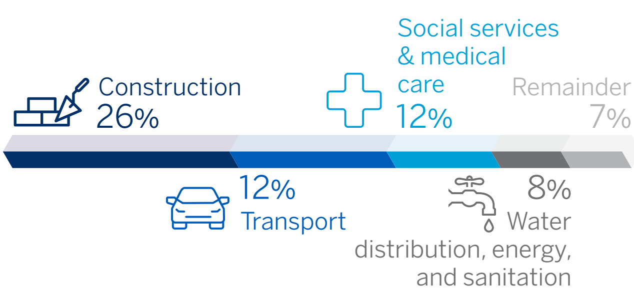
We implement innovative financing mechanisms so that clients upgrade their homes and businesses. We also offer technical advice and assistance for them to build or renovate their homes sustainably. This will enable them to better resist climate onslaughts.

Most of the 70,494 clients benefited have received a loan to upgrade their housing, 48,842 in total. Another 4,154 clients have used the loan on sanitation for their homes, while the remaining 17,498 used their loan for their businesses, ones that operate in sectors such as construction, transport, social services and utilities (water & energy) distribution.

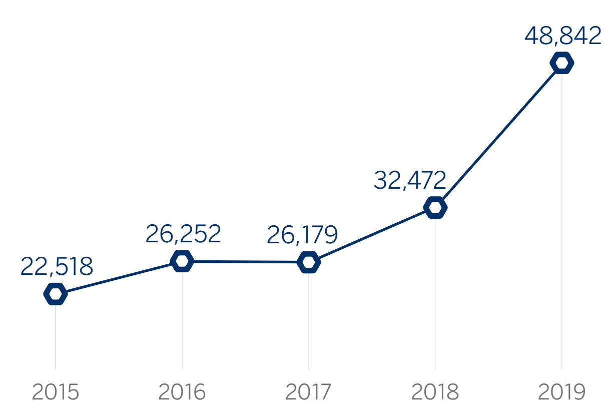
48,842 clients
upgrade their housing

4,154 clients
improve their household sanitation

17,498 entrepreneurs
whose businesses are linked to SDG 11 activities



HOUSING SOLUTIONS
Clients with disbursed loans, by year



* Clients who have received a loan in 2019 to finance upgrades to their homes. This includes clients with activities relating to access to public transport, green areas, safe public spaces, etc.

SDG 12 · Responsible production and consumption

We guarantee sustainable modes of production and consumption

15,897 entrepreneurs benefited* in 2019

USD **27 mn** disbursed in 2019

We are promoting an eco-efficiency strategy. To this end we have set up internal actions designed to rationalize our use and consumption of resources. To reduce our environmental impact, we first measured the carbon footprint of our activity.

Our eco-efficient footprint

		2019	2018	Diff. 2018–2019
Consumption	Water m^3	123,142.48	137,643.16	−10.53%
	Paper kg	287,770.29	297,425.07	−3.25%
Emissions t CO_2 eq	Scope 1	526.01	463.60	13.46%
	Scope 2	3,049.79	3,581.40	−14.84%
	Scope 3	961.22	956.19	0.53%
	T CO_2 eq/per capita	0.54	0.62	−12.60%

* Clients receiving a loan in 2019, whose productive activity is linked to repairs, waste management or recycling.

SDG 13 · Climate action

We have adopted measures to urgently combat climate change and its effects

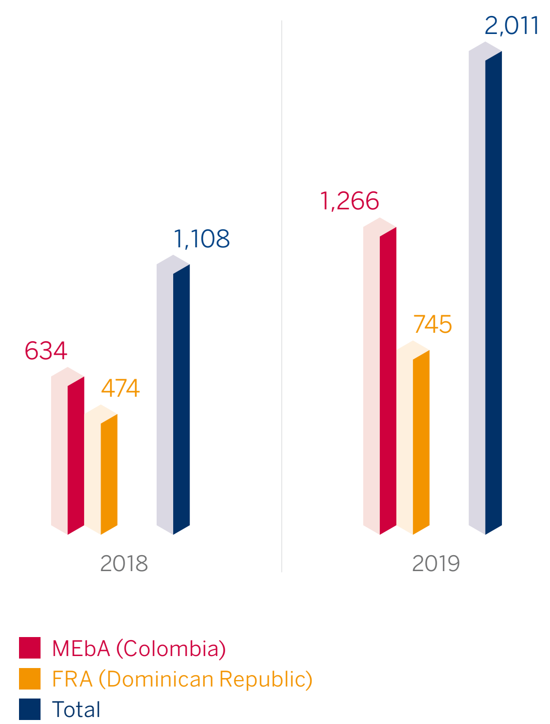
2,011 entrepreneurs benefited* in 2019

USD **2 mn** disbursed in 2019

We prepare, train, and create awareness among our clients, employees, and wider society, using several methods:

- **Face-to-face training** for small-scale producers at our Model Farm. We provide technical help on climate change mitigation and adaptation measures.
- **Digital learning.** We have created a knowledge community, sustainable events, and webinars about sustainability.

CLIENTS HELPED THROUGH MEBA & FRA
Clients with disbursed loans, by year



1,673 MEbA clients (Colombia).
857 FRA clients (Dominican Republic).

* Clients received a loan in 2019 to finance adapting their businesses and homes to the use of eco-efficient energies that mitigate climate change.

SDG 16 · Promote peace, justice and inclusive societies

We have specific programs to support displaced persons and refugees

27,281 entrepreneurs benefited* in 2019

USD **40 mn** disbursed in 2019

We provide a service to clients in post-conflict areas, together with integration and support for refugees.

PANAMA

UNHCR, Red Cross and **Microserfin** renewed their cooperation agreement for the integration of refugees.

Since it began in 2008, around 300 loans have been awarded to refugees (50% of which are to women), for a total sum of more than USD 200,000.

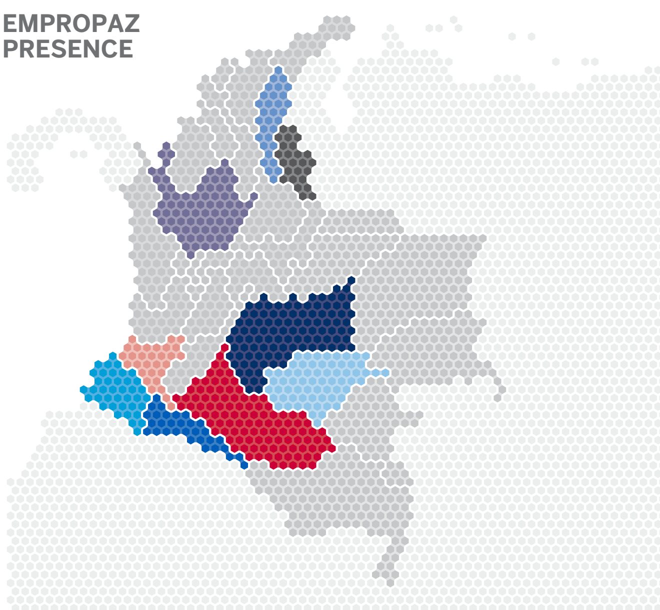
COLOMBIA

Empropaz came about from the determination to contribute to peace in Colombia in partnership with **USAID, Corporación Mundial de la Mujer** (CMM) **Colombia** and **CMM Medellín.**

Since the program began in 2018, significant progress has been made in the inclusion model and the goals set have all been met.

Borderless Progress program
Towards the end of 2019 a partnership was set up with The Tent Partnership for Refugees (Tent), a well-known international organization that mobilizes the private sector to improve the life of migrants. This will be backed up with financial services and training for Venezuelans so that they can start again from scratch and become entrepreneurs.

EMPROPAZ PRESENCE



Total clients 32,248

With loans 27,226

Savings accounts and term-deposits 19,026

* Clients receiving a loan in 2019 as part of programs for particularly vulnerable groups, such as refugees, or conflict zones.

SDG 17 · Revitalizing the Global Partnership for Sustainable Development

We forge strategic partnerships to achieve goals

848,787 entrepreneurs benefited* in 2019

USD **1,602 mn** disbursed in 2019

Putting an end to poverty and financial inclusion are such huge challenges that they must be tackled, as proposed in SDG17, by a worldwide partnership for sustainable development. To achieve this, we work with key players in this field, both locally and globally, and we build the links that are needed on the basis of principles, values and shared goals. With our partners, who are also shareholders in our institutions —and who provide knowledge and experience in each of the regions where we are present—, we innovate and transform the sector so that it contributes to sustainable development.

Financial inclusion

- **IDB.** In October 2007 we signed a memorandum of understanding together with the Interamerican Development Bank to drive access to microfinance services in Latin America through projects in areas such as good corporate governance and human capital.

- **UNHCR.** The UN High Commission for Refugees and the Red Cross have been working with our institution in Panama since 2007 to create opportunities for refugees.

- **World Bank–IFC.** An MoU was signed in May 2008 formalizing the strategic cooperation in in Latin American microfinance. At the end of 2016, the Foundation committed itself to providing access to a bank account to over 2.3 million disadvantaged people, as part of the Universal Financial Access 2020 initiative.

* Clients receiving a loan in 2019.

SDG 17 · Revitalizing the Global Partnership for Sustainable Development

- **Spanish Cooperation.** The partnership with the Spanish Government's Office of the Secretary of State for International Cooperation and for Ibero-america was signed in September 2014, to carry out joint microfinance and financial inclusion activities. This alliance was strengthened in June 2015 with the signing of an agreement with *España Global* (then *Marca España*).

- **ECOSOC.** In July 2016, the United Nations awarded the BBVA Microfinance Foundation special consultative status on its Economic and Social Council (ECOSOC).

- **CAF.** Since it was set up, the Foundation has worked with the Development Bank of Latin America and this solid relationship was formalized with an MoU in 2017.

- **USAID.** The United States Agency for International Development is a key ally in the Productive Enterprises for Peace program (Empropaz) that has been working since December 2018 in the municipalities defined by the Colombian government as priority areas in the peace process.

- **ICEX.** A cooperation agreement was signed in July 2019 as part of the IMPACT+ program to drive social development in Latin America.

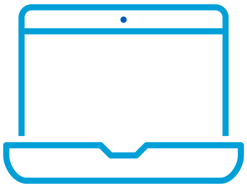
- **Tent Partnership for Refugees.** A partnership that is a call to action to the private sector worldwide to improve the living standards of the millions of people who have been forced to leave their countries. A pilot program began in September 2019 to help Venezuelan migrants in Colombia.

Women's empowerment

- **UN Women.** The Foundation formalized the partnership with UN Women in February 2015 to work towards the development and inclusion of entrepreneurial women in Latin America with scarce resources.

- **FinEquity.** Since 2017 the Foundation has been an active member of FinEquity, a CGAP-enabled platform that brings together organizations from around the world to work towards financial inclusion, and that supports women's empowerment.

- **Mastercard Center for Inclusive Growth.** The agreement with the Mastercard Center for Inclusive Growth to work in the area of financial inclusion (women, training, digitalization, payments, etc) is being materialized in a project to help women entrepreneurs in Peru.



Digitalization

- **Microsoft.** In April 2018 BBVAMF signed an agreement with the IT giant to transform vulnerable communities.

- **EQUALS Global Partnership.** Since April 2020, the Foundation has been a member of this global partnership that brings together worldwide players from public and private sectors and works to reduce the digital divide between genders.

Environmental Sustainability

- **United Nations Environment Program.** An initial MoU was signed with UN Environment in 2013. Since then, activities have gone ahead in Colombia and the Dominican Republic as part of the Microfinance for Ecosystem-based Adaptation (MEbA) program.

- **Habitat for Humanity.** Cooperation to enable access to more habitable housing for vulnerable people in Latin America was formalized through an overarching agreement in March 2016. In 2019 progress was made in Peru and the Dominican Republic in getting access to sustainable and safe homes, with the help of the Terwilliger Center for Innovation in Shelter.

- **Water.org.** This agreement facilitates access to household water and sanitation in vulnerable populations. La Fundación signed an initial MoU in 2017 to cooperate in Peru, which has subsequently been reinforced by another in July 2019 extending the partnership to the entire region.

- **IICA Inter-American Institute for Cooperation on Agriculture.** The partnership has been formalized with a cooperation agreement signed in November 2019 to support rural development in Latin America through smart, technology-led, agriculture.

PARTNERS - Founding NGOs

Shareholders in Microfinance Institutions

- ***Corporación Mundial de la Mujer Colombia.*** A non-profit institution operating since 1989 to improve the living standards of vulnerable people, especially women, with programs and projects driving their human and productive development.

- ***Corporación Mundial de la Mujer Medellín.*** Set up in 1985 to develop and reinforce women microentrepreneurs. It provides tools and services to create, consolidate and sustainably expand microenterprises, while protecting the families that are economically dependent on these occupations.

- **Adopem ONG.** A non-profit organization set up in 1982 to promote and strengthen entrepreneurship, together with the social and human development of its clients and their families by providing training, advice, research, and project execution in several areas. This generates greater integration and involvement in client development and a positive impact on their business growth and living standards.

- **ONG SEPAR (Educational services, promotion, and rural support).** A non-profit organization created in 1987 that promotes sustainable development in Peru, particularly in the central region, with development programs and projects.

- ***Hogar de Cristo.*** A charitable institution set up in 1944 in Chile that helps “the poorest of the poor” and those who are excluded from society, with the goal of helping them to extend their opportunities for a better life.

BBVAMF's main strategies

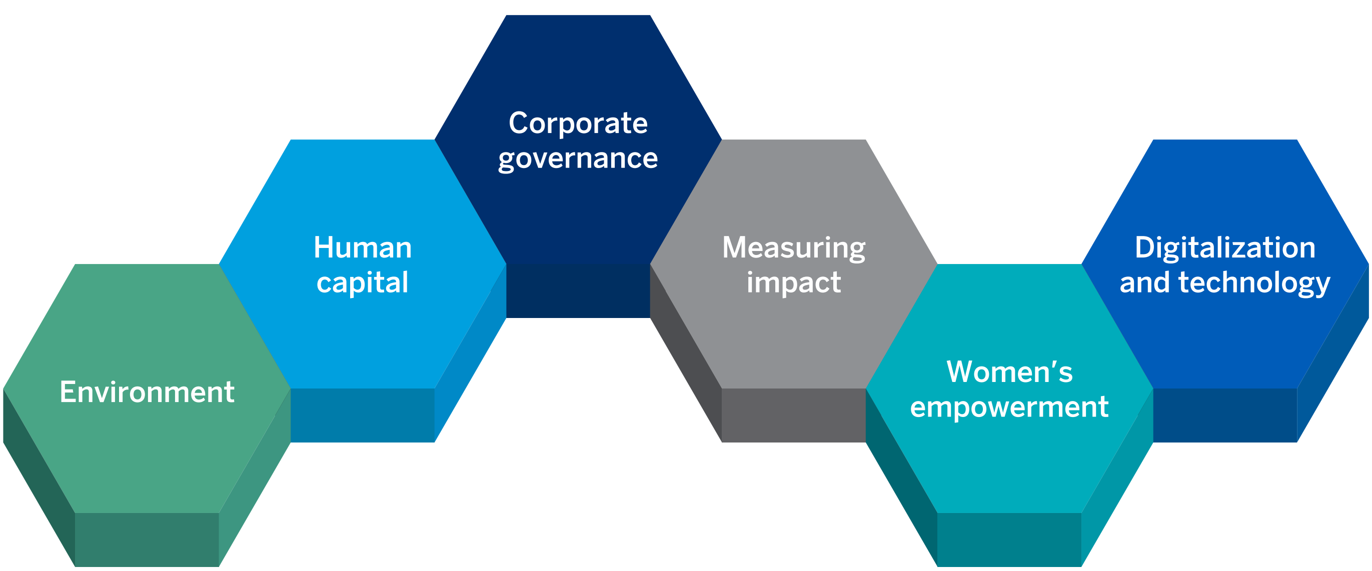
How the Foundation contributes to the sector's development

BBVAMF Group's strategic plan is a framework for action, with proposals to inspire and motivate the Group's institutions, but it is also a statement of commitment to the microfinance sector as a whole. At the Foundation we aim to make all learning and development as wide-reaching as possible.

That is why the Group is working on six strategies to push forward the sector's progress:

Our work in BBVAMF proves that tackling the challenges of development robustly, but with humility, leads to a more accurate diagnosis of the problems and thus to more workable solutions and responses.

Between all of us —the Foundation and its microfinance institutions, governments and regulators, other microfinance institutions and fintechs, together with our partners— we will achieve more. Working together, strengthening cooperation and cohesion, will be critically important if the microfinance sector is to succeed in providing structural support for a sustainable model of economic and social development for the vulnerable people in the countries in our footprint.



Corporate governance

An appropriate corporate governance structure contributes to improving institutions' performance and reach

The Foundation supports the implementation of an appropriate corporate governance system, both in its Group entities and in those of the wider sector, promoting excellence and sustainability so that they can contribute to their own development and that of the societies in which they operate.

This system is focused on and inspired by its commitment to the principles of transparency, equity, responsibility and legality, and brings together best international practice in good governance.

The true potential of corporate governance only manifests itself when all those who form part of our organization are involved: shareholders, board members, executives, co-workers, etc. That is why the Foundation believes it is of fundamental importance to create awareness about how the right corporate governance structure contributes to improving its institutions' performance and reach.

Creating awareness in the microfinance sector

Convinced as it is of the importance of good governance, the Foundation has continued to promote the development and transformation of the microfinance sector. That is why ever since we were founded, we have organized corporate governance workshops and seminars in the countries where the Group's institutions are present.

These training sessions focus on current issues that are relevant both locally and internationally. Speakers with acknowledged prestige are invited from the world of finance, academe, development, oversight and regulation, with attendance to date by representatives from over 450 different entities.

The purpose of this initiative is to heighten awareness among participants of the role of good governance as a strategic and differential tool which makes it possible to:

- Generate greater social impact
- Reinforce the trust of our stakeholders
- Guarantee sustainability
- Manage risks effectively
- Extend access to financing
- Improve the organization's effectiveness

We have run training sessions with the support of top-level local institutions such as Abancord, Asomif, Banca de las Oportunidades, Bancoldex, Fepcmac, Redcamif/Redcom, ESAN and San Pablo Catholic University.

In addition, the Foundation has advised the Panamanian Microfinance Network in the review and update of its corporate governance code. This should serve as a model so that institutions in the network can translate the general principles of good governance into guidelines for action. They can thus reach their goal of promoting a culture of solidarity in their country, improving entrepreneurs' standard of living.

Progreso, the legal news journal

The Foundation has been publishing the online legal news journal *Progreso* since 2014, keeping readers informed about the legislative news affecting the microfinance sector and the latest trends in corporate governance.

The journal was given a more digital approach in 2019, including more multimedia content and creating a new section, *Es tendencia* [Trending] in which experts share their knowledge and opinions with readers about current issues that are impacting, or have impacted, society.

New material has been incorporated on Corporate Social Responsibility issues such as rules and regulations around gender diversity, environment, ethics and compliance, as well as items on the fight against fraud and corruption.

All this is in addition to the journal's traditional content: interviews with people in the public eye, editorials by external and internal contributors, documents written by experts and publications from multilateral organizations. All this forms part of a large library of work online, with 700 news stories that have appeared in the 20 issues of the journal published to date.

Human capital

Developing human capital is a priority for BBVAMF because it enhances and extends the Foundation's social impact. That is why we drive programs responding to social challenges in fields such as diversity, sustainability and new ways of working.

Culture

With the aim of bettering the lives of people in vulnerability and of offering them new opportunities, the Foundation's actions are based on the cornerstones of our corporate culture: a clear purpose, a relationship of trust with our customers based on value generation, together with ethical, socially responsible principles.

In a context in which society and the microfinance sector is changing, the impact of digital technologies is evident. This has caused the Foundation's corporate culture to adapt and evolve, to make available all the opportunities offered by digitalization to vulnerable entrepreneurs.

The purpose of this initiative is to drive forward a framework of values and patterns of behavior that reinforce the Group's identity and diversity, economic, social and environmental sustainability and its relationship model with clients based on productive finance.

We also want to inspire those working with the Group so that they promote the development of entrepreneurs in vulnerability and foster a leadership style that is committed to people and encourages innovation in the use of technology and working methodologies.

Internships

The BBVA Microfinance Foundation Group is deeply committed to the training and employability of young people in the countries where it operates. One of the ways in which this commitment is visible is in the extensive work practice program in which over 200 students take part every year.

A high point of the 2019 program was the 2nd edition of the BBVAMF DIME (Development, Inclusion, Microfinance and Entrepreneurship) Internships. This initiative allows students at Spanish and Latin American universities to experience the reality of microfinance, with particular focus on the work of our officers in the field. For four weeks students visit our entrepreneurs to learn about the social impact of our mission and the possibility of working in a job with a meaningful purpose in the future.

In the second year of the program 16 students from Spain, the Dominican Republic, Colombia and Peru took part; they scored this unique experience 9.4 points out of 10.

Participants in the 2nd BBVAMF DIME Internships.

Microfinance Campus

So that all our co-workers continue to generate better value for their clients, improving their relationships and helping them to develop their productive activities, the Foundation continues to back the provision of good quality training.

Campus activity is busy all year round. Over 2.4 million teaching hours have been given to date. In 2019, more than 90% of employees invested a total of 530,000 hours on learning, 40% of which were online.

The syllabus includes over 2,000 different activities; these include sector best practice and general contents, plus each institution's specific materials. The Group's DNA continues to be embedded more deeply with global courses that are designed around demanding pedagogical criteria and user experience.

To improve the capabilities of supervisors and branch office coordinators —who manage around 80% of the Group's payroll— the Foundation has extended the scope of its School for Managers. With this goal, we have joined forces with well-known academic centers that teach part of the content and validate skills in risk, personnel management, sustainability, commercial strategy, client experience and new technology trends. The Pontificia Javeriana University supports Bancamia's program, ESAN University does so for Financiera Confianza, while the Technology Institute of Monterrey supports Fondo Esperanza. Since it launched, nearly 1,500 people have already completed this program.

We are making innovations to training too, using game-based learning with interactive tools. The app with the most awards on campus, *Amigotchi,* has helped over 850 supervisors and coordinators to improve their team management skills.

Heroes has been rolled out for the same purpose; it offers co-workers who have joined us recently a program of rapid immersion (and continuous training for existing staff). A game that not only simulates the tasks of loan officers but also goes to the heart of our institution: empathy with the client, value generation and mobility strategy, among other issues. Over 4,000 players have already completed this program.

Women's empowerment

Despite the significant progress achieved in recent decade, the fact is that as of today not one country has achieved gender parity and if change continues at the same pace we will take nearly 100 years[1] to close the global gender gap, and over 250 to eliminate economic gender gaps.[2] This entails losses of over USD 160 trillion of wealth worldwide.[3]

Serving entrepreneurial women is an investment in the future

The Beijing route map, designed to achieve gender equality and to break down the barriers to women and girls' empowerment, to which 189 countries around the world have subscribed, is widely viewed as the most visionary and comprehensive plan in recent history. Despite the significant progress achieved in recent decades, 25 years after this milestone, not one country has achieved gender parity and if change continues at the same pace we will take nearly 100 years to close the global gender gap, and over 250 to eliminate economic gender gaps.

Women are the real catalysts of a country's progress because of their greater focus on the family, on whom they spend as much as 90% of the resources they obtain.[4] This enables them to improve their educational attainment, nutrition and health, contributing to the development of human capital, sustainable and inclusive growth and, as a result, to poverty reduction.

The Foundation is aware of the major role played by women in the economy and in development. When their economic activities are supported, this strengthens their businesses and gives rise to new ones, jobs are created and the local economy is consolidated. It also increases their families' standard of living inasmuch as it raises their children's educational attainment, health and nutrition. Their communities, where they become active members, also make progress; they have the chance to speak and express themselves, thus increasing their self-esteem, their physical and psychological security.

MSMEs owned by women in Latin America have unmet financial needs to the tune of USD 98 billion.[5]

1. World Economic Forum, Global Gender Gap, 2020
2. The World Economic Forum calculates the global gender gap along 4 indicators: economic participation and opportunity; educational attainment; health & life expectancy and political empowerment. The economic participation indicator includes participation in the labor force, wage differential and access by women to leadership positions
3. World Bank, 2018
4. FAO, 2016
5. IFC & World Bank. MSME Finance Gap, 2019.

BBVAMF backs the development of future generations, of which women are a cornerstone

Because BBVAMF knows this we are backing the development of future generations, of which women are a cornerstone. That is why we are pushing forward a strategy of empowering women as a key part of our DNA.

We provide opportunities that they multiply

Committed to women's economic empowerment

Serving the most vulnerable, among them, women

Despite the progress made in recent years, in Latin America and the Caribbean significant economic gaps still exist between the genders, that become wider as vulnerability increases.

The lack of labor opportunities in the region, and the long periods spent by women on unpaid work, limits their possibilities of generating income. This leads many of them either to depend financially on a third party, work in the informal sector or decide to start a small self-employed enterprise, for which financial inclusion is critically important. However, according to Global Findex 2017 figures, 53.8% of women in our regions do not even have a bank account. There is a 9-percentage point gender gap and, far from closing, it has widened by 2 percentage points since 2011[6] and has not changed since 2014. This greater financial restriction on obtaining funds means that the options when it comes to growing their businesses and getting ahead are limited.

Even today, one in three women in Latin America does not have her own income.[8] This situation is 2.8 times more frequent for women than it is for men. The difficulty of getting into and participating in the job market, together with the time spent on unpaid tasks looking after the household and family members (more than 45 hours a week in Colombia[9]) seriously limits their ability to earn an income.

Their lack of economic independence means that women are more likely to be poor. This is demonstrated by the rate of women in poverty[10] which shows that in 2017, for every 100 men living in poor households, 113 women were in a similar situation. This is why the BBVA Microfinance Foundation has been determined, since it was set up, to bring down poverty and enable financial inclusion among vulnerable groups of people in Latin America, while having always had a clear commitment to the most disadvantaged women.

In 2025, Latin America's GDP would grow by 14% (USD 2.6 trillion) if women participated in the economy to the same extent as men do.[11]

Half the women in the region are excluded from the financial system.[7]

6. BBVAMF Research calculation for our footprint, based on Global Findex 2017. 51% of men in Peru are financially included, compared to just 34% of women. In the case of the Dominican Republic, 58% of men are financially included, against 54% of women.
7. Global Findex 2018.
8. CEPALSTAT (2018) 29% of the female population aged 15 or over does not have their own income and is not a full-time student (according to their activity status). This figure is 10.5% in the case of men.
9. ECLAC, Gender Equality Observatory for Latin America and the Caribbean, data for 2017 in Colombia: "Women without their own incomes spent 45.6 hours a week on unpaid work while men in the same situation spent only 17.5 hours a week on these tasks".
10. ECLAC, Gender equality Observatory for Latin America and the Caribbean. The rate of women in poor households compares the percentage of poor women aged between 20 and 59 with the proportion of poor men in the same age group.
11. McKinsey. The power of parity. 2015.

Supporting their access to and control over economic resources

The economic empowerment of female Latin American entrepreneurs is one of our key strategies and has been part of our mission since we set out.

In our goal to reduce gender gaps and achieve SDG 5, we seek to provide women with financial products and services, together with support and skills, so that they can increase their participation in all areas of their lives, and we try to adapt to their circumstances and their life cycle.

To be consistent with our mission, we are contributing to gender parity through women's economic empowerment. We ensure their access to incomes and assets, while encouraging their use and control so that they can truly become agents of development in their communities. This is how we support poverty reduction and a sustainable and inclusive development that has a decisive impact on future generations.

The economic empowerment of female Latin American entrepreneurs is one of our key strategies and has been part of our mission since we set out.

We understand economic empowerment as **the access and full control** that women have over their incomes and assets.	**1. Access to income & assets**	**The effects on their families span generations**
When women **can freely decide** how to use their resources, they tend to spend the family budget more wisely.	**2. Use of and control over their income**	**More fairness in decisions** Spending rises: **90%** on education, healthcare and food vs. **30–40%** allocated by men
That is how they become true **agents of development** in their homes and communities	**3. Agent of development**	**Poverty reduction** **60%** increase in household income

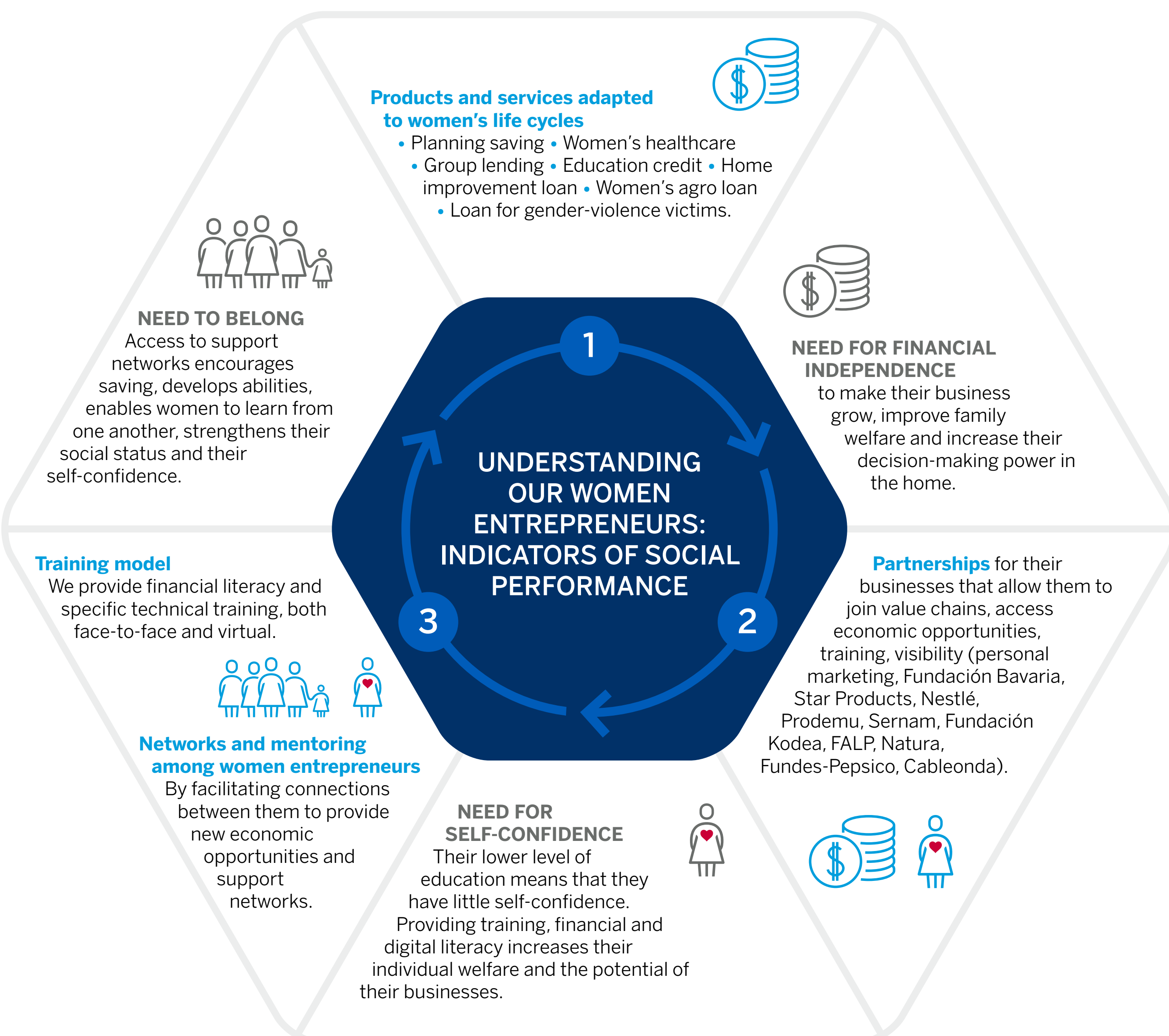
Committed to women's economic empowerment

We are putting our weight behind the enterprises of vulnerable women

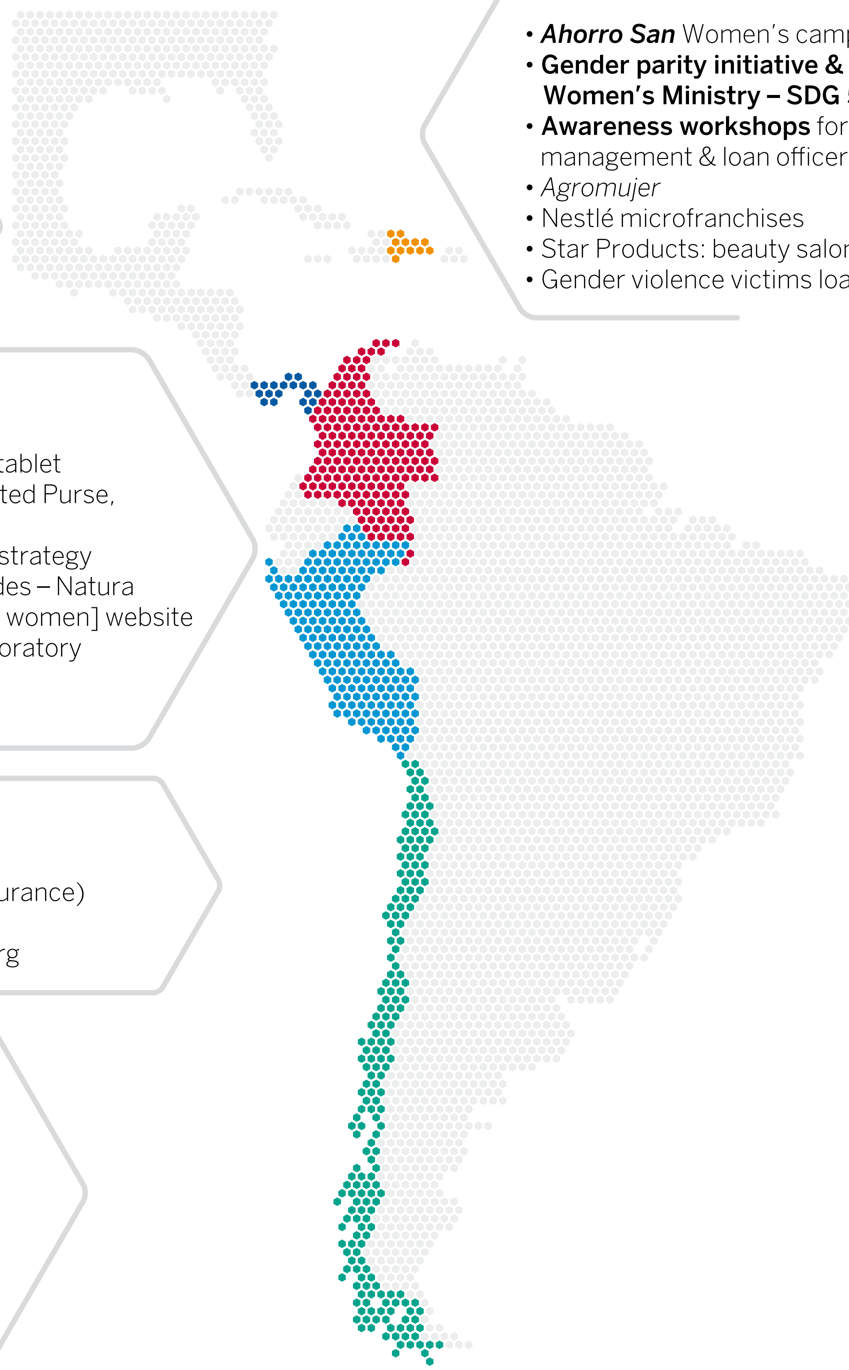
We are supporting more than 1.2 million women who are not being served by the financial sector, to promote their enterprises and drive their individual initiative. We are doing this through a wide range of financial and non-financial products and services that meet their needs: financial literacy, advice, technical training, access to support networks and technologies that facilitate their inclusion in a more effective, swifter and easier fashion.

We are creating opportunities for women in the most vulnerable segments.

A strategy that responds to their needs



AN INTEGRATED VALUE PACKAGE FOR OUR FEMALE ENTREPRENEURS



Dominican Republic

- ***Ahorro San*** Women's campaign
- **Gender parity initiative & Women's Ministry – SDG 5**
- **Awareness workshops** for senior management & loan officers
- *Agromujer*
- Nestlé microfranchises
- Star Products: beauty salons
- Gender violence victims loan

Panama

- **Healthcare for women**
- **CableOnda training**
- Casafin – Habitat

Colombia

- **Segmentation by gender** – Differentiated sales offering on the tablet
- **Insurance policies:** cancer, Protected Purse, women's healthcare
- **EMPROPAZ** – Transversal Gender strategy
- **Partnerships:** Pepsico Fdtn & Fundes – Natura
- ***Nosotros con ellas*** [We're with the women] website
- MEbA – WOCCU Rural Savings Laboratory
- PAR-Aequales Community
- "Personal Marketing" Partnership

Peru

- ***Mujer Segura*** [Safety for her] (cancer + life + basket of goods insurance)
- Education loan
- Construyendo Confianza - Water.org

Chile

- **Kodea Fdtn: e-commerce**
- **YouTube learning pills**
- **Website – specific contents**
- **FE Women's Awards**
- **Time usage indicators**
- Group lending + School for Entrep.
- *Somos* FE
- *Mi Familia Protegida* insurance

Committed to women's economic empowerment

We start from an understanding of our women entrepreneurs based on indicators that have been disaggregated by gender

We aim to create a tailored value offering for our female entrepreneurs so that they can reach their full potential. This enables them to make a bigger contribution to the welfare of their families and that of the community and thus to escape poverty. Our starting point is our understanding of our women entrepreneurs, to which end we have designed new social performance indicators that enable us to develop:

- **Products and services that are adapted to women's life** cycles, taking into account their needs and the obstacles they often encounter: programmed saving; cancer insurance and healthcare for them and their families; loans for education; loan rescheduling if they give birth; loans to improve their housing and put in piped water; loans when they install clean energy sources; products specifically designed for women in the countryside.

- **Women-focused training and mentoring programs** designed around their economic activities.

- **Access to and training in new technologies** to reduce the time spent on unpaid work enables them to access financial services more effectively and quickly from home and connect with other people to find new business opportunities.

- **Value-added alliances for their businesses** that enable them to obtain discounts, training and/or market access.

Internal culture of gender equality

Women's empowerment is part of our corporate culture because if we are to reach our women entrepreneurs, we have to start at home first. To this end, BBVAMF has signed up to the Women's Empowerment Principles (WEP), promoted by UN Women and UN Global Compact. We have also self-assessed at all our institutions, enriched in some countries with other gender equality indicators, such as the Aequales PAR ranking. This has allowed us to review our strengths and identify areas for improvement.

Our institutions are currently defining new human resources policies that are aligned with these UN principles and that contribute to greater gender equality internally. Some of these equality and inclusion initiatives concern new policies, communication manuals, support for parents and carers, as well as creating specific training programs for loan officers and managers.

We have also conducted workshops for our co-workers to heighten their understanding of the importance of working towards gender equality. Some of our institutions have conducted workshops on unconscious bias for senior management.

In 2019, we set up Empowerment and Equity & Inclusion committees in all the group's institutions in order to coordinate and integrate this gender vision across the organization's areas, guarantee that a strategy had been defined at the top level of management and provide the governance bodies with accountability.

Finally, our general managers have ratified their commitment to women's economic empowerment at the highest level, signing BBVAMF's Corporate Commitment.

Our commitment springs from the internal conviction of every one of our 8,000 co-workers.

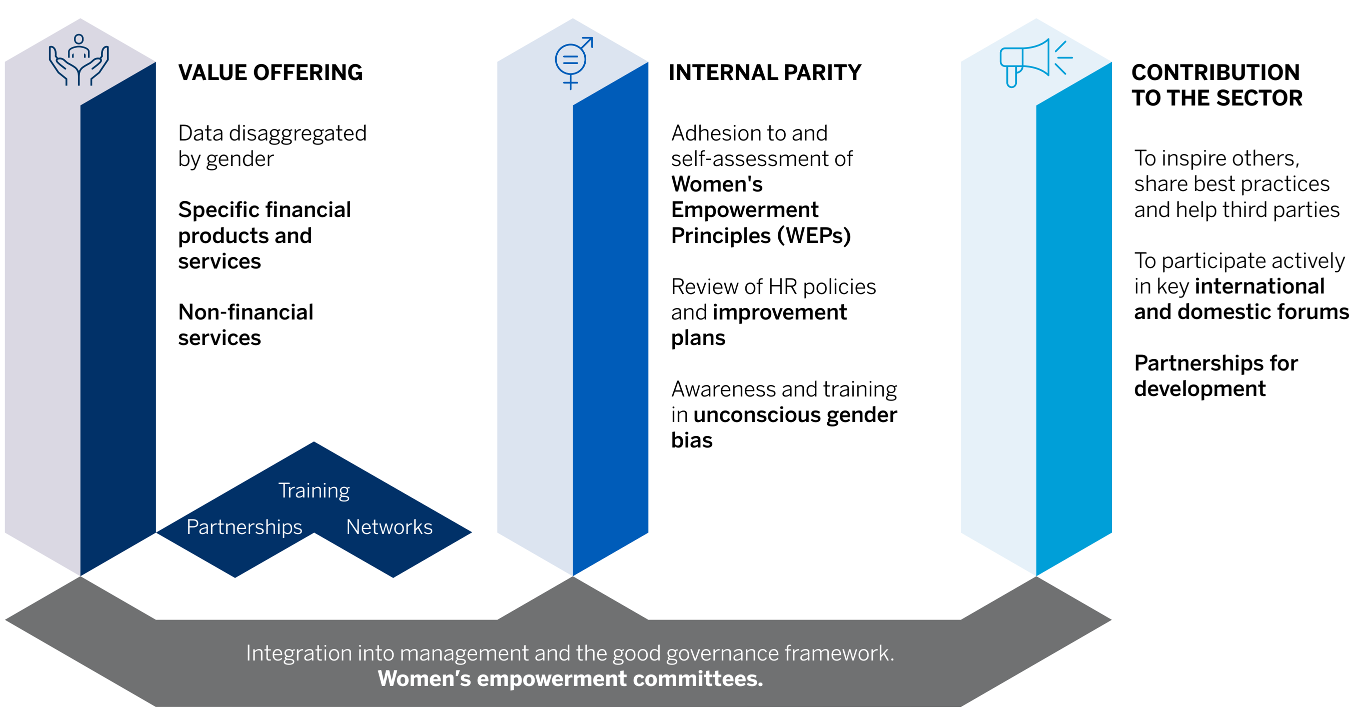
Contributing to the sector

We argue that financial inclusion is an effective weapon for economic empowerment. We take part in the main international forums (CSW, the UN's Commission on the Status of Women), the OECD's Gendernet, ECLAC's Regional Conference on Women, the Ibero-american General Secretariat, FinEquity, convened by CGAP (the Consultative Group to Assist the Poor), Women Economic Forum, etc) as well as national events (Ministries for Women, President's Advisory Panel of Columbian women entrepreneurs, Gender Parity Initiatives run by the IDB and the World Economic Forum, Aequales Community, etc). Our purpose is to shed a light on the needs of women entrepreneurs in Latin America in vulnerability, sharing their stories and setting up best practices and initiatives to further their economic empowerment.

We create institutional partnerships with the world's leading international bodies to help women's economic empowerment (such as UN Women). We also participate in existing private-public initiatives (EQUALS, the partnership between the United Nations, GSMA and the International Trade Center) to break down the digital gender gap, and we create synergies with other actors that work to further the progress of Latin American women entrepreneurs (FAO, IICA, USAID, Mastercard Center for Inclusive Growth, Heroikka, Kodea Foundation, FUNDES, CableOnda, FALP Foundation, etc).

We give women entrepreneurs a voice at the most important international forums.

THREE-PRONGED STRATEGY



Digitalization and technological innovation. Generating value

Digitalization, one of BBVAMF's six core strategies, is distinct from the others in that it is not an end in itself, but rather a means to achieve the objectives of the other five.
We want to reach more vulnerable people in Latin America, giving them a value proposal and an experience that help them progress.
That is why we are constantly innovating, generating more value for clients aligned with our purpose.
We are developing the levers that enable us to meet these goals: processes, technological innovation, data and human capital.

Processes

The efficient execution of the processes that form part of our value chain is essential to guarantee that our clients have positive experiences.

Everyone is in charge of a process and responsible for its daily running, continually searching for optimization.

A digital innovation strategy would not work if it were not part of a series of efficient processes that offer our clients real value. It is very important to understand their needs in detail so as to offer them useful products and services. Digital innovation makes that interaction, and excellent customer experience with these products and services, possible.

The power of our digital channels: less traveling and faster service.

Digital Innovation

Our digital innovation is integrated into a strategy that automates processes in our value chain to make execution more efficient.

At the outset, the aim was to implement back office processes by rolling out a microfinance banking core and digitalizing support documents in client operations.

The client is at the heart of this core, which is now operational. The management of several millions of daily transactions ensures that our institutions' work is highly efficient, reducing manual labor and errors. A very significant number of these transactions originate from our digital channels.

Every day we digitize more than 40,000 documents in business processes, which makes our customer service more agile and entails significant savings of paper and printer cartridges, helping to reduce our carbon footprint.

When our Productive Microfinance methodology is applied, digital channels are revealed as an essential component in our hybrid face-to-face/digital model. Our three corporate mobile apps have shown themselves to be indispensable in managing our client relationships.

Our apps have become essential in our client relationships.

Advisor app
Our Advisor app, used by our salesforce, already processes over 80% of the loans granted to our clients. This solution has made us faster, both in approving loans and in customer service generally. What is more, during the credit screening process, they no longer have to travel to our branch offices. We are currently working to incorporate the credit disbursement stage into the app as well, to reduce the journeys of clients and loan officers to a minimum.

Banking agent app
By making available to clients our entire network of banking agents, who process their asset and liability product transactions securely and in real time, we have succeeded in reducing, and sometimes eliminating, the journeys needed for many cash in/cash out transactions.

Client App: + digital products & services. Self-service and personal service
Our new mobile client app opens up a huge world of opportunities in self-service functionalities, going beyond finance.

In recent years our clients have made significant progress in digital, not only because the technology itself has evolved, replacing standard mobiles with smartphones in record time, but also because of the widespread use of social media.

The corporate client app was designed bearing in mind the user experience familiar from popular social media channels. This will enable it to be adopted and used more swiftly and easily. In the first phase this app contains the usual financial services such as the provision of product information, making payment installments, transfers, recharging mobiles, paying for services, opening current accounts and new client referrals.

In the second phase we would like our clients to have a much more integrated experience. For this reason, we are working to offer them a vast catalogue of non-financial services to help them in their day-to-day activities, in managing their private lives and in their businesses. We have called this set of functionalities the Entrepreneurial Community. Services such as a marketplace where they can promote and sell their products, a community noticeboard, training modules to enrich their work activities, and climate alerts are just some examples of what we will soon be offering.

As well as on mobiles, this app will also work on tablets, laptops and PCs, all with the same user experience. To improve it, we are integrating biometric facial recognition systems to offer greater security and efficiency when onboarding clients and products. This will also enable us to verify the authenticity of the identity documents submitted.

New clients will be able to choose —with just a selfie and a photo of their identity document— where and when to sign up with our institution and take out a product, without the need for a loan advisor. This same technology will enable all our clients to conduct their transactions securely with facial recognition authentication, which lets us simplify current procedures, as well as considerably improving the user experience.

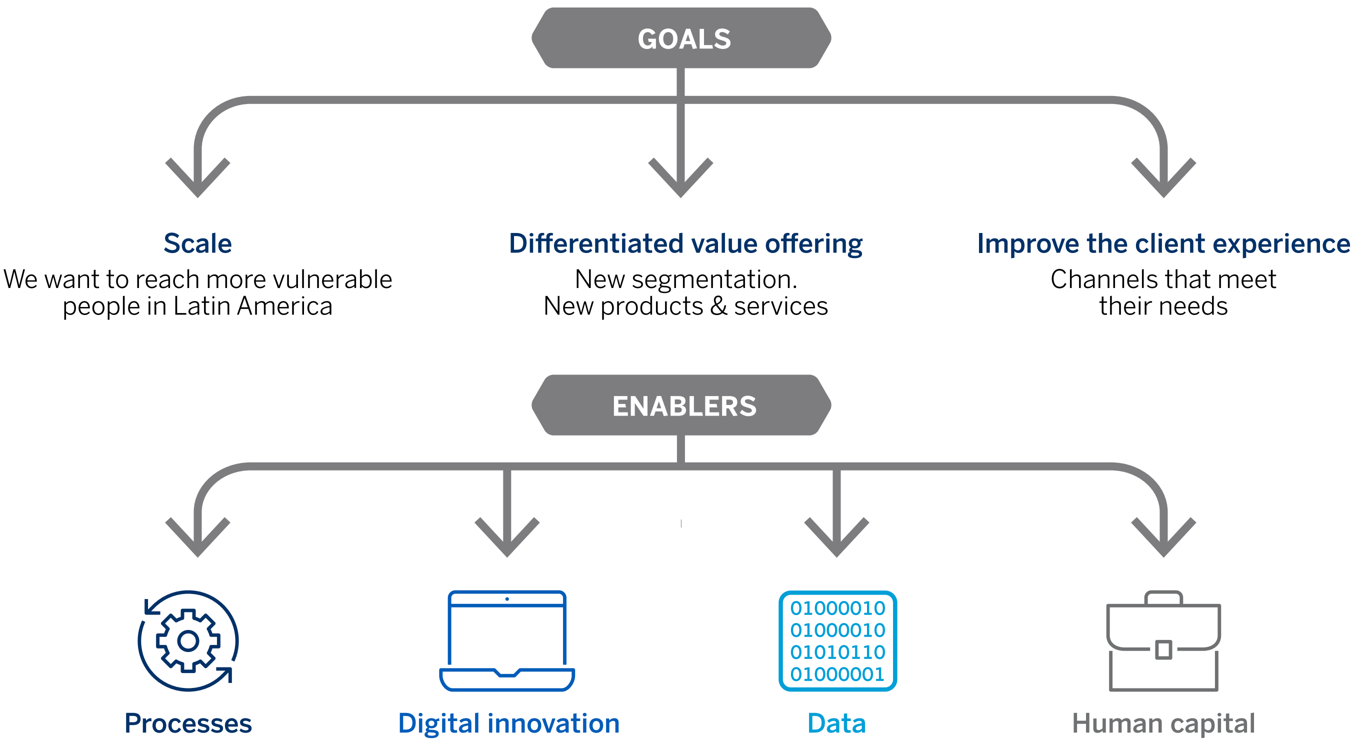
Digital channels are increasingly important in helping us to guarantee sustainable development for people in vulnerability who are working in productive activities. They also enable us to reinforce our strategy of women's empowerment and environmental sustainability.

Our goal has always been to reach more vulnerable people. That is why we want to create the conditions necessary so that those who do not yet have access to products and services because of lack of connectivity can overcome this hurdle. We are going to help to reduce the digital divide, working with telecoms companies to take the internet to areas where it does not exist today.

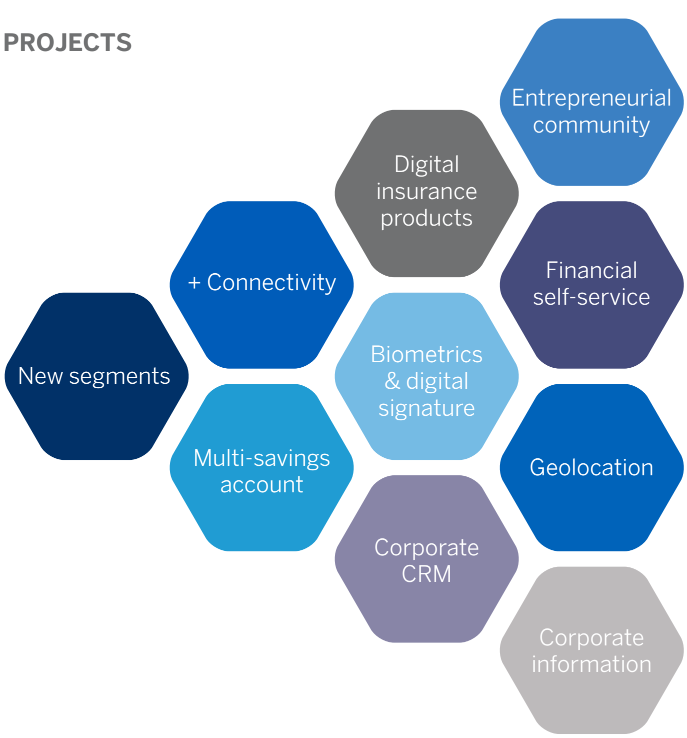
In this way, not only will we be taking them our products and services so that they can develop sustainably, but we will also be giving them access to other content that today is denied them because of lack of connectivity.

Digitalization and technological innovation. Generating value

CONNECTION AND CONNECTIVITY: HOW TO REDUCE THE DIGITAL DIVIDE



STRATEGIC AGENDA 2020, PROJECTS



Data. A Group that follows the data

Nowadays, for any kind of activity it is essential to manage information appropriately. Data management platforms currently provide more information than we could ever have imagined, at speeds surpassing all expectations. This, together with new data mining tools, means that all areas of a company are using these new ways of working more and more as a core component of their management.

Big Data is now a strategic asset and the firms that invest in robust scientific processes and data analysis lead the market in a new reality that is led by good quality, very swiftly generated intelligence.

That is why the BBVAMF Group wants to transform our institutions into organizations led by this good quality information, using data as a strategic asset that allows us to deliver a better value offering to our clients.

To realize this vision, we need to work with the facilitators of data management's core disciplines:

- To implement **technology infrastructure** capable of supporting Big Data;
- To define a **data governance model** that guarantees suitable, decentralized data management, together with the creation of a community of domains and dataholders;
- And finally to generate a new **analytical capacity** with professionals who fully understand data mining techniques and how to create value from data.

Executing this vision involves creating a data agenda and implementing an information strategy. BBVAMF Group has already embarked on this path. We want to transform data into knowledge and improve our value offering.

Human capital

Human resources are a powerful lever for developing our digital strategy.

This phase is essential to form teams of scientists and analysts with skillsets that include two fundamental concepts: efficient project development and the ability to use data as a strategic asset. Only thus will we succeed in giving this asset tangible value, both for daily use and for the future.

To be more efficient in project execution we have adopted the Agile Scrum model. The development teams are multidisciplinary and include technical and business profiles. This means that during the project the focus stays on functionalities that bring value to the client.

Teams are organized on an Agile basis, that is, guaranteeing deliveries in short timespans, and with deliverables that have proven value. These new development methods enable us to create new products and services that are much more flexible and speedier.

A priority goal for BBVAMF is to use innovation as leverage so that our clients' relationships with the financial and digital world are closer and more human.

Embedding the importance of social performance in the BBVAMF Group

A deep understanding of entrepreneurs is of key importance in improving their access to financing and training at all stages of their progress, helping to drive forward their economic and social development sustainably over time.

The impact of microfinance on entrepreneurs in vulnerability is the outcome of a complex interaction of diverse factors, including our financial transactions. As such, the success or failure of entrepreneurs cannot be attributed solely to them. Research and statistical analysis will help us to show exactly what role our way of working plays in the achievement of these outcomes.

Research applied to serving the client

The Foundation endeavors to maximize the social and economic impact of entrepreneurs in vulnerability through studies that are applied to our business. Achieving this entails having a deep understanding of our clients, their households and the community in which they operate (their context).

This will enable us to identify what stage of their development cycle the entrepreneur has reached, understand their needs better and focus our value offering on those needs. Using new dimensions and methodologies, we can mentor them more effectively on how they perform their activities and on their socioeconomic progress.

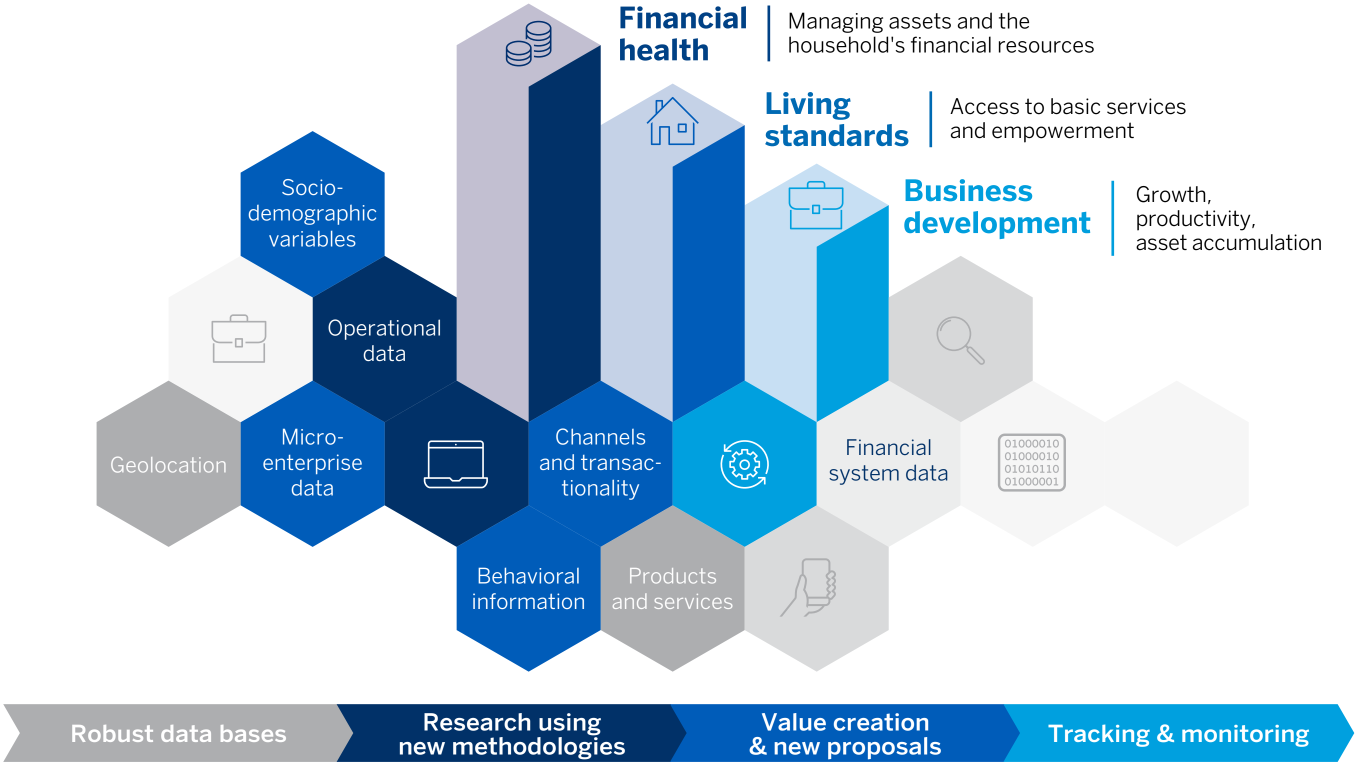
To do this, we will study three areas —household living standards, financial health and the growth of their microenterprises. This will enable us to generate the maximum impact on the client: income growth and stabilization, and access to greater wellbeing, both material and intangible (empowerment, better business management, financial skills, etc).

We want to identify differential client features (attributes, contexts, behaviors, others) and establish causal relationships (selection, channels, products and services). This means that research studies must increasingly come up with specific proposals that can be linked to the entrepreneur's activity.

WE REINFORCE IMPACT THROUGH OUR KNOWLEDGE OF THE CLIENT

Social impact analysis is based on the information we handle every day

We want to strengthen this impact along **three dimensions** that guide our current strategy



Only by studying our clients' needs and their reality can we improve our impact on their lives and their domestic economy.

Over the next few years, our research will take two paths: some studies will be helping to identify success factors and attributes that are shared by these entrepreneurs, while others will be aimed at creating incentives and product designs that will enable us to link this success to an adapted value offering.

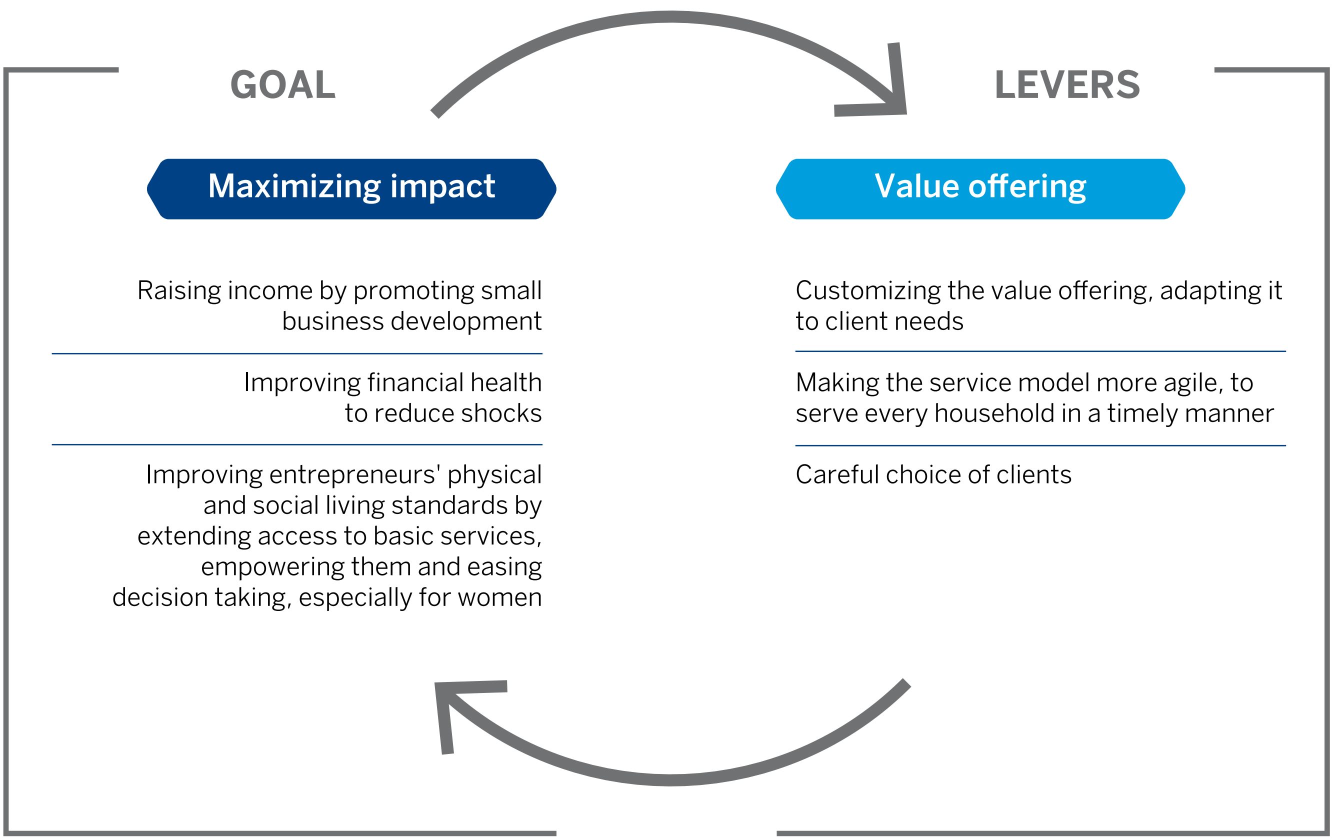
Linking impact with the business activity: the challenge

The key to maximizing impact lies in pro-actively incorporating the results of assessments to generate new interdisciplinary interventions and strategies. More agile, flexible studies, with shorter deadlines, will enable us to self-assess in order to improve our service offering.

Setting up the research through specific projects will bring the theory even closer to real fulfilment of our mission. To do this we will blend experimentation (pilot studies on the ground) with learning (goals and tracking with specific markers), as well as proposals that will be fed back into the studies.

Embedding the importance of social performance in the BBVAMF Group

LINK IMPACT THEORY TO MANAGEMENT, THE TRUE CHALLENGE

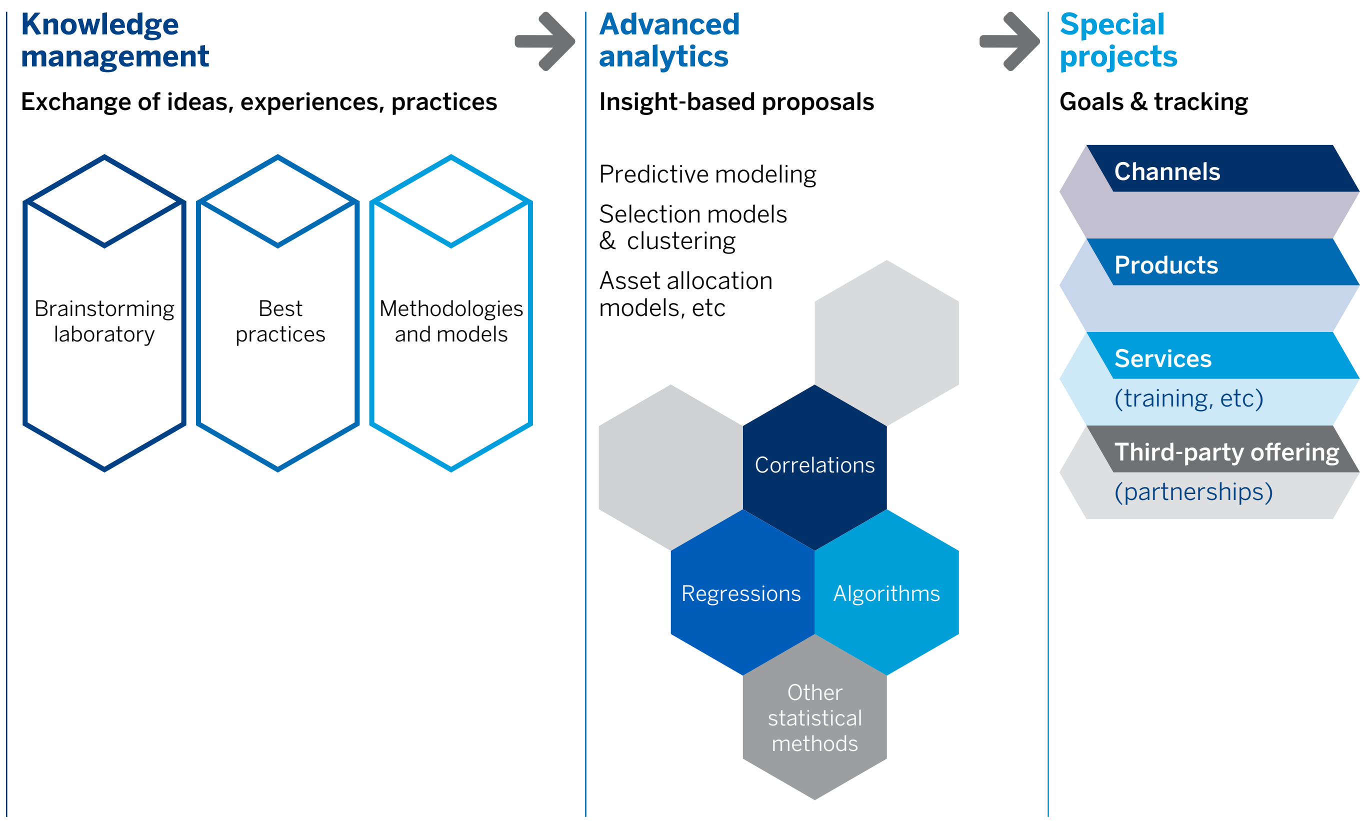


Research explores how complex interactions between new technologies, institutional policies, and value offering strategies impact economic development and the growth of microenterprises

Experience has shown us that no one single solution fits everyone. Impact proposals need to be researched and tested with advanced, tailor-made techniques: here the experience of each microfinance institution is pivotal. The key to greater understanding involves obtaining intelligence locally, comparing and sharing it globally, and in this way accelerating its roll-out.

Combining research with pilot testing to make sure our proposals are agile enables us to move forward with managing impact.

KNOWLEDGE TRANSFER



Advanced analysis and managing the knowledge acquired

We will conduct various kinds of studies combining methodologies and using information based on:

- Surveys, focus groups, etc to examine our findings on the ground.
- Primary and secondary external information sources (financial system, household surveys, geolocation data, etc) to compare information and access to other data (e.g. previous comparable research).

We will also use a variety of tools: from basic studies to innovative techniques (predictive models, clustering, scoring, etc).

To unlock its true potential, impact assessment should be an integral part of working processes and forms. Progress is shared internally at different levels (working teams, committees), and externally (conferences, published papers, etc).

Given that we are talking about live knowledge, ie. that can be permanently updated, its findings require continuous reinvention and, as such, drive the organization to remain aligned with the social mission for which it was created.

In turn, where microfinance does not reach, advanced analytics contributes to sharing outcomes with impact measuring specialists or with the parties involved themselves, so that each can help the other, and findings can be shared.

Our environmental sustainability

Over the course of 2019, BBVA Microfinance Foundation (BBVAMF) has paid special attention to the new challenges posed by global climate change and its disproportionate impact on the most disadvantaged population groups for whom we work. Using a broad range of measures, BBVAMF has continued developing its strategy of sustainable enterprise to cope with the adverse consequences of climate change. The climate challenge is a key vector of our model, aligned with the Sustainable Development Goals (SDGs) established in the Agenda 2030, and with the United Nations' Principles of Responsible Banking.

Our environmental sustainability strategy is 360º, reflecting our concern that finance should connect the fight against climate change with inclusive development.

Our internal commitment: eco-efficiency

The BBVAMF Group is rolling out an eco-efficiency drive. This is materialized in actions within the Group to rationalize the use and consumption of resources such as water and different energy sources. It therefore entails calculating and managing our carbon footprint and upgrading all our processes, leveraging new information systems and technologies.

To reduce our environmental impact, and following the GHG Protocol standards, we have calculated and measured the carbon footprint of our operations in Colombia, Peru, Dominican Republic, Chile, and Panama.

Carbon footprint

		2019	2018	Diff. 2018–2019
Consumption	Water m^3	123,142.48	137,643.16	−10.53%
	Paper kg	287,770.29	297,425.07	−3.25%
Emissions t CO_2 eq	Scope 1	526.01	463.60	13.46%
	Scope 2	3,049.79	3,581.40	−14.84%
	Scope 3	961.22	956.19	0.53%
	T CO_2 eq/per capita	0.54	0.62	−12.60%

Carbon footprint: Measures all GHG emissions directly or indirectly resulting from our institutions' activities.

The carbon footprint calculation considers:

Scope 1: Direct emissions from BBVAMF Group institutions' activities.

Scope 2: Indirect emissions generated by electrical power plants as a result of BBVAMF Group institutions' own consumption.

Scope 3: Other indirect emissions resulting from Group activities occurring in places or sources that are neither controlled nor owned by the Group, such as air travel.

Our carbon footprint is calculated using the **GHG** (Greenhouse Gas) **Protocol,** the most widely used international tool for calculating and reporting GHG emission inventory. It was developed by the ***World Resources Institute*** (WRI) and the ***World Business Council for Sustainable Development*** (WBCSD).

Furthermore, the BBVAMF Group continues to support the implementation of the Advisor Mobility, Client Mobility and Agent Banking projects. These all contribute to improving the quality of our client service, reducing the use of paper and the amount of traveling, which means they also help to reduce our carbon footprint and to work towards better environmental balance.

Training, upskilling and creating awareness

The following are some of the actions designed to create awareness, inform and train BBVAMFG personnel:

- **Knowledge Community:** The BBVAMF Group has created a knowledge community to train, divulge and transfer key information to everyone working in the Group about how to protect the environment while in the workplace.
- **Sustainable Events:** Core recommendations have been put together and communicated internally to ensure that events run by the Group are environmentally friendly. For the first time this year the Group's VI Corporate Open Days were held in full compliance with these recommendations.
- **Webinar:** As part of the BBVAMF Group's policy of upskilling all its employees, we have organized training activities such as an internal webinar, to share our best experiences and market trends and update information.

Our environmental sustainability

Other internal eco-efficiency initiatives by our institutions

As well as calculating the carbon footprint, BBVAMF Group institutions have rolled out other eco-efficient initiatives internally, including the following:

BANCAMÍA

In 2019 Bancamía has implemented its **Solid Waste Management Plan** in its branch network and central offices.

It has signed up to the Lumina Bogotá post-consumption program. This collects and/or receives, stores, transports, and makes use of used lightbulbs to mitigate their impact on health and the environment. 79 kg of lighting waste was handled in 2019.

The institution has a partnership with the recycling association Puerta de Oro Bogotá. 6,641 kg of recyclable material was donated in 2019, representing an 86% increase in recycling potential from 2018. These donations are in aid of the **Burns Foundation.**

FINANCIERA CONFIANZA

Financiera Confianza has started to take internal measures to create awareness among its employees about this issue.

An agreement was signed in June 2019 with SOS Children's Villages and Kimberly-Clark to donate wastepaper and **help to feed boys and girls in SOS Children's Villages.** Every 4 kg of recycled paper equates to a meal. The 851 kg of paper handed over by Financiera Confianza in six months, has helped to feed 212 children properly.

Furthermore, drums of water have been replaced by drinking water dispensers, while older lighting has been changed to LED illumination, with the resulting considerable saving in electricity consumption.

FONDO ESPERANZA

Fondo Esperanza supports **its employees who travel by pushbike.** Currently 26% of its employees at head office use one and have a specific bike park to leave their bicycles.

Through its agreement with the **San José Foundation** cellulose products are recycled (disposable paper handkerchiefs, toilet paper, serviettes and wipes).

The **water supplier is the company Late, which donates 100% of its profits to foundations** that support the most vulnerable in Chile.

Risks/our risk responsibility*

To be consistent with this eco-efficient business model, BBVAMFG has set up policies to exclude activities that harm environmental balance from our financing, with control mechanisms over social and environmental risks in its business lines. Specifically, in 2019, BBVAMF has completed the process of applying the exclusion list approved by the IFC (International Finance Corporation, part of the World Bank Group) to Financiera Confianza, Banco Adopem and Emprende, following the procedure established when it did this for Bancamía. Fondo Esperanza is currently going through this procedure.

In the long term, our goal is to anticipate the increase in the intensity of climate impacts that are being generated now, and also to prepare for new, as yet undefined, risks whose consequences may be devastating.

According to the World Bank, by 2050 in Latin America the risks of climate change will have displaced 17 million people in vulnerability.

The commitment to our clients

In its commitment to society, and to work towards balanced development, BBVA Microfinance Foundation supports environmentally friendly measures and promotes practices on the part of its entrepreneurial clients that take care of their surroundings.

One of the key goals of this strategy is that entrepreneurs should protect natural resources and reduce their vulnerability to climate change risks, while improving their business productivity and strengthening their resilience in order to thrive.

To this end BBVAMFG provides green, inclusive financing tools to those of its entrepreneurs who contribute to environmental balance. To help them we make it easier for them to access efficient technologies that entail lower resource consumption and increased competitiveness.

With a diversified offering of savings products, credit and greener insurance, our institutions also help to transform the habits and attitudes of individuals, companies and the communities we target with our institutional activity. At the same time we are contributing to the materialization of the United Nations' Principles of Responsible Banking.

Among other initiatives, we can point to those rolled out in Bancamía: MEbA, Climate Insurance, the Rural Inclusion program; Financiera Confianza's support of the *Gota a Gota las Mejoras se Notan* program [Drop by Drop you see the Improvements]; and new initiatives developed in Banco Adopem such as eco-housing, etc.

* For further information, see the list of activities in http://indesvirtual.iadb.org/resource/view.php?id=16781

Our environmental sustainability

Bancamía

One of its two lines of Green Credit, ***Crediverde Adaptación,*** is designed to finance climate change adaptation measures; the other, ***Crediverde Energía,*** is for energy efficiency measures.

- ***Crediverde Adaptación*** began in 2016 as a collaboration with UN Environment and the Frankfurt School to finance climate change adaptation measures. It targets small producers who want to make their businesses more resilient and more productive.

  This program gives rural and peri-urban populations access to microfinance products and services that help them to improve their productive practices, increase their incomes and conserve ecosystems. Our clients are encouraged to adapt to new realities by diversifying their activities with environmentally beneficial action.

  Since the program began, over 2,000 clients have been given MEbA solutions which discount their interest rates, thus providing an incentive for them to use green options. The number of clients buying this product in 2019 rose by 132% compared to 2018, and by around 143% in terms of volumes. Moreover, 100% of our rural advisors have received training on these measures.

  The most important measures rolled out are as follows:

  - Organic fertilizer
  - Soil nutrition
  - Conservation agriculture
  - Crop diversification
  - Family kitchen gardens
  - Fish farming
  - Water tanks

Over the course of 2019, Bancamía has marketed two environmental finance products: climate insurance and a savings program called *Incluye Rural*.

- ***Mi Inversión Protegida*** is a new product in Colombia (parametric insurance). Launched in 2019, it covers microentrepreneurs' losses from one-off climate events (torrential rains, extreme droughts, strong winds). These phenomena are measured by a NASA satellite and payment is automatic if the established severity threshold is reached. It also covers material losses directly caused by seismic risk.

- ***Incluye Rural*** encourages producers to save towards an eco-sustainable investment. It is backed up by financial education workshops, climate change awareness information and a financial products and services offering. In addition, there are operators in situ who have technological tools to fast-track deposits, create incentives for saving discipline and carry out functions that would otherwise involve a journey to our branches.

Banco Adopem

BANCO ADOPEM is currently the first and only regulated financial institution in the Dominican Republic to have a productive green finance program. As well as examining the carbon footprint, climate risks and their effects on our clients and our institution, it offers a wide range of green products. In 2019 it extended its offering of this type of products and services, which now include:

- **Ecohousing:** A phased financing instrument for building one's own home. Incentivizes the use of materials that are local, environmentally sound, recycled etc, and technologies that foster the efficient use of water, energy, and infrastructure. A pilot marketing phase began in 2019.
- **Ecolending:** Financing to promote the implementation of climate change mitigation and adaptation measures.
- **Financing for macadamia:** long-term financing for macadamia plantations, a high added-value forest fruit operation.

We enrich our product and service offering with rural financial education and technical assistance. This is how we are helping to make farming value chains more robust in the areas where we work.

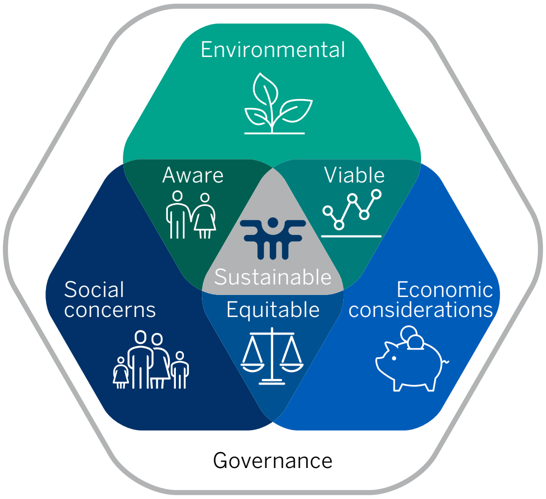
Thanks to geographical expansion and the addition of new projects,* the number of transactions in the green portfolio grew by 35.5% in 2019, and by 51.4% in volume.

Banco Adopem's green portfolio currently accounts for 9% of the institution's farming portfolio, up from 6% in 2018.

Ecosystem-based adaptation is defined as using biodiversity and ecosystem services to help people adapt to the adverse effects of climate change.

* Green portfolio projects:
- *Promoting sustainable climate change adaptation solutions to grow the green portfolio and inclusion of entrepreneurial women in the Dominican Republic.* A CTA-Banco ADOPEM project.
- *Using microfinance to foster sustainable climate change adaptation solutions* (MEbA). A UN Environment-Banco ADOPEM project.
- *Designing, supporting and validating ADOPEM's Eco-housing financial product.* A financing project for sustainable living solutions in rural areas (in conjunction with ADA-Luxembourg; REDCAMIF-REDOMIF-ADOPEM).

Our environmental sustainability



Commitment

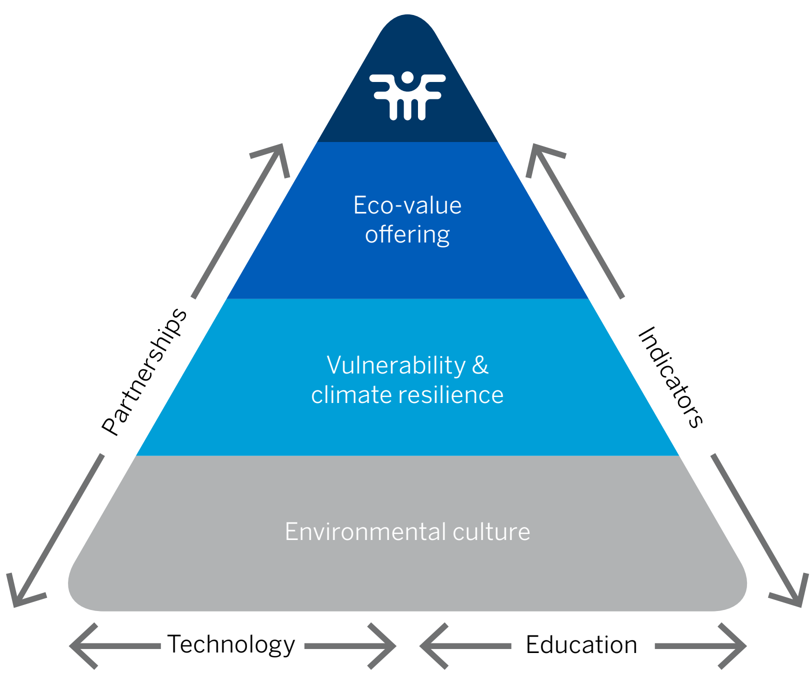
In 2019 BBVAMF put a special focus on the new challenges posed by global climate change and their particular impact on the most disadvantaged population groups that we target.

Using a wide range of measures, BBVAMF further developed its strategy of how sustainable business can cope with the adverse consequences of climate change.

The climate challenge is a key vector for our model, aligned with the Sustainable Development Goals (SDGs) in the Agenda 2030 and with the Principles of Responsible Banking passed by the UN.

BBVAMF Group's environmental sustainability strategy

To promote actions that have a positive effect on the environment, with a green corporate culture that enables us to integrate environmental risk and improve our value offering for our clients, partners, and wider society.



Actions across several SDGs

1. Partnerships
To give our clients the best sustainable solutions, we have forged significant strategic partnerships

UN environment
Habitat for Humanity
water.org
IICA

2. Impact on the SDGs
SDGs are part of our strategy of striving for the greatest impact

- Direct impact
- Indirect impact

Value offering

Commitment to our clients
The Group supports measures that are environmentally friendly and promotes practices among its entrepreneurial clients that are responsive to their surroundings.

2,530
clients

USD 1.8 BN
current portfolio

Microfinance for Ecosystem-based Adaptation program (MEbA). Colombia. The aim is that clients should implement new technologies and mitigation and climate change adaptation measures.

Sustainable Housing. Dominican Republic. This pilot program makes it easier for entrepreneurs to build their own rural housing using sustainable building materials.

Ecolending. Dominican Republic. We are supporting financing to promote the uptake of climate change mitigation and adaptation measures.

Vulnerability & climate resilience

Excluded activities
BBVAMF Group has decided to exclude from financing activities that harm the environment. Our exclusion list has been approved by the IFC (International Finance Corporation, part of the World Bank group).

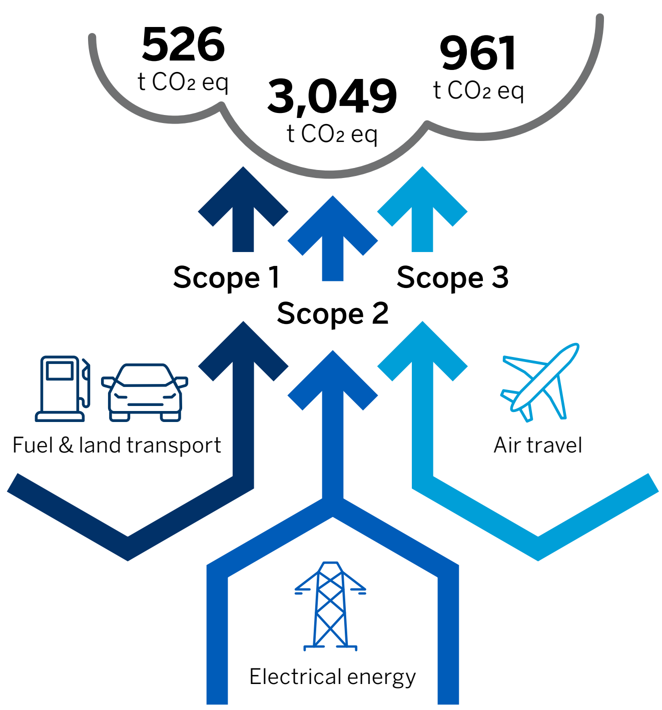
Environmental culture

1. Eco-efficiency and measuring the carbon footprint
BBVAMF Group is backing eco-efficiency and specifically internal actions to rationalize the use and consumption of resources. To reduce our environmental impact, we have calculated the carbon footprint of our activities using GHG Protocol methodology.

2. We educate and create awareness
The Group seeks to educate, train, and create awareness among our clients, employees, and wider society, using several means:

- Face-to-face training at our Show Farm. Technical help and classes on climate change mitigation and adaptation measures are both available.
- Digital learning. We have created a knowledge community, sustainable events, and webinars about sustainability.

CARBON FOOTPRINT IN BBVAMF INSTITUTIONS



3. Other programs
Our Peruvian institution has signed an agreement with SOS Children's Villages and Kimberly-Clark to donate wastepaper and help with the nutrition of boys and girls in SOS Children's Villages.

Our institution in Colombia has signed a partnership with the Puerta de Oro Bogotá recycling association and the Burns Foundation. In 2019, 6,641 kg of recyclable materials were donated.

Institutional Activity in images


Fundación BBVA MicroFinanzas
Mujeres excepcionales:
el valor de una oportunidad


BBVA
Fundación BBVA MicroFinanzas


Financiera
confia
Fundación
BBVA Microf


ICC
GLOBAL REFUGEE FORUM
UNHCR

BBVAMF Institutional Activity 2019

Digitalization

London, February 5th
Global CIO Banking, 'Technologies to reach vulnerable customers in Latin America'.

Merida, Spain, February 20th
10th Hispanic-Portuguese Foundations seminar, 'Microfinance for development and the SDGs'.

Amsterdam, March 14th–15th
15th Annual Global Microfinance Forum, 'Microinsurance: making insurance accessible to microclients'.

Madrid, April 10th
Oracle **'Big Data & Analytics Summit'.**

Brussels, June 18th-19th
European Development Days, EIB Policy Dialogue, 'Bridging the Digital Divide to build more inclusive communities'.

Madrid, July 2nd
Corporate Observatory against Poverty, **'Technology with purpose: Enterprises' social impact in the digital era'.**

Madrid, July 11th
Edufin Summit 2019, BBVA Center for Financial Education & Financial Capabilities. 'Big little stories: screens that create opportunities'.

London, September 10th
RöBo19 Investing, KNect 365, 'Digital for all: A new banking concept for vulnerable people'.

Madrid, September 17th
DIR&GE, **'How to turn social media into opportunities'.**

Madrid, October 17th
Corporate Learning Day: Equipos & Talento, 'Game-based learning, the future of interactive learning'.

Punta Cana, October 30th – 1 November 1st
IDB. FOROMIC, 'Digital transformation in practice'.

Madrid, October 30th
Oracle **'Modern Cloud Day'.**

Madrid, November 28th
***La Razón* newspaper debate:** 'Innovation for development'.

Sustainability

Madrid, January 14th–15th
General Council of Notaries, SECIPIC-MAEC and SEGIB, 3rd edition, 'Microfinance and Development in Ibero-America' and 'Women and youth in Ibero-American development and empowerment policies'.

Paris, January 15th–18th
OECD Private Finance for Sustainable Development Week. 'Specialized Policy Dialogue on Private Sector Engagement'.

Bogota, April 9th
Presentation of Competitive Partnerships for Equality, attended by the President of the Republic.

San José, Costa Rica, May 6th–7th
IICA, IFPRI: **Financial Inclusion for Agricultural & Rural Development.**

Madrid, May 7th
OCI Best Practices in Internal Communications Awards, 10th edition. 'Best Internal Communication Strategy for Change Management & Transformation'.

Bogota, May 13th–14th
Concordia Americas Summit 2019.

Paris, May 20th
OECD: Roundtable of Leading Foundations with the OECD Secretary-General.

Brussels, June 18th-19th
European Commission. **European Development Days:** 'Promoting sustainable agriculture and trade for inclusive growth'.

Madrid, September 20th
BBVAMF: DIME Interns' Diploma Ceremony, 2nd edition.

Santo Domingo, November 20th
BBVAMFG Leadership meeting, 4th edition.
'Digital Transformation in the service of entrepreneurs' sustainable development'.

Madrid, December 12th
Excellence in Sustainability Club
'The value of communicating CSR: broadcasting the voice of over 2M entrepreneurs we serve in Latin America'.

Lisbon, December 13th
Corporate Foundations, 2nd meeting
'Aligned with the SDGs'.

Geneva, December 16th
UN Global Refugee Forum, Private Sector.

BBVAMF Institutional Activity 2019

Women

Paris, January 25th
OECD NetFWD Gender Working Group Meeting.

New York, March 11th–22nd
United Nations HQ: Commission on the Status of Women.

Participation in the official CSW63 program
General discussion y **'Women's empowerment & the link to sustainable development: The data challenge and opportunity: good practices'.**

New York, March 13th
BBVAMF Event: **'Women as forerunners of change'** with UN Women, SEGIB, Colombia & Peru.

Madrid, April 24th
SEGIB. Debate **'Equal pay between men and women for more inclusive and prosperous economies'.**

Madrid, May 14th
Complutense University. **Workshop on Microfinance and Women.**

Madrid, May 23rd
BBVAMF Event: **Debate with H.M. the Queen 'Exceptional women: the value of an opportunity'.**

Istanbul, May 29th
FinEquity Spring Members meeting.

Madrid, June 13th
BBVAMF & OECD: **Presentation in Spain of the 2019 SIGI (Social Institutions and Gender Index) Report:** 'Enterprising women, leaders of social change in Ibero-America'.

Santiago de Compostela, Spain, September 13th
EMPRENDIA European & Indian universities, 'Financial Inclusion and Women's Empowerment'.

Brazil, October 10th-11th
UN Women. Expert committee on **'Mechanisms for Innovative Financing with a Gendered Approach'.**

Madrid, October 15th
BBVAMF Roundtable in Casa de América. **'Rural Latin-American women: Sustainability and technologies as allies for their development'.**

Visits

Madrid, September 6th
Visit by the CEO of BBVA, Onur Genç, to BBVAMF.

Madrid, September 30th
'A cup of coffee with the protagonists',
Bancamía's entrepreneur, Yamile Salazar, the regional manager of Financiera Confianza, Lizandro Ramon, and the head of FC's regional banking, Mercedes López.

Madrid, October 1st
BBVA Values Day. BBVAMF panel with Yamile Salazar & Lizandro Ramón.

Field visits

Soacha, April 12th
Visit by BBVA Group Executive Chairman, Carlos Torres Vila, to a Colombian BBVAMF entrepreneur.

Colombia, June 6th-10th
Visit by the **Chair of the BBVAMF's Board of Trustees, Anna Escobedo Cabral,** to Bancamía entrepreneurs.

BBVAMF Institutional Activity 2019

Social Performance Report

Orlando, February 20th
Microvest & Everence-Praxis forum: **'Disrupt-Launching a wave of powerful, positive disruption'.**
Presentation of BBVAMF and its social impact.

Social Performance Report presentations:

Santo Domingo, July 15th

Bogotá, July 16th

Lima, July 18th

Santiago de Chile, July 23rd

Partnerships

Madrid, January 14th
Meeting with the Permanent Secretary of the **Latin American and Caribbean Economic System (SELA),** Ambassador Javier Paulinich in the HQ of BBVAMF.

Madrid, January 29th
Meeting with **CAF**'s new representative in Europe, Ambassador José Antonio García Belaúnde, in the HQ of BBVAMF.

Madrid, April 1st
Meeting at **COFIDES** HQ with its President, José Luis Curbelo, and Director General, Rodrigo Madrazo.

Madrid, April 1st
Meeting with CEO of **Mastercard's Center for Inclusive Growth.**

Madrid, June 28th
Signing of MOU with **ICEX,** Spain's Export & Investment institution

New York, September 23rd
UN General Assembly: Announcement of Bancamía's commitment to refugees. Tent Partnership for Refugees and IDB **'Latin America Business Summit on Refugees'.**

Madrid, October 30th
Meeting with the Director of **FAO** Spain, Enrique Yeves, in the HQ of BBVAMF.

Santo Domingo, November 20th
Signing of an MOU with the **Interamerican Institute for Cooperation in Agricultura (IICA).**

Paris, November 20th
Participation in **OECD DevCom.**

Acknowledgements 2019

BBVAMF

Euromoney Awards for Excellence
BBVA World's Best Bank for Financial Inclusion

OCARE Awards
Honorable mention: Presentation Campaign for the 2017 Social Performance Report

Internal Communication Observatory:
IE Business School, Wolters Kluwer & Atrevia
Award for Best Internal Communications Strategy for Change Management
Category: Gaming Strategy. Awarded for *Héroes* and *Amigotchi*

CEGOS Awards con **Equipos & Talento**
Category: Best Practice for the Foundation's gaming strategy

Corresponsables Responsible Communication Awards
Finalist: Best Opinion Article

Institutions

COLOMBIA
Bancamía

Bogotá Chamber of Commerce
Shared Value Award
Category: New Products & Services

Member of the Colombian Women Entrepreneurs' Presidential Board

Fintech Americas Top 25
Category: Most Innovative Banker

Global Compact, Colombia network
Category: Good Practice in Sustainable Development

Asobancaria banking association
Category: Sustainability in the Environmental Dimension

CITI Microenterprise Awards
Category: Best Loan Officer in Colombia,
Yuly Astrid Londoño

CHILE
Fondo Esperanza
Emprende Microfinanzas

Green Latin America Awards
Finalist: Human Development

DOMINICAN REPUBLIC
Banco Adopem

CODESPA Foundation Awards
Finalist: Social Innovation

PANAMA
Microserfin

Agricultural Development Ministry
Category: Supporting Panamanian producers

Panamanian Credit Association (APC Intelidat)
Categories: Satisfaction, Data Plus
& Team of the Year award

PERU
Financiera Confianza

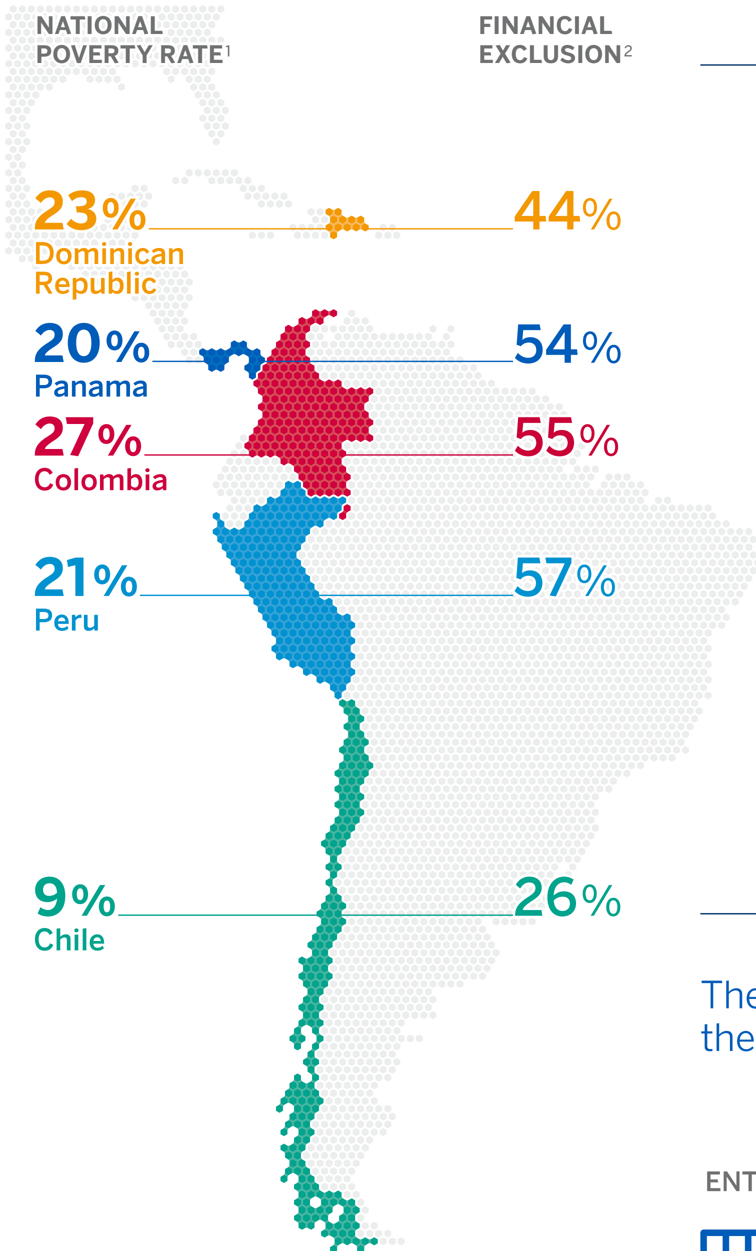
CITI Microenterprise Awards
Category: Responsible Financial Inclusion

PAR Gender Equality Ranking
Category: Best innovative practice with gender approach for *Palabra de Mujer*

Fundación BBVA MicroFinanzas

Social Performance Report **2019**

Supporting them today, to improve their tomorrows



Gini index[3]

0.467

42%

of adults are unbanked

2,234,413 clients served

951,776 credit clients

80% Vulnerability

60% Women

35% Rural environment

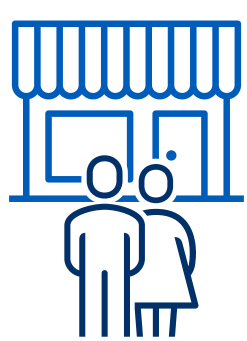
37% Primary education at best

12% Over 60 years old

20% Under 30 years old

They become entrepreneurs to improve their **economic situation**

ENTERPRISES



↑24% Assets
Annual growth rate

↑17% Sales
Annual growth rate

54% Raise their income
of clients who took out a loan in 2019, six in ten have raised their income since the previous loan

HOUSEHOLDS

Financial health is important in planning saving and coping with unexpected expenses

Well-managed credit + Savings + Insurance

Average disbursement
Total clients served in 2019:
USD **1,331**

12% of clients could survive for a week on their savings

Product diversity
22% of clients have all three types of products

There is potential for greater saving

46% of clients are capable of generating small savings.

Leverage for improvement: create incentives for good habits and increase financial skills.

665,944 people received financial education.

11% **of clients generate jobs.**

4% **of clients improve their education.**

10% **of clients improve their living conditions.**

By their third year with the institution.

Indirect impact

We stay with our clients as their businesses grow to improve their household's standard of living.

(1) According to each country's official figures.
(2) Unbanked adults, Global Findex 2017, World Bank.
(3) Inequality indicator: 0= Perfect equality, 1= Maximum inequality.

Introduction

Access to banking services enables entrepreneurs' projects to prosper, which has a knock-on effect on their environment. This gives them the opportunity to increase their incomes, smooth their consumption, expand their investments, and get insurance protection. Thanks to this, low-income individuals can transform their economies and improve their standard of living. According to the latest data from the World Bank, in the Foundation's footprint 49% of adults are excluded from the financial system.

Macroeconomic context

In 2019, the world economy was marked by the trade war between the United States and China and by the higher barriers to international trade; these factors have affected confidence levels, investment decisions and global flows, both financial and real.

Against this global backdrop, the Latin American economy increased by 0.8% over the year, just under half the rate it achieved the year before (1.7%), affected by low growth in the main economies, where activity slowed considerably at the beginning of 2019 due, mainly, to domestic factors.

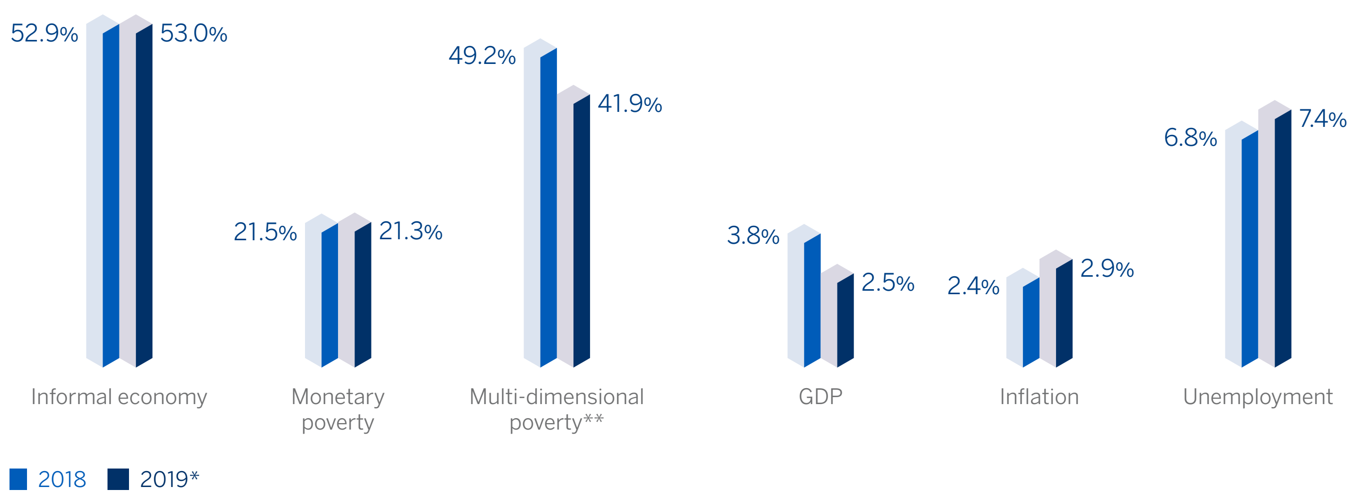
In the countries where BBVA Microfinance Foundation's entities operate (its footprint),[1] despite the tensions suffered by many of them, activity expanded by an average of 2.5%,[2] maintaining a higher rate than the average growth for the region.

Inflation across our footprint posted at 2.9%, 0.45 percentage points above the figure for 2018 (2.4%), as a result of rises in Colombia, Dominican Republic and Chile. Despite higher economic growth, the unemployment rate grew by 0.6 percentage points, coming in at 7.4% in 2019. This is an outcome of the deterioration of the labor markets in Peru, Colombia and Chile, whereas it remained stable in the Dominican Republic and Peru.

Income poverty affected 21.3% of the population in 2019, which translated into 24.5 million people. According to the Foundation's estimates, across its footprint 42% of adults were excluded from the financial system, but this is an improvement of 7.3 percentage points since the last time this dimension was measured.

1. Chile, Colombia, Panama, Peru & Dominican Republic.
2. Growth weighted by the size of each of the economies where BBVA Microfinance Foundation operates.

MACROECONOMIC DATA



Productive microfinance

Microenterprises are important drivers of growth, employment, and improved standards of living among people in vulnerability. To give impetus to the development of vulnerable entrepreneurs, it is vital to empower them, providing access to a series of financial instruments (lending, insurance, savings, etc), together with non-financial ones (e.g. financial education).

Microfinance creates an opportunity to finance their businesses and enable them to grow. It allows vulnerable people to withstand financial stress,[3] contingencies and actively manage their resources, offering them greater flexibility and more options so that they accumulate assets over time. As well as improving entrepreneurs' performance, several research studies suggest that financial access drives local economic activity.

Microenterprises are important drivers for growth, employment and the improvement of vulnerable people's living standards.

The six institutions comprising the BBVA Microfinance Foundation Group (the BBVAMF Group or BBVAMFG)[4] have been providing financial products and services for over 10 years to 2.2 million net clients, of whom nearly a million are credit clients. The Group is a leading player in many of the countries in which it operates and perseveres in its mission of serving people who are excluded from the traditional financial system or underserved by it, to alleviate their poverty/vulnerability.

3. The capacity to solve the various financial commitments taken on. That is, to manage their financial situation, including debts, so that they are compatible with the desired patterns of consumption.
4. Aggregated data from the BBVAMF Group's six institutions are presented throughout the report, except in the case of performance variables, which do not include Emprende Microfinanzas (Chile).

Source: National sources. BBVAMF calculations.
* BBVAMF estimate.
** 2017 World Bank Global Findex. 2019 estimation, BBVAMF Research.

Introduction

HOW WE HELP TO MAKE AN IMPACT*

Industry-wide standard, based on the Impact Management Project approach

* Diagram adapted from Global Partnerships' 2017 impact report. It is aligned with Impact Management Project's impact measuring standard. This is based on four dimensions for action: "Contribution, What, Who and How much". See impactmanagementproject.com/impact-management/what-is-impact/ for more information.

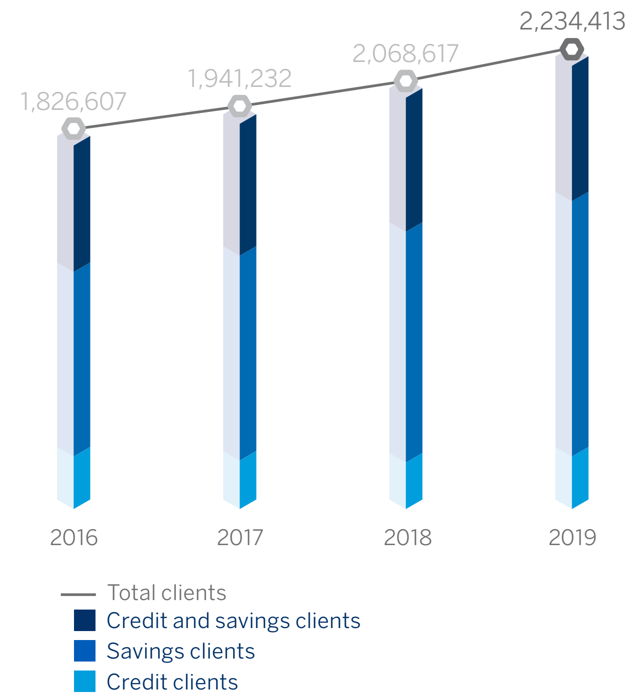
5. Three entities in the BBVAMF Group are subject to prudential regulation and are thus permitted to capture client deposits (Bancamía, Financiera Confianza and Banco Adopem).

(1) Total clients at December 31st on each data collection date.
(2) Current clients as of 12.31.2019.

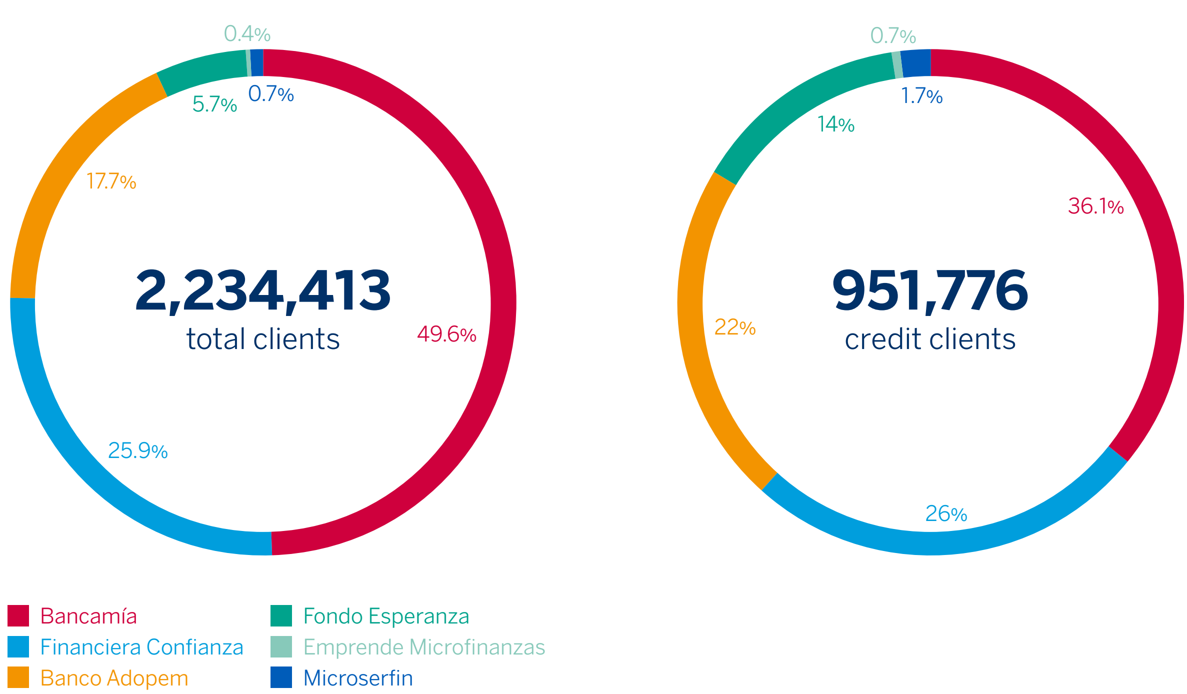
22% of our entrepreneurs have taken out loans, savings and insurance[5] products with us. Improving the use and access to this range of products allows them to improve their financial health and, in turn, plan better for their future.

In the BBVAMF Group we encourage the development of productive activities on the part of our clients, helping them to take decisions that optimize their work, foster risk mitigation and increase the likelihood of long-term success.

1 **BBVAMF GROUP CLIENTS**
Clients current at December 31 of each year



2 **BREAKDOWN OF NET AND CREDIT CLIENTS**



Introduction

Increasingly widespread access to digital technology (55% of adults in Latin America and the Caribbean have a mobile phone and internet access[6]) means that our client assistance can be much more personalized, close and efficient.

The combination of technology and knowing our clients is an enormous boost to responsible and personalized financial inclusion. Technology and digitalization of processes and channels —developed on the basis of innovative relationship models— enable us to adapt our value offering to clients, promoting their empowerment and helping them to improve their business management and, as such, their quality of life.

The Foundation works hard to support innovation and technologies that make the formal financial system more easily accessible to vulnerable people.

Sustainable management, combined with digital transformation, reinforces our client-focused performance model. It is supported by a system of quantitative and qualitative metrics that conduct detailed, systematic and periodic analysis on the changes experienced by entrepreneurs in the development of their enterprises and their standards of living throughout their relationship with our institutions. These analyses are based on understanding the entrepreneurs and their needs, together with working out which products and services best suit their development. That is how we link our value offering with social performance.

We analyze this performance at the Foundation, but we do not attribute the causality of the impacts. However, we endeavor to maximize the progress of every entrepreneur.

BBVAMF Group's understanding of impact

These entrepreneurs develop along many dimensions (they raise their income, smooth their consumption, upgrade their housing, etc), many factors (development is determined by a set of factors such as their individual abilities, the business opportunities available in their surroundings, the investment decisions they take, etc) that change over time.

Given the complexity of impact, the Foundation has adopted a three-fold vision:

At the Foundation we measure the progress of the entrepreneurs we serve in order to understand them and find new ways of improving our service and the social impact we can generate.

Evidence of impact, takeaways from industry (CGAP Focus Note)[7]

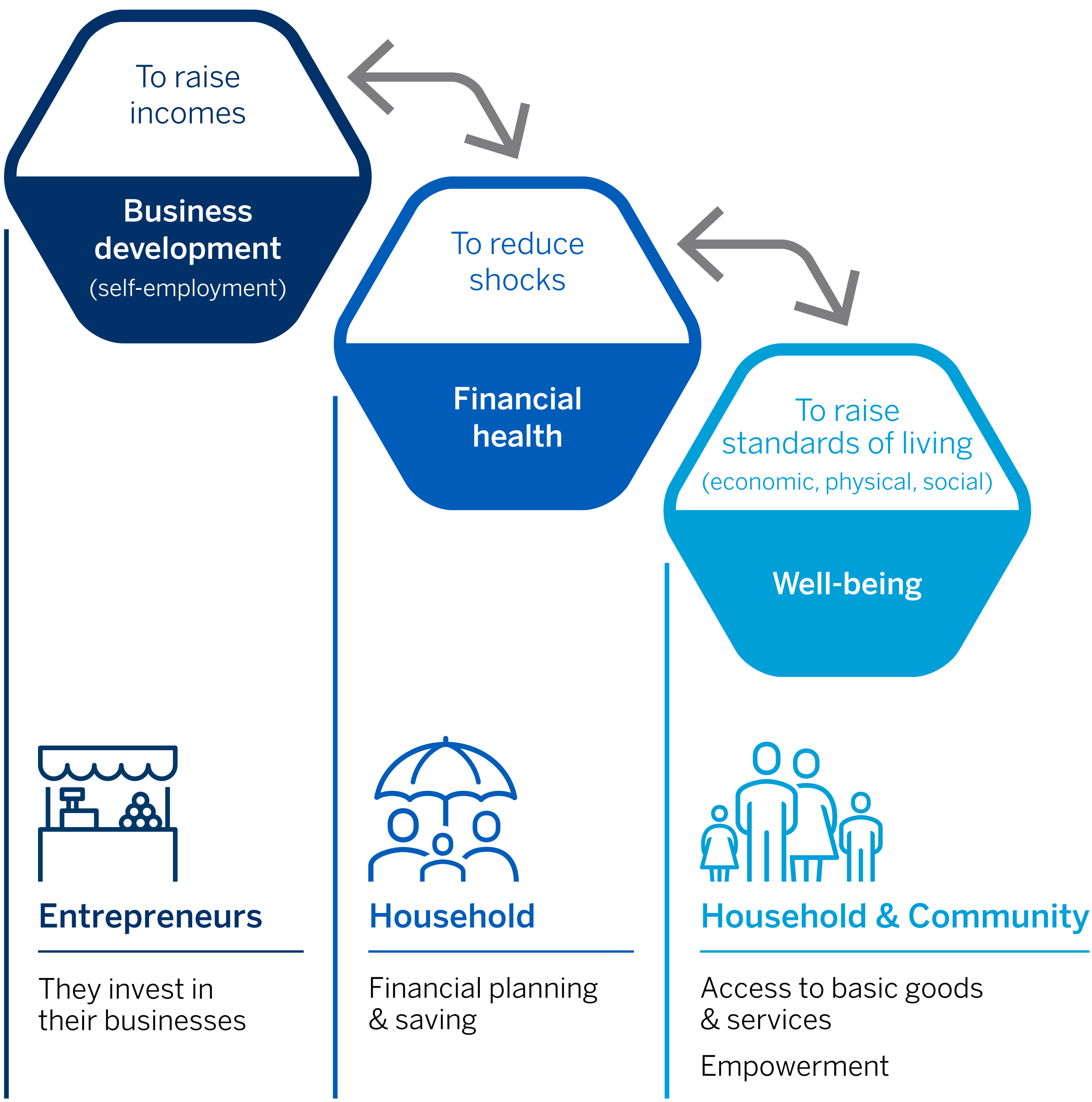
The evidence firmly supports the claim that financial services improve people's capacity to recover. Going beyond their role of easing clients' recovery from shocks, the risk management dimension of financial services can also stimulate investments that entail more risk but that have the potential to be more profitable in the long term.

6. https://openknowledge.worldbank.org/bitstream/handle/10986/29510/211259ovSP.pdf

7. This is an adaptation from an original paper by CGAP/World Bank. CGAP_2019_07_FocusNote_Emerging_Evidence. The opinions expressed in the adaptation are the exclusive responsibility of the author or authors and are not necessarily held by CGAP/World Bank.

The provision of financial services represents an indispensable additional component for the progress of people in vulnerability.

CREATING LONG-TERM RELATIONSHIPS, THAT IMPROVE DECISION-TAKING



Executive summary · Progress in 2019

We served over 2 million clients in 2019,[8] of whom nearly half were credit clients.

The indicators presented here tell the stories of vulnerable entrepreneurs whose individual initiative and perseverance has enabled them to establish activities that provide them with a source of income for themselves and their families.

8. All social performance data excludes the Chilean institution Emprende Microfinanzas, because of an ongoing change in systems.

The numbers indicate that:

- **We served nearly 300,000 new clients,** 8% more than in 2018. **84% of them were economically vulnerable.** This circumstance makes financing their enterprises even more important, since microfinance helps them to raise their incomes and aim for a better life.

- **We have kept our focus on the most socially vulnerable segments.** Principal among these are women (60%), the rural population (33%) and people with primary education at best (28%). We are adapting our product offering to the specific demands of each of these groups. For example, women are most frequently the group that request improvements in the home and sanitation infrastructure, whereas rural men express more interest in climate change initiatives to increase the resilience of their farming businesses.

- These solutions complement the crucial support that we offer: **we empower them with small loans so that they invest in businesses and make their incomes expand over time.** It is the first step towards improving their standard of living. That is why it is essential to nurture relationships over the long term: the longer they bank with us, the better their performance. Our "pocket of poverty" shrinks by 34% in the case of those clients who bank with us for two years. Over the long term, half of the entrepreneurs who were poor at the outset succeed in overcoming poverty.

- Nevertheless, a certain proportion of our clients falls back into poverty. **Making their net incomes larger is not enough.** It is fundamental that they invest in productive and non-productive assets to reduce their income volatility. Indeed, we have observed that if they invest and have productive assets, they succeed in stabilizing their incomes and escaping vulnerability. One in three vulnerable clients with moderate/high assets overcomes this situation.

- **Asset accumulation together with appropriate resource planning over time are the key** to consolidating this progress. For this reason, in 2019 we analyzed the financial health of our clients. We looked at how they managed their liquidity, how they used loans, their capacity to save and the range of products they take out. 18% of our clients have good financial health. Furthermore, there is potential for them to save, even if the amounts are modest.

- As the client's self-confidence grows, and access to our services is made more convenient, their interest in broadening their demand for financial products and in making deposits increases. This is very important if they have to cope with contingencies. **Financial planning is exactly what will enable this asset accumulation by vulnerable households to be more long-lasting.**

Committed to the most vulnerable

Access to the labor market and to the formal financial system is more difficult among the economically and socially vulnerable population. In light of the obstacles and difficulties facing them in the labor market, one of the options chosen by people in Latin America is to become entrepreneurs. In fact, it is one of the most active regions in terms of entrepreneurship, comprising 90% of the enterprise ecosystem, generating 50% of the jobs and 28% of GDP.[9]

In recognition of the complexity of poverty and the importance of achieving long-lasting and sustainable development, the Foundation's institutions work hard to reach people with deep social and economic vulnerability. Our institutions strive for equal opportunities in the area of financial services:

- By seeking to serve **the economically vulnerable.** 84% of new entrepreneurs are in economic vulnerability: 37% generate income —per household member— that is less than the cost of a basic food basket, bringing them into the category of "poor"; 47% are vulnerable, that is, they are at risk of falling into poverty.
- By serving clients **who are socially vulnerable.** Women, despite having the same level of education as men, face more difficulties in finding work opportunities, whether because of their family situation, or because of their (unpaid) work in the home, to mention just some of the barriers. They account for 60% of new clients and are the most highly represented segment. The Foundation also targets young people (under 30 years old), older people (60 and over), and those with basic education only (primary at best); 28% of new clients fall into this last category.
- **Backing the rural environment.** Finally, it is important to strengthen the offering in the rural environment, underserved by traditional banks and where poverty bites harder. 33% of new clients we serve live in the countryside.

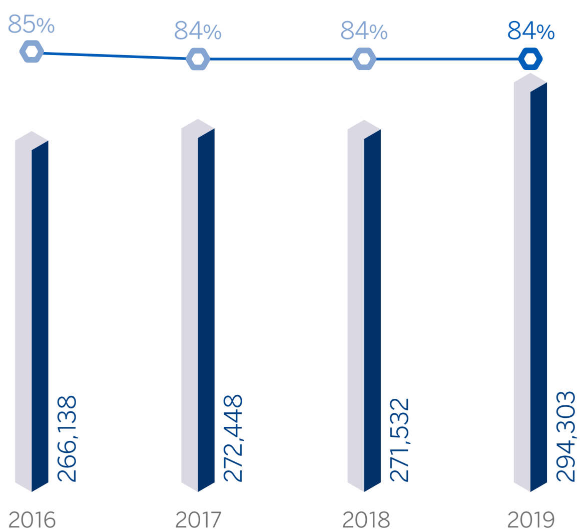
In addition, during 2019, 29% of entrepreneurs had never previously taken out a loan in the formal system. This inclusion is particularly successful among women (58%), young clients and in rural areas.

For the BBVAMF Group it is as important to grow the number of entrepreneurs we serve (scale) as it is to keep our focus (scope) on those with the greatest monetary and social vulnerability.

9. https://www.ceoe.es/es/contenido/actualidad/noticias/las-mipymes-generan-el-28-del-pib-en-latinoamerica-pero-carecen-aun-del-impulso-necesario

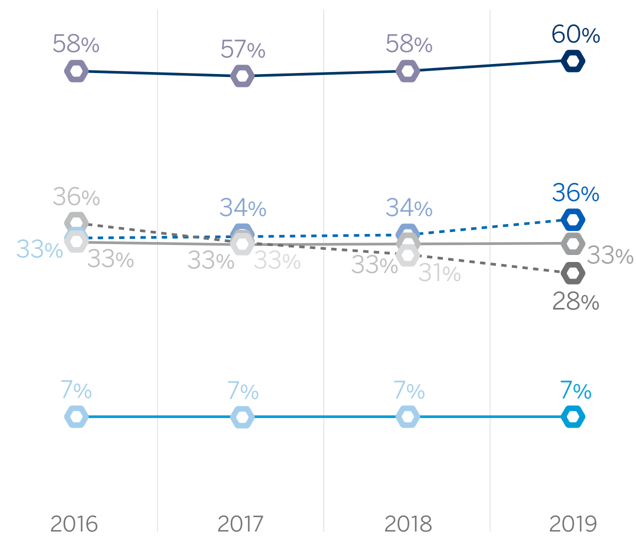
(3) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes lower than 3 multiples of the country's official poverty line.
(4) New clients by year of entry (%).
(5) Banked clients: clients served in 2019 who have not previously had financial products with formal financial institutions.

3 NEW ENTREPRENEURS SERVED
New credit clients by year of entry



% Vulnerability
New clients

4 NEW CLIENT PROFILES
New clients by year of entry (%)



Women
Under 30 years old
Over 60 years old
Primary education at best
Rural environment

5 BANKED CLIENTS
New credit clients

Banked
+85 thousand
clients in 2019

Women	**58%**
Under 30 years old	**51%**
Rural	**44%**

+170,000 entrepreneurs banked in two years.

Committed to the most vulnerable

Economic vulnerability

Being able to rely on a certain level of income is one of the key prerequisites for development. That is why this is the central factor in BBVAMF Group's performance analysis model, even though other components of multidimensional poverty are measured (as we shall see below).

Income level is an expression of microenterprises' capacity to generate surpluses for each household member. These per capita surpluses are analyzed in relation to the cost of a basic food basket (extreme poverty line), and another, larger, basket, that includes the cost of basic services (poverty line).[10]

Each country's basic food basket is a benchmark that allows information to be put into context and performance to be compared over time, since the calculation methodology in each country is based on shared precepts. This basic basket represents the extreme poverty line.

The different poverty lines indicate different standards of living, particularly between rural and urban zones. For example, the poverty line in Colombia in the rural environment is 40% lower than in urban areas (the gap is 31% in Peru). This is likely due to the concentration of growth in cities and the greater sophistication of consumption there (with more manufactured and imported products) compared to consumption patterns in the countryside.

BBVAMF Group classifies economic vulnerability as follows:

- **Extremely poor:** when the surplus (or income) for each household member is under that country's extreme poverty line.
- **Poor:** when income is higher than that country's extreme poverty line but below the poverty line (PL), which is represented by the cost of the basic basket of food, goods, and basic services.
- **Vulnerable:** when their income is over the poverty line, but less than three times its value (for more details, see 'Notes on methodology').
- **Others:** when their income is more than three times their country's poverty line.

Although this classification is the Group's own, these categories are comparable to those used by international bodies such as the United Nations or the World Bank.

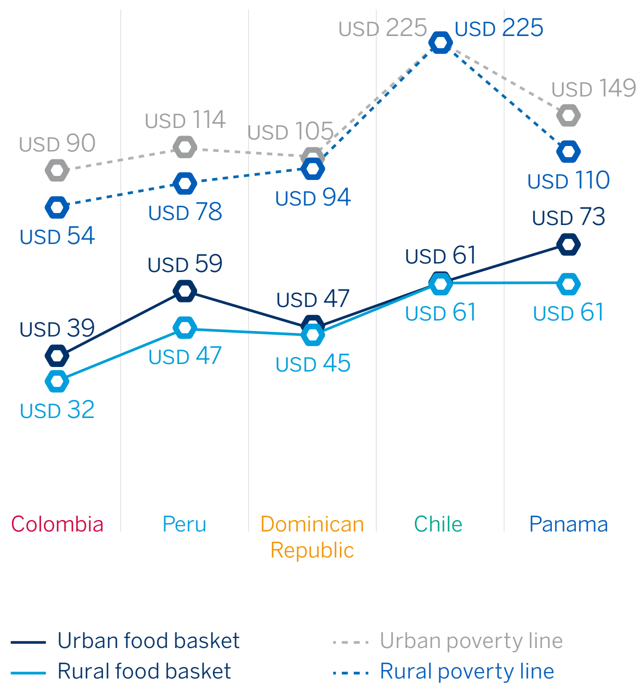
When we look at entrepreneurs, who account for a million clients, 80% are classified as being in monetary vulnerability. That is, they are entrepreneurs who either find themselves in poverty or have highly volatile incomes, so any contingency can push them back into poverty.

Over 294,000 new credit clients signed up with our institutions in 2019, of whom 84% are in monetary vulnerability (vulnerable, poor, and extremely poor). This is the equivalent of generating income of under USD 15 a day. More precisely, vulnerable entrepreneurs generate an average of USD 5.70 a day per person in their household, compared to the poor, who struggle to earn USD 2.50 a day.

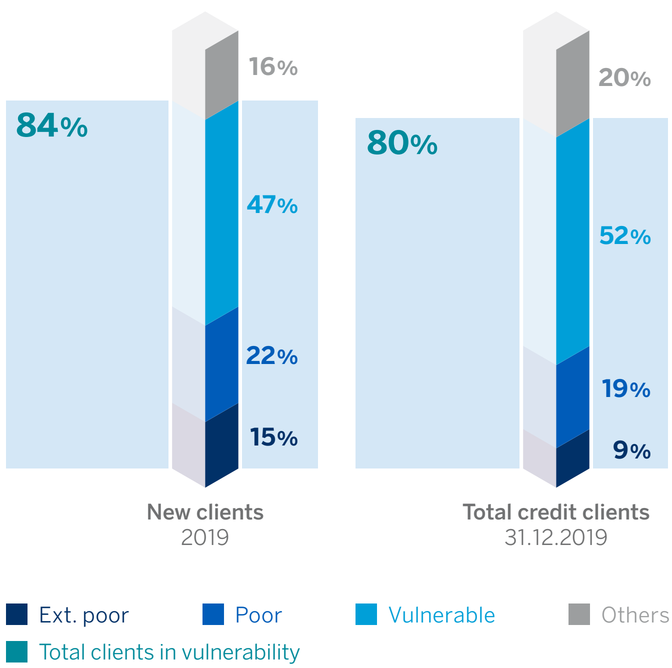
10. Poverty lines differentiate by the environment (rural or urban) in Colombia, Peru, Dominican Republic, and Panama. In Chile, the differentiator is the size of the household.

(6) According to each country's official poverty line. More details in Notes on Methodology.
(7) According to each country's official poverty line (differentiating between the rural and urban environments). Clients whose net income per capita (estimated as the net business income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three are classified as vulnerable.
(8) According to each country's official poverty line. New clients (no previous loans) signed up over the year.

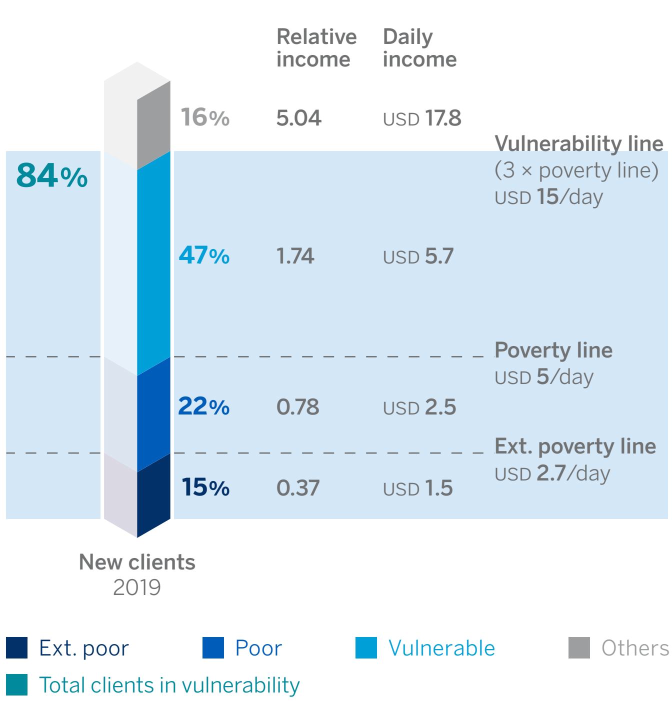
6 **POVERTY LINE AND BASIC FOOD BASKET**
In the countries where BBVAMF Group operates



7 **ENTREPRENEURS' ECONOMIC VULNERABILITY**
Credit clients



8 **ENTREPRENEURS' INCOME**
Each segment's income relative to the poverty line



Committed to the most vulnerable

Poverty and vulnerability are two different conditions: whereas poverty is a state of scarcity or need, "a person is vulnerable when there is a high risk that their circumstances and achievements will deteriorate in the future" (UNDP). This is even more important in our clients' geographical environments where, because of extreme inequality, high levels of informal employment and unemployment, together with high rates of exclusion from the formal financial system, they have access to fewer opportunities.

Furthermore, vulnerability does not only concern people's economic possibilities, but implies certain psychological consequences leading to economic behavior patterns that make it difficult to escape from that situation. There is evidence indicating that it brings on negative states of mind that, in turn, can lead to taking short-term, risk-averse decisions.

Behaviors and attitudes do not only impact investment decisions. As clients win greater economic stability, this influences their behavior because it improves the economic security of their homes. As such, they become better prepared to take on risk, to make long term plans and, in short, to exercise greater control over their lives. That is why the Foundation endeavors to support vulnerable entrepreneurs so that they generate higher incomes that are more stable over time.

There is growing evidence to demonstrate that as vulnerable people acquire access to formal financial services and use them in different sorts of interactions, they are better prepared to improve their standard of living, dealing with risks more effectively and increasing the productivity of their activities.

Clients' productive assets

To better understand the situation of the clients we serve and get closer to them on their journey, we have to understand the whole picture when it comes to their resources, both of their microenterprises and of their households, and the strategies they use to manage them.

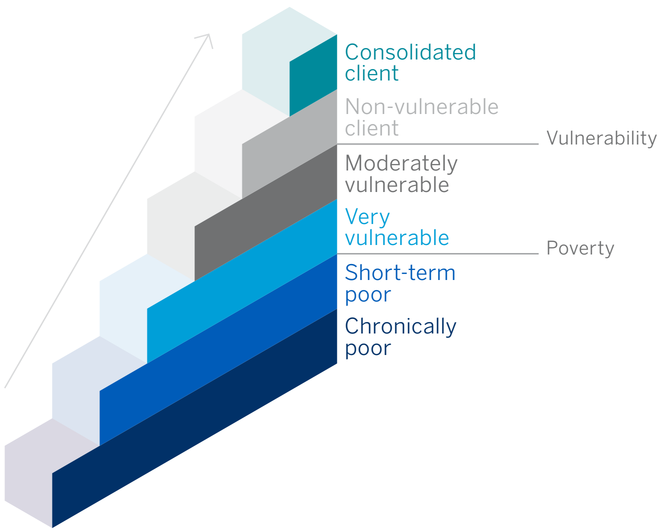
The resources and assets that households can mobilize are of different kinds:

- **Natural capital** (natural resources, that are more or less important depending on the client's business).
- **Physical capital** (infrastructure, technology, etc).
- **Financial capital** and access to credit.
- **Human capital** (the entrepreneur's skillset and abilities).
- **Social capital** (trusted relationships, cooperation, etc).

Poverty is a dynamic process over time. It has many dimensions and characteristics, both economic and social, that define it depending on context and degree. We have not been able to capture all its dimensions, but we have supplemented the category of monetary vulnerability (income vulnerability) with information about client assets (wealth vulnerability).

Whereas net income represents the value of the asset yield at a given time, the level of productive assets expresses the capacity the business has had to capitalize up to the moment of the analysis, reflecting the possibility of leverage and investment in the business in the future.

THE LAYERS OF VULNERABILITY*
Diagram of client segments by relative income and assets



Accumulating assets and greater economic stability enable our clients to plan for the long term and gain greater control over their lives.

We have classified clients by six categories of vulnerability, according to their income and productive assets, as described in the list below:[11]

- **Chronically poor:** Entrepreneurs with very low levels, both of income and of assets, who are therefore more likely to remain in poverty for long periods of time.
- **Short-term poor:** Entrepreneurs who have managed to accumulate a larger asset base in the past, even though they are currently in poverty. Their behavior tends to be volatile, causing them to fall in and out of poverty for varying periods of time due, for example, to external shocks.
- **Very vulnerable:** Entrepreneurs with more stable income levels but who are very vulnerable to contingencies because their activities do not have a solid asset base. For this reason, they are highly likely to fall into poverty, even if this is only temporary.
- **Moderately vulnerable:** Entrepreneurs with income levels above the poverty line but within the vulnerability threshold, whose businesses have a moderate to high level of productive assets. Although they are in vulnerability, their behavior over time is more stable than the very vulnerable. In addition, their likelihood of falling into poverty is lower because of their greater capacity to deal with contingencies and the higher average profitability of their resources.
- **Non-vulnerable & consolidated:** Entrepreneurs whose activities generate income volumes that are more than three times the poverty line and whose classification varies depending on the asset level ("consolidated" being the higher). Both segments have more savings capacity and a low probability of a significant drop in income.

* Chronically poor: relative income ≤ 1 PL & assets ≤ 20 PL; Short-term poor: relative income ≤ 1 PL & productive assets > 20 PL; Very vulnerable: relative income between 1 & 3 PL & assets ≤ 60 PL; Moderately vulnerable: relative income between 1 & 3 PL & assets > 60 PL; Non-vulnerable clients: relative income > 3 PL & assets ≤ 60 PL; Consolidated clients: relative income > 3 PL & assets > 60 PL.

11. Our definition of monetary vulnerability is based exclusively on incomes from microenterprises, so we have also concentrated on the productive assets of our clients' businesses (inventory, machinery, etc) in our asset analysis.

Committed to the most vulnerable

There is a correlation between productive assets and the surpluses generated by a business. As a rule, high asset values are associated with more productive businesses and, as such, with the ability to generate higher surpluses. They are also associated with more opportunities to access credit and lower vulnerability to contingent expenses. On the contrary, low asset values, especially the destruction of productive assets to deal with a contingency, can seriously harm the stability of a business, even causing the household to fall into poverty.

Furthermore, as clients' incomes grow, their capacity for accumulating assets does too, so they can earmark a higher proportion of their profits for investing in their businesses or in financial products with high liquidity (savings accounts) or others.

A high proportion of our clients are vulnerable, especially women and urban populations.

Most BBVAMFG clients, as tends to happen with microfinance clients, are highly or moderately vulnerable (55%).

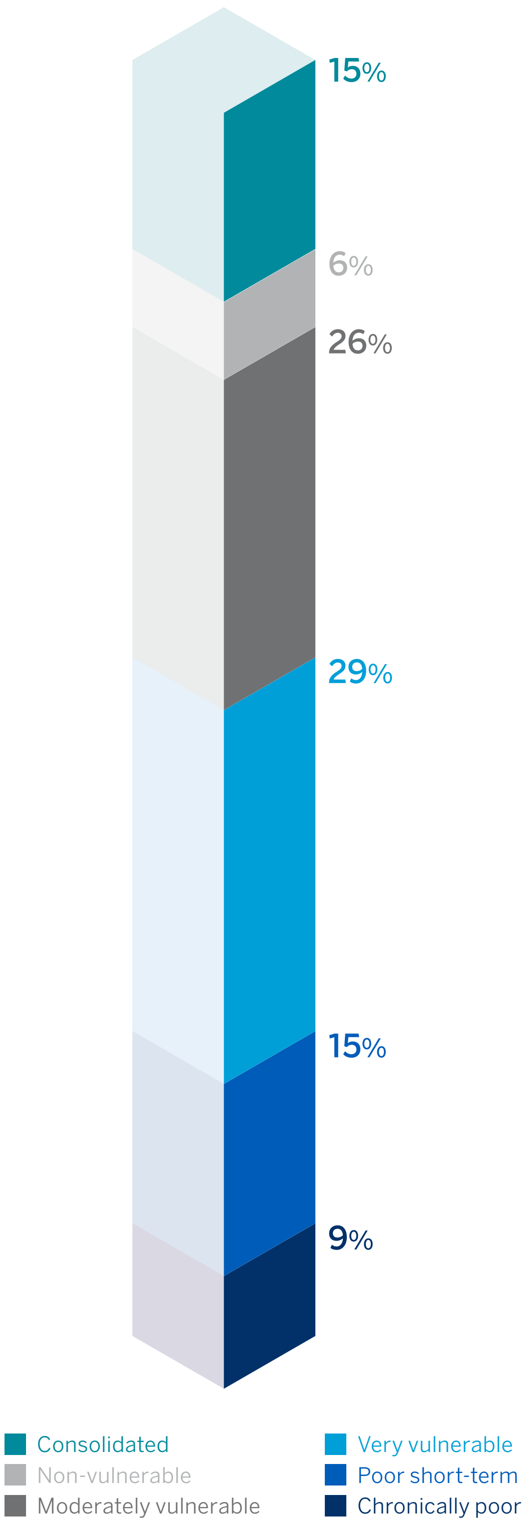
In urban areas, on average, there is greater vulnerability. The percentage of chronically poor clients is very high in this environment as well.

Whether the environment is rural or urban, women have fewer assets than men. This is an indicator not only of their greater current vulnerability, but also the greater difficulty they have in maintaining constant growth. That is why, as we will explain below, we have paid particular attention to financing women's businesses.

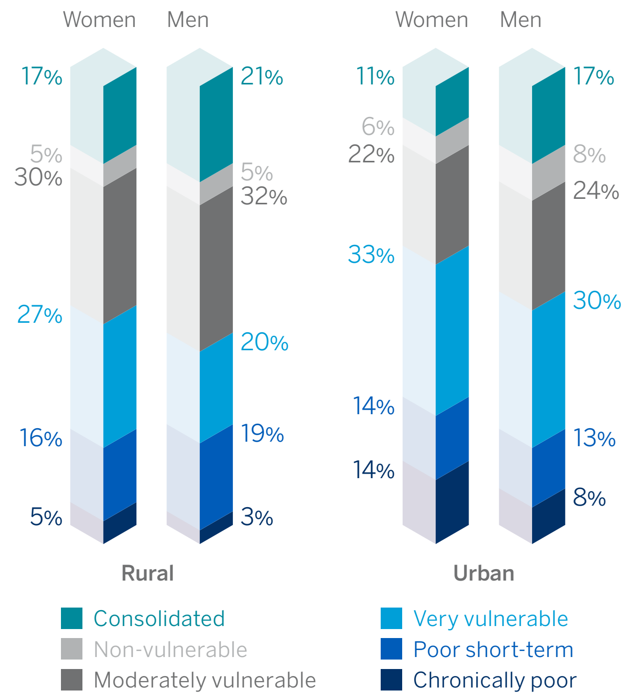
Conceptualizing the different patterns of vulnerability and the variations in how microenterprises evolve enables us to understand our clients more fully and, above all, to finetune our value offering. Thus, we can adapt our loans to their financial needs and capacities (amounts, interest payments, timings, etc) and help them to make the most of business opportunities that present themselves in their surroundings.

(9) Total clients at 31.12.2019. Note: Information for Bancamía, Financiera Confianza and Banco Adopem.
(10) Total clients at 31.12.2019. Note: Information for Bancamía, Financiera Confianza and Banco Adopem.

9 **EXTENDED VULNERABILITY**
Total credit clients



10 **EXTENDED VULNERABILITY BY GENDER & SURROUNDINGS**
Total credit clients



Greater understanding of patterns of vulnerability helps us to better adapt our value offering.

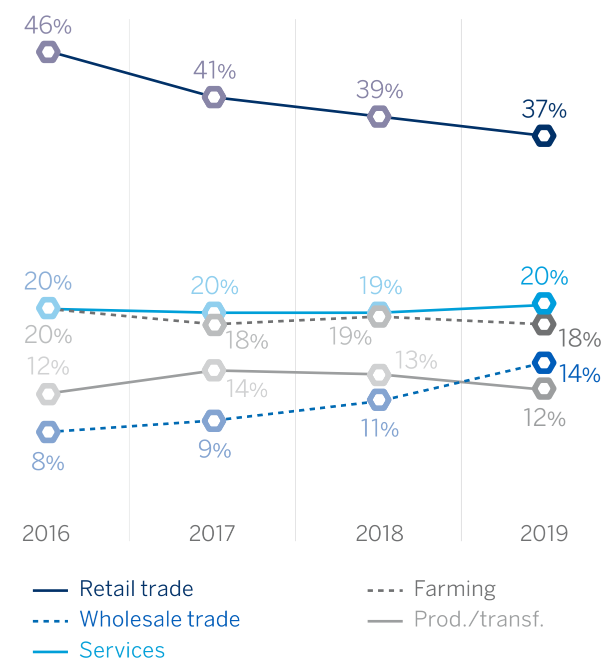
Committed to the most vulnerable

Business profiles

In general, trade continues to be the predominant sector for the clients we serve (52% of the total). Even in rural environments trade accounts for 43% of our client portfolio. Given that they are operating with low costs and lower asset volumes, vulnerable entrepreneurs prefer to carry out their activities in flexible areas in which it is relatively easy to switch business segment.

Entrepreneurs in rural surroundings tend to be stockbreeders or have agricultural smallholdings. It is a challenge for them to get liquidity and profitability from assets (annual net income/assets). On average, their profitability works out at 33%, compared to other sectors such as production/transformation or services that convert 35% and 39% of their sales into net income, respectively. The difficulties of the sector and non-recurring incomes result in a lower gearing ratio. On the other hand, they need high levels of productive assets, particularly those working in the farming sector.

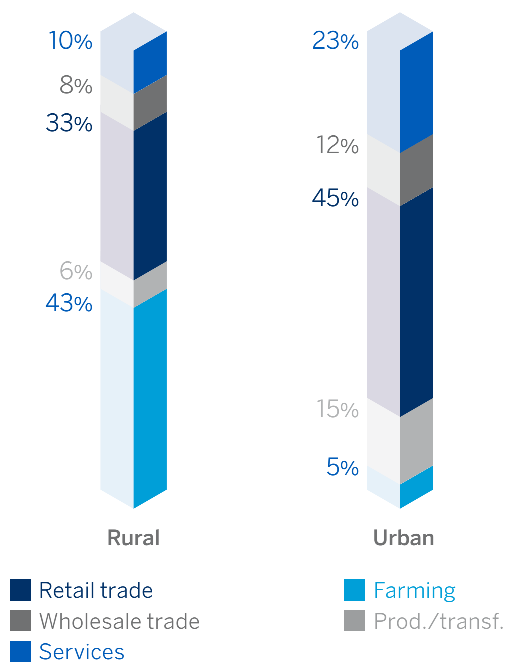
11 **ACTIVITY SECTOR**
New clients by year of outset (%)



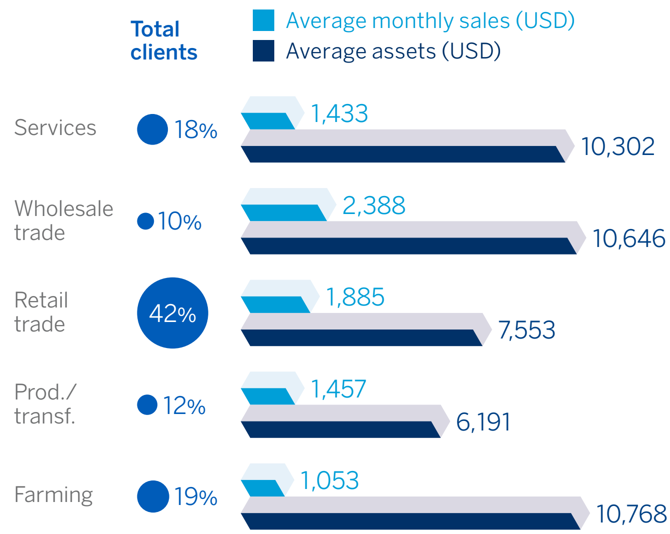
Most of our clients work in small retail trading activities. In rural areas they are also employed in farming and in breeding small animals.

(11) New clients by year of outset (%).
(12) Total clients at 31.12.2019.
(13) Data on average monthly sales and average assets in each sector, segmented by clients below the poverty line (PL: extremely poor and poor) and clients above the PL (vulnerable and others).
(14) Ratios of average costs over sales (o/ sales) in each sector. Net income is taken after payment of the financial installment.
(15) Data on these clients' average assets, liabilities, equity, and ratios, for each sector. Ratios (equity/assets, liabilities/assets) are calculated using each client's average ratio. The loan granted by the institution is not included in the liability figure.

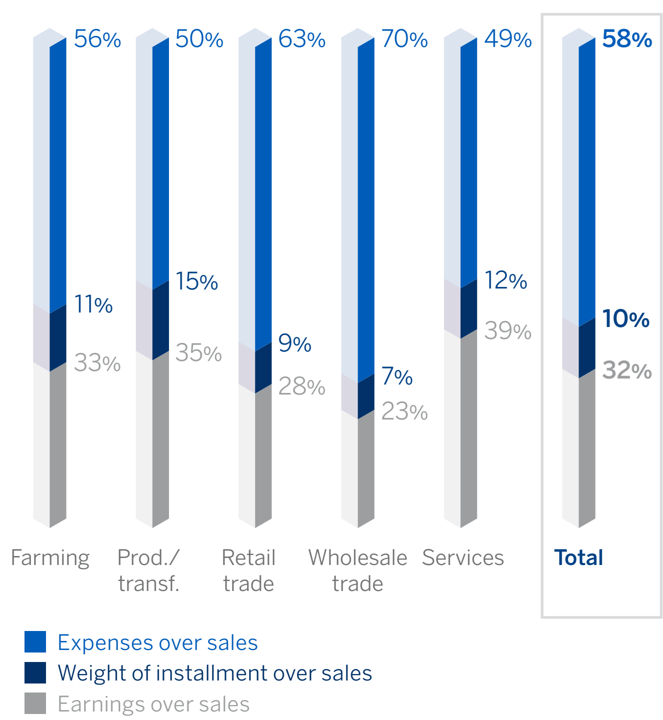
12 ACTIVITY SECTOR BY ENVIRONMENT
Total credit clients (%)



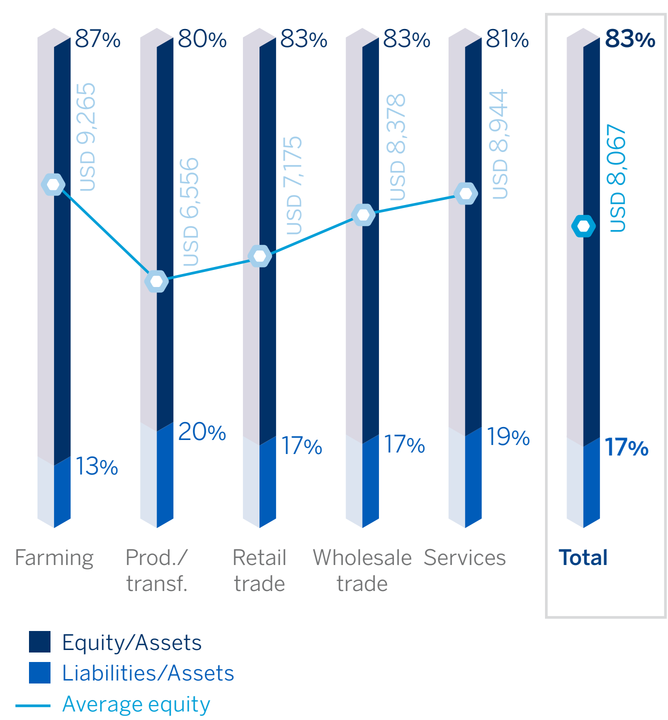
13 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients



14 P&L - MARGINS OVER SALES
Total credit clients



15 BALANCE STRUCTURE - LEVERAGING
Total credit clients



Committed to the most vulnerable

Women, catalysts for development

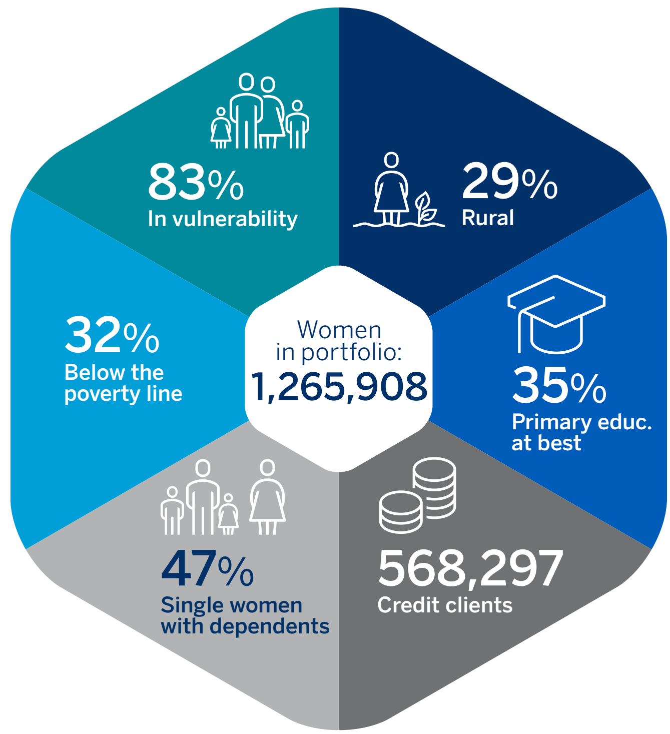
Women, who account for 57% of our entrepreneurs and 60% of those taking out loans, face economic gaps and higher rates of poverty that limit their performance compared to men, with only 72% of their assets. Their businesses on average generate lower incomes, so their economic vulnerability is higher. In addition, we note that the size of their families has a different impact on their business performance.

Over half of all women entrepreneurs work in retail trade, 47% are the heads of single parent households with dependents for whom they are responsible, and 35% have only primary education at best.

Despite this starting point, women's surpluses, sales, and assets grow more quickly. In their second year with us, 37% of those who were poor at the outset, have escaped poverty. Indeed, eight of every 10 clients overcoming poverty between 2015 and 2019 were women.

Women in vulnerability endeavor to maintain a relatively steady income, whatever their age or family circumstances.

OVERVIEW OF OUR WOMEN



(16) New clients during the year (no previous loans). ‘Vulnerability’ is the percentage of clients with incomes below the country's official poverty line multiplied by three. Households with a single member are classified as \`single-person´, those with two or three people as \`medium-size´ and those with more than three people are classified as \`large household´.

(17) Poor: Entrepreneurs with income under the poverty line; Vulnerable: entrepreneurs whose income is less than three times the poverty line.

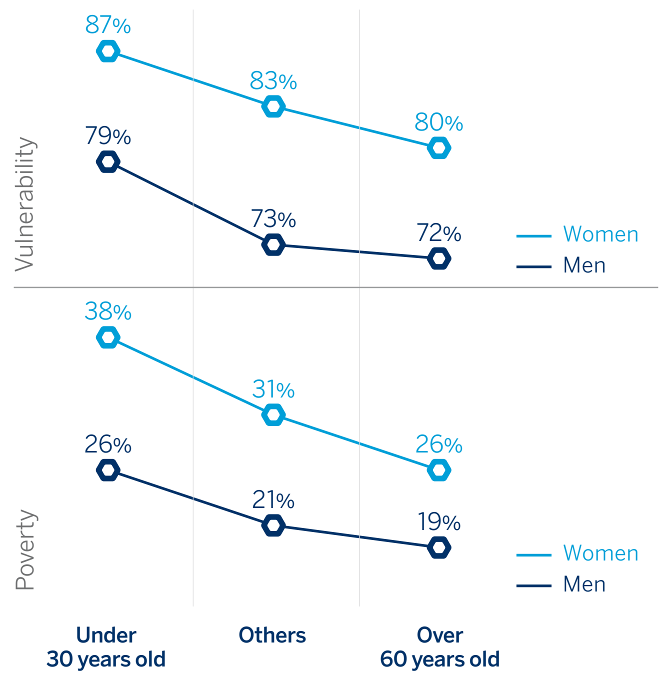
16 SEGMENTS OF MOST REPRESENTATIVE CLIENTS
New credit clients

	Vulnerability	Primary education at best	Household size: Single-person	Household size: Medium-size	Household size: Large household
Urban women under 30 years old	92%	17%	11%	51%	38%
Urban women between 30-60 years old	89%	25%	8%	49%	43%
Urban men between 30-60 years old	77%	24%	16%	49%	35%

% portfolio:

Urban women under 30 years old: **16**%
Urban women between 30-60 years old: **25**%
Urban men between 30-60 years old: **14**%
Rest: **45**%

17 ECONOMIC VULNERABILITY & STAGES IN THE LIFE CYCLE
New credit clients



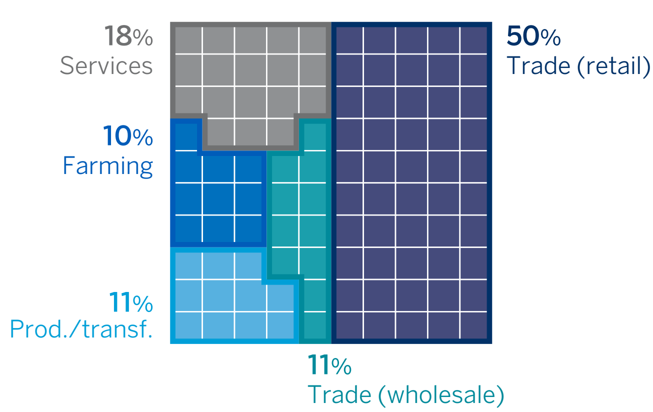
FINANCIAL GAPS
New credit clients

81% Monthly sales

83% Monthly net incomes

72% Assets

SECTORS



Committed to the most vulnerable

The rural environment

The rural population accounts for 18% of the whole in Latin America and the Caribbean, but its contribution to poverty is 29% and it is home to 41%[12] of extreme poverty. In other words, the pockets of poverty in each country are mainly to be found in rural areas, where access to infrastructure and basic services is limited. In 2019, 33% of new clients served by BBVAMF Group institutions lived in rural areas.

Entrepreneurship in rural areas looks different from how it does in towns and its progress and growth have other features. Although there are other issues that condition its performance, those that need to be borne in mind with a view to better financial inclusion are:[13]

- **Distances and fewer/worse infrastructure** (roads, connectivity, technology, markets, etc).
- **Low population density.**
- **Less investment in human capital.**

GENDER COMPARISON IN THE RURAL ENVIRONMENT
Total clients (%)

29%	rural	44%
79%	in vulnerability	74%
24%	under the poverty line	22%
46%	primary educ. at best	51%
32%	work in farming	52%

In addition, 29% of the women we serve live in the countryside.[14] They are more vulnerable than men in the same surroundings and have low mobility due to the high cost of travel, low employment rates (only 45% of women in the countryside have a job in the formal economy), and limited connectivity (only one in five women uses internet).

In rural areas gender roles, too, are much more restrictive: women have less access to ownership of their land, they often work less productive holdings and get lower prices for their harvests. Frequently they are not paid at all for the work they do in family smallholdings, they spend much more time than urban women on household tasks and, if they have a job, it is generally in the informal economy and with little or no social cover.

Investing in rural women is essential to guarantee food security and environmental sustainability.

Our value offering has several specialist products that meet the needs of rural women working in farming roles. One of these is *Agromujer,* in the Dominican Republic, a loan that does not require the borrower to own the land and which adjusts its payment dates to the productive cycles of the activity in question.

Colombia, meanwhile, has MEbA, a product for adapting to climate change and for the mitigation of associated risks, which offers training and technical assistance on a model farm (for more details see the Environmental Sustainability chapter).

12. ECLAC, 2018.
13. https://repositorio.cepal.org/bitstream/handle/11362/44371/4/S1801207_es.pdf
14. 25% of women in the world live in the countryside, fewer than the 29% of women in rural surroundings served by the Foundation.

Supporting the displaced population and refugees

The Foundation is well aware of the extraordinary difficulties facing refugees and those who have been displaced from their homes in several countries across our footprint, so we have created specific initiatives that foster their financial inclusion and seek to impact positively on their social and economic development.

Most of these programs are running in Colombia, through the Productive Enterprises for Peace (Empropaz) initiative. This provides entrepreneurs in vulnerability with support through micro-savings, microloans and financial education, staying by their side to strengthen their microenterprises.

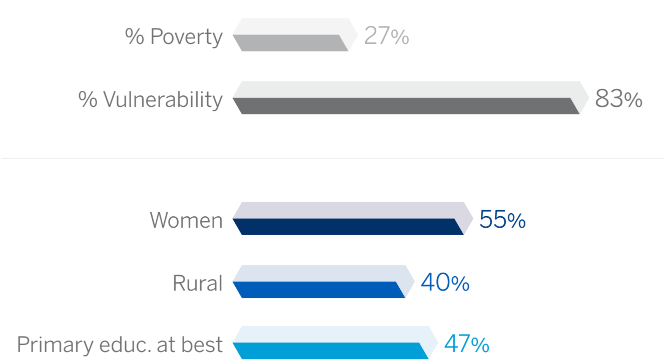
The client profile is particularly vulnerable. To a large extent they are rural women who are going through post-conflict processes, with low levels of formal education and high rates of poverty and vulnerability.

27,281 displaced persons and refugees served in 2019

USD **40,021,494** disbursed

With around 30,000 people having received integrated financial services (loans, savings products, financial education and financial advice) through Empropaz, the project has achieved its targets and is turning out to be a success.

18 **THE PROFILE OF DISPLACED PERSONS & REFUGEES**
Credit clients in Colombia



(18) Clients with disbursements in 2019.

Generating income: a tangible impact

In line with trends from previous years, in 2019 we continued to note that our entrepreneurs' businesses grew at a sustained rate provided that they had access to financing and financial services, we saw that their monthly sales improved (annual growth of 17%) and they succeeded in accumulating assets (annual growth of 24%).

Although there are numerous differences between the different sectors and geographical zones, the improvements in microenterprises have passed through into higher standards of living in households over time: after two years, the poverty segment shrank by 34%.

Therefore, of the 380,000 BBVAMF Group clients who have renewed a loan in 2019, more than half have increased their income relative to the poverty line for the fourth year in a row. As was the case the year before, a quarter of them were clients who, at the beginning of the year were in poverty or extreme poverty.

The level of households' vulnerability and the growth of their businesses are closely correlated, both with their level of sales and incomes, and with the ownership of assets and the ability to mobilize these to overcome adverse situations or to improve their standard of living.

Integrated financial inclusion promotes access to capital to invest directly in businesses (access to lending). It also reduces uncertainty and allows people to take more risky, but more profitable investment decisions (with the security of having insurance cover), creating a savings buffer that can be used if needed or to better plan spending, without having to reduce consumption or sell productive assets. (For a more in-depth explanation, see the Financial Health chapter).

Therefore, supporting clients to achieve sustained growth over time enables them to maintain more stable levels of consumption and to invest in the welfare of their families (upgrade their housing, access to health insurance, better education for their children, etc).

The diagram above is a simplification of the process that lifts clients' businesses from very low and volatile net incomes and assets up to higher, stable levels over time, enabling households to escape vulnerability.

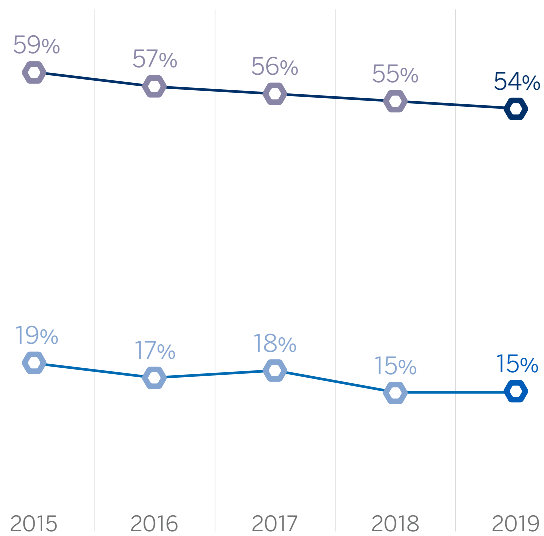
Of course, this is a generalization. As such we should bear in mind that every geographical area has specific idiosyncrasies and that, even in the same region, access to opportunities is not uniform for everyone. That is why we need to profile our clients and contextualize them in the surroundings in which they operate (region, area, etc).

Full financial inclusion makes it possible to invest, reduce uncertainty, take decisions that are higher risk and more profitable.

15. BBVAMF Group, based on the framework for policies to overcome poverty (Köbrich, Villanueva & Dirven). https://repositorio.cepal.org/bitstream/handle/11362/4533/1/S04118_es.pdf

(19) Clients renewing their loan each year.

19 **CLIENT PERFORMANCE**
Clients served during the year, at each measurement date



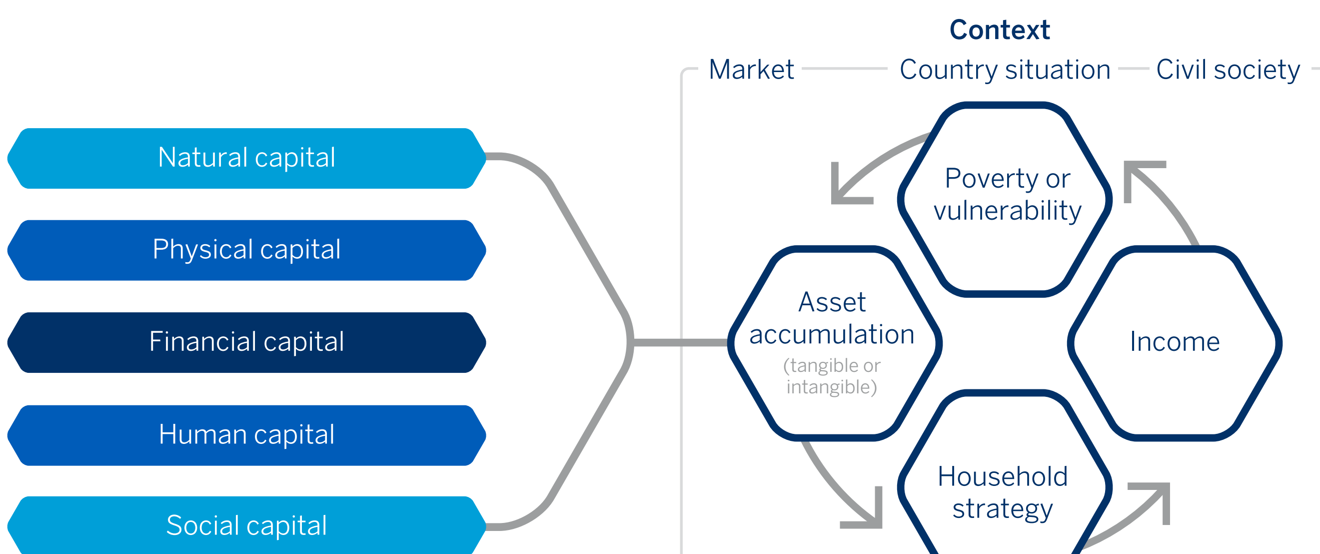
— Clients increasing their relative income
— Clients overcoming poverty

ENTREPRENEURS' INCOMES - A SNAPSHOT
Results of the 2018 financial health survey

50%
say they do not have stable monthly incomes

54%
do not receive an income every day from their business

OVERCOMING POVERTY & VULNERABILITY[15]



By investing in small businesses, we support vulnerable people as they accumulate assets over time

Generating income: a tangible impact

The growth of businesses

Sales have grown at a much faster rate than price increases (17% a year), even more than the various sectors have, at their national levels. This is partly due to the size of the businesses and, above all, to the continued hard work of entrepreneurs who have reinvested in productive assets. The growth of net incomes (17%) is particularly important, since this is what finally reaches families, enabling our clients to better their situation. Growth rates in the trade and production/transformation sectors were higher, since they account for a higher proportion of poor clients. The farm sector posted lower growth rates because it sets out with higher levels of net income and assets, so that every dollar reinvested in farming assets has a marginally lower impact.

On average, clients' income performance showed positive net growth over the duration of their relationship with our institutions. Indeed, entrepreneurs who renewed a loan in 2019 had better-than-average results.

Microenterprises are small businesses that come into being from the need to survive and generate short-term income. Their development is directly related to family structures and the needs and expenditure of the household, so there are differences between businesses led by men and those run by women.

There are gaps between the sales, net incomes and, above all, assets controlled by women, which are 12% lower than those of men. Female entrepreneurs are more highly represented in sectors requiring lower investments, such as services and retail trade, and less so in sectors requiring higher assets (such as farming).

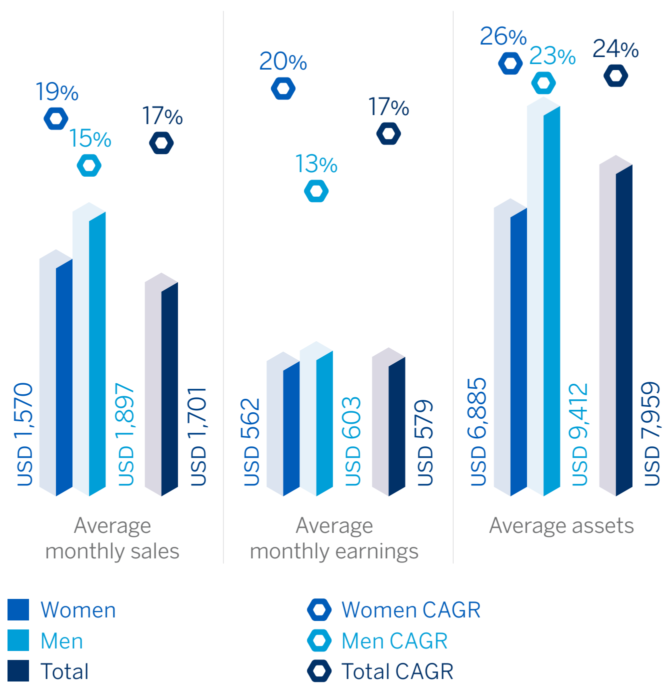
In enterprises led by women, the expansion rates of their financial magnitudes are a little higher, although not enough to close the gap with men. Turning to net incomes, women's businesses post high growth rates (20% compared to 13% in men's business) with an absolute value that is only USD 41 less.

Generating income to overcome poverty

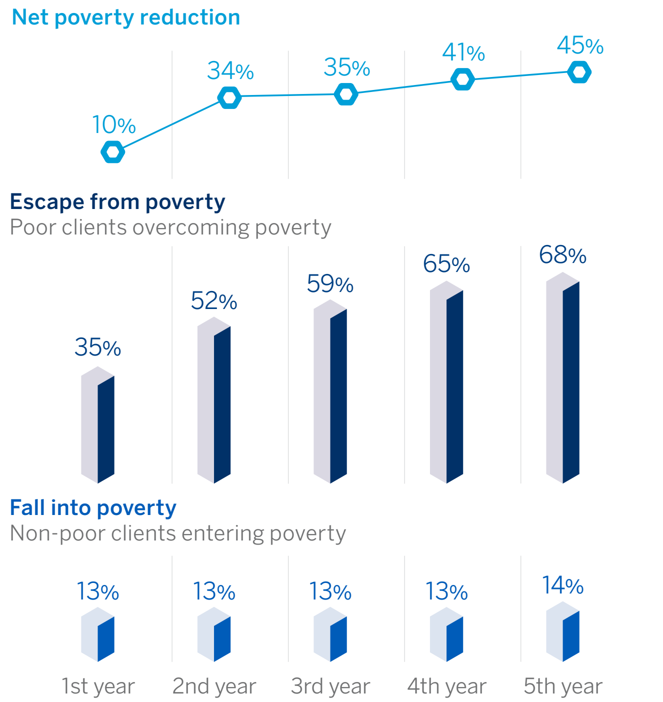
Of entrepreneurs who improve their income, many succeed in leaving the poverty line behind. In fact, of the entrepreneurs who were poor at the outset of their relationship with us, 52% overcome poverty in their second year with the institution, although there are others who are pulled down (13%, on average). Entry into poverty is stable over time, unlike escape. The net reduction of the segment in poverty is 34% after two years. The numbers demonstrate that long-term relationships promote a positive net escape from poverty.

Entrepreneurs' performance is not linear, which means that they swerve in and out of the poverty category on several occasions over time (volatility). When we analyze clients with at least five disbursed loans (since 2011), we can see how both clients who were poor at the outset and those who were not can suffer these swings in their incomes. This volatility is more acute when the clients we serve are more economically vulnerable: 31% of clients who were poor at the outset cross the poverty line twice or more, compared to 21% of the non-poor.

(20) GROWTH IN FINANCIAL VOLUMES, BY GENDER
Compound annual growth rates (CAGR)



(21) VARIATION IN POVERTY SEGMENT



(20) Data on clients current at some point over the year and who have rolled over a product in the last 12 months with the institution (hereinafter "renewing clients"). The compound annual growth rate (CAGR) for cohorts (entry year) between 2015 and 2019 was used for the calculation, taking the weighted average of these rates for each gender.

(21) Renewed clients shown. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.
• Escape from poverty: Clients in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.
• Entry into poverty: Clients not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.
• Net reduction: Escape from poverty minus entry into poverty.

Generating income: a tangible impact

We have ratified once again the importance of context in the entrepreneur's development. The proportion of entrepreneurs escaping poverty in rural settings is greater than in urban ones (48%, against 45%), but so is volatility, a reflection of the difficulties facing these clients, most of them farmers. Among the non-poor, the surroundings are less important. Those in urban areas experience slightly higher volatility.

This conclusion is validated by a multivariate study carried out in 2018. It observed that the likelihood of escaping poverty is greater in rural settings than in urban ones, whatever the income level at the outset. This pattern is partly explained by a lower cost of living, that generates higher surpluses, as well as by lower cost of living, that means surpluses can be higher, as well as less competition in the activity, which may provide greater stability for productive activities. After a period of four years, 68% have escaped poverty.[16] Specifically, rural clients in the retail trade and services sectors and, to a lesser degree, in farming, perform better. However, in the urban environment the opposite applies. This may be due to greater competition, which leads to tighter margins and, in the event of any mishap, their net incomes can be more affected.

Nevertheless, the farming sector stands out as the one with the highest rates of entry into, but also escape from, poverty. Because of its intrinsic characteristics, revenues are more seasonal (volatility) and there are exogenous risks triggered by the climate.

Despite this volatility, we see two positive aspects: firstly, only a small percentage of clients who were poor at the outset remain so over time (16%), and secondly, most of those who were non-poor at the outset manage to stay above the poverty line (68%).

The higher a client's income, the greater their capacity to accumulate assets and invest in their business and in financial products, thus reducing their vulnerability to shocks.

PRODUCTIVE FINANCE

Entrepreneurs in vulnerability have **low, irregular incomes that are unpredictable over time.**

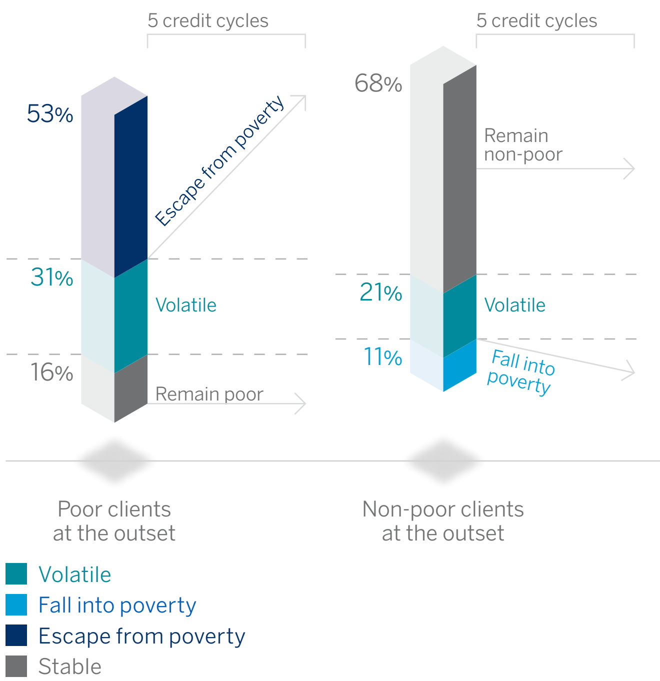
Instead of aiming for higher profitability over the long term for their businesses, they prioritize immediate liquidity in order to pay their day-to-day expenses and contingent spending.

Access to the right financial services and products enables them not only to increase their sales, but also to accumulate assets (machinery, equipment, plots of land, etc), that form the basis for maintaining a stable income flow over time.

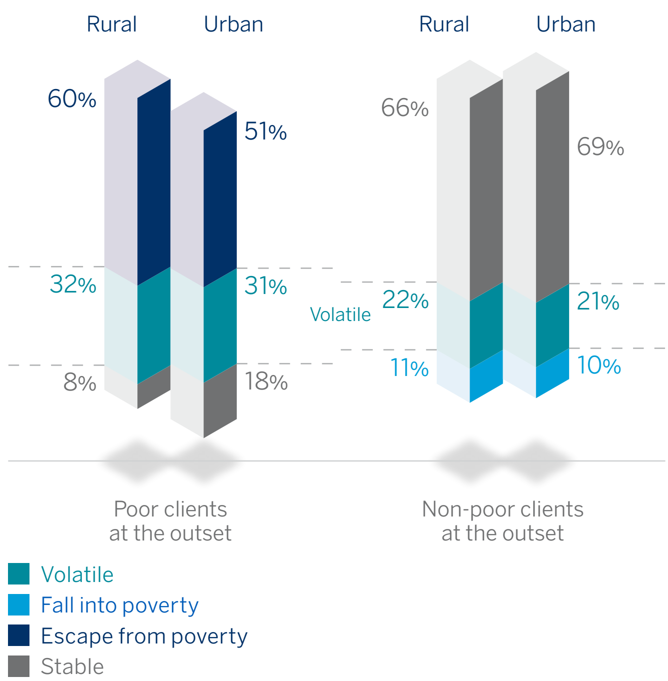
Investment in productive assets

16. 2018 Social Performance Report, BBVAMF Group.

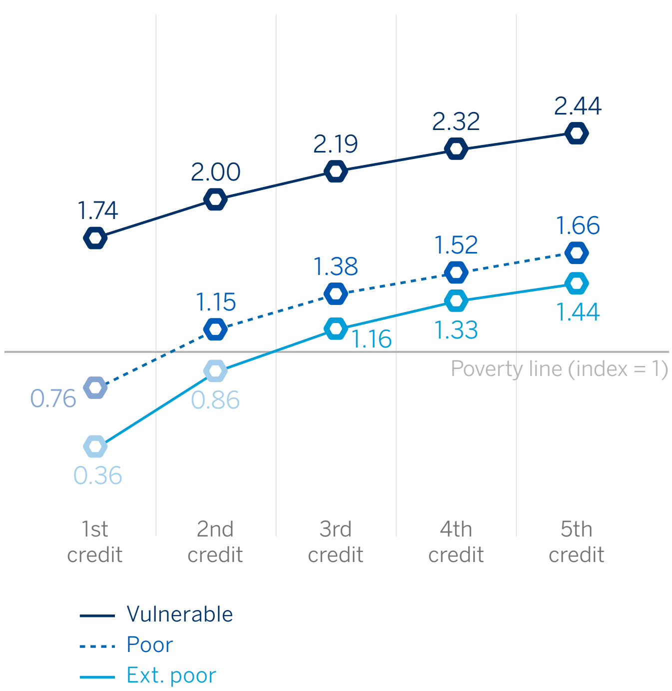
22 INCOME VOLATILITY
Clients with 5 credits,
classified by nº times they fall below/overcome PL



23 INCOME VOLATILITY – RURAL/URBAN
Clients with 5 credits,
classified by nº times they fall below/overcome PL



24 GROWTH IN INCOME
Income of segment over poverty line



(22) (23) Sample of clients served between 2011 and 12.31.2019 who have had at least five disbursements. The number of times a client crosses the PL is analyzed.
Volatile: defined as clients whose incomes fluctuate across the PL more than once.
Escapes poverty: Client poor at the outset whose income surpasses the PL (and is not reported as falling back).
Enters poverty: Non-poor client at the outset whose income falls below the PL (and is not reported as recovering).
Stable: Clients who remain poor (or non-poor) throughout the five disbursement periods.
(24) In the case of clients served during 2019 with individual loans —classified by their situation at the outset with their first loan— the per capita surplus in each credit cycle is shown, relative to each country's official poverty line (in the year of the disbursement). Relative income has the value of 1 when it is the same as the poverty line.

Generating income: a tangible impact

Investment in productive assets to consolidate the future

We have seen that two important factors for client growth are their asset levels and net incomes at the outset of their businesses. These factors represent the income potential of a household, that are conditioned by the use that is made of them (household strategy) and the opportunities provided by the surroundings (political stability, market access, education, infrastructure, etc).

Therefore, the level of household vulnerability and their overcoming it are closely linked to the ownership of assets and the ability to mobilize them to improve their standard of living or overcome adverse situations.

Furthermore, the relationship between assets and surpluses is reciprocal: higher income levels help to accumulate assets and vice versa, high asset levels makes it possible to generate higher incomes.

Vulnerable households often find it difficult to assume these high expenses at the outset, so they remain stuck in a subsistence economy. Their investment strategies have short-term returns and lower profitability, since many investments that would be sound over a long-term perspective require higher initial outlays. For this reason, access to credit can enable them to break out of this poverty trap since when they acquire a minimum level of assets, businesses can begin to grow with returns that are sufficient for them to enter *the virtuous accumulation cycle.*

At Group level, we have also demonstrated that there is a general positive trend of asset accumulation over time: it is not only clients with high levels of assets who manage to retain their wealth but, on balance, those who started with very low levels managed to multiply by more than five their ownership of productive assets, which rose from around USD 800 to USD 4,600.

Among vulnerable clients we note, too, how investment in productive assets is a key factor in reducing the volatility of their incomes and in stabilizing the level of their sales over time.

We have also confirmed the importance of promoting the continued use of formal channels of financing, since clients do not achieve their desired progress with just one loan, but by making a sustained effort in the medium term. Thus, if we analyze clients who have had at least five loans, the proportion in chronic poverty plummets from 28% to 8%, whereas the segment of consolidated clients expands by 8 pp, reaffirming their progress in increasing both their income and their assets.

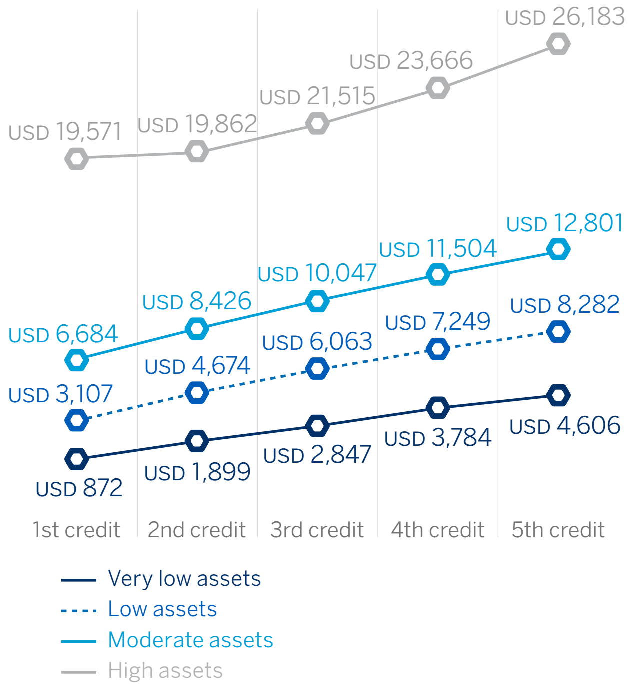
In performance terms this is reflected in the fact that 19% of the entrepreneurs who have taken out at least five loans with us (which implies a relationship of around five years) succeed in escaping vulnerability, that is, their incomes are more than three times the poverty line figure, and possibly do not lapse back into it. In fact, 13% not only succeed in getting beyond vulnerable, they also accumulate high levels of assets, consolidating their progress ("consolidation").

These are our successful entrepreneurs and we hope to be able to learn from them in the future through interviews and in-depth studies.

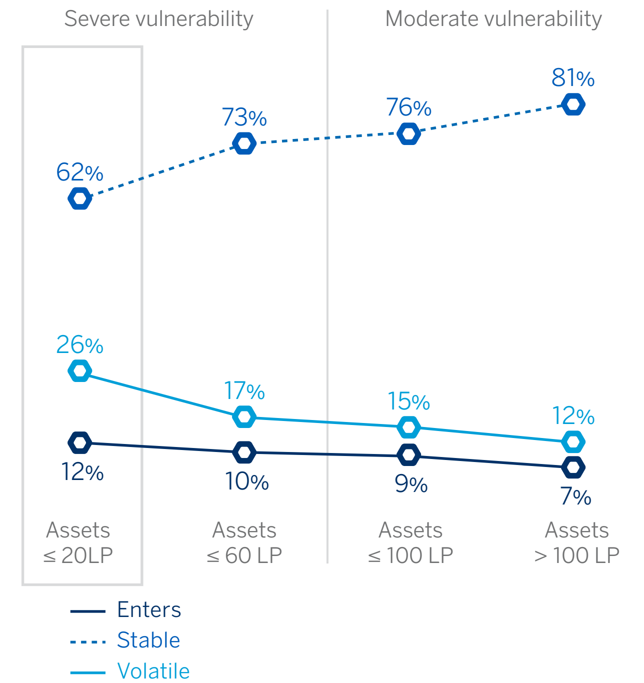
Access to credit can enable entrepreneurs to break out of the 'poverty trap' as it allows them to acquire a minimum level of assets so that businesses start to grow on a sustained and steady basis over time.

(25) Clients served since 2011. Data for Bancamía, Financiera Confianza & Banco Adopem.
Very low assets: assets lower than or equal to 20 times (x) the monthly poverty line (PL); Low: assets more than 20 x PL and lower than or equal to 60 PL; Moderate: assets more than 60 x PL but lower than or equal to 100 PL; High: assets higher than 100 x PL.
(26) Clients served since 2011, vulnerable at the outset with at least 5 disbursements. Data for Bancamía, Financiera Confianza & Banco Adopem.
(27) (28) Sample of clients served between 2011 and 31.12.2019 who have had at least 5 disbursements. Information available for Bancamía, Financiera Confianza, Banco Adopem.

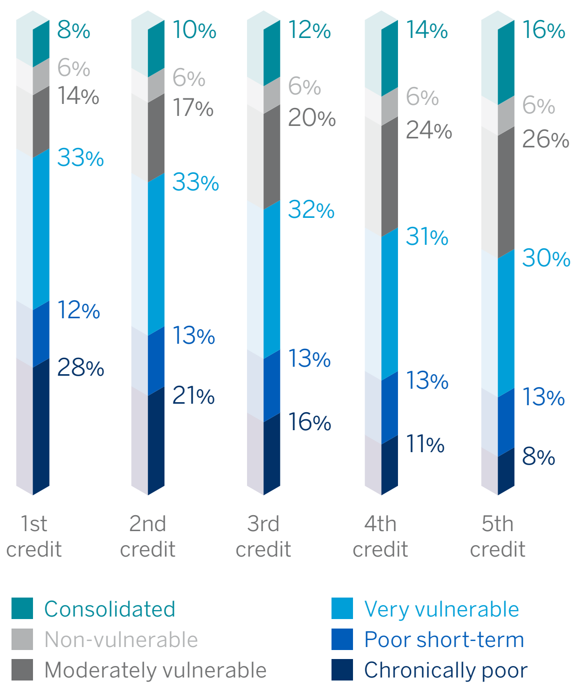
25 **ASSET GROWTH BY CYCLE**
Clients served since 2011



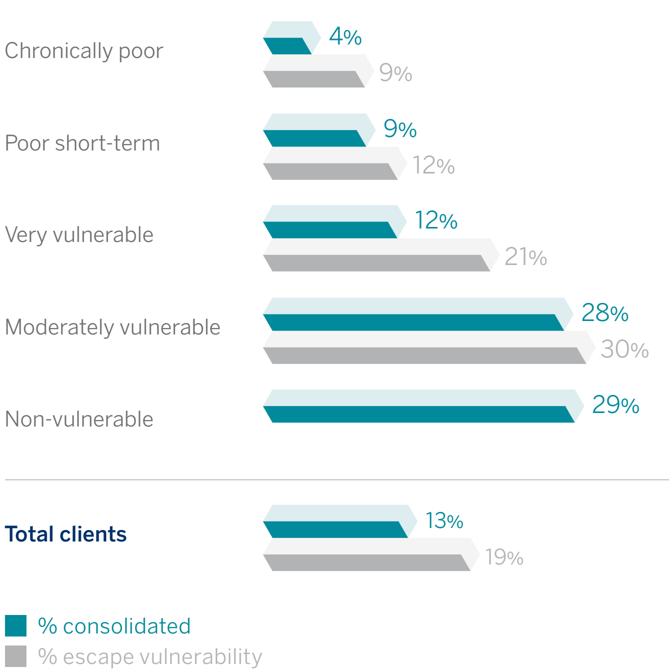
26 **VULNERABLE CLIENTS & INCOME VOLATILITY**
Clients with at least 5 disbursements who were vulnerable at the outset



27 **VULNERABILITY BY CREDIT CYCLE**
Clients with at least 5 credits



28 **ESCAPE FROM VULNERABILITY & CONSOLIDATION**
Clients with at least 5 credit cycles



Financial health: resource planning

Evidence suggests that the main impact of microfinance is that it helps raise resilience (CGAP 2019).[17] So, appropriate financial management of the household helps to smooth risks and enables wealth to be accumulated over time. The Foundation defines financial health as the ability to manage one's finances today (everyday income and expenses) and to plan for tomorrow, and we indicate which tools one must have to be able to do this.[18] This takes on particular relevance in vulnerable communities, since they are more likely to be affected or benefited by access to and appropriate use of financial products.

After analyzing clients' perception of financial health —initially with surveys on a small sample in Colombia and the Dominican Republic[19]—, in 2019 we extended the analysis to learn about the situation of the entire universe of the two million clients we serve. The purpose is to be able to anticipate action that could help bring about a step change in financial health.

71% have a moderate or high level of financial health. Based on our knowledge of the types of financial products they hold, we consider that they manage their resources over time and have a better capacity to deal with contingencies.

Financial health depends largely on two factors: income and financial literacy. The level of surplus conditions management, planning and saving. In particular, for those entrepreneurs in a tighter economic situation, financial management will be especially conditioned by consumption and their businesses' ability to generate income. Their potential for saving is smaller.[20]

We analyzed financial health along four dimensions:

FINANCIAL HEALTH DIMENSIONS

Available liquidity from managing the business	Payment of financial debts	How clients manage their income, expenses, and level of indebtedness to keep abreast of day-to-day outgoings.	How clients succeed in paying back their debts, assessing whether they are actually incurring more or less serious delays in paying off their installments.
Access to and use of financial products	Planning & saving	What their level or extent of financial inclusion is. The range of products, and how they are used, mainly in savings accounts, is measured.	The level of formal saving that the entrepreneur is capable of accumulating.[21] Our analysis looks at which clients have a certain accumulation of savings and how many of them have savings capacity.

17. Emerging evidence on financial inclusion. Focus note. July 2019. CGAP.
18. https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2017/03/FinHealthGlobal-FINAL.2017.04.11.pdf
19. Financial health survey. Innovations for Poverty Action, 2018 Social Development Report. These interviews followed the methodology for measuring financial health used by CFI and CSFI and reviewed by the Gates Foundation.
20. Therefore this particular analysis does not refer to general financial health, but endeavors to understand how to raise and make more robust the financial health of our vulnerable entrepreneurs.
21. No indicator currently exists to measure clients' financial planning capacity.
22. Global Findex, 2017. World Bank.

FINANCIAL HEALTH RESULTS*

Depending on their use of financial products to achieve financial security

- **Clients with better financial health** are those with a high attachment rate, who access products that meet different needs (credit, savings, insurance) and who use savings more proactively. In the case of credit, these are the clients who keep a wider margin for contingencies and whose payment installments have a moderate weight in their surplus; they suffer less financial stress and therefore are in better financial health. Being on time with their payments is a prerequisite for this classification.
- **Clients with low financial health** are generally clients who only have savings, with very low balances and who use their accounts only sporadically (they have a low transaction frequency). Those who are unable to meet their quota installments on their loans or who are seriously behind with those installments (the latter is true of 3% of clients) are also in this category.

18%

High
- More products taken out
- Good payment record
- Sensible management of liquidity

53%

Moderate
- Clients with more than one product
- Late loan repayments
- Some or no sight payments

29%

Low
- Savings clients with low balances
- Clients who have defaulted on their loans

Based on these dimensions, we have drawn up a financial health traffic light to show clients' current situation in terms of credit, savings and insurance, that allows us to track their progress over time.

Certain profiles present better financial health within the client portfolio as a whole. Young clients are more disposed to sign up for more products, since in this phase of their lives they tend to invest more than they save and to assume more risks in order to generate more opportunities (a higher proportion of young clients are late with their payments too).

Older clients appear to have a more conservative profile, since they accumulate more savings and a higher proportion pay their installments on time.

We should note that in Latin America only 13% of adults say that they save with financial institutions, although 38% declare that they have saved money in some way in the previous 12 months.[22]

* Covers clients with Bancamía, Banco Adopem & Financiera Confianza.

Financial health: resource planning

Entrepreneurs with loans

"Credit is perceived as a useful product and microfinance institutions as the best place to apply for it" (2018 IPA Surveys). In 2019, 43% of clients had a loan, but only 9% contracted this product alone. The remaining 34% also signed up for insurance or savings, thus creating closer attachment.

The work of the loan officer, supporting the entrepreneur and assessing the business, is critical in the decision-making process. Thus, the liquidity with which clients' businesses are managed is as important as the sum they borrow. The installment/sales ratio of clients who set out with us is 9%. This is especially important in the case of entrepreneurs with no credit histories whose sole collateral for their compliance is their commitment.

To understand the relationship between a more efficient management of indebtedness and to corroborate how our service adapts to each client's needs and capacities, we have analyzed entrepreneurs' financial management and how they manage liquidity. To do this we built an indicator of their capacity to pay (installment over surplus) based on their sector, their setting and their degree of economic vulnerability.

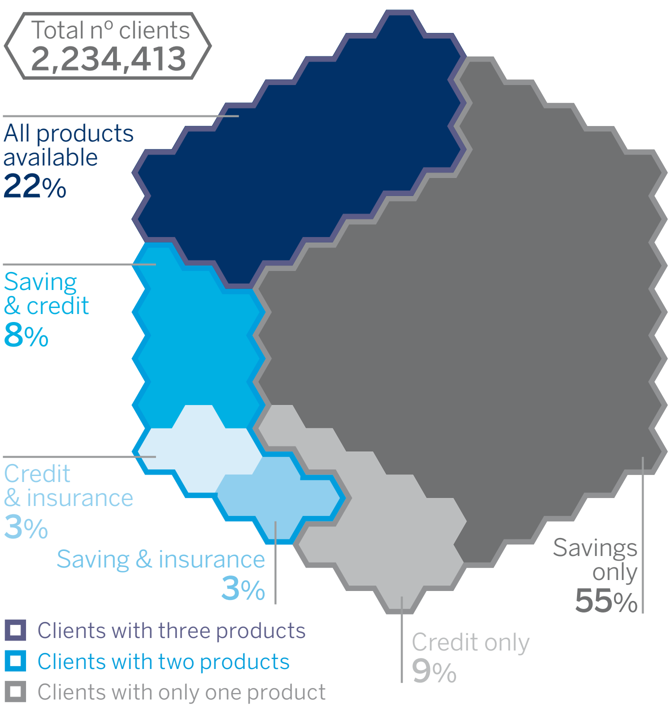
This index allows us to see whether the entrepreneur is stressing their surplus and requesting a high proportion of their available income, which has the result of tightening their margins. There is an obvious bias, in that the clients analyzed have made it through the risk policy stage, so this installment/surplus ratio is limited. In addition, those who have savings buffers tend to optimize their surplus and ask for higher installment payments.

Understanding the client, their business and their potential, are key components in granting them financing. The credit process not only generates investment capacity but also other less visible benefits: the client learns how to manage increasingly large sums and different kinds of financial products through the formal financial system. These loan grow from USD 772 to USD 1,694, equivalent to an annual rate of 17%. This also makes it possible for more experienced clients to stress their payment capacity more, accessing higher installment payments.

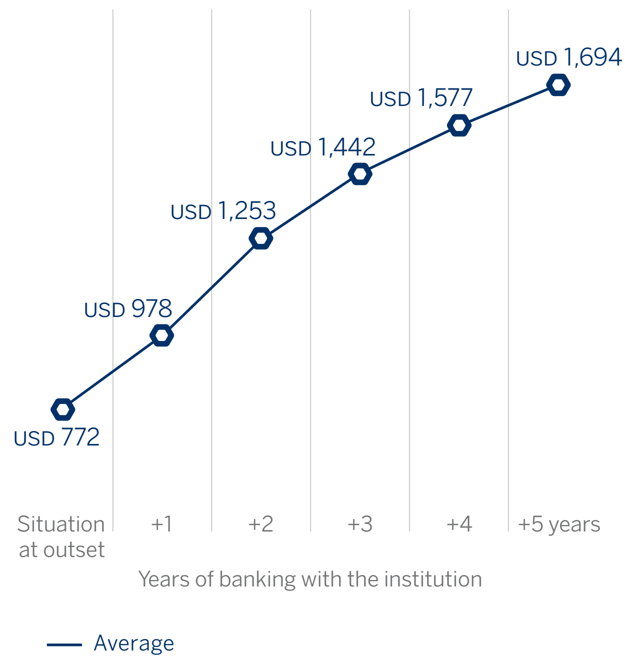
Nearly one in every four entrepreneurs we serve accesses credit, savings, and insurance products, making financial inclusion deeper.

(30) Clients in each cohort on date of each data collection. Value at the outset is the average initial value of the 2014-2019 cohorts, to which the average growth of the disbursement by the 2014-2019 cohorts (year of entry) is applied.
(31) New clients. Average disbursement, calculated as the average first disbursement for new clients each year. Weight of the installment calculated as each client's average ratio (loan installment payment over sales).

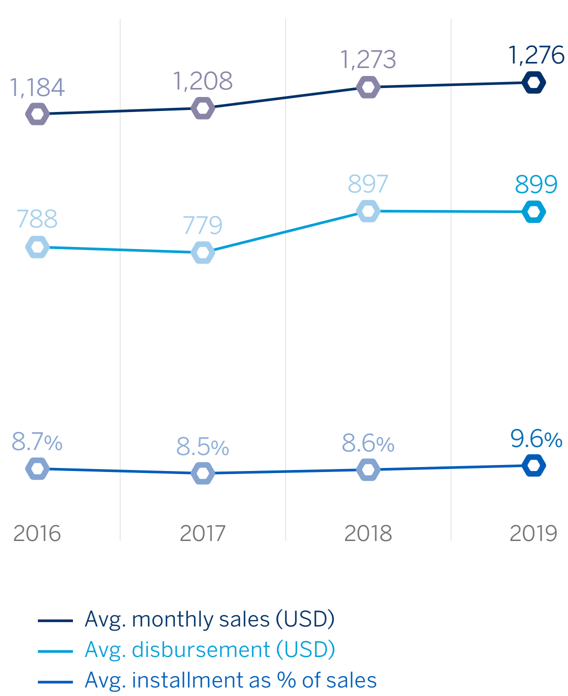
29 CLIENTS BY PRODUCT TYPE
Total current clients



30 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship



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



TRUST AND PLANNED FINANCIAL MANAGEMENT ARE BOTH PRESENT
2018 Financial health survey

97% **of clients** interviewed claim that they trust microfinance institutions the most as places to apply for a loan; they are followed by banks.

They know how much to borrow, and when

3 in every **4** say that they take prudent decisions about the loan amount and when to apply for one.

They have their finances under control

75% state that they plan their short-term payments, while a little over half say that they draw up an annual budget.

Financial health: resource planning

Entrepreneurs with insurance

Insurance policies for vulnerable entrepreneurs are specially tailored to our clients' needs, both in terms of the risks they cover and the price, purchase procedures and payouts on damages. They are an essential part of our value offering, since they help to strengthen resilience and reduce their vulnerability to the negative impacts of events that are beyond their control. Furthermore, insurance enables them to access medical and agricultural assistance anytime and anywhere.

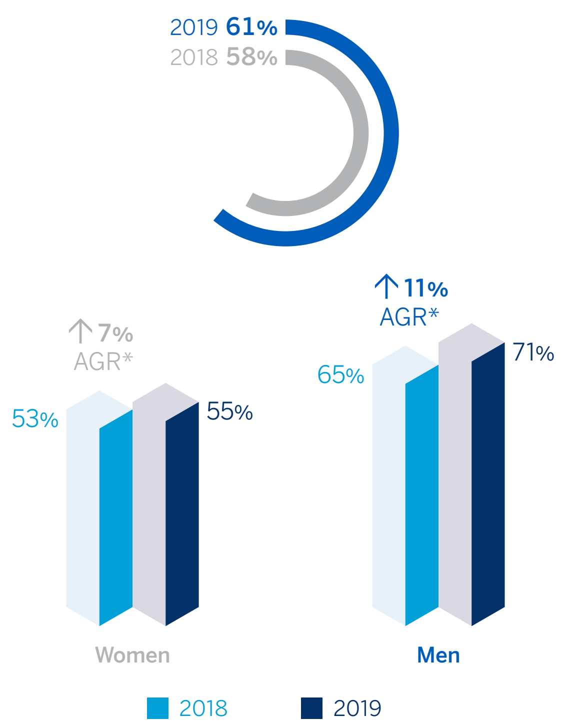
Progress has been made during 2019, especially in Bancamía (Colombia) with the creation of specific products to meet their needs. *Mi Inversión Protegida* [My Investment Protected] provides the most comprehensive cover on the market: it protects buildings, household goods and business contents, as well as damage to animals, small-scale crops and plots, all essential assets for our farming clients. This insurance is activated when there are fires, explosions, water damage and climate events such as hail, strong winds, floods, drought, and other natural phenomena such as earthquakes and volcanic eruptions. It also provides for quick payouts against a claim and makes it easier for the insured party to swiftly adapt after suffering damages by including a parameter that uses satellite images and advanced technology so that payouts can be made without the need for further procedures.

The number of clients who have taken out our insurance policies has risen by 3 percentage points[23] and demand has different profiles in each of the Foundation's locations.

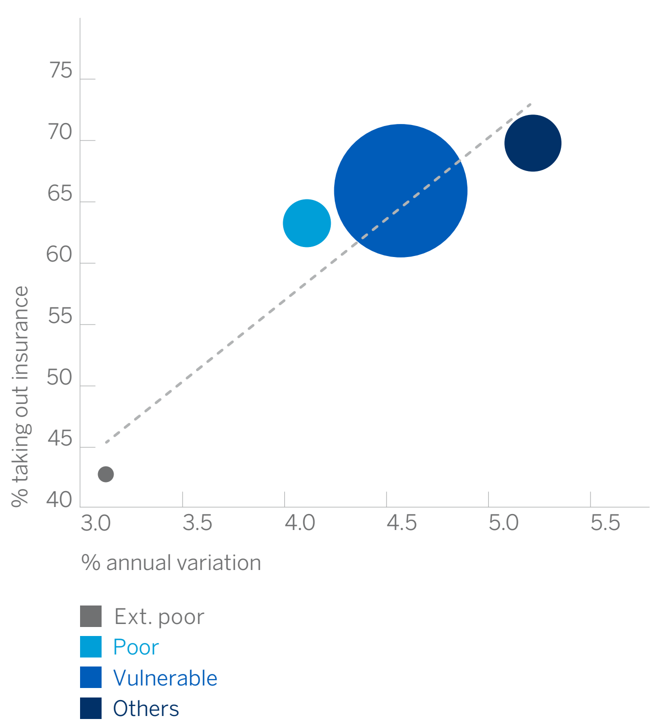
During 2019, the biggest growth in the uptake of voluntary insurance policies has been among men; the other fastest growing segment is those clients with the highest incomes or those who are not in vulnerability; here more than 70% have a voluntary insurance, amounting to 5% year-on-year growth.

The final point to highlight here concerns clients under 30 years old. This segment not only has increasing weight in the credit portfolio but also in voluntary insurance: more than half have taken out insurance, a 5 pp increase from the same period the previous year.

32 INSURANCE PRODUCTS TAKEN OUT, BY GENDER



33 GROWTH IN NUMBER OF INSURANCE PRODUCTS CLIENTS, BY VULNERABILITY



Our extensive distribution channels

According to the 2017 Global Findex survey for Latin America, the reasons for which clients are excluded from the financial system are: lack of funds, remoteness, and because they see it as expensive. To reduce the barriers facing entrepreneurs, help them generate stronger financial buffers and to better manage contingencies, a wide range of financial and non-financial tools are required, as well as (formal) multi-channels that are closer to them and ensure that these tools are distributed.

In terms of client service, we have a network of 3,494 advisors that provides personalized advice and explains our services and products to clients. An increasingly high proportion of our advisors have mobility tools such as tablets that enable them to access client information while they are in the field, avoiding delays and long journeys for our clients.

Clients' greatest difficulties come from managing unexpected events, but they are competent in daily household management and in short-term planning.

515 offices provide coverage to the most disadvantaged regions in each country. More than 533 banking agents[24] —service points that succeed in increasing our network's capillarity— are new channels that help to reduce clients' transaction costs.

Access to formal financial products is a first step that enables entrepreneurs to optimize the use of their resources and generate appropriate conditions to overcome future financial shocks. The great challenge in the microfinance sector consists in encouraging the use of these products, especially savings.

It is critical both for financing productive activities and for providing channels and products that allow entrepreneurs to manage their financial resources more efficiently.

Nº of offices
515

Nº of advisors
3,494

Service points
533

* AGR: Annual growth rate.

23. Credit clients with a voluntary insurance policy.
24. Natural or legal persons who act on behalf of the bank in commercial establishments such as grocery stores, general stores and pharmacies, mainly in neighborhoods on the edges of conurbations or in rural areas. They are a key channel for increasing the institution's capillarity and reaching vulnerable clients and those in remote areas who prefer to manage their finances through people they know.

(33) Growth of these. The size of the circle represents the nº of clients in each segment.

Financial health: resource planning

Entrepreneurs with savings

In Latin America, and especially in lower-income households, savings, if there are any, take the form of the purchase of durable goods or "cash under the mattress". Formal saving and the use of savings accounts are not viewed as so useful by clients (2018 IPA Survey). The preferred method of payment continues to be cash (an estimated 91% of commercial transactions in Latin America are paid for this way, and the figure is even higher among vulnerable people). The use of electronic money, transfers, etc, is not widespread. Therefore, to drive forward financial inclusion and poverty reduction, we need to work to demonstrate the advantages of formal over informal saving (safety, convenience, reliability, etc).

Domestic saving has significant repercussions for the welfare and equitable development of entrepreneurs. Households use saving to moderate consumption and deal with contingencies in their incomes. It helps them manage risk better, particularly when they face liquidity and/or credit issues.[25]

Of the entrepreneurs we serve across our footprint, nearly two million people have a savings account.

Over the course of 2019, great progress was made in encouraging saving among vulnerable entrepreneurs. Over 34,000 clients accessed specialist savings products that incentivize this habit in the short and long term (programmed saving). These entrepreneurs represent 9% of all the people with deposits and savings in the Group.

It has been demonstrated, therefore, that it is an attractive product for entrepreneurs although, once contracted, it is underused (low transaction frequency and low savings amounts compared to the estimated potential for accumulation). So, the more products are taken out, the more they are used.

The more products clients have, the greater their transaction frequency, or use, of these products.

Balances held by savings client remain low. For vulnerable entrepreneurs saving is a real challenge. It means sacrificing part of their current income to achieve a more certain future.

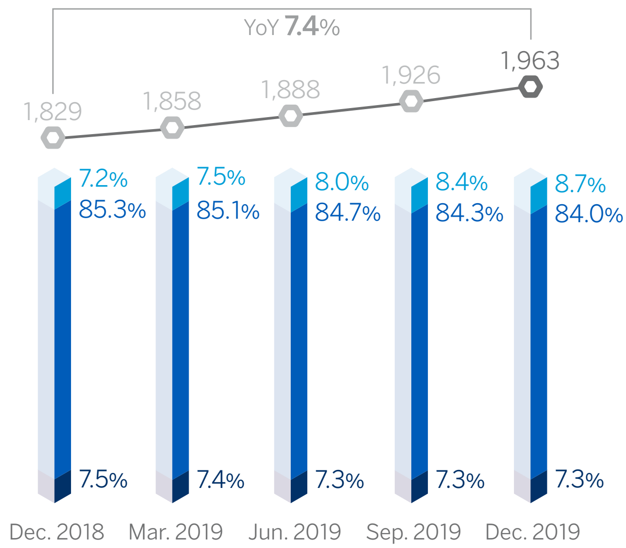
In BBVAMF Group institutions, savings products targeting entrepreneurs can be divided into three types:

- **Programmed saving** (9% of all savings clients). Clients commit to saving a certain amount on a regular basis. To motivate them, if they meet their savings calendar, we have built in incentives to the interest rate. We have classified this set of clients as saver-entrepreneurs.
- **Time deposits** (7% of the total). These are designed both for clients who want financing, and clients who want to invest more modest savings and who have already taken out an entrepreneurial loan with us. In most cases there are no minimum amounts, with all being able to take out these products. We should point to the fact that the portfolio of clients with deposits has grown by 7% in 2019.
- **Transactional accounts** (84% of the total). Accounts where credits are deposited, remittances received, and through which charges and payments are made.

25. *Saving for Development,* Eduardo Cavallo & Tomás Serebrisky, Inter-American Development Bank.

(34) Clients with savings products (savings and deposits accounts) on each data collection date.
(35) Clients with any kind of savings current at 12.31.2019 (excluding institutional clients and employees). Core clients - savings: Clients with a programmed savings product. Core clients - deposits: Clients with non-sight products (deposits) who have had a credit with the institution at some point. Transactional acct. holders: Clients with a current savings account. Non-core savings: all other clients.

(34) **SAVINGS CLIENTS, CHANGE**
Clients with any savings product on each data collection date



Total savings & deposit clients ('000s)
Saver entrepreneurs
With transactional savings account
Remaining savers

THE RESILIENCE OF ENTREPRENEURS
Results of the 2018 financial health survey

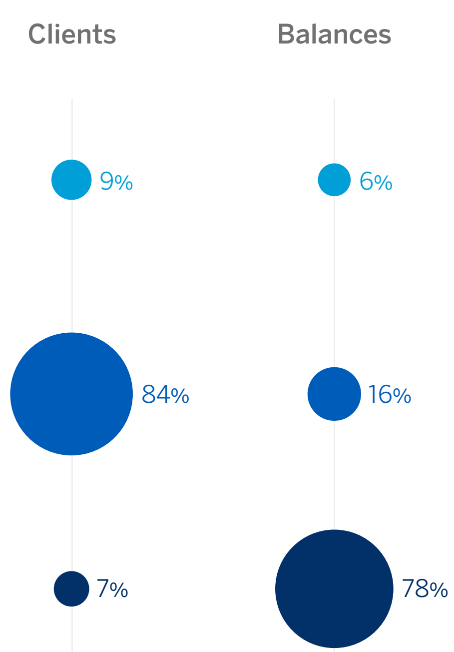
40% say they put part of their income away as savings for the future, but only 30% say they have done so in the last year

Saving remains a challenge

1.3 out of every **6**

resort to formal saving to meet contingency expenses

(35) **SAVINGS CLIENTS BY PRODUCTS**
Clients and balances by core/non-core segments (%)



Type of client	Goal
SAVER ENTREPRENEURS Clients with products targeting microentrepreneurs' savings or taken out by our credit clients	**What are the microentrepreneurs we serve with savings products like? How much do they save?**
TRANSACTIONAL ACCOUNTS Clients with a savings account where they deposit the loan, interest, etc. They may or may not have other products (whether assets or liabilities)	**Do they really use the transactional account?**
REMAINING SAVERS Other clients, source of financing	

Saver entrepreneurs | With transactional savings account | Remaining savers

Financial health: resource planning

When we observe entrepreneurs' behavior around savings, we note how the different stages of the life cycle influence their decisions:

- The youngest tend to save less and prefer more liquid products. Since it is an investment phase and expenses are high, people save less.
- Between 30-60 years old, savings increase and interest in deposits begins to grow. People's ability to sacrifice the present for the sake of a better future is greater.
- From 60 years old onwards the client profile is more conservative, and costs fall, so saving stabilizes and the percentage of clients with time products increases.

Saving enables entrepreneurs to invest in their own health, in their own education and in that of their children.[26] Formal saving provides security against theft, and also represents a way of building up self-control (less impulse buying).

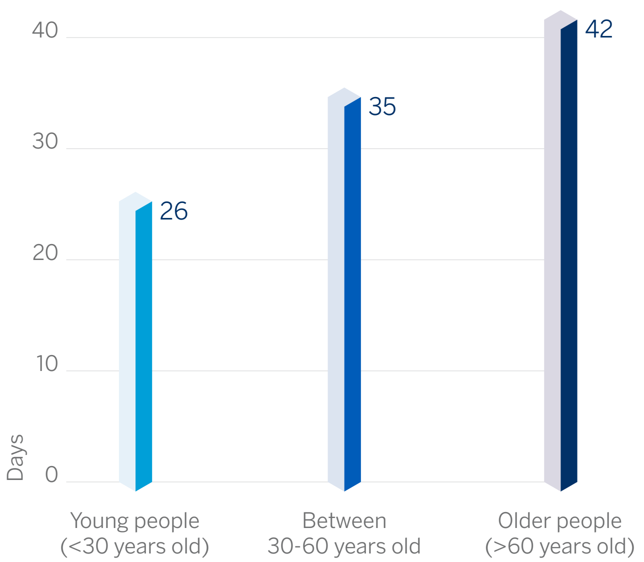
The digital channels we are setting up, together with banking correspondent contacts through all the BBVAMF Group institutions, can be used by entrepreneurs so that saving is convenient.

Saving styles vary depending on the stage of the life cycle, but always provide security and enable people to invest in themselves.

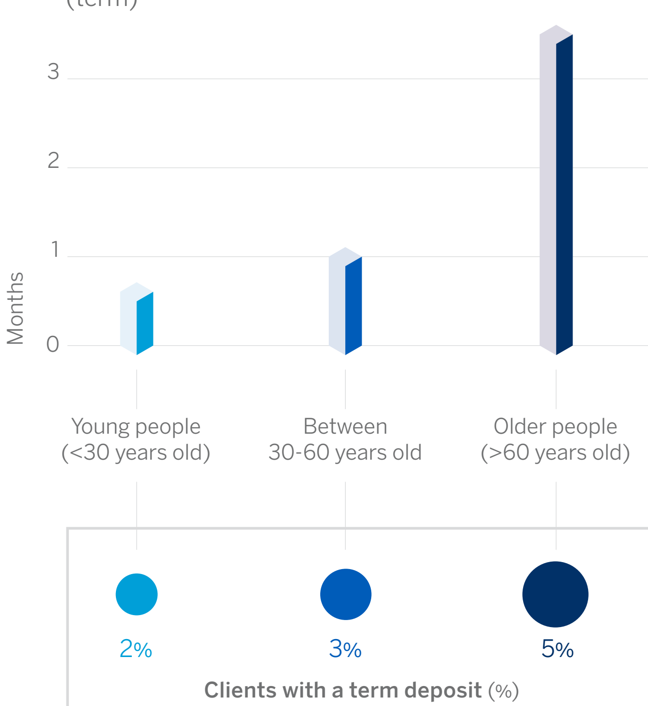
26. *Saving for Development*, Eduardo Cavallo & Tomás Serebrisky, Inter-American Development Bank.

(36) Clients with any savings product current at 12.31.2019 (excluding institutional clients). The calculation uses the basic basket of goods and services as the daily expenditure.
(37) Clients with any savings product current at 12.31.2019 (excluding institutional clients). The calculation uses the basic basket of goods and services (poverty line) as the monthly expenditure.

36 **SIGHT DEPOSITS BY AGE GROUP**
Days the client can cover with savings (instant access accounts)



37 **TERM SAVINGS BY AGE GROUP**
Months the client can cover with savings (term)



Financial education

As we have mentioned, when vulnerable entrepreneurs take decisions, they are conditioned by their income level and their financial knowhow. It is crucial that entrepreneurs receive education and advice, since many are not familiar with concepts of budgeting, business management or banking terms such as interest rates.

For these reasons, over the course of 2019, 665,944 people, clients and non-clients, have received financial education. This education ranges from specific courses to special workshops for minors covering basic concepts such as money and saving.

Entrepreneurs can access workshops where our advisors teach the program. These workshops give them information and training, using games designed for adults on the importance of saving, managing debt and drawing up budgets, all of which helps them to administer their finances sensibly.

People who have received financial education

665,944

Financial health: resource planning

Savings potential

To find out why clients use our savings products so seldom, whether because of a lack of income or for other reasons (informal saving, they do not save or they save in other institutions), we have estimated their savings potential from their income and from their need to cover a basic basket of goods which becomes more complex as their incomes rise.

Savings potential allows us to distinguish between clients who do not save because they do not have high enough incomes, and those who may be saving in other institutions or using alternative assets (such as buying extra livestock on a small scale). According to the information from our portfolio, of the clients with credit and savings in our institution, 54% do not save because their incomes are not high enough. The remaining 46% have the capacity to save after meeting their basic expenses.

There are two important factors in saving:

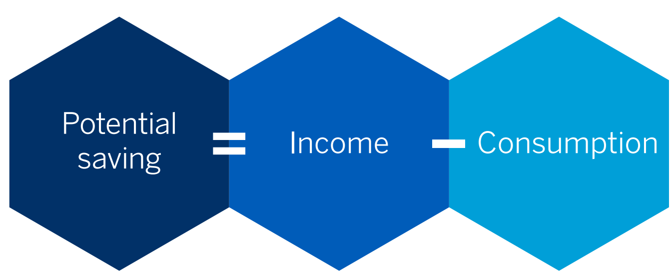
- **The client's age or the moment in their life cycle.** The youngest have lower incomes and are also at more of an investment than a savings stage in their lives. The greatest savings potential is when people are between 30 and 60 years old, because their incomes are higher, and they take decisions with a more long-term perspective.
- **Income level** has a direct impact on savings capacity.

This analysis makes clear that, to improve the financial health of a good number of our clients, the most important thing is to enable them to raise their incomes, since these are currently insufficient for them to generate savings.

46% of clients have moderate or high savings potential. These are the clients on whom we need to focus our financial education efforts, whether to improve their situation or to help them take decisions about their surpluses, in this way ensuring that there are fewer fluctuations in their future incomes.

To help encourage this habit, programmed savings products contain more efficient incentives (communications campaigns, reminders, etc). These strategies help to create awareness about the importance this buffer may have for their future, encouraging them to behave like the ant in Aesop's famous fable about the ant and the grasshopper.

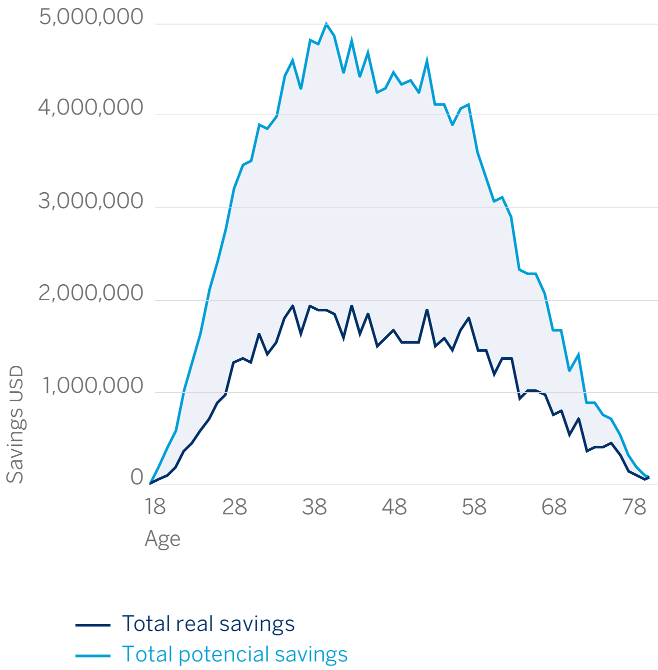
Group institutions continue working to create a value offering that encourages formal saving by clients, helping them to protect their modest incomes and to achieve their targets, whether these are small or large and distant in time.



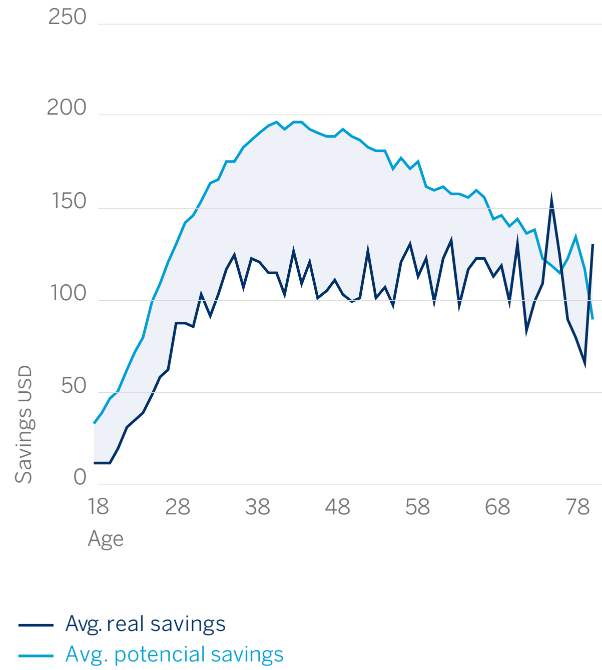
The propensity to save
is the proportion of net income not used on consumption (%)

(38) Estimated savings in the credit & savings clients portfolio, at 12.31.2019.
(39) Average estimated savings in the credit & savings clients portfolio, at 12.31.2019.
(40) (41) Estimate for clients with both credit & savings.

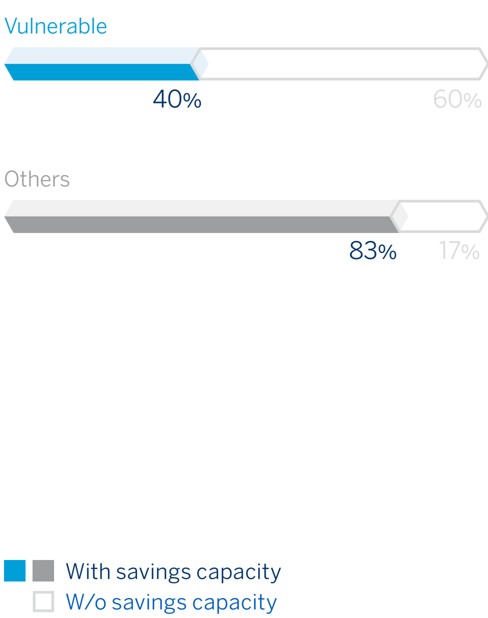
38 **POTENTIAL & REAL SAVINGS, BY AGE**
Credit and savings clients at 12.31.2019



39 **AVERAGE POTENTIAL & REAL SAVINGS, BY AGE**
Credit and savings clients at 12.31.2019



40 **CAPACITY FOR SAVINGS & VULNERABILITY**
Estimate for clients with both credit & savings



41 **ESTIMATED SAVING CAPACITY**
Estimate for clients with both credit & savings

	Capacity for saving (potential)	Capacity for saving after installment
Young people (<30 years old)	10%	6%
Others	16%	9%
Older people (>60 years old)	14%	8%

Improving well-being

"Indicators of monetary poverty need to be supplemented by others that show the complex and diverse reality facing people who are living in poverty." (World Bank, 2018). Going beyond lack of money, vulnerability refers to a broader set of privations and scarcity that can affect people's lives, such as gaps in coverage of basic services such as education, health, and housing.

These disadvantages are inter-connected and changing all the time, so a person in poverty may be suffering multiple several deficiencies at the same time. The complexity of vulnerability and of poverty requires us, therefore, to make more use of multidimensional measures that give us a more complete picture.

Therefore, BBVAMF Group acknowledges and measures:

- Upgrades in employment, housing, and education.
- The availability of specific products that cover or drive these needs:
  - Unmet basic needs.
  - Environmentally responsible measures that reduce entrepreneurs' vulnerability to climate change risks.

Clients' well-being: Indirect impacts

The Foundation's impact measurement system is based on observing how improvements in clients' businesses affect these dimensions and the impact these improvements have on their families and communities. We can see, for example, how entrepreneurship is a way in which 85% of clients can create a job for themselves. The remaining 15% manage to create employment for one or more workers. Even though this figure is not very high, there is a great deal of work behind it and a significant impact on communities, since it is difficult for small businesses to employ third parties. The bigger the business and the lower the entrepreneur's vulnerability, the more likely they are to take on more workers.

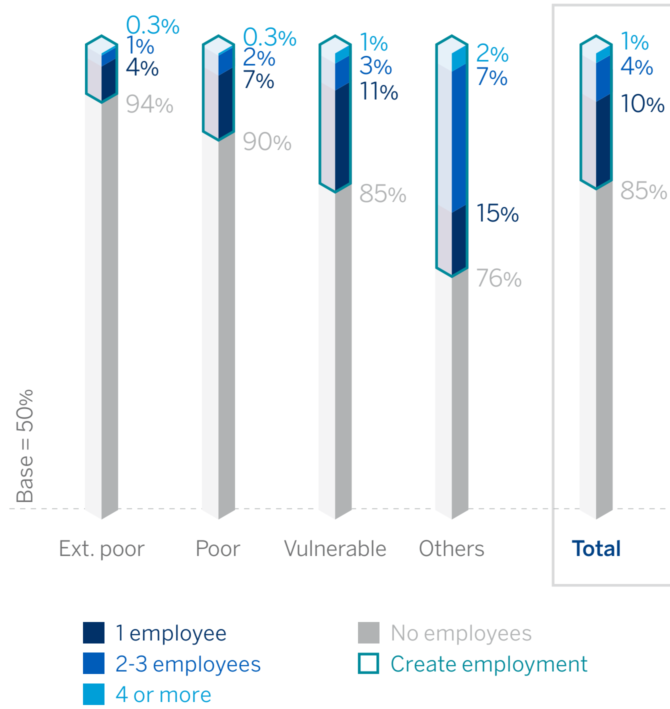
BBVAMF Group's micro-enterprises employ 203,265[27] people. On average, 11% of clients create at least one new job after three years with one of our microfinance institutions.

Another very telling figure is that after an average of 3 years with our institutions, 10% of clients have improved their housing conditions and 4% their educational level, which has a positive impact on future generations.

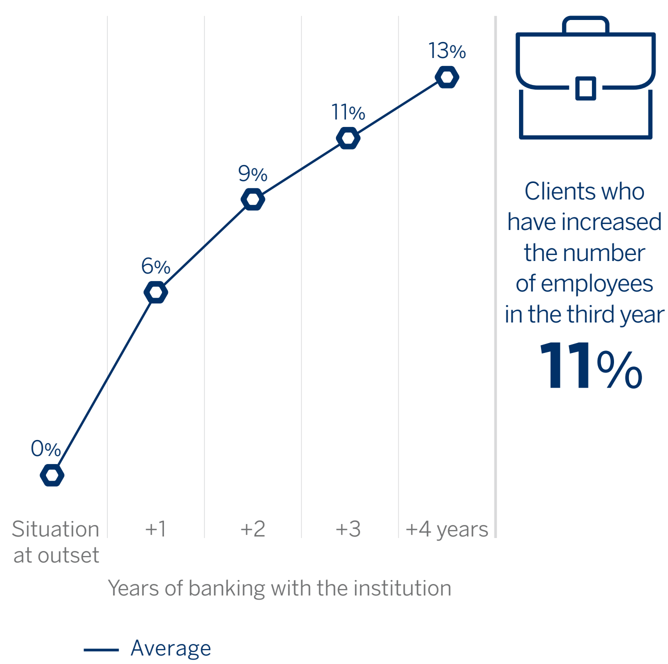
27. Data provided by 88% of all clients at 12.31.2018. Extrapolating to remaining clients, the total number of jobs created would be 237,801.

(42) Considers the number of employees in current clients' business at 12.31.2019.
Note: Information for all institutions.
(43) Considers the increase in the number of employees compared to the outset, in the businesses of clients current at 12.31.2019. Averages for the 2014-2019 cohorts (year of entry).
Note: Information for Banco Adopem and Microserfin.
(44) Proportion of current clients at 12.31.2019 who have upgraded their housing situation (bought their own home), have made home improvements (e.g. put in a bathroom, installed electricity), or have increased the number of rooms. Average for 2013-2019 cohorts (year of entry).
Note: Information for Banco Adopem and Bancamia.
(45) Proportion of current clients at 12.31.2019, who have received additional education. Average for 2013-2019 cohorts (year of entry).
Note: Information for Bancamía.

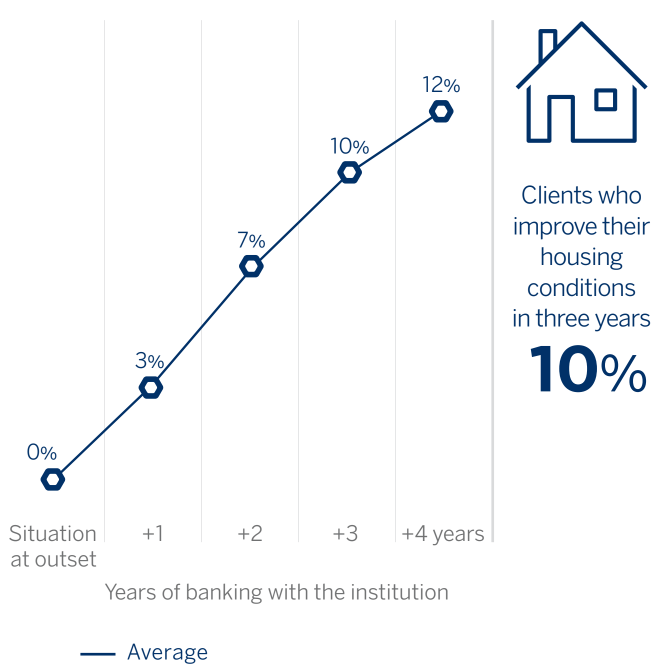
42 **SOURCE OF EMPLOYMENT**
Clients according to nº of employees in their business



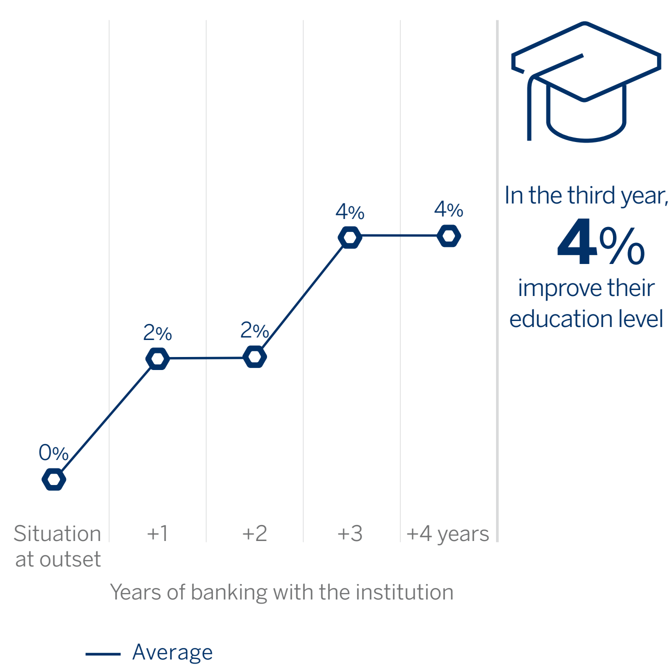
43 **JOB CREATION**
Credit clients who hire more employees (%)



44 **HOUSING IMPROVEMENTS**
Credit clients who improve,
by years spent banking with the institution (%)



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



Improving well-being

Serving basic needs and improving resilience

To widen this indirect impact, BBVAMFG has developed initiatives that encompass the dimensions of housing, sanitation, education, and green loans. In all, during 2019 these initiatives have benefited over 59,000 clients and loans have been granted for a total value of over USD 172 million (9% of all clients receiving a disbursement in 2019).

46 **PRODUCTS THAT SERVE MULTI-DIMENSIONAL NEEDS**
Total credit clients

Housing
48,842 clients
Colombia, Panama, Peru & Dominican Rep.
+50% clients since 2018

Sanitation
14,716 clients
Perú
+42% clients since 2018

Green loans
2,011 clients
Colombia & Dominican Rep.
+81% clients since 2018

Education
4,942 clients
Colombia,Peru & Dominican Rep.

In all, **59,310 clients have benefited**
USD **172,765,119 disbursed**

Housing

48,842 clients benefited

USD **158,248,868** disbursed

These loans are used for improvements to entrepreneurs' homes or commercial premises, or to rebuild these in the case of contingencies (such as the destruction caused by the El Niño in Peru in 2017).

Most clients of this product are urban women working in services or small-scale trade, such as food sales (26%). Many of them are the heads of large households and, in many cases, need to work from their homes to reconcile their job with the care of children and other dependents.

If we consider all the members of households where our clients cohabited in 2019, we have made an impact on the lives of 140,830 people.

Sanitation

14,716 clients benefited

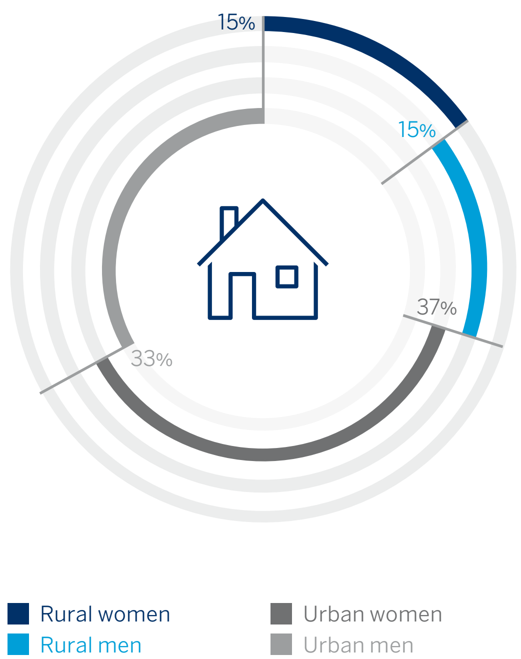
USD **36,337,422** disbursed

This initiative in Peru is part of the Water.org housing program, a partnership to enable entrepreneurs in great vulnerability to make their homes healthier and safer.

Most clients are urban women. A fifth of all of them live in very ramshackle homes made out of adobe or brushwood. The loans are specifically targeted to finance access to clean water and drainage, which help to reduce health risks.

Altogether support has been given to over 14,000 homes, impacting 39,724 people in total.

47 **HOUSING UPGRADE PRODUCTS**
Clients with disbursements in 2019



48 **SANITATION & HOUSING COVER**
Clients with disbursements in 2019

Improving well-being

Education

4,942 clients benefited

USD **3,050,603** disbursed

Educational products are lines of credit to finance entrepreneurs' own education or that of their children and/or family members. They are mainly designed to pay matriculation, board and lodging or other tertiary education fees to encourage the uptake of higher education and vocational training, such as diplomas, technical programs, university courses and language learning.

This product is available mainly in Peru and clients are mostly urban (79%) and women working in enterprises connected to services or small-scale trade (29% of the total).

The client profile is young and with the highest educational level in the portfolio: one in two recipients (55%) is under 30 years old and has already completed secondary education or higher.

Improving environmental resilience

Green loans

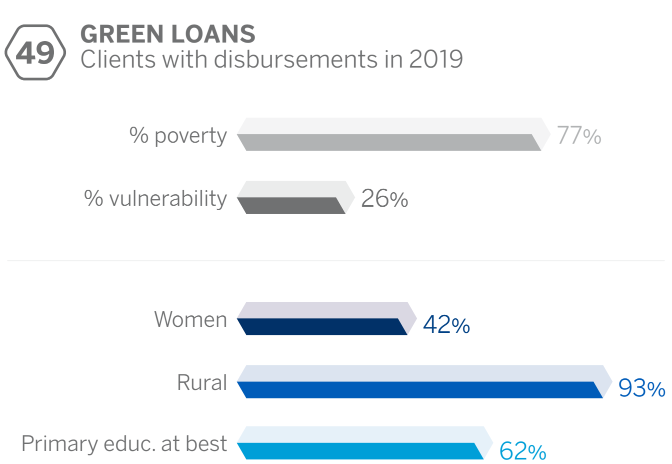
2,011 clients benefited

USD **1,790,929** disbursed

BBVAMF has signed several partnership agreements with UN Environment (MEbA) and local institutions in support of sustainability strategies so that entrepreneurs adopt environmentally responsible measures that protect natural resources.

Programs are ongoing in Colombia and the Dominican Republic offering lines of green credit for farming clients. The purpose is to enable them to finance the purchase of environmentally efficient technologies that reduce energy consumption and increase their business productivity, such as water pumps for irrigation, energy-efficient ovens and stoves, and refrigeration and illumination system, among others. They may also finance climate-change mitigation adaptation measures, such as soil regeneration, organic farming, and solar energy systems.

Most clients are men living in rural areas, generally with low levels of formal education and therefore limited access to employment. On average they get by on monthly incomes of USD 433 and around a quarter of them are in poverty.



We have left an imprint on 7 million people

2,234,413 entrepreneurs served

Intangible financial attributes: the deeper value of inclusion

As clients start using the financial system, they become more skilled at managing their resources and acquire more value as financial subjects themselves. Traditional assessments of how clients develop are based on the various tangible dimensions (sales, assets, income, surplus generated, etc), as well as their impact on people's standards of living. However, the *non-tangible* dimension, comprising the construction of their financial abilities, is usually ignored.

The value of clients' history

As we have seen in this report, financial inclusion contributes to poverty alleviation by putting products and services within reach of the most vulnerable. Failure to use financial services may lead them into the poverty trap and an increase in the inequality divide, whereas using financial instruments fosters their propensity to save and to consume better.

When homes that previously could not access the financial system do so, they can obtain loans, insurance, open a savings account and receive money from family members through payment services. All this helps them to better manage their financial shortfalls and potential emergencies, increasing their resilience and reducing poverty on a sustained basis.

In those environments where the entrepreneurial spirit prevails, obstacles to accessing the financial market determine whether a given project can start or move to the next level. Very often, with exclusion, the opportunity to increase incomes, smooth consumption, raise productive investment and obtain insurance cover is lost. Thus, the role of inclusion in increasing incomes, in business growth and in managing financial risks is obvious.

Financial inclusion has another dimension that is seldom assessed: the generation of financial attributes that are built up as people interact with the financial system, whether by applying for loans, generating savings, taking out insurance, or using other products and services.

The skills they acquire and the track record of financial behavior that is built up —together with the performance of their activities—, represents their value as a financial subject recognized by the market. That translates into a perception of lower risk, which allows them to access higher levels of lending, a wider range of financial products, and to incur lower transactional costs.

However, when someone is outside the financial system and operating in informal markets, there is no way of building up this value. This is precisely one of the key determinants that conditions access to the system: the lack of information about future clients, given the unpredictability of their future performance once they enter the formal market.

The problems arising from the uneven availability of information (or its complete absence) influence this market. Therefore, the loan officers are obliged to adopt protocols of action that help them to mitigate the negative effects of asymmetric information. The result is often the exclusion from the market of the potential client, who is then forced to operate in the informal financial sphere, subject to potentially negative impacts such as predatory loans, excessively high debt burdens and limited options when it comes to managing the risks they face.

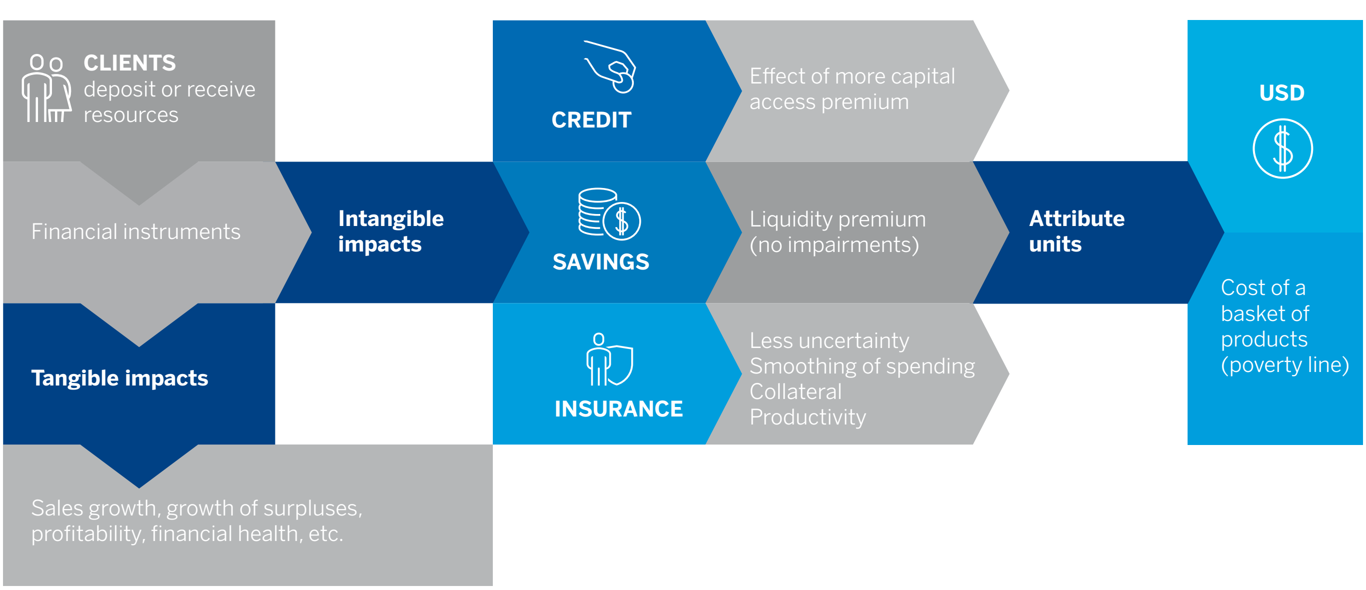
Potential clients who find that they are excluded unconsciously use a series of rules that enable them to take swift decisions, thus simplifying their daily choices. But these create biases, often resulting in decisions that do not have good outcomes.

The biases are the way in which they approach time-dependent decisions (short term vs. medium to long-term) and the volatility inherent to operating in the informal sector. This opens up all sorts of questions: how are they financed? how do they smooth their incomes? what informal saving instruments do they use? how do they get insurance cover? and so on. All these options are more costly than those available in the formal financial domain.

Measuring these differences and assessing them over time is the goal of this section. To do so, we have developed a model to measure intangible impact based on the financial attributes generated by clients after several interactions with the formal financial sector. Throughout this chapter we will show the methodology we have used and how we quantify the intangible attributes that are built up as the client starts accessing financial services. These attributes are seldom considered when the impacts of financial inclusion are measured, since traditionally clients' progress has been assessed on the basis of tangible dimensions (sales, assets, surpluses generated, etc), and by the impact on their standards of living.

To estimate the worth of these attributes as they are building up, we need to know the extent of clients' maturity. The attributes generated the first time they join the financial system are not the same (given that the costs they take on in the informal financial system are far higher than in the formal system) as those they generate in successive interactions. That is why we need to know what cycle clients are in within the system. For example, how many loans have they received? Do they have savings? Do they have insurance products? etc. Each of these dimensions generates a value. For a client accessing the system for the first time, the value generated in each iteration will decrease over time until it normalizes, acquiring the same value as a financial subject as the rest.

FINANCIAL INSTRUMENTS



Intangible financial attributes

Attribute units and the client cycle

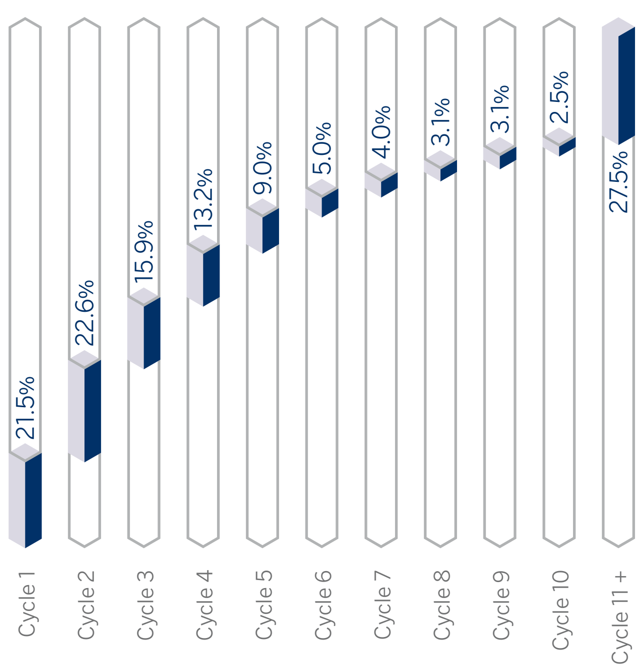
We shall call these intangible values "attribute units", and we shall estimate them in aggregate for clients served by Bancamía (Colombia), Financiera Confianza (Peru) and Banco Adopem (Dominican Republic).

This creates the need to resolve the issue of heterogeneity between countries. We will normalize them, acknowledging their differences and we shall transform them into poverty units, for the sake of convenience. We shall take an attribute unit as being equal to the cost of a basic basket of goods and services. In other words, we use the poverty line of each country as a monetary reference, which resolves the problem. Furthermore, it enables us to aggregate the units by different financial products within the same country, by credit cycles, as well as to aggregate them in terms of units between different countries. This is how we build the aggregate of these three countries in each of these dimensions.

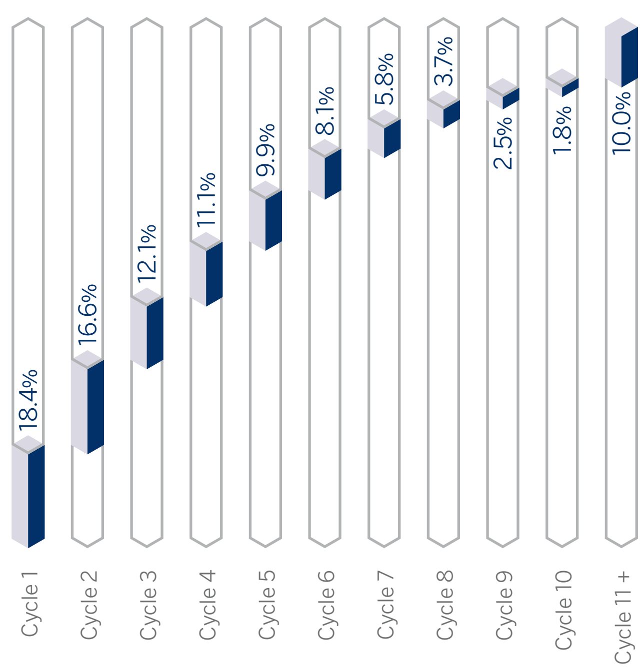
We start from the premise that measuring intangible attributes constitutes an approximation to the value of the financial skills that are aggregated at every client iteration. To do this, we need to know how many interactions they have had within the financial system. This denotes the degree of maturity or the attributes already obtained, differentiating between those that are generated in the present (or the current iteration) and those that have already been obtained (generated in the past). For example, a client in their fifth cycle has already generated attributes in the previous four, so only the attribute that is generated in the current iteration is counted.

The skills and the track record of financial behavior that are built up, together with the performance of their activities, represent their value as a financial subject over time.

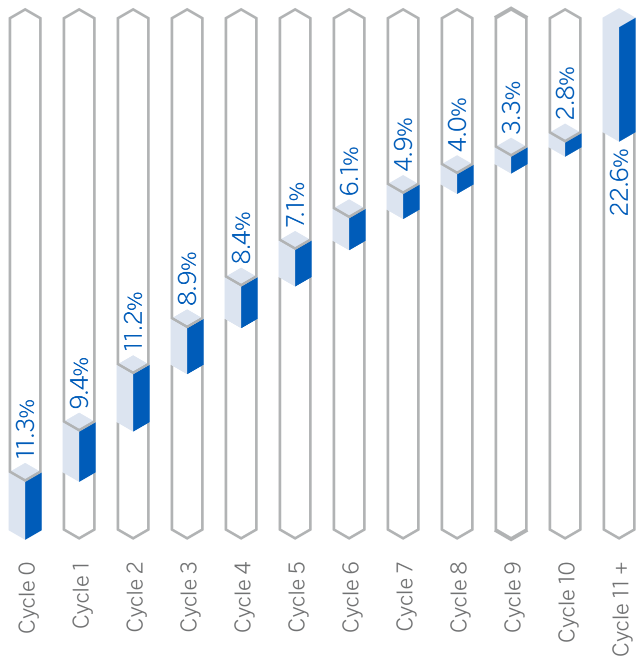
A **CLIENTS BY CYCLE**
Loans (%)



B **NEW CLIENTS BY CYCLE**
Loans (%)



CLIENTS BY CYCLE
Saving (%)



The highest number of attributes is built in the first iteration. The marginal construction of attributes decreases at each additional iteration until a certain number of interactions is reached, at which point no additional attributes are added. In other words, by the end, the clients converge with the attributes of mature segments[1] in the financial system. To define this threshold, we adopted the cycle in which clients' average profit margins[2] converge with those of mature clients and stabilize. This is achieved after cycle 10, at which point no further intangible attributes are incorporated.

Looking at the entire credit client portfolio, 72% are at one stage or another of building intangible attributes, with around 40% of these in the first four cycles. To take new clients who started banking with Group institutions in 2019, 90% generated attributes, concentrated in the first three cycles in the case of 50% of clients. In the case of savings clients, 77% of clients are building up intangible attributes.

Sources of intangible attributes

Credit
Outside the financial system, clients are forced to make use of informal financing sources with costs that oscillate between 12% and 18% a month.[3] This starting point enables us to assess the market cost, in the absence of information and collateral, that are taken on when these clients are included, or the extra cost paid by clients when they do not have access to the formal sector.

The extra cost paid by clients when they cannot access the formal sector is at least 12% a month.

When clients access the financial system for the first time, something we might term an access premium is created, that is, the difference between the interest rate in the informal market and the financial system (the formal market). This access premium is highest in the first iteration, falling in a linear fashion with each iteration until it disappears.

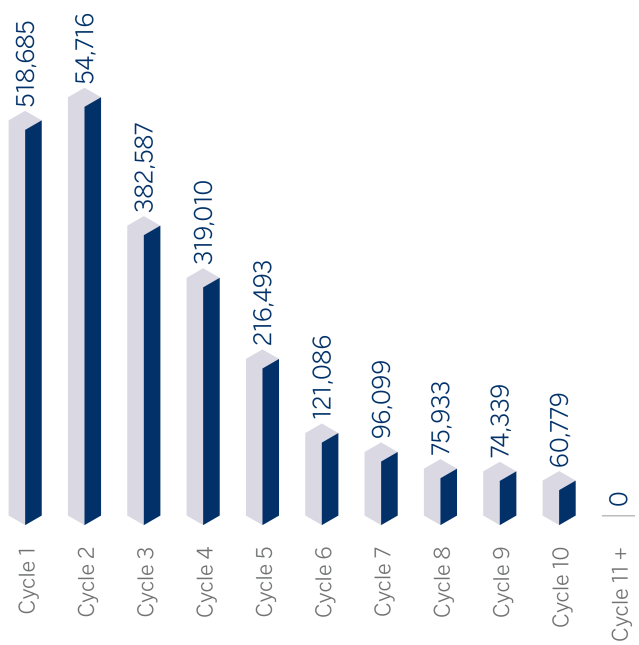
The second component is the availability of a bigger loan based on the profitability of clients' activities. This is linked to higher capital and recurrence —enabling clients to obtain a greater advantage from this factor than they would if they accessed the informal market— and to the possibility of carrying out activities with a longer time horizon.

The proportion of transactions that do not work out and default must then be discounted. To do this we use the sector's historic non-compliance rate, or probability of default, for each transaction.

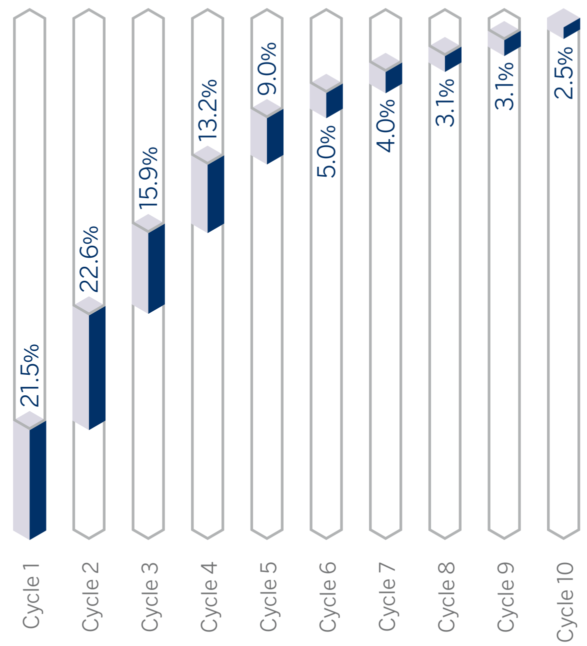
1. Advanced clients who are no longer accumulating intangible financial attributes.
2. Profitability measured by clients' net surpluses over their assets.
3. Rates weighted by financing sources. Based on Asobancaria information for Colombia, Asbanc for Peru and several media sources for Dominican Republic.

Intangible financial attributes

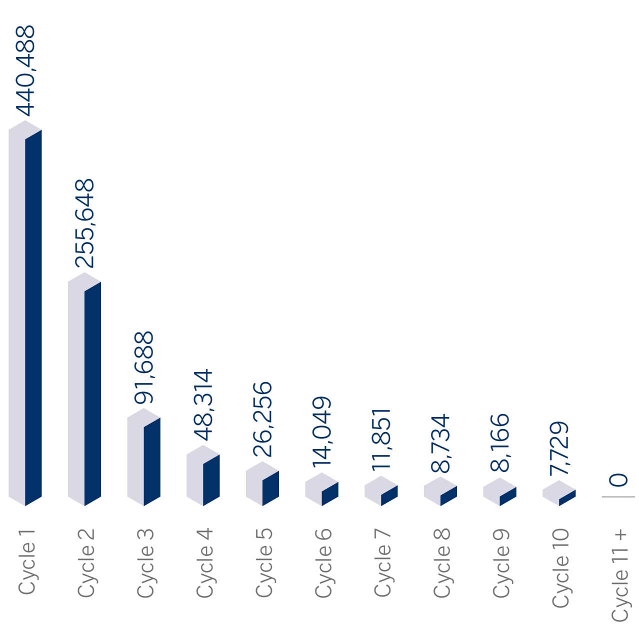
D ATTRIBUTE UNITS, TOTAL CLIENTS
Loans (USD)



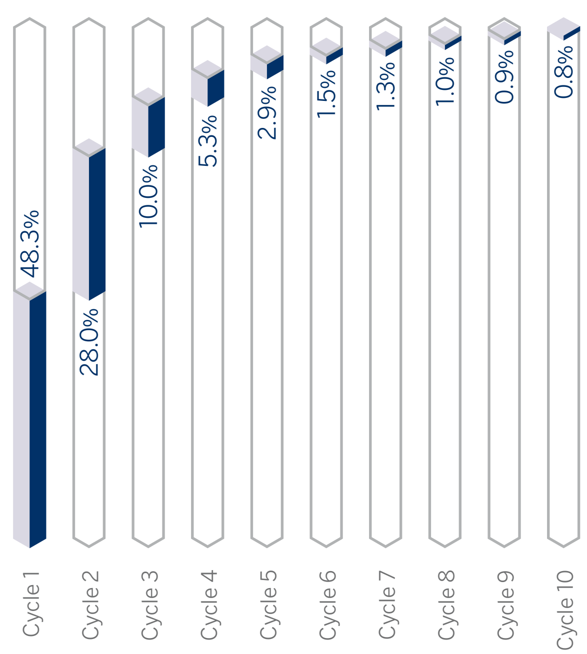
E ATTRIBUTES BY CYCLE, TOTAL CLIENTS
Loans (%)



F ATTRIBUTE UNITS, TOTAL CLIENTS
Loans (USD)



G ATTRIBUTES BY CYCLE, TOTAL CLIENTS
Loans (%)



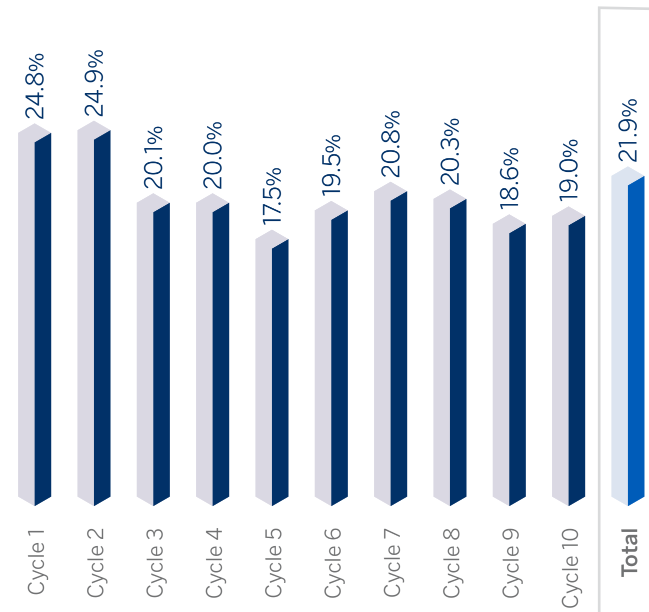
When we quantify these impacts, we see that for clients with access to credit, an average of 3.1 intangible financial attribute units are generated per client, equivalent to USD 253.6. The first two cycles account for 44% of the total attributes generated. **(Diagrams D and E).**

New clients in 2019 generated an average of 2.3 intangible financial attribute units, equivalent to USD 194.4 per capita per client. The first two cycles account for 76% of all attributes generated for this group. **(Diagrams F and G).**

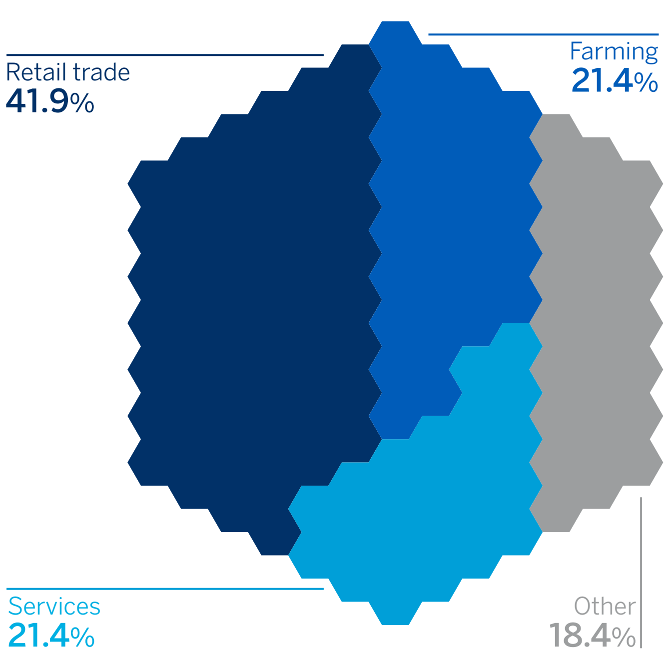
Of total clients, those below the poverty line generate 21.9% of all attributes. Their greatest participation is in the first two cycles, which account for approximately 25% of the total created in these cycles. **(Diagram H).**

By sectors, 41.9% of total attribute units generated come from the retail trade sector, which comprises 43.2% of the clients who produce attributes. **(Diagrams I and J).**

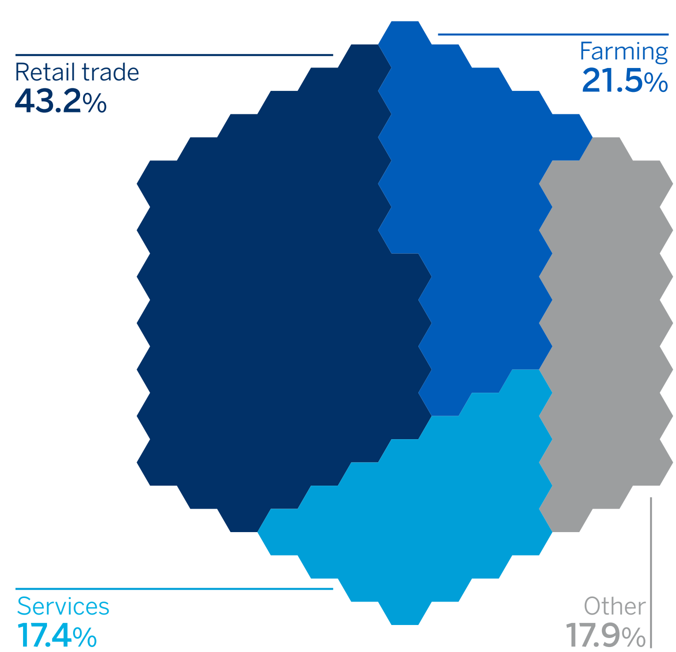
H **PARTICIPATION OF POOR CLIENTS IN GENERATING ATTRIBUTE UNITS, BY CYCLE**



I **ATTRIBUTE UNITS GENERATED, BY SECTORS**
Lending (%)



J **WEIGHT OF CLIENTS WITH ATTRIBUTES, BY SECTORS**
Lending (%)



Intangible financial attributes

Saving
One of the characteristics of the incomes of small-scale entrepreneurs who generally operate in the informal sector of the economy is their volatility. That is why, during the "good times", they find it absolutely essential to reserve these short-term surpluses against the "bad times".

When they cannot access formal saving, clients need other sources to channel their surpluses, enabling them in this way to cope with volatile incomes and smooth their consumption.

Since they are excluded from the financial system, they are forced to save using informal mechanisms: investing in cattle or poultry, hiding cash in their homes, buying durable goods, or participating in programmed saving schemes with their neighbors.

These mechanisms are imperfect replacements. Even when people manage to accumulate, their savings are unlikely to retain their value in the face of contingencies that force their owners to sell. In many cases, informal savings mechanisms are high-risk, illiquid and cannot be divided up. That is why saving is essential for those households whose income flows do not meet their daily consumption needs, which is the case with all the most vulnerable segments.

Saving enables people to manage their cash flow increases, organize their spending, and accumulate working capital. It encourages the sensible use of surpluses and discourages unwanted spending, the latter normally associated with decision-making thinking only of the short term, and with self-discipline issues.

The main problem with informal mechanisms is their associated shrinkage when used. For example, keeping everything in cash leads to impulse spending where there are self-discipline issues, which we have estimated as occurring in around 1 in 4 cases.

Their indivisibility is another important factor when it comes to liquidating assets. Constructing unwished-for inventories and then having to liquidate them out of the blue because of contingent events entails wastage of around 20%, while liquidating durable goods involves higher rates of shrinkage because they depreciate rapidly, and secondary markets apply discounts. Both options generally involve using more assets than required, increasing losses, because of self-discipline issues.

Those who are excluded from the financial system are forced to save using informal mechanisms, leading to significant shrinkage of value, together with problems of liquidity and indivisibility.

Access to formal saving means that this wastage can be avoided and, in addition, resolves some behavioral problems. Factors such as the bias in favor of the status quo and hyperbolic discounting (instant gratification assumes greater value in people's minds than rewards sometime in the future) are both present and are strengthened by informal saving instruments.

So-called present bias, that is, the tendency to be satisfied with a smaller reward now than a bigger one in the future, is weakened when there is access to saving and incentives are built in to remind clients, together with commitments to the use and destination of the funds. Informal systems, however, strengthen present bias.

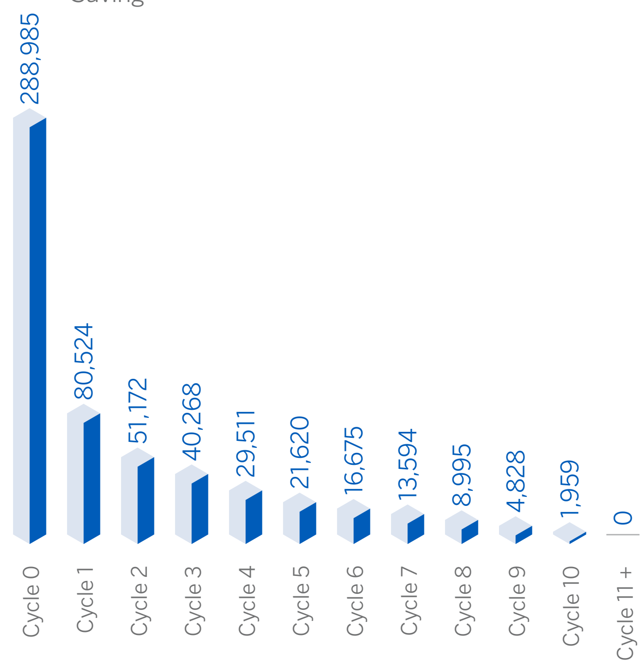
Access to saving and avoiding the wastage intrinsic to the use of informal mechanisms produces an *access value* or *liquidity premium.* This is associated with the use of instruments that protect the value of the amount saved (not even taking into account the yields these instruments may have), and that comprise the intangible attributes created by access to formal saving channels.

On quantifying these intangible attributes contained in formal saving, we calculate that, on average, every new client generates 0.3 units of Intangible financial attributes, equivalent to USD 25.5 per capita. **(Diagrams K and L).**

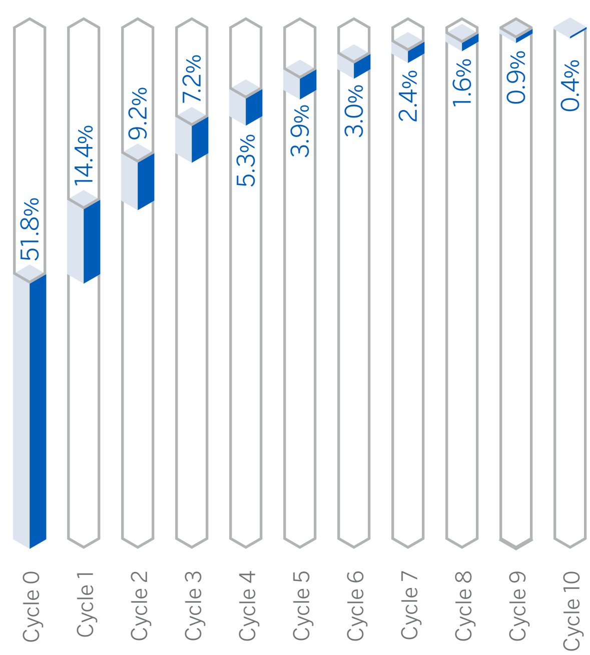
Half of the intangible attributes are generated by savings-only clients, who did not previously have a credit history in the financial system. Creating incentives to save for those who already have, or have had, a loan within the financial system is a task that needs further work, for which we must design appropriate incentives that respond to the problems raised above.

The main curbs are the presence of behavioral-issue problems, the possibility of higher profits when the surpluses are reinvested, and the bias towards underestimating risk on the part of this type of client.

K **ATTRIBUTE UNITS GENERATED, BY CYCLE**
Saving



L **ATTRIBUTES BY CYCLE**
Saving (%)



Intangible financial attributes

Insurance
Populations in poverty or vulnerability face substantial hurdles in the form of natural, health-related, social, and economic risks. They are also more likely to be affected by these. These segments of the population do not use sophisticated mechanisms to deal with such risks. The impairments to their standard of living are significant and contribute to the persistence of poverty.

Overall, vulnerable segments live and work in conditions of greater risk than others and are more susceptible to illnesses. If someone is unable to work, or there is an unexpected contingency, with the attendant small losses of assets, incomes are severely impacted.

Exposure to these risks subjects vulnerable households to a permanent state of uncertainty that reduces their likelihood of making the most of money-making opportunities that could perhaps contribute to improving their situation.

However, of all financial products, this is probably the most complex. In terms of types of coverage, in most cases it is difficult to provide integrated cover that is affordable for low-income households, both because of the inherent financial capacity of clients and (crucially) because of the lack of diversification opportunities.

If we are going to provide easy access, and on better terms, it is essential to understand our clients and be close to them, which brings the costs down. Judging by case studies and experience, insurance products on life, property, healthcare, and climate, possibly linked to credit, look to be the most effective.

The lack of these mechanisms (insurance) means that in the event of adversity, consumption by these population groups is impacted. Furthermore, since they cannot resort to other coverage mechanisms such as saving, their situation becomes very fragile.

Insurance works as collateral that enables clients to access credit on better terms and nudges them towards sectors that are more productive and have bigger returns, although also higher risk. Even when they do not trigger a change of sector, they encourage an increase in the amounts being invested, since they cover all or part of the risk associated with the activity. As such, access to insurance brings with it a *collateral premium* since the lowered uncertainty generates an element of productivity.

Although we have seen greater movement towards different sectors linked to the presence of insurance, it is still a mechanism that is new for this segment and has not broken the bias towards the status quo, ie. the preference for the current state of things and risk aversion associated with a change of sector.

When we quantify the intangible attributes contained in insurance, we note that on average every client with access to insurance generates the equivalent of 0.28 attribute units, that is USD 23 per capita, demonstrating that it is a product with great potential for building more attributes in the future.

The peace of mind provided by insurance makes it easier for people to make larger investments and nudges clients towards more productive sectors.

Total intangible attributes

When we aggregate the attributes generated by these three sources: credit, saving and insurance, we estimate that the aggregate intangible attributes per capita are 3.68 units, equivalent to USD 304.7 per client. However, if we exclude those clients with more than 11 cycles within the financial cycle (who, as such, do not generate intangible attributes by our definition), the aggregate intangible attributes per capita go up to 4.82 units, equivalent to USD 404.1 per client.

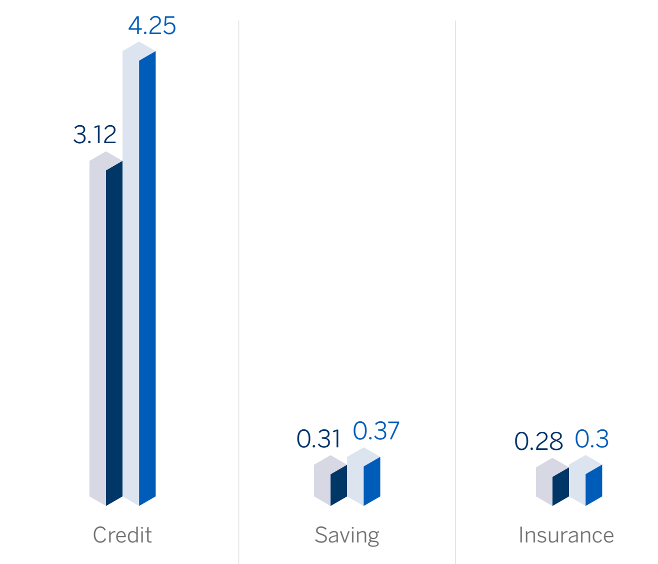
84% of the total is generated by credit transactions, showing that there is still potential to build more attributes as saving and insurance become more deeply embedded in people's behavior.

On average, adding together all the products (credit, savings, and insurance), clients manage USD 1,856 per client, making intangible attributes equivalent to 16.4% of resources managed by each client. If clients who are no longer building up attributes are excluded (cycle 11 and beyond) this proportion rises to 21.7%.

The disparities between the amounts of credit, savings balances, and insured capital are the principal determinant of the fact that the largest component comprising the attributes is credit.

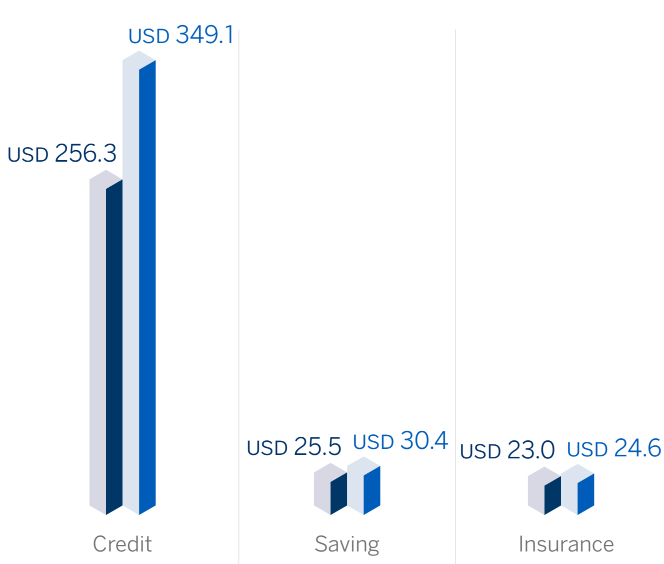
Financial inclusion and the use of formal financial products are key in tackling the poverty trap and the inequality divide, which affect the most vulnerable client segments. The continued presence of these segments in the financial system over the long term is a prerequisite for constructing attributes and a differentiated value recognized by the market. This opens up access and means that terms can be continually improved for clients.

M UNITS WITH INTANGIBLE ATTRIBUTES GENERATED PER CAPITA, BY PRODUCT



Total nº clients
Clients with intangible attributes

N INTANGIBLE ATTRIBUTES PER CAPITA GENERATED, BY PRODUCT (USD)



Total nº clients
Clients with intangible attributes

BBVAMF Aggregate Data

DATA AT DECEMBER 31, 2019

Exchange rate at December 31, 2019

Key performance indicators

Financial data	**FMBBVA Group**
Gross loan portfolio (USD)	1,245,094,149
Amount disbursed in 2019 (USD)	1,602,339,819
Number of disbursements in 2019	1,203,653
Average disbursement in 2019 (USD)	1,331
Deposits & others (USD)	672,730,249
Operating data	
Nº of employees	8,304
Nº of offices	596
People receiving financial education	665,944

Our clients

Total clients	**2,234.413**
Number of credit clients	**951,776**
As a % of all BBVAMF Group credit clients	–
Number of savings clients	**1,963,178**
As a % of all BBVAMF Group savings clients	–

Our credit clients

New clients

Vulnerability of credit clients (% of clients)	
Extremely poor	15.2%
Poor	22.4%
Vulnerable	46.6%
Total in vulnerability	84.1%
Others	15.9%
Rural	**32.7%**
Women	**59.6%**
Women's profile	
Poor	44.5%
Total in vulnerability	88.2%
Primary education at best	26.5%
Rural	27.2%
Net monthly per capita net income (USD)	168
With primary education, at best	**28.3%**
Young (<30 years old)	**35.1%**
Old (>60 years old)	**6.6%**
Economic activity (% credit clients)	
Agriculture	18.4%
Production/transformation	11.9%
Retail trade	37.2%
Retail trade	12.0%
Services	20.4%
Average monthly sales (USD)	**1,276**
Average assets (USD)	**6,325**
Net monthly per capita net income (USD)	**190**

COP/USD	PEN/USD	DOP/USD	PAB/USD	CLP/USD	CLP/USD
0.000305144	0.301950611	0.01897882	1	0.001335577	0.001335577
Bancamía	**Financiera Confianza**	**Banco Adopem**	**Microserfin**	**Fondo Esperanza**	**Emprende Microfinanzas**
434,243,561	557,306,630	132,732,066	26,019,910	82,268,584	12,523,397
382,482,687	768,555,479	143,196,682	20,501,847	277,434,667	10,168,456
296,713	372,822	186,345	12,023	330,622	5,128
1,289	2,061	768	1,705	839	1,983
212,981,173	382,891,842	76,857,235	–	–	–
3,445	2,419	1,466	263	619	92
217	206	74	27	56	16
390,176	71,580	43,410	5,127	155,651	–

1,108,278	**579,578**	**395,387**	**16,445**	**128,090**	**6,635**
343,693	**247,356**	**209,557**	**16,445**	**128,090**	**6,635**
36%	26%	22%	2%	13%	1%
1,092,385	**493,912**	**376,881**	–	–	–
55.6%	25.2%	19.2%	–	–	–

8.4%	13.7%	3.2%	3.8%	45.7%	–
26.5%	20.7%	21.7%	18.0%	18.9%	–
51.3%	41.9%	61.6%	62.9%	29.7%	–
86.2%	76.3%	86.4%	84.7%	94%	–
13.8%	23.7%	13.6%	15.3%	5.7%	–
45.8%	**26.5%**	**40.8%**	**48.6%**	**11.1%**	–
51.1%	**61.0%**	**60.7%**	**40.3%**	**74.3%**	–
39.9%	41.6%	26.4%	27.6%	72.0%	–
89.2%	82.2%	88.1%	88.6%	96.3%	–
31.5%	11.6%	55.2%	25.8%	24.7%	–
38.6%	21.9%	38.3%	41.1%	11.3%	–
122	207	181	224	157	–
35.9%	**11.2%**	**56.9%**	**30%**	**25%**	–
26.9%	**40.0%**	**48.9%**	**21.1%**	**26%**	–
9.5%	**5.4%**	**3.3%**	**7.8%**	**6.8%**	–
33.4%	18.5%	3.7%	41.5%	0.6%	–
13.5%	8.4%	0.2%	2.4%	31.3%	–
23.6%	23.7%	78.1%	30.4%	53.6%	–
9.4%	23.7%	4.4%	0.4%	–	–
20.2%	25.7%	13.6%	25.3%	14.5%	–
1,183	**1,456**	**1,305**	**1,506**	**963**	–
5,848	**9,652**	**6,124**	–	**1,841**	–
132	**243**	**189**	**249**	**192**	–

BBVAMF Aggregate Data

DATA AT DECEMBER 31, 2019

Our credit clients

Total current clients

Vulnerability level of credit clients (% clients)	FMBBVA Group
Extremely poor	9.4%
Poor	18.6%
Vulnerable	51.5%
Total in vulnerability	79.5%
Others	20.5%
Rural	**34.9%**
Woman	**60.3%**
Women's profile	
Total in vulnerability	83.2%
Primary education at best	35.3%
Rural	28.7%
With primary education, at best	**36.7%**
Young (<30 years old)	**20.1%**
Old (>60 years old)	**12.4%**
Economic activity (% credit clients)	
Agriculture	18.6%
Production / transformation	11.8%
Retail trade	42.2%
Wholesale trade	8.8%
Services	18.6%
P&L Margins over sales	
Costs	58.2%
Income	31.5%
Installment	10.4%

Our savings clients

Total clients

Total savings clients	**1,963,178**
YoY	7.4%

Bancamía	Financiera Confianza	Banco Adopem	Microserfin	Fondo Esperanza	Emprende Microfinanzas
5.2%	10.9%	2.3%	5.2%	34.7%	–
20.8%	16.5%	16.8%	21.7%	18.4%	–
54.6%	43.1%	62.0%	58.2%	37.7%	–
80.6%	70.5%	81.1%	85.1%	90.8%	–
19.4%	29.5%	18.9%	14.9%	9.2%	–
43.8%	**28.9%**	**41.1%**	**45.0%**	**10.7%**	–
54.0%	**54.8%**	**66.0%**	**42.2%**	**81.1%**	–
84.2%	74.7%	82.4%	88.1%	93.1%	–
44.4%	12.2%	47.6%	26.9%	33.3%	–
35.7%	23.3%	37.2%	36.1%	10.9%	–
47.7%	**12.1%**	**50.2%**	**32.0%**	**32.8%**	–
13.7%	**26.5%**	**27.4%**	**11.8%**	**13.8%**	–
16.7%	**8.9%**	**9.0%**	**13.2%**	**12.9%**	–
30.1%	22.1%	4.7%	36.7%	0.4%	–
14.7%	9.1%	0.2%	5.8%	29.7%	–
26.6%	26.6%	77.4%	29.8%	58.7%	–
7.3%	19.4%	4.7%	0.6%	–	–
21.2%	22.8%	12.9%	27.1%	11.1%	–
60.0%	64.1%	59.6%	42.2%	43.1%	–
31.7%	24.6%	35.5%	35.1%	31.1%	–
8.3%	11.4%	4.9%	22.7%	25.7%	–

1,092,385	**493,912**	**376,881**	–	–	–
9.3%	8.4%	0.9%	–	–	–

BBVAMF Aggregate Data

DATA AT DECEMBER 31, 2019

Credit clients' progress

Credit clients' progress	**FMBBVA Group**
Cohort performance	
Monthly sales growth (avg. CAGR)	17.3%
Monthly net income growth (avg. CAGR)	16.9%
Asset growth (avg. CAGR)	24.3%
Current value of core financial data by gender (M – Men. W – Woman)	
M -Monthly sales (USD)	1,897
W -Monthly sales (USD)	1,570
M -Net monthly sales growth (avg. CAGR)	15.4%
W -Net monthly sales growth (avg. CAGR)	18.8%
M -Net monthly income (USD)	603
W -Net monthly income (USD)	562
M -Net monthly income growth (avg. CAGR)	13.1%
W -Net monthly income growth (avg. CAGR)	19.9%
M -Average assets (USD)	9,412
W -Average assets (USD)	6,885
M -Avg. asset growth (avg. CAGR)	23.0%
W -Avg. asset growth (avg. CAGR)	25.6%
Net poverty reduction after three years	
In first year	10.0%
In second year	33.8%
In third year	35.4%
In fourth year	41.3%
Volatility of relative per capita net incomes	
Below the poverty line	
Volatile	34.0%
Stable	20.8%
Escape poverty	45.2%
Above the poverty line	
Volatile	25.2%
Stable	63.1%
Fall into poverty	11.7%
Improve the quality of their home after two years	**7.0**%
Improve their educational level after two years	**2.0**%
Create employment after two years	**9.0**%

Our relationships

New credit clients

Average disbursement of new credit clients (USD)	**897**
Avg. installment as % of sales of credit clients (%)	**60.2**%

Revolving clients

Average retention of credit clients	
After first year	65.4%
After second year	42.1%
After third year	29.7%
Average recurrence of credit clients	
Cycle 2	55.0%
Cycle 3	33.5%
Cycle 4	21.8%

Bancamía	Financiera Confianza	Banco Adopem	Microserfin	Fondo Esperanza	Emprende Microfinanzas
11.3%	18.2%	15.5%	–	44.2%	–
10.2%	14.2%	14.0%	–	54.5%	–
19.3%	32.7%	23.0%	–	–	–
1,500	2,808	1,576	–	2,062	–
1,321	2,129	1,437	–	1,414	–
10.1%	18.2%	14.8%	–	35.2%	–
12.6%	18.2%	15.9%	–	47.7%	–
478	721	579	–	1,074	–
412	633	547	–	763	–
9.5%	13.0%	12.1%	–	43.1%	–
11.0%	15.5%	15.2%	–	58.6%	–
8,749	13,510	7,676	–	–	–
7,014	12,271	6,444	–	–	–
18.5%	31.2%	21.3%	–	–	–
20.3%	34.7%	24.2%	–	–	–
13.5%	4.2%	14.9%	–	36.3%	–
16.8%	11.5%	34.0%	–	48.9%	–
25.8%	19.6%	48.0%	–	49.6%	–
28.5%	24.5%	58.8%	–	50.8%	–
33.1%	26.5%	32.1%	–	35.8%	–
16.2%	27.8%	10.9%	–	20.5%	–
50.7%	45.7%	57.0%	–	43.7%	–
19.1%	13.5%	40.6%	–	54.7%	–
69.2%	75.4%	50.9%	–	32.5%	–
11.6%	11.1%	8.5%	–	12.8%	–
–	**8.0%**	**5.0%**	–	**7.0%**	–
2.0%	–	–	–	–	–
–	–	**7.0%**	–	**2.0%**	–

894	**1,313**	**411**	**1,340**	**335**	–
6.3%	**11.7%**	**3.5%**	**23.2%**	**15.4%**	–

78.3%	56.5%	73.4%	73.7%	44.6%	–
48.4%	32.8%	55.6%	42.7%	31.1%	–
32.8%	22.0%	41.6%	31.7%	25.1%	–
51.1%	59.3%	68.8%	50.9%	68.0%	–
29.2%	38.2%	47.7%	30.6%	54.1%	–
18.0%	26.2%	33.2%	18.1%	45.5%	–

Notes on methodology

Information limitations

INFORMATION LIMITATIONS	COMMENTS
Lack of information on certain variables. There are certain variables for which some client information is not available.	Where there are gaps in a given client's data, that client's data has not been used and thus not included in the samples analyzed.
Positive bias. Clients' tendency to present a more favorable view of their microenterprise's performance.	BBVAMF methodology works on the premise that the data is gathered by an agent/loan officer with an informed understanding of the client's circumstances, who will therefore only report data viewed as credible.
Process limitations. Information gathering is essentially from loan processes; normally data are collected when the client acquires a new product or renews their loan (information is stored in each MFI's core banking system).	There are limitations in the data capture process, such as the difficulty of valuing the business, input errors, incorrectly interpreting the variable, lack of time, etc. For group lending this limitation may be greater. As far as possible, when we have found the data to be less robust, it has not been presented.
Heterogeneous databases and different criteria. Indicators are based on the faithful interpretation of each microfinance institution's (MFI) criteria and those of its agents/officers. In a very few cases, there are variables with definitions or nuances at a local level or variables that are only collected in certain countries.	• Assets and sales indicators, in particular, are based on the in-depth understanding of each MFI's criteria and that of its agents. Criteria applied to value assets, liabilities, etc may differ slightly between institutions. • Social variables (e.g. state of housing, educational level, capacity to access other income for the household, etc) are not collated in all the institutions or collated differently. BBVAMF has adapted to the information available from each institution and each country's requirements.

Methodological explanations of the variables and indicators chosen

Selected variables for consideration

VARIABLE	COMMENTS	
New credit clients	New clients are defined as those who have had a loan with the Group at some point during the year and had not previously had a loan with any BBVAMF Group institution.	
Urban / rural environment	The “environment” variable is defined by each institution as follows:	
	Bancamía	The client's business address (street, highway, etc).
	Financiera Confianza	The client's address; in a given district all clients are classified as being in the same “environment”, according to their classification by the National Statistics Institute (INEI). If the rural proportion of the district is over 50%, according to the INEI, the entire district is classified as rural.
	Banco Adopem	Assigned according to the % of rural/urban land in the province where the bank office is located, according to the National Statistics Organization. All clients in the branch office are classified in the same category as the branch.
	Fondo Esperanza	Assigned according to the % of rural/urban land in the commune where the client lives, according to the Chilean Statistics Organization (2017 census). All clients in the branch office are classified in the same category as the branch.
	Emprende Microfinanzas	There is no individual (by client) environment indicator. Clients are grouped by commune and a rural percentage for each area is assigned according to the Chilean Statistics Organization (2017 census).
	Microserfin	The client's address determines the environment, according to the parameters of the province and the district.

Notes on methodology

Selected variables for consideration

VARIABLE	COMMENTS	
Economic sectors	Based on the United Nations International Standard Industrial Classification of all economic activities (version 4).	
	Agriculture	Agriculture, forestry, fishing, mining and quarrying.
	Production/ Transformation	Manufacturing; electricity, gas, steam, air conditioning supply; water supply, sewerage; waste management, remediation activities; and construction.
	Trade	Wholesale and retail trade (includes repair of motor vehicles and motorcycles).
	Services	Transportation and storage; accommodation and food service activities; information and communication; financial and insurance activities; real estate activities; professional, scientific and technical activities; administrative and support service activities; public administration and defense, compulsory social security; education; human health and social work activities; arts, entertainment and recreation; other services; activities of households as employers; households' non-differentiated goods- and services-producing activities for own use; activities of extraterritorial organizations and bodies.

VARIABLE	COMMENTS
Data from financial statements (balance sheets and P&L)	Financial variables shown are those reported by clients at: • Their first disbursement. When the figures refer to new clients. • The latest disbursement or update available, whatever the date, when the figures refer to renewing clients or portfolio. • The exceptions to this methodology are the performance charts (e.g. growth of average monthly sales), which require disbursements to have taken place in the previous 12 months (except in the case of Fondo Esperanza, see *Financial data performance and variation in the poverty segment).*
Payment installment	The installment has been calculated as a monthly figure (where it had another frequency) and, where the client has more than one loan, all their installments to the institution are added together.
Household size	Household members are defined as *the number of people living in the same home, whether they are family members or not, who have a shared food budget or share food costs.* Since July 2018, as a result of system changes and better checking, Microserfin has updated the value of this variable for clients who have renewed a loan, assigning a backdated value to the variable.

Notes on methodology

Selected indicators

INDICATOR	COMMENTS
Dataset analyzed	The indicators measure clients with a productive unit (micro-enterprise), thus excluding loans to employees. Some clients earn wages from other jobs, generally temporary ones, as well as their productive unit. This type of client has been kept in the analysis, provided the change is temporary. Institutional clients and employees have been excluded from the indicators for savings clients. Financial health calculations have used all clients (not only credit clients) currently holding a product. Institutional clients are not included.
Saving clients	Clients with savings and deposit products have been broken down by their goals. They fall into three categories: • Saver entrepreneurs. Those who have products tailored to encourage saving among low-income entrepreneurs or who have taken out deposit products but have also had a loan with the institution at some point and are therefore entrepreneurs. • Clients with transactional savings accounts. Includes clients who have had a loan with the institution and others who have only taken out liability products. • Remaining savers. Those who have taken out another kind of product, such as those encouraging young people to save or remittance products, clients with term deposits who have never had a loan with the institution, etc.
Financial variables	Financial variables shown are those reported by clients at: • Their first disbursement, when the figures refer to new clients. • The latest disbursement or update available, when the figures refer to renewing clients or portfolio. • At different points during the clients' disbursement processes, when the figures refer to client performance over time.

INDICATOR	COMMENTS
Monthly per capita surplus/net income	BBVAMF Group uses monthly per capita earnings as the measure of a client's disposable revenues. The surplus (business revenues, less direct and indirect business costs) is divided by the number of people in the household. If necessary, it is calculated by month. Other household income or costs are not included in the calculation for two main reasons: • The aim is to show the impact of the enterprise on clients and their families, rather than revealing the entire household income from other sources. • The information about the client is related to the loan and to the information pertinent for this transaction, so there is no control over the frequency or continuity of any other income unrelated to the microenterprise. Obtaining full documentary proof would be difficult to achieve. Monthly net income is divided by the number of household members to understand its impact on the household as a whole. The household size is the number of people living in one place who share the food budget. It is a more stable figure than the number of dependents, which can vary over time. Monthly net income is calculated from the situation immediately before granting the loan, so does not include the repayment outstanding on the installment.
Income relative to the poverty line	This measures the percentage that monthly per capita net income represents relative to the poverty line. The calculation of the relative income is made against the poverty line when the disbursement is cashed out (using the PL for that year). Since it is a relative measurement, it can be compared over time (similar to the financial updating of currency units) as well as by different geographies or segments. Relative income takes a value of one when it is the same as the poverty line: Values under one indicate that the client is poor and values greater than one that the client is not in poverty.

Notes on methodology

Selected indicators

INDICATOR	COMMENTS
Economic vulnerability	Categories have been set using the monthly incomes generated by the micro-enterprise in order to determine clients' economic situations. These are compared with the poverty and extreme poverty lines, for each country, as defined by that country. Clients with monthly income below the extreme poverty line will be classified as *extremely poor.* Those between the extreme poverty and poverty lines will be classified as *poor.* A third category is made up of *vulnerable* clients, those with monthly per capita net incomes less than three times the national poverty line. Businesses of these clients generate monthly p.c. incomes above the national poverty line, but still suffer from great economic uncertainty, understood as a high likelihood of falling back into poverty. The reference to clients under the poverty line or in poverty groups together the *extremely poor* and the *poor.* The term *vulnerability* covers all three segments: *extremely poor, poor* and *vulnerable.* Remaining clients are classified as *others.*
Vulnerability line (three times the poverty line)	The threshold of three multiples of the poverty line has been defined thus because clients with revenues over this limit are unlikely to fall into poverty. In other words, the threshold of three times the poverty line represents a level of economic security such that the likelihood of clients with higher incomes falling into poverty is less than 10%. This definition is in line with studies by the World Bank.[1]

BREAKDOWN BY CLIENTS WHO FALL INTO POVERTY

Relative income at outset	100%	99%	95%	90%	75%	50%	25%	10%	5%
Rural	46.03	7.86	3.94	2.91	1.96	1.44	1.18	1.07	1.03
Urban	31.35	5.49	3.30	2.57	1.79	1.35	1.13	1.05	1.02

1. *Economic Mobility and the Rise of the Latin American Middle Class,* World Bank 2013.

INDICATOR	COMMENTS
Financial data performance and variation in the poverty segment	Data from those clients who were current at some point in the previous 12 months, and who have updated their information, was used to calculate performance indicators such as the progress made in terms of financial variables (sales and monthly earnings, assets, equity) and the reduction in the poverty segment. Where information was updated after the disbursement, this information is used to calculate performance. Slightly different criteria are used for Fondo Esperanza because of the nature of its processes, in which the client's economic information is only updated in the fifth cycle disbursement, so the criterion is slightly different. A specific time span in which the update was made is not required. Thus, the client sample is made up of clients who have had two disbursements together with a financial data update, without the stipulation that this had to have happened in the preceding 12 months. The aggregate data for BBVAMFG is calculated by requiring there to have been an update in the previous 12 months, except in the case of Fondo Esperanza. Clients who have been written off are excluded from the figures for those escaping poverty.
Job creation indicators	Changes in the number of workers hired by clients over time are analyzed in order to assess micro-enterprises' capacity to generate employment. Bancamía has only provided this information since October 1, 2016, so it has not been possible to include this indicator. Although the historical data is not available, the number of employees hired, as reported, is presented, corresponding to clients current at 12.31.2019. In Financiera Confianza there has been a change of criteria in the data collection: family members are now excluded from the employee count. For this reason, the change in job creation has not been presented.
CAGR & AGR	Compound annual growth rate (CAGR) and annual growth rate (AGR). CAGR is calculated as the weighted average of the annual growth rates between several cohorts, generally 2014-2019.

Notes on methodology

Financial health

Survey

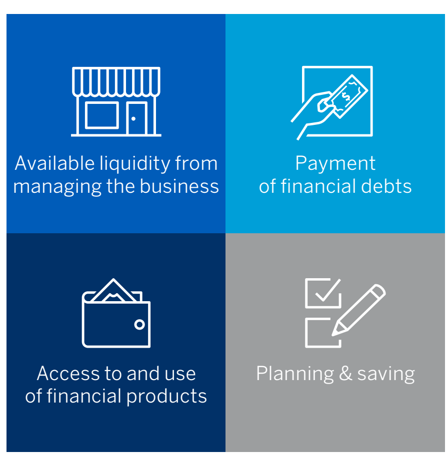
Innovations for Poverty Action (IPA) has developed a standard set of metrics for financial health that can be used in a range of contexts. These have been worked up with the support of the Bill & Melinda Gates Foundation and the Center for Financial Services Innovation (CFSI). The survey has been tested and fine-tuned in more than 10 countries.

1,157 clients were surveyed in Bogotá and Santo Domingo to measure the level of entrepreneurs' financial health, and this was linked to other administrative variables that are generally used. For more details, see our 2018 Social Performance Report.

Concept

Financial health is the ability to manage one's finances today (everyday income and expenses) and to plan for tomorrow, and we indicate wich tools one must have to be able to do this.

FINANCIAL HEALTH DIMENSIONS



How clients manage their income, expenses, and level of indebtedness to keep abreast of day-to-day outgoings.

How clients succeed in paying back their debts, assessing whether they are actually incurring more or less serious delays in paying off their installments.

What their level or extent of financial inclusion is. The range of products, and how they are used, mainly in savings accounts, is measured.

The level of formal saving that the entrepreneur is capable of accumulating. Our analysis looks at which clients have a certain accumulation of savings and how many of them have savings capacity.

Notes:

- This measurement is relative to the client segment served. That is, assessments of the indicators are adapted to the client's context (for example, which entrepreneurs have enough savings to live on for a week. In other environments, this timeline would be measured in months).
- Scoring: equal to or lower than 4.5 = low financial health; 4.5 to 7= moderate financial health; above 7 = good financial health
- In the case of Financiera Confianza, where not all the indicators are available, the weightings are distributed as follows: liquidity indicator: 25%; payment behavior indicator: 31.25%; product access indicator: 12.5%; planning & saving indicator: 31.25%.

* For savings-only and credit-only clients, the weightings of the reported variables are pro-rated.

Measurement

To measure financial health, we constructed an indicator that classifies the client's status in one of the following basic categories: 1 = low financial health, 2 = moderate financial health; 3 = good financial health.

DIMENSION	WEIGHT*	INDICATOR & RATIONALE	EVALUATION
Liquidity management	25%	**Credit installment / Net income** The available financial margin after paying off the regular installment.	Depending on the segment (defined by sector, vulnerability, rural/urban environment), the following thresholds have been set on the percentile of each segment: • < 0,25 = 1 || • 0,25 0,75 = 2 || • > 0,75 = 3
Payment behavior	31%	**Maximum nº of days in default over the previous 3 months** Shows the ability or not to keep to financial plans.	• More than 90 days of default = 1 • Between 1 & 90 days = 2 • 0 days of default = 3
Access & use of financial products	19%	**Nº of active products** A higher diversification of products implies greater capacity to cope with shocks (particularly if clients have savings and insurance).	• 1 product = 1 • 2 products or only one if the client has had a loan in the previous 12 months = 2 • 3 or more products = 3 **Use of the product** • Clients with less than 3 movements in the previous quarter, sight balance & average balance during the quarter < USD 1 = 1 • Clients with less than 3 movements in the last quarter, sight balance & average balance during the quarter > USD 1 = 2 • Clients with 3 movements or more in the previous quarter = 3
Planning and saving	25%	**Balance of savings products** Reflects the profile of the saver client (with funds in their account) or transactional client (who uses the account for their operations and, as such, has movements on the account). The account balance is calculated by the clients' ability to cover their living expenses for a minimum period (in the event of their losing their main source of income and not being able to get a loan).	**Balance** • Sight & non-sight balances ≤1 day of supplies (1 basic food basket) = 1 • Between 1 day & 1 week = 2 • More than 1 week = 3

Notes on methodology

National poverty lines

The official extreme poverty and poverty lines are taken for each country, depending on whether it is urban or rural, as published by each country's official bodies. Where these lines have not been updated from the previous year, the latest available are taken and updated using the annual CPI (Consumer Price Index) to December of the year in question.

Poverty lines in all countries except for Chile

Country	Source	Year	Poverty level	Rural (LOC)	Urban (LOC)
Colombia	2018 lines updated with Dec CPI (3.8%)	2019	Extreme poverty	103,843	127,406
			Poverty	175,614	294,002
	National Statistics Department (DANE)[2]	2018	Extreme poverty	100,041	122,742
			Poverty	169,185	283,239
	DANE	2017	Extreme poverty	99,082	121,409
			Poverty	165,062	275,818
	DANE	2016	Extreme poverty	97,867	119,685
			Poverty	159,543	266,043
	DANE	2015	Extreme poverty	86,918	106,653
			Poverty	157,752	246,336
	DANE	2014	Extreme poverty	79,837	98,407
			Poverty	139,792	233,530
	DANE	2013	Extreme poverty	77,947	95,884
			Poverty	136,192	227,367
Peru	2018 lines updated with Dec CPI (1,9%)	2019	Extreme poverty	157	195
			Poverty	258	376
	National Statistics & Informatics Institute (INEI)[3]	2018	Extreme poverty	154	191
			Poverty	253	369
	INEI	2017	Extreme poverty	153	191
			Poverty	250	364
	INEI	2016	Extreme poverty	150	184
			Poverty	244	353
	INEI	2015	Extreme poverty	137	169
			Poverty	226	328
	INEI	2014	Extreme poverty	137	169
			Poverty	226	328
	INEI	2013	Extreme poverty	132	163
			Poverty	218	316

2. http://www.dane.gov.co/index.php/estadisticas-por-tema/pobreza-y-condiciones-de-vida/pobreza-y-desigualdad
3. https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1533/libro.pdf

Country	Source	Year	Poverty level	Rural (LOC)	Urban (LOC)
Dominican Republic	2018 lines updated with Dec CPI (3,66%)	2019	Extreme poverty	2,305	2,405
			Poverty	4,756	5,342
	M. for the Economy, Planning & Development (MEPyD) to Mar4	2018	Extreme poverty	2,223	2,320
			Poverty	4,588	5,153
	MEPyD	2017	Extreme poverty	2,172	2,267
			Poverty	4,482	5,034
	MEPyD	2016	Extreme poverty	2,076	2,167
			Poverty	4,285	4,813
	MEPyD	2015	Extreme poverty	2,048	2,138
			Poverty	4,228	4,749
	MEPyD	2014	Extreme poverty	2,041	2,130
			Poverty	4,212	4,730
	MEPyD	2013	Extreme poverty	1,985	2,071
			Poverty	4,096	4,600
Panama	2018 lines updated with Dec CPI (2,6%)	2019	Extreme poverty	61	73
			Poverty	110	149
	Finance & Economy Ministry[5]	2018	Extreme poverty	60	71
			Poverty	108	145
	Finance & Economy Ministry	2017	Extreme poverty	59	70
			Poverty	107	144
	Finance & Economy Ministry	2016	Extreme poverty	59	70
			Poverty	106	144
	Finance & Economy Ministry	2015	Extreme poverty	59	69
			Poverty	105	141
	Finance & Economy Ministry	2014	Extreme poverty	59	69
			Poverty	105	142
	Finance & Economy Ministry	2013	Extreme poverty	56	66
			Poverty	102	137

4. http://economia.gob.do/mepyd/despacho/unidad-asesora-de-analisis-economico-y-social/estimaciones-de-pobreza/
5. http://www.mef.gob.pa/es/informes/paginas/pobreza-e-indigencia.aspx

Notes on methodology

Poverty line in Chile

In 2015 the Social Development Ministry (SD Ministry) published a new methodology (NM) in consensus with a wide variety of experts,[6] because "the traditional measurement was no longer reflecting the situation of poverty in which many families were living".[7] The aim is to adapt to Chile's economic and social reality (higher standards) and reflect situations of deprivation that go beyond low income (multidimensional).

The NM brought in some important changes, with the most significant ones summarized below:

Updated poverty line	The basic food basket has been updated[8] and the proportion between the poverty and the extreme poverty lines reviewed. **Basic basket:** The NM for measuring poverty by income recalculates the basic food basket (with a new estimate of its contents) for the average household. **Relation between extreme poverty and poverty:** Extreme poverty line for an average household: EPL = ⅔ PL Where: PL: Poverty line, EPL: Extreme poverty line **Extreme poverty line:** This value is set so that EPL covers food, clothing and housing.[6] The NM includes in its income a charge for renting the home for those who own or have the use of one. The previous methodology, conversely, only included a charge for those who had their own home.
Use of equivalence scales, elimination of environment.	Instead of having a single poverty and extreme poverty line (expressed in per capita [p.c.] values), lines have been drawn that depend on the size of the household (as the number of household members increases, the expense incurred to cover nutritional requirements associated with basic food and non-food needs falls proportionately). Note that the NM does not consider the environment (rural vs. urban). The new poverty lines are, as such, significantly higher than those applied using the previous methodology, where the extreme poverty line was equivalent to the basic basket of goods and the poverty line mirrored the cost of food, goods and basic services. Given that the NM poverty lines are defined based on household revenue, business income is taken (instead of *per capita* income) to calculate the metrics and the corresponding poverty line is set depending on the size of the household.

6. *New Multidimensional Methodology for Measuring Poverty by Income* (CASEN Social Observatory 2013), page 11.
Value of the Poverty Line for the years prior to 2013 is the value published by the Social Development Ministry updated by the CPI.
7. Social Development Ministry, *Una Medición de la Poverty Moderna y Transparente para Chile,* CASEN 2013, 2015 [A Modern and Transparent Poverty Measurement for Chile].
8. Minimum income set as necessary to meet one person's basic nutritional needs.

The poverty line series used are as follows:

CPI		4%	1%	3%	5%	4%	3%	2.3%	2.6%	3.10%
										CPI updated
	Household size	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Extreme poverty	1	85,838	85,838	91,274	95,888	100,944	103,139	105,653	108,696	112,066
(LOC)	2	139,444	139,444	148,275	155,771	63,985	167,550	171,633	176,577	182,051
	3	185,210	185,210	196,939	206,896	217,805	222,541	227,963	234,530	241,800
	4	226,528	226,528	240,874	253,051	266,394	272,187	278,819	286,850	295,742
	5	264,825	264,825	281,596	295,832	311,431	318,203	325,956	335,345	345,741
	6	300,875	300,875	319,929	336,103	353,825	361,519	370,327	380,995	392,806
	7	335,157	335,157	356,382	374,399	394,140	402,711	412,523	424,406	437,563
	8	367,996	367,996	391,300	411,082	432,758	442,168	452,942	465,989	480,435
	9	399,622	399,622	424,929	446,412	469,950	480,169	491,869	506,038	521,725
	10	430,209	430,209	457,454	480,580	505,920	516,922	529,517	544,770	561,658

	Household size	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Poverty	1	128,758	128,758	136,911	143,832	151,417	154,709	158,479	163,044	168,098
(LOC)	2	209,168	209,168	222,413	233,657	245,977	251,326	257,450	264,865	273,076
	3	277,817	277,817	295,409	310,344	326,707	333,811	341,945	351,795	362,701
	4	339,794	339,794	361,310	379,577	399,591	408,280	418,228	430,275	443,614
	5	397,240	397,240	422,394	443,748	467,146	477,304	488,934	503,018	518,612
	6	451,315	451,315	479,893	504,154	530,737	542,278	555,491	571,492	589,208
	7	502,739	502,739	534,573	561,598	591,210	604,066	618,785	636,609	656,344
	8	551,998	551,998	586,950	616,624	649,137	663,253	679,414	698,984	720,653
	9	599,438	599,438	637,394	669,617	704,925	720,254	737,804	759,056	782,587
	10	645,319	645,319	686,180	720,870	758,881	775,382	794,276	817,155	842,487

Currency exchange rates

All the (historical) data from MFIs is incorporated in local currency and the exchange rate applicable on December 31, 2019 is applied so that exchange rate fluctuations do not impact the conclusions.

Country	**Exchange rate**		**Source**
Colombia	COP / USD	0.000305144	BBVA Bank, mid-market rate on December 31, 2019
Peru	PEN / USD	0.301950611	BBVA Bank, mid-market rate on December 31, 2019
Dominican Republic	DOP / USD	0.018978820	BBVA Bank, mid-market rate on December 31, 2019
Chile	CLP / USD	0.001335577	BBVA Bank, mid-market rate on December 31, 2019
Panama	PAB / USD	1.000000000	BBVA Bank, mid-market rate on December 31, 2019

Latin America: Greater momentum in our footprint continues

Economy[1]

In 2019, the global economy was marked by the trade war between the United States and China, as well as by the escalation in the international trade barriers that have affected commercial exchange, confidence, and investment decisions, together with financial and real flows worldwide.

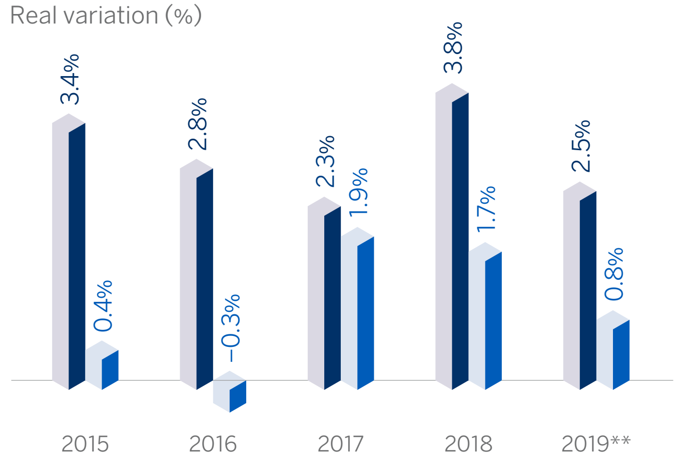
This weakness was generalized, affecting both advanced economies, especially the eurozone, and economies in emerging and developing markets. Trade volumes, which grew by 3% in 2018, edged up by just 1% in 2019, slowing their rates in developed countries (from 3.2% to 1.3%) and crashing in emerging markets (from 4.6% to 0.4%).

Last year trade performance was at its weakest since the historic fall of 10.4% in 2009, the sharpest contraction since the beginning of the 1930s. If we compare it with average yearly growth between 2010 and 2018 of 5%, it was the fourth weakest year since 1980, in terms of the slowdown in world trade expansion. The three worst years (1982, 2001 and 2009) were associated with global recessions.

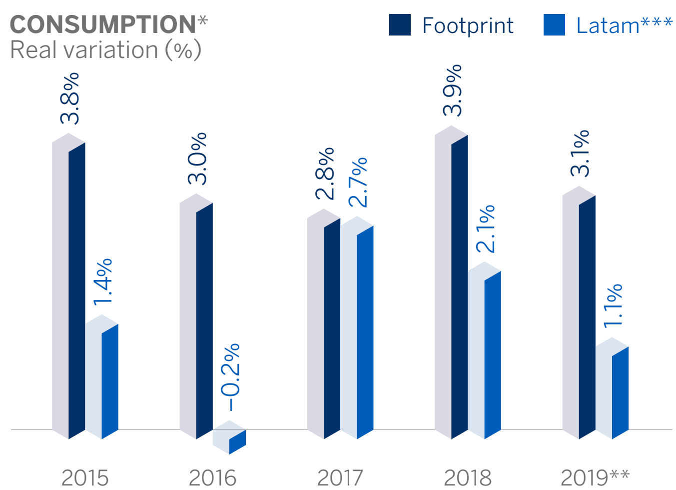
As a result of this softer performance, manufacturing slowed considerably throughout the year. We should also point to geopolitical tensions, especially between the United States and Iran, uncertainty about Brexit and growing social malaise in a significant group of countries. Taken as a whole, all this has had an impact not only on consumption (consumer confidence) but also on investment (investor confidence).

In this context, global inflation remained low in developed economies, falling from 2% in 2018 to 1.4% in 2019, whereas in the case of emerging economies there was a slight rise, from 4.8% to 5.1% over the same period.

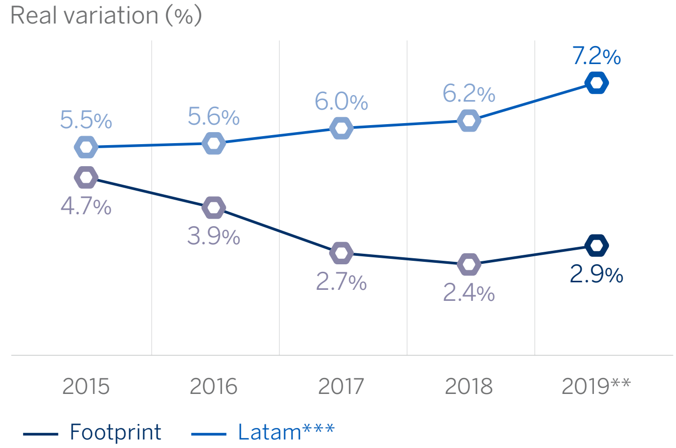
GDP*
Real variation (%)



CONSUMPTION*
Real variation (%)



INFLATION*
Real variation (%)



1. National sources. Estimates to the end of 2019 by BBVAMF Research.

*National sources. BBVAMF calculations.
**BBVAMF estimate.
***Excluding Venezuela.

This price behavior, together with concerns about growth perspectives, triggered cuts to interest rates and an expansionary monetary policy by most central banks, which pushed global yields downwards in some advanced economies, to the extent of going into negative territory.

The market for raw materials behaved in two different ways. In the first part of the year, to May, there was growth, as a result of the predominance of geopolitical risk, but after that expectations of lower demand prevailed. The oil price shot up by 30%, reaching USD/bl. 68.10 at the end of December, whereas the average price over the year fell by 10%. The price was supported in the second half of the year by OPEC's decision to reduce crude production and because of existing stocks of oil in the United States.

During the same period the price of copper rose by 3.3%, from USD/lb. 2.79. This was the outcome of the fall in global stocks, although it was restricted by negative indicators in China that nudged demand down. The average price over the year fell by 8%.

Against this global backdrop, the region's economy[2] grew by 0.8% during the year, half the rate of the previous year (1.7%), affected by low growth in the largest economies, where activity slowed considerably at the start of the year, due mainly to domestic factors.

The stagnation in Mexico is noteworthy, with a significant contraction in investment (around 4%) the result of uncertainty about the direction of economic policy; growth of 1.1% in Brazil because of slacker performance in household consumption, and a 2.4% contraction in Argentina. These three economies, which account for a large proportion of the total, have determined the region's aggregate performance.

In the countries where the institutions belonging to BBVA Microfinance Foundation operate, its “footprint”,[3] average business growth was 2.5%,[4] a higher rate than the regional average, despite tensions in most of the footprint countries.

There was social upheaval in the final quarter in Chile which paralyzed or disrupted activity due to damage caused to facilities, difficulties experienced in workers' journeys and reduced operating hours. The most drastic falls were in the service industries, trade and manufacturing.

To a lesser extent, the strikes in Colombia, the political crisis in Peru, the pre-election process in the Dominican Republic and the political crisis it triggered, were shocks that also affected performance in our footprint, which posted an aggregate growth rate 1.3 percentage points lower than in 2018 (3.8%).

On the domestic demand side, healthy inflows of remittances from the rest of the world supported consumption in the Dominican Republic and Colombia. In the latter, and also in Peru, the sharp increase in immigration was another factor supporting consumption.

Growth in private investment stayed the same. In Colombia investment in machinery and plant was boosted by fiscal incentives, in Peru mining investment grew at the same rate, whereas in the Dominican Republic, although investment growth slowed, it remained strong at 8.1%, mainly due to the performance of construction, which accounted for 80% of the total.

In Chile investment growth fell by half, while in Panama, although it did better than in 2018, investment expanded at less than half the rate seen between 2015 and 2017.

On the supply side, growth in mining activity moderated in both Peru and Chile, and construction grew less in all countries compared to the previous year, excepting only the Dominican Republic, where it was the principal driver of the economy. In general terms, primary sectors grew less than others in all the economies.

2. Excluding Venezuela, enveloped in a profound economic and humanitarian crisis, the outcome of idiosyncratic factors.
3. Chile, Colombia, Panama, Peru, and the Dominican Republic.
4. Growth weighted by the size of each of the economies where BBVA Microfinance Foundation institutions operate.

Latin America: greater momentum in our footprint continues

In most countries domestic demand grew less than GDP, the slower export momentum in our footprint countries being responsible for the negative contribution to growth of the external sector in 2019.

Inflation remained stable in Latin America, except in Argentina, Uruguay, and Venezuela. The first two were impacted by the sharp correction in the exchange rate, while the third is immersed in a deep crisis and the implosion of its economy. During 2019 average inflation in Latin America and the Caribbean[5] rose by 1 percentage point over 2018, moving from 6.2% to 7.2%.

In our footprint, however, inflation came to 2.9%, 0.4 percentage points above the rate in 2018 (2.4%), due to the spikes in Colombia and the Dominican Republic, but within central bank target ranges. In Chile, sharp depreciation and the peso's volatility in the final quarter was a factor in driving up prices. In contrast, in Peru lower inflationary pressures on demand triggered a downward correction on prices, whereas Panama registered deflation, with average inflation over the last five years posting at 0.4%.

In this inflationary environment, the behavior of the real sector and market uncertainty meant that in general terms the various central banks' monetary policies were expansive, with cuts to the monetary policy rates in Chile, Dominican Republic and Peru, whereas in Colombia it remained the same.

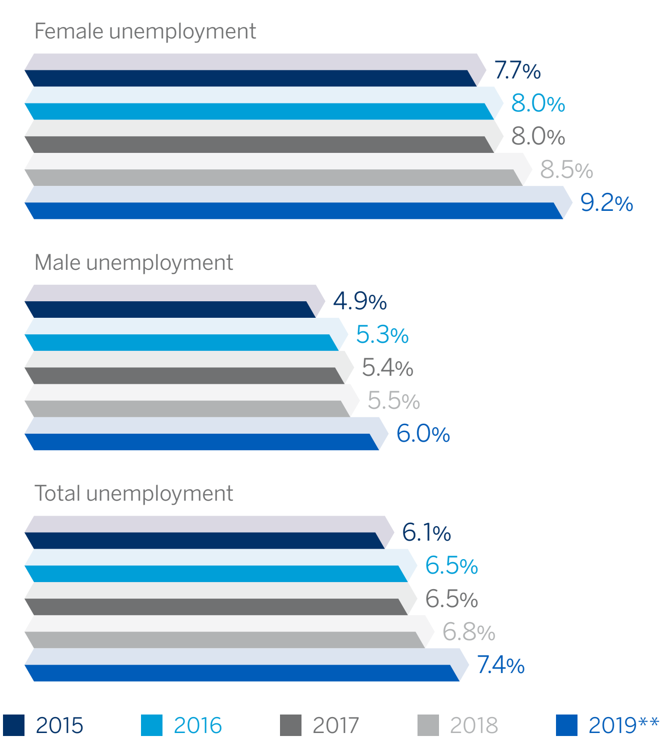
Employment, poverty and welfare[6]

The average unemployment rate in Latin America rose by 0.3 percentage points, from 7.8% in 2018 to 8.1% in 2019. The gender gap among the unemployed remained the same, with unemployment for women recorded at 9.6%, whereas for men —despite the lower participation of women in the labor market— it was 6.9%.

Across our footprint, lower economic growth meant that the unemployment rate rose by 0.6 percentage points, coming in at 7.4% in 2019. This is an outcome of the deterioration in the labor market in Panama, Colombia and Chile, whereas it remained practically the same in the Dominican Republic and Peru.

Women's unemployment was 9.2%, a gap of 3.2 percentage points between unemployment for men, which was 6%.

LABOR MARKET*
%



5. Excluding Venezuela.

6. National sources. Estimates to the end of 2019 by BBVAMF Research.

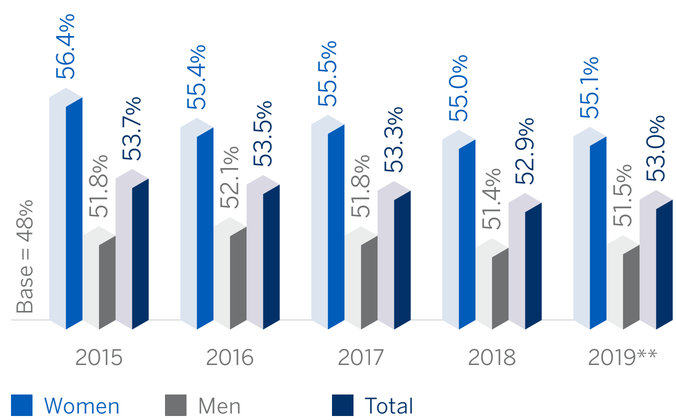
The global participation rate fell by 0.4 percentage points, from 65.6% to 65.2%, with a gender gap of 20.8 percentage points in participation between men and women, recorded at 76.2% and 55.4%, respectively.

Gender gaps in the labor market are the outcome of a long series of inter-connected factors that include social norms, gender roles and the socio-economic limitations that are often deeply embedded in society. Women must also grapple with economic disincentives to participating in the labor market.

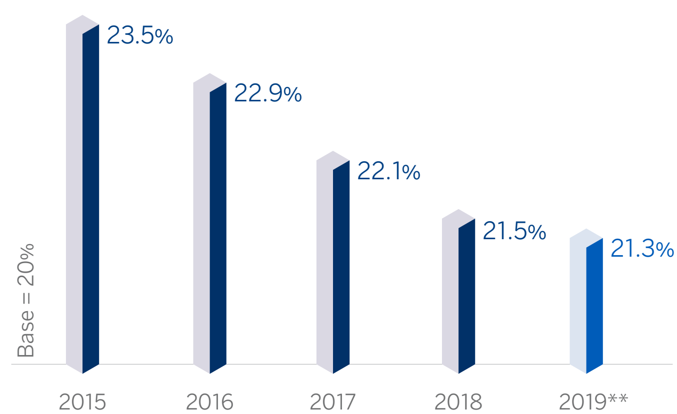
Self-employment as a proportion of total employment has continued to expand, while waged labor has contracted. This was visible behind the edging up by 0.1 percentage points of the rate of informality, which came to 53% of the total (around 28.7 million workers). In our footprint too, informal labor rose, with the rate for men at 51.5%, compared to 55.1% for women.

Income poverty in 2019 posted at 21.3%, meaning that around 24.5 million people found themselves in this situation. In the last five years, around 1.4 million people have escaped poverty.

INFORMAL SECTOR*
Population (%)



MONETARY POVERTY*
Population (%)



* National sources. BBVAMF calculations.
** BBVAMF estimate.

Latin America: greater momentum in our footprint continues

Financial inclusion

According to the latest available figures from the World Bank,[7] and from the strictly financial perspective, 49.2% of adults in our footprint are excluded, represented by the fact that they do not possess a checking account or indeed any financial products. 61% of unbanked adults belong to the poorest 40% of households, whereas for the richest 60% of households, the percentage is 41%; so there is a 20 percentage-point gap in this factor.

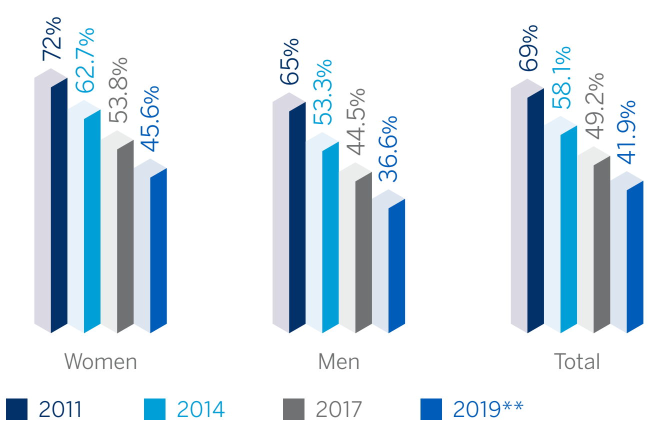
In terms of the gender gap in financial inclusion, men are 10 percentage points ahead of women, 44% of whom are included. In other words, six out of every 10 adult women do not have a bank account.

Based on this information, and using indicators already available, 41.9% of adults were excluded from the financial system across our footprint in 2019,[8] an improvement of 7.3 percentage points over the previous measurement.

The gender gap edged down a little (by 0.3 percentage points) on the figures that men are ahead of women in terms of inclusion by 8.9 percentage points. 36.6% of men still do not have a bank account, while the proportion for women is 45.6%. Colombia and Peru have made most progress.

48% of adults have made some kind of saving in the last year, but only 18% have done so in a financial institution. For their part, 52% have received a loan, although only 29% have obtained it from a financial institution, whereas 15% have borrowed from family or friends.

UNBANKED ADULTS*
% of the total +15 years old



7. Global Findex 2017, World Bank. Calculated for the BBVAMF Research footprint.
8. BBVAMF Research estimate.

* Global Findex, World Bank.
** BBVAMF estimate. BBVAMF calculations.

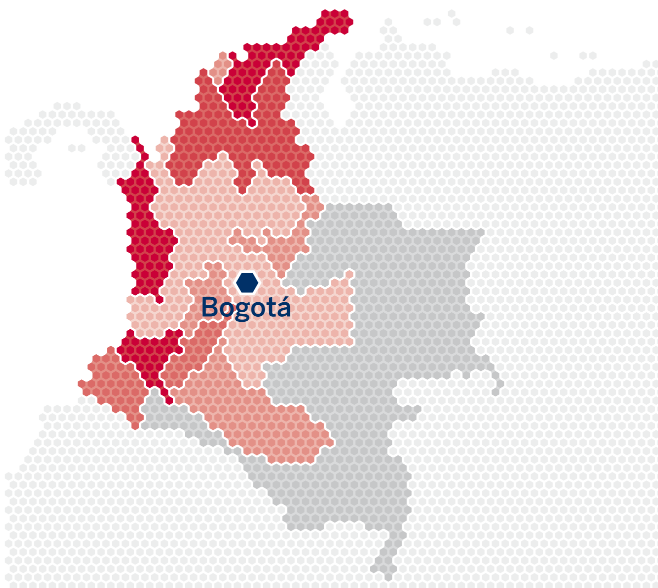
Colombia

Bancamía

Social Performance Report **2019**

Measuring realities that drive people's dreams

Country context



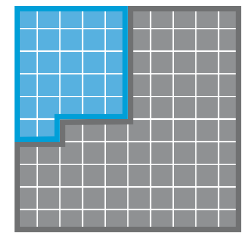
Incidence of national poverty

0% 25% 50%

No information

National poverty
rate[1]

27%



GINI index[2]
Inequality measurement:
0 = Perfect equality
1 = Maximum inequality

0.52

55%
unbanked adults[3]

22% of clients were banked by Bancamía in 2019.

1,108,278 total clients

343,693 total nº of credit clients

81% vulnerability

54% women

44% rural environment

48% primary educ. at best

17% older people (> 60 years old)

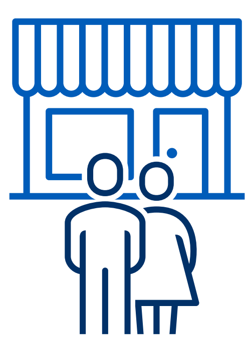
14% young people (< 30 years old)

81% of these businesses generate less than USD 10 a day (and are thus vulnerable).

The main cause of vulnerability is unstable incomes. The challenge is to steady them and plan for the future.

They become entrepreneurs to improve **their economic situation**

BUSINESS



19% Assets
Improvement in their incomes

11% Sales
Improvement in their incomes

52% Raise their income
of clients who took out a loan in 2019, one out of two have raised their income since the previous loan.

HOUSEHOLDS

Financial health is important in planning saving and coping with unexpected expenses.

Well-managed credit

Average disbursement
Total clients served in 2019:
USD **1,289**

+ Savings

10%
of clients could survive for a week on their savings

+ Insurance

Product diversity
27%
of clients have all three types of products

There is potential for more saving

40% of clients have the capacity to generate small savings.

Improvement levers: incentivize sensible habits and increase financial understanding.

390,176
people have received financial education.

Generating incomes, together with solid financial management, means that household standards of living can be improved, and jobs created.

8%
clients who improve their housing conditions in three years

4%
those improving their educational level

Indirect impact

Source: Bancamía. BBVAMF calculations.
(1) National poverty rate according to DANE figures, 2018. (2) ECLAC, 2018. (3) Global Findex 2017, World Bank.

Introduction

Bancamía accompanies vulnerable entrepreneurs along their journey and works to make financial resources available to them, especially those living in rural areas. Technology and a strategy of using different channels to reach them are helping to make this goal a reality.

Despite the negative impact of several strikes nationwide during November, the Colombian economy grew by 3.2% in 2019, underpinned by high rates of consumption. More immigration, increased revenues from stronger remittances, and the expansion of consumer credit together account for higher household spending.

Investment has been driven by fiscal policy incentives for the purchase of machinery and equipment, offsetting the sharp fall in housing investment.

Inflation edged up a little, closing the year at 3.8% and remaining within the target range. This allowed the central bank to keep its monetary rate stable (4.25% over the year).

At year-end, the unemployment rate was 10.5%, an increase of 0.8%. The number of occupied workers fell (170 thousand less than in 2018), both in urban areas (–25 thousand people) and rural ones (–145 thousand), with the drop in rural employment accounting for most of the change in the labor market. The gender gap remains unchanged: unemployment among women was 13.6%, higher than that of men by 66%.

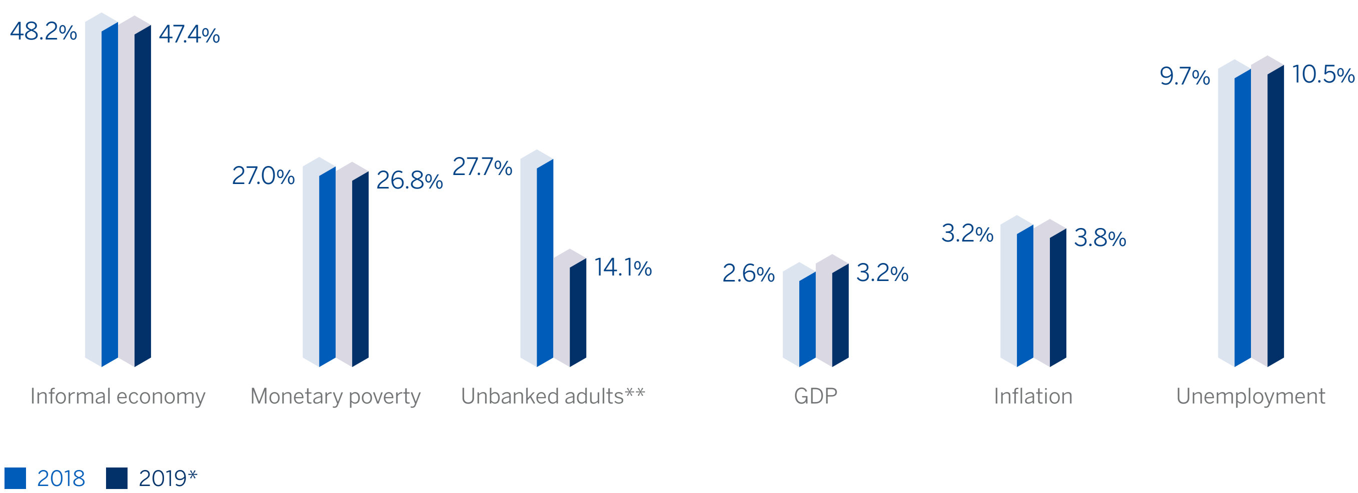
The economy's informal sector still accounts for 47.4% of workers. That ratio breaks down into 46% for men, and 49% for women.

26.8% of Colombia's population is in monetary poverty. The disparity between the rural and the urban surroundings has not changed. 14.1% of people (7.1 million) have at least one unmet basic need. In cities and provincial capitals, the percentage is 9.2%, while in remote villages and the countryside the index goes up to 30.2%.

Colombia's microfinance system is one of the most developed in the world. According to Global Microscope 2019,[1] Colombia was awarded first place in the financial inclusion ranking measuring countries' commitment to promote microfinance over the long term (Banca de Oportunidades' National Strategy).

1. Data compiled by The Economist Intelligence Unit.

MACROECONOMIC DATA



Bancamía's leadership of its peer group is apparent in the position it holds as Chair of the Board of ASOMICROFINANZAS, the trade body for Colombia's microfinance institutions, with 38 players active in the microfinance sector, accounting for 99% of the country's entire microcredit portfolio.

Bancamía is firmly committed to the sector's development. Its vision is to facilitate the path for people at the bottom of the economic pyramid to develop, by providing financial products and services suited to them.

To reach the remotest rural areas Bancamía has digitalized its channels, making them simpler and more accessible.

KEY VOLUMES[2]

Total number of clients	**1,108,278**
Number of disbursements in 2019	296,713
Gross portfolio (USD)	**434,243,561**
Average disbursement in 2019 (USD)	1,289
Amount disbursed in 2019 (USD)	**382,482,687**
Client assets under management (USD)	212,981,173
Number of employees	3,445
Number of branches	217
People receiving financial education	390,176

* BBVAMF Research estimate.
** DANE Census, 2005 and 2018.
2. USD/COP: 3277.14, at 12.31.2019. BBVA Research.

Introduction

In 2019, Bancamía consolidated its value offering to the million clients who have put their trust in the institution. The bank provides savings, credit and insurance products, together with financial education to low-income entrepreneurs across the country. Through its 217 branches, an extensive network of both in-house and independent banking agents, as well as a growing mobile banking and virtual branch offering (around 224,000 clients are already digital clients) it aims to reach all the entrepreneurs in the country.

To achieve its aim of serving vulnerable clients as efficiently as possible, Bancamía is pushing forward with its digital strategy. Technology is the great ally in its fight against financial exclusion and inequality. For that reason, it has rolled out mobility tools throughout its network that enable officers to bring the branch office to their clients' homes.

Another of the institution's priorities is to reach rural clients. 59% of the Colombians living in country areas do not have bank accounts. These remote areas have little infrastructure and the financial offering is much more limited. Bancamía wants to reach all these rural entrepreneurs (44% of the total) and support them in generating sustainable economic surpluses over time. Banking agents, of whom 375 are employees of the institution, represent an opportunity because they are so close to the client. Since 2017 they have had an app that has improved customer service by allowing them to consult their accounts, make transfers, pay for services, recharge their devices etc, without having to make a journey to the bank.

The Group's institutions, including Bancamía, have guaranteed their corporate commitment to women's economic empowerment, driving gender equality initiatives inside and outside the organization to develop specific products and services for women.

The institution's purpose and its initiatives help to achieve the Sustainable Development Goals (SDG) and its associated targets. As well as these three strategies, several projects are being developed for the sustainability and inclusion of entrepreneurs who are at high risk of financial exclusion:

- Sustainability: The Microfinance for Ecosystem-based Adaptation (MEbA) program is being rolled out on a wide scale in the fight against climate change, supporting entrepreneurs to strengthen their environmental resilience.
- Inclusion: Bancamía also has a special focus on the 58 municipalities in Colombia that have been given priority status by the government in the peace process. It does so in partnership with influential governmental departments and international organizations, such as the United States Agency for International Development (USAID), with which it is working on the Rural Finance initiative, strengthening its commitment to the victims of the armed conflict, especially in the countryside .
- Finally, as Venezuelan refugees in Colombia now number 1.3 million,[3] the program *Progreso Sin Fronteras* [Progress without Frontiers] has been launched for them to promote financing for entrepreneurs arriving in Colombia in search of a better future.

Bancamía works to create long-lasting financial relationships with entrepreneurs who in many cases have no credit history. It has served 89,677 new credit clients, of whom 35% had incomes under the poverty line, while a further 51% were in vulnerability, all of them with net incomes of less than USD 10 a day.

Inequality, economic slow-down and unemployment make the situation of entrepreneurs more difficult. Our clients' businesses continue growing, although more slowly. Escaping poverty takes time, and the risk of reverting is slightly higher than in previous years. It is important to work on financial education, as well as products and services that help entrepreneurs to consolidate their achievements.

3. https://www.unhcr.org/news/press/2019/6/5cfa2a4a4/refugees-migrants-venezuela-top-4-million-unhcr-iom.html#_ga=2.145323508.1977907234.1589396154-398435987.1589396154

Credit-only clients	15,893
Credit & savings	327,800
Savings-only clients	764,585
Total credit clients	**343,693**
Total savings clients	**1,092,385**

Credit clients served in 2019 by Bancamía have average monthly net incomes per household member of USD 132, which is around four multiples of the basic food basket in urban areas.

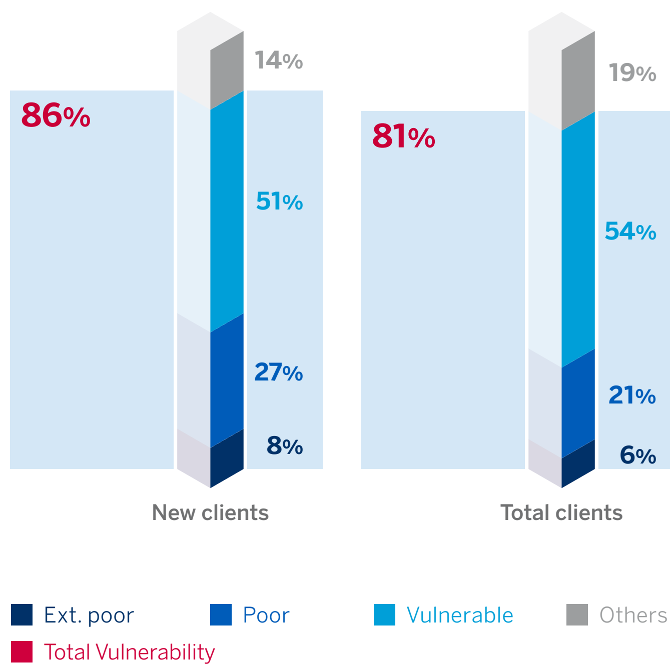
PRICE OF THE BASIC BASKET OF GOODS

Rural areas USD **31**

Urban areas USD **39**

The price of this set of goods and services sets the extreme poverty line. Those entrepreneurs who do not manage to generate enough income to buy this basket are classified as extremely poor. The price of the set of goods consisting of the basic basket, clothing and housing constitutes the poverty line. In the case of Colombia this is USD 54 a month in rural areas and USD 90 in urban ones.[4] Those entrepreneurs whose businesses generate projects below this line are classified as poor. The wide disparity between the rural and the urban poverty line shows how spending is changing in urban areas towards a more sophisticated and expensive basket of goods.

CLIENT ECONOMIC VULNERABILITY*



The category in which most entrepreneurs find themselves is that of clients who, while not poor, have very volatile incomes, meaning that any small mishap can cause them to fall back into poverty. These are vulnerable clients. The threshold set for this classification is that of having per capita net income which amounts to less than three multiples of the national poverty line. 86% of new credit clients come under this threshold.

Branch offices	Loan officers	Banking agents
217	**1,720**	**375**

4. Poverty line published by DANE and updated using the CPI at the end of the year.

* According to the official poverty lines established by the *Departamento Administrativo Nacional de Estadística* [National Administrative Department of Statistics] (DANE), differentiating between rural and urban surroundings, a vulnerable segment is one comprising clients whose per capita net income (estimated by dividing net business net income by the number of people in the household) is above the poverty line, but below the threshold obtained by multiplying the poverty line figure by three.

The vulnerable entrepreneurs we serve

Our client profiles

Bancamía's purpose is to make vulnerable entrepreneurs with small businesses financially included. In 2019 it provided finance for nearly 90,000 new clients: credit products that help entrepreneurs buy inputs and machinery or to make improvements in their business. Access to financial resources and training is necessary for economic development and poverty mitigation.

The aim: that everyone, without exception, can develop economically and socially. For this reason, Bancamía works hard to give opportunities to those who have not had them in the past: 22% of the entrepreneurs it has funded had no previous experience in the financial system.

86% of the clients we serve manage businesses with surpluses of under USD 94 a month for each household member. They are classified as entrepreneurs in vulnerability, since this sum is not enough to pay for a basic basket of goods and/or any contingencies could make them lose the ground they have gained.

If we look in more depth at the businesses of vulnerable entrepreneurs (51% of all new clients) they generate 1.7 multiples of the basic basket of foodstuffs, goods, and services, which equates to USD 124 (COP* 407,034) a month. This is less than half Colombia's minimum wage (COP 877,803 in 2019; about USD 269). Bancamía's largest client segments are young people, women in urban areas and men in rural areas. It is they who handle their household finances (generally large households, with more than three members) and who have more impact on the communities where they operate.

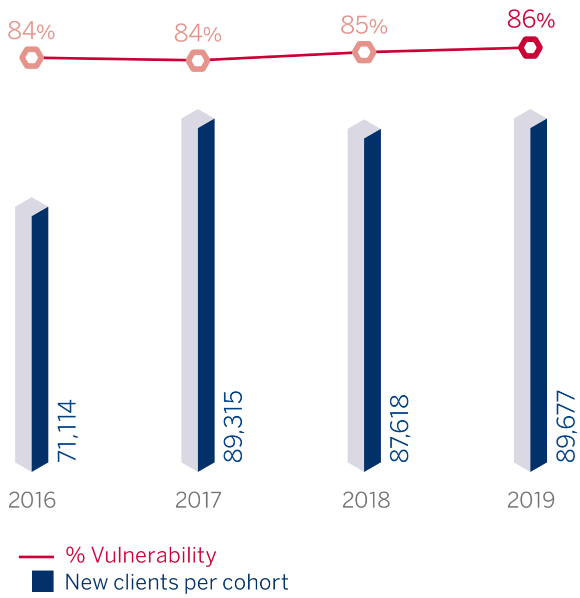
These entrepreneurs need innovative strategies to increase their cover, manage their risk and meet their needs, particularly in rural areas far from cities. Understanding them fully is the first step.

Bancamía looked after 89,677 new credit clients, mainly young people, urban women and men in rural areas. 86% of them are in vulnerability.

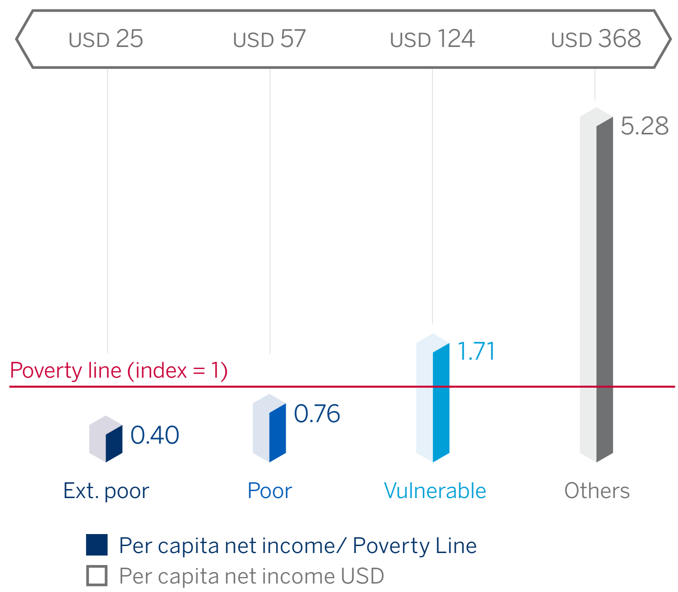
(1) New clients in the year (without previous credits).
Vulnerability is the percentage of clients with incomes lower than 3 multiples of the country's official poverty line.
Banked clients: Clients served in 2019 who have not previously had financial products with formal financial institutions.
Exclusive clients: clients served in 2019 that only have a loan with Bancamía.
(2) According to each country's official poverty line.
New clients (no previous loans) signed up over the year.
(4) New clients during the year (no previous loans).
Vulnerability is the percentage of clients with incomes below the country's official poverty line multiplied by three. Households with a single member are classified as 'solo', those with two or three people are 'average household' and those with more th an three people are classified as 'large household'.

* COP = Colombian peso.

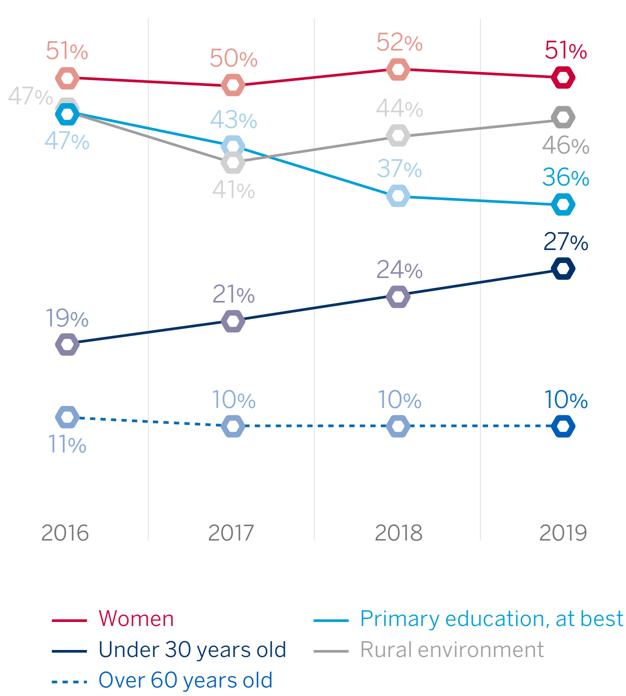
1 NEW CREDIT CLIENTS
New credit clients, by cohort
% clients banked: 50%
% exclusive clients: 22%



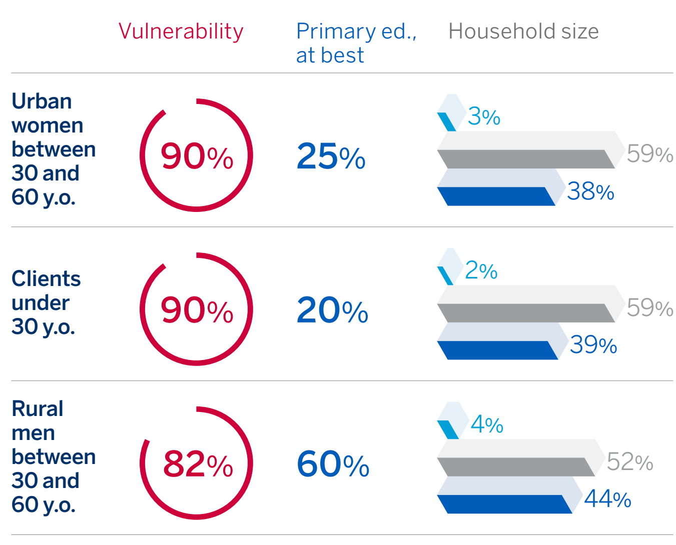
2 ENTREPRENEURS' INCOME
Income of segment over poverty line



3 NEW CLIENTS PROFILE
New clients by year of entry (%)



4 SEGMENT OF MOST REPRESENTATIVE CLIENTS
New credit clients



% Portfolio:

Urban women between 30-60 y.o.: **20%**
Clients under 30 y.o.: **28%**
Rural men between 30-60 y.o.: **16%**

We prioritize our support for women entrepreneurs

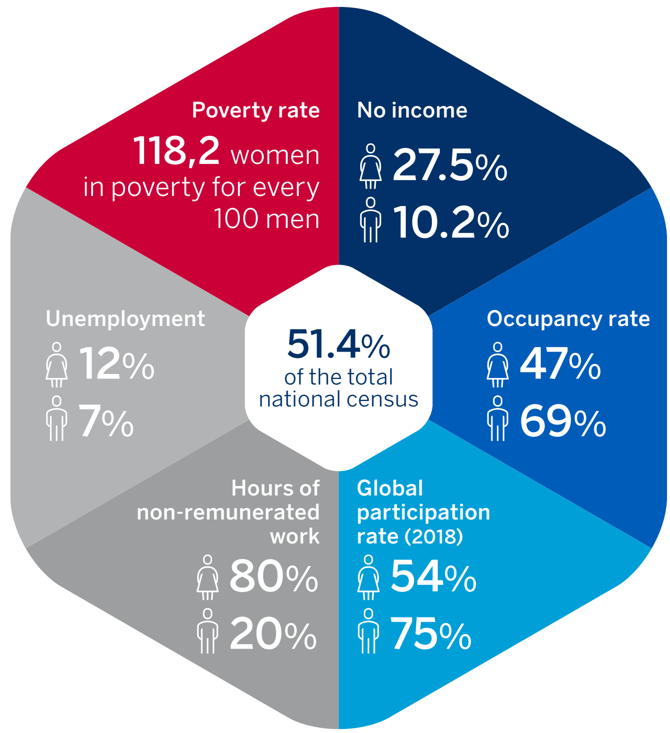
The situation of women in Colombia

It is critically important that Colombian women participate more fully in the country's development and join the market in large numbers if they are to achieve economic and social empowerment. Empowered women can break the cycles of poverty, vulnerability, and violence, establish relationships on equal terms, exercise their citizenship fully and consolidate leadership roles in development, democracy, and peacebuilding.
The current situation in the country has posed important challenges in tackling this agenda.

Yamile Salazar
Entrepreneur

"For me the relationship with my loan officer is really important. She has become a friend who has given me very good advice about my business growth. Bancamía gave me a chance, she empowered me and that is what I do now, empower other women. Today I have 20 workshops and I provide employment for nearly 100 people."

STATUS OF WOMEN IN COLOMBIA[5]



RURAL WOMEN IN BANCAMÍA

36%
Bancamía's female clients living in rural environments

Working in agriculture
21%

In vulnerability
80%

With primary education at best
56%

Financial gaps in the rural environment

Sales women/men	0.94
Surplus women/men	0.88
Assets women/men	0.80

5. Sources: DANE (2018), Technical Bulletin on Monetary Poverty; Aug 2019, Bulletin: Informal Employment & Social Security; April-June quarter, p201.; Aug 18-Oct 18, Technical Bulletin: Large-scale comprehensive household survey; Aug 19-Oct 19, Technical Bulletin: Job Market by gender.
Women's progress in Colombia 2018: Transforming the economy to make rights a reality.

Who are our female clients?

Women comprise 55% of Bancamía's profile and their payment behavior is good; their score on the **Past-due Portfolio Index** is better than the overall average, at **4.39%.**

In the rural environment, 36% of the bank's portfolio —USD 24 M— **is taken up by women entrepreneurs** working in retail trade, stockbreeding (cattle, buffalo, and pigs) and growing coffee.

Women* 54%: 604,144

84%
Vulnerable

30%
Below the poverty line

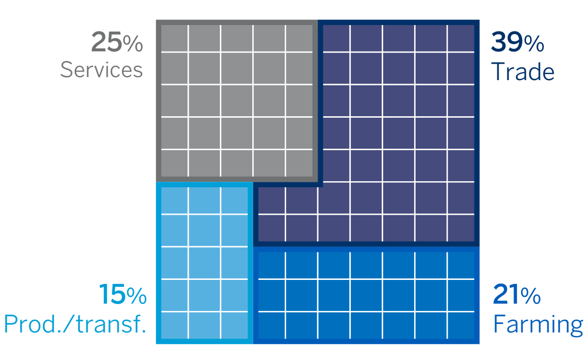
44%
Primary education

39%
Alone with dependents

Gaps between men and women

Sales	woman/man	**0.90**
Net income	woman/man	**0.85**
Assets	woman/man	**0.80**

SECTORS



* Information on credit clients only.

Value offering

1. Segmentation – "Woman" filter
A digital segmentation tool which makes it easier for our sales force to relate to and assist our female clients. Differentiated products and services are added —financial and non-financial— tailored for our female microentrepreneurs.

2. Protected purse insurance
Policy to cover possible thefts, designed for women working mainly in catalog sales who handle large amounts of cash.
Document replacement
Key replacement
Purse/pocketbook replacement
Cost: USD 0.40/month

3. Cancer insurance for women
With this policy the insurance company will pay the insured sum (between USD 1,428 and USD 5,714) for oncological treatment if there is a positive diagnosis, with a 50% advance payment in the case of breast or uterine cancer.

Cost: from USD 0.60 to USD 2.26/month.
Applicable age group: 18 to 78 years old.

4. Support services for women
To assist our female clients with their daily needs, we have developed special support services for women that are provided for as long as the loan is active. These cover services such as: family medical advice by telephone | legal advice | psychological and emotional advice by telephone | smear tests | mammograms | laboratory tests | plumbers | teacher by telephone for urban women and medical advice by telephone | technical farming advice | preventive medical check-ups | weather information | geriatric advice by telephone |styling and hairdressing for women in the countryside.

Cost for urban women: from USD 0.48 to USD 0.78/month.
Cost for rural women: from USD 0.40 to USD 0.54/month.

5. *Nosotros con Ellas* [We stand with the Women] – website
https://www.bancamia.com.co/ellas

The vulnerable entrepreneurs we serve

Businesses for getting ahead

Starting a productive activity, keeping it going and thus promoting expansion through the development of higher levels of expertise and efficiency is a huge challenge. So it is important to note that over the course of 2019 Bancamía has continued supporting its farming clients (33%) as they develop their activities as well as those in the services sector (20%).

Entrepreneurs in the services sector enjoy higher margins (39% surplus over sales after paying the monthly installment) and higher net incomes compared to other sectors. Higher levels of education may have contributed to this shift. People who have developed a skill or expertise that enables them to create new products or services work in businesses that generate higher margins and it is vital to carry on supporting them.

Farming —a sector with one of the highest impacts in Colombia— presents bigger challenges. Most of our clients in this sector grow coffee (15%) or rear cattle (32%). Both activities involve specialization, not only technical but also in terms of assistance in mediating with the value chain. This is visible in the high levels of assets (compared to other sectors) and low margins. They require, therefore, support that goes beyond financing.

Bancamía contributes to farmers' sustainable development with products for adapting to climate change and mitigating environmental risk. One in three of the institution's clients works in the farming sector.

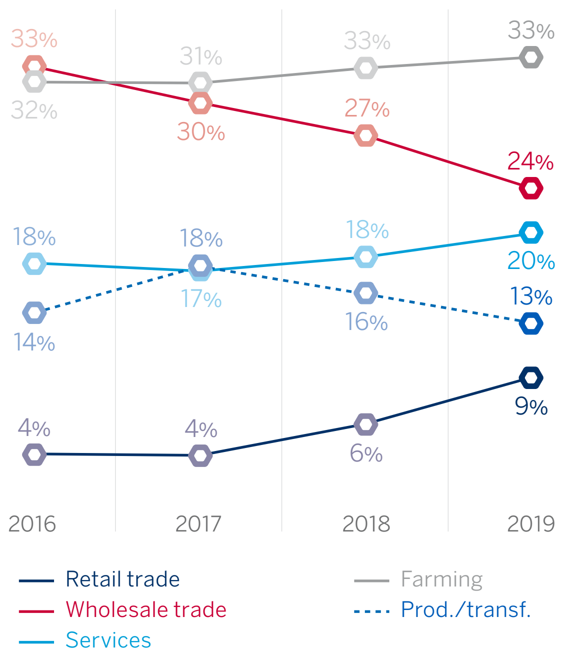
Bancamía, together with the United Nations Organization, signed an agreement to set up a "model farm", after which the Microfinance for Ecosystem-based Adaptation (MEbA) program was rolled out. This initiative has the purpose of providing continuity, reinforcing, extending, and adding to the financing services offered by the bank to small farmers, as well as giving free telephone assistance in implementing adaptation measures. Currently 1,663 farming entrepreneurs have taken out loans to pay for upgrades such as drip irrigation, organic fertilizers and greenhouses (among other measures) to increase their productivity. These green credits help to create sustainable ecosystems and increase farmers' resilience to climate-related risk. Bancamía places special emphasis on making these services available to farming women who now represent 40% of the clients served with green loans (2 percentage points above the traditional farming portfolio, where they account for 38%).

Those who have not been able to take on large investments have traditionally opted for retail trade (small stores for groceries and other provisions, etc). Of all clients, those choosing this sector are still numerous (34% del total), particularly sales of clothes and complements, and non-specialist stores.

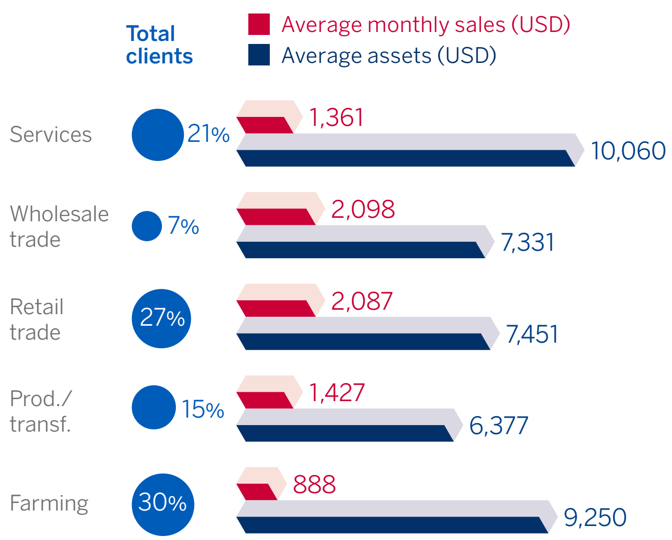
As a more flexible sector, it attracts low-income urban clients and concentrates a large proportion of women (63%). Sales are high and investment in assets low, so the barriers to entry are few. Nevertheless, it produces lower financial margins (the percentage of sales that remains as surplus is lower than in other activities).

(6) Data on average monthly sales and average assets in each sector.
(7) Ratios of average costs over sales (o/sales) in each sector. Net income is taken after payment of the financial installment.
(8) Data on these clients' average assets, liabilities, equity and ratios, for each sector. Ratios (equity/assets, liabilities/assets) are calculated using each client's average ratio. The loan granted by the institution is not included in the liability figure.

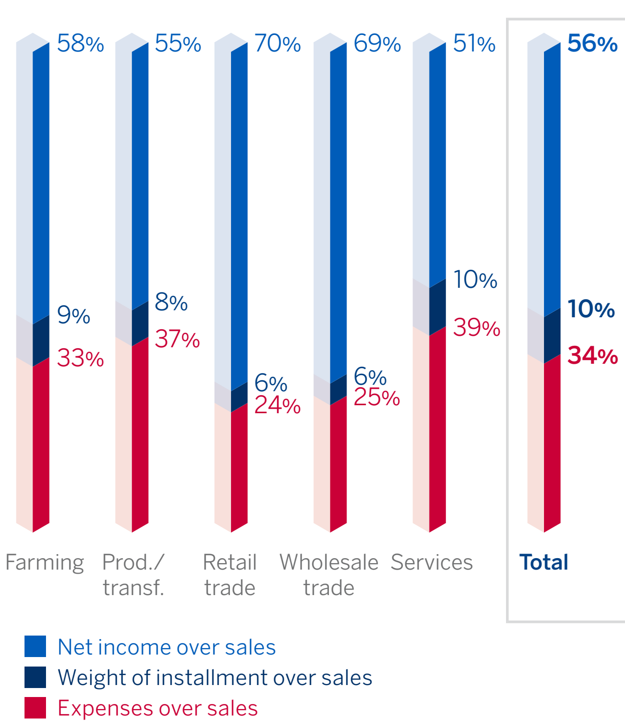
5 ACTIVITY SECTOR
New clients by year of outset (%)



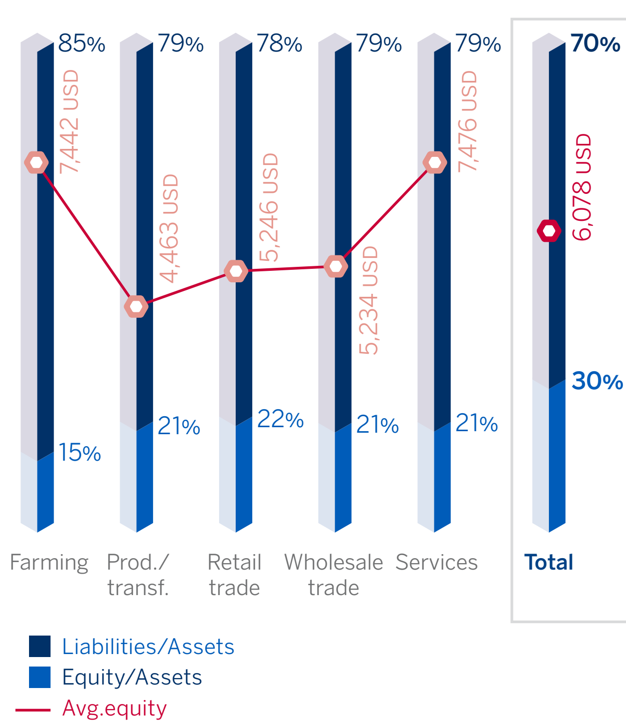
6 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients



7 P&L- MARGINS OVER SALES
Total credit clients



8 BALANCE STRUCTURE - LEVERAGING
Total credit clients



Our clients' development

Their business growth

The hard work of all the entrepreneurs in Bancamía is bringing about growth in their business sales, net incomes and assets of over 10%, above the country's inflation rate. Given that a growing proportion of the clients being served are vulnerable, their average starting figures in sales, incomes and assets are also lower compared to 2018.

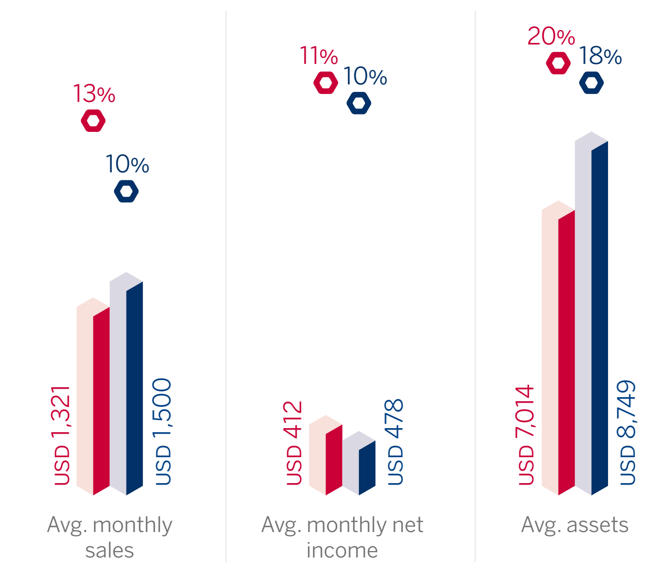
Within the service sector, those entrepreneurs who began working with Bancamía in 2019 have the highest educational levels. 76% have secondary or tertiary education compared to, for example, 45% of clients working in farming, or 72% who have retail trade enterprises. This could account for the faster growth in the incomes of these businesses (14% per annum, compared to 7% in farming).

As we will discuss below, the reinvestment by entrepreneurs of small surpluses back into their businesses is especially important, since this prevents their microenterprise from becoming de-capitalized. Furthermore, in many cases, these investments raise productivity and increase incomes. Entrepreneurs' assets grow by 19%, a rate that is high and sustained over time (their growth was 20% in 2018).

Finally, we note that businesses managed by women are smaller than those of men (20% lower assets) and active in areas that are more flexible and easier to combine with family life (door-to-door sales of clothing, restaurants, etc). Their growth rates, however, are higher. In the case of assets, growth comes in at 20% (against 18% for men).

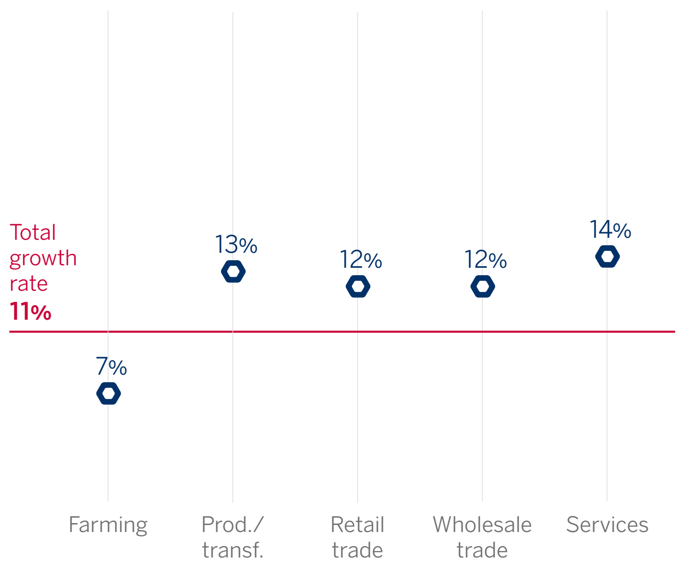
(9) Data on clients current at some point over the year and who have rolled over a product in the last 12 months with the institution (hereinafter "renewing clients"). The compound annual growth rate (CAGR) for cohorts (entry year) between 2015 and 2019 was used for the calculation, taking the weighted average of these rates for each gender.
(10) (11) (12) Data on renewed clients. The compound annual growth rate (CAGR) for cohorts (entry year) between 2015 and 2019 was used for the calculation, taking the weighted average of these rates for each sector.

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



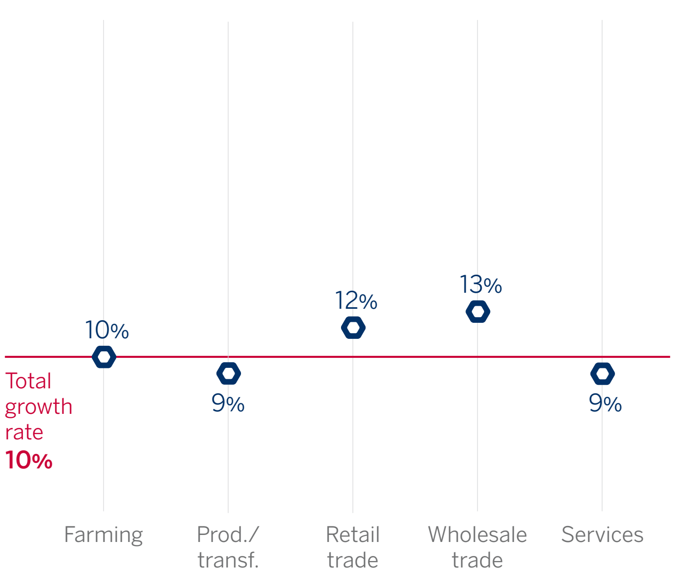
Amount for women
Amount for men
Annual growth rate women
Annual growth rate men

10 SALES GROWTH
Compound annual growth rates



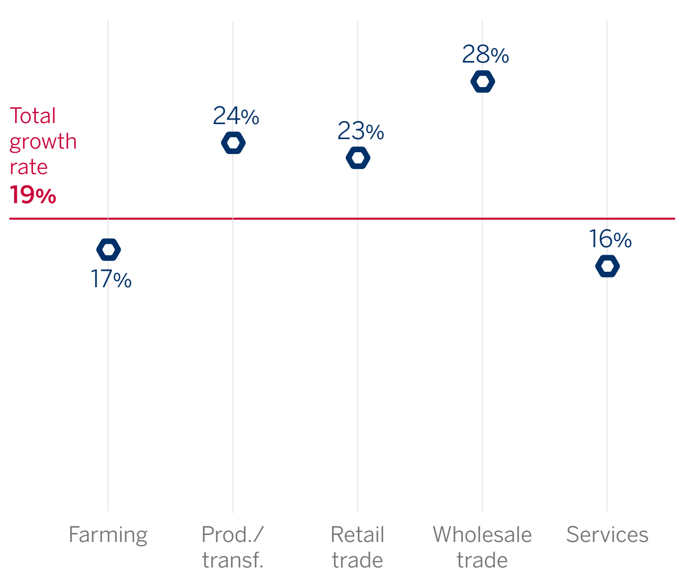
Total growth rate
CAGR by sector

11 GROWTH IN NET INCOME
Compound annual growth rates



Total growth rate
CAGR by sector

12 GROWTH IN ASSETS
Compound annual growth rates



Total growth rate
CAGR by sector

Our clients' development

Escaping poverty

Poverty and inequality continue to be a huge challenge in Colombia and remain among the highest in Latin America. That is why individual enterprise is so important, together with financial support for these entrepreneurs.

Businesses make it possible for them to generate the income they need to survive and cover their most basic costs. As these businesses grow, they overcome the toughest phases. The challenge is for contingencies to not gobble up the capital they have amassed. Income volatility is closely linked poverty and to vulnerability. Circumstances that cause sales to fall or one-off expenses to shoot up are correlated with the circumstances accounting for their vulnerability.

When we look at clients' medium-term behavior (after five loans) from a structural perspective, most of them overcome poverty (51%), although there is a percentage that reverts. Clients with higher incomes (non-poor) also experience contingencies or shocks that bring down their net incomes, but to a lesser extent (12%).

On average, the growth of their businesses enables many families to make progress. In general, the group of clients in poverty shrinks by 17% in their second year of banking with us and has a positive trend over time. Having a long-term financial relationship allows us to mentor clients as they grow and drive their businesses.

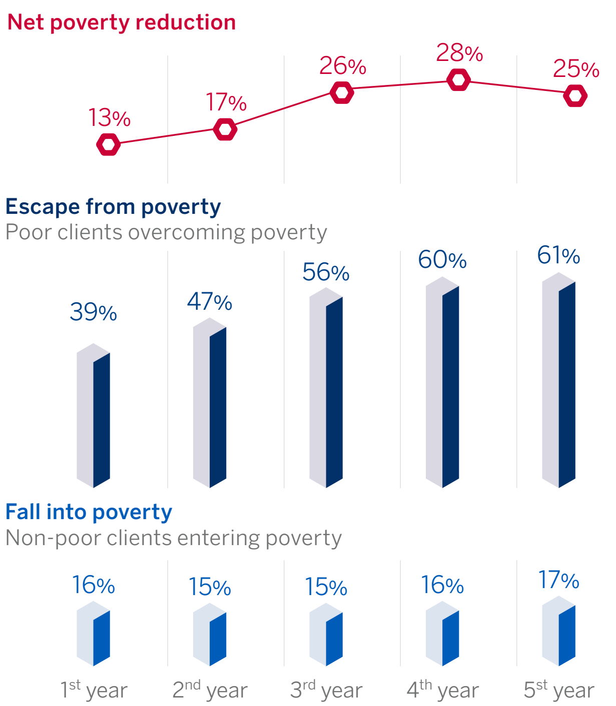
Turning to how (relative) income grows with each loan cycle or each time it is tracked, we draw the conclusion that the most important impacts on income occur in the first loan cycles. For clients in poverty the first loan is key, and it is in this cycle when, on average, they overcome poverty.

In 2019 a higher proportion of clients (52.5%) who renewed their loan during the year increased their income from the previous loan; this appears to indicate that gradually progress is spreading out to more people.

The main cause of vulnerability is income instability. The challenge consists in consolidating the improvements made and planning one's financial future so that there is no subsequent reversal.

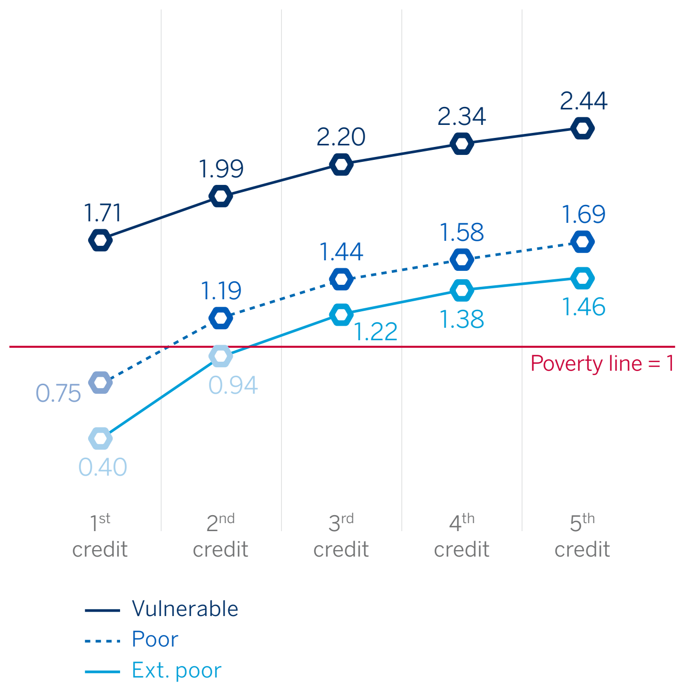
(13) Renewed clients shown. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.
• **Escape from poverty:** Clients in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line
• **Entry into poverty:** Clients not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.
• **Net reduction:** Escape from poverty minus entry into poverty.
(14) For the sample of clients served during 2019 —classified according to their situation when they took out their first loan— net income per capita at each credit cycle is shown, relative to each country's poverty line (current in the year of the disbursement). Relative per capita net income has a value of 1 when it is the same as the poverty line figure.
(15) (16) Sample of clients served between 2011 and 12.31.2019 who have had at least five disbursements. The number of times a client crosses the PL is analyzed.
• **Volatile:** defined as clients whose incomes fluctuate across the PL more than once.
• **Escapes poverty:** Client poor at the outset whose income surpasses the PL (and is not reported as falling back).
• **Enters poverty:** Non-poor client at the outset whose income falls below the PL (and is not reported as recovering).
• **Remain poor (or non-poor):** Clients who remain poor (or non-poor) throughout the five disbursement periods.

13 VARIATION IN POVERTY SEGMENT



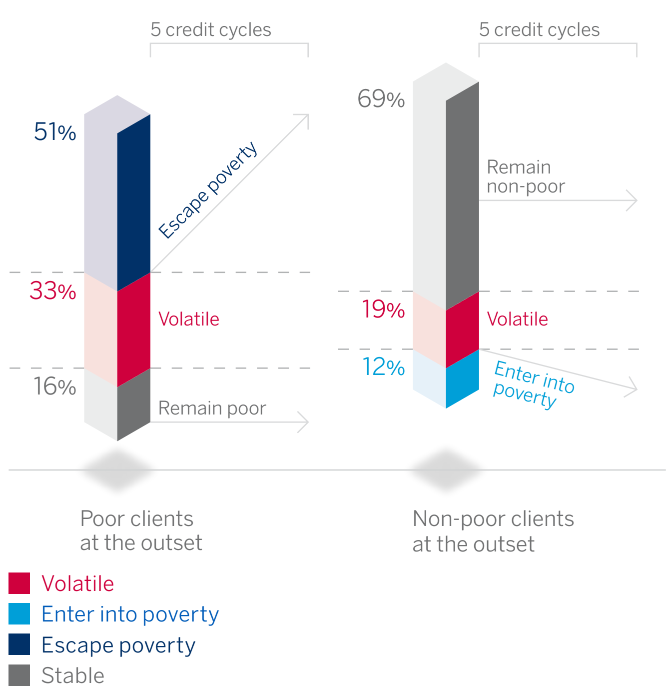
14 GROWTH IN INCOME

Income of segment over poverty line



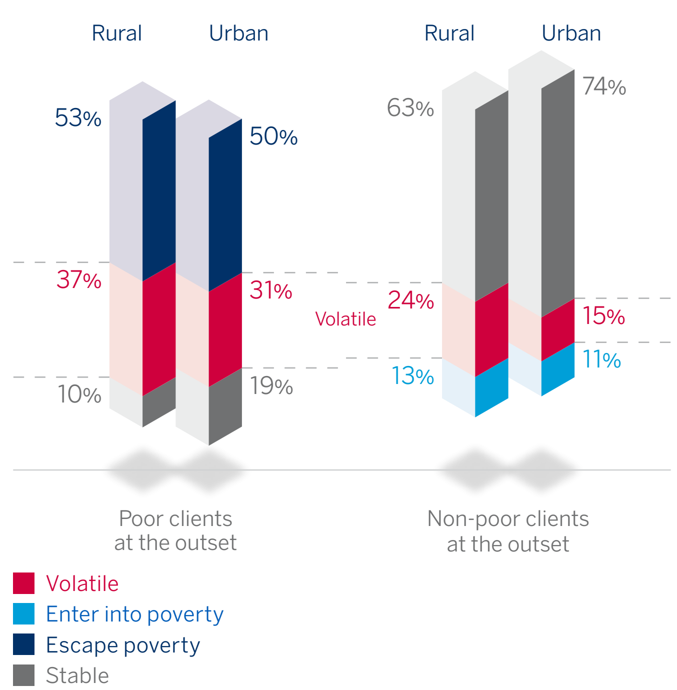
15 INCOME VOLATILITY

Clients with 5 credits, classified by nº times they fall below/overcome PL



16 INCOME VOLATILITY - RURAL/URBAN

Clients with 5 credits, classified by nº times they fall below/overcome PL



Our clients' development

From vulnerability to income consolidation

The level of productive assets (inventory, machinery, land, etc) is not only important in increasing microenterprises' productivity over time but also, together with savings accumulation, enables smoothing of household consumption levels.

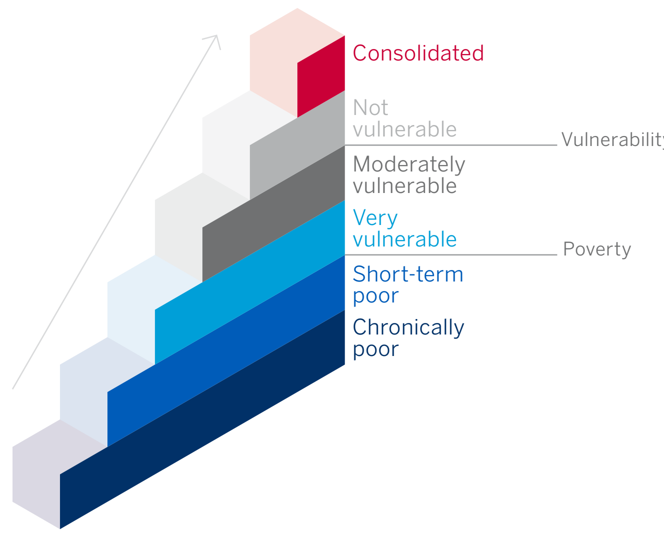
On a par with income levels, those clients with higher initial assets or those who accumulate them over time, show stronger performance. On average, their income grows more and becomes less volatile (clients who are chronically poor suffer a volatility of 30% compared to more consolidated clients, when it dips to 3%). Therefore, to escape from vulnerability it is important for business growth to be underpinned by the consolidation of a solid base of productive assets.

On average, after five cycles, one in seven microentrepreneurs served succeeds in increasing their net incomes and asset levels, consolidating their position at the highest point of the vulnerability scale ("moving up"). Furthermore, one in five manages to climb over the highest income threshold (the vulnerability line), which shows that they are less likely to fall into poverty.

If we look at the performance of clients by sectors, good performance is more likely among those working in wholesale trade and services. In particular, the results of those specializing in wholesale trade stand out, since they are comparatively more vulnerable at the outset. We also note stronger performance among clients with more education.

As a higher proportion of men tend to work in services and wholesale trade than women, they show stronger performance. We should also bear in mind that women tend to start off in more difficult circumstances (39% of them are chronically poor or poor short-term in their first loan cycle, compared to 22% of men). In addition, the differences may be due to contextual considerations and/or "hidden" features of their personal situation (abilities, the age of the business, family surrounding, etc).

THE LAYERS OF VULNERABILITY*
Client segments by relative income and assets

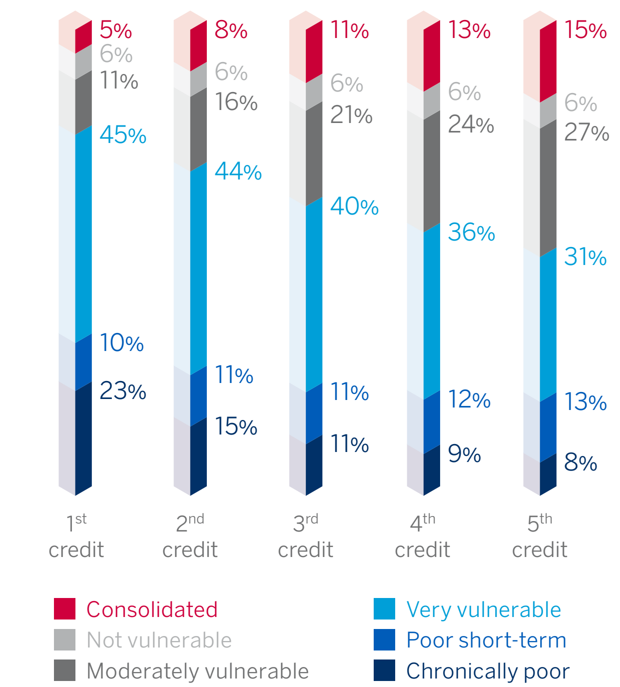


Thus, we aim to identify microentrepreneurs with growth potential, those who are operating at subsistence level and those who are already consolidated, because these groups all need different types of financial resources. This probably indicates the greater capacity of certain individuals, or the different opportunities provided by the contexts in which they operate. In short, it is a matter of being able to understand more completely the fundamental purpose and development potential of the country's small-scale entrepreneurs.

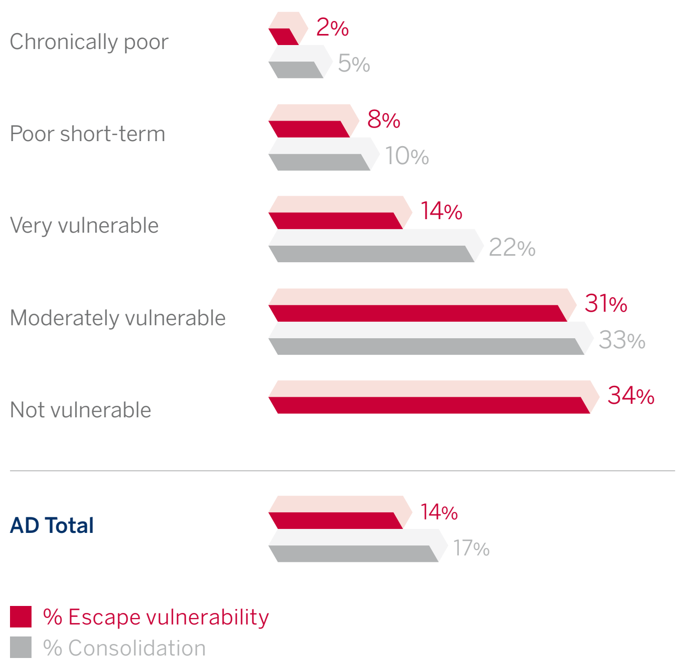
(17) (18) (19) Sample of clients served between 2011 and 30.09.2019 who have had at least 5 disbursements. Farming sector not included. Clients escape vulnerability when they reach a relative income > 3PL & are classified as "consolidated" when, as well as escaping vulnerability, they reach level 1 of the vulnerability pyramid (relative income > 3PL; & assets > 60PL).

* Chronically poor: relative income ≤ 1 PL & assets ≤ 20 PL; Short-term poor: relative income ≤ 1 PL & productive assets > 20 PL; Very vulnerable: relative income between 1 & 3 PL & assets ≤ 60 PL; Moderately vulnerable: relative income between 1 & 3 PL & assets > 60 PL; Non-vulnerable clients: relative income > 3 PL & assets ≤ 60 PL; Consolidated clients: relative income > 3 PL & assets > 60 PL.

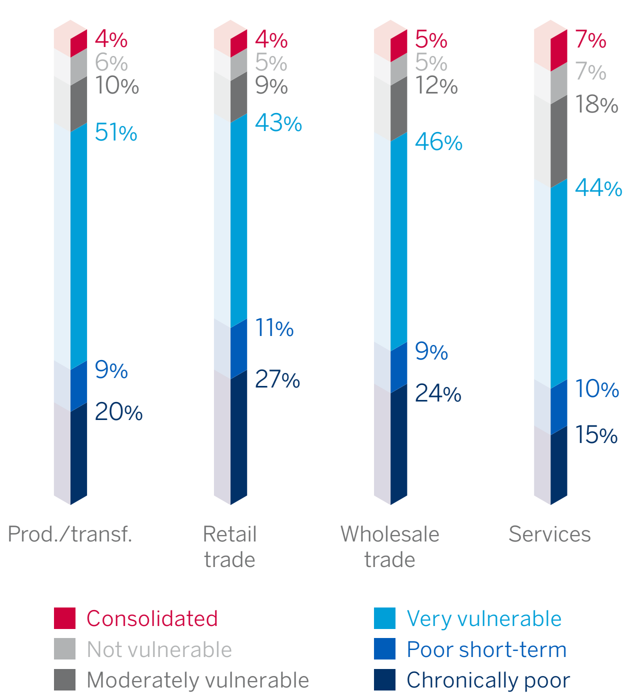
17 VULNERABILITY BY CREDIT CYCLE
Clients with 5 credits, classified by asset performance

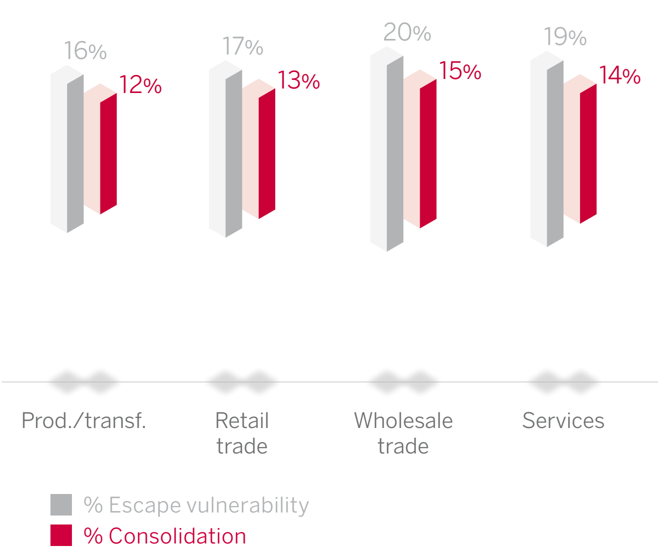


18 ESCAPE FROM VULNERABILITY & CLIENTS' SOCIAL MOBILITY
Clients with at least 5 credit cycles



19 VULNERABILITY AND CONSOLIDATION, BY SECTOR
Clients classified at the outset → Progress after 5 credit cycles





Our clients' development

Indirect impact

Investment in a productive activity and the boost provided by a microloan reduces the likelihood that a person will remain in a situation of poverty. This, in turn, has an impact on their household's standard of living and even that of their community, provided this business hires other people.

A clear indirect impact, with a multiplying effect on the community, is job creation. On average, 86% of clients have businesses in which they themselves work, and 14% of these hire at least one additional worker.

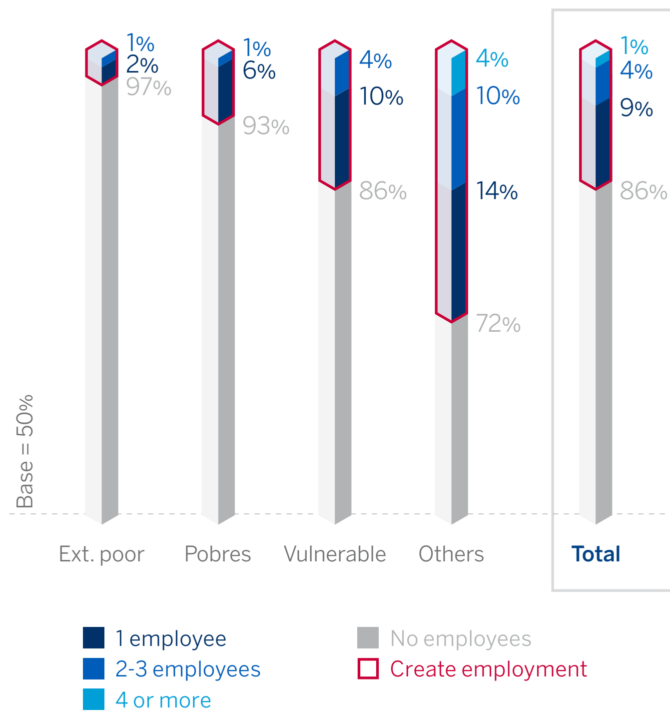
The level of poverty is directly related to job creation. In general, the smallest businesses are unlikely to employ other workers; however, in nearly 18% of cases, those belonging to vulnerable clients or others generate employment. This fact thus implies that the communities where entrepreneurs carry out their activity make progress.

In addition, 4.8% of the clients who remained in the institution for a year have made improvements in their homes, rising to 5.6% of clients staying with the bank for two years. The most popular upgrades, and those with the greatest impact on clients' standard of living, are increasing the number of rooms in the home, and improvements in construction material.

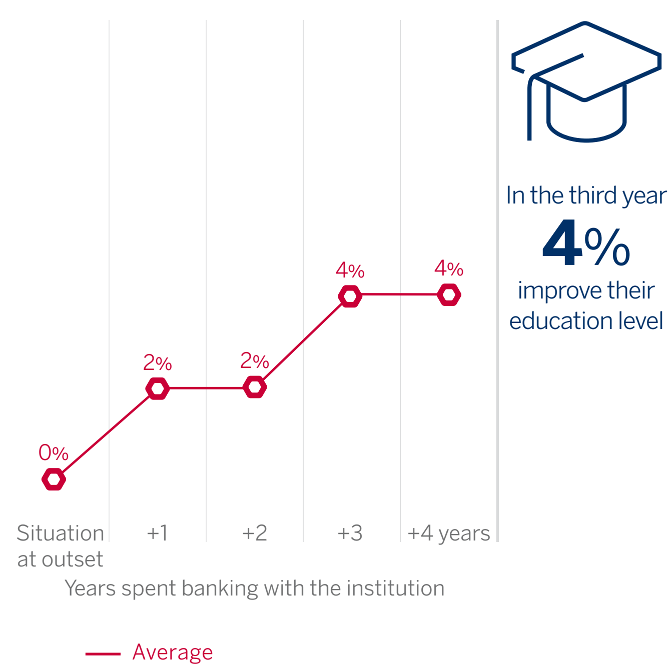
Clients also make progress in education: after four years, 4.5% of clients have increased their level of academic or professional attainment.

It is essential that we maintain long-term relationships, for the welfare of families, so that they can consolidate their earnings and access a higher standard of living.

(20) SOURCE OF EMPLOYMENT
Clients according to nº of employees in their business

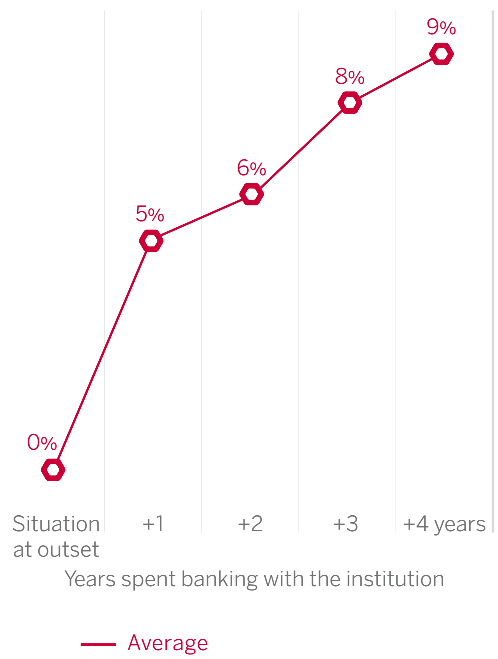


(22) IMPROVEMENT IN EDUCATION LEVEL
Credit clients who improve, by years spent banking with the institution (%)



(20) Considers the number of employees in current clients' business at 12.31.2019.
(21) Proportion of current clients at 12.31.2019 who have upgraded their housing situation (bought their own home), have made home improvements (e.g. put in a bathroom, increased the number of rooms, upgraded construction materials or fuel) between their first loan and their most recent.
(22) Considers the increase in the number of employees compared to the outset, in the businesses of clients current at 12.31.2019. Averages for the 2014-2019 cohorts (year of entry).

21 **IMPROVEMENTS IN THE HOME**
Credit clients who improve, by years spent banking with the institution (%)



Clients that upgrade their housing conditions after 3 years banking with the institution

8%

Our clients' improvements in their homes and in other areas —such as education, etc— have a high impact on their standard of living and that of their families.

5.3% of the population in Colombia live in homes that do not meet minimal levels of habitability.*

* DANE.

Our clients' financial health

The fact that families in Latin America generate such low incomes limits their access to suitable financial instruments. This, together with little financial education, leads them to adopt informal tools. On average, only 16% of adults in Latin American countries have savings in banking institutions, compared to 50% in advanced economies (IDB, 2016). In Colombia, 39% of adults saved something in the last year, but only 9% deposited it in a financial institution. 27% of the lowest-income adults managed to save something in the last year (see Macroeconomic environment).

In the case of vulnerable entrepreneurs, it is essential to look closely at their capacity to deal with and recover from possible financial shocks using their own resources. In other words, how they administer their finances today (management and liquidity), how they anticipate dealing with future scenarios (planning) and what tools they have to do so (resilience). This is particularly relevant in vulnerable communities since they are more likely to suffer or benefit from access to and appropriate use of financial products.

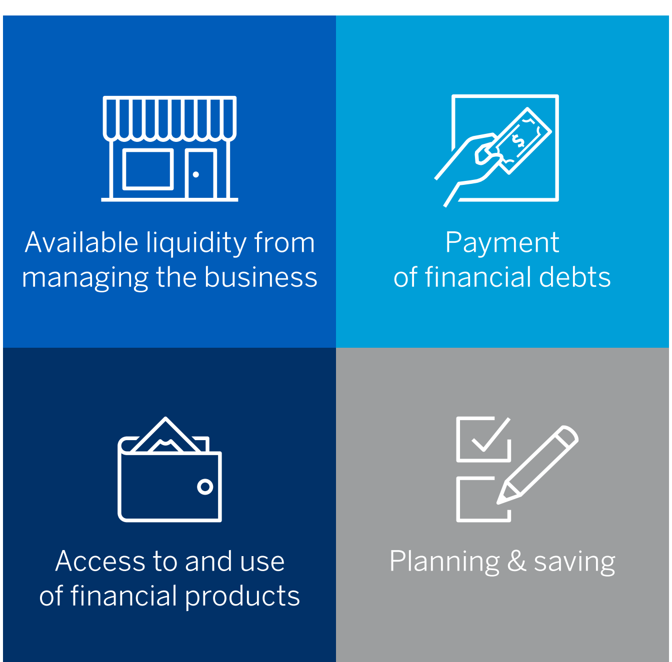
After analyzing clients' perception of their financial health —initially by surveying a small sample—, we extended this analysis during 2019 to understand the situation our entire client portfolio, a million people. The purpose was to prepare actions that could help their financial health in practical terms.

To do so, we designed a financial traffic light system to show clients' current situation in terms of credit, savings, and insurance, that would enable us to observe their performance over time.

Certain profiles within our client portfolio present better financial health.[6] Young clients manage their businesses more efficiently and are more inclined to sign up for more products although, given the phase in their lives, they tend to invest rather than to save and to take on more risk (late payment is also more common among younger clients). Thanks to the efforts made to bring financial services to the more rural, remote areas, rural clients are more inclined to save.

Older clients (in their sixties) have a more conservative profile. They have more savings, conduct more transactions and there are fewer defaults. In urban contexts, they have the best financial health.

FINANCIAL HEALTH DIMENSIONS



Most entrepreneurs could exist with their savings for between one day and a week; only 10% can subsist on their savings for more than seven days.

6. Scoring: lower than or equal to 4.5 = low financial health; 4.5-7 = moderate financial health; more than 7 = good financial health.

* For savings-only and credit-only clients, the weightings on the reported variables are equitably redistributed.

FINANCIAL HEALTH RESULTS

After classifying Bancamía's entire client portfolio, their distribution is as follows:

- **Clients with better financial health** are paying off loans, have formal savings and microinsurance, manage their businesses well and have met their payment installments promptly.
  The capacity for these clients to make progress lies in encouraging them to use savings products more.
- **Clients with low financial health** only have savings products, but hardly any balance and make few transactions.
  This category also includes credit clients with serious defaults who have shown they have difficulties in meeting their loan payments.

16%

Good

- Use more products
- Good payment behavior
- Good management of their liquidity

62%

Moderate

- Clients with more than one product
- Late payments on loans

22%

Low

- Savings clients with very little balance
- Clients who have not been able to meet their loan payments

METHODOLOGY

To measure financial health, we constructed an indicator that classifies the client's status in one of the following basic categories: 1 = low financial health, 2 = moderate financial health; 3 = good financial health.

DIMENSION	WEIGHT*	INDICATOR & RATIONALE	EVALUATION
Liquidity management	25%	**Credit installment / Net income** The available financial margin after paying off the regular installment.	Depending on the segment (defined by sector, vulnerability, rural/urban environment), the following thresholds have been set on the percentile of each segment: • < 0,25 = 1 || • 0,25 0,75 = 2 || • > 0,75 = 3
Payment behavior	31%	**Maximum nº of days in default over the previous 3 months** Shows the ability or not to keep to financial plans.	• More than 90 days of default = 1 • Between 1 & 90 days = 2 • 0 days of default = 3
Access & use of financial products	19%	**Nº of active products** A higher diversification of products implies greater capacity to cope with shocks (particularly if clients have savings and insurance).	• 1 product = 1 • 2 products or only one if the client has had a loan in the previous 12 months = 2 • 3 or more products = 3 **Use of the product** • Clients with less than 3 movements in the previous quarter, sight balance & average balance during the quarter < USD 1 = 1 • Clients with less than 3 movements in the last quarter, sight balance & average balance during the quarter > USD 1 = 2 • Clients with 3 movements or more in the previous quarter = 3
Planning and saving	25%	**Balance of savings products** Reflects the profile of the saver client (with funds in their account) or transactional client (who uses the account for their operations and, as such, has movements on the account). The account balance is calculated by the clients' ability to cover their living expenses for a minimum period (in the event of their losing their main source of income and not being able to get a loan).	**Balance** • Sight & non-sight balances ≤1 day of supplies (1 basic food basket) = 1 • Between 1 day & 1 week = 2 • More than 1 week = 3

Our clients' financial health

Entrepreneurs who have taken out loans

“Credit is viewed in a positive light and microfinance institutions are the preferred source for obtaining it” (IPA Surveys, 2018). In 2019, 35% of our clients had a loan, and of these 55% of Bancamía's clients banked solely with us. The task of the loan officer, supporting the entrepreneur and assessing their business, is a key part of the decision-making process. This is particularly important in the case of entrepreneurs with no credit history whose collateral consists in honoring their commitments.

To understand the relationship between more efficient business management and how our service adapts to each client's needs and capacities, we have analyzed how entrepreneurs handle their finances and manage liquidity. To do this, we have built a payment capacity indicator (installment over net income), based on:

- Sector
- Environment
- Degree of vulnerability

This indicator allows us to gauge which entrepreneurs are managing their net income better than others, taking into consideration their sector, surroundings and level of economic vulnerability.

Knowing the client, understanding their business and seeing their potential are all essential when it comes to providing financing. Credit opens up their capacity to invest and other less obvious benefits. Clients start managing increasingly large sums and a wider number of financial products (see Intangibles section) through the formal financial system.

Entrepreneurs who have taken out insurance

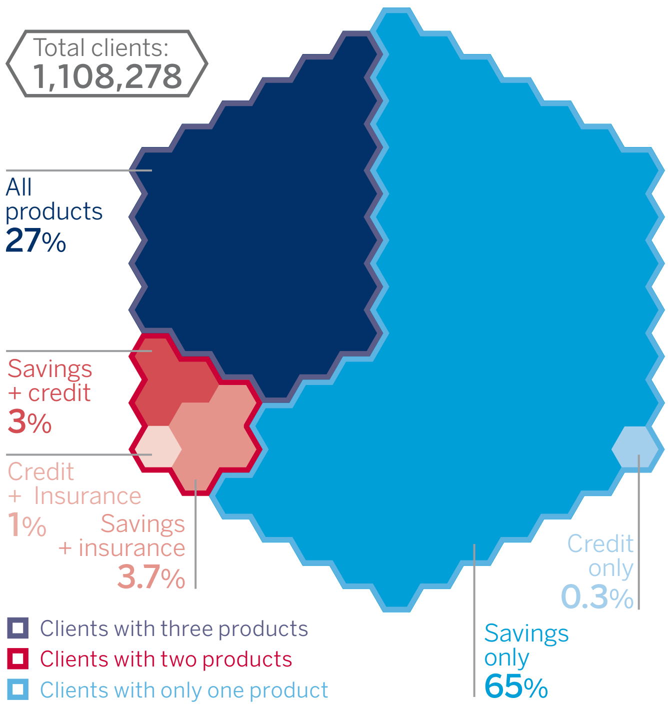
Insurance policies for vulnerable entrepreneurs are products that are specially tailored to our clients' needs, whether it is the risks being covered, their price point, how the policy is acquired, or the payout on losses. They are a key part of our value offering, since insurance helps them to increase their resilience and reduce their vulnerability to the negative effects of events beyond their control. Insurance also enables them to access medical and farming advice anytime and anywhere.

Our analysis shows that clients are more likely to sign up for insurance once they have a loan and a savings account. The number of policies taken out depend on the stage of the client's life cycle. Thus, as clients get older, the number of funeral insurance policies rises, against life insurance policies, which fall. So it is vital to extend the types of insurance available, particularly in rural areas where there is less cover.

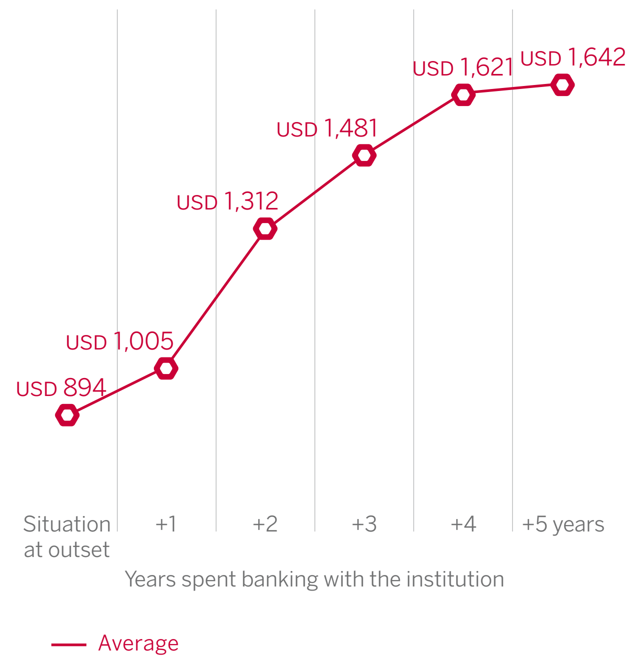
Mi Inversión Protegida [Protection for My Investment] provides the most comprehensive protection in the market: it covers buildings, household goods and business contents, as well as damage to animals, small-scale crops and land, these being essential assets for those of our clients who work in farming. This insurance is activated in the event of fire, explosion, water damage and climate events such as hail, strong winds, floods, droughts, and other natural phenomena, such as earthquakes and volcanic eruptions. It also provides quick payment when there has been a loss, speeding up the loss adjustment process by using satellite images and advanced technology as a parametric component so that payment can be made without further paperwork.

(23) Clients current at 12.31.2019.
(24) Clients in each cohort (year of entry), between 2014 and 2019 on each data collection date. The value at the outset is the average of the initial values (first disbursement by year of entry), to which the average growth at one year, two years, etc is applied, recorded on disbursements to client groups in the 2014-2019 cohorts.
(25) New clients. Average disbursement, calculated as the average first disbursement for new clients each year. Weight of the installment calculated as each client's average ratio (loan installment payment over sales).
(26) The percentage of clients with voluntary insurance is calculated and disaggregated by product family. Some clients have more than one type of insurance.

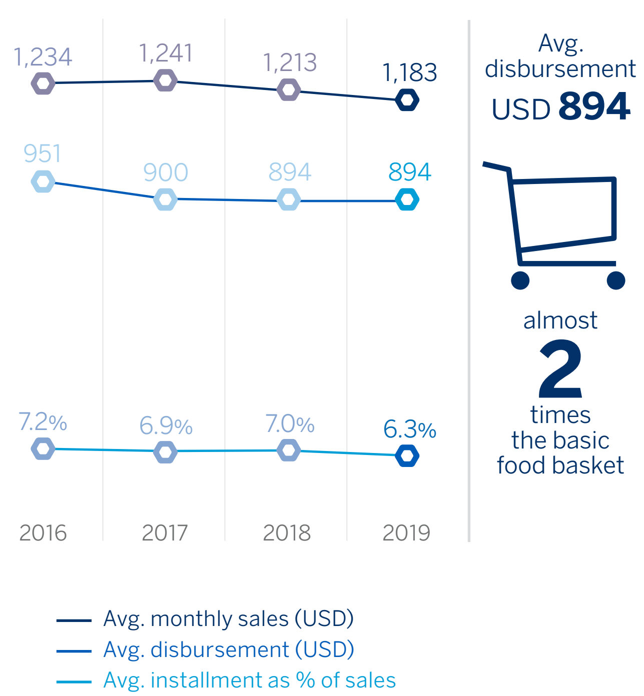
23 CLIENTS BY PRODUCT TYPE
Total clients



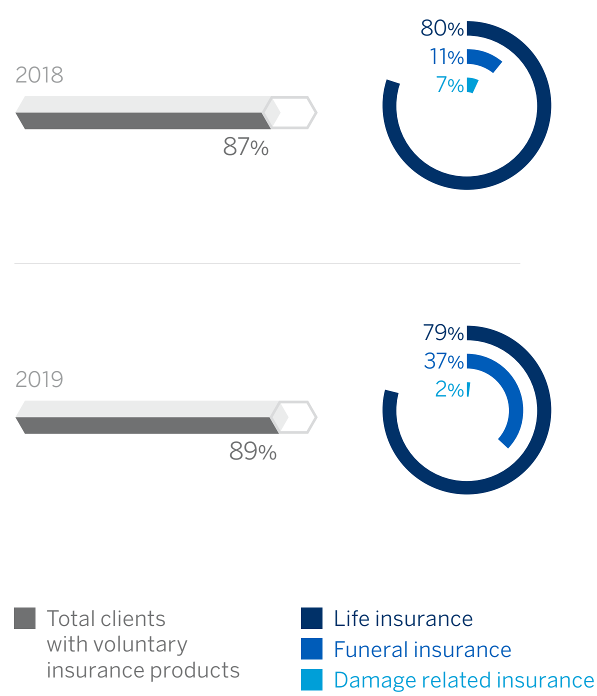
24 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship



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



26 OWNERSHIP OF INSURANCE
Total current credit clients



Our clients' financial health

Entrepreneurs who have savings

The preferred method of payment continues to be cash (an estimated 91% of commercial transactions in Latin America are conducted in this way, with even higher rates among the vulnerable population). Formal saving and the use of savings accounts are not perceived by clients as being as useful (IPA 2018 Survey). Therefore, if we want to promote financial inclusion and poverty reduction, we need to work to show the advantages of formal over informal saving.

1,092,385 Bancamía clients have a savings account, accounting for 98.6% of the total. These clients have already had an earlier banking experience (normally a loan) and therefore understand and can manage financial products. Entrepreneurial clients who sign up for specific saving products (core clients) account for nearly 10% of the entire savings portfolio. Nevertheless, the most important product is generally the savings account (transactional clients) at 89% of the total.

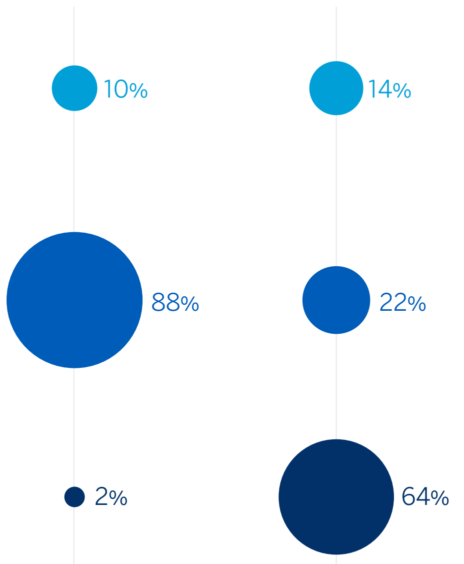
Even so, the degree to which saving is used (transaction frequency) remains low: only 7.4% of clients have more than three movements in their account over a three-month period. We have noted that those who have more products also use their savings accounts more. Just 2% of clients who only have savings accounts have more than three movements a quarter, compared to clients who have all our products, of whom 20% make frequent transactions.

The balances held by savings clients remain very low. Both saving and insurance entail sacrificing part of current income for the sake of future peace of mind. The perceived biases —clients prefer short over long term and they are optimistic about the future, underestimating risks— make saving a major challenge.

(27) Clients with any kind of savings curent at 12.31.2019 (excluding institutional clients and employees).
(28) Clients with savings products (savings and deposits accounts) on each data collection date.

27 BREAKDOWN OF SAVINGS CLIENTS BY PRODUCT

Clients & balances by segments (%)



Type of client

SAVER ENTREPRENEURS
Clients with products targeting microentrepreneurs' savings or taken out by our credit clients

→ **Target:** **What are the microentrepreneurs we serve with savings products like? How much do they save?**

TRANSACTIONAL ACCOUNTS
Clients with a savings account where they deposit the loan, interest, etc. They may or may not have other products (whether assets or liabilities)

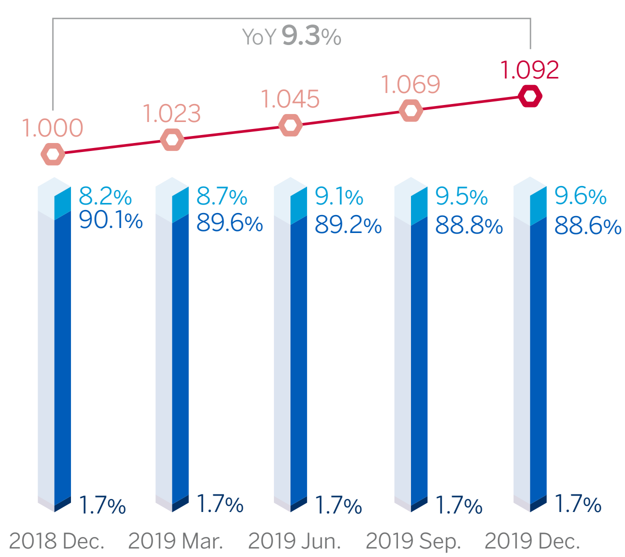
→ **Do they really use the transactional account?**

REMAINING SAVERS
Other clients, source of financing

Saver entrepreneurs | With transactional savings account | Remaining savers

28 SAVINGS CLIENTS, CHANGE

Clients with any savings product on each data collection date



Total savings & deposit clients ('000s)
Saver entrepreneurs
With transactional savings account
Remaining savers

THE RESILIENCE OF ENTREPRENEURS

Results of the 2018 financial health survey

40% say they put part of their income away as savings for the future, but only 30% say they have done so in the last year

They view saving in the formal system as a challenge

1 out of every **6**

resort to formal saving to meet contingency expenses

Our clients' financial health

When we note the behavior of entrepreneurs, we see how the different stages of people's life cycles influence the financial decisions they take:

- **Younger entrepreneurs** tend to save less and choose products with greater liquidity because it is a moment for investing and relative high expenditure.
- **Between 30 and 60 years old,** saving increases as people start showing interest in deposits. Their capacity to sacrifice the present for a better future is greater.
- **After 60,** the client profile is more conservative and expenses are lower, so saving is consolidated and the percentage of clients with term products rises.

Vulnerable families face circumstances that make their finances unstable: unexpected expenses, a drop in incomes and, finally, the possibility of suffering another situation of financial stress. For these reasons we understand that the main reasons for the low consumption of Bancamía's savings products are:

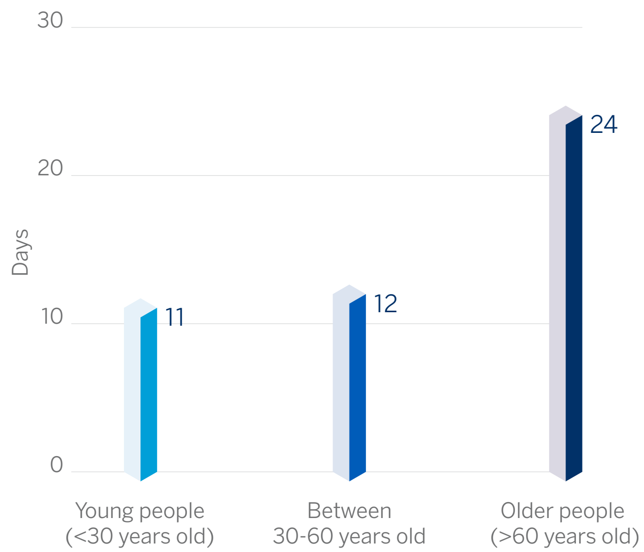
- Lack of resources: To cope with shocks they are more used to turning to the "cash under the mattress". We note that 59% of savings and credit clients have low savings potential as they are not satisfying their basic needs (see Savings Potential below).
- Lack of financial literacy or absence of a savings culture.
- Saving is happening, but by using informal products or other institutions.

A client's capacity to save depends principally on two factors: their income level and their stage in life (age), since consumption and spending levels vary according to the different stages of their life cycle.

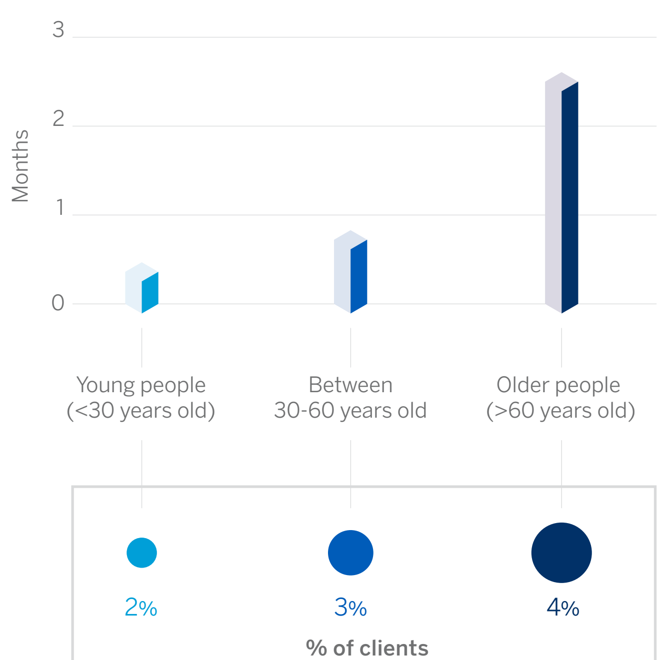
For clients' financial health to improve, they need to raise their saving levels and improve their financial understanding, together with their patterns of behavior.

(29) Clients with any savings product current at 12.31.2019 (excluding institutional clients). The calculation uses the basic basket of goods and services as the daily expenditure.
(30) Clients with any savings product current at 12.31.2019 (excluding institutional clients). The calculation uses the basic basket of goods and services as the monthly expenditure.

29 **SIGHT DEPOSITS BY AGE GROUP**
Days the client can cover with savings (sight)



30 **TERM SAVINGS BY AGE GROUP**
Months the clients can cover with savings (term)



Financial education

Bancamía has a program called *Echemos números* [Let's do the numbers] that gives financial education and advice to clients and non-clients, with the purpose of promoting development among vulnerable communities. The Association of Banking & Financial Institutions (Asobancaria) has highlighted our educational program as one of banking's 12 success stories in sustainable initiatives.

Entrepreneurs can access group workshops or targeted advice, where our officers teach the program. Here they are given information and training, using games designed for adults, on the importance of saving, dealing with debt and how to draw up a budget, which helps them to manage their finances.

To ensure this education is consistent, over 800 co-workers have taken courses from teacher-trainers.

390,176
people have received financial education

Our clients' financial health

Savings potential

To find out why clients use the savings product so seldom, whether it is down to a lack of income, or for other reasons (informal saving, no saving at all or saving in other banks), we estimated clients' savings potential based on their income and on the need to pay for a basic basket of goods, a set of goods and services which becomes more complete as their incomes rise.

Savings potential allows us to distinguish between clients who do not save because they don't earn enough, and others who may be saving in other institutions or using alternative assets. According to the information from the portfolio of clients with both a loan and savings in our institution, 57% do not save because their income is insufficient. The remaining 43% has savings capacity after paying for basic expenses.

As discussed above, there are two important factors in saving:

- The client's age or the moment in their life cycle. The youngest have lower incomes and are also at a stage at which they are more inclined to invest than to save. Those between 30 and 60 years old have the greatest saving potential, because their incomes are higher, and they take more long-term decisions.

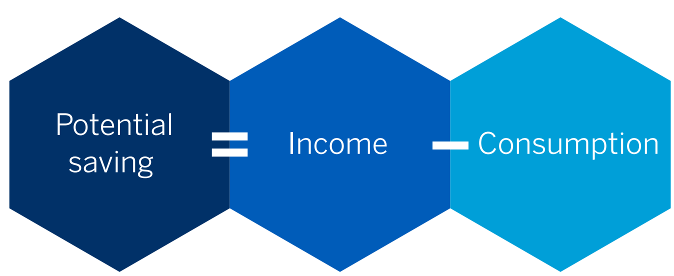
- Income level has a direct effect on savings capacity.

This study shows that, in order to improve the financial health of a good proportion of our clients, the most important factor is for them to increase their incomes, which are currently insufficient to generate savings. Some clients (23%) manage by their own efforts to achieve some accumulated savings, even though their potential is not high (on average they have savings of USD 73).

43% of clients have a moderate to high savings potential. These are the clients for whom financial education would have the most impact, both in helping them to take decisions about the surpluses, and to ensure less volatility in their future incomes.

To help them foster the savings habit, programmed saving products have effective incentives (communications campaigns, reminders, etc).
These strategies contribute to creating awareness about the importance this buffer may have for them in the future, i.e. how Aesop's fable of the ant and the grasshopper applies to real-life behavior.

Bancamía continues working to create a value offering that encourages its clients to save in the formal sector, helping them to protect their modest incomes and meet achievable goals, whether in the short, medium, or longer term.

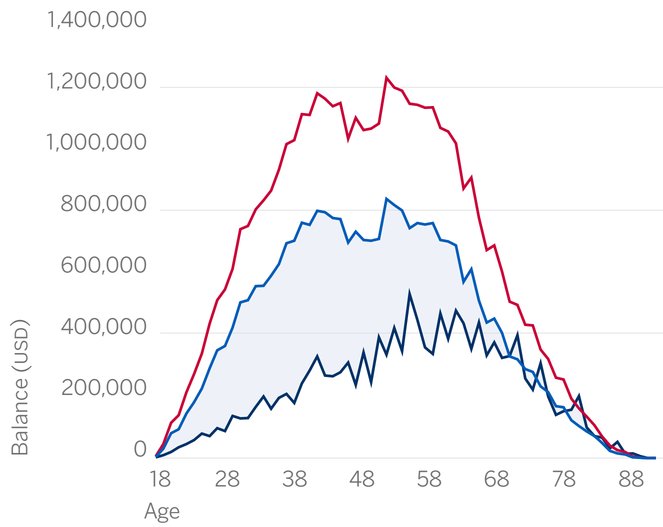


Saving capacity
is the proportion of net income not used on consumption (%)

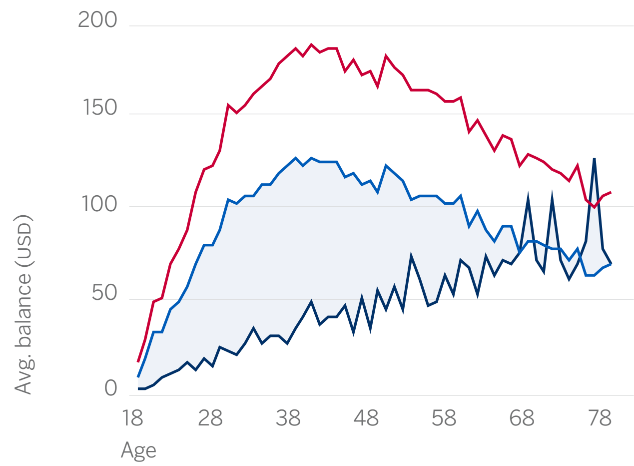
(31) Estimated savings in the credit & savings clients portfolio, at 12.31.2019.
(32) Average estimated savings in the credit & savings clients portfolio, at 12.31.2019.
(33) Estimated saving capacity for the client portfolio with credit and savings on 12.31.2019.

(34) Estimated capacity to save for the client portfolio with credit and savings on 12.31.2019. The capacity rate is the theoretical percentage of net income that could be saved every month.

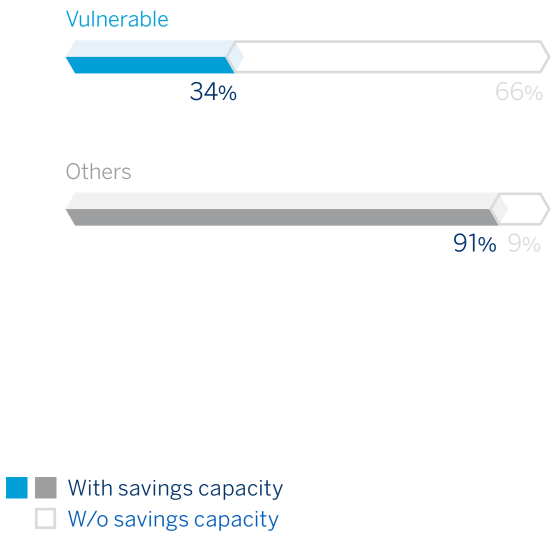
31 POTENTIAL & REAL SAVINGS
Estimate for clients with both credit & savings



32 AVERAGE POTENTIAL & REAL SAVINGS
Estimate for clients with both credit & savings



33 CAPACITY FOR SAVING & VULNERABILITY
Estimate for clients with both credit & savings



34 ESTIMATED SAVING CAPACITY
Estimate for clients with both credit & savings

	Capacity for saving (potential)	Capacity for saving after installment
Young people (< 30 years old)	10%	6%
Between 30-60 years old	15%	8%
Older people (> 60 years old)	12%	6%

Macroeconomic environment

Economy[1]

The Colombian economy grew by 3.2% in 2019, continuing the recovery it has enjoyed since 2017, when it posted at 1.4%. This is mainly due to the solid performance of investment, which drove the recovery cycle after the adverse oil shock which had been affecting performance since 2014.

Private consumption had relatively high rates of expansion despite the negative impact associated with the days of nationwide strikes in November. These temporarily affected consumption on the demand side, and trade and other services on the supply side. Nevertheless, economic activity accelerated, growing by as much as 3.3% in the second semester, against 3.1% in the first.

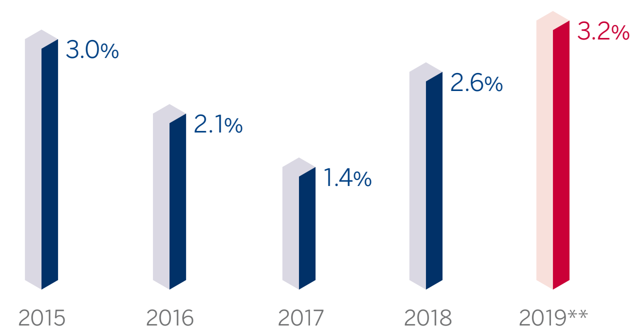
Expansionary lending policies in a low interest rate environment, the impact of more immigration and higher revenues from larger remittances account for the higher household spending and the recovery, for the third year in a row, of real private consumption.

Good progress in investment this year has been boosted by fiscal policy incentives which contributed to boosting investment in machinery and equipment.

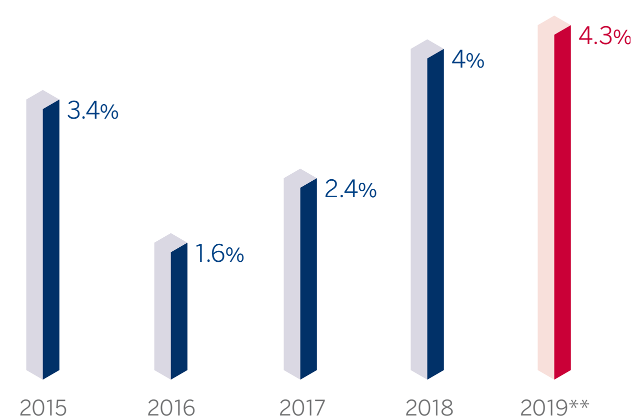
In the first nine months of the year, economic activity was spearheaded by the financial sector and insurance (6.1%), trade (4.9%) and public administration (3.8%). This is a sign of dynamic domestic activity linked to household consumption and, to a lesser degree, to the execution of infrastructure projects.

Even so, construction activity fell by 1.8%, since the execution of these works did not offset the decrease in new building, particularly in the residential segment. All these factors together caused domestic demand to expand by 4.6% during 2019, whereas growth in the external sector slowed by 1.4 percentage points, the result of significant expansion in imports (8.4%) against moderation in exports (2.9%).

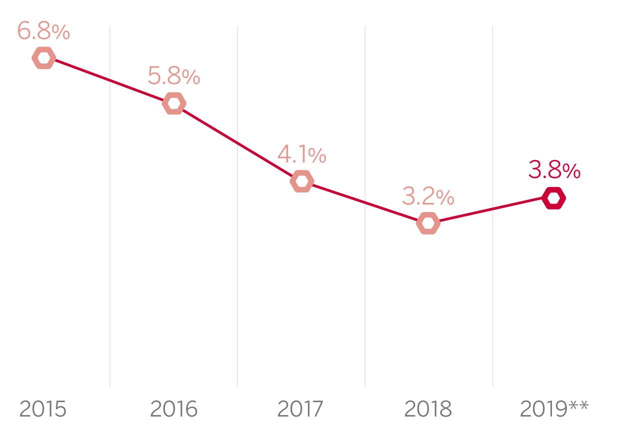
GDP*
Real variation (%)



CONSUMPTION*
Real variation (%)



INFLATION*
Real variation (%)



1. All data from the Colombian central bank.
Estimates to the end of 2019 by BBVAMF Research.

* Colombian central bank.
** BBVAMF Research estimate.

Slow recovery on the part of the country's trading partners prevented stronger growth in real exports, while the VAT exemption applied on imports of capital goods, by virtue of the 2018 Financing Law to encourage investment, was a factor driving imports.

The external sector's behavior was marked by slower growth, both in farming (2.0%) and industry (1.6%) caused by softer demand from abroad, as well as by sharper domestic competition created by imports in certain key items.

Inflation, meanwhile, reversed its trend, rising from 3.2% in 2018 to 3.8% in 2019, but staying within the bands stipulated for the long-term inflation target. The uptick in inflation was the result of several supply-side shocks —which mainly affected food prices— and of the depreciation of the Colombian peso in the first half of the year. Food & non-alcoholic beverages (5.80%), education (5.75%), alcoholic beverages and tobacco (5.48%), together with restaurants and hotels (4.23%) rose at rates above the national average.

Better performance in regulated prices, particularly fuels and energy, offset the pressure to the upside resulting from the peso's depreciation, which dissipated in the second half of the year. In fact, the item comprising housing, water, electricity, gas and other fuels, which makes up 33% of the household basket, posted a variation of 3.46%, which offset greater impacts from other items.

By components, both tradable and non-tradable goods put pressure on inflation, although to a moderate extent. The trend is consistent with the output gap that has been narrowing since 2018.

The outlook of weaker global growth, with the Federal Reserve setting lower interest rates, as well as inflation forecasts that converged with the target range, allowed the central bank to keep the monetary policy interest rate unchanged. This has stayed at 4.25% throughout the year, having remained at this level since April 2018.

Employment, poverty and welfare[2]

Unemployment stood at 10.5% in 2019, an increase of 0.8 percentage points from 2018 (9.7%). The total participation rate posted at 63.3%, edging down by 0.7 percentage points from 2018 (64.0%). The occupation rate was 56.6%, representing a reduction of 1.2 percentage points since 2018 (57.8%).

The total number of occupied people fell by 170,000 from the year before, representing an 0.8% drop over the year. This fall has affected both regional cities (down by 25,000 people) and rural areas (a drop of 145,000), with the fall in rural employment being the main cause of the negative performance of the labor market.

This is due to the poor momentum of employment in agricultural and stockbreeding activities, which recorded a 5.3% fall (–201,000 people), although it was partially offset by a hike of 3.2% (up by 183,000 workers) in construction and services.

60% of the jobs lost affected women, with reductions in all age segments. In the case of men under 24, there was a drop of 5.4% (–121,000 people), while in the 25-54 age segment, employment expanded by 0.6% (an additional 51,000 people), partly offsetting the fall in employment among younger men.

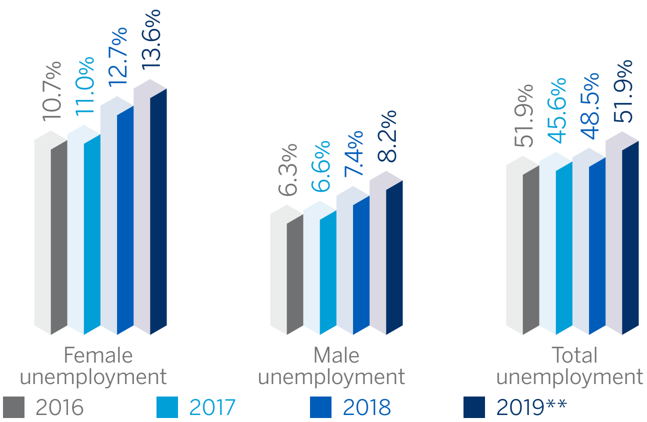
This change meant that male unemployment rate amounted to 8.2%, with the gap from earlier years remaining the same. The unemployment rate among women (13.6%) rose by 66%, despite their lower participation among the economically active population.

42% of all those working are self-employed, amounting to 9.45 million people, representing a drop of 340,000 workers from 2018. This may be due to the 240,000 additional people employed by others (private sector), whose employment status changed, moving from self-employed to employee.

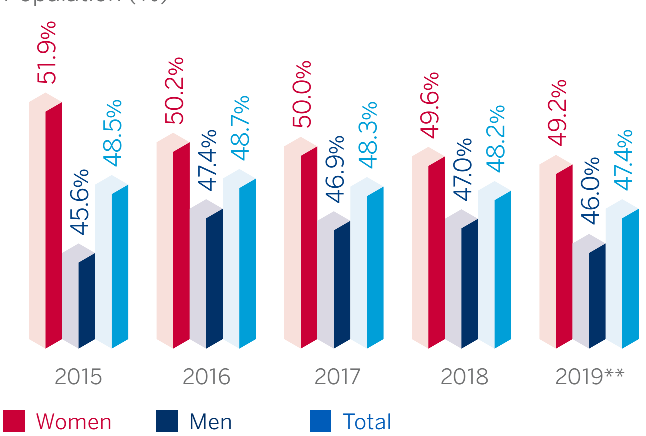
2. DANE data available for December 2019. Estimates by BBVAMF Research.

Macroeconomic environment

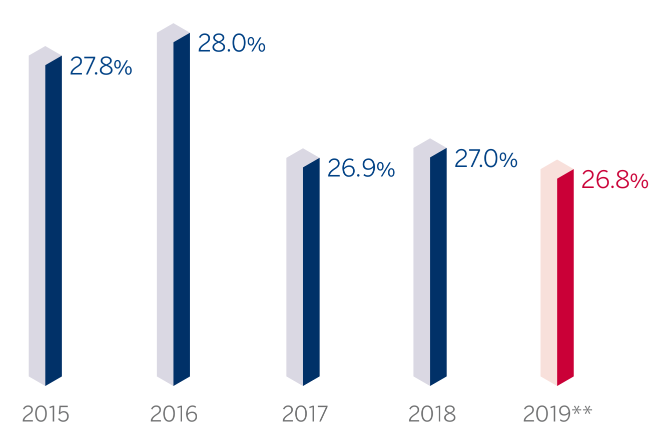
LABOR MARKET*
% of the labor force



INFORMAL SECTOR*
Population (%)



MONETARY POVERTY***
Population (%)



* Source DANE.
** Third quarter moving average.

Unemployment rose in 19 of the country's 23 largest cities in 2019. The areas with the highest rate of unemployment continued to be Quibdó (19.8%), followed by Ibagué (16.3%), Armenia and Valledupar (both 16%), Cúcuta metropolitan area (15.8%) and Riohacha (14.6%). Cartagena, meanwhile, at 6.9% had the lowest rate of unemployment, followed by Barranquilla AM (7.8%) and Pereira AM (8.8%). Bogotá DC, which accounts for 18% of all employment, had an unemployment rate of 10.9%.

47.4% of workers are active in the informal economy; this ratio breaks down into 46.0% for men and 49.2% for women. For the most part, it is men who have benefited from the improvement in formal jobs. Medellín metropolitan area and Manizales metropolitan area have the lowest informal employment, with 40.1% and 38.9% respectively of their workers in this situation. This contrasts with the Cúcuta metropolitan area, which suffers the highest rate of informality: 71.2% of workers are in this situation.

26.8% of the population of Colombia finds itself in monetary poverty, that is, their per capita income of the expenditure unit is below the poverty line (a line which varies by geographical location).

The departments that suffered the highest rate of monetary poverty during 2019 were La Guajira and Chocó, at 53.9% and 61.6%, respectively. Bogotá had a monetary poverty rate of 12.2%, while the departments of Cundinamarca and Risaralda remained the least poor.

In 2019, the monetary poverty gap —that measures the amount of money someone in poverty needs in order to escape it, in other words the shortfall— amounted to 9.5% of the national total, whereas in 2018 that shortfall was 9.8%.

Unmet basic needs

The identification of Unmet Basic Needs (UBN) has made a significant contribution to pinpointing certain critical deficiencies suffered by the population and is a way of better understanding poverty. According to Dane figures [3], 14.1% of people living in private homes in Colombia (7.1 million), have one or more unmet basic need. In the last 15 years this ratio has fallen by nearly half, from 27.7% in 2005, to its current levels.

There is great disparity in the extent to which these needs are satisfied, depending on where people live. In cities and provincial capitals, 9.2% of the population has a UBN, whereas in remote centers of population and the countryside, the indicator shoots up to 30.2%.

By administrative area, this divergence is apparent. In Bogotá DC only 3.4% of the population suffers some form of UBN, whereas in Vaupés, Vichada, Chocó, Guainía and La Guajira, more than 50% of the population has one or more unmet dimension that is basic for life.

Nationally, if we consider the dimensions of housing, and which of these satisfy minimum standards of livability (e.g. those that offer people protection from the elements, privacy and comfort to carry out certain biological and social activities), 5.3% of the population lives in unsuitable housing.

An analysis of a home's sanitary conditions generally takes two indicators: availability of piped drinking water and connection to sewage. On these measures, 3.6% of the population is reported to lack these basic services on a permanent basis.

Another dimension to bear in mind when assessing basic needs is the overcrowded conditions in which people live. One of the problems that high population density entails is the danger to health caused by insanitary conditions, exacerbated by insufficient sanitation services and conditions.

UNMET BASIC NEEDS*
% by administrative area

Bogotá, D.C.	3.4 %
Valle del Cauca	6.2 %
Cundinamarca	6.3 %
Quindio	6.7 %
Risaralda	8.1 %
Caldas	8.9 %
Santander	9.5 %
Boyacá	10.0 %
Antioquia	10.7 %
Atlántico	11.3 %
Tolima	12.1 %
Huila	12.7 %
Meta	13.3 %
National average	**14.1 %**
Arch. de San Andrés	14.8 %
Casanare	15.9 %
Norte de Santander	18.3 %
Cauca	18.3 %
Putumayo	18.4 %
Nariño	21.6 %
César	22.8 %
Caquetá	23.5 %
Magdalena	26.5 %
Bolívar	26.6 %
Guaviare	27.8 %
Sucre	29.0 %
Arauca	32.3 %
Córdoba	34.8 %
Amazonas	34.9 %
La Guajira	53.0 %
Guainía	59.2 %
Chocó	65.4 %
Vichada	67.6 %
Vaupés	68.9 %

3. DANE – National Population and Housing Census (*Censo Nacional de Población y Vivienda*, CNPV,) 2018.
* DANE– National Population and Housing Census (CNPV) 2018. Information for people living in private homes. Correct as of November 25, 2019.

Macroeconomic environment

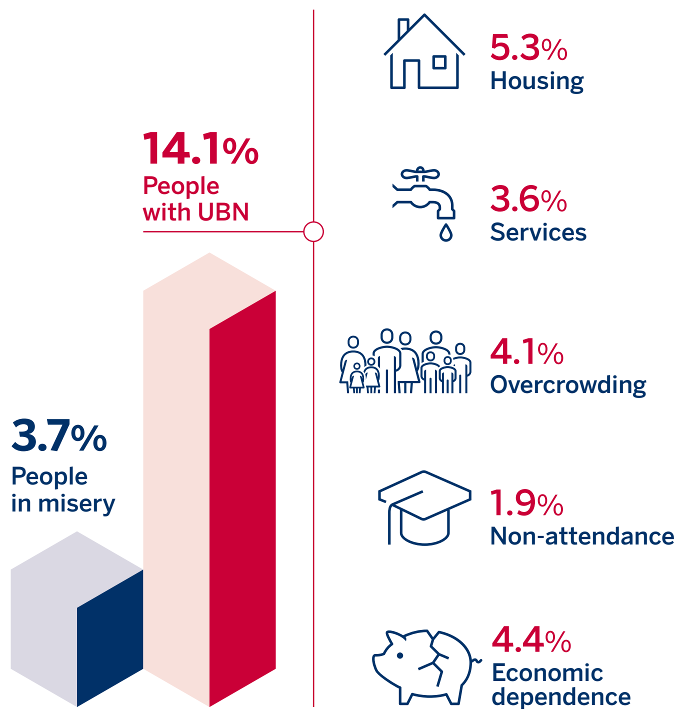
4.1% of the population is in this situation, living in critically overcrowded conditions, in homes with more than three people per room (excluding the kitchen, bathroom and garage). In 2005, 11.2% of the population lived in these extremely overcrowded conditions.

Turning to other factors, 1.9% of people live in homes where children aged between 7 and 11 years old are not attending a formal center of education. This index not only enables us to identify situations of generalized privation but is an indicator of the future that awaits these individuals, both in terms of their possibilities of joining the work force and the extent of their socialization. In 2005, 3.6% of the population was in this situation.

Another important dimension to evaluate is the head of the household's educational level, which determines their likelihood of being able to compete in the labor market and represents an indicator of homes with high economic dependence. This indicator measures the number of people in households with more than three people to a room and whose head has completed two years of primary education, at most. When we combine the head of household's years of education with the size of that household, we obtain an indicator that determines the likelihood of that household having enough income. In Colombia 4.4% of the population belongs to households with high economic dependence.

The indicator is sensitive to the surroundings and considers the natural differences between the needs of urban and rural areas. The indicator for remote population hubs and rural spots is 10.3%, compared to 2.6% of the population in urban areas.

UNMET BASIC NEEDS*
National total by categories



The poor state of housing and overcrowding are two of the main shortcomings faced by the vulnerable population.

* DANE – National Population and Housing Census (NPHS) 2018
Data on people living in private homes.
Last update: November 25, 2019.

Sowing seeds of peace

"Over 30 thousand people have received financial education and objective advice through Empropaz"

Yeimy Stefan and Lucas Serpa

Yeimy is 22 years old. In 2018 she lost her job. "I didn't want to beg for a position" she says. She decided to pawn her only asset —a gold chain she had bought when she was studying in SENA— to set up a company manufacturing and selling plastic closets.

Thanks to her company's growth and her hard work in covering most of the towns and villages in San Pedro de Urabá, she has been able to create a job for her husband, Rafael. On an ad-hoc basis she also employs a cousin and a sister, who view her and her husband as significant members of their community.

With the program she hopes to continue growing and improving the distribution system for her products. She is also thinking about forming partnerships that enable her to reach other rural areas.

The couple sell raw materials too —wood, plastic materials— to other enterprises, and they are looking for other ways to innovate and start up creative processes, whether for their current customers or to win new ones. In the near future they want to take out a loan to buy an electric three-wheeler to get to other locations where they can sell their environmentally friendly closets.

Productive enterprises for peace (Empropaz)

Factors such as economic vulnerability, lack of access to land, the informal economy, unsafe conditions and the absence of productive economic opportunities, have affected living standards. This has pushed up rural poverty indicators, triggering the displacement of a high number of conflict victims and youth migration towards the cities.

Empropaz was formed as a result of an invitation by USAID Colombia to private-sector companies to generate programs centered on security, rural development and post-conflict issues.

After the program's first year, significant progress is visible in terms of the inclusion model, meeting all the goals that had been set.

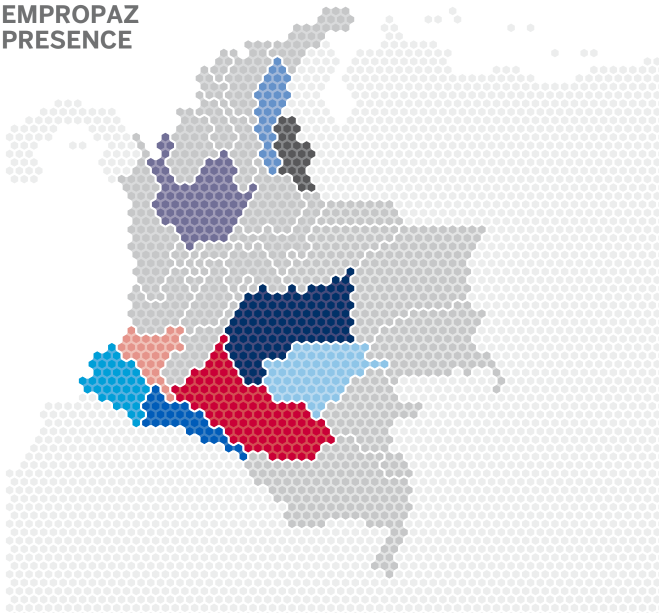
empropaz

Emprendimientos Productivos para la Paz

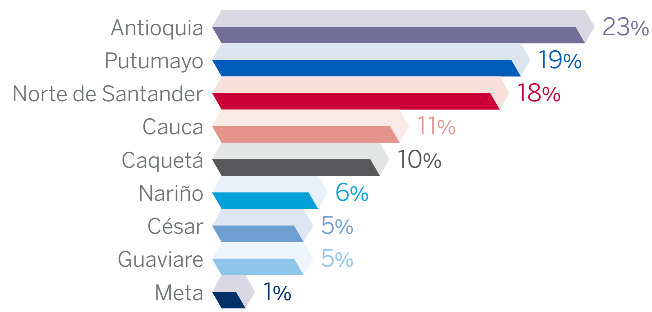
Bancamía Facilitamos su progreso | Fundación BBVA MicroFinanzas | USAID DEL PUEBLO DE LOS ESTADOS UNIDOS DE AMÉRICA

In partnership with: DE MIS MANOS | CORPORACIÓN MUNDIAL DE LA MUJER COLOMBIA

EMPROPAZ PRESENCE



CLIENTS BY DEPARTMENT
% clients



Total clients 32,248

With credit **27,226**

Savings accounts and term-deposits **19,026**

Empropaz is built on a shared-value business model based on productive finance (micro-saving, micro-lending, micro-insurance and financial literacy), together with societal and enterprise development (training and mentoring for entrepreneurship and strengthening for microenterprises). The model also contains a gender component in recognition of the need for Colombian women to be included in production chains nationwide.

Empropaz offers three services specially designed for microentrepreneurs:

- financial inclusion
- management for entrepreneurship with a seed loan fund, and
- enterprise strengthening.

Bancamía's branch network covers all the regions classified as "most affected by the conflict" (ZOMAC in the Spanish acronym). It has 22 offices providing cover in the 58 municipalities where the 344 ZOMAC are located.

30 thousand people in these locations have received financial education and targeted advice. 55% of the entrepreneurs in this program are women, of whom 85% are economically vulnerable. 16% of these women have reported being victims of the armed conflict and 37% have been displaced by the violence. 67% of the female entrepreneurs in Empropaz are mothers who are heads of their households, with an average of 2 children per family.

PROFILE OF ALL CLIENTS SERVED IN 2019*

Vulnerability **82%**

Primary ed. at best **47%**

Rural **40%**

Women **55%**

Older people (>60 y.o.) **12%**

Young people (<30 y.o.) **19%**

PROFILE OF WOMEN SERVED BY EMPROPAZ*

Vulnerability **85%**

Primary ed. at best **44%**

Rural **35%**

* The figures refer to all savings and credit clients.

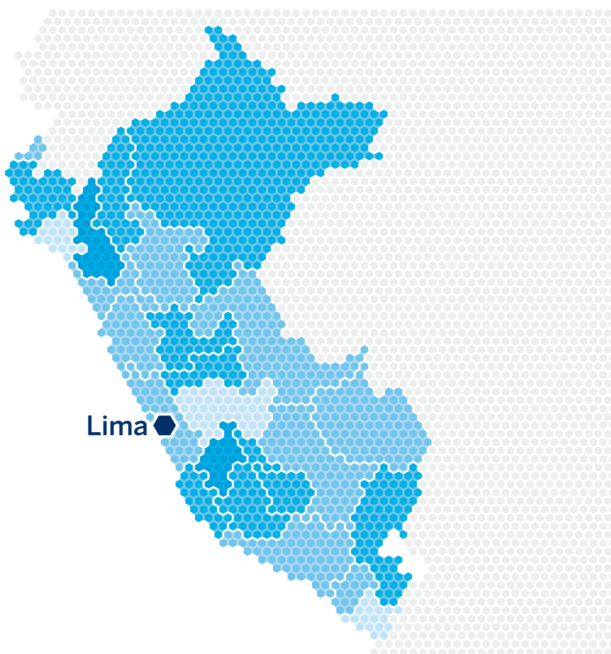
Peru

Financiera Confianza

Social Performance Report **2019**

By supporting their projects, we are lifting people up

Country context

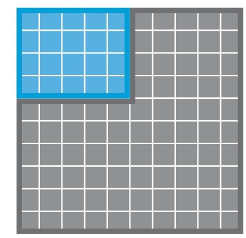


Incidence of national poverty

0% 25% 50%

National poverty
rate[1]

20.5%



Gini index[2]
Inequality measurement:
0 = Perfect equality
1 = Maximum inequality

0.44

57%

of adults in Peru are unbanked[3]

579,578 total clients served

247,356 total nº of credit clients

71% vulnerable

55% women

29% rural environment

12% primary education at best

9% older people (> 60 years old)

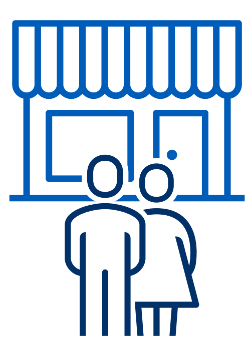
27% young people (< 30 years old)

71% of these businesses generate less than USD 10 a day (and are therefore vulnerable).

The main cause of vulnerability is unstable incomes. The challenge is to steady them and plan for the future.

They become entrepreneurs to improve **their economic situation**

BUSINESSES



↑ **33% Assets**
Annual growth rate

↑ **14% Sales**
Annual growth rate

51% Raise their income
of clients who took out a loan in 2019, one out of two have raised their income since the previous loan.

HOUSEHOLDS

Financial health is fundamental in order to improve their capacity to deal with shocks and be able to invest in the medium term using banking products.

Well managed lending + **Savings** + **Insurance**

Average disbursement of total clients served in 2019: USD **2,061**

15% of clients could survive for a week on their savings

Product diversity
22% of clients have all three types of products

There is potential for greater saving

38% of clients have the capacity to generate small savings.

Improvement levers: incentivize sensible habits and increase financial understanding.

71,580 **people** have received financial education.

Generating incomes, together with solid financial management, means that household standards of living can be improved, and jobs created.

8% of clients upgrade their housing conditions within two years.

Indirect impact

(1) National poverty rate, INEI data, 2018. (2) ECLAC, 2018. (3) Global Findex 2017, World Bank.

Introduction

In the last few years, Peru has succeeded in reducing poverty and has made it possible for more people to get more education, healthcare, and a better standard of living. Even so, 20.9% of its population are living in poverty, and 3% in extreme poverty.

In 2019 the Peruvian economy's growth slowed, expanding by 2.3% compared to 4% in 2018. This was due to the contraction, particularly in the first half, of some primary sectors such as fishing and mining, and a slow-down in the non-primary sectors, essentially construction and manufacturing.

Trade and services were more dynamic, increasing by 3% and 3.6% respectively. Turning to spending, the shocks in mining and fishing affected exports, while the more sluggish performance of private consumption reflected the slowdown in the growth of formal employment.

Public-sector investment reversed, impacted on the national stage by the effects of the political crisis, while regionally, it was affected by the delay in executions, due to changeovers at that level in government posts.

The absence of negative shocks in the key sectors, as well as the growth gap with the economy's potential, meant that inflation closed the year at 1.9% (compared to 2.2% in 2018). This in turn enabled monetary policy to remain focused on keeping an expansive tone, with a reduction of 50 bp over the year.

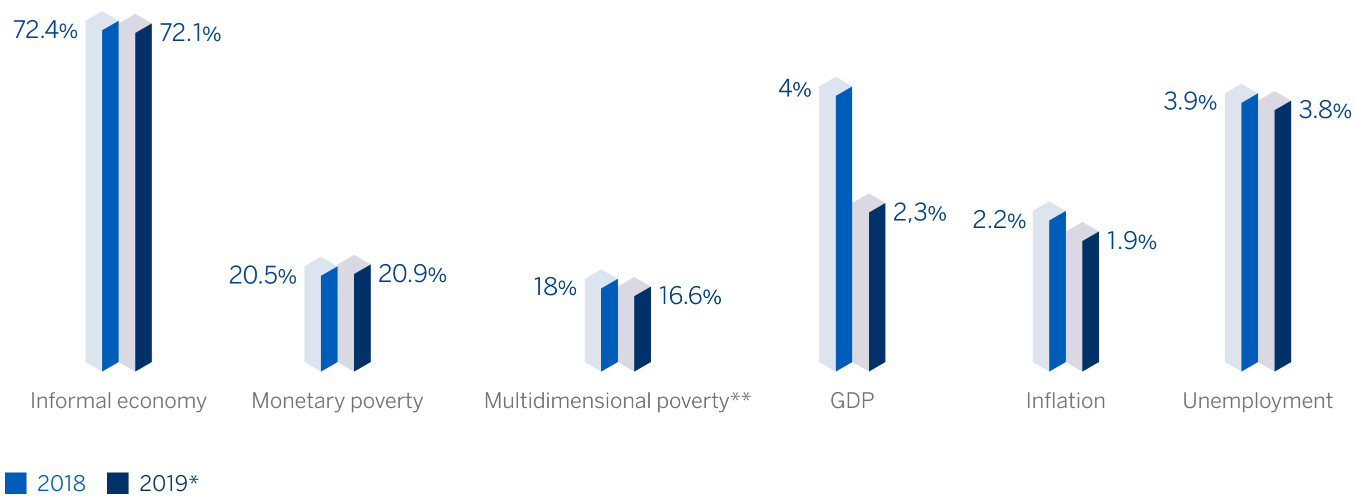
The national employment rate posted at 3.8%, with a difference of 1 percentage point between men (3.1%) and women (4.1%). By areas, unemployment in urban areas came to 4.8%, while in rural zones it was just 0.8%. 72.1% of workers still operate in the informal sector, the ratio being 69.4% for men and 75.8% for women.

In 2019 the number of Peruvians in poverty increased by 198 thousand people, to a total of 6.8 million. 20.9% of the population found itself in this situation, while 16.6% (5,340,648 people) had at least one Unmet Basic Need (UBN). This indicator varies by region. In the Jungle region, 40.1% of the population had at least one UBN, while in the Sierra the ratio was 17.9%. The Coast had the lowest UBN index, with 10.56% of the population suffering a basic need.

The Peruvian microfinance system is one of the most developed in the world. According to the 2019 Global Microscope[1] Peru ranked second in terms of the financial inclusion ecosystem it has built up for the excluded. The report highlights the State's commitment to promoting financial inclusion over the long term and its goal of providing financial services in every region of the country by 2021 (its National Financial Inclusion Strategy).

1. Drawn up by The Economist Intelligence Unit.

MACROECONOMIC DATA



Against this backdrop, the microfinance industry plays an important role. In June 2019, around two thirds of the borrowers in the system had a loan with one microfinance entity or another. The microfinance system has extensive coverage, with 2,400 agencies of a total 4,200 in the entire financial network, and a significant footprint across the country's provinces, where a sizable proportion of the population still does not have access to the formal financial system.

Nevertheless, the industry still has to deal with major challenges, particularly if we bear in mind that the penetration of financial inclusion in Peru is one of the lowest in the region. Nationwide, 39% of the adult population has a loan. Peru also lags by number of depositors, since only 42% of the population has such an account, although the indicator has shot up in just 4 years from 29%. If we break down this indicator by income, only 26% of adults in the poorest 40% of households have an account in a financial institution, compared to 53% of adults in the wealthiest 60% of the population.[2]

To narrow this gap, all parties involved must work together to increase cover, enhance digital financial services, and drive the supply and provision of savings, insurance, and financial education.

KEY VOLUMES[3]

Total number of clients	**579,578**
Number of disbursements in 2019	327,822
People receiving financial education	71,580
Gross portfolio (USD)	**557,306,630**
Average disbursement in 2019 (USD)	2,061
Number of offices	206
Amount disbursed in 2019 (USD)	**768,555,479**
Client resources under management (USD)	382,891,842
Number of employees	2,419

2. Global Findex, 2017. World Bank.
3. USD 1 = PEN 3.31 at 12.31.2019. BBVA Research.

Introduction

Financiera Confianza, BBVA Microfinance Foundation's institution in Peru, is a leading institution in the Peruvian microfinance sector, with the mission of building opportunities for families with few resources, improving their income and standard of living through finance for productive activities.

Financiera Confianza currently has a footprint in all of Peru's 25 administrative regions and is the first microfinance institution to achieve this reach. It is the largest institution in the rural environment, with a 29% share and 22% of its clients in the agricultural sector.

To provide entrepreneurs with financial opportunities, we are carrying out a digital transformation, starting with our loan officers. They have mobile devices with an app that enables them to sign up for products wherever they are, bringing the office to the entrepreneur-client, saving them time and money on unnecessary trips to the bank.

We have also worked on our channel strategy with banking agents (clients with small retail business with whom we reach an agreement and who can carry out certain operations for the client), improving the app so that Financiera Confianza can communicate with its banking agents.

Technology will help thousands of Peruvians to access a broad range of financial services with lower operating costs, which is a great opportunity for all.

In 2019, 109,659 new entrepreneurs put their trust in Financiera Confianza. In fact, the demand for loans increased by 24% and for loans with savings by 9%. Altogether, nearly 580 thousand clients accessed credit, saving and insurance products, a rise of over 10% from 2018.

Our priority in Financiera Confianza are low-income microentrepreneurs, with 70% of our clients in vulnerability. We have a two-pronged strategy. Firstly, we have rolled out an individual lending methodology for our more consolidated clients, and secondly a group lending product for women in vulnerability, fostering group support to underpin their progress. The methodology has to be adapted to each client profile, and the product range needs to be further diversified so that we can ensure they are fully mentored.

So that the poverty still faced by many Peruvian families can be overcome by sustained and sustainable development, a combination of actions is needed. These include the improvement of basic infrastructure.

Even today, 15.5% of Peru's population does not have access to piped water. Financiera Confianza is working to find solutions to cover basic services as well as financial ones. For this reason, during 2019 we teamed up with water.org and have provided a loan to 14 thousand clients that has enabled them to improve their sanitation or connect their home to mains water supply. This has brought a substantial change to clients' lives, since they do not have to leave their homes to get water and their living conditions are healthier, as their bathrooms are connected to the sewage system.

Saving is a valuable tool for improving our clients' standard of living, particularly women, since it empowers them and re-evaluates their role in the home as administrators of the family resources. 85% of clients have formal savings and 25% of savings clients live in the poorest regions of the country.

Credit-only clients	85,666
Credit & savings	161,690
Savings-only clients	332,222
Total credit clients	**247,356**
Total savings clients	**493,912**

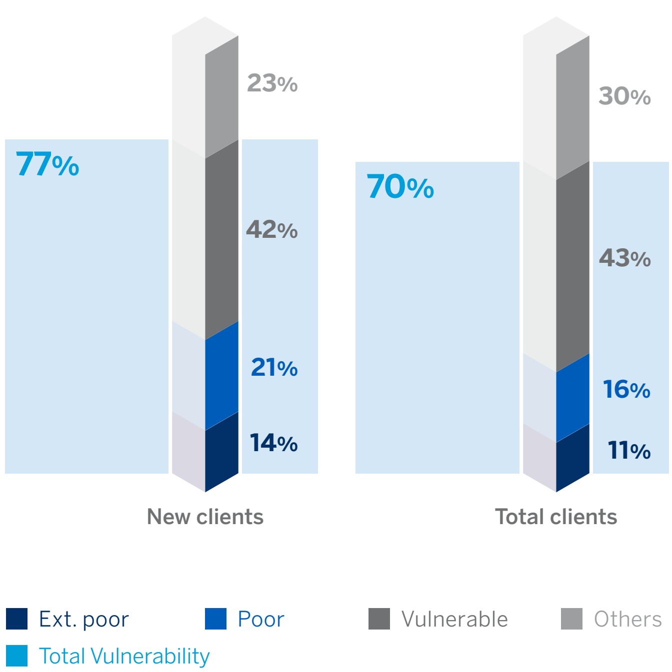
Financiera Confianza is putting resources into measuring impact so that it can tailor its offering to its clients' needs and preferences. The product is based around clients' economic vulnerability, or rather the surplus (income minus expenses) contributed by businesses to each household member (per capita). On average our clients generate monthly surpluses per household member of USD 243, equivalent to 4.1 times the basic food basket in urban areas and slightly over twice the goods and essential services basket (urban poverty line).

This calculation allows us to separate the population into four categories, according to their economic situation. Those entrepreneurs whose businesses do not generate enough income to buy this basic basket are classified as being in extreme poverty (this assumes that household income consists only of the microenterprise being financed). Those who can buy the basic basket, but do not have enough to pay for certain goods and services, clothing, and housing are classified as poor. The price of this second set of goods and services represents the poverty line. In the case of Peru, it is USD 78 in rural areas and USD 114 in urban areas (INEI).

The largest proportion of clients falls into the category of vulnerable people. These are entrepreneurs who, while not yet poor, have highly volatile incomes and whom any contingency can push back into poverty. The threshold for falling into this category is when their per capita surplus is less than three multiples of the poverty line. 70% of credit clients find themselves below this band.

PRICE OF THE BASIC BASKET OF GOODS

ECONOMIC VULNERABILITY*



* According to the National Statistics & Informatics Institute (INEI), differentiating between rural and urban environments. Clients whose per capita surplus (business surplus divided by the number of people in the household) is above the poverty line, but less than three times that line are classified as vulnerable.

The vulnerable entrepreneurs we serve

Profile of our clients

Over the course of 2019 Financiera Confianza served 109,659 new credit clients, banking 29% of these. It is one of Peru's institutions that does the most work in this field. Clients served for the first time in 2019 were microentrepreneurs with small businesses who were looking for their financial entity to be their partner in improving their businesses and, in consequence, their standard of living. 76% of credit clients were vulnerable.

Financiera Confianza's commitment to the development of its vulnerable entrepreneurs has been materialized in growth of over 14% in the number of credit clients, increasing the number of entrepreneurs served with incomes below the poverty line. It served over 31 thousand clients in this situation.

To contribute to financial inclusion and community development it is essential to look to the women, since they are more vulnerable, and more excluded. 61% of clients served in 2019 were women, 8 percentage points more than the year before. Most of them had group loans (Palabra de Mujer). We provide cover through this product to 67% of Peru's regions, and have banked with this program 37% (8 pp more than all clients served) of the new clients in the last year, making the entire range of financial products (credit, saving and insurance) available to women previously excluded from the financial system.

The other key issue in Peru is education and, implicitly, age, since the young population can access more digital learning, which is increasingly an exclusion factor. 40% of new clients are under 30 years old.

Vulnerability concentrates mainly among urban women without secondary education, followed by women in rural areas (13% of clients). What is more, it mainly affects large households (more than three people) and medium-size ones (2-3 members). These segments account for 46% of all clients. They are followed by urban men without secondary education, most of them traders who are looking to grow through entrepreneurship.

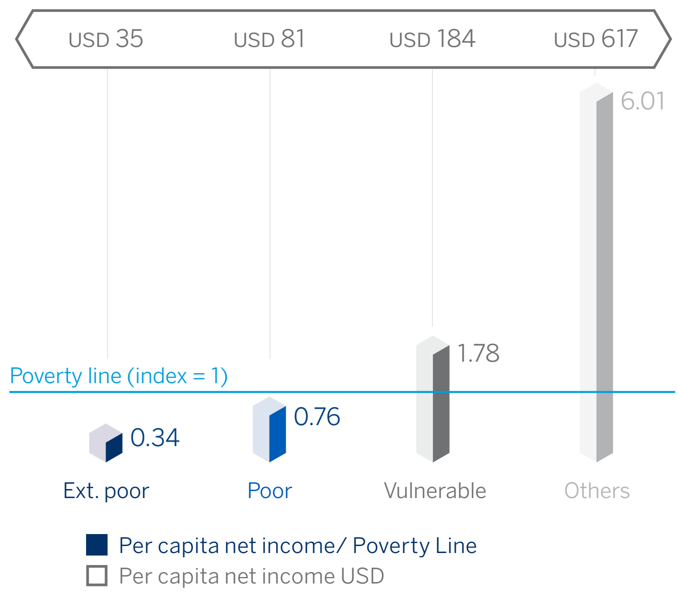
Together with gender and education barriers there are geographical obstacles and, in particular, the efficiency of the channels through which microfinance services are accessed. Peru's geography makes it very difficult for the excluded population (inhabitants of the mountain ranges and the jungle, etc) to access the financial system. In rural areas only 41% of the population has a savings account (two percentage points below the national average). For this reason, in Financiera Confianza we make an effort to join forces with those operators with the greatest capillarity. 26% of the clients we served in 2019 were rural.

61% of clients served in 2019 were women, 8 percentage points more than the year before.

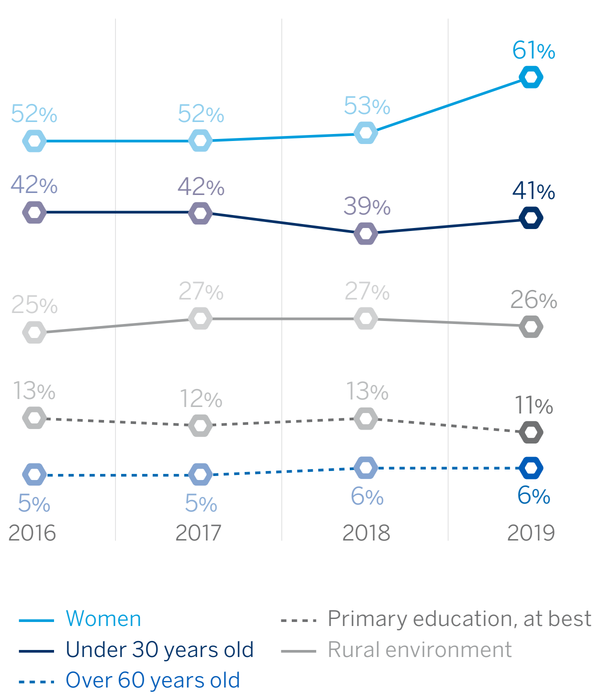
(1) New clients during the year (without previous loans).
Vulnerability: Clients whose per capita surplus (business surplus divided by the number of people in the household) is above the official poverty line, but less than three times that line.
Exclusive clients: Those who only bank with our institution.
(2) According to the country's official poverty lines. New clients during the year (without previous loans).
(3) New clients during the year (without previous loans). Vulnerability is the percentage of clients whose income is less than three times the official poverty line.

1 NEW CREDIT CLIENTS
New credit clients, by cohort
% clients banked: 29%
% exclusive clients: 40%

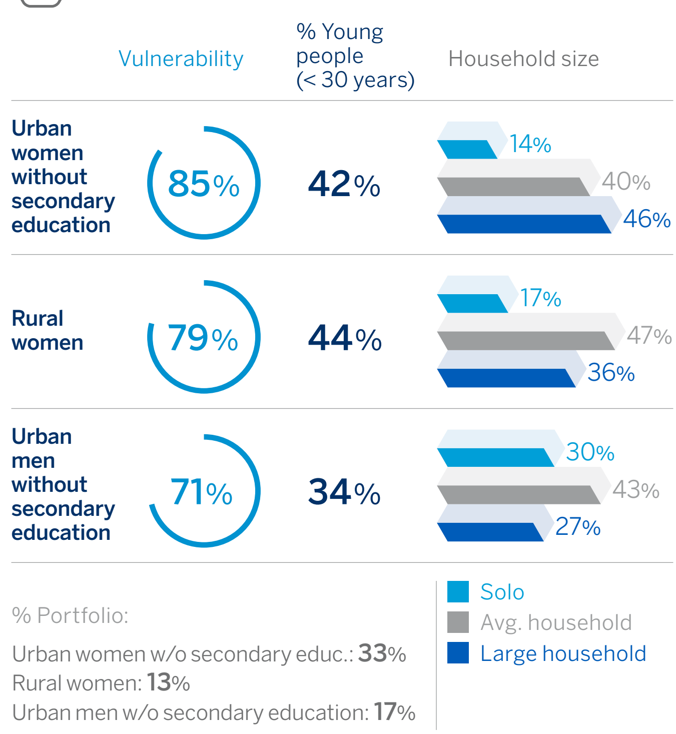
2 ENTREPRENEURS' INCOME
Income of segment over poverty line



3 NEW CLIENT PROFILE
New clients by year of entry (%)



4 SEGMENT OF MOST REPRESENTATIVE CLIENTS
New credit clients



We prioritize our support for women entrepreneurs

The situation of women in Peru

7 in every 10 women work in the informal sector.[4] That, added to the wage gap between men and women —31.6%, the widest in the region— makes entrepreneurship a solution.

Peru has one of the highest rates of women entrepreneurship: 75% of the country's microenterprises are run by women. However, according to the most recent figures, 56% are informal and only 39.2% of entrepreneurs with micro or small enterprises had access to loans.[5]

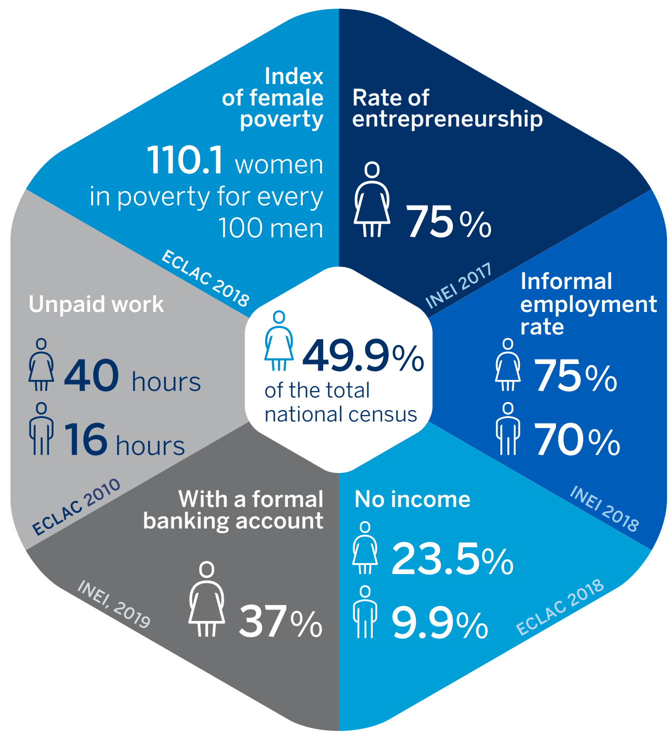
Including Peruvian entrepreneurs in the formal financial system formal with a productive loan or with a savings product not only enables them to generate more resources for their business or enterprise, but it also contributes to their empowerment and economic independence. This in turn leads to progress in their standard of living and that of their families. Female Peruvian entrepreneurs are the driving force and support for millions of Peruvian families.

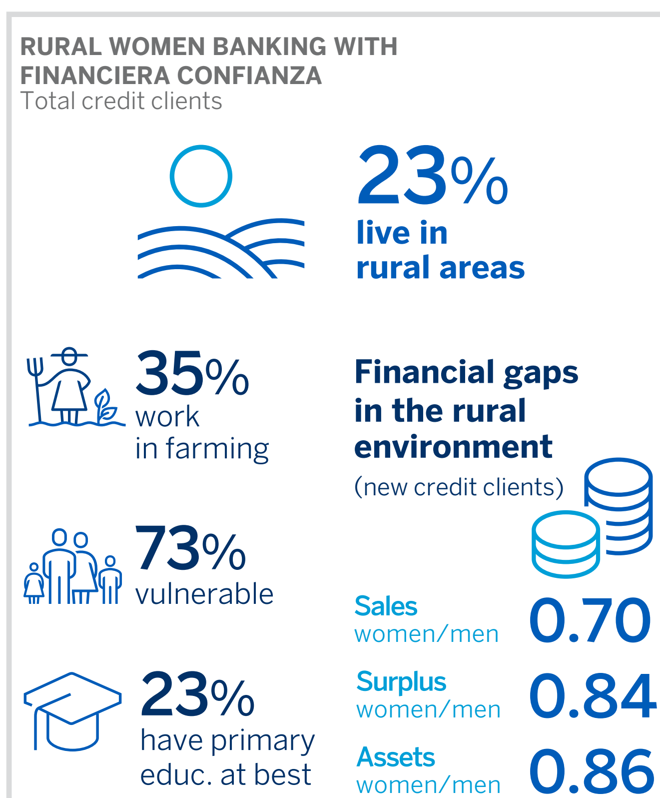
By including more women in the financial system, we are helping to close some of the gaps between men and women. The participation of women in the total number of borrowers in the financial system has showed a tendency to grow over the last five years. Women account for 49.7% of all borrowers.[6] Of the women, 36.9% had a savings product,[7] a slightly lower figure than the men.

"When my husband found out that I had received the first loans, he was against it. I told him that I would take responsibility, and I paid the installments on time. I took out the loan without his signature, by myself."

Elisa Cuchupoma, FC client.

CURRENT STATUS OF WOMEN IN PERU





4. National Statistics & Informatics Institute (INEI).
5. National Entrepreneurship Survey. INEI, October 2017.
6. Data to June 2019.
7. National Household Survey on Living Standards & Poverty, INEI. Data to December 2018.

Profile of Financiera Confianza's women entrepreneurs

The women entrepreneurs served by Financiera Confianza are working microentrepreneurs with lots of initiative. Their main motivation is to give their children the good quality education which, in most cases, they themselves could not have. At the close of 2019, they accounted for 54.8% of Financiera Confianza's credit clients.

Our female clients' profiles are as follows:

- 45% are under 35 years old, and 30% are under 30.
- 60% work in a trade-related activity.
- 23% live in rural areas where poverty is higher than the national average. However, women are migrating towards urban areas, where they can get a better education and have more labor opportunities.
- 75% of them have loans of less than PEN 5,000 (USD 1,500).

Financiera Confianza is solidly committed to the development of Peruvian women and to closing gaps. Evidence of this is the fact that 82% of the new female clients we served in 2019 were in vulnerability, with half of these in poverty. We should also point out that around two thirds of the clients we have banked in 2019 have been women, making us the first option for accessing a financial service for thousands of Peruvian women.

However, there is still much to do, if we recall that the average surplus and assets of Financiera Confianza's women clients are USD 263 and USD 13,709 (PEN 871 and PEN 45,402), respectively. These figures are below the institution's average: USD 289 and USD 14,736 (PEN 957 and PEN 48,803). These disparities spur us to continue working to serve and mentor more Peruvian women on the route towards their progress and that of their families.

Value Offering

Palabra de Mujer [Woman's Word]
This is the most important product focusing on women, and 97% of its clients are vulnerable. It consists of originating a loan (PEN 300 to 7,000 / about USD 900 to 2,100 per client) to a "trust group" that vouches for one another, women entrepreneurs who work together in trade, services, manufacturing, or artisan goods and whose business enterprise is already established. It provides attributes to empower and create contact networks between the women in the group. It also creates an incentive for clients to save in an account with joint and several liability, fostering the culture of saving among clients. In addition, the product provides training to members of the trust group in financial education, business management and productive and/or family matters.

Mujer Segura [Woman, You're Safe]
One of the benefits of Palabra de Mujer is the cancer insurance Mujer Segura. It consists of an indemnity payment (PEN 1,000 to 7,000 / about USD 300 to 2,100) for clients diagnosed with uterine or breast cancer and covers funeral costs (PEN 1,000 / around USD 300). We are the only institution in the Peruvian financial system currently offering this type of cover to this vulnerable population segment.

Conéctate [Get connected]
Though our partnership with the NGO CARE we are working on the Conéctate: Finanzas al alcance de tus manos project [Get connected: Finance within reach], which aims to give financial education to 2,200 vulnerable women in the districts of Piura, Junín and Huancavelica. The end purpose is for them to be included in the financial system. As a financial entity, we have given talks/workshops to women's associations that have already received training, telling them about our lending and saving products and to answer questions. These workshops were run for 170 women aged between 35 and 44, most of whom had not finished primary school, were working as day laborers, had their own enterprise, or were homemakers. The economic sectors in which most of them worked were livestock, artisan crafts and dairy products.

The vulnerable entrepreneurs we serve

Their business profiles

Clients served in 2019 by Financiera Confianza worked mainly in trade (47% between retail and wholesale trade) and services (26%). Despite the difficulties inherent to serving the farming sector, it has strategic importance because of its contribution to the development of the vulnerable population. Our portfolio of clients working in this sector grows every year, accounting for 19% of the whole in 2019.

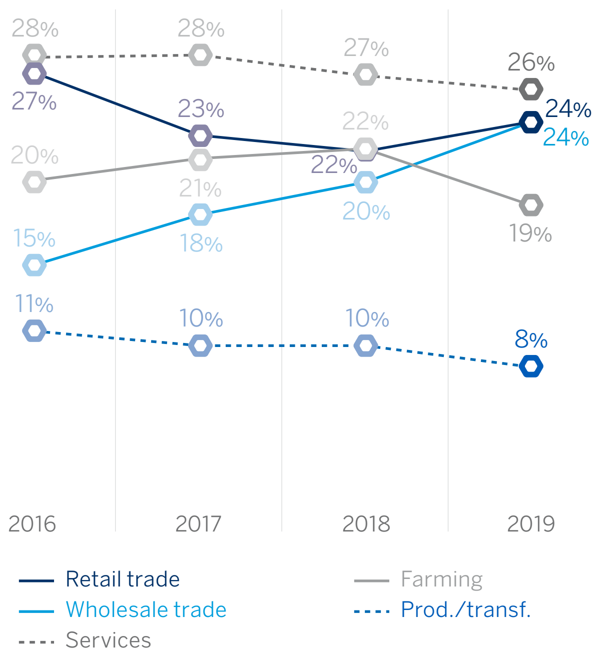
Retail trade is dominated by women (74%) and one in which vulnerable and poor profiles have traditionally worked (68% of clients in this sector are vulnerable). They generally have low levels of assets and as such the sales over assets ratio is high (asset rotation). However, operating expenses are high, so that the cost and expenditure control of their microenterprises is critical if sales are to become profits. On average, 20% of sales are transformed into surplus. This is true, for example, in buying and selling merchandise, where stock management, and keeping costs low, is key, since margins tend not to be very high.

Peru has been classified as one of the most favorable countries in which to be an entrepreneur. The service sector stands out, where its client profile is less vulnerable. It is mainly led by men (51%), requires high levels of investment, and provides a good financial margin (30% of net income over sales after paying the loan installment). This better management may be a result of more education (94% of clients have gone beyond primary education). It also accounts for a higher proportion of young Peruvians. Nevertheless, the entrepreneur profile in this sector has heavier family responsibilities (74% have dependents). It is therefore important to continue bringing our financial services to them through digital channels.

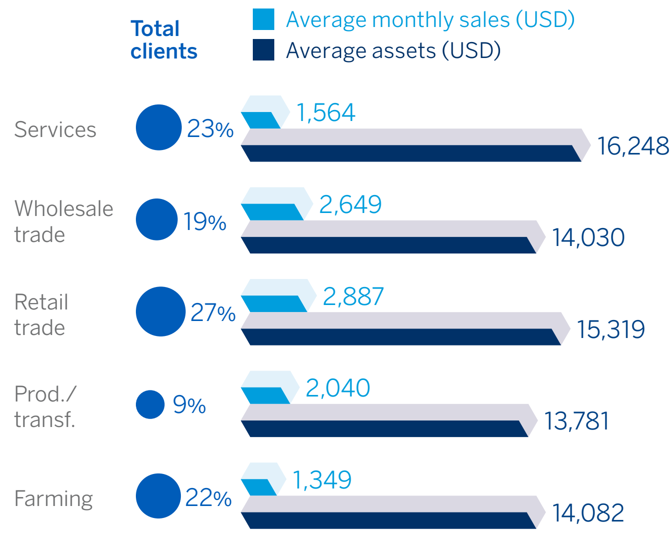
The majority of entrepreneurs work in trading activities. Average sales are USD 2,800, of which 20% is their net income.

(6) Data on average monthly sales and average assets in each sector.
(7) Ratios of average costs over sales (o/sales) in each sector.
Net income is taken after payment of the financial installment.
(8) Data on these clients' average assets, liabilities, equity, and ratios, for each sector. Ratios (equity/assets, liabilities/assets) are calculated using each client's average ratio. The loan granted by the institution is not included in the liability figure.

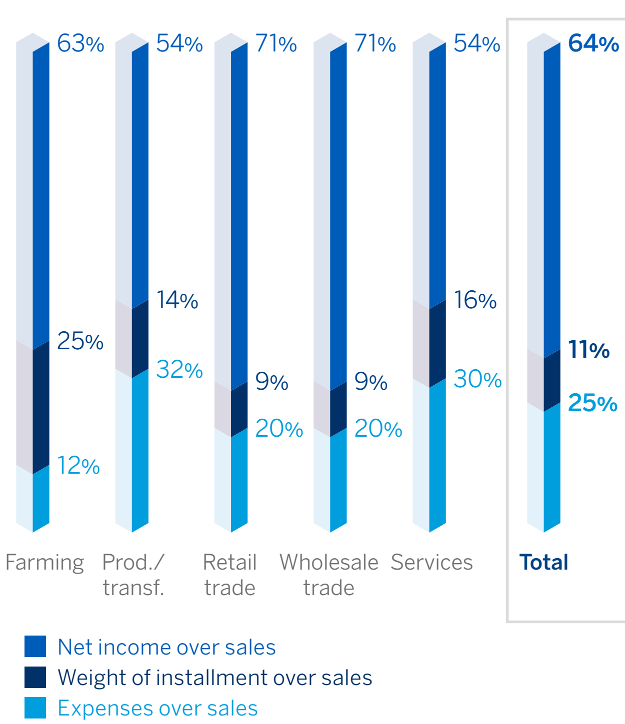
5 ACTIVITY SECTOR
New clients by year of outset (%)



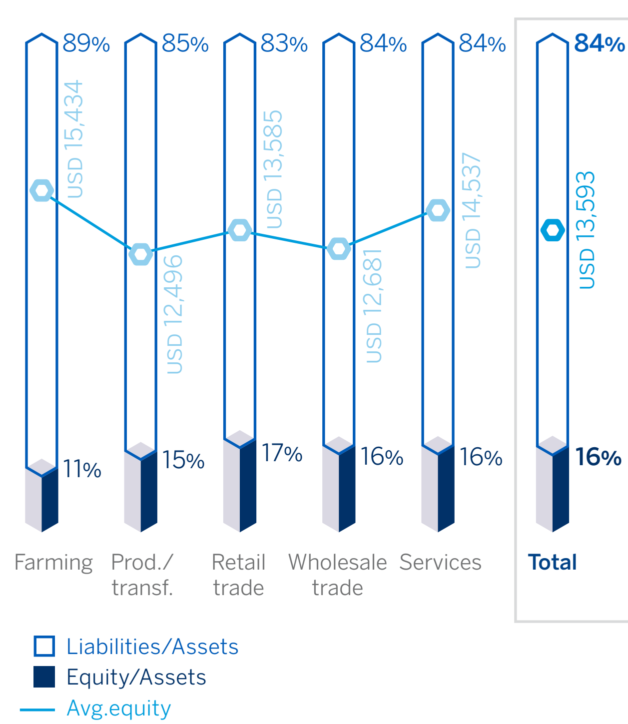
6 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients



7 P&L- MARGINS OVER SALES
Total credit clients



8 BALANCE STRUCTURE - LEVERAGING
Total credit clients



Our clients' development

Their business expansion

Our clients' businesses continue to post high rates of growth that are above the country's inflation rate. Although they have low surpluses (around USD 600-700), clients have a solid asset base (USD 12,000-13,000).

Growth in surpluses (at an annual rate of 14%) enables families to have higher disposable incomes and, together with assets, to build up financial buffers, mitigating any financial stress they may suffer.

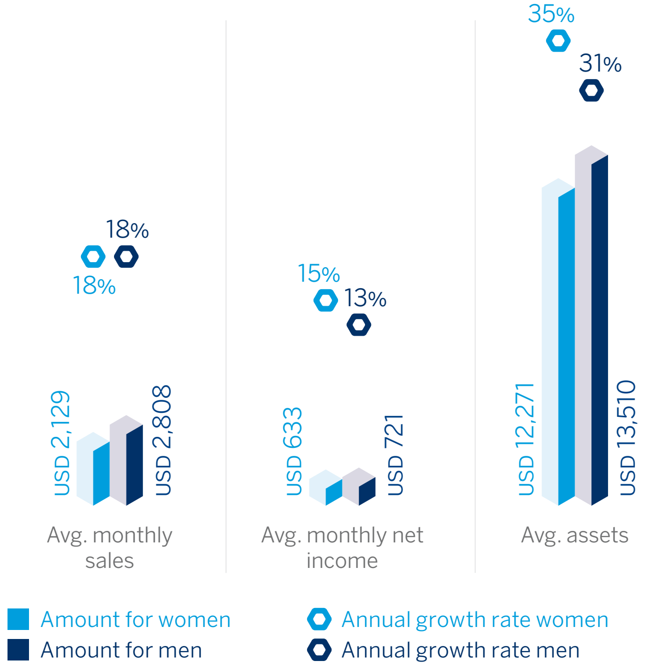
The asset growth rate indicates that surpluses are being ploughed back into microenterprises in order to increase their capacity to generate surplus (whether this is invested in more working capital or in fixed assets). Assets expanded on average by 33%. The highest rates of asset growth were in manufacturing and trade which, as mentioned above, are the sectors that generate most liquidity.

Sales, surpluses and assets were lower in companies managed by women, given that they are more vulnerable, and their businesses are smaller. Nevertheless, they managed to make their surpluses and assets grow faster than their male peers, which suggests more reinvestment in the business.

High growth in sales and assets shows that businesses are highly dynamic. Entrepreneurs working in trade have succeeded in increasing their assets by more than 35%.

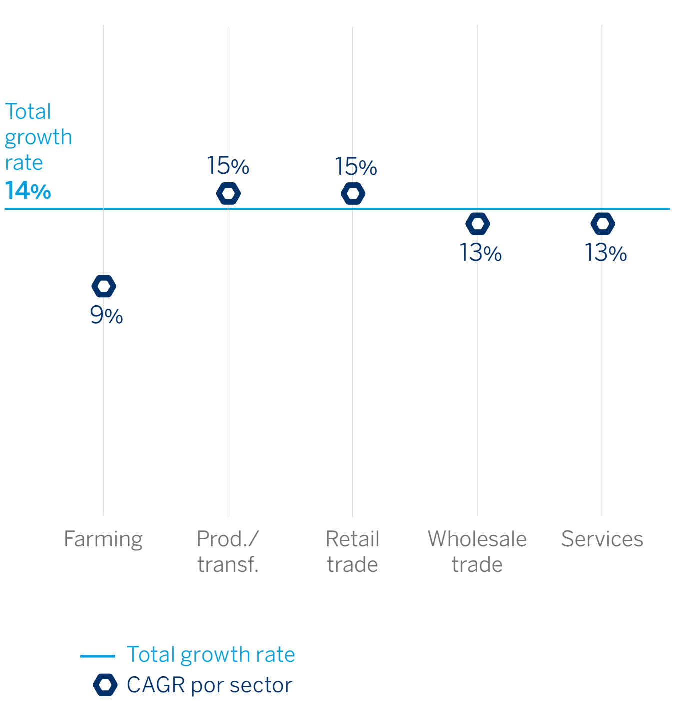
(9) Data on clients current at some point over the year and who have rolled over a product in the last 12 months with the institution (hereinafter "renewing clients"). Monthly average sales and net incomes. All values are on the date of the latest loan disbursement. The compound annual growth rate (CAGR) for cohorts (entry year) between 2015 and 2019 was used for the calculation, taking the weighted average of these rates for each gender.
(10) (11) (12) Renewing clients. The compound annual growth rate (CAGR) for cohorts (entry year) between 2015 and 2019 was used for the calculation, taking the weighted average of these rates for each sector.

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

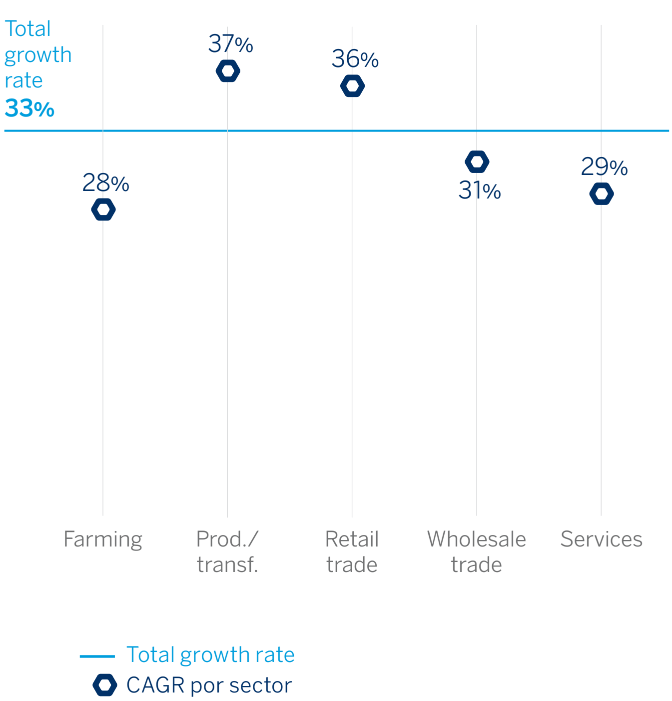


10 SALES GROWTH
Compound annual growth rates

11 GROWTH IN NET INCOME
Compound annual growth rates



12 GROWTH IN ASSETS
Compound annual growth rates



Our clients' development

Escaping poverty

Growth in business surpluses makes it possible for families to have higher net incomes. The longer our clients stay with us, the better their performance, so we must foster long-term relationships.

The numbers show that in 2019 we supported clients with more severe levels of poverty. In the first loan, the incomes of those classified as extremely poor represented 34% of the poverty line, compared to 37% in 2018. They would need two credit cycles to overcome this situation, whereas those in poverty (with incomes above the basic food basket, but below the poverty line), would need only one.

Net reduction of the client segment in poverty was 12% in their second year. Escape from poverty has improved from previous years, but there was also a higher proportion of clients who fell into poverty. The country's economic and political uncertainty may have contributed to this and shows the importance of supporting clients to stabilize their incomes and increase their resilience.

Vulnerability is characterized by volatility and the possibility of sudden, unexpected reductions in incomes that can again endanger the standard of living achieved and that put the household's financial situation under stress.

When we analyze clients who have taken out at least five loans with our institution we note that, in the case of clients who were poor at the outset, many of them escape (46% of clients). However, some have fallen back into poverty (28% of the total). This volatility has increased from 2018 (24% of clients below the poverty line were volatile).

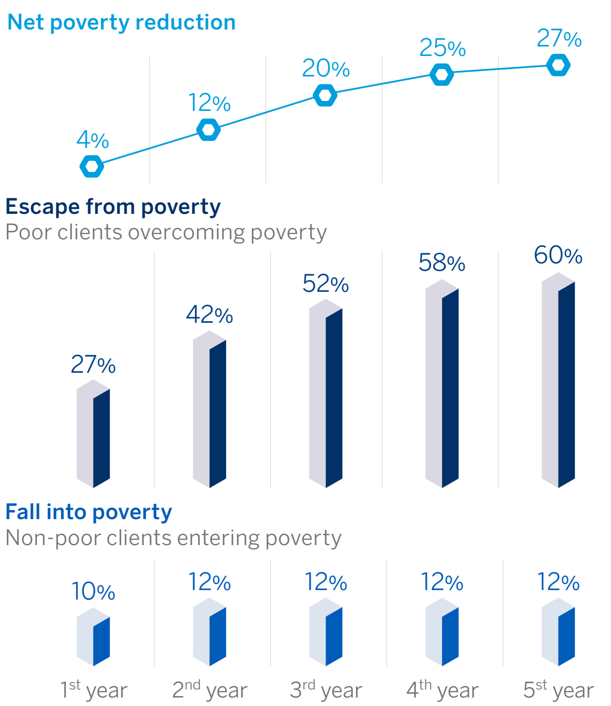
The context in which the activity takes place is also critical, since access to other sources of financing, the amount of competition, and other issues all depend on it. We note that, for clients in poverty, volatility is greater in rural surroundings. This is due to a large degree to the fact that most of them are farmers and are affected by uncertainty (the price of their products, their crop yields, climate change and its impact, cost of commodities, etc).

As the Peruvian economist and academic Richard Webb says, “the starting point ought to be a much greater understanding of the lives of those whom we seek to protect, in particular the resources and defense mechanisms that they have created themselves”. This can help us to support them in their progress.

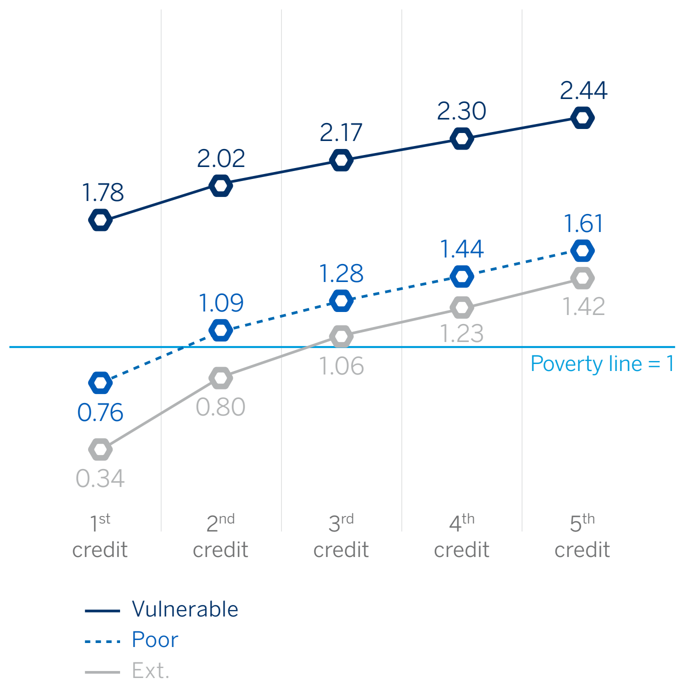
(13) Renewing clients. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.
• **Escape from poverty:** Clients in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.
• **Entry into poverty:** Clients not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.
• **Net reduction:** Escape from poverty minus entry into poverty.
(14) For the sample of clients served during 2019 —classified according to their situation when they took out their first loan— net income per capita at each credit cycle is shown, relative to each country's poverty line (current in the year of the disbursement). Relative per capita net income has a value of 1 when it is the same as the poverty line figure.

(15) (16) Sample of clients served between 2011 and 12.31.2019 who have had at least five disbursements. The number of times a client crosses the PL is analyzed.
Volatile: defined as clients whose incomes oscillate across the PL more than once.

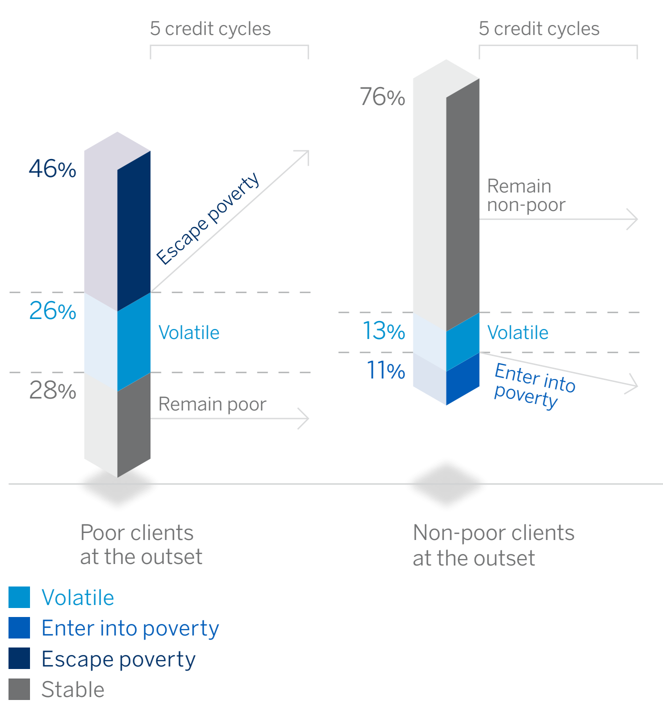
13 VARIATION IN POVERTY SEGMENT



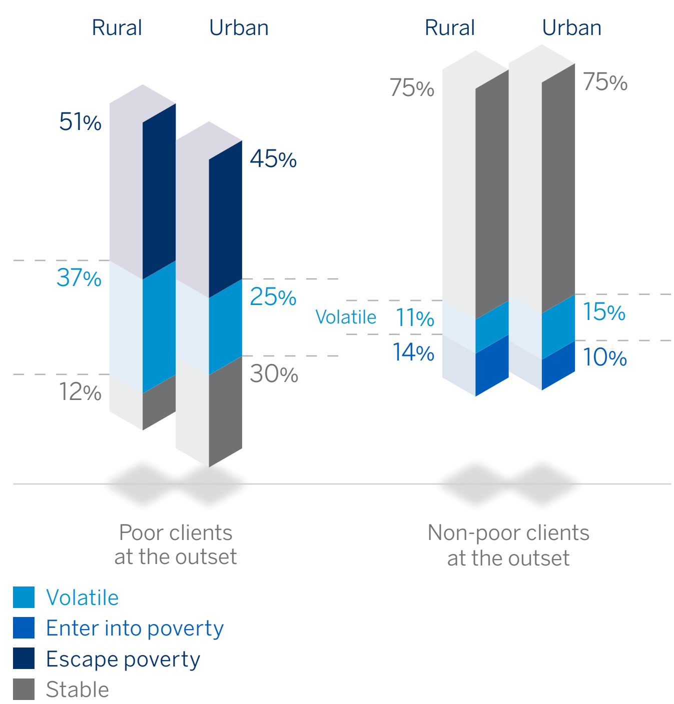
14 GROWTH IN INCOME
Income of segment over poverty line



15 INCOME VOLATILITY
Clients with 5 credits, classified by nº times they fall below/overcome PL



16 INCOME VOLATILITY - RURAL/URBAN
Clients with 5 credits, classified by nº times they fall below/overcome PL



Our clients' development

From vulnerability to income consolidation

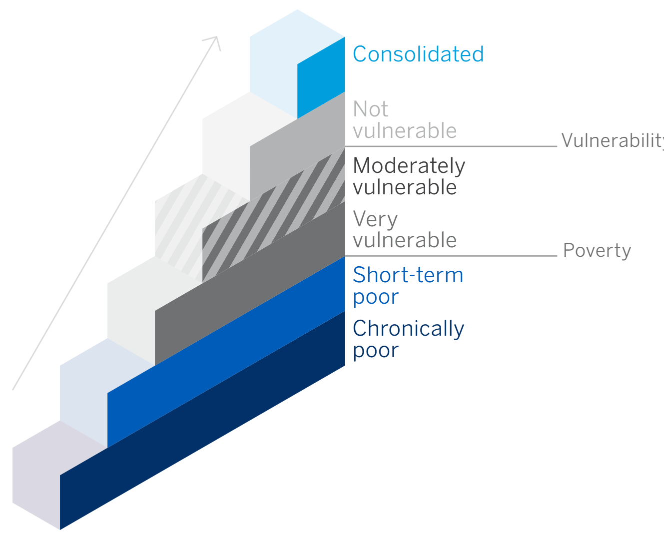
Accumulating productive assets over time is an important lever for the sustained and sustainable growth of clients' businesses. It enables vulnerable households to cope with contingencies or healthcare costs, upgrade their homes and, in short, raise their standards of well-being. That is why we need to segment clients bearing in mind their asset accumulation, including different layers of vulnerability. Thus, we note that all clients accumulate assets and that the longer they remain with us, all segments manage to generate wealth: the consolidated group goes from 17% of all clients at the outset of their relation with Financiera Confianza, to 27% after five credit cycles.

Among clients with similar incomes (surpluses), those with higher assets at the outset, and those who accumulate them over time perform better: not only do they accumulate, on average, higher income levels, but they also reduce the volatility of their businesses.

On average, the performance of one in every three long-term poor clients is volatile, compared to one in four among those with more productive assets (short-term poor).

Over the long term, 19% of entrepreneurs manage to consolidate their positions, that is, they overcome vulnerability and reach an asset level that gives them peace of mind for the future.

THE LAYERS OF VULNERABILITY*
Client segments by relative income and assets



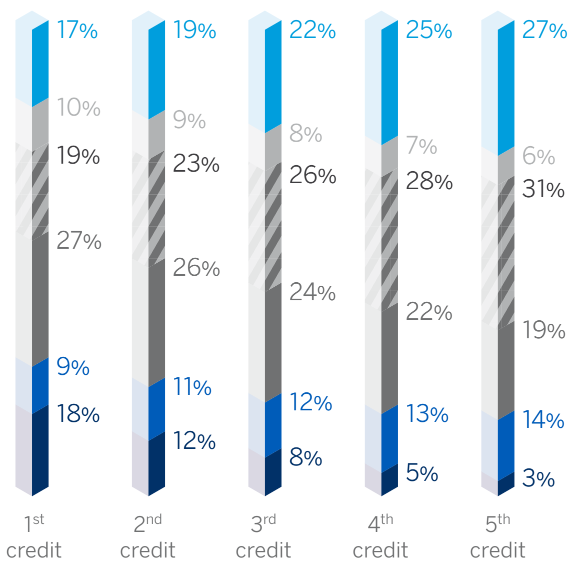
After five cycles, one in every five clients, on average, is no longer vulnerable. Even among clients who were long-term or short-term poor in the first disbursement with Financiera Confianza, there are high rates of escape from vulnerability and of consolidation.

The more critical the situation at the outset, the more difficult it is to overcome vulnerability. Normally it is a gradual growth process over time. That is why both access and the continued use of financial channels for a long period of time are both so important.

(17) (18) (19)
Sample of clients served between 2011 and 9.30.2019 who have had at least 5 disbursements. Clients escape vulnerability when they reach a relative income > 3PL & are classified as "consolidated" when, as well as escaping vulnerability, they reach level 1 of the vulnerability pyramid (relative income > 3PL; & assets > 60PL).

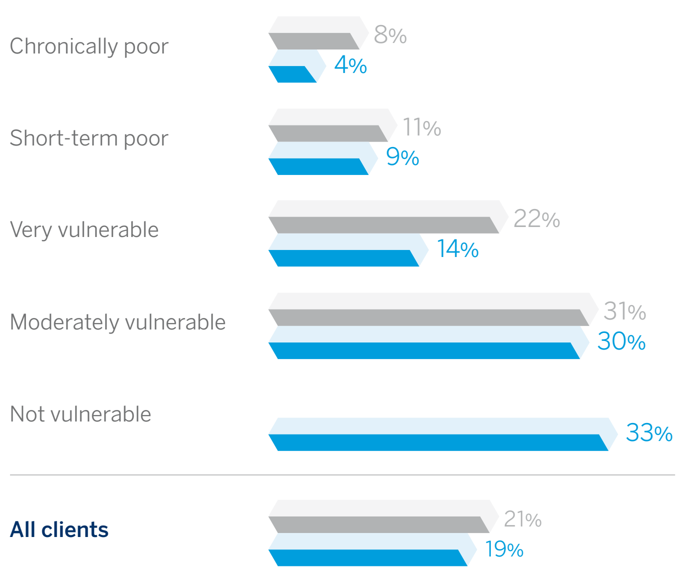
* Long-term poor: relative income ≤ 1 PL & assets ≤ 20 PL; Short-term poor: relative income ≤ 1 PL & productive assets > 20 PL; Very vulnerable: relative income between 1 & 3 PL & assets ≤ 60 PL; Moderately vulnerable: relative income between 1 & 3 PL & assets > 60 PL; Non-vulnerable: relative income > 3 PL & assets ≤ 60 PL; Consolidated: relative income > 3 PL & assets > 60 PL.

17 **VULNERABILITY BY CREDIT CYCLE**
Clients with 5 credits, classified by asset performance



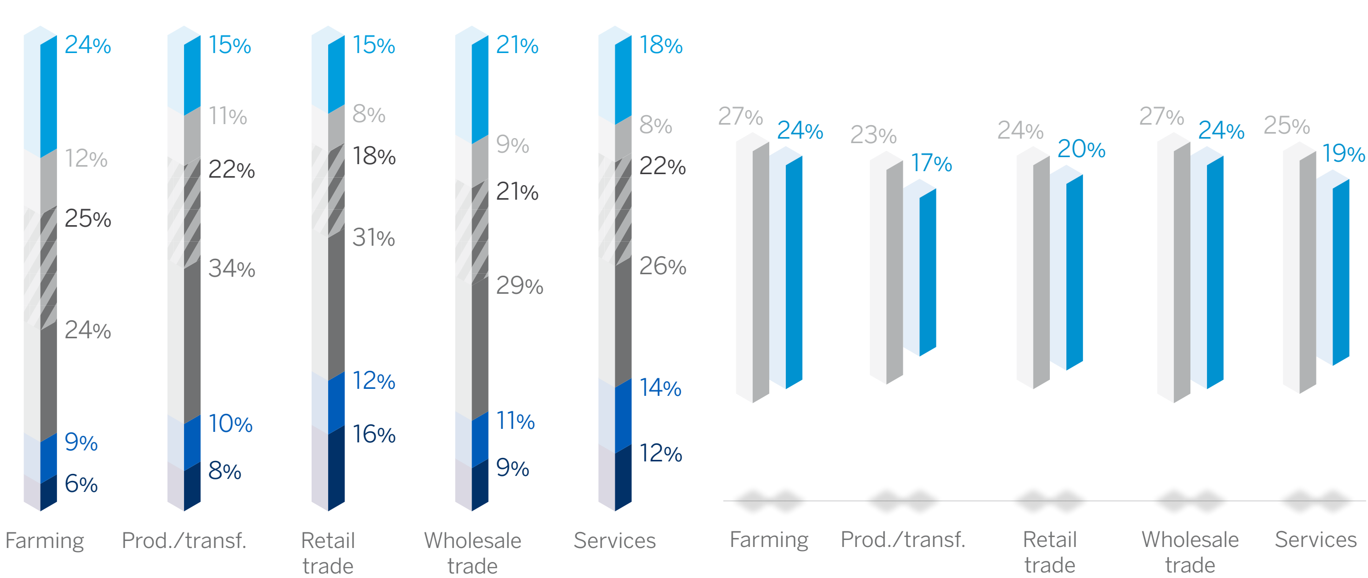
Consolidated
Not vulnerable
Moderately vulnerable
Very vulnerable
Short-term poor
Chronically poor

18 **ESCAPE FROM VULNERABILITY & CLIENTS' SOCIAL MOBILITY**
Clients with at least 5 credit cycles



% Escape vulnerability
% Consolidation

19 **VULNERABILITY AND CONSOLIDATION, BY SECTOR**
Clients classified at the outset → Progress after 5 credit cycles



Consolidated
Not vulnerable
Moderately vulnerable
Very vulnerable
Short-term poor
Chronically poor

% Escape vulnerability
% Consolidation

Our clients' development

Indirect impact

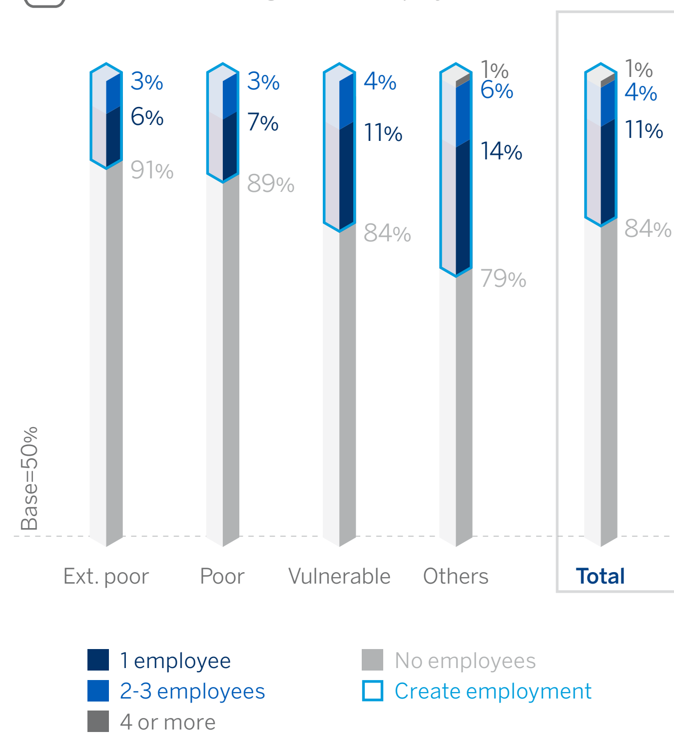
Microenterprises are a key part of Peru's financial ecosystem (around 70% of the country's companies belong to this category), although they face enormous challenges in generating jobs, and most serve solely as a source of self-employment. In addition, they are concentrated in less productive sectors.

The circumstances of Financiera Confianza's clients fit this pattern, although the percentage of clients that manage to provide employment for others rises from 9%, when the enterprise is generating very low surpluses (extreme poverty), to 21%, when clients rise to the category of 'others'.

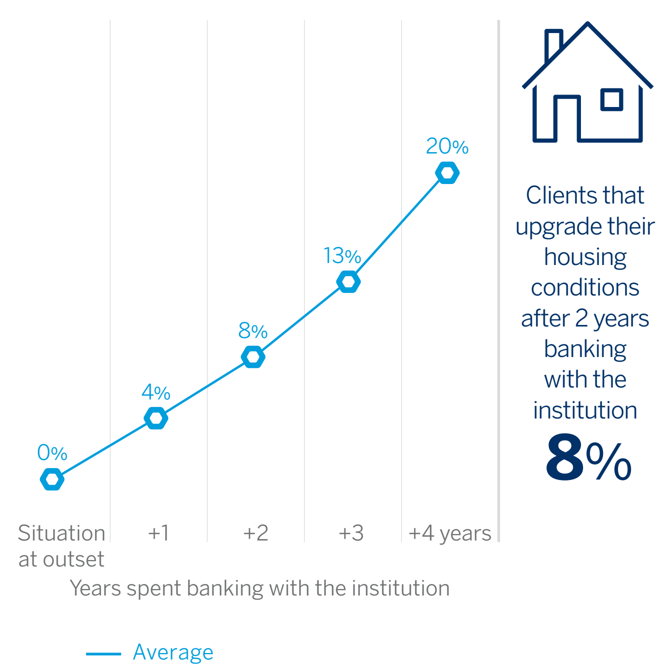
The impact of business growth is also visible in improved standards of living. Around 11% of clients who have been with the institution for two years upgrade their homes, with a positive impact on the entire family's standard of living. To encourage clients to install mains water, proper plumbing, and sewage, Financiera Confianza teamed up with Water.org at the end of 2017. Over 36 thousand clients were served last year (40% more than in 2018). This is particularly important for entrepreneurs, since most of their productive activity is carried out from their homes.

Work is being done to help more people to access basic utilities, raising the level of service for the entrepreneur, their living standards and those of their families.

20 **SOURCE OF EMPLOYMENT**
Clients according to nº of employees in their business



21 **IMPROVEMENTS IN THE HOME**
Credit clients who improve, by years spent banking with the institution (%)



(20) Number of employees in current clients' businesses on 12.31.2019.
(21) Proportion of clients from the 2015-2019 cohorts with at least two data entries who have improved water access to their home or have upgraded that home (from renting to owning or replacing construction materials with better ones).

Our clients' financial health

Over the course of their lives, entrepreneurs encounter different kinds of financial needs that have to be met and entailing greater or lesser investments and/or saving. Studying financial health involves analyzing their circumstances in the light of these needs, the extent of their planning for the next stages, and their strengths or weaknesses to deal with a contingency.

In Peru, 40% of the population claim to have saved some money in the previous year, but only 8% save in financial institutions, laying bare the deficiency that still exists in terms of making the service available to the population at large. In Latin America informal saving still predominates over formal arrangements, despite the advantages of safety and profitability of the latter. As financial education and the country's digital transformation increase, the use of these formal products will rise.

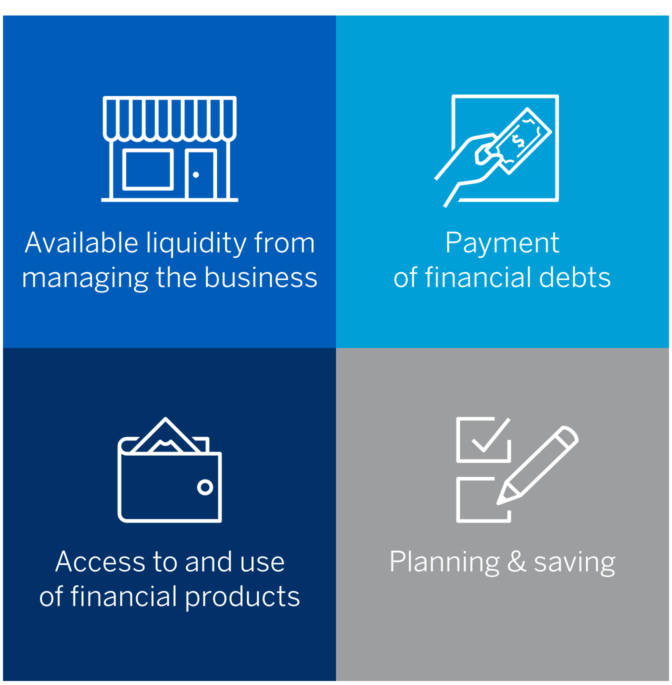
In the case of vulnerable entrepreneurs, it is essential to dig deeper into their capacity to cope with and recover from possible financial shocks with their own resources. In other words, how they administer their finances today (management and liquidity), how they anticipate dealing with future scenarios (planning) and what tools they have to do so (resilience). This is particularly relevant in vulnerable communities since they are more likely to be affected by, and benefit from, access to and appropriate use of financial products.

With this aim in mind, we designed a financial traffic light system to show clients' current situation in terms of credit, savings, and insurance, that will enable us to observe their performance over time.[8]

Among the attributes of saving behavior which vary, it is important to differentiate the surroundings (rural/urban), the level of education, and the age:

- 11% of our clients have a buffer that allows them to survive for a day without an income, while 12% could survive for at least a week.
- Entrepreneurs with further education have the most savings, but most of our clients went no further than high school.
- Older clients have more savings and are more inclined to take out term products, manage their liquidity less to the edge, and comply better with their obligations. The profile is more conservative and saves more. They are less likely to take out loans or insurance products.

FINANCIAL HEALTH DIMENSIONS



Only 23% of clients have good financial health, while 13% have enough savings to survive for seven days or more without an income.

FINANCIAL HEALTH RESULTS

After classifying Financiera Confianza's entire client portfolio, their distribution is as follows:

- **Clients with better financial health** are paying off loans, have formal savings and microinsurance, manage their businesses well and have met their payment installments promptly.
  The capacity for these clients to make progress lies in encouraging them to use savings products more.
- **Clients with low financial health** only have savings products, but hardly any balance and make few transactions.
  This category also includes credit clients with serious defaults who have shown they have difficulties in meeting their loan payments.

23%

Good
- Use more products
- Good payment behavior
- Good management of their liquidity

26%

Moderate
- Clients with more than one product
- Late payments on loans
- Some sight or non-sight savings

51%

Low
- Savings clients with very little balance
- Clients who have not been able to meet their loan payments

METHODOLOGY

To measure financial health, we constructed an indicator that classifies the client's status in one of the following basic categories: 1 = low financial health, 2 = moderate financial health; 3 = good financial health.

DIMENSION	WEIGHT*	INDICATOR & RATIONALE	EVALUATION
Liquidity management	25%	**Credit installment / Net income** The available financial margin after paying off the regular installment.	Depending on the segment (defined by sector, vulnerability, rural/urban environment), the following thresholds have been set on the percentile of each segment: • < 0,25 = 1 || • 0,25 0,75 = 2 || • > 0,75 = 3
Payment behavior	31,25%	**Maximum nº of days in default over the previous 3 months** Shows the ability or not to keep to financial plans.	• More than 90 days of default = 1 • Between 1 & 90 days = 2 • 0 days of default = 3
Access to financial products	12,5%	**Nº of active products** A higher diversification of products implies greater capacity to cope with shocks (particularly if clients have savings and insurance).	• 1 product = 1 • 2 products or only one if the client has had a loan in the previous 12 months = 2 • 3 or more products = 3
Planning and saving	31,25%	**Balance of savings products** Reflects the profile of the saver client (with funds in their account) or transactional client (who uses the account for their operations and, as such, has movements on the account). The account balance is calculated by the clients' ability to cover their living expenses for a minimum period (in the event of their losing their main source of income and not being able to get a loan).	**Balance** • Sight & non-sight balances ≤1 day of supplies (1 basic food basket) = 1 • Between 1 day & 1 week = 2 • More than 1 week = 3

8. Scoring: lower than or equal to 4.5 = low financial health; 4.5-7 = moderate financial health; more than 7 = good financial health.

* For savings-only and credit-only clients, the weightings on the reported variables are equitably redistributed.

Our clients' financial health

Entrepreneurs who have taken out loans

Financiera Confianza concentrates efforts on creating long-term relationships that enable entrepreneurs to grow with the institution. This is particularly important for clients who join the formal financial system for the first time (are banked).

Financiera Confianza supports nigh on 245 thousand entrepreneurs with loans. Over half of these clients (52%) also have savings and insurance products, demonstrating the depth of the relationship, which is designed so that entrepreneurs benefit from more coverage and receive an integrated service that meets all their needs.

The average credit disbursed to new clients during the year was USD 1,313. This figure is double the basic annual food basket and is slightly lower than average monthly business sales. The amount of this loan can as much as double after three or four years of banking with the institution.

Including vulnerable clients and those with small enterprises, such as the women in *Palabra de Mujer*, has the effects of lowering average sales and disbursements. This causes a slight increase in the weight of the installment over sales (affordability rate), a demonstration that productive finance is a useful adaptation of finance for low-income clients.

To understand the relationship between more efficient business management and how our service adapts to each client's needs and capacities, we have analyzed how entrepreneurs handle their finances and manage liquidity. To do this, we have built a payment capacity indicator (installment over net income), based on:

- Sector
- Environment
- Degree of vulnerability

This indicator allows us to gauge which entrepreneurs are managing their net income better than others, taking into consideration their sector, surroundings, and level of economic vulnerability.

Knowing the client, understanding their business, and seeing their potential are all essential when it comes to providing financing. Credit opens up their capacity to invest and other less obvious benefits. Clients start managing increasingly large sums and a wider range of financial products through the formal financial system.

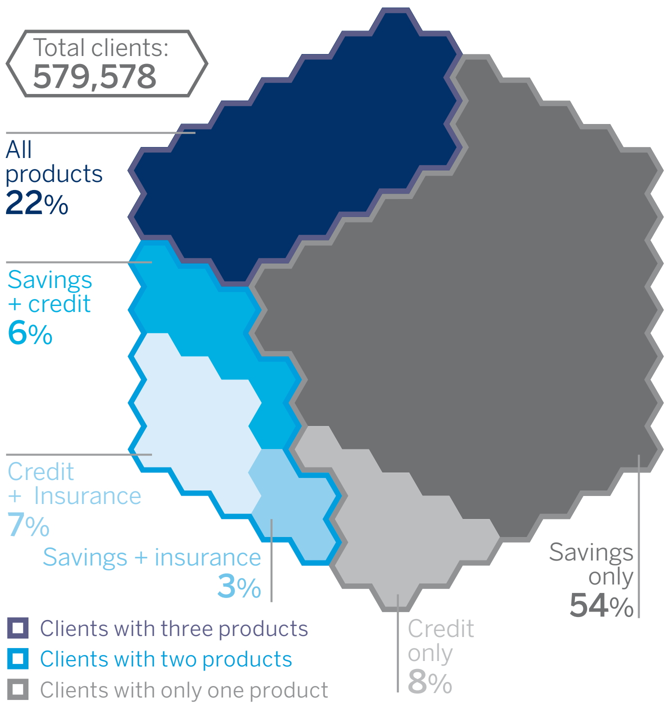
Entrepreneurs who have taken out insurance

Insurance is a financial product that becomes more relevant as the likelihood of entrepreneurs losing their assets becomes greater. That is why providing vulnerable entrepreneurs with insurance can help to give them cover and protect them from a sharp impact on their already volatile incomes.

To an extent insurance represents a form of saving, which is why clients who have insurance have lower sight deposits inasmuch as insurance is, up to a point, a replacement. Currently over 184 thousand of our clients have a voluntary insurance product; those who already have a loan and some savings are more inclined to take out insurance.

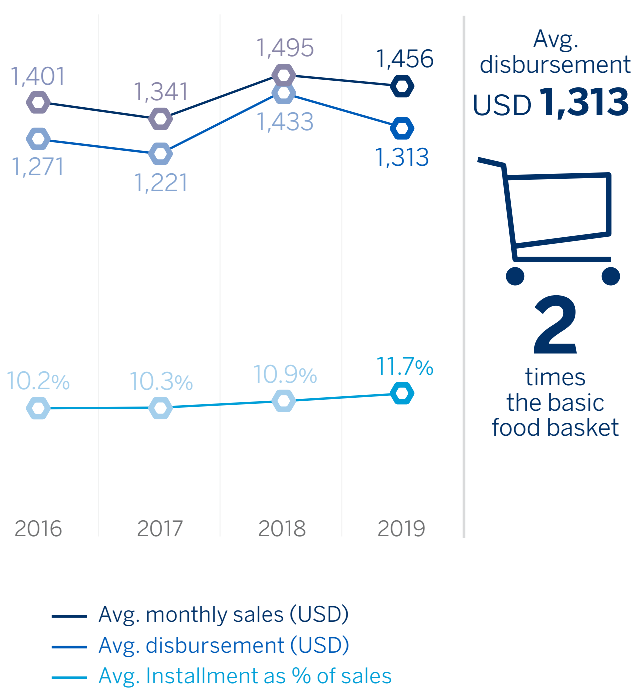
(22) Clients current on 12.31.2019.
(23) Clients in each cohort (joining between 2014 and 2019) on date of each data collection. Value at the Outset is the average initial value (first disbursement by year of entry), to which the average growth after one year, two years, etc of the disbursements to groups of clients from the 2014-2019 cohorts is applied.
(24) New clients. Average disbursement calculated from the average first disbursement for new clients each year. Weight in the payment installment calculated as average ratio (installment over sales) of each client.
(25) Clients current on 12.31.2019.

22 CLIENTS BY PRODUCT TYPE
Total current clients

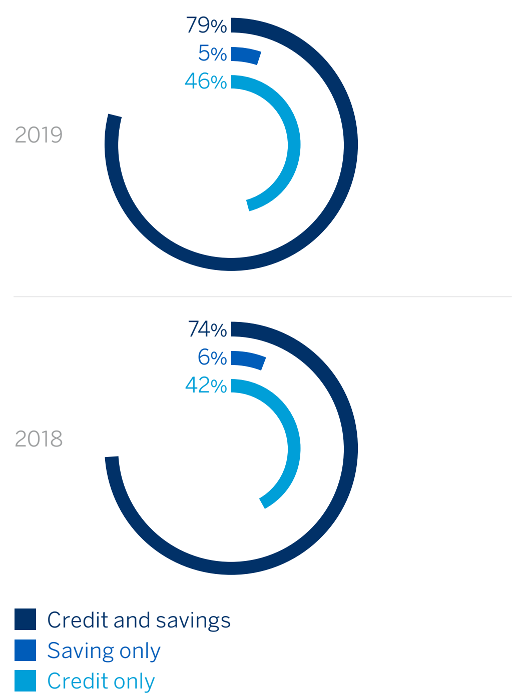


23 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship

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



25 OWNERSHIP OF INSURANCE
Total current credit clients



Our clients' financial health

Entrepreneurs who have savings

Compared to other economies, Latin American countries have a marked preference for cash (an estimated 91% of commercial transactions in Latin America are conducted in this way, with even higher rates among the vulnerable population). Despite the efforts of the Peruvian government to promote electronic money through a number of projects and actions, there is a lot of ground still to cover.

Nationally, 42% of the population has an account in a financial institution.[9] However, balances remain low, accounting for just 0.17% of per capita GDP.[10] 85% of our entrepreneurs have a savings account with us. In fact, for 54% of them, it is their only product.

The number of clients who decided to open a saving account increased this year by 8%, reaching over 490 thousand clients. There has been a particular increase in "saver entrepreneurs", that is, those who use products specifically designed for entrepreneurs.

Investment and savings requirements also vary depending on the entrepreneur and their households. Younger clients have less savings. We estimate that this is because they are at a phase of investing and of high family expenses. Savings increase as entrepreneurs get older. Clients older than 60 prefer term products: 6% of the savings clients in this age group take out these products.

There is still a large group of clients with very low balances and low transaction frequency. The challenge is to offer products that are useful to them that adapt to each stage of their lives.

Financial education

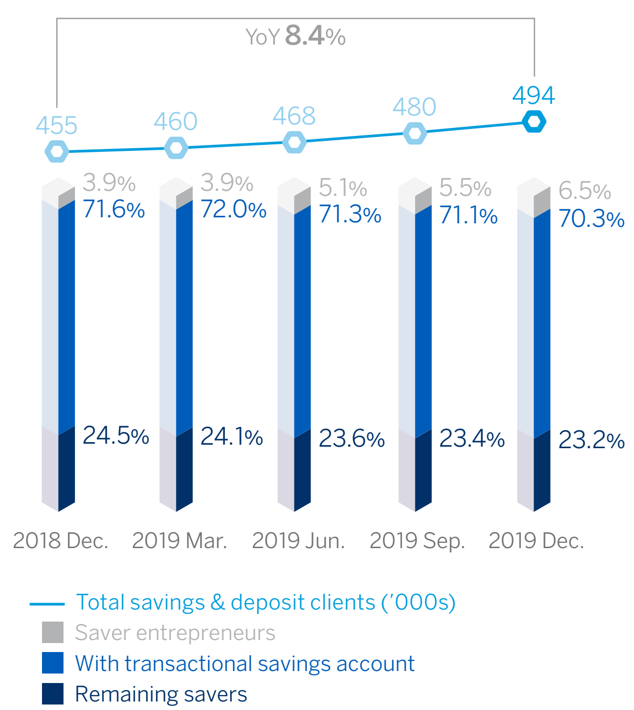
To reach vulnerable clients, as well as offering them financial services, we need to run training sessions that help entrepreneurs to improve their business (on issues such as budgeting, or distinguishing between business and domestic accounts) and to understand the different financial products and advantages of the formal financial system compared to borrowing a few dollars here and there, every so often, or informal saving.

We can look with satisfaction at the progress being made by the groups comprising the Palabra de Mujer product, where we not only provide training, but a support network is formed that shares experiences, which creates a real bond.

During the course of the year, thanks to the good take-up of this product, over 70,000 entrepreneurs, especially women, have received training.

71,580
people have received financial education

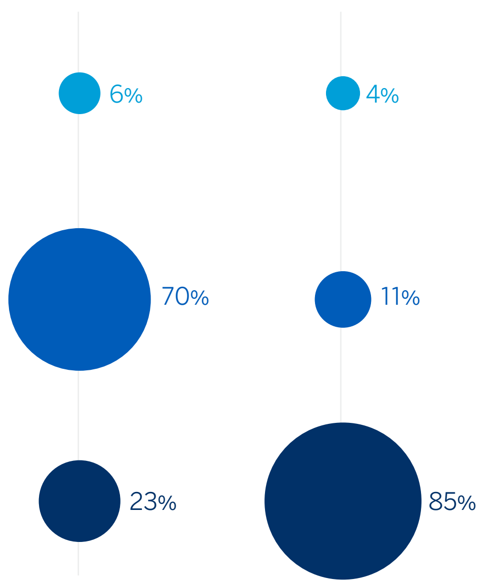
(26) SAVINGS CLIENTS, CHANGE
Clients with any savings product on each data collection date



(26) Clients with savings products (savings and deposits) on each data collection date.
(27) Clients with a savings product on 12.31.2019 (excluding institutional clients and employees).
(28) (29) Clients with a savings product (28: sight account; 29: term account), on 12.31.2019 (excluding institutional clients). The calculation uses the basic basket of goods and services (poverty line) as the daily expenditure.

9. Global Findex, World Bank, 2017.
10. SBS Financial Inclusion Indicators report, Peru, June 2019.

27 BREAKDOWN OF SAVINGS CLIENTS BY PRODUCT
Clients & balances by segments (%)



Type of client

SAVER ENTREPRENEURS
Clients with products targeting microentrepreneurs' savings or taken out by our credit clients

TRANSACTIONAL ACCOUNTS
Clients with a savings account where they deposit the loan, interest, etc. They may or may not have other products (whether assets or liabilities)

REMAINING SAVERS
Other clients, source of financing

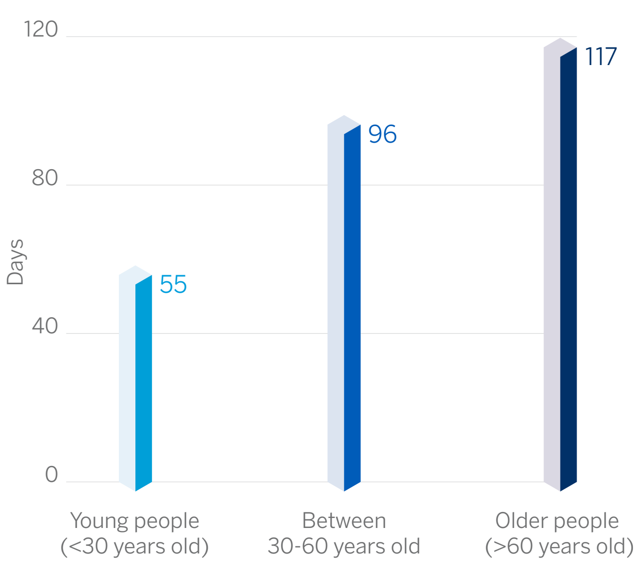
Target

What are the microentrepreneurs we serve with savings products like? How much do they save?

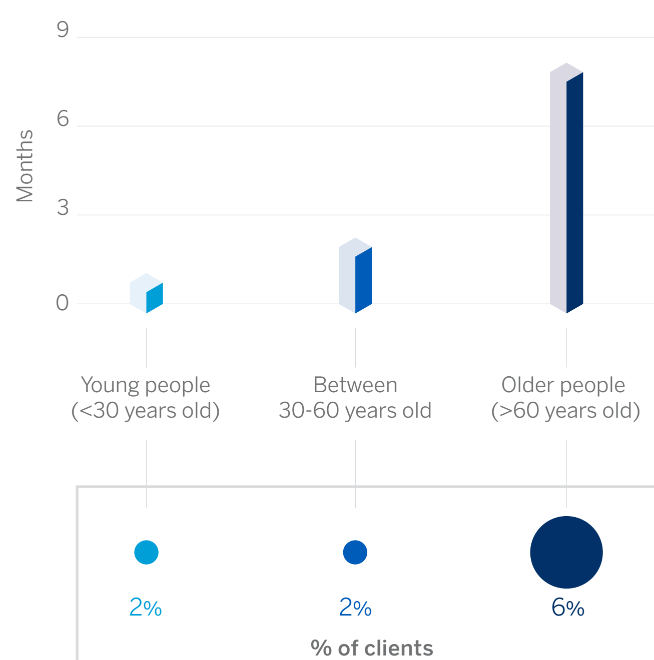
Do they really use their transactional account?

Saver entrepreneurs | With transactional savings account | Remaining savers

28 SIGHT SAVINGS BY AGE GROUP
Days the client can cover with savings (sight)



29 TERM SAVINGS BY AGE GROUP
Months the clients can cover with savings (term)



Our clients' financial health

Savings potential

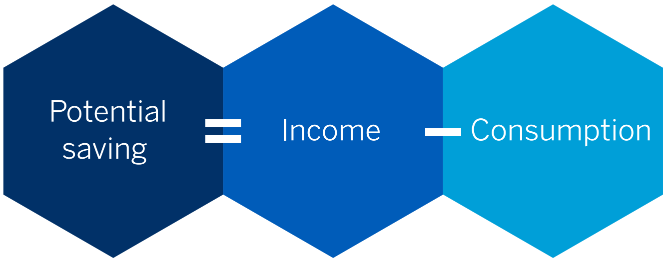
To find out whether clients use savings products so seldom because of a lack of income or for other reasons (informal saving, they do not save at all, or they save with other institutions), we have estimated their savings potential. This is calculated as the difference between income and a basic basket of goods that becomes more sophisticated as incomes rise. The unspent part of this income is the potential saving that could be accumulated every month.

This enables us to distinguish between clients who have the capacity to save because they have some money remaining (whether in the institution, in another, or using alternative assets) and those for whom building up a "cushion", or buffer, is going to be a more difficult task.

If our clients' actual saving is compared with their potential saving, we see that Financiera Confianza entrepreneurs are carrying over more than one month's remainder. This indicates a steadiness of monthly saving and, perhaps, resilience in the face of financial shocks.

We can see how age and income are the most important factors for saving. On average, the younger entrepreneurs could save 7% of their surplus, compared to clients over 30 who could set aside 16%, or the over 60s, who could afford to save 15%. Those who are more severely vulnerable will be less likely to have any money left over after covering their family outgoings.

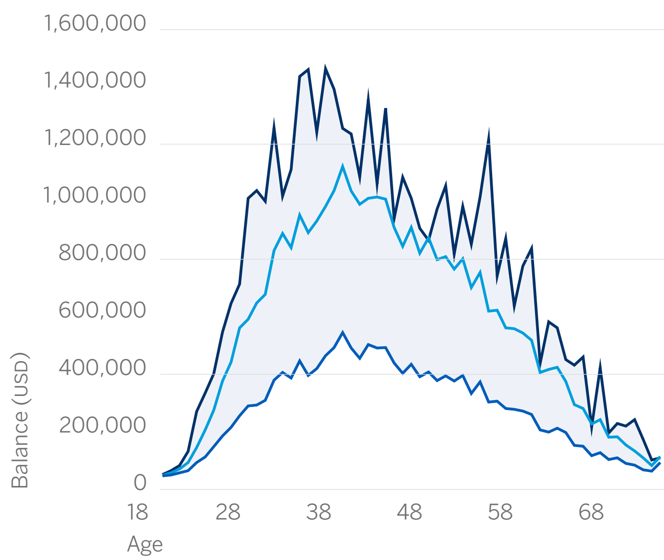
If we focus on clients with a savings account but hardly any money in it (less than USD 1), we see that 65% of these clients have no saving capacity according to the savings potential as calculated. The remaining 35% would be able to save, so there is room for improvement on our value offering to this group. It would be valuable to understand their pattern of reinvestment in their businesses.



Saving capacity
is the proportion of net income not used on consumption (%)

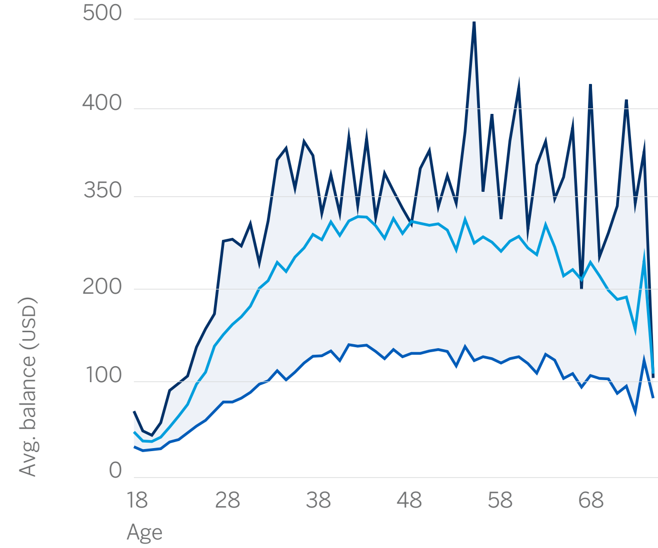
(30) Estimated saving for the portfolio of clients with loans and savings current on 12.31.2019.
(31) Estimated average saving for the portfolio of clients with loans and savings current on 12.31.2019.
(32) Estimated saving capacity for the portfolio of clients with loans and savings current on 12.31.2019.
(33) Estimated saving capacity for the portfolio of clients with loans and savings current on 12.31.2019. Capacity is the theoretical percentage over the surplus that could be saved every month.

30 **POTENTIAL & REAL SAVINGS**
Estimate for clients with both credit & savings



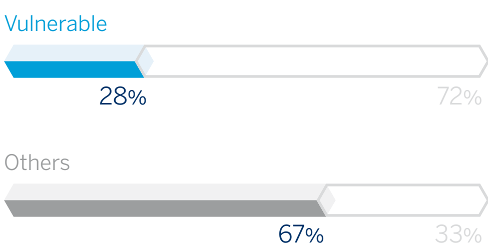
— Total real savings
— Total pot. savings
— Total pot. savings after installment

31 **AVERAGE POTENTIAL & REAL SAVINGS**
Estimate for clients with both credit & savings



— Avg. real savings
— Avg. pot. savings
— Avg. pot. savings after installment

32 **CAPACITY FOR SAVING & VULNERABILITY**
Estimate for clients with both credit & savings



With savings capacity
W/o savings capacity

33 **ESTIMATED SAVING CAPACITY**
Estimate for clients with both credit & savings

	Capacity for saving (potential)	Capacity for saving after installment
Young people (< 30 years old)	7.2%	2.5%
Between 30-60 years old	15.6%	5.8%
Older people (> 60 years old)	14.5%	5.3%

Macroeconomic context

Economy[1]

The Peruvian economy grew by 2.3% in 2019, down from the 2018 rate of 4.0%. This slower growth is accounted for by the reduction in exports, mainly mining and fishing, because of short-term supply shocks, as well as by the drop in public-sector investment and the slowdown in private consumption.

Weaker momentum is linked to the similarly weaker performance in primary sectors, which shrank by 1.3%, particularly due to fishing and fishing-related manufacturing, which plunged by more than 18% and 5% respectively, the outcome of lower anchovy catches during the first season in the North-Central zone.

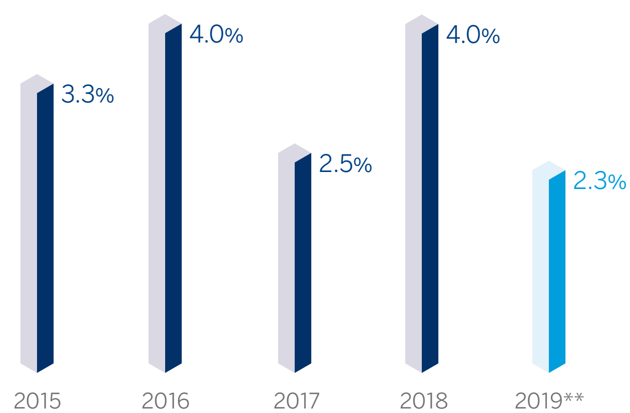
Both factors between them account for a 0.7 percentage-point slowdown in total GDP growth compared to the year before. Metal mining, meanwhile, fell by 1.3%, essentially a result of temporary mining production problems in Las Bambas and Cerro Verde.

Non-primary sectors expanded by 3.2%, mainly due to 2.9% growth in the construction sector thanks to higher private investment, despite less momentum at the end of the year. Trade and services were more dynamic, expanding by 3% and 3.6% respectively.

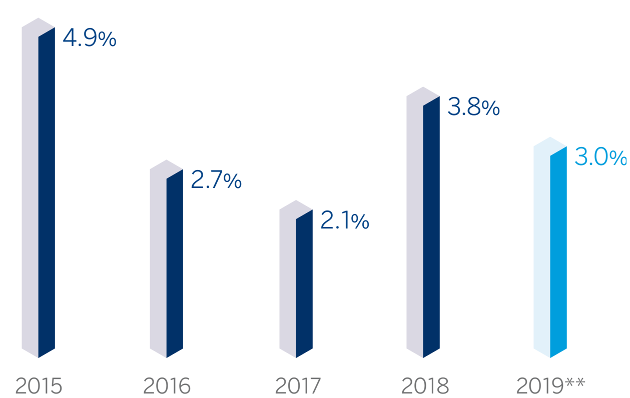
On the demand side, private consumption showed slower momentum than its 3.8% result in 2018, although it still expanded by 3.0%. Public works also progressed more slowly, affected at the sub-national product level by the customary delay in execution when there are changes in the authorities at that level of government, which caused public investment to reverse.

The recovery of private investment that began in 2018 has continued, posting at 4.2% in 2019, fundamentally as a consequence of continuing strong performance of mining investment, which grew by 22% during the year, while other private investment expanded by 1.6%.

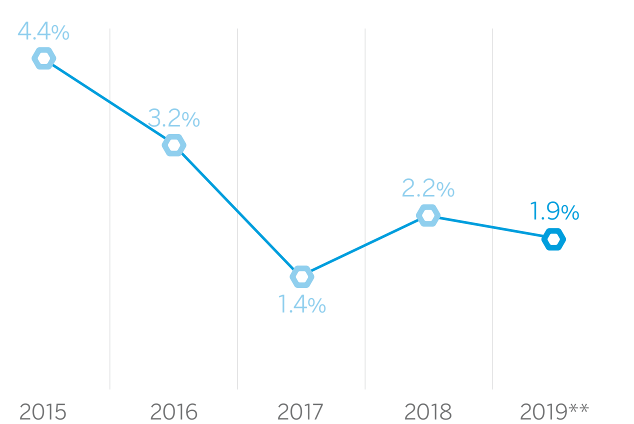
GDP*
Real variation (%)



CONSUMPTION*
Real variation (%)



INFLATION*
Real variation (%)



1. All data from the Central Reserve Bank of Peru. Estimates to the end of 2019 by BBVAMF Research.

* Central Reserve Bank of Peru.
** BBVAMF Research estimate.

The shocks in mining and fishing had an impact on exports, which did not grow at all, which meant that the external sector made a negative contribution to the growth of the economy, shaving 0.2 percentage points off growth, because of stronger results from imports.

The slower growth in 2019 has caused the largest negative output gap (the difference between real GDP and its potential) of the last 9 years, which has in turn caused inflationary pressures on demand to soften, quantified through this output gap; together with the absence of negative shocks in the main items, this allowed inflation to close the year at 1.9% (it was 2.2% in 2018), staying close to the bottom of the target range. Inflation excluding food and energy was 2.3% (2.21 % in 2018). The price variation in food and energy was 1.43% (2.17% in 2018), below its long-term average.

The cities with the highest inflation in 2019 were: Iquitos (4.1%), Huancayo (2.7%), Huánuco (2.5%), and Ica (2.5%). Those with the lowest rates were: Moyobamba (0.5%), Trujillo (0.5%), Puerto Maldonado (0.6%), and Chachapoyas (0.6%).

Lower domestic inflation and the bias to the downside of economic growth meant that the Central Reserve Bank's monetary policy stance continued to focus on maintaining an expansionary position, with a 50 bp cut to the monetary rate, which closed the year at 2.25%. The loose tone of monetary policy was visible in the real rate of just 0.35%, well below the neutral rate of 1.5%. Greater flexibility in monetary and lending conditions has fed through to lower interest rates in all lending segments.

Employment, welfare, and poverty[2]

The permanent labor market survey conducted in districts in the provinces of Lima and the Constitutional province of Callao shows that employment has grown by 0.6%, mainly because of a 1.1% growth spurt in the female occupied population, whereas men's employment edged up just 0.2%.

By age groups, the labor market absorbed more people aged 45 and older, with this segment increasing by 7.4%, whereas it fell by 8.7% in the young population aged between 14 and 24. However, the number of occupied adults with university education increased by 3.3% against the rest, which either posted no significant variation or shrank.

Employment increased in companies with 51 or more employees by 4.0%, but numbers fell in smaller enterprises, where 60.5% of workers are employed, by 0.6%.

By sectors, employment rose by 1.5% in services and by 1.4% in construction, whereas manufacturing activity decreased by 3.2% and by 1.5% in trade. 58% of jobs are in the service sector and 20% in trade.

The Foundation's own estimates for the country as a whole point to an expansion in employment of 1.1%, the lowest rate since 2015 when it grew by 0.8%. This expansion occurred despite slower growth in the economy, which impacted less on employment because it was concentrated on capital-intensive sectors.

Growth focused on urban areas, where it reached 1.8%, compared to rural employment, which fell for the ninth year in a row (0.5%).

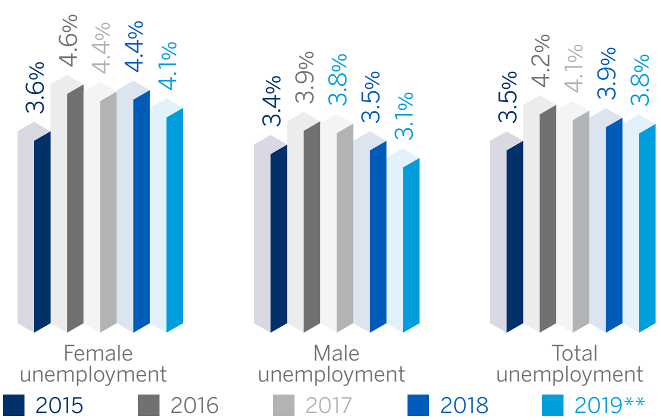
This performance by areas is linked to the gap of nearly 7 percentage points between the activity rate in rural and urban zones. The activity rate in urban zones was 72%, whereas in rural areas it was 79%.

Nationally, the unemployment rate was 3.8%, with a 1% gap between the rate among men (3.1%) and women (4.1%). By areas, unemployment in urban zones was as high as 4.8%, whereas in rural areas it was just 0.8%.

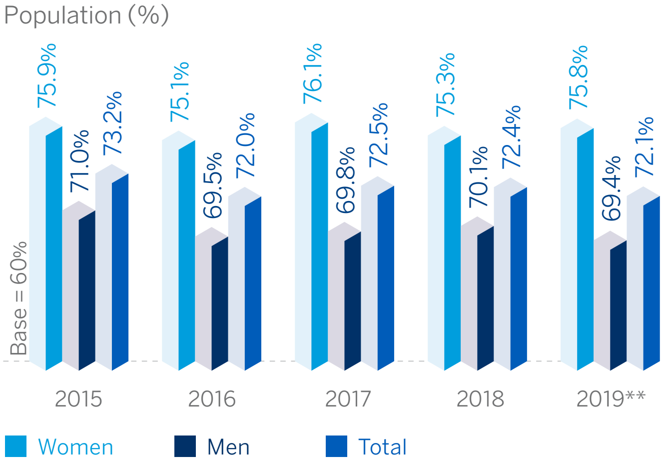
2. INEI data. Estimates by BBVAMF Research.

Macroeconomic context

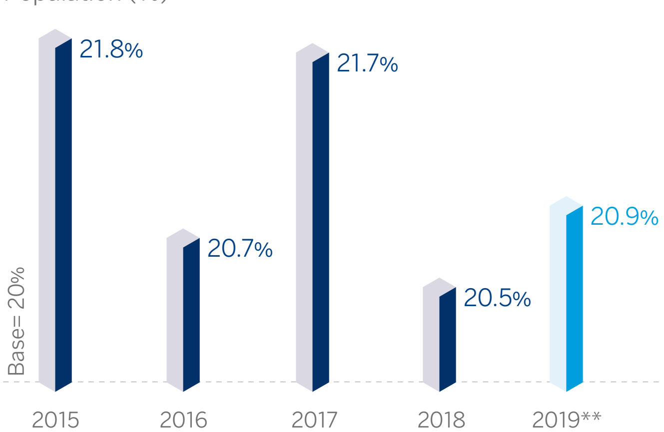
LABOR MARKET*
%



INFORMAL SECTOR*
Population (%)



MONETARY POVERTY***
Population (%)



* Source INEI.
** BBVAMF Research estimate.

However, the employment characteristics differ between Peru's different regions. Whereas the informal employment rate in the coastal region is 63.0%, in the Sierra and the Selva (Jungle) regions it is 83.1% and 84.8% respectively.

Nationally, 72.1% of employment is in the informal sector, well above the Latin American average of 54%, which has significant implications for structurally lower productivity. In relative terms, a larger proportion of women (75.8%) work in the informal sector, which creates a 6.4 percentage-point gap with men working informally (69.4%).

The economic activities with the highest rate of informal employment are agriculture (96.3) and construction (77.4%), while mining and hydrocarbons have the lowest rate of informality (43.8%).

198,000 more Peruvians fell into poverty in 2019, with the total reaching 6.8 million: 20.9% of the population is in monetary poverty. There are significant disparities between regions. In rural areas 42.3% of the population is in poverty, whereas in urban areas it scarcely reaches 14%.

Nevertheless, in the last 10 years around 3 million Peruvians have escaped poverty, with the rate falling by over 12 percentage points, fundamentally due to strong performance in the non-primary sector and in the improvement in employment, despite the high level of informal employment which still persists.

Unmet basic needs

According to the results of the latest census,[3] 16.6% (5,340,648) of the total population recorded there had at least one Unmet Basic Need (UBN). By area of residence, in urban zones 12.2% of the population (3,065,171 people) had at least one UBN, while in rural areas it accounted for 32.1% of the total (2,287,998). In the last 10 years this proportion has fallen by nearly 10 percentage points, from 26.8% in 2009 to its current levels.

3. INEI (National Statistics & Informatics Institute), 2018 National Household Survey.

If we divide the figures by type of terrain, in the Selva (jungle) region 40.14% of the population has some kind of UBN, whereas in the Sierra (hills) the ratio is 17.92%; coastal areas enjoy the lowest UBN rates, since only 10.46% of the population lacks a basic necessity.

By administrative areas, 53.48% of the population of Loreto, 40.6% of Ucayali, 33.8% of the Amazon region and 33.4% of Pasco suffer at least one UBN. The districts of the Constitutional Province of Callao (5.8%), Ica (8.2%), Lima (9.3%), Tacna (9.3%), Lambayeque (9.8%), Arequipa (10.1%), La Libertad (10.6%) and Moquegua (11.4%) report lower incidences of unmet basic needs.

This index allows us to identify future scenarios affecting integration into the labor market and the extent of the population's socialization.

The most common failing is sanitation, which is generally measured by two indicators: the availability of drinking water at home and adequate sewage disposal, which affect 6.6% of the country's population. In 2009, 13.6% of the population was in this situation.

The second most frequent privation concerns the overcrowded conditions in which people live. 6.3% of the population is critically over-concentrated, living in homes with more than three people in a room. In 2009, 11.0% of the population lived in these conditions.

The third most common failing is housing quality. 6.0% of the population lives in physically inadequate housing, that fails to meet minimum levels of habitability.

Another indicator being used is the proportion of the population that lives in homes with a high level of economic dependence: this measures the number of people living in homes with more than three people per room (as well as the kitchen, bathroom and garage) and whose head of household has completed, at most, two years of primary education. In Peru, 1.0% of the population lives in these homes.

The indicator with the lowest rates was school absenteeism. 0.4% of people live in households containing children aged between 7 and 11 who are related to the head of the family and do not attend formal education.

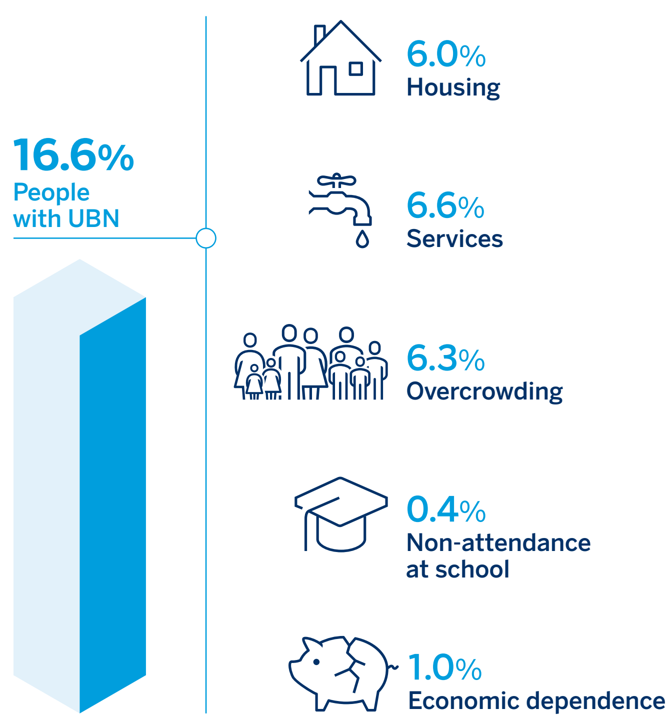
Compared to 2009, these final two indicators have dropped by 0.1 and 0.7 percentage points, respectively, thus showing that they have made structural achievements.

UNMET BASIC NEEDS*
% by district

Urban Sierra	11.5%
Urban coastal	11.9%
National average	**16.6%**
Rural coastal	24.9%
Rural Sierra	25.4%
Urban Selva	30.5%
Rural Selva	55.9%

The Unmet Basic Needs method is one of the so-called direct methods of measuring poverty and complements income poverty measurements by providing a multidimensional approach.

UNMET BASIC NEEDS*
National total by categories



* Source: INEI National Household Survey.

A group effort to reduce the gender gap

Over the last year we have brought 4 out of every 10 Palabra de Mujer *clients into the formal financial system*

The Kollas Jibario group, comprising 11 women between 20 and 42 years old, started banking with Financiera Confianza in June 2019.

Composed of former clients, who encouraged family members and friends in their community to form a trust group, they applied for a loan to buy materials with which to make the artisan products they all produce.

With this boost from Financiera Confianza, they have been able to expand their businesses, selling to the tourists who visit the zone. The group says "When a group of tourists arrives, the community receives them with dances that are traditional to the area; then they tell them something about their community, and finally the members of their group invite the tourists to look at their products."

Financiera Confianza won an award for "Best innovative practice with a gender approach" for its group lending product Palabra de Mujer (PDM), *from the prestigious 2019 PAR Gender Equality ranking.*

* All data on clients current on 12.31.2019.

Palabra de Mujer (PDM)

Since 2008 *Palabra de Mujer* has been focusing on serving women in situations of vulnerability, offering them a group productive loan. The product's value proposal includes a training module for members of the group on financial education, business management, and production and family issues.

PROFILE OF NEW CLIENTS

79% urban

74% single women with dependents

49% young people under 30

13% primary education at best

37% banked clients

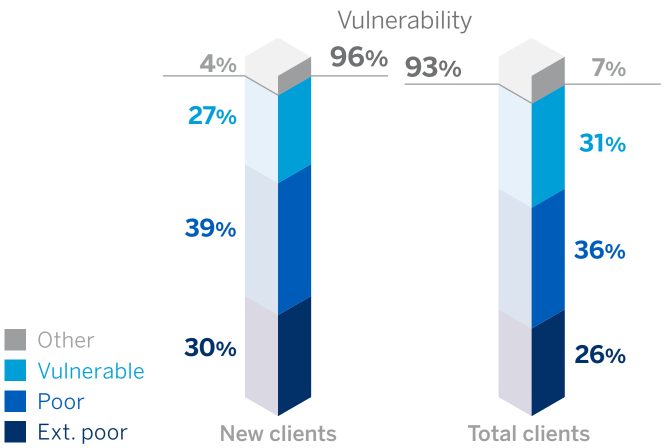
Income
USD 104
1/2
of FC clients

Sales
USD 449
1/3
of FC clients

Disbursement
USD 241
1/5
of FC clients

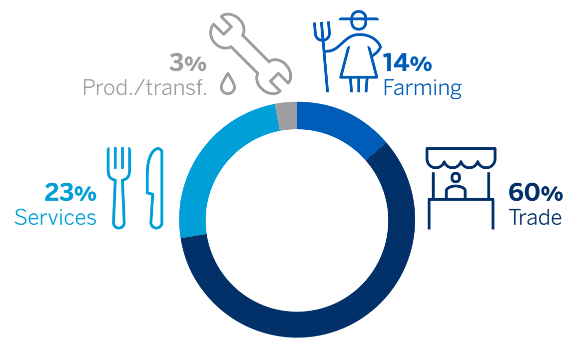
ECONOMIC VULNERABILITY

Nine out of ten women clients have volatile incomes that are less than three times the country's poverty line (PEN 775 in rural areas; PEN 1,130 in urban environments), with a disproportionate number of members of single-parent families and young people with dependents (74%).



More women support each other, and with the boost they get from Financiera Confianza, they invest in productive businesses: the number of PDM clients has grown by +45% in the last year.

TYPE OF BUSINESS



The bonds that are formed in the group enable clients to create economic and non-economic links with one another, making their communities more cohesive.[1]

- Access to credit
- Access to saving
- Insurance
- Information
- Advice
- Relationships

Yield 50%

Yield: surplus o/sales

1. *The evolution of social and enconomic networks. Journal of Economic Theory,* 106 (2), 265-295.

OUR CLIENTS' ECONOMIC GROWTH

As clients' relationships with the entity becomes deeper, their sales and surpluses improve, reaching after 5 years

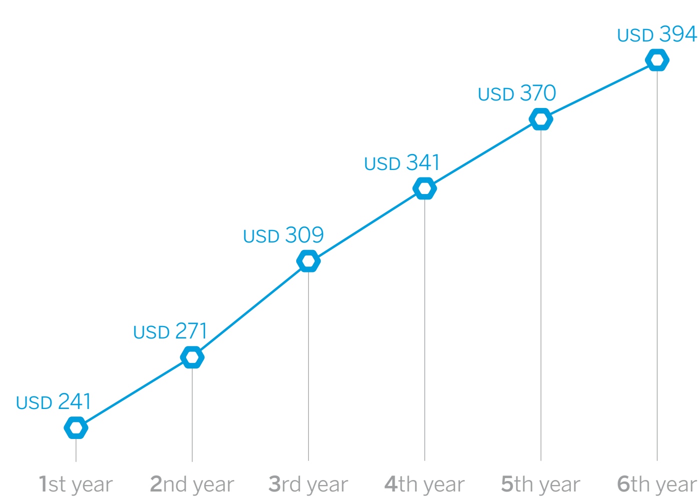
USD **623** and USD **336**

respectively, at an average annual rate of

14.9% and **18.9%**

Group lending enables women entrepreneurs to access financing that is much more secure and cheaper, leveraging their businesses in the short term. Women see it as a tangible financial attribute. What is more, spontaneous intangible benefits are generated, such as access to the financial system, contact networks and an "economic routine", that will be reflected in their immediate environment (indirect education by the institution).

MONTHLY SURPLUSES, GROWTH



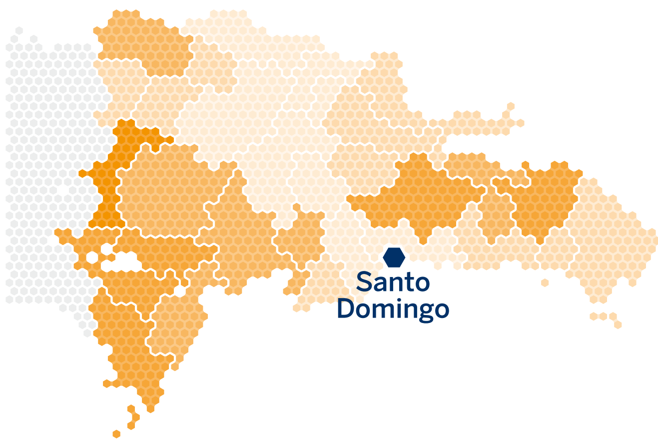
Dominican Republic

Banco Adopem

Social Performance Report **2019**

By supporting their projects, we are empowering people

Country context



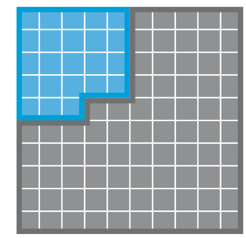
Incidence of national poverty

0% 50% 100%

National poverty

rate[1]

22.8%



Gini index[2]

Inequality measurement:
0 = Perfect equality
1 = Maximum inequality

0.44

44%

of adults are unbanked[3]

395,387 **total clients served**

209,557 **total nº of credit clients**

81% vulnerability

66% women

41% rural environment

50% primary educ. at best

9% older people (> 60 years old)

27% young people (< 30 years old)

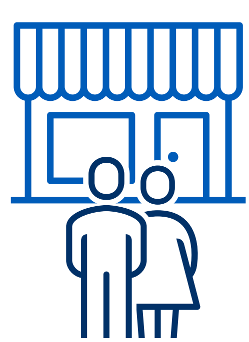
81% of these businesses generate less than USD 10 a day.

The main cause of vulnerability is unstable incomes. The challenge is to steady them and plan for the future.

Banco Adopem brings financial services to people without previous banking experience. For 72% of clients, the credit received was their first with a formal financial institution.

They become entrepreneurs to improve **their economic situation**

ENTERPRISES



23% **Assets**
Annual growth rate

15% **Sales**
Annual growth rate

59% **Raise their incomes**
of clients who took out a loan in 2019, six in ten have raised their income since their previous loan.

HOUSEHOLDS

Financial health is crucial in improving the capacity to cope with shock sand save towards a more stable future.

Well managed lending + **Savings** + **Insurance**

Average disbursement
of total clients served in 2019:
USD **768**

15%
of clients could survive for a week on their savings

Product diversity
17%
of clients have all three types of products

There is potential for greater saving

60% of clients
have the capacity to generate small amounts of savings.

Improvement levers:
incentivize sensible habits and increase financial understanding.

43,410
people have received financial education.

Generating incomes, together with solid financial management, means that household standards of living can be improved, and jobs created.

8%
clients who improve their housing conditions in three years.

11%
clients who create new jobs within three years.

Indirect impact

Banco Adopem. BBVAMF calculations.
(1) National poverty rate according to MEPyD figures, 2019. (2) ECLAC, 2018. (3) Global Findex 2017, World Bank.

Introduction

The link between economic growth and social progress is complex, although most would agree that following a more inclusive growth model which benefits all sections of society is essential in creating a sustainable future.

The Dominican economy grew by 5.1% in 2019, driven mainly by private-sector investment and spending, which accounted for around 85% of domestic demand.

Strong growth in investment (8.1%) held steady throughout the year, mainly due to solid performance in construction, which accounted for 80% of investment.

Consumption, meanwhile, expanded by 5%, supported both by consumer spending (4.8%) and public sector spending (6.7%).

The most dynamic sectors within GDP were construction (10.5%), financial services (9%), other services (7.1%) and transport & storage (5.3%).

Inflation ended the year at 3.66%, above the rate for 2018, but below the central point of the Monetary Policy target rate (4% ± 1%).

Despite high inflation during the year, the central bank has again adopted an expansionary tone, reducing the policy rate by 100 base points to 4.5% at the end of 2019. This is mainly due to the weight of potential risks which could affect the Dominican economy.

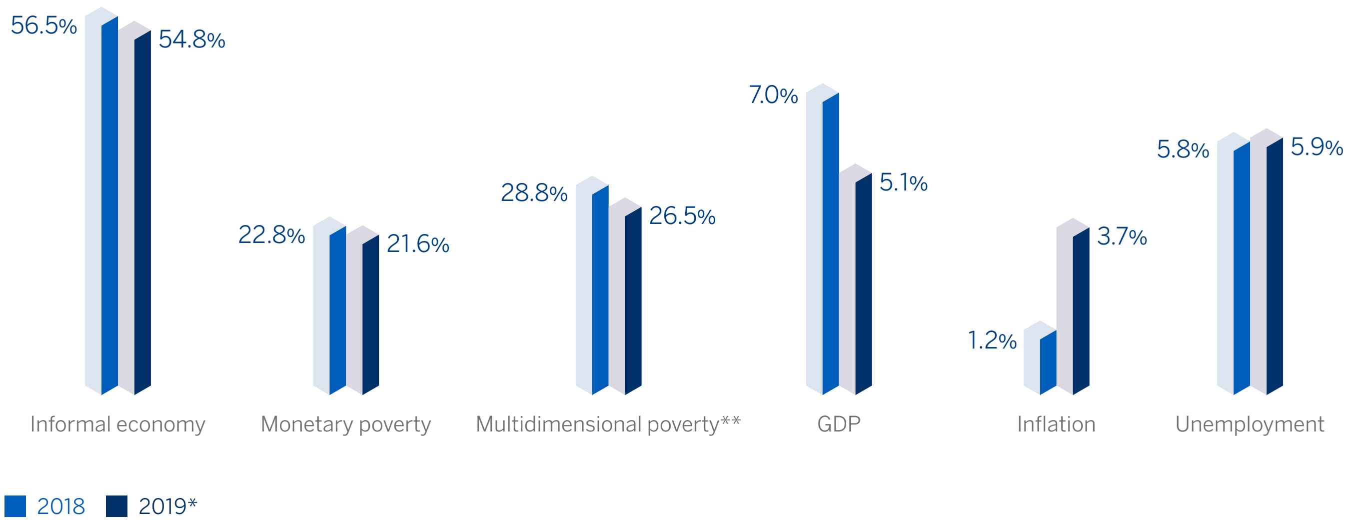
The economy's steady momentum has brought unemployment down to 5.9%. However, this rises to 10.4% if the under-employed, who would like to work more hours, are included. When employment is analyzed by sector, we see that formal employment has expanded. The informal economy has shrunk by 1.7 percentage points, from 56.5% of all employment in 2018 to 54.8% in 2019.

In 2019, 21.6% of Dominicans found themselves in monetary poverty. 26.5% of the population was living in homes that were poor along many dimensions, a reduction of 10 percentage points since 2015. The most serious failings were in the health dimension, followed by housing and education.

The Dominican Republic continues to be one of the countries with the highest growth in Latin America. Despite this, many people's standard of living has still not improved, nor are they getting any benefit from their country's growth. That is why low-income entrepreneurs, who manage their own businesses to support their families, are a key driver of inclusive growth.

Financial inclusion has been shown to stimulate economic and social development, moving society towards a sustainable model, offering opportunities to everyone to bring down inequality. Poverty reduction is one of the ambitious goals set by the UN through its Sustainable Development Goals (SDG), to which Banco Adopem is committed.

MACROECONOMIC DATA



The basic premise of an 'inclusive economy' is that it provides more opportunities for more people. In other words, that an increasingly representative section of society should have access to the labor market, to financial services and economic opportunities, independently of their gender, age, family background or socio-economic circumstances.

In Latin America, 57% of the most economically disadvantaged people do not have bank accounts[1] and a large proportion of this unbanked population consists of women and poor households in rural areas.

3.2 million people in the Dominican Republic (44% of the population) still cannot access traditional banking financing,[1] putting them into the category of the unbanked. In fact, for 72% of the clients served during 2019 by Banco Adopem, this was their first experience with the formal financial system. This is a result of the bank's long-term campaign to include more people in the financial system (the index has not moved since 2018).

KEY VOLUMES[2]

Total clients	395,387
Number of disbursements in 2019	186,345
Gross portfolio (USD)	132,732,066
Average disbursement (USD)	768
Amount disbursed in 2019 (USD)	143,196,682
Clients funds under management (USD)	76,857,235
Number of employees	1,466
Number of offices	74
People receiving financial education	43,410

1. Global Findex 2017.
2. USD 1 = PEN 50.74 at 12.31.2019.
Source: Central Bank of the Dominican Republic.
* BBVAMF Research estimate.
** BBVAMF estimate for 2018 & 2019.

Introduction

Banco Adopem, as BBVA Microfinance Foundation Group's institution in the Dominican Republic, brings financial services to these entrepreneurs, enabling them to increase their income and overcome poverty or scarce resources.

Banco Adopem currently provides services to nearly 400 thousand clients, making credit, savings and insurance products available to them, as well as financial education.

It is important not only to consider people's access to affordable, responsible financial services, but for these to be used appropriately, enabling the most vulnerable to increase their resilience. This continues to be a key challenge facing low-income groups and those who are financially excluded, whether in developing or advanced economies.

The goal is to help create households that are better equipped to find their way through the changes caused by external shocks such as globalization, digitalization and climate change, and internal ones, such as problems with health, infrastructure, or employment. In other words, we need solutions for vulnerable people that can offer attractive returns and help to mitigate risks when they have invested in a productive activity, at the same time as generating a measurable social and environmental impact.

Banco Adopem helps in all these ways:

- Committing to serving those who are vulnerable along economic and social dimensions, encouraging investment in productive activities with small loans and helping them with recognized training programs, with the support of NGO Adopem.
- Helping to combat the effects of climate change through our Rural Finance & Environment program (FRA). FRA encourages entrepreneurs to embark on activities and businesses that improve their resilience to climate change and increase their environmental productivity.
- Measuring the financial health of our clients in order to increase their resilience, thus encouraging a savings and insurance culture.
- Continuing to strengthen our service network to encourage its capillarity, without losing sight of personal service. We have 1,466 employees and a nationwide footprint —74 branches and 200 banking agents— contributing to growth in all regions of the country.

Gaining more knowledge about the entrepreneurs served, their progress and use of microfinance services (mainly savings and credit) is key and reflected in this report. Of the total number of clients served, 209,557 have an outstanding loan. Most of the analysis will be carried out precisely on these, since the information available on them is greater.

Credit-only clients	18,506
Credit & savings	191,051
Savings-only clients	185,830
Total credit clients	**209,557**
Total savings clients	**376,881**

Micro-entrepreneurs take on debt in order to make their businesses grow and to provide a better future for their families. These credit clients have average surpluses (net income) per household member (per capita) of USD 214 (DOP 10,835), which amounts to about 4 multiples of the monthly basic basket of goods.

PRICE OF THE BASIC BASKET OF GOODS

Rural areas
USD **44**

Urban areas
USD **46**

Those entrepreneurs whose businesses do not generate enough income to buy this basic basket are classified as extremely poor. Those who can buy the basic basket but cannot pay for certain goods and services, clothing and housing, are classified as economically poor. The price of this second set of goods is represented by the poverty line. In the case of the Dominican Republic, this is USD 91 in rural areas and USD 102 (DOP 5,354) in urban areas.

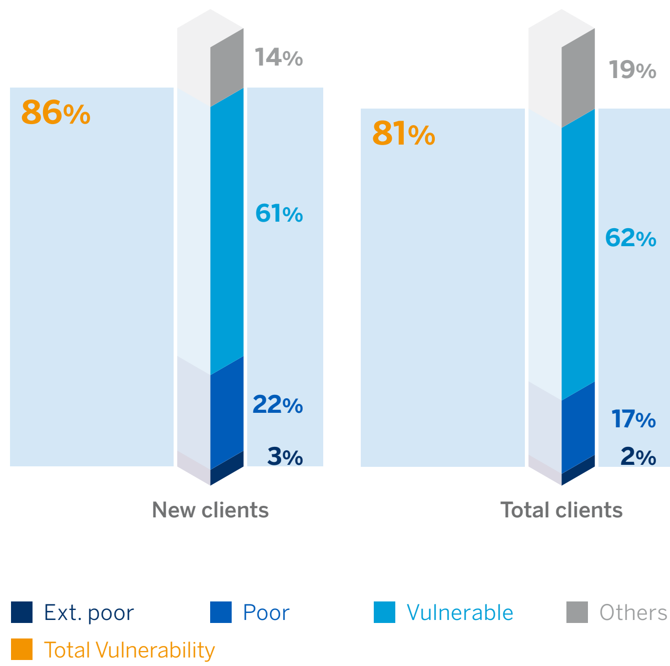
However, most clients fall into the "vulnerable" category. These are entrepreneurs who, while not poor, have very volatile incomes; any unforeseen event can cause them to lapse into poverty. The threshold for falling into this category is when they have per capita net incomes below three multiples of the poverty line. On this measure 81% of credit clients fall below this threshold.

In 2019 Banco Adopem served over 47,000 new credit clients, of whom 86% were in a situation of vulnerability; of these, 25 % were in poverty, when the classification described above is used.

We invest in them not only in order to encourage financial inclusion by giving borrowers better access to affordable and appropriate financial services, but also to improve their lives and expectations as a result of the financing they receive, as we shall see below.

In 2019 the bank put particular emphasis on providing solutions for the rural environment. This is particularly important insofar as it contributes to supporting agriculture and maintaining food security. The FRA program has been rolled out throughout the country.

CLIENT ECONOMIC VULNERABILITY*



With support from the Technical Center for Agricultural and Rural Cooperation (CTA), from Ada Redcamif and UN Environment, we have originated over 850 farming loans. This is how Banco Adopem is building on its range of products designed to help look after the environment and improve the resilience of producers.

Branches offices and express offices	Loan officers	Own network of banking agents
74	**728**	**200**

* According to the official poverty lines established by the Ministry for the Economy, Planning & Development (MEPyD), differentiating between rural and urban surroundings, a vulnerable segment is one comprising clients whose per capita net income (estimated by dividing net business net income by the number of people in the household) is above the poverty line, but below the threshold obtained by multiplying the poverty line figure by three.

The vulnerable entrepreneurs we serve

Our client profiles

Banco Adopem is a leading microfinance institution in the Dominican Republic, a mark of which is the fact that 67% of our new clients bank only with us. Furthermore, despite the huge challenge presented by extending financial inclusion, for many years a high proportion of Banco Adopem's new clients have come from the vulnerable segment (86% of its clients in 2019).

On average, these clients generate USD 177 a month, with this amount representing 30% of the minimum wage allocated for small enterprises (USD 204).[3] In the case of entrepreneurs classified as being in extreme poverty, their businesses generate average incomes of USD 35 (DOP 1,768) a month per household member, representing 34% of the poverty line (foodstuffs, goods and basic services). In the case of clients in poverty, their average income amounts to USD 79 (DOP 3,924) a month.

72% of the people brought into the financial system by Banco Adopem in 2019 were women.

There are characteristics leading to greater vulnerability that go beyond financial hardship. In the case of Banco Adopem, we focus particularly on serving young people (under 30 years old). Although they have fewer assets and a short, or non-existent, credit history, supporting them through financing, savings, insurance and financial education can help them to break the cycle of poverty. In fact, 72% of the clients we serve have no credit history —it is the first time that a formal institution has supported them. Among young people (under 30 years old), this percentage rises to 77%, that is, nearly 8 out of 10 young people served has had no previous experience in the financial system.

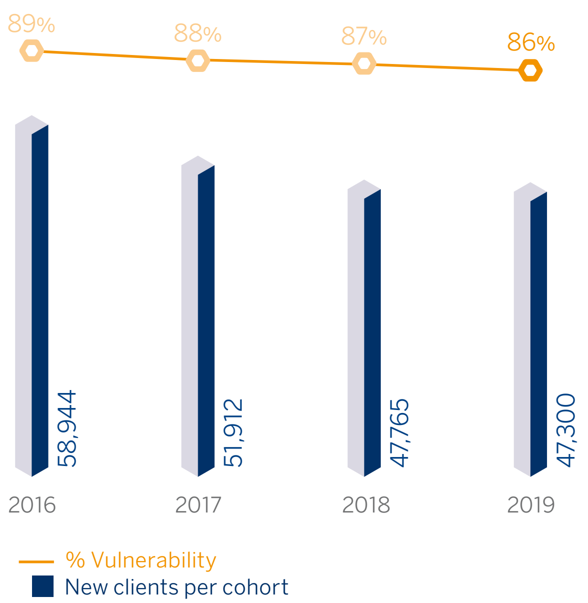
Adopem has also concentrated its efforts on serving women, since they have had less access in the past to productive and financial resources. In fact, 63% of clients who were granted a loan for the first time (with no credit history) were women.

A high percentage of clients are concentrated in urban areas (93% of our young female clients are vulnerable) and also have a high family burden (at least 3 household members). Women face more obstacles to joining the workforce and to finding a work-life balance, with family-care related tasks frequently falling on them. Empowering women and giving them access to financial resources helps to narrow the gender gap and to reduce inequalities.

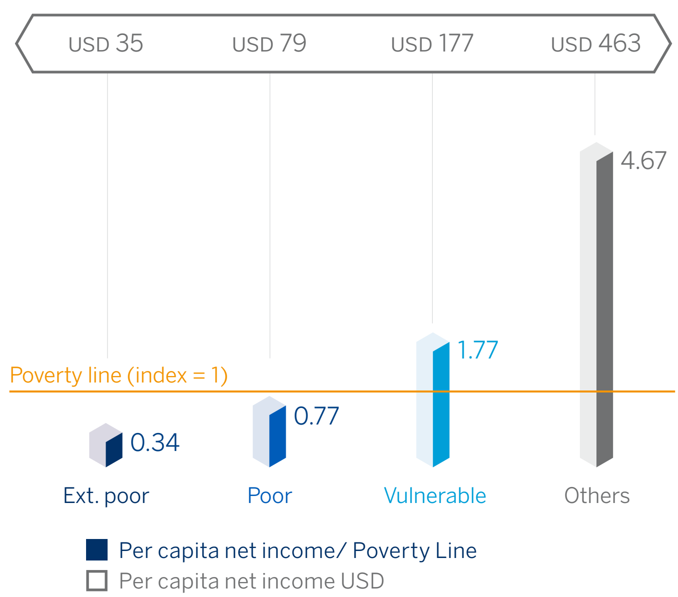
(1) Clients joining during the year (with no former loans).
Vulnerability: The percentage of clients with income three times below the country's official poverty line.
Exclusive clients: Those who have products only with our institution.
(2) According to the country's official poverty lines. New clients joining during the year (with no former loans).
(4) New clients during the year (no former loans). Vulnerability is the percentage of clients with income three times below the country's official poverty line. Households with a single member are 'solo', those with two or three are 'average household' and those with more than three members are 'large household'.

3. https://gestion.pe/economia/cuanto-es-el-salario-minimo-en-los-paises-de-america-peru-soles-venezuela-bolivares-estados-unidos-dolares-argentina-colombia-mexico-pesos-fotos-nndc-noticia/?ref=gesr

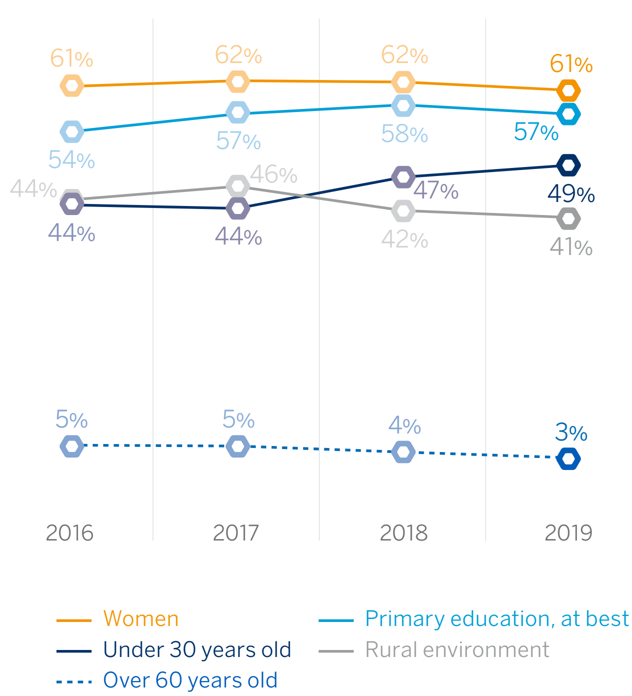
1 NEW CREDIT CLIENTS
New credit clients, by cohort
% clients banked: 72%
% exclusive clients: 67%



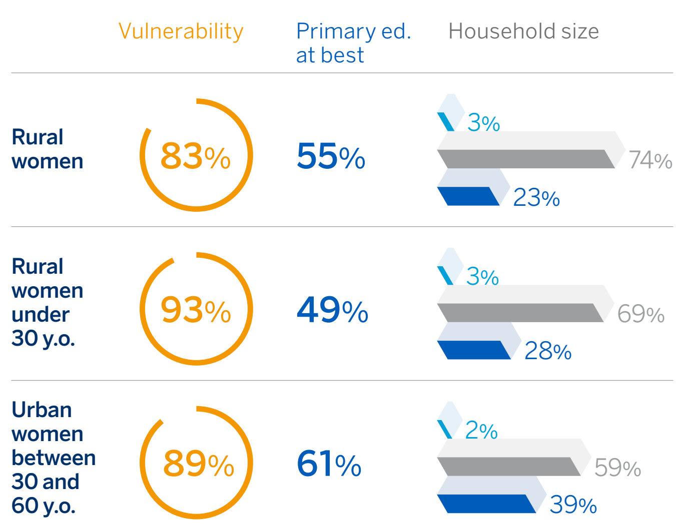
2 ENTREPRENEURS' INCOME
Income of segment over poverty line



3 NEW CLIENT PROFILE
New clients by year of entry (%)



4 SEGMENT OF MOST REPRESENTATIVE CLIENTS
New credit clients



% Portfolio:
Rural women: **23%**
Urban women under 30 y.o.: **20%**
Urban women between 30 and 60 y.o.: **17%**

We prioritize our support for women entrepreneurs

The situation of women in the Dominican Republic

2019 was a year of progress but also of reverses for women in education, employment, health and political participation.

The overall rate of women's participation and employment in the labor market has increased in recent years.

Even so, gaps exist that penalize women: the disparity in access to decent jobs, unemployment, and the wages they are paid. Women's employment stands at 47%. Of these, 83% work in low productivity sectors.[4] Furthermore, 720,000 women had no paid activity at all.

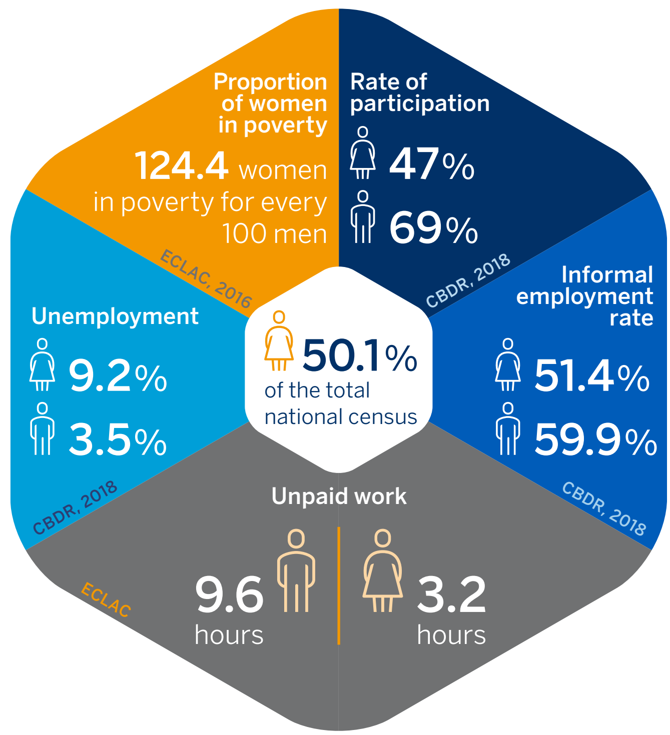
Just 32% of Dominican companies were owned by women, a percentage that slumps to 14% if we look at companies where women hold majority stakes. These figures put the country towards the bottom of Latin America in the World Economic Forum (WEF) index, where the Dominican Republic is in 86th place out of 153 countries.

On other measures, over 20% of teenagers had a child or were pregnant, the highest percentage in Latin America.

"Thanks to financing from Adopem we have been able to make progress, both in economic and in personal terms, and women have been given a chance to start their own businesses."

Silvia Reyes, Boca Chica. Banco Adopem client.

CURRENT SITUATION OF WOMEN IN THE DOMINICAN REPUBLIC



4. Central Bank of the Dominican Republic Continuous Survey (ENCFT).

Value offering

1. Rural Finance & Environment · *Agro mujer*

Purpose: Improve access to women's financing and empowerment.

Description:

- Sums of between DOP 10,000 and DOP 1,000,000.
- Payment installments linked to production cycle.
- Land ownership not a prerequisite.

Total beneficiaries: 326 clients.

2. Solidarity Group

Purpose: To help home-based micro-enterprises, turning them into productive units.
Each client owns her own business, and disbursements are individual, but the group acts as guarantor.

Description:

- Groups of two to five people.
- For women entrepreneurs with individual businesses.
- Sums of between DOP 800 and DOP 15,000.
- Terms of up to 16 months.
- Includes microinsurance.

Total beneficiaries: 172,075 clients

3. Loans for Abused Women

Purpose: Loans for women victims of gender violence, referred by the Public Prosecutor's Office, after a process of psychological counselling and assistance.

Description:

- Sums of up to DOP 50,000.
- Financial education.
- Counselling and training for business development.
- Includes microinsurance

Total beneficiaries: 300 clients.

4. Microfranchise project

Purpose: A club where the entrepreneur is her own boss and leads (as a micro-distributor) a group of at least ten members (saleswomen).

Description:

- Sums of up to DOP 299,000.
- Financial education.
- Guidance and training in business improvement techniques & skills.

Total beneficiaries: 613 clients.

5. Beauty salons

Purpose: To retain clients in this segment with training sessions and tailored services.

Profile:

- Credit clients.
- They use other products as well, such as savings, microinsurance and deposits.

Total beneficiaries: 45,158 clients.

PROFILE OF BANCO ADOPEM'S FEMALE CLIENTS

Women 65%: 138,386

82% Vulnerable

20% Below the poverty line

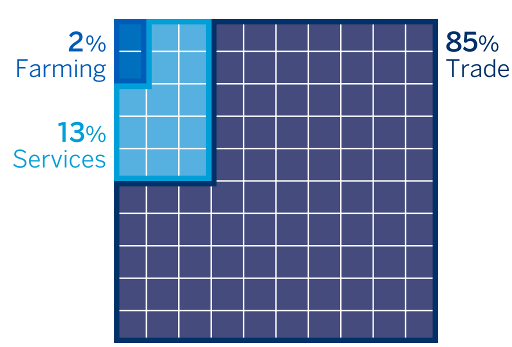
48% Primary education

54% Alone with dependents

Gaps between men and women
(New credit clients)

Sales women/men	0.97
Net income women/men	0.91
Assets women/men	0.88

SECTORS



The vulnerable entrepreneurs we serve

Businesses for getting ahead

Vulnerable entrepreneurs look for opportunities to support their families and prosper. Many of them are employed in simple activities, such as selling clothes, street-market trading, grocery stores (78 % of new entrepreneurs work in retail) or services such as hairdressers and beauty salons (14% work in the service sector).

Just 4% of new clients in 2019 were engaged in farming activities, because the Dominican Republic's physical geography represents a challenge to working in this sector. The farming sector presents many difficulties. According to the Office of National Statistics,[5] 17% of MSMEs operates in the agricultural sector, although the lack of financial education and the perception of farming entrepreneurs of the difficulties they face in making payments, has been an obstacle to credit entering this sector. In fact, although Banco Adopem's farming clients had higher asset levels than those in the service sector, their leveraging was lower (11% liability to assets) and they tended to use more of their own equity to invest in their businesses.

The majority of entrepreneurs are self-employed; their businesses are most commonly retailers, sales of cooked food and grocery stores.

Most of Banco Adopem's clients work in retail trade, where asset requirements at the outset are not very high. They are small businesses that need liquidity but not major investment, compared to sectors such as farming; the latter, if they are to grow, need assets, which is why the sales over assets ratio is higher in trade. In order to obtain an income, women, even in the countryside, work mainly in grocery stores or selling textile products. They also spend more time on household tasks, and thus fewer hours on the businesses they are managing or running.

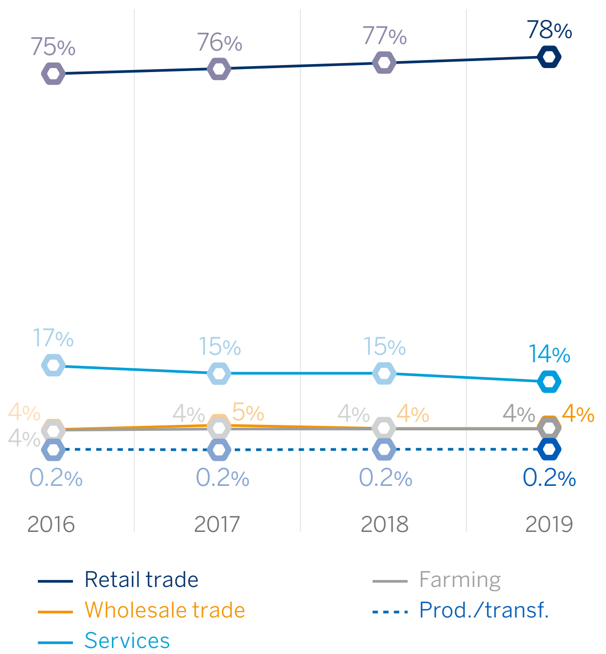
Women in farming face even greater difficulties. Only 1% of the female entrepreneurs we serve work in farming enterprises, compared to 7% of the men. The women play a key role in the food security of countries in the region, but the absence of gender-specific statistics, especially in the rural environment, makes their efforts invisible. “They put in long working days farming, doing domestic tasks and looking after smallholdings, that are frequently badly paid or not paid at all. All these obstacles, according to the FAO, are factors that restrict the achievement and sustainability of food security and nutrition in millions of households, especially those where the head of the family is a woman.”[6]

The type of business or sector in which entrepreneurs work is the determinant for defining their initial investment needs (machinery, product stock, etc). These assets also condition the volume of sales and net incomes they can make.

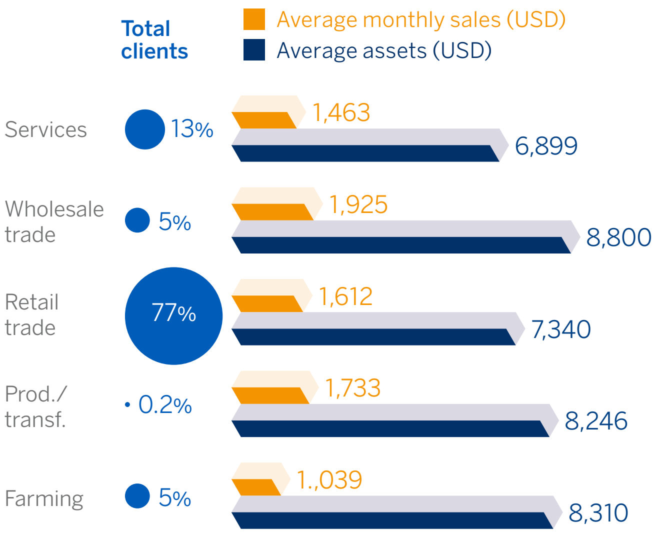
(6) Data on average monthly sales and assets in each of the sectors segmented by clients under the poverty (PL, extremely poor and poor) and clients over the PL (vulnerable and others).
(7) Percentage of average costs over sales (o/sales) in each sector. The net income is calculated after paying the loan installment.
(8) Data on average assets, liabilities and equity and ratios between these, for each sector. Ratios (equity/assets, liabilities/assets) are calculated as the average of each client's ratio. Liabilities do not include the loan granted by the institution.

5. Statistics Overview 88 – Characteristics and financing of micro, small and medium-sized enterprises, ONE 2018.
6. Measuring the contribution made by women to farming activities in the Dominican Republic, ONE 2019.

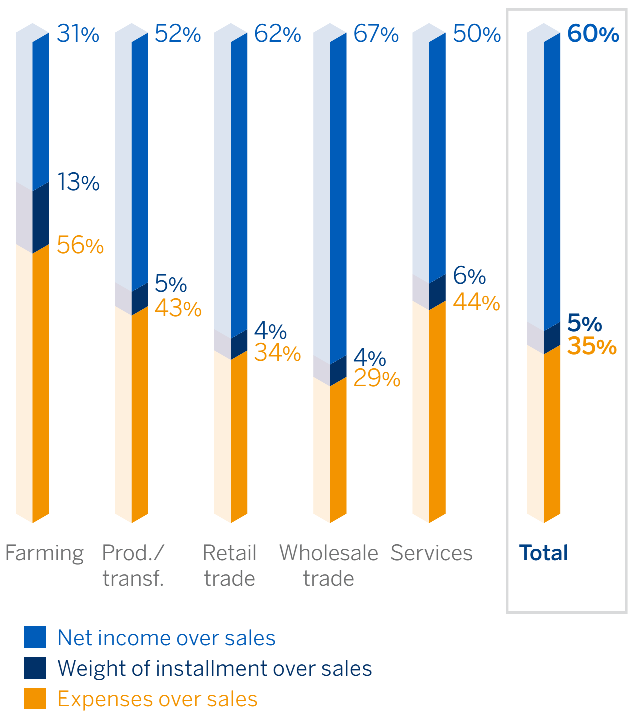
5 **ACTIVITY SECTOR**
New clients by year of outset (%)



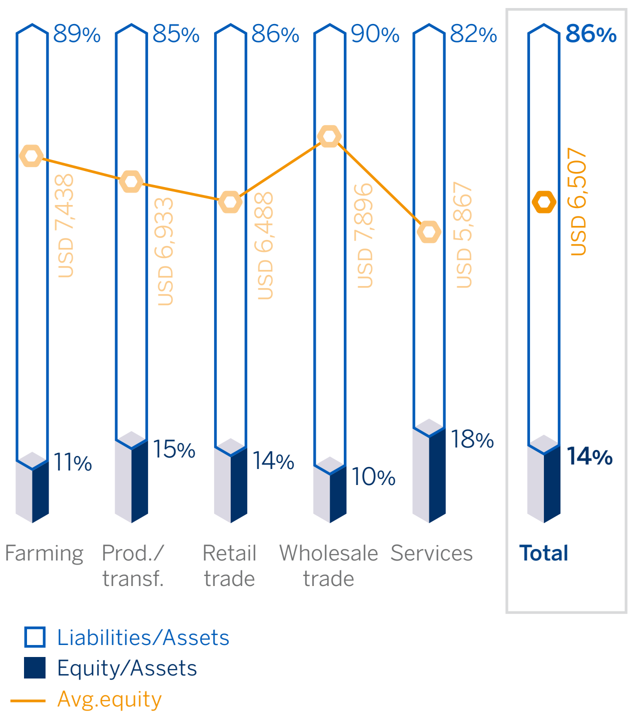
6 **RELATIONSHIP BETWEEN SALES & ASSETS**
Total credit clients



7 **P&L- MARGINS OVER SALES**
Total credit clients



8 **BALANCE STRUCTURE - LEVERAGING**
Total credit clients



Our clients' development

Growing their businesses

Access to financing is essential in achieving growth in business. The steady economic growth of 2019 allowed us to observe, for another year, positive growth rates in our clients' enterprises.

In the case of assets, positive annual growth rates by sectors overall (23%) demonstrate how the entrepreneurs whom we serve persevere in investing in their businesses, as well as building a better future for their families. A study in the Dominican Republic[7] suggests that most enterprises close down at one of two stages: at the outset of activity (28%) —where the most common reason is the lack of will or partners to continue—; or at a mature stage (37%), where the most common reason for failure is the difficulty of managing finance and strategic planning. Banco Adopem not only seeks to be a medium-term partner, but also to provide other services, such as education to invest in medium-term assets, insurance to soften shocks, etc. The idea is to support entrepreneurs along their journey in the long term, as they progress.

Bearing in mind the higher value of assets, it should be noted that this growth remains steady. For example, women have average assets of USD 6,444 (having overcome the USD 6,000 threshold), that is, the equivalent of a year of monthly minimum salary.[8]

The growth rates of businesses led by women are slightly higher than those of men, but their sales, assets and net incomes nevertheless remain lower in monetary terms. A Government study confirms that "on average, men invest 65% more than their female counterparts, which points to women's difficulties in accessing credit. They face additional obstacles such as their family responsibilities: one in four women entrepreneurs has no money left at the end of the month to pay employees or suppliers".[9]

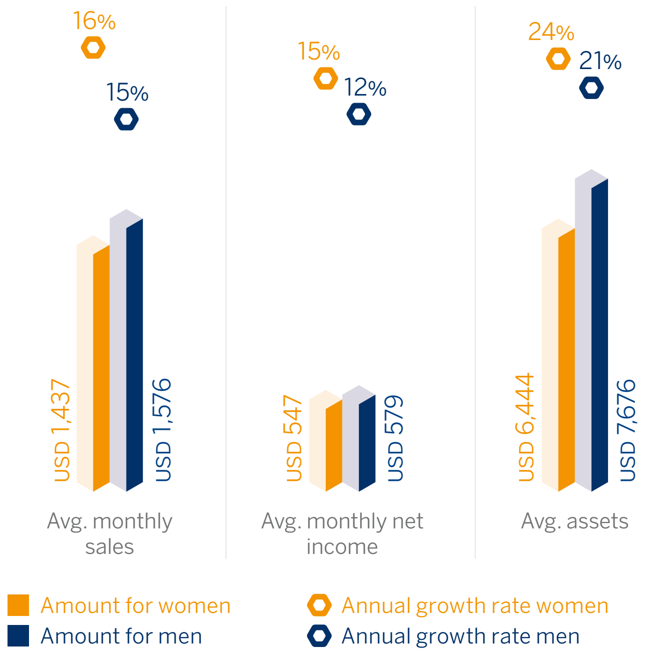
They need to invest in assets (fixed, working capital and machinery) to scale up their enterprises and achieve higher net income for their families.

Banco Adopem wants to be a long-term partner for its entrepreneurs, supporting them so that they can achieve sustained growth. Over 60% of clients have been banking with the institution for more than three years and a third for more than six.

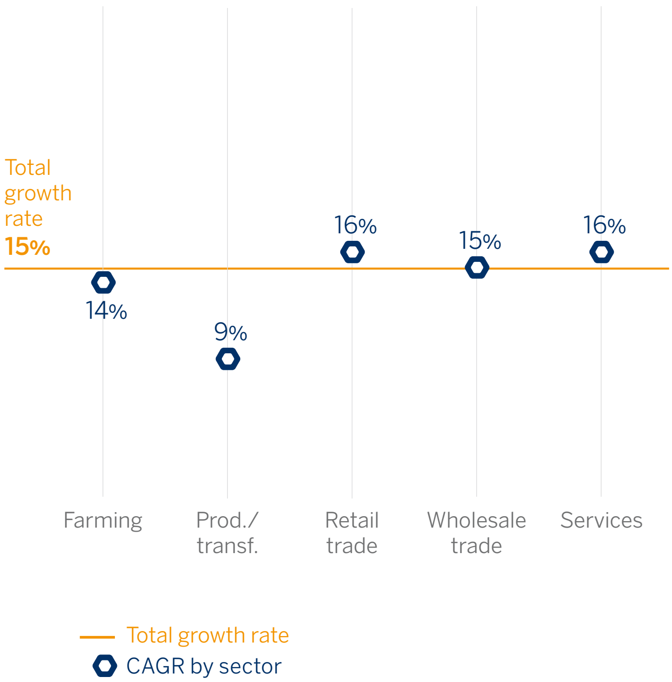
(9) Data on clients current at some point over the year and who have rolled over a product in the last 12 months with the institution (hereinafter "renewing clients"). The compound annual growth rate (CAGR) for cohorts (entry year) between 2015 and 2019 was used for the calculation, taking the weighted average of these rates for each gender.
(10) (11) (12) Data on renewed clients. The compound annual growth rate (CAGR) for cohorts (entry year) between 2015 and 2019 was used for the calculation, taking the weighted average of these rates for each sector.

7. *Social inclusion and sustainable enterprises for vulnerable population groups: exploring entrepreneurial failure,* 2019, IDB, The Failure Institute, Office of the Vice-President of the Dominican Republic, GCPS.
8. Net minimum monthly salary is USD 338 or DOP 19,300. www.preciosmundi.com
9. *Social inclusion and sustainable enterprises for vulnerable population groups: exploring entrepreneurial failure,* 2019, IDB, The Failure Institute, Office of the Vice-President of the Dominican Republic, GCPS.

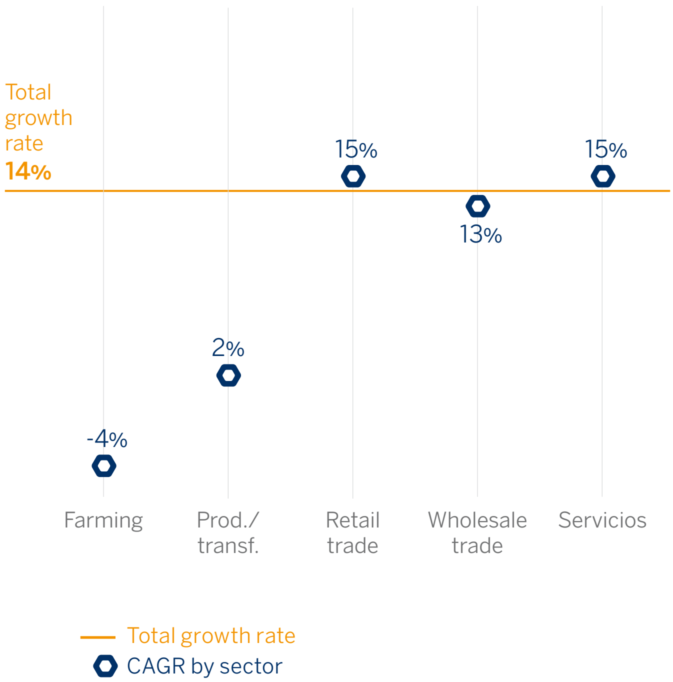
9 GROWTH IN FINANCIAL VOLUMES, BY GENDER
Compound annual growth rates



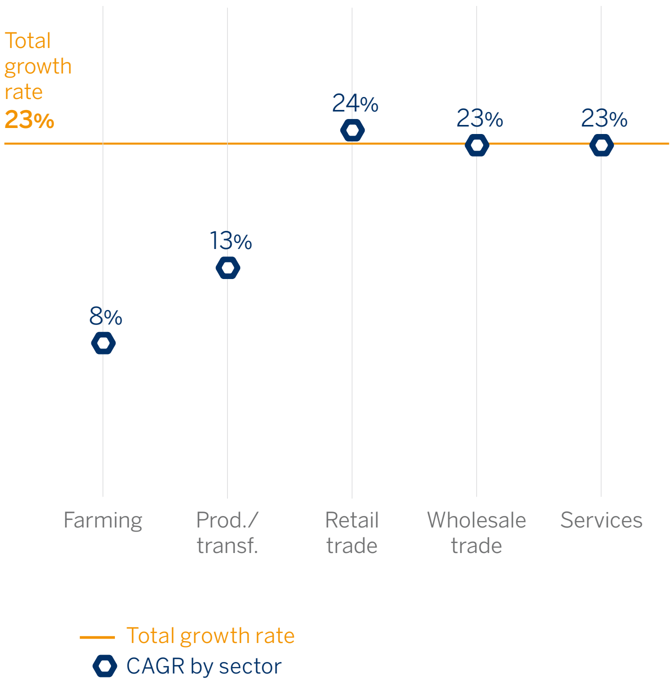
10 SALES GROWTH
Compound annual growth rates



11 GROWTH IN NET INCOME
Compound annual growth rates



12 GROWTH IN ASSETS
Compound annual growth rates



Our clients' development

Escaping poverty

Growing businesses and raising incomes is the way to overcome poverty or financial hardship. The 15% average growth in incomes has enabled a significant percentage of clients to overcome poverty. In the case of clients with seniority of two years the figures show that when they renew their loans, 62% had crossed above the poverty line.

Nevertheless, growth is not linear for everyone. A certain percentage of clients who were not poor at the outset falls into poverty. On average, this happens to 13% of clients after two years of banking with the institution. However, when this performance is tracked over time, we see how escape from poverty increases as time passes, whereas the numbers falling into poverty remain stable, or shrink.

The great challenge for vulnerable clients is to maintain their income level and increase their resilience so that a contingency or one-off expense does not tip them into poverty.

Observing clients over a longer period enables us to understand what mechanisms exist to overcome or avoid poverty. We note that over the medium term (four years), 57% of Banco Adopem's entrepreneurs beat poverty, but that 32% of these fell back again (the remainder were stable). This volatility was somewhat higher in the urban environment, where 48% of non-poor clients are volatile, compared to 33% in rural areas. This may be because competition, the price of goods, etc makes it more difficult to stabilize revenues.

Through its social policy bodies, the government has conducted in-depth interviews with entrepreneurial people whose businesses failed.[10]

The three main factors were:

1. Cash flow: The difficulty of keeping financial control over their businesses was the reason most frequently given by interviewees for shutting the doors on their businesses.

2. Market changes: Enterprises not only face competition from other economic units, but also a market whose preferences can switch quickly. This is particularly the case for small retailers.

3. Finance and strategic planning: Opening a business entails preparations such as finding out the best location and setting up financing systems or mechanisms for the supply of raw materials, among others. These issues have not always been thought through but, as the business grows and matures, they become more important.

To tackle the first factor described above, Banco Adopem has made an in-depth analysis of its clients' financial health and continues to support their training in order to understand the next two points about the market and strategic planning.

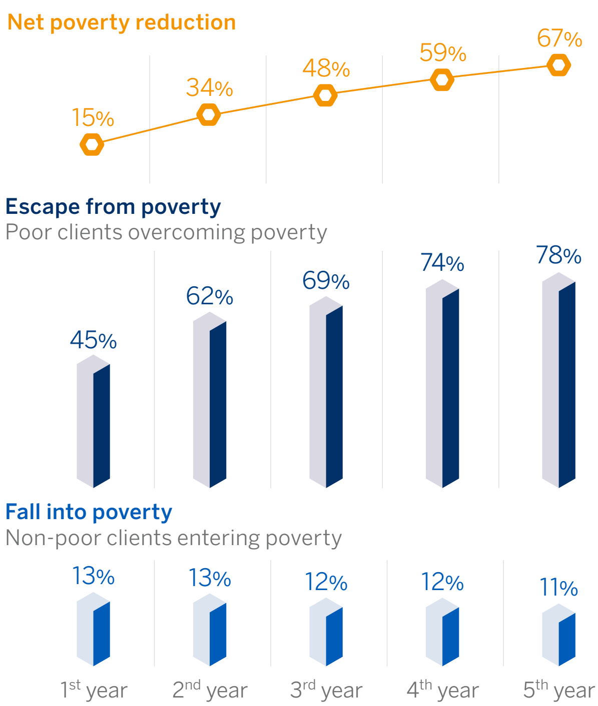
(13) Renewing clients. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.
- Escape from poverty: Clients in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line
- Entry into poverty: Clients not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.
- Net reduction: Escape from poverty minus entry into poverty.

(14) For the sample of clients served during 2019 —classified according to their situation when they took out their first loan— net income per capita at each credit cycle is shown, relative to each country's poverty line (current in the year of the disbursement). Relative per capita net income has a value of 1 when it is the same as the poverty line figure.

(15) (16) Sample of clients served between 2011 and 12.31.2019 who have had at least five disbursements. The number of times a client crosses the PL is analyzed.
Volatile: defined as clients whose incomes fluctuate across the PL more than once.
Escapes poverty: Client poor at the outset whose income surpasses the PL (and is not reported as falling back).
Enters poverty: Non-poor client at the outset whose income falls below the PL (and is not reported as recovering).
Remain poor (or non-poor): Clients who remain poor (or non-poor) throughout the five disbursement periods.

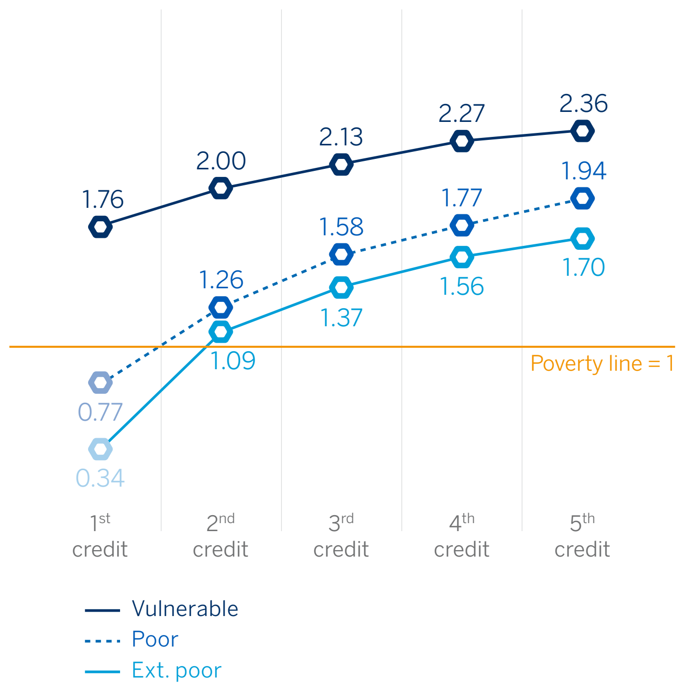
10. *Social inclusion and sustainable enterprises for vulnerable populations: exploring entrepreneurial failure,* 2019, BID, The Failure Institute, Office of the Vice-President of theDominican Republic.

13 VARIATION IN POVERTY SEGMENT



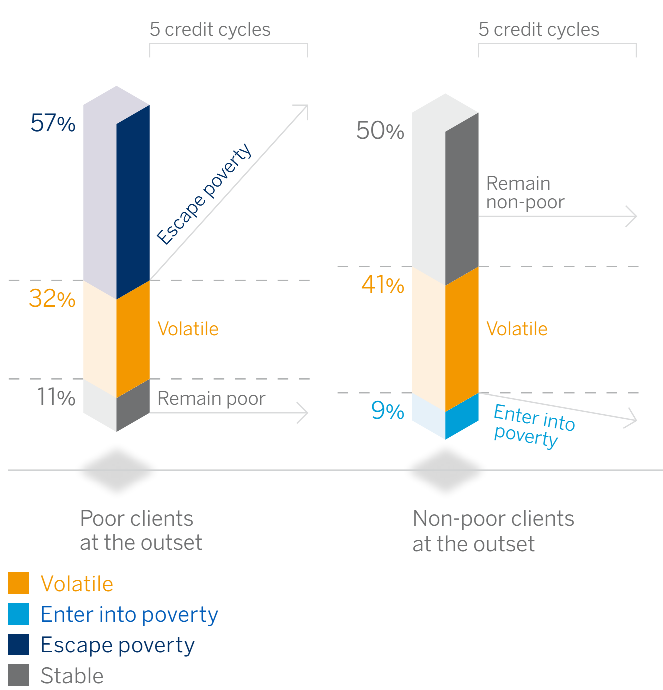
14 GROWTH IN INCOME

Income of segment over poverty line



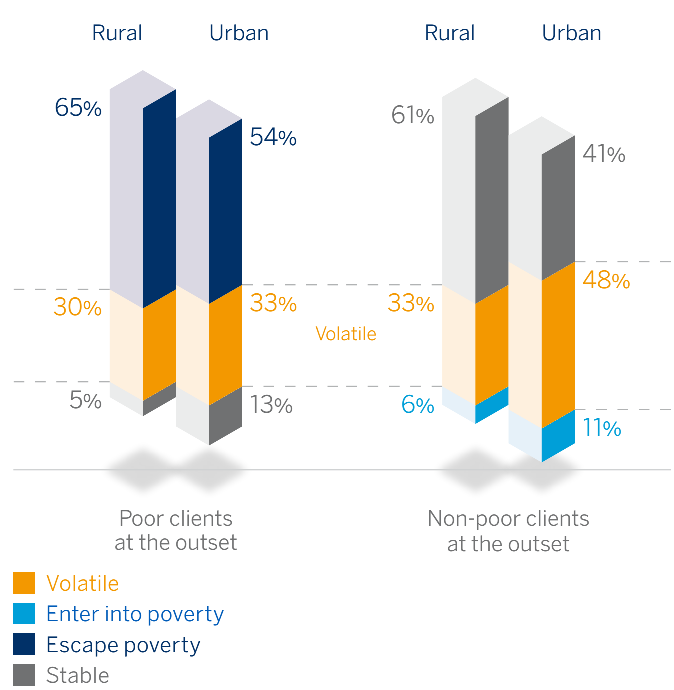
15 INCOME VOLATILITY

Clients with 5 credits, classified by nº times they fall below/overcome PL



16 INCOME VOLATILITY - RURAL/URBAN

Clients with 5 credits, classified by nº times they fall below/overcome PL



Our clients' development

From vulnerability to income consolidation

The gradual accumulation of productive assets is an important lever for the growth of clients' businesses. Specifically, it enables them to stabilize their incomes over time —smoothing vulnerable households' consumption— and equips them to deal with mishaps and contingencies.

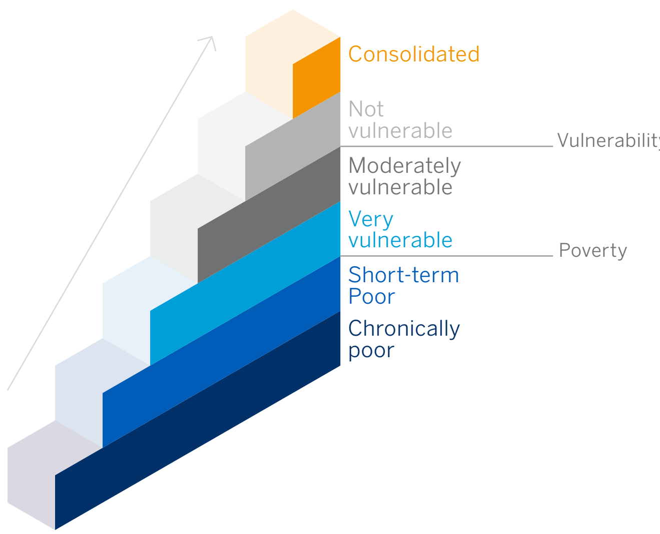
Observing clients' assets helps us to understand the mechanisms behind their business growth and the dynamics of their development. By looking at assets, we can analyze the process of transitioning between different categories of vulnerability and achieve a less static vision over time. In other words, while net income represents the value of the yield from assets at a specific moment, the level of productive assets expresses the capacity of the business to accumulate assets over a timeframe. Further, it shows the potential for leverage and investment of businesses in the future. That is why we have proposed a vulnerability scale that considers these two dimensions.

In general, when one looks at Banco Adopem clients who have received at least five disbursements, at the time of their first loan more than half were chronically poor, with very low income and assets. As clients start accessing successive credits and can invest in their businesses, they strengthen their productive asset base. This allows them to achieve higher incomes: in the fifth credit cycle only 14% of clients were chronically poor.

In addition, with the passing of time clients not only succeed in overcoming poverty, but 14% of them also overcome vulnerability. They achieve stable income levels that allow them both to cover their basic needs and to reduce the likelihood that they will fall back into poverty.

Overcoming vulnerability and getting to the level of consolidation —not only overcoming vulnerability but accumulating productive assets that are 60 multiples of the poverty line— is more difficult when the point of departure is more stressed. It is also a dynamic growth process over time.

THE LAYERS OF VULNERABILITY*
Client segments by relative income and assets



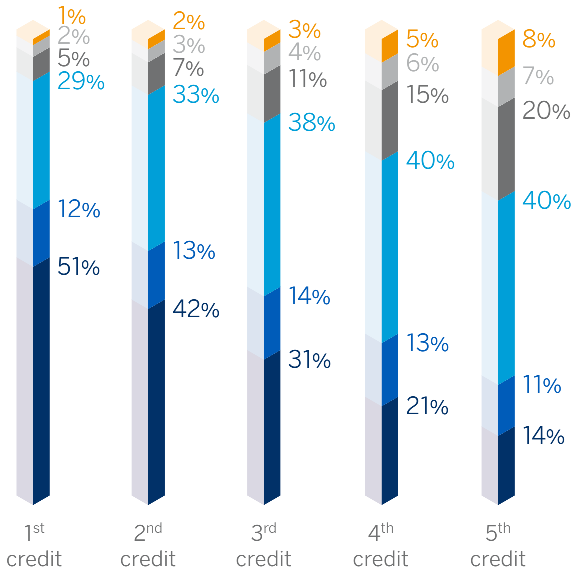
Although business performance depends on many factors, such as the clients' ability to invest, their management strategies (both of their business and of household expenses) and the opportunities around them, we have seen that accumulating productive assets is a key factor in the process of vulnerable households' consolidation.

Finally, we have noted many differences between activity sectors. The services sector stands out, with performance rates that are above the institution's average (17% escape from vulnerability compared to 14% of clients as a whole) even though they are characterized by having high levels of poverty at the outset.

(17) (18) (19) Sample of clients served between 2011 and 30.09.2019 who have had at least 5 disbursements. Farming sector not included. Clients escape vulnerability when they reach a relative income > 3PL & are classified as "consolidated" when, as well as escaping vulnerability, they reach level 1 of the vulnerability pyramid (relative income > 3PL; & assets > 60PL).

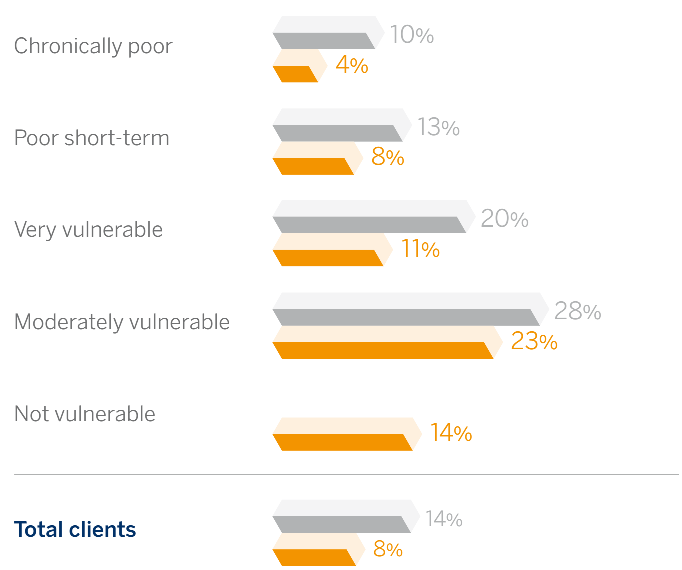
* Chronically poor: relative income ≤ 1 PL & assets ≤ 20 PL; Short-term poor: relative income ≤ 1 PL & productive assets > 20 PL; Very vulnerable: relative income between 1 & 3 PL & assets ≤ 60 PL; Moderately vulnerable: relative income between 1 & 3 PL & assets > 60 PL; Non-vulnerable clients: relative income > 3 PL & assets ≤ 60 PL; Consolidated clients: relative income > 3 PL & assets > 60 PL.

17 VULNERABILITY BY CREDIT CYCLE
Clients with 5 credits, classified by asset performance



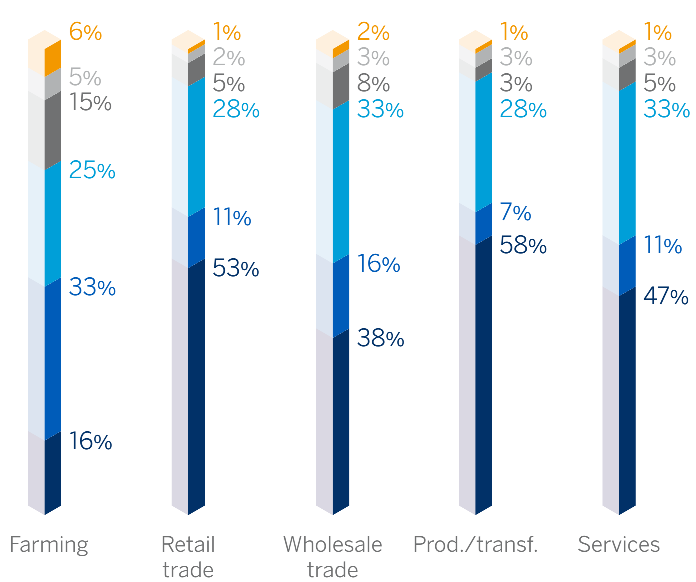
Consolidated
Not vulnerable
Moderately vulnerable
Very vulnerable
Poor short-term
Chronically poor

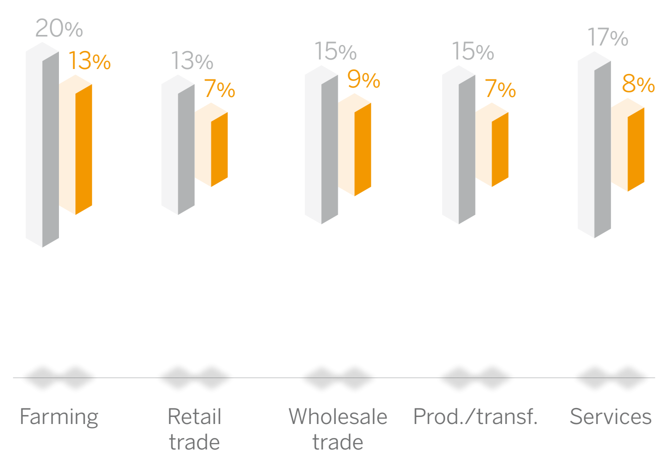
18 ESCAPE FROM VULNERABILITY & CLIENTS' SOCIAL MOBILITY
Clients with at least 5 credit cycles



% Escape vulnerability
% Consolidation

19 VULNERABILITY AND CONSOLIDATION, BY SECTOR
Clients classified at the outset → Progress after 5 credit cycles





Consolidated
Not vulnerable
Moderately vulnerable
Very vulnerable
Poor short-term
Chronically poor

% Escape vulnerability
% Consolidation

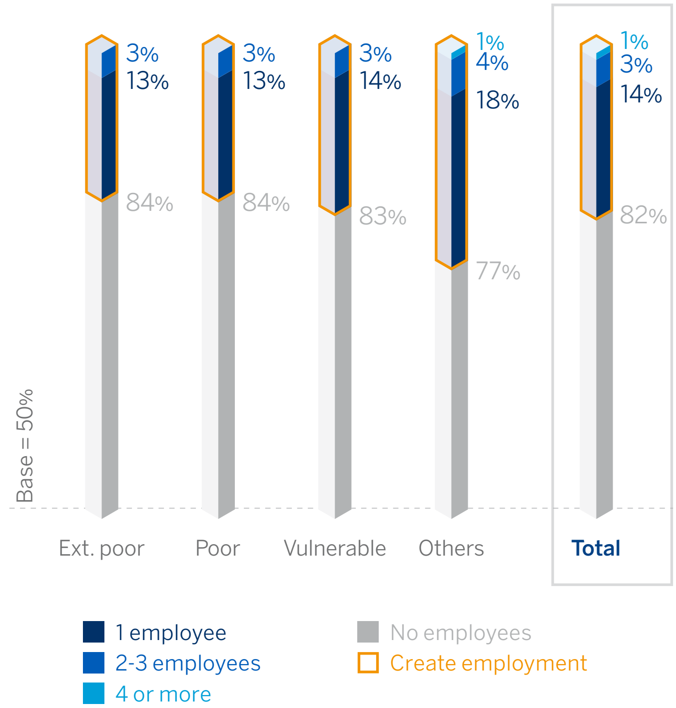
Our clients' development

Indirect impact

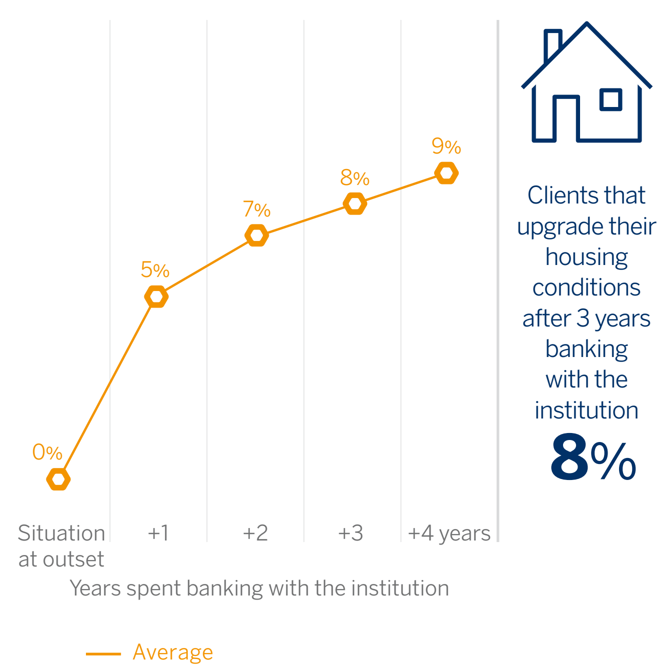
Turning to factors beyond access to financial services and the progress being made by microenterprises, we have confirmed that the longer the client relationship with Banco Adopem, the greater their interest in improving their living conditions and those of their family. Poverty is not only manifested by lack of income. Many clients are in precarious situations in terms of basic needs such as housing, health, etc, so improvements in their sources of income bring with them improvements in their standard of living and that of their community in the form of indirect impacts. Thus, in the case of clients who have banked with the institution for a long period, we observe that:

- In two years, 7% of them manage to improve their housing situation, moving from renting to their own home, thus increasing their security and standard of living.
- Clients tend to work in labor-intensive sectors. A smaller percentage of them employs people from their own community (20% of the total have employees). As their activity grows, it generates more jobs, thus multiplying the impact of their enterprise on the client's surroundings. 10% have taken on an employee after two years.

20 **SOURCE OF EMPLOYMENT**
Clients according to nº of employees in their business



22 **IMPROVEMENTS IN THE HOME**
Credit clients who improve, by years spent banking with the institution (%)



(20) Considers the number of employees in current clients' business at 12.31.2019.
(21) Considers the increase in the number of employees compared to the outset, in the businesses of clients current at 12.31.2019. Averages for the 2015-2019 cohorts (year of entry).
(22) Proportion of clients current at 12.31.2019 of each cohort, who have improved their housing situation (bought their own home). Average for 2015-2019 cohorts (year of entry).

21 JOB CREATION
Credit clients who hire more employees (%)

Housing, together with healthcare, is the main shortcoming facing poor households. The improvements achieved by our clients represent a major step change for everyone in the household.

In 2019, more than one in four Dominicans was living in households in multidimensional poverty.[11]

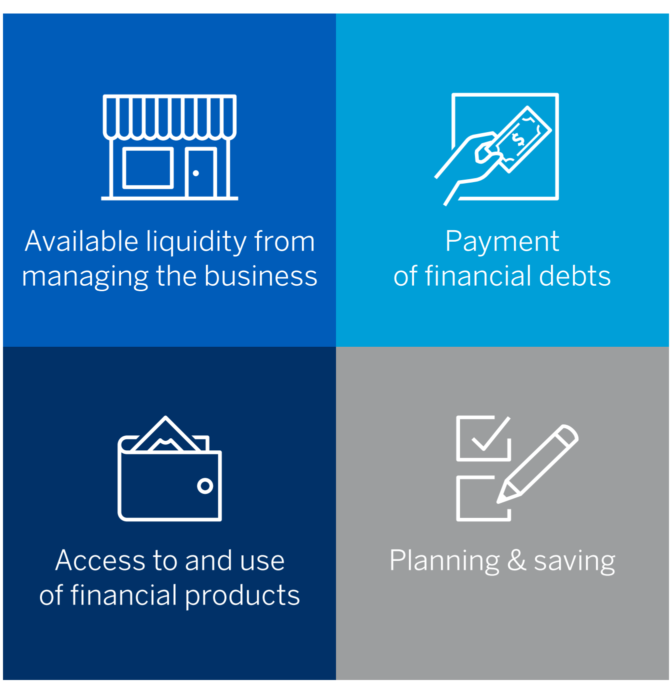
11. *Social inclusion and sustainable enterprises for vulnerable population groups: exploring entrepreneurial failure*, 2019, IDB, The Failure Institute, Office of the Vice-President of the Dominican Republic, GCPS.

Our clients' financial health

Lack of money, distance from the nearest branch office and not having the right paperwork are the main reasons for financial exclusion among adults in the Dominican Republic. That is why two of Banco Adopem's key strategies are bringing offices closer and providing a personalized service. 711 loan officers work face-to-face with clients to inform and advise them throughout their entrepreneurial journey. In fact, 43,410 people were trained during 2019 to meet these needs. The institution has a wide-reaching network of channels which cover express offices (banking agents) where clients can carry out transactions close to their homes, avoiding the need for long trips and the risks of carrying cash.

Saving in the Dominican Republic is still a challenge, especially if the savings are to be used for businesses to help families get ahead. 21% of Dominicans[12] save to set up or expand a business, and 19% of them use a financial institution to do so. These indicators are significant, a sign of the momentum and the major progress being made in financial inclusion.

FINANCIAL HEALTH DIMENSIONS



It is critically important to improve clients' financial health. "Since they use cash and half the businesses lack accounting systems, contingencies such as a family illness or a major household repair generate imbalances that can damage the capacity of the business to be viable."[13]

In the case of vulnerable entrepreneurs, it is very important to research their capacity to deal with possible financial shocks and to overcome them with their own funds. In other words, how they administer their finances today (management), how they prepare for future situations (planning) and what tools they have to do so (resilience). This is especially relevant in vulnerable communities because they are more likely to be affected or helped by access to and appropriate use of financial products.

After analyzing clients' perception of financial health[14] —initially with surveys conducted with a small sample—, the analysis was extended over the course of 2019 to reveal the situation of all Adopem clients (a million). The purpose was to be pro-active with initiatives that would effectively improve financial health.

To do this, we designed a financial health traffic light system to show clients' current situation in terms of credit, savings and insurance that would enable us to observe their performance over time.

Most entrepreneurs could survive on their savings for between one day and one week. Only 15% have savings to get them through more than a week.

12. Global Findex, 2017.
13. *Social inclusion and sustainable enterprises for vulnerable population groups: exploring entrepreneurial failure*, 2019, IDB, The Failure Institute, Office of the Vice-President of the Dominican Republic, GCPS.
14. Scoring: lower than or equal to 4.5 = low financial health; 4.5-7 = moderate financial health; more than 7 = good financial health.
* For savings-only and credit-only clients, the weightings of the reported variables are pro-rated.

FINANCIAL HEALTH RESULTS

After classifying Banco Adopem's entire client portfolio, their distribution is as follows:

- **Clients with better financial health** are paying off loans, have formal savings and microinsurance, manage their businesses well and meet their payment installments promptly.
  The capacity for these clients to make progress lies in encouraging them to use savings products more.
- **Clients with low financial health** only have savings products, but hardly any balance and make few transactions.
  This category also includes credit clients with serious defaults who have shown they have difficulties in meeting their loan payments.

17%

Good

- Use more products
- Good payment behavior
- Good management of their liquidity

65%

Moderate

- Clients with more than one product
- Late payments on loans
- Some sight or non-sight savings

18%

Low

- Savings clients with very little balance
- Clients who have not been able to meet their loan payments

METHODOLOGY

To measure financial health, we constructed an indicator that classifies the client's status in one of the following basic categories: 1 = low financial health, 2 = moderate financial health; 3 = good financial health.

DIMENSION	WEIGHT*	INDICATOR & RATIONALE	EVALUATION
Liquidity management	25%	**Credit installment / Net income** The available financial margin after paying off the regular installment.	Depending on the segment (defined by sector, vulnerability, rural/urban environment), the following thresholds have been set on the percentile of each segment: • < 0,25 = 1 || • 0,25 0,75 = 2 || • > 0,75 = 3
Payment behavior	31%	**Maximum nº of days in default over the previous 3 months** Shows the ability or not to keep to financial plans.	• More than 90 days of default = 1 • Between 1 & 90 days = 2 • 0 days of default = 3
Access & use of financial products	19%	**Nº of active products** A higher diversification of products implies greater capacity to cope with shocks (particularly if clients have savings and insurance).	• 1 product = 1 • 2 products or only one if the client has had a loan in the previous 12 months = 2 • 3 or more products = 3 **Use of the product** • Clients with less than 3 movements in the previous quarter, sight balance & average balance during the quarter < USD 1 = 1 • Clients with less than 3 movements in the last quarter, sight balance & average balance during the quarter > USD 1 = 2 • Clients with 3 movements or more in the previous quarter = 3
Planning and saving	25%	**Balance of savings products** Reflects the profile of the saver client (with funds in their account) or transactional client (who uses the account for their operations and, as such, has movements on the account). The account balance is calculated by the clients' ability to cover their living expenses for a minimum period (in the event of their losing their main source of income and not being able to get a loan).	**Balance** • Sight & non-sight balances ≤1 day of supplies (1 basic food basket) = 1 • Between 1 day & 1 week = 2 • More than 1 week = 3

Our clients' financial health

Entrepreneurs who have taken out loans

Financing businesses with productive loans provides them with the capital they need for investment, whether this is in fixed assets or working capital, and gives a boost to enterprises and their revenues. In 2019, 53% of clients had at least one loan and, of these, 68% banked only with Banco Adopem. The loan officer's task, supporting the entrepreneur and assessing the business, is a fundamental step before making a decision. This is particularly important for entrepreneurs without credit histories demonstrating that they honor their commitments.

The amount of the loan granted to new clients was USD 395, which is eight times the monthly spend on the basic food basket (extreme poverty line) in the Dominican Republic (on average, and at the exchange rate in December 2019). The average monthly installment amounts to 3.5% of the sales income from their business. As clients move on and their credit history grows, they can access bigger loans.

In order to understand the relationship between a more efficient management of the business and to corroborate how our service adapts to each client's needs and capacities, we have analyzed entrepreneurs' financial management and how they handle liquidity. To do this, we have built a payment capacity indicator (installment over net income), based on:

- Sector
- Environment
- Degree of vulnerability

This indicator allows us to gauge which entrepreneurs are managing their net income better than others and whether they have the capacity to pay more or less, adjusted by their needs and resources.

Knowing the client, their business and their potential are all essential when it comes to granting financing. Credit opens up their capacity to invest and other less obvious benefits. Clients start managing increasingly large sums and a wider number of financial products (see Intangibles) through the formal financial system.

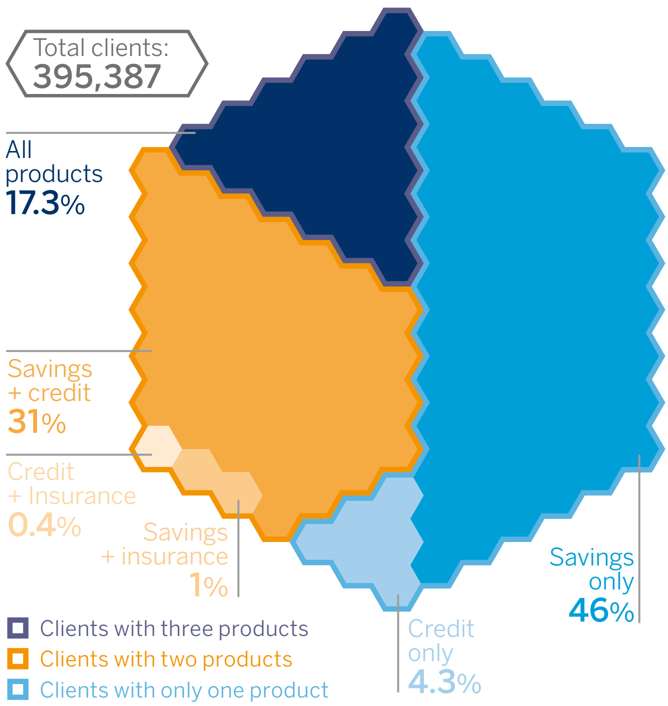
Entrepreneurs who have taken out insurance

Insurance policies for vulnerable entrepreneurs are products that are specially tailored to our clients' needs, whether it is the risks being covered, their price point, how the policy is acquired, or the payout on losses. They are a key part of our value offering, since insurance helps them to increase their resilience and reduce their vulnerability to the negative effects of events beyond their control. Insurance also enables them to access medical and farming advice anytime and anywhere.

73,000 of Banco Adopem's clients have insurance.
As noted in the financial health section, young clients are more interested in using formal financial products, and for this reason take out more insurance than other age groups. This, together with the fact that young entrepreneurs have had more education, suggests that financial inclusion is more widespread among younger generations.

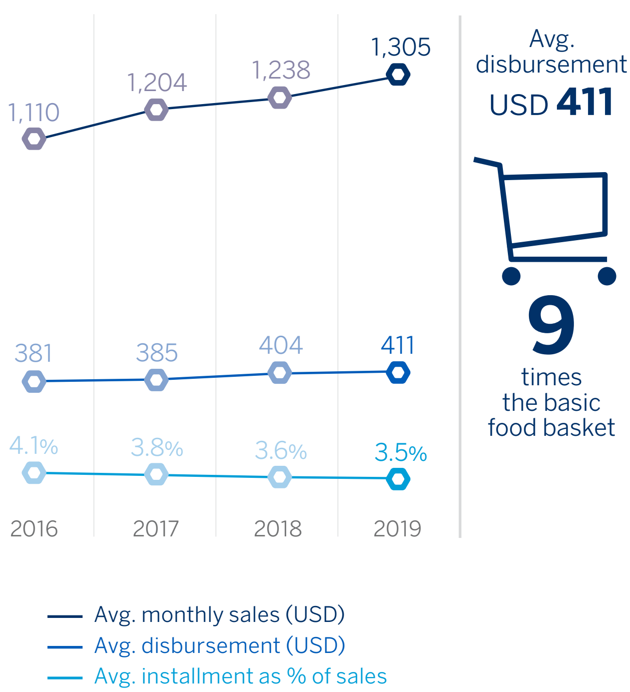
(23) Clients current at 12.31.2019.
(24) Clients in each cohort (year of entry) between 2014 and 2019 on each data collection date. The value at the outset is the average of the initial values (first disbursement) to which the average growth after one year, two years etc. is added, recorded on the disbursements of client groups from the 2014-2019 cohorts.
(25) New clients. Average disbursement, calculated as the average first disbursement for new clients each year.
(26) The percentage of clients with voluntary insurance is calculated and disaggregated by product family. Some clients have more than one type of insurance.

23 CLIENTS BY PRODUCT TYPE
Total clients

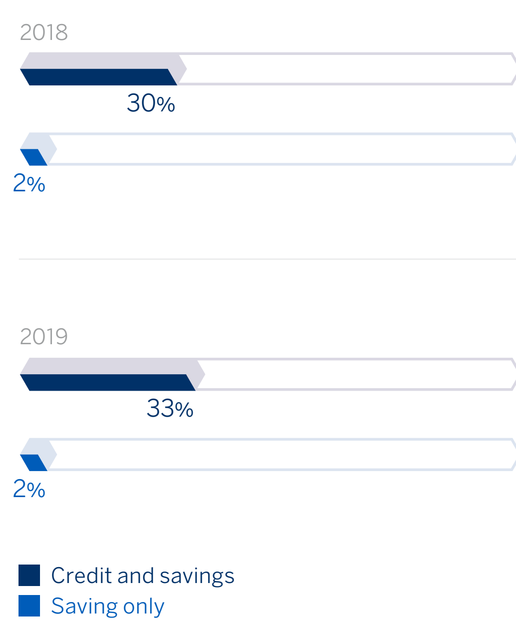


24 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship

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



26 OWNERSHIP OF INSURANCE
Total current credit clients



Our clients' financial health

Entrepreneurs who have savings

Clients do not perceive either formal saving or the use of savings accounts as being particularly useful (IPA 2018 Survey). The preferred method of payment continues to be cash (an estimated 91% of commercial transactions in Latin America are conducted in this way, and the rate is even higher among the vulnerable population). Therefore, if we want to promote financial inclusion and poverty reduction, we need to work to show the advantages of formal over informal saving.

Banco Adopem has worked to tell clients about the benefits of formal over informal saving, about the security provided by the former and its importance in meeting contingencies and protecting against certain types of shock. 95% of the clients we serve have some kind of savings product.

If we analyze clients by their categories, 88% of them have a bank account, while 9% of them take out savings products designed specifically for entrepreneurs. The success of these products, such as Savings San, lies in their adaptation to the entrepreneur's needs, creating a savings habit for a specific period in order to achieve specific goals. Over 11,000 clients are currently choosing this value offering (see the *Savings San* Special Project).

The more widespread financial inclusion becomes, that is, the more clients understand how products work and sign up for them (credit, savings and insurance) the more they are used. In a group of clients who have taken out all the products available, 29% are transactional, in other words they have frequent movements in their savings accounts,[15] compared to the group of clients that have savings accounts alone, of whom only 11% can be considered transactional.

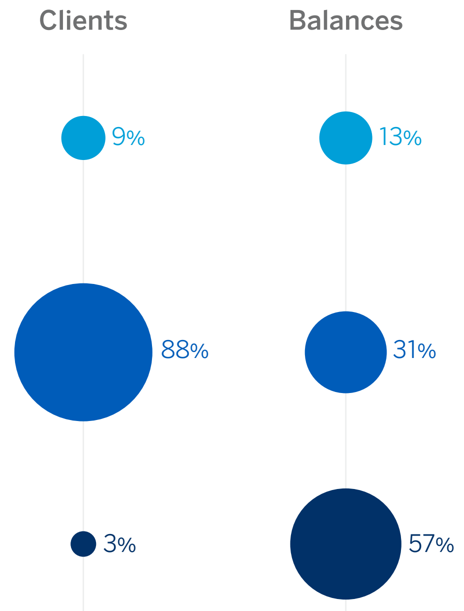
Both saving and insurance entail sacrificing part of current earnings in favor of a more certain future. The biases the research has revealed mean that saving is a major challenge because clients prefer the short to the long-term and are optimistic about the future, underestimating the risks.

Saving is important in preparing for future uncertainty. Specific products have to motivate this, while encouraging the use of self-control and a long-term view.

(27) Clients with any kind of savings curent at 12.31.2019 (excluding institutional clients and employees).
(28) Clients with savings products (savings and deposits accounts) on each data collection date.

15. Three or more account movements in the previous quarter.

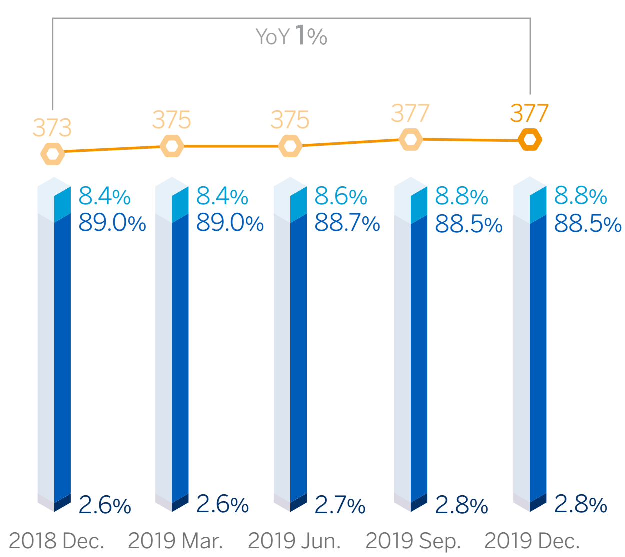
27 **BREAKDOWN OF SAVINGS CLIENTS BY PRODUCT**
Clients & balances by segments (%)



Type of client		Target
SAVER ENTREPRENEURS Clients with products targeting microentrepreneurs' savings or taken out by our credit clients	→	**What are the microentrepreneurs we serve with savings products like? How much do they save?**
TRANSACTIONAL ACCOUNTS Clients with a savings account where they deposit the loan, interest, etc. They may or may not have other products (whether assets or liabilities)	→	**Do they really use the transactional account?**
REMAINING SAVERS Other clients, source of financing		

Saver entrepreneurs · With transactional savings account · Remaining savers

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



Total savings & deposit clients ('000s)
Saver entrepreneurs
With transactional savings account
Remaining savers

THE RESILIENCE OF ENTREPRENEURS
Results of the 2018 financial health survey

40% say they put part of their income away as savings for the future, but only 30% say they have done so in the last year

They view saving in the formal system as a challenge

2 out of every **6** resort to formal saving to meet contingency expenses

Our clients' financial health

We analyzed savings in terms of the number of days an entrepreneur can survive on them (buying the basic basket of food and goods) with no income. And we noted how young clients can survive for around 13 days with no income, whereas older ones on average could do so for 30. The latter tend to prefer taking out term products and amass balances there that equate to 3.5 multiples of the basic monthly basket; with these savings levels they could live for three and a half months without an income.

Principal motives limiting the use of Banco Adopem's savings products:

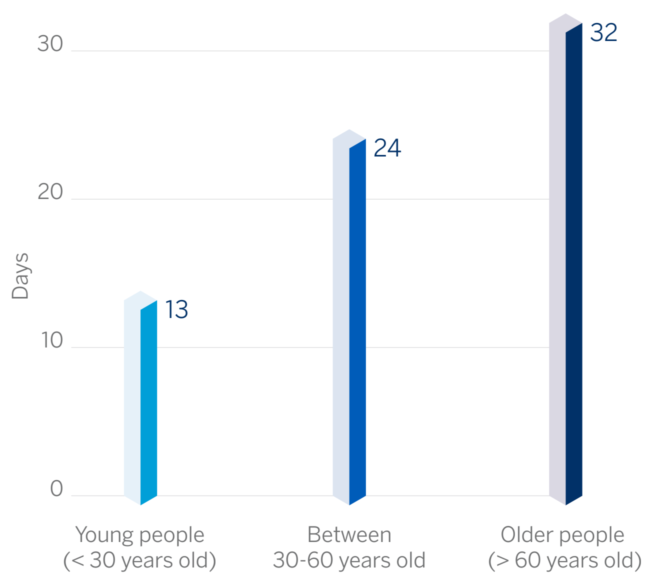
- Scarce resources: people are more likely to resort to "cash under the mattress" to deal with shocks. We note that 59% of savings and credit clients have low savings potential because they are not even covering their basic needs (see potential savings below).
- Lack of financial education or no savings culture.
- Use of informal products for savings.
- Savings banked in other institutions.

A client's savings appetite depends on two main factors: their income level and the moment in their life (age) since consumption and level of expenditure varies according to the stage of a person's life cycle.

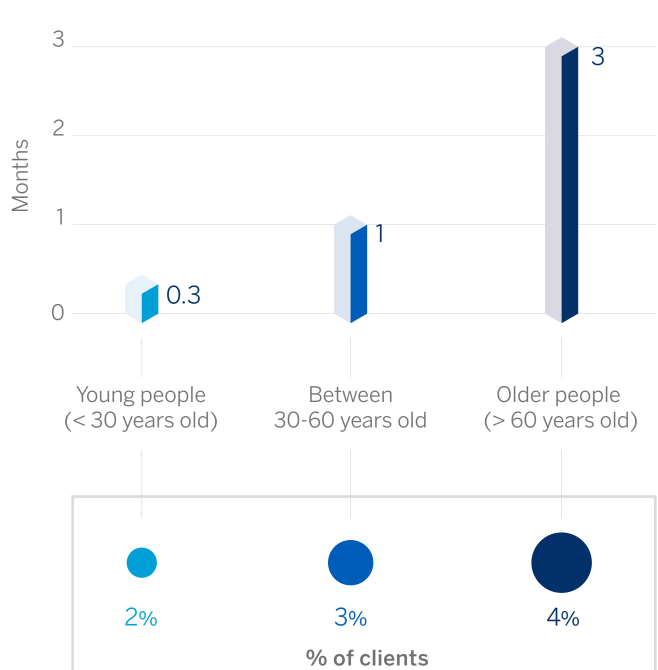
Older clients save more and use deposit accounts. On average, they can survive on their savings for a month.

(29) Clients with any savings product current at 12.31.2019 (excluding institutional clients). The calculation uses the basic basket of goods and services as the daily expenditure.
(30) Clients with any savings product current at 12.31.2019 (excluding institutional clients). The calculation uses the basic basket of goods and services (poverty line) as the monthly expenditure.

29 SIGHT SAVINGS BY AGE GROUP
Days the client can cover with savings (sight)



30 TERM SAVINGS BY AGE GROUP
Months the clients can cover with savings (term)



Financial education

At Banco Adopem we actively teach entrepreneurs, and people in general, how to handle money. For example, we have a program called *Progresando con Solidaridad* [Making progress through Solidarity], acknowledged by the government as an important contribution to poverty eradication in the Dominican Republic. Banco Adopem works with the public sector to provide financial education, savings accounts and loans for the program's beneficiaries.

It is important to highlight the work we do to inculcate from childhood a culture of information about money and saving. Our talks in schools and the option we provide for everyone to access savings programs help to raise awareness among Dominicans of the importance of saving. Over 2,600 people have attended the talks on saving we have given in educational centers.

43,410
People have received financial education

Our clients' financial health

Savings potential

In order to establish why the use of savings products is so limited —whether it is because of lack of income or down to other reasons (informal saving, inability to save or savings in other institutions)— we have estimated the savings potential of our clients on the basis of their incomes and their need to cover a basic basket of goods that becomes more copious as their surpluses revenues increase.

The estimate of savings potential allows us to distinguish between clients who do not save because their income is insufficient and those who may be saving in other institutions or using alternative assets. According to the information from the portfolio of clients with both a loan and savings in our institution, 40% would not be able to save on a monthly basis if they did not have additional sources of income. The remaining 60% have savings capacity after paying for basic expenses.

There are two important factors in saving:

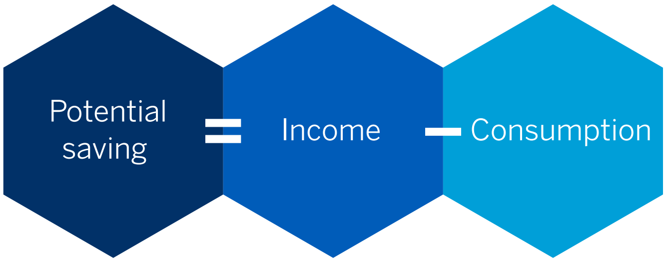
- The client's age or the moment in their life cycle. The youngest have lower incomes and are also in a phase inclined more to invest than to save. Those between 30 and 60 years old have the greatest saving potential, because their incomes are higher, and they take more long-term decisions.
- Income level has a direct effect on savings capacity.

By analyzing them we hope to understand whether the clients we serve have the capacity for monthly saving. Once this has been established, it is important to create useful products, financial education and the necessary channels, in order to help these clients achieve their targets and goals.

This study shows that, in order to improve the financial health of a good proportion of our clients, it is most important for them to increase their incomes, which are currently insufficient to generate savings. Some clients (35%) manage by their own efforts to achieve some accumulated savings, even though their potential is not high (on average they have a balance of USD 35 at the end of their contract period).

An estimated 60% of clients analyzed have saving potential in that their incomes are higher than average consumption. These are the clients on whom we should concentrate our financial education, both to improve their situation, and to help them take decisions about their net incomes, thus ensuring fewer wobbles in their future incomes.

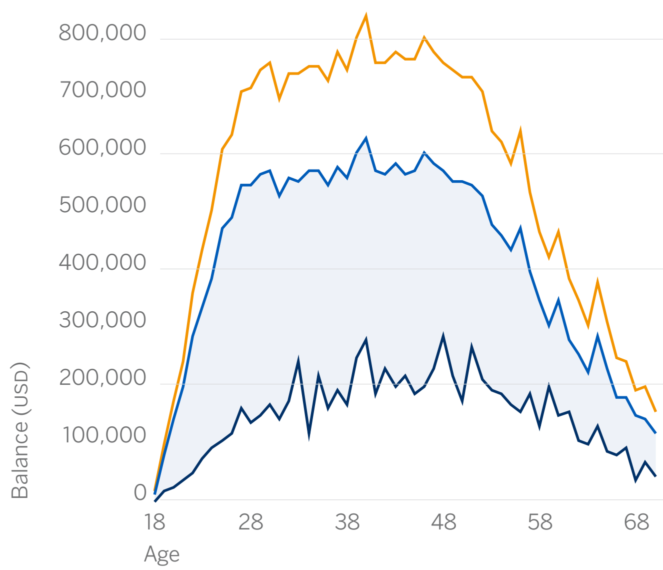
Banco Adopem continues to work on creating a value offering that encourages formal saving by our clients, helping them to protect their limited incomes and to reach their goals, whether these be the smaller ones, or the larger, more distant ones. Strategies to boost saving include training in schools, financial education about saving, creating programmed saving products (see the *Savings San* Special Project) and the improvement and development of our channels and service.



Saving capacity
is the proportion of net income not used on consumption (%)

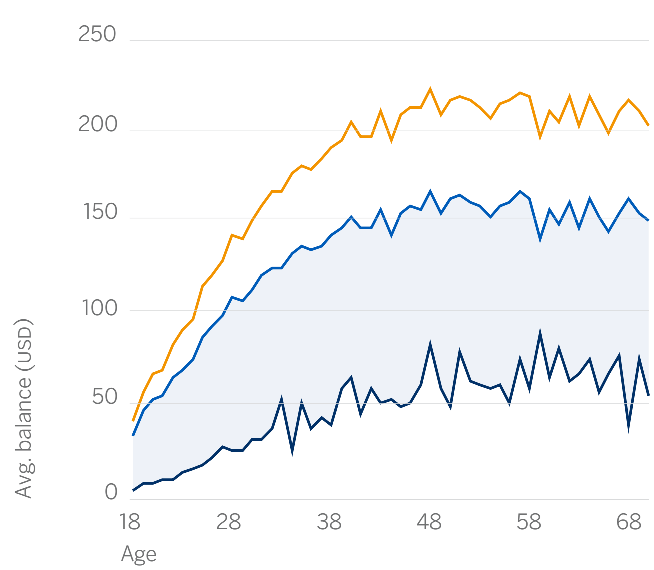
(31) Estimated savings in the credit & savings clients portfolio, at 12.31.2019.
(32) Average estimated savings in the credit & savings clients portfolio, at 12.31.2019.
(33) (34) Estimate for clients with both credit & savings.

31 **POTENTIAL & REAL SAVINGS**
Estimate for clients with both credit & savings



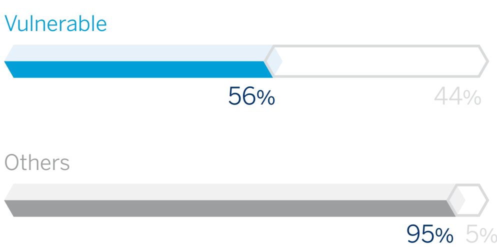
— Total real savings
— Total pot. savings
— Total pot. savings after installment

32 **AVERAGE POTENTIAL & REAL SAVINGS**
Estimate for clients with both credit & savings



— Avg. real savings
— Avg. pot. savings
— Avg. pot. savings after installment

33 **CAPACITY FOR SAVING & VULNERABILITY**
Estimate for clients with both credit & savings



With savings capacity
W/o savings capacity

34 **ESTIMATED SAVING CAPACITY**
Estimate for clients with both credit & savings

	Capacity for saving (potential)	Capacity for saving after installment
Young people (< 30 years old)	12%	9%
Between 30-60 years old	20%	13%
Older people (> 60 years old)	20%	14%

Macroeconomic environment

Economy[1]

The Dominican economy grew by 5.1% in 2019. Although this increase is lower than in the 7% posted in 2018, this made it the fastest growing economy in Latin America and the Caribbean (excluding Dominica, which is being rebuilt after the category 5 hurricane Maria hit the island). This expansion was driven mainly by investment and consumption in the private sector, accounting for around 85% of domestic demand.

Although the rate of expansion in investment (8.1%) remained strong, it was lower than the 2018 rate (12.9%). Investment was mainly in the private sector and accounted for 98% of total growth, continued throughout the year, mainly due to robust performance in construction, comprising 80% of all investment.

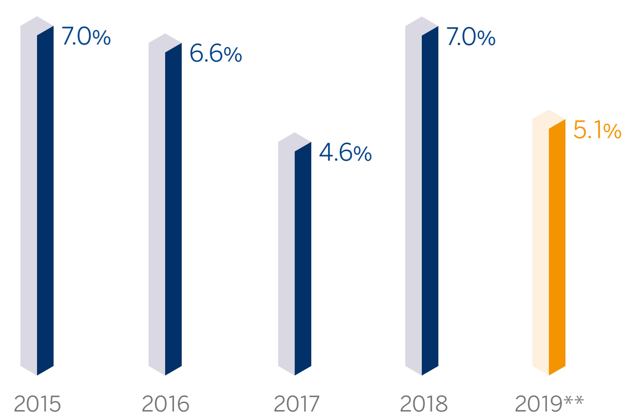
Consumption, meanwhile, increased by 5%, underpinned by both private (4.8%) and public (6.7%) spending. Altogether, total consumption contributed 3.7 percentage points to total GDP growth (5.1%), while investment added 2 percentage points.

The external sector shaved 0.7 percentage points off annual growth, mainly as a result of higher growth in imports (6%) compared to exports (4.1%) in real terms.

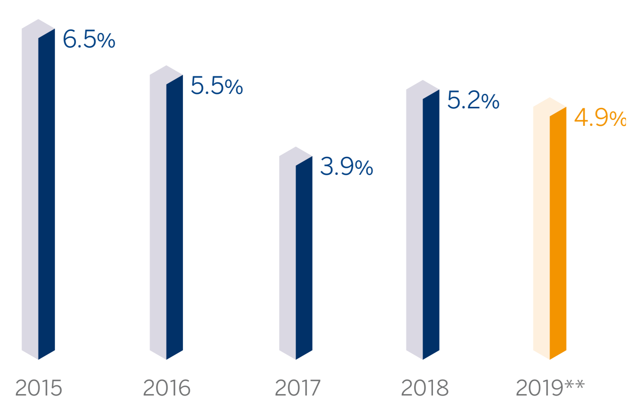
The most dynamic sectors comprising the GDP total in 2019 were: Construction (10.5%), Financial Services (9.0%), Other Services (7.1%) and Transport & Warehousing (5.3 %). Other sectors that influenced growth were agriculture and stockbreeding (4.1%), trade (3.8%), mining and quarrying operations (3.4%) and local manufacturing (2.7%).

Despite a lower contribution to the growth of the external sector in real terms, the significant increase in remittances, up by 9.0% to USD 7.1 billion, offset to a large extent the lower revenues from tourism, affected by media broadcasts about the safety of foreign tourists. These events played a part in a 1.4% reduction from the previous year, a break in the trend over the last few years.

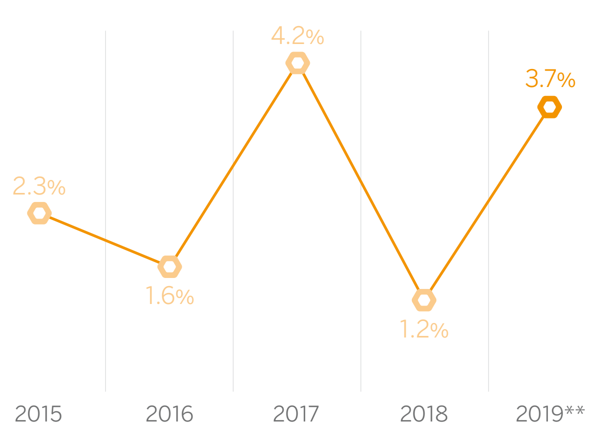
GDP*
Real variation (%)



CONSUMPTION*
Real variation (%)



INFLATION*
Real variation (%)



1. All data from the Central Bank of the Dominican Republic. Estimates to the end of 2019 by BBVAMF Research.

* Central Bank of the Dominican Republic.
** BBVAMF Research estimate.

Direct foreign investment was up by 19% from the year before, which enabled the current account deficit to be financed comfortably. This has enabled the exchange rate to remain very stable, with an accumulated real depreciation from the year before of 1.4% at the end of 2019, slightly lower than inflation performance in the United States (1.8%).

Inflation over the year posted at 3.66%, above the 2018 rate, but below the central point of the target range set in the Monetary Program (4.0% ± 1.0%). Inflation linked to tradable goods accumulated a variation of 4.41% over the year while, for non-tradable goods and services —those that can only be traded within the country— there was an accumulated rise of 2.87%.

The highest inflation in the year occurred in food & non-alcoholic beverages (7.13%) and alcoholic beverages & tobacco (7.26%), responsible for 60% of the year's total inflation. The greater impact on prices was reflected in the first quintile, with the basket of goods up by 4.78%, the second quintile, up by 4.23%, and the third quintile, higher by 3.94%. Quintiles 4 and 5 grew by 3.63% and 3.06% respectively.

Despite higher inflation throughout the year, the central bank has again taken an expansionary tone, reducing the monetary policy rate by 100 base points to 4.5% at the end of 2019. This is mainly due to its assessment of the balance of risks in terms of international and domestic macroeconomic factors, as well as to market expectations and medium-term forecasts.

In parallel, the central bank pursued an expansionary monetary policy by liberalizing the legal reserve requirements, thus making lending more dynamic and helping to boost domestic demand.

Employment, poverty and welfare[2]

The Dominican Republic's healthy economic momentum (5.8% growth) in the last 10 years, above its potential rate, has led to employment levels reaching a historic high, with an increased participation in the labor force of those of working age to 65.3%.

From a gender perspective, at the end of 2019, the occupation rate of men stood at 85.5%, while that of women was 48.6%. The latter percentage was an 80-base-point rise (4%), while the male occupation rate remained unchanged.

This has brought the total unemployment rate down to 5.9%. When the under-employed, who are prepared to work more hours, are also counted this figure rises to 10.4%, and it increases to 14.3% if potential workers, who are not actively looking for work but are available to do so, are counted. This latter rate has fallen by 90 base points from the year before.

Despite the improvement, the gender gap remains unchanged at 5 percentage points of additional unemployment for women. The rate of female unemployment dropped by 9.2% in 2018 to 8.7% in 2019. The male unemployment rate remained virtually unchanged, moving from 3.5% to 3.7% over the same period.

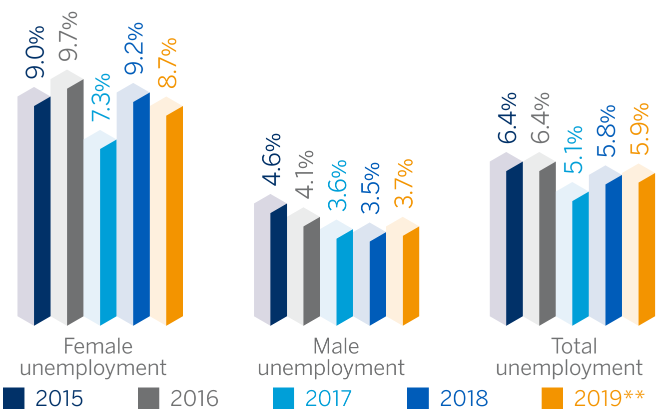
When the under-employed are included, this rate comes to 7.7% for men and to 14.2% for women, widening the gender gap. This is due to the significant weight of under-employment in female employment (they work fewer hours but would like to work more). When potential workers are included, segmented by gender, the unemployment rate is 9.5% for men and 20.4% for women.

An analysis of jobs by sector shows that employment in the formal sector has grown faster than in informal activities. Informal employment has fallen from 56.5% in 2018 to 54.8% in 2019, a reduction of 1.7 percentage points.

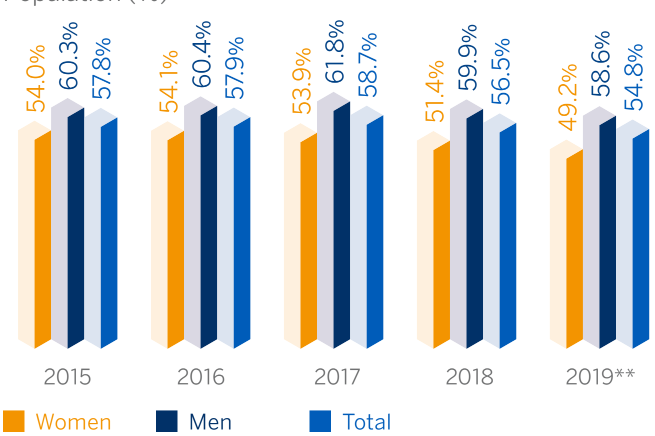
2. All data from the Central Bank of the Dominican Republic and ONE.

Macroeconomic environment

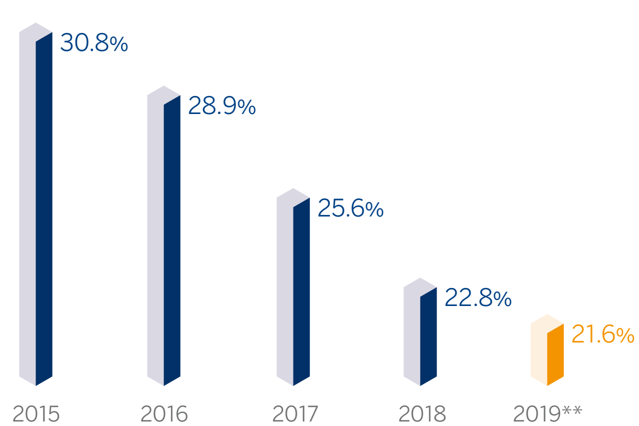
LABOR MARKET*
(%)



INFORMAL SECTOR*
Population (%)



MONETARY POVERTY***
Population (%)



* Source: DANE.
** Third quarter moving average.

In relative terms, the increase in women's participation in the formal sector has held firm, with their rate of informality posting at 49.2%, a reduction of 2.2 percentage points. In the case of men, this rate was 58.6%, a reduction of 1.3 percentage points.

From the regional perspective, the area with the most unemployment was the southern region, with a rate of 6.9%, while in Cibao in the north, it came to 5.3%. Unemployment came to 6.5% in the metropolitan region and 6.6% in the eastern region. When under-employment is included, the region with the least unemployment and people available to work more hours was the east, with a rate of 9.8%.

The dynamism of economic activity and the lower rates of unemployment have meant that during 2019 around 107,000 people escaped poverty, bringing the rate down by 1.2 percentage points. Nevertheless, 21.6% of the population is still in this situation.[3]

By gender, although women suffer a higher rate of poverty (25.1%) than men (19.6%), they are also the group that enjoyed the biggest reduction in 2019 (1.4 percentage points) with around 60,000 women escaping poverty.

By geographic area, the rate of poverty continued to fall. In urban environments, it shrank from 22.1% to 21.2% (0.9 percentage points), while in the rural environment it was 1.3 percentage points, going from 25.6% to 24.3%.

Remittances are proving to be important for poverty reduction, accounting for 2.2 percentage points of the drop in sufferers, overall, in recent years. When our analysis hones in on households that receive remittances, before including the revenues from this source, the poverty rate in these households stands at around 60%, which is cut by half when remittance income is included.

Between 2014 and 2019 poverty fell sharply (9 percentage points), mainly due to the increase in working incomes. To this we should add the rise in remittances and other public transfers which have all had a positive impact on household income.

3. Poverty estimates for the end of 2019 by BBVAMF Research.

Multidimensional poverty[4]

The measurement of multidimensional poverty is based on the methodology developed by the Oxford Poverty & Human Development Initiative (OPHI) team. This measuring procedure identifies the most serious problems being suffered by the country's poorest households, analyzing a set of 24 variables or privations that are organized into five social dimensions: housing, basic services, living standards, education and employment & social protection.

In 2019, 26.5% of the population was living in households that suffered from multidimensional poverty, a reduction of 10 percentage points since 2015. The health dimension shows the biggest failings, followed by housing and education.

The greatest reductions in multidimensional poverty were observed in the regions of Higuamo, Cibao and El Valle, and the lowest reductions in the Ozama/Metropolitana and Enriquillo regions. The Dominican economy's robust growth in the last few years has permeated into regions that lagged in the past, enabling poverty reduction there too.

Households that were found to be poor along many dimensions had higher rates of informal employment and of privations in health, education and food security.

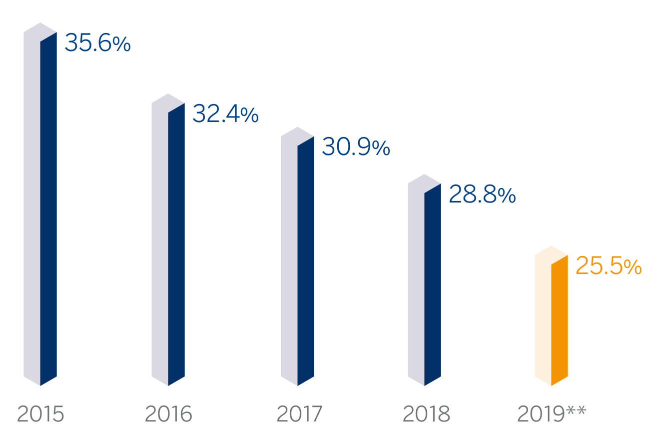
By areas, 42.6% of rural households were living in a situation of multidimensional poverty, while in urban areas the figure fell to 22.4% of homes.

By development region, Enriquillo headed the list, with 60.3% of households in this situation, followed by El Valle (51.4%) and Valdesia (41.9%). The regions with the lowest rates of multidimensional poverty were Ozama/Metropolitana and northern Cibao, where 17.8% and 17.4% of homes, respectively, suffered this situation.

UNMET BASIC NEEDS*
% by department

Cibao Norte	17.4 %
Ozama o Metropolitana	17.8 %
Cibao Sur	20.2 %
Cibao Noreste	24.8 %
Yuma	33.7 %
Cibao Noroeste	34.0 %
Higuamo	39.5 %
Valdesia	41.9 %
El Valle	51.4 %
Enriquillo	60.3 %
Rural total	**42.6 %**
Urban total	**22.4 %**
National total	**26.5 %**

MULTIDIMENSIONAL POVERTY*
Population (%)



4. BBVAMF estimate. Multidimensional Poverty Index containing five social dimensions, based on the methodology developed by OPHI (Oxford Poverty & Human Development Initiative) and the Vice-Presidency of the Republic for use as a measurement in the Dominican Republic.

* Source: ONE.
** Third quarter moving average.

Building the future with *Savings San*

Regular saving means that people can deal with contingencies, and women are more cautious

José Juan and his family

José Juan lives with his family in the neighborhood of Pontón, in Navarrete, Santiago.

For the past 21 years he has had a grocery store which provides an income for his 2 daughters, aged 15 and 10, and his 13-year old son. His wife has another business, selling toasted snacks and fruit juices, with which the children are involved too.

Saving is important for them, and they believe that it will enable their children to get ahead in the future.

José Juan points out: “Our children often come with us when we bank the funds, and that is how we try to inculcate in them the value of saving.” He has been a Banco Adopem client since 2015, with a Savings San account and three children's accounts, one for each child.

With their capital growing day by day, they hope to buy a better car and a home that is separate from the business. This greater economic independence will enable them to deal with any contingency. “When you have your own money, you don't have to take out a loan or bother anyone else,” says José Juan.

Programmed savings

To create the necessary incentives for the inhabitants of the Dominican Republic to bank their savings in financial institutions, in 2015 Banco Adopem created a programmed savings product.

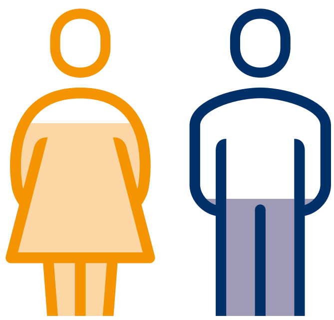
At the outset, the client decides on the monthly, fortnightly or weekly amount they want to pay in, and the maximum timeframe for doing so.

The *Savings San* programmed savings product allows people to build up regular financial discipline, in which part of the surplus is put aside for unexpected contingencies or future expenses, to avoid getting into debt. At December 2019 it had over 11 thousand active clients.

Minimum opening balance	USD 5
Minimum installment payment	USD 0.50

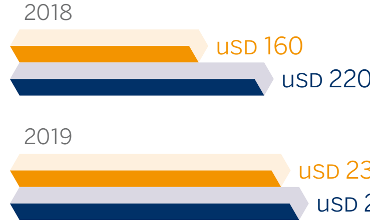
If a savings culture is to be promoted in society, there is a need for a reliable institution to impart solid financial education.

TOTAL CLIENTS



63% 37%

AVERAGE SAVINGS
Average opening balance



To save the equivalent of 5 months of essential spending (basic basket of goods)

Women Men

BASIC FOOD BASKET***

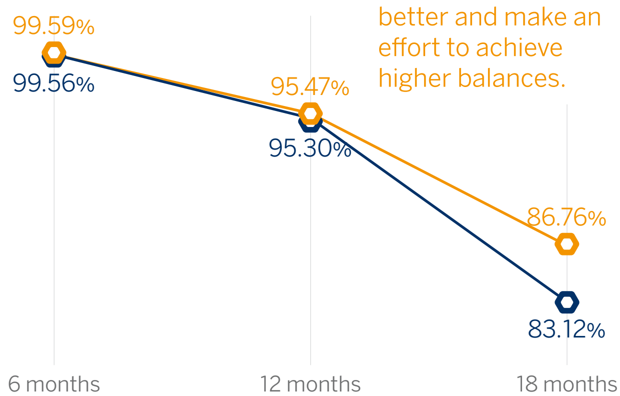
Our male clients have higher average balances in the bank (5.4 multiples of the basic food basket), which is the equivalent to 1.5 multiples of the minimum monthly wage

Total
Compliance*
20.9%

Women: **22.4%**

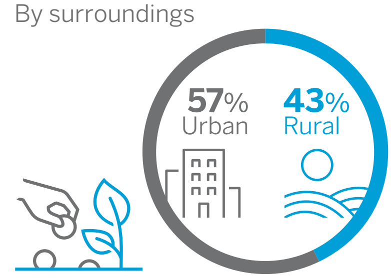
Men: **18.7%**

CLIENT RETENTION
By gender



Women are more faithful clients, comply better and make an effort to achieve higher balances.

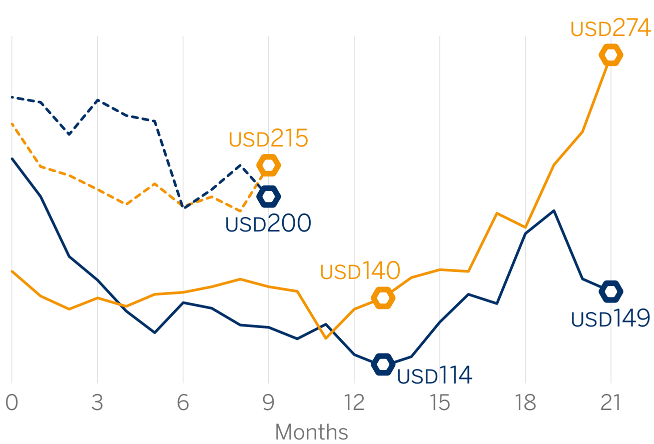
TOTAL CLIENTS
By surroundings



45%
of clients
are **less than 35 years old**

AVERAGE BALANCE
By month of seniority

After a year, women's savings behavior is better matched to meeting the goals they have set themselves.



"While saving to get through a storm is fundamental, what really matters is saving in order to prosper and generate good times." **

* Compliance: Clients who have completed at least 75% of their savings plan with the institution.

** *Saving to make progress*, IDB, 2016.

*** Basic basket: minimum income needed to satisfy basic nutritional needs of one person, depending on their surroundings (rural/urban).

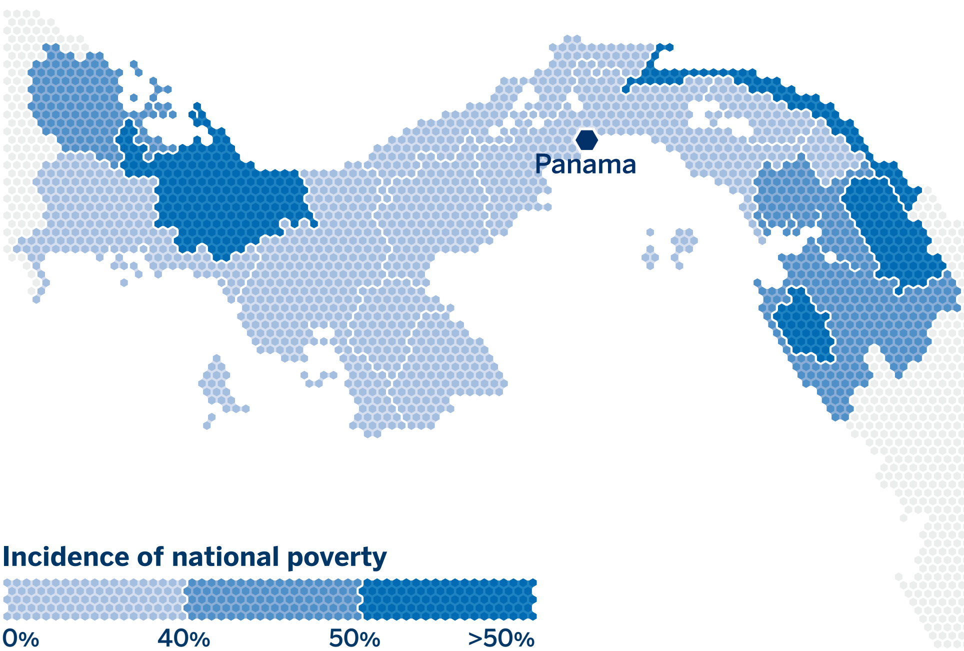
Panama

Microserfin

Social Performance Report **2019**

By driving projects forward, we are supporting people

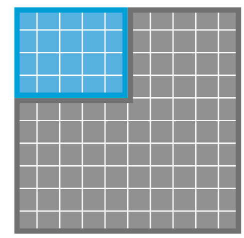
Country context



National poverty

rate[1]

20%



Gini index[2]

0.51

54%

of adults in Panama are unbanked[3]

We generate business opportunities through productive and sustainable microfinance services.

The principal cause of vulnerability is income instability. The challenge is to support vulnerable people's businesses to make them grow and mentor them over time.

Average disbursement USD **1,705**

27 offices & service points

97 loan officers

Tailored & progressive loan sums.

49% of entrepreneurs served have banked with us for at least 3 years.

57% of new clients have been banked by us.

16,445 clients served in total

85% in vulnerability

42% women

Focus on rural areas:
37% of clients work in the farm sector

45% rural environment

32% primary education at best

13% older people (> 60 years old)

12% young people (< 30 years old)

5,127 people received financial education

They become entrepreneurs
to improve **their economic situation**

2,462 people improved their standard of living, thanks to Casafin loans, in 2019

28% of clients generate at least one additional job

Indirect impact

(1) Ministry of Economy & Finance.
(2) ECLAC, 2017. 1 = maximum inequality, 0 = perfect equality.
(3) Global Findex, 2017. World Bank.

Introduction

Microserfin has been able to reach the most vulnerable and the remotest areas thanks to its focus on innovation and technology. In 2019, initiatives specifically targeting women have also been rolled out, designed to reduce the impact on microentrepreneurs of unexpected mishaps.

The Panamanian economy moderated a little in 2019, growing by 3.4% (compared to 3.7% in 2018). This was the lowest rate of growth since 2009 and there has been a drop in momentum for the second year in a row in all the main sectors.

Consumption accounted for 2.3 percentage points (pp) of total GDP growth, while investment provided 1.4 points. The external sector shaved 0.2 pp off the overall total due to the fall in exports.

On the supply side, the poorest performing sectors were fishing (–27.2%), manufacturing (–1.3%), trade (1.7%) and construction (1.6%).

Inflation remained soft throughout 2019, staying below zero for most of the year, closing at −0.1% down from the previous year. The annual rate was −0.4%.

Unemployment rose from 6% in 2018 to 7.1% in 2019. By gender, the gap widened by 3 pp, 50% higher than in 2015. The unemployment rate for men inched up by 1 pp while for women it rose by 1.2 pp. Male unemployment posted at 5.8%, female at 8.8%.

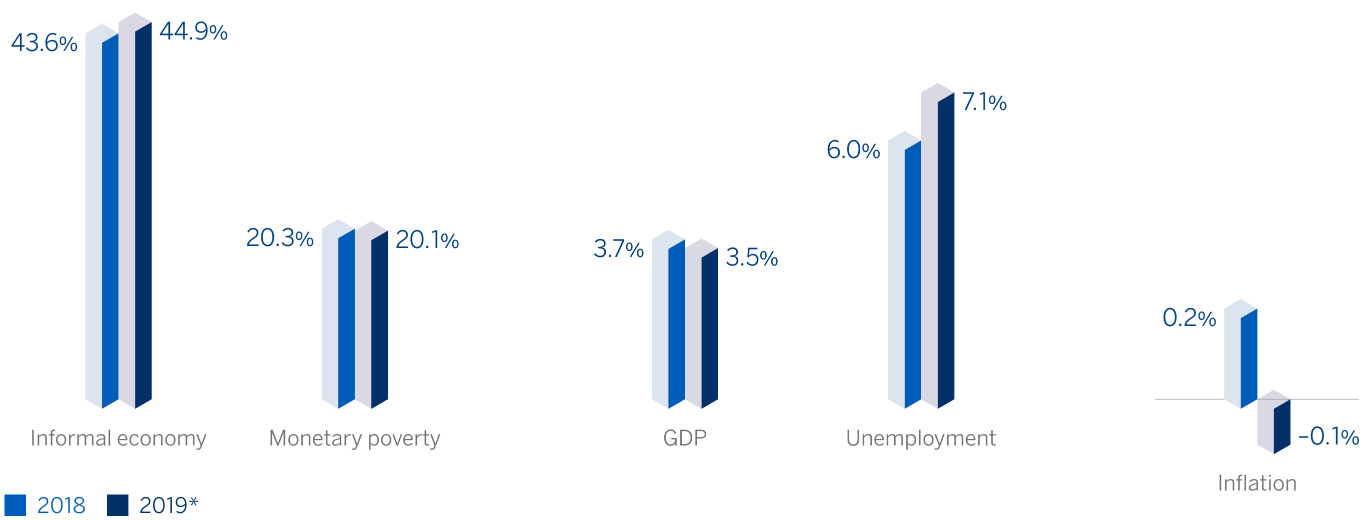
Around 20.1% of the Panamanian population is in monetary poverty. Nevertheless, in the last five years, this has dropped by 2.9 pp. Since then, up to the end of the year, approximately 78,300 people succeeded in escaping poverty. The biggest reduction was in rural areas and in indigenous counties.

Soluciones de Microfinanzas S.A. (Microserfin), part of BBVA Microfinance Foundation Group (BBVAMFG), contributes to the financial inclusion and development of low-income entrepreneurs in Panama, with the commitment to promote a value chain for the country's socio-economic development.

To achieve it, Microserfin has consolidated its financial services using relationship banking methodology to get closer to entrepreneurs and to provide financial services tailored to their needs. In addition, since 2016 we have been working with the Micro, Small and Medium-sized Enterprises Authority, AMPYME, and we have signed up to the Microlending Trust program in Panama (FIDEMICRO-PANAMÁ). The program promotes the microfinance market throughout the country to stimulate and improve the country's economic growth.

The institution is present in the vast majority of Panama's poorest districts, such as the provinces of Bocas del Toro, Coclé, and Chiriquí. Furthermore, in the last year it has reinforced its mission to reach the most vulnerable groups and rural areas where infrastructure, access to basic services and other welfare components are overstretched. We give special support to entrepreneurs in the farming sector (37% of all clients).

MACROECONOMIC DATA



Furthermore, Microserfin has restated its commitment to Sustainable Development Goal (SDG) 5, creating a specific value offering for women —who represent 45% of its client profile and typically have smaller businesses, that are also more vulnerable, than men. That is why, in November 2019, we signed the Corporate Commitment to Women's Economic Empowerment, which promotes gender equality programs, both domestically and abroad.

Another of the priorities in 2019 has been to complete the product offering for entrepreneurs. In particular, work began on promoting voluntary insurance and health cover policies, to reduce the impact of contingencies or accidents on enterprises and in households.

All this progress has been possible because of major efforts being made in the background in technology and innovation; these led to a change in the banking core at the end of 2018, and the development of a MIS (management information system) to improve the institution's internal efficiency. This will make it possible to add new channels (banking agents) to robust information architecture and provide the loan officers with mobile solutions.

Source: National Statistics & Census Institute (INEC). Ministry of Economy & Finance.

Note: Thanks to the better technology being used, in order to reduce analysis bias, we have decided to present only the strictly economic information about enterprises (sales, surpluses, assets) captured using the new banking core. This report will therefore mainly focus on the 2019 results and will not present historical series, as it has in previous editions.

KEY FIGURES*

Total clients	**16,445**
Number of disbursements in 2019	12,193
Gross portfolio (USD)	**26,019,910**
Average disbursement in 2019 (USD)	1,705
Sum disbursed in 2019 (USD)	**20,501,847**
Number of employees	263
Number of offices	27
People who have received financial education	5,127

* BBVAMF Research estimate.

Introduction

Microserfin's commitment to the sustainable development of Panamanian entrepreneurs and their families has led it to serve over 22 thousand microentrepreneurs during 2019 (of whom 16,445 were current at year-end), with a particular focus on helping women and people living in rural areas, groups that are generally excluded from the financial system.

We have classified those entrepreneurs whose business do not generate enough per capita net income to buy a basic basket of food as 'extremely poor'. Those who can buy a basic basket but whose income is insufficient to pay for a basic set of goods, services, clothing and housing are classified as economically 'poor'. In the case of Panama, the poverty line is USD 110 a month in rural areas and USD 149 a month in urban ones. Entrepreneurs who, while not poor, have incomes that are less than three times the poverty line, are classified as 'vulnerable'.

CLIENT ECONOMIC VULNERABILITY*

PRICE OF THE BASIC BASKET OF GOODS

At the end of 2019 nearly one of every three current clients, 27%, was poor. A further 58% were economically vulnerable, that is, they were living in a state of marginal income which, while allowing them to cover their basic needs, gave them little capacity to cope with contingencies and for that reason left them with high economic instability and very likely to lapse into poverty.

In 2019 Microserfin has also allocated loans to 4,356 new clients. Of these, the institution has brought close to 2,500 (57%) into the formal financial system. We have concentrated on serving clients who are economically vulnerable or who belong to groups where most poverty focuses, or who have fewer labor opportunities, such as women and those in rural environments (45%).

Financial Inclusion

54% of adults in Panama are unbanked, and the most economically vulnerable face higher barriers to accessing financial services than those in the richer population (Global Findex 2017).

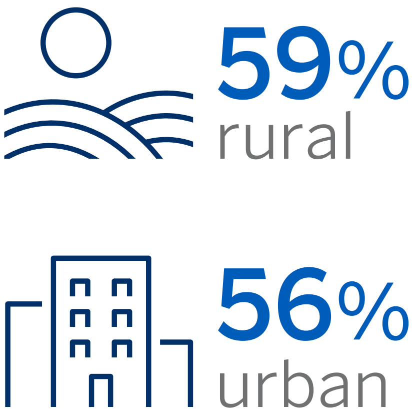
That is why Microserfin has remained focused on financial inclusion: 57% of new clients in 2019 had never previously had loans from the formal banking system.

Rates of financial inclusion have been higher in rural areas (59%) and among clients with lower levels of formal education. Their previous exclusion was likely due to living further away from financial institutions and to having greater difficulties in getting the right paperwork together, two factors that account for most exclusion from the financial system.

Furthermore, in general these clients are younger (their average age is 39, compared to the overall average of 45 for the unbanked) and have lower levels of activity: their monthly sales are, on average, 25% lower than the overall average for the unbanked (USD 1,415 a month, compared to USD 1,886 for the unbanked).

When it comes to gender differentiation, in rural areas men are more likely to be banked than women; in urban areas there is not much difference between the two.

BANCARISATION, BY SURROUNDINGS
New credit clients



Percentage of new clients who have joined the formal credit system for the first time.

The vulnerable entrepreneurs we serve

Profile of our clients

Microserfin's purpose is to generate opportunities for social and economic development by harnessing microfinance services for small entrepreneurs in situations of vulnerability. To achieve this goal, in 2019 we granted three main lines of credit adapted to our clients' specific requirements.

Over half the portfolio consists of loans for microenterprises (around 55% of clients). These are small credits that over time gradually build up into larger amounts, so that entrepreneurs can invest in working capital, accumulate productive assets, or expand their businesses. We have also created a lending product that is specially designed to meet the needs of the agricultural sector (which accounts for around 35% of the portfolio) for investments in harvests, livestock, etc, and whose repayment methodology is adapted to the highly seasonal nature of incomes in rural areas.

Finally, we shine the spotlight on the Casafin lending product (held by around 7% of clients) designed for microentrepreneurs who carry out their productive activities from their homes —mainly urban women working in small-scale trading activities—, so that they can gradually upgrade their housing which is also generally where they run their business.

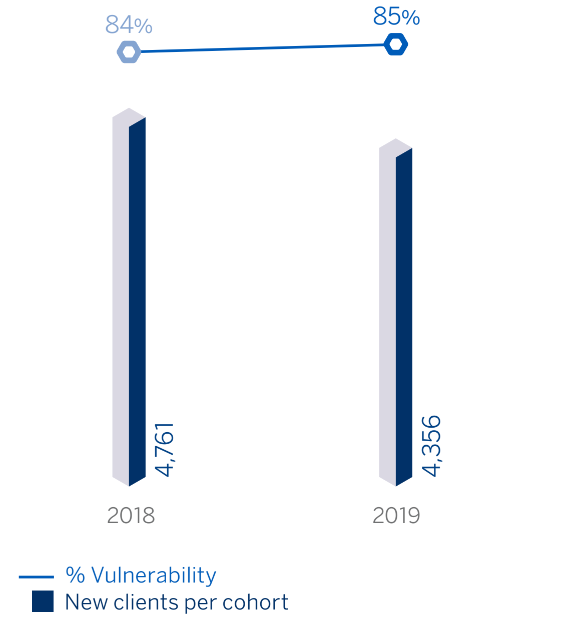
In 2019 Microserfin granted loans to over 4,000 new clients, 85% of whom were in vulnerability. Specifically, 22% were classified as poor, with each household member living on an average of USD 107 a month (USD 53 in the case of the extremely poor). 63% were vulnerable and had, on average, USD 227 a month to cover costs for each member of the household, amounting to 1.5 multiples of the poverty line.

Nationwide, in 2019 the minimum monthly wage was USD 268. Just 32% of new clients managed to reach or beat that per capita income figure. This depends on the environment: in urban areas the proportion of clients in poverty was 30%, more than double the figure for the rural areas (13%).

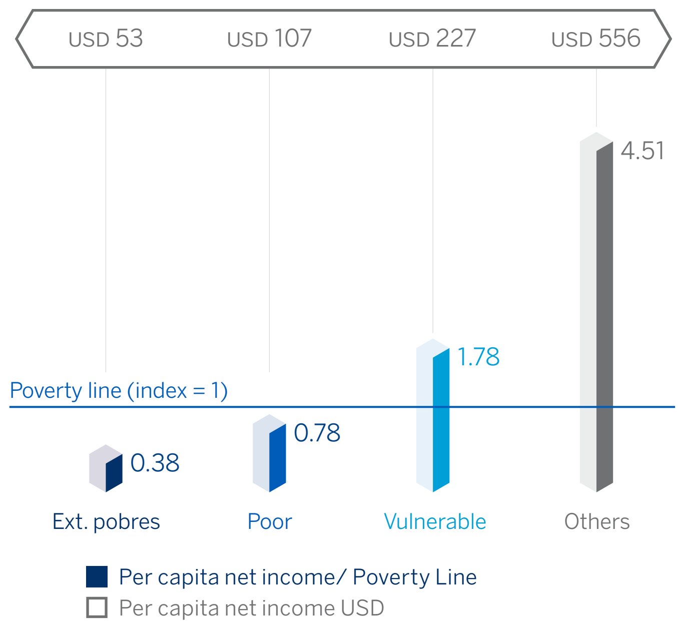
The institution has kept its focus on serving women (42%) and clients with primary education at best (30%), groups with the highest rates of monetary poverty and vulnerability. In fact, most of the poor clients are urban women working in small-scale trading activities such as kiosks, grocery stores or beverage sales. 39% of the women are poor and 10% are extremely poor. Women also tend to have more onerous family responsibilities and live in larger household groups than men (50% of them live in households with four people or more). Urban women are the largest segment of all the clients we serve.

(1) New clients during the year (without previous loans).
Vulnerability: the proportion of clients whose income is less than three times the country's official poverty line.
Banked clients: those who have not previously taken out loans with regulated institutions.
(2) According to the country's official poverty lines. New clients during the year (without previous loans).
(3) New clients during the year (without previous loans).
(4) Percentage of poor and vulnerable clients by profile. 'Poor' clients include both extremely poor and poor.

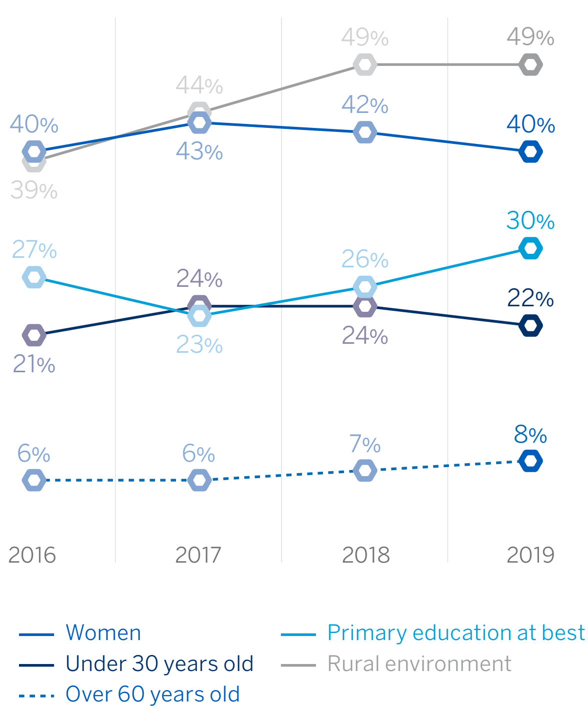
1 **NEW CREDIT CLIENTS**
New clients by year of entry (%)
% banked customers: 57%



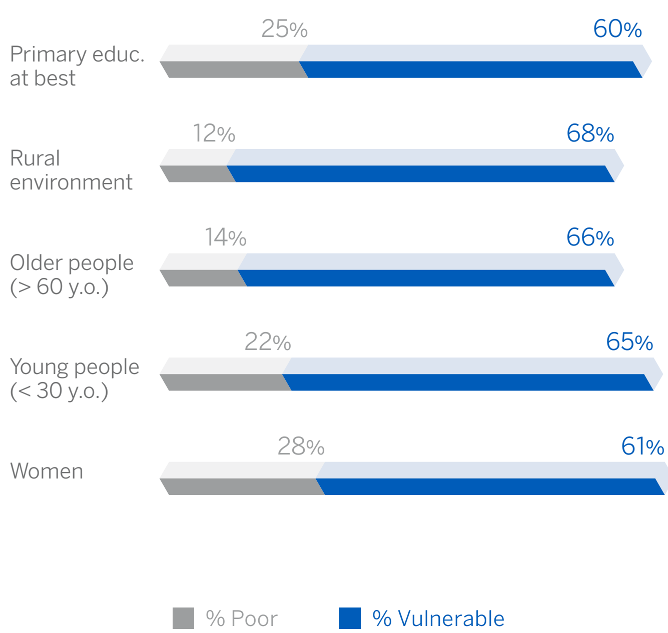
2 **ENTREPRENEURS' INCOME**
Income of segment over poverty line



3 **NEW CLIENTS PROFILE**
New credit clients by year of outset (%)



4 **VULNERABILITY BY PROFILE**
New credit clients



The vulnerable entrepreneurs we serve

There is a 14 pp gap between urban and rural areas in terms of our new clients' level of educational attainment: whereas in urban areas 23% of clients have primary education at best, in rural areas this percentage reaches 37%. However, in rural areas poverty and educational attainment are not highly correlated since most clients work in the farming sector. In urban areas there are higher rates of poverty among clients with lower levels of education, given that they work in small retail trading activities, while clients with more education have access to better paid occupations, such as the service sector (e.g. hairdressers).

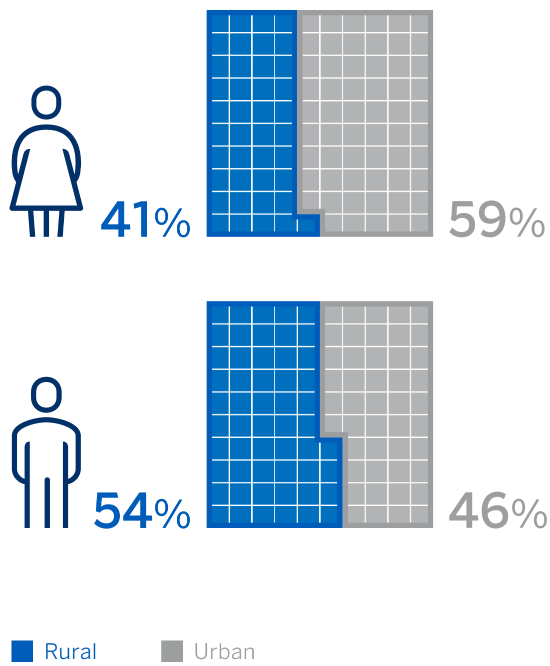
Efforts in the last few years to reach rural areas of the country have continued; nearly half of new clients are found here (the percentage of new rural clients has increased by 9 pp between 2016 and 2019). This trend is particularly marked in the case of men, whereas the women served by Microserfin are predominantly urban (54% of new clients are rural, compared to 41% of new women clients). When we compare the vulnerability of new clients according to where they live, in urban areas the percentage of clients in poverty is as high as 30%, more than double the rate of rural areas (13%).

In rural areas, the biggest client segment is those in vulnerability (68%, compared to 59% in urban areas). These are clients who, although managing to escape poverty, encounter difficulties in expanding their enterprises and stabilizing their incomes over time. These clients, who work mainly in the farming sector, while not as vulnerable in terms of income, need specific strategies for handling risk and managing the volatility of their revenues. Furthermore, it is in these areas where the formal financial system has the lowest penetration (59% of new rural clients were previously unbanked).

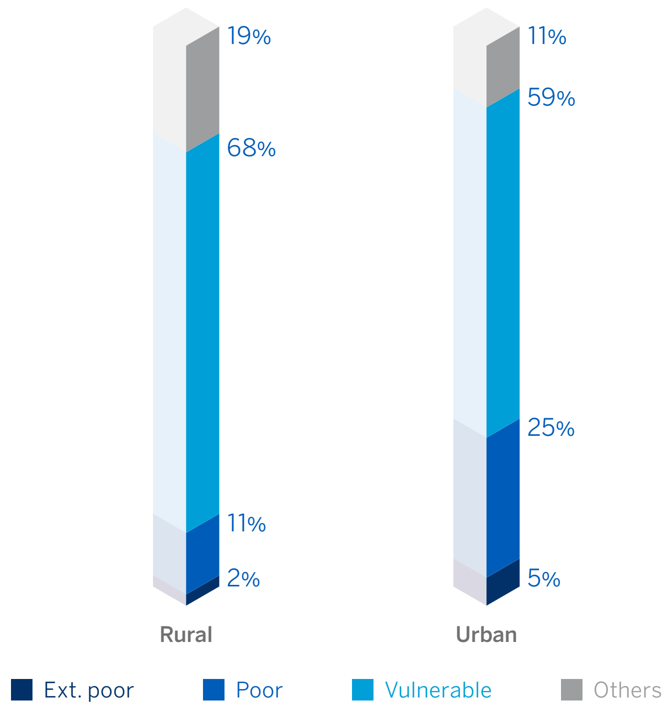
Although Microserfin is very focused on serving rural clients, it recognizes the importance of being present in the cities: one in three clients in urban areas works in activities that scarcely enable them to cover their most basic needs and those of their household.

(7) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line. Households with a single member are 'solo', those with two or three people are 'average household', and those with more than three people are 'large household'.

5 NEW CLIENTS BY SURROUNDING
New credit clients



6 VULNERABILITY BY SURROUNDING
New credit clients



7 SEGMENT OF MOST REPRESENTATIVE CLIENTS
New credit clients

	Vulnerability	Primary ed., at best	Household size
Urban women	91%	21%	3% / 45% / 52%
Urban men between 30 and 60 y.o.	87%	26%	5% / 46% / 49%
Rural men between 30 and 60 y.o.	76%	44%	7% / 49% / 44%

Solo
Avg. household
Large household

% Portfolio:

Rural women: **24**%
Urban men between 30 and 60 y.o.: **20**%
Rural men between 30 and 60 y.o.: **22**%

We prioritize our support for women entrepreneurs

Why serve female Panamanian entrepreneurs?

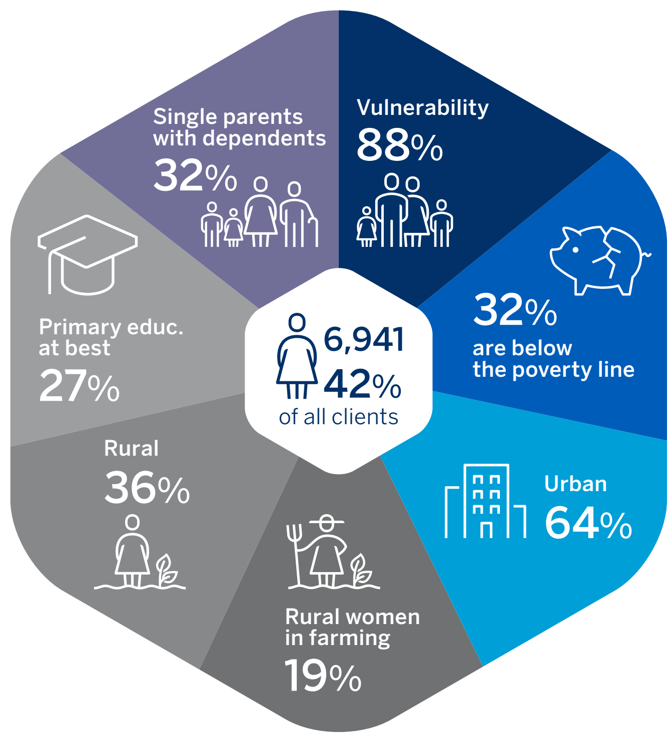
According to the 2018 WEF Gender Gap global report, Panama came 45th in the ranking of countries in terms of male/female equality, a list that uses data from 149 countries.

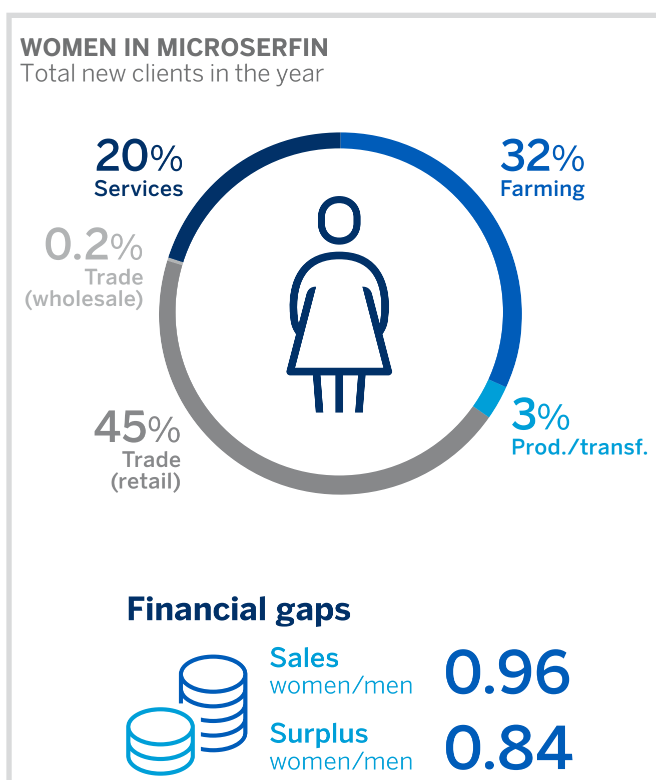
Research conducted by IPG (*Iniciativa de Paridad de Género: Gender Equality Initiative*) on economic gaps between genders shows that in Panama women's rate of participation in the labor force is 51%. Over 150 thousand women under 29 are not currently part of the labor market, a factor in their greater social risk and inequality.

On average, in Panama women's monthly paycheck is 11% smaller than men's, while their hourly wage is 5% lower. This gap is intensified in different sectors and occupations, such as manufacturing and agriculture. Panama has one of the best positions in Latin America in terms of the number of women in management positions (45% of the total). However, women are in junior and middle management positions, and remain virtually invisible in senior management, a phenomenon that has come to be recognized as the continued secondary status of women's job positions.

Microserfin's commitment to SDG 5 has driven it to set up partnerships and to launch innovative products tailored to entrepreneurial women.

THE ENTREPRENEURIAL WOMEN OF MICROSERFIN





Our financial services for women

Microserfin has recently restated its commitment to achieving SDG 5 (Gender equality) through innovative products and partnerships with programs designed to support and strengthen more women entrepreneurs in Panama. We have been doing this with specialized products such as our *Women's Urban Family Care* and *Women's Rural Care*.

Cable Onda Provincial Roadshow

- **Purpose:** This partnership seeks to empower women entrepreneurs suffering different degrees of vulnerability, training them in innovation, digital marketing, finance and corporate reputation, personnel and legal.
- **Description:** A training program that travels around the country's main cities, providing free workshops to small-scale and medium-scale women entrepreneurs on subjects that are important for the development and growth of their enterprise.
- **Nº beneficiaries:** Since it started in 2018, the program has provided training to 655 women.
- **Needs served:** Financial education.

Women's Urban Family Care and *Women's Rural Care*

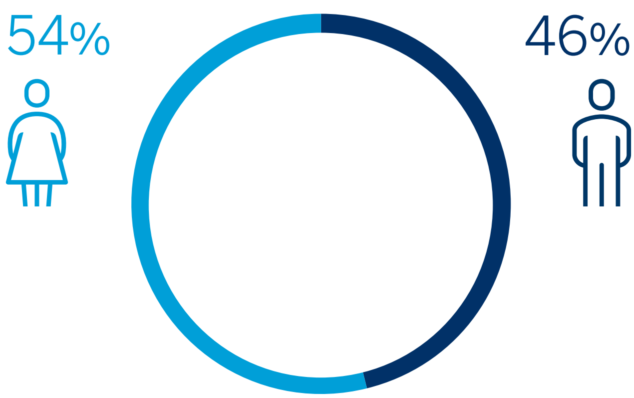
- **Purpose:** Providing differentiated aggregate value to our clients in urban and rural settings.
- **Description:** A support channel for women entrepreneurs and their families, providing access to care services at affordable prices, meeting basic care needs and improving living standards over time.
- **Nº beneficiaries in 2019:** 166 women, of the 313 care packages sold.
- **Needs served:** Health.

Microserfin Rural Women's Program

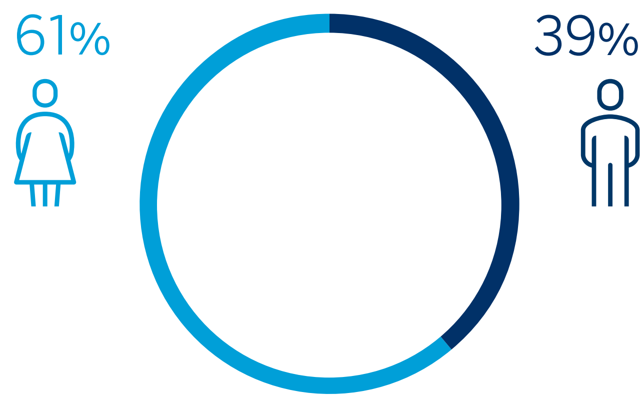
- **Purpose:** Supporting the consolidation of rural women's organizations as a means to achieve their own development and that of their family, and their effective insertion into the country's productive system. We endeavor to improve the living conditions of rural families and especially that of women through social and productive activities.
- **Description:** Providing growth opportunities to small groups of women in the rural environment who work in farming or non-farming by giving them financial training. This will enable them to access financial products that help them to strengthen their enterprise and raise their standard of living.
- **Nº beneficiaries in 2019:** 28 women, 15 in the Bugaba region, Chiriquí and 13 in the capital of Penonomé province, Coclé.
- **Needs served:** Financial education.

The vulnerable entrepreneurs we serve

UNHCR OPERATIONS
By gender



CASAFIN OPERATIONS
By gender



Panamanian Red Cross

UNHCR The UN Refugee Agency

In partnership with the Red Cross, and the support of the UN High Commission for Refugees, Microserfin provides financial training and a microlending program that targets refugees accredited as such, asylum seekers who are waiting to hear about their status, and those in the process of applying.
To date we have approved 283 loans for a total sum of USD 232,755.

Casafin, a program opening up access to housing loans for low-income entrepreneurs who carry out productive activities in their homes, was set up in 2012. This is the only program with technical construction advice that seeks to drive economic and social development that is sustainable and inclusive, while having a positive impact on Panamanian families. We are currently providing effective technical advice with building, designing suitable housing in the traditional style and encouraging investment in assets, so that there is a positive effect on their incomes in the longer term.

So far, Microserfin's product Casafin has been most popular with women, who account for 61% of the portfolio. Female heads of the family manage to run their own enterprises from their homes, generating stable incomes and, even more importantly, are able to better look after their children and other family members, without having to leave the house to make a living.

In 2019, 68% of our rural clients were vulnerable, and 59% were unbanked. Our aid programs cover needs specific to low-income entrepreneurs.

ASSISTANCE FOR WOMEN

Urban and peri-urban areas

Face-to-face

Women's Comprehensive Family Assistance

- Preventative medical check-up: Pap smear test, mammograms, scans, cholesterol, glucose, triglycerides, urine.
- Transfer by ambulance in case of accident or emergency.
- Home medical visits.
- Discounts on gynecological medications.

Telephone service

Remote service

- Medical.
- Psychological.
- Legal.
- Second medical opinion.
- Geriatric.
- Pediatric.

Rural areas

Face-to-face

Medical Fairs

- Family doctor.
- Specialist doctor.
- Nurses.
- Triage technicians.

Telephone service

Rural Women's Telephone Assistance

- Farming and veterinary advice.
- Specialist technical guidance in pest control.
- Medical guidance.
- Legal advice.
- Psychological care.
- Geriatric guidance.
- Pediatric guidance.

The vulnerable entrepreneurs we serve

Businesses for getting ahead

Building up, maintaining and growing a productive activity is a challenge, especially for vulnerable entrepreneurs who face difficulties in accessing capital to invest in their businesses and who are very exposed to contingences and uncertainties.

Microserfin clients principally work in three activity sectors: farming and agribusiness (37% of the total), concentrated mainly in rural areas; retail trade (30%) and services (27%), both of which are mainly in urban areas.

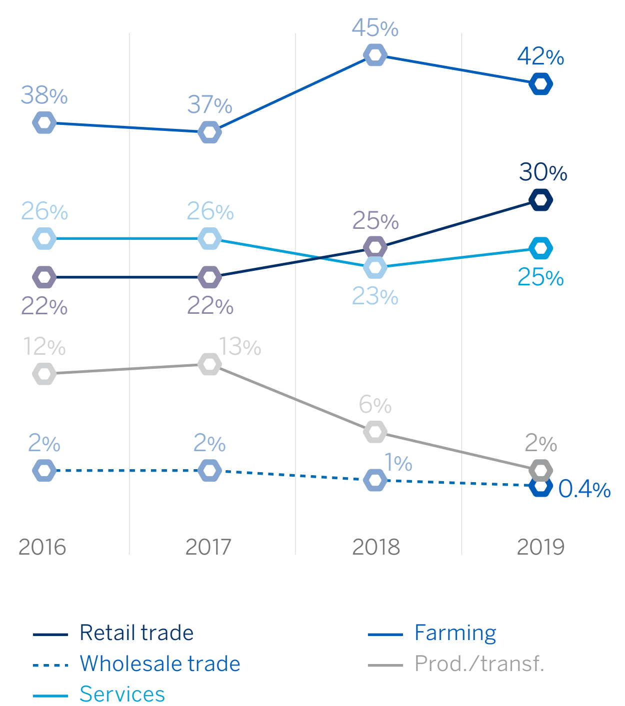
Most of our clients in the farming sector are men (72%), working mainly with corn (13%) and other crops (20%), while women tend to be more involved in rearing animals (56%, compared to 44% of men), generally poultry (19%) and pigs (12%).

A large proportion of our clients who work in retail trade are women (63%), mostly selling food and beverages (40%), or they have stalls and mini grocery stores (18%); others are street sellers of cosmetic products, costume jewelry, etc. 65% of clients in the service sector are men with small auto repair shops (19%), who work in building and domestic repairs (14%) or cleaning and maintenance tasks (13%).

If we compare these two sectors with one another, more of the clients working in trade are poor (34% compared to 22% of those in services). The reason is that they tend to be activities that are more accessible to low-income urban women, since they require lower investments in assets and are easily compatible with domestic responsibilities. Nevertheless, these activities are linked to lower margins (the proportion of surplus over sales is on average 42% in trade and 55% in services). Therefore, it is more difficult to make businesses grow and consolidate them over time.

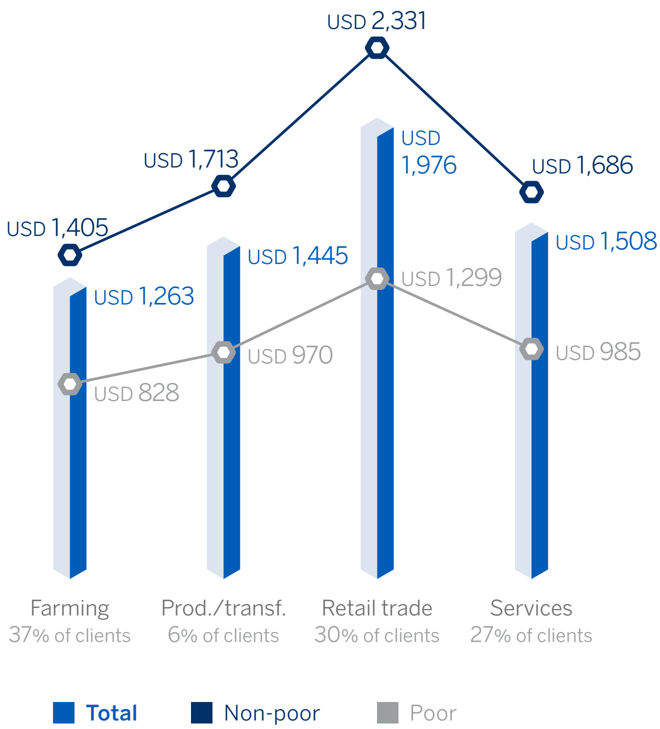
In conclusion, our clients' fields of activity vary depending, above all, on their surroundings and their gender. However, we note that most women work in activities with lower margins and, as a result, suffer higher rates of poverty. That is why it is so important to keep our focus on serving women, making it possible for them to make the investments necessary to scale up their businesses and escape the subsistence economy.

8 **ACTIVITY SECTOR**
New clients by year of outset (%)

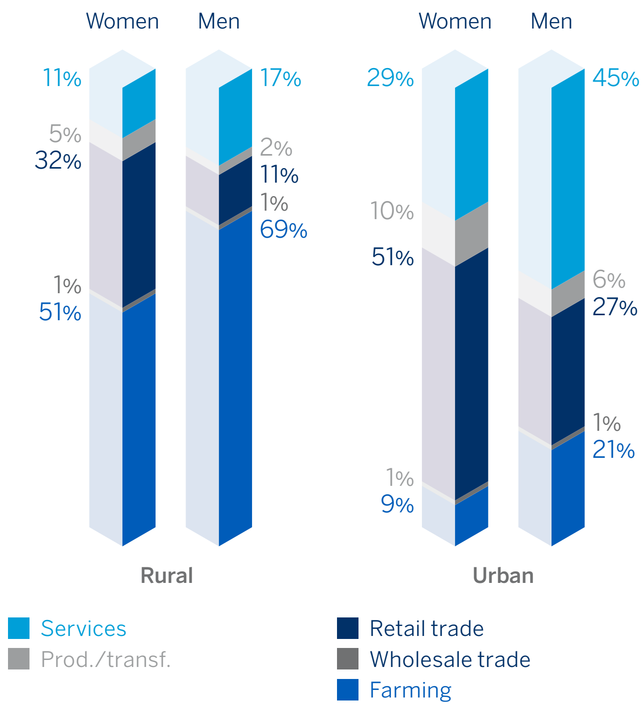


(8) New clients during the year (no previous loans).
(9) Data on average monthly sales in each sector, segmented by poor clients (extremely poor and poor) and non-poor (vulnerable and others).
(10) Client distribution by sector. Current portfolio segmented by surrounding and gender. Wholesale trade excluded because of small size of sample (1% of clients).
(11) Percentage of clients under the poverty line and of women, by sector. Wholesale trade excluded because of small size of sample (1% of clients).
(12) Average costs and surpluses o/ sales, percentages in each sector. Wholesale trade excluded because of small size of sample (1% of clients).

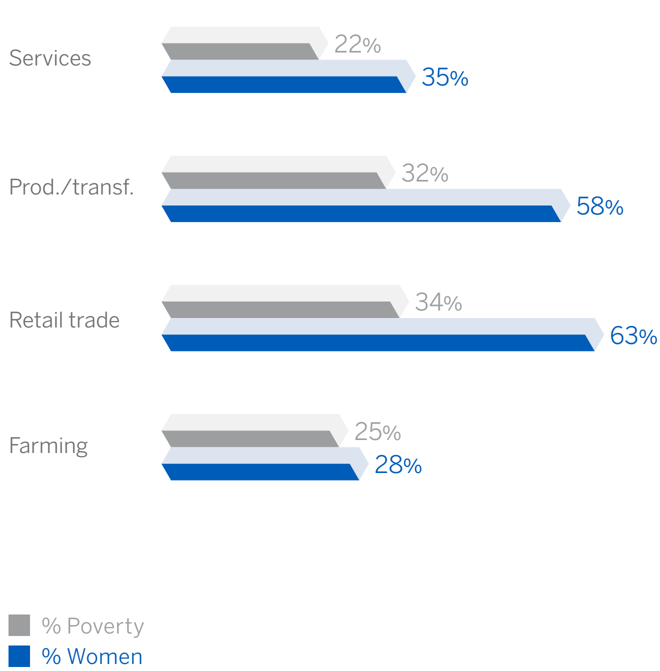
9 SALES BY SECTOR
Total credit clients



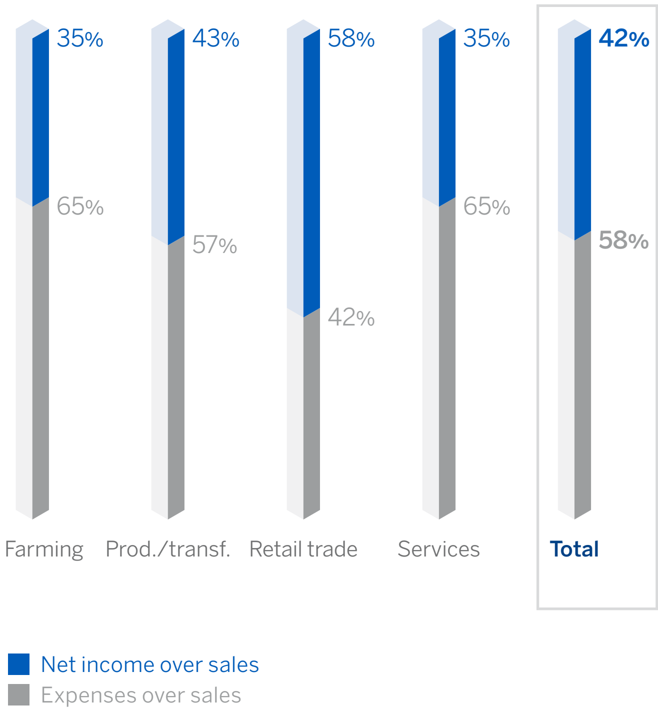
10 SECTORS BY SURROUNDING AND GENDER
Total credit clients



11 POVERTY BY SECTOR
Total credit clients



12 P&L- MARGINS OVER SALES
Total credit clients



Our clients' development

Indirect impact

Supporting vulnerable entrepreneurs so that they have higher incomes that are more stable over time has an impact on their spending power. That is why backing our client's small companies has an indirect impact on the standard of living in their households and the communities where they live.

Decent housing is a basic need that vulnerable households find difficult to meet. For that reason, the type of housing (construction materials, number of people per room, access to electricity, internet, etc) is one of the five dimensions that comprise the Multidimensional Poverty Index published by the Government of Panama since 2017.

Microserfin leverages Casafin to promote investment in its entrepreneurs' housing so that they are healthier and safer. In 2019 we signed off Casafin loans to 623 clients altogether, the majority to women (58%) in urban areas (67%), working in the service industry or in food sales. These are generally loans for higher amounts, over longer time periods (an average of USD 2,006, compared to USD 1,705 for all loans disbursed in 2019; with terms of 25 months).

These clients are particularly vulnerable, with 34% finding themselves in poverty. Furthermore, they are responsible for larger households (59% live in homes of four or more people) and in many cases need to work from their homes so that they can look after their children and family members while also working. If we include all the members of our clients' households, in 2019 thanks to this lending product we made an impact on the lives of 2,462 people.

Another multiplier of microenterprises' growth in communities is when they generate jobs. Nearly one in every three clients of the institution (28%) generates at least one additional job.

A factor relating to job creation is the type of activity and surrounding where microenterprises operate. In the case of the farming sector, more jobs are created in urban areas (46% of microenterprises) than in rural areas (25%). This may be because in urban areas there are more people breeding small livestock, whereas in rural areas family activities are more concentrated.

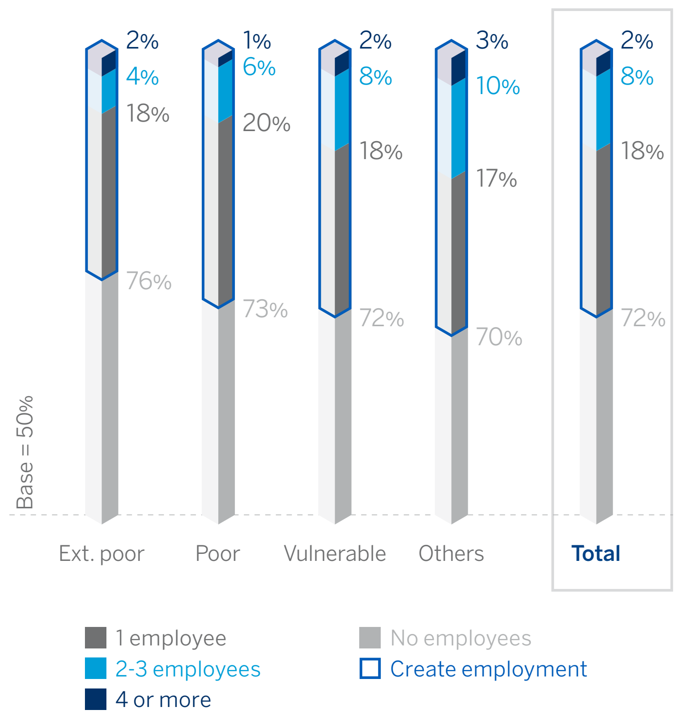
Since women tend to be more vulnerable than men and face more hurdles when they want to expand their businesses, in general they create fewer jobs than men (there is a 7 pp gap for the portfolio as a whole, and a 9 pp difference in the case of retail trade, the sector in which most of our female clients work).

Financial health is a way of interpreting households' management of their financial resources and their use of the financial channels available. Financial inclusion is an important lever, since it enables entrepreneurs to manage their resources using reliable and secure channels to smooth shocks, improve their planning and invest their resources over the medium term.

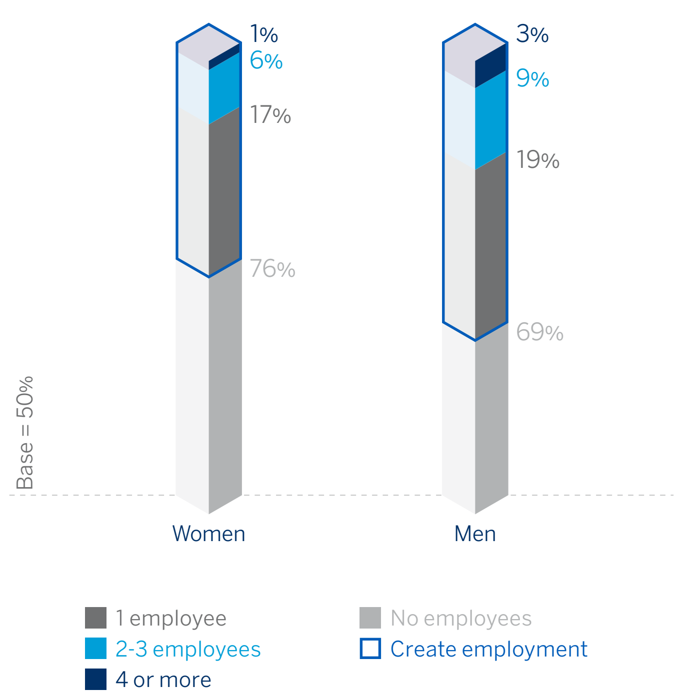
Financing low-income entrepreneurs is a driver for inclusive, sustainable development: at the end of 2019, Microserfin's 16,455 clients were providing jobs for 6,875 people.

(13) The nº of employees in our clients' businesses at 12.31.2019.
(14) The nº of employees in our clients' businesses at 12.31.2019, by gender.
(15) The nº of employees in our clients' businesses at 12.31.2019, by surrounding and sector.

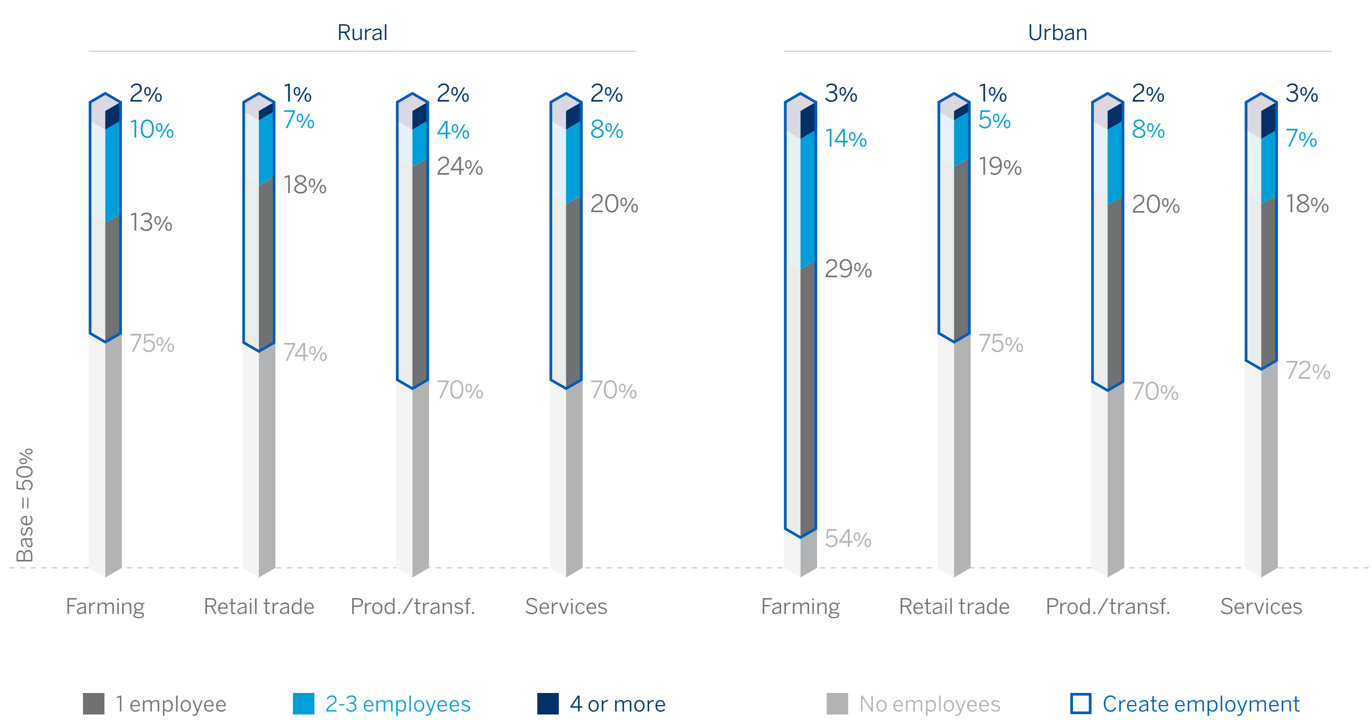
13 **SOURCE OF EMPLOYMENT**
Clients according to nº of employees in their business



14 **SOURCE OF EMPLOYMENT BY GENDER**
Total credit clients



15 **SOURCE OF EMPLOYMENT BY SURROUNDING & SECTOR**
Total credit clients



Our clients' financial health

Vulnerable entrepreneurs generally have low, irregular incomes that are unpredictable over time. For this reason, instead of pursuing higher profitability for their businesses in the long term, they often tend to prioritize immediate liquidity, so that they can pay for day-to-day expenses and possible contingencies.

That is why it is very important to support entrepreneurs so that they improve their management capacity and financial planning. Microserfin does this by offering:

- Access to financing for vulnerable entrepreneurs.
- Financial education programs.
- Voluntary insurance products.

Access to financing for vulnerable entrepreneurs

Microserfin's loans are tailored to clients' needs and those of their businesses. Thus, clients start with a loan that averages around USD 1,100 and access amounts that grow gradually as their businesses expand, as they acquire financial skills and build up a good payment track record.

Furthermore, the amounts are adapted to clients' requirements and the surpluses their businesses generate in order to avoid issues with over-indebtedness. The average first loan disbursement is equivalent to double their monthly business surplus, rising to 2.9 for clients who have been with the institution for more than four years.

Enterprises' development is a complex process that changes over time. Clients' vulnerability adds another difficulty since they do not have enough of their own capital to invest in the business. In some cases, clients are even forced to sell assets to deal with contingent expenses. That is why it is important to work on long-term relationships with clients and mentor them in the management of their businesses. At the end of 2019, 47% of the portfolio had been banking with the institution for over three years; 10% had been Microserfin clients for 10 years or more.

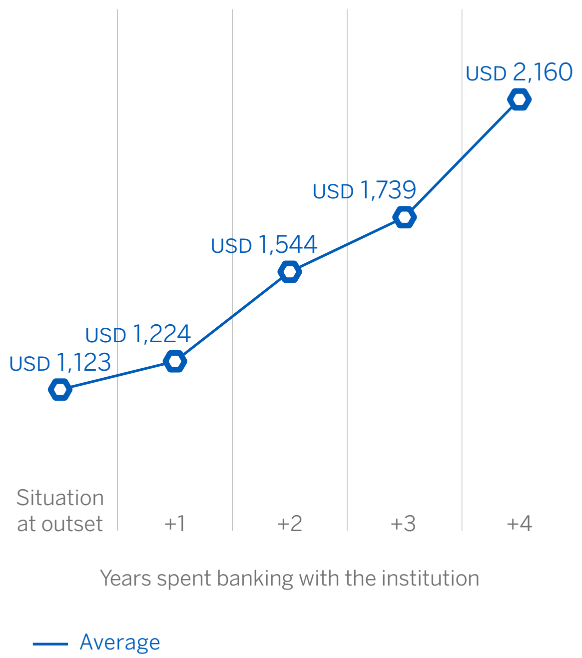
Financial education

Financial education helps clients to take good decisions to escape poverty and, once they have escaped it, to remain out of poverty for the long term. It also helps them to value the significance of financial services other than loans that are equally important in managing their businesses and their household economies.

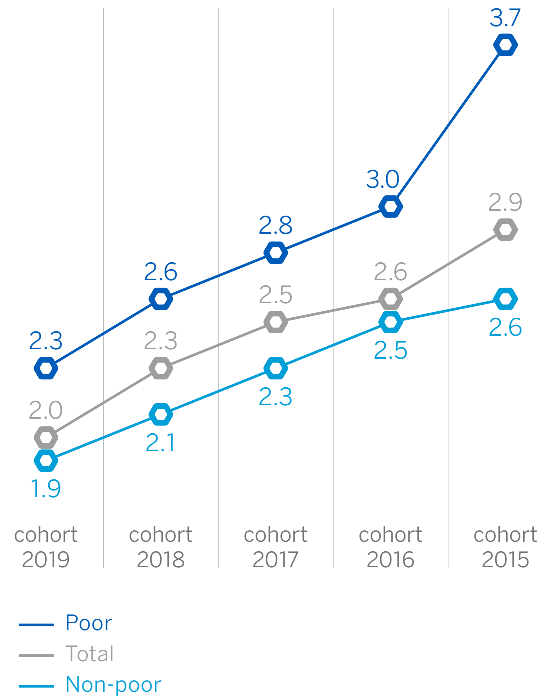
Branches and service points	Loan officers	People receiving financial education
27	97	5,127

(16) Clients in each cohort (entry year between 2014 and 2019) on each data collection date. The value at the outset is the average of the outset values (first disbursement by year of entry). Average growth observed in disbursements to groups of clients from the 2014-2019 cohorts is added to this initial value after one year, two years, etc.
(17) Clients current on 12.31.2019 segmented by year of entry and vulnerability.
(18) Breakdown of clients current on 12.31.2019 segmented by year of entry.

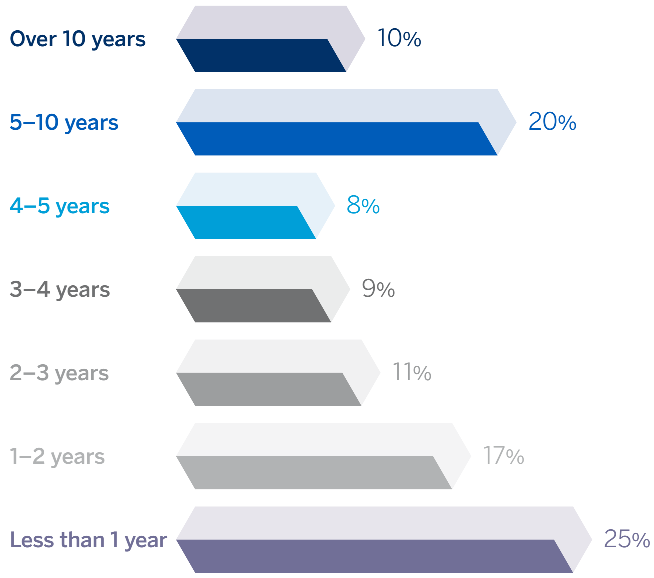
16 **GROWTH OF AVERAGE DISBURSEMENT**
Change, by duration of relationship



17 **AVG. DISBURSEMENT & INCOME RATIO**
Total credit clients



18 **CLIENT SENIORITY**
Total credit clients



Our clients' financial health

Insurance against contingencies

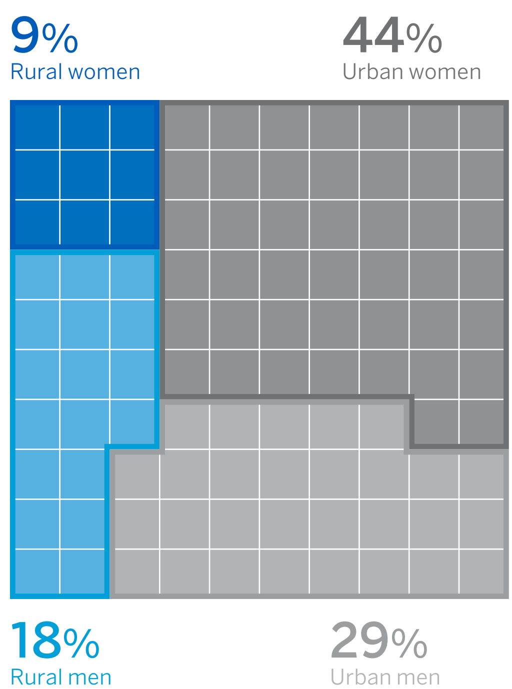
Being insured can be an enormous help in the event of contingencies, since it means that the finances of the business or household savings are not endangered.

Since November 2019, Microserfin has been encouraging the uptake of voluntary insurance products for its clients. The program, which consists of healthcare and farming cover, currently has 313 clients, mainly women in urban areas (44% of the total). Cover is taken out when a new loan is disbursed. 73% of clients who choose this service have had previous disbursements through Microserfin.

In urban areas, the cover is partly face-to-face and partly telephone assistance and advice, enabling clients and their families to access healthcare services. These services may be as basic as medical check-ups, access to ambulances or having a doctor go to their homes. They also include cover that is specifically designed for women, such as mammograms and Pap smear tests, together with access to gynecological medications. In rural areas, due to limited infrastructure that makes it difficult to get to healthcare services, assistance is given solely over the telephone and includes a complete range of farming and veterinary assistance, legal advice, pediatric and geriatric guidance, among others.

Microserfin is working to continue expanding its insurance offering, focusing on cover in the case of cancer diagnosis, and with a differentiated offering for women's specific needs.

(19) **CLIENTS WITH A VOLUNTARY INSURANCE PRODUCT**
Total insurance clients



(19) Breakdown of clients with a voluntary insurance product, by gender and surroundings.

Macroeconomic environment

Economy[1]

The Panamanian economy grew by 3.4% in 2019, slightly less than in 2018 (3.7%). This was the slowest rate of growth since 2009 and for the second year in a row has taken place amid a generalized fall in momentum in the country's most important sectors.

The leading sectors were fishing (–27.2%), manufacturing (–1.3%), trade (1.7%) and construction (1.6%). The last, which accounts for 18% of GDP, is one of the largest providers of employment (over 185,000 people), but nevertheless has suffered a slowdown in the last few years. This is explained by the culmination of significant infrastructure projects, both public and private, and the delay in the execution of new public works since the expansion of the canal.

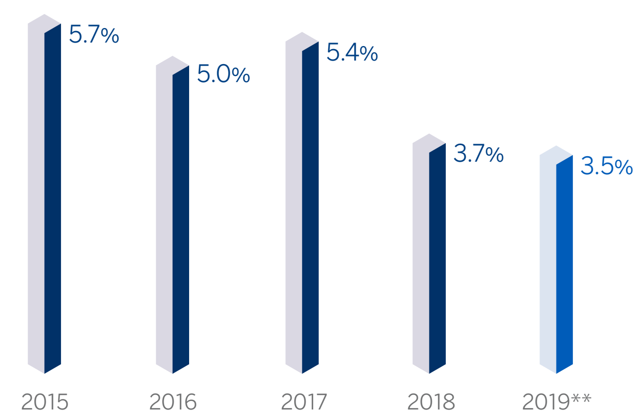
The rhythm of real estate activity has slowed in recent years. In 2019 it grew by just 1.2%, demonstrating the loss of momentum in a sector that drove the boom in demand in the luxury segment at the beginning of the decade.

Trade has also been more sluggish, essentially because of the fall in the sale of automotive vehicles, as well as reversals in the wholesale re-exporting of products in the Colon Free Trade Zone. This contrasts with the rise in retail trade, influenced by higher sales of food and drinks, which has enabled the sector to post positive figures.

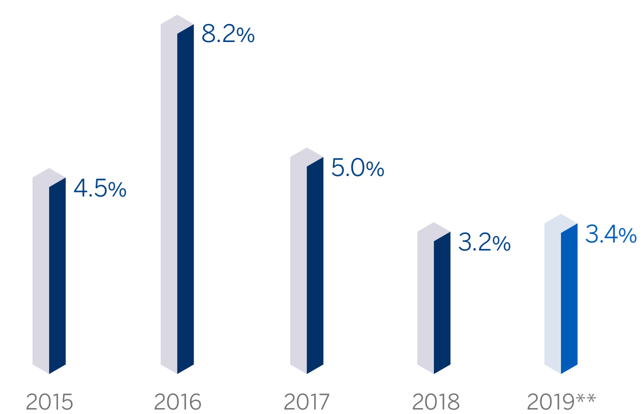
Fishing was the sector with the highest reverse, affected by the fall in exports of fresh, chilled, and frozen fish.

On the demand side, expansion in the government's consumption spending was cut by half (3.6%) compared to 2018. The rate of growth in investments (3.1%) recovered compared to 2018 (0.9%), although it was much lower than the average for the last eight years (10.4%). Private investments were the most dynamic.

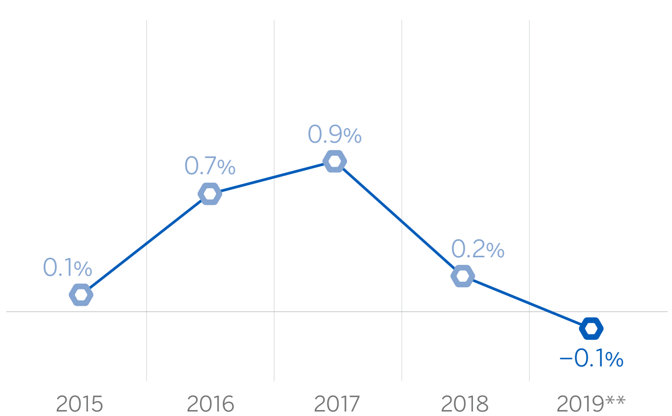
GDP*
Real variation (%)



CONSUMPTION*
Real variation (%)



INFLATION*
Real variation (%)



1. All data from the Instituto Nacional de Estadística y Censo [National Statistics & Census Institute (INEC)]. Estimates to the end of 2019 by BBVAMF Research.

* National Statistics & Census Institute (INEC).
** BBVAMF Research estimate.

Macroeconomic environment

Private consumption expanded overall by 3.2%. Total consumption accounted for 2.3 percentage points of GDP growth, while investment was responsible for 1.4 points. The external sector shaved off 0.2 percentage points from the annual growth rate due to the fall in exports.

Inflation was consistently weak throughout 2019, remaining below zero for most of the year, closing at –0.1% down from the year before. The annual average was –0.4%.

The sharpest contraction was in the transport sector (–1.8%) due to the reduction in the price of auto fuels. The communications sector posted a drop of 1%, while in clothing and footwear the fall of –1.4% was due to the strong dollar, which made products imported from other countries cheaper overall.

The group of food and non-alcoholic beverages experienced a slight variation (0.7%), while the categories with the highest inflation were restaurants and hospitality (1.5%), education (1.3%), and alcoholic beverages & tobacco (1.1%).

Between 2015 and 2018 Panama's average inflation rate was 0.5%, making it the country with the lowest inflation in the region.

Employment, poverty and welfare[2]

Unemployment continued to gain ground, rising from 6% in 2018 to 7.1% in 2019. By gender, the unemployment rate among men rose by 1 percentage point, while it expanded by 1.2 percentage points in the case of women. Male unemployment posted at 5.8% and women's unemployment at 8.8%, widening the gender gap by 3 percentage points, 50% higher from where it stood in 2015.

The labor participation rate was 66.5% nationally, representing an increase of 1.1 percentage points from the year before. By sex, there was no variation for men, whereas for women participation rose by 2.2 percentage points.

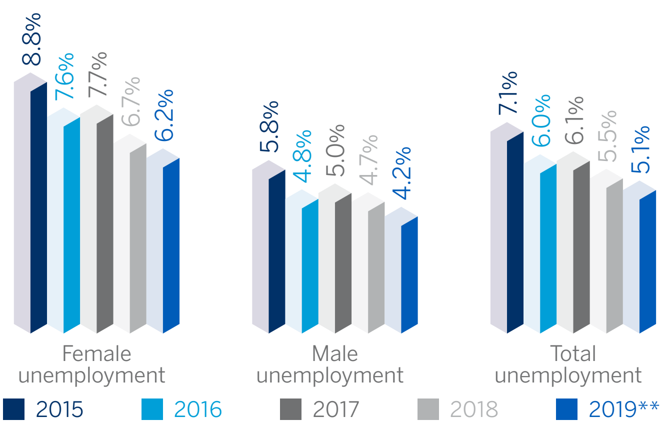
The labor participation rate recorded increases of 0.8 percentage points in urban areas and of 2.1 percentage points in the rural environment, posting a result of 65.9% for the urban area and 68.1% in the rural area.

57.9% of the employed population had full-time occupations, 29.1% part-time jobs and 13% were under-employed. Of those in work, 60.8% worked as employees, 30.8% were self-employed, 2.9% worked overseeing others and 5.5% worked within the family, in other words, without receiving any income or wage.

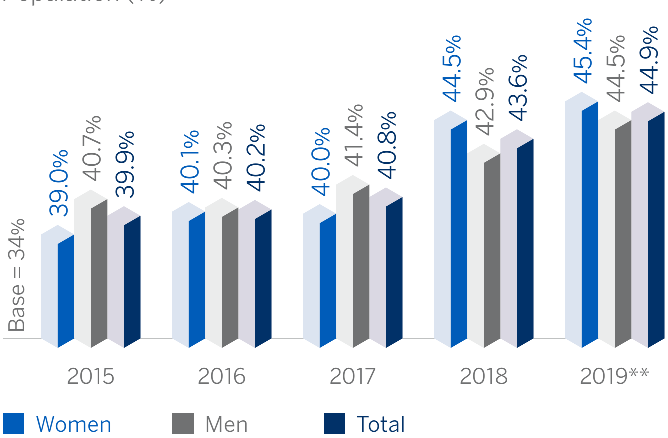
By areas, urban unemployment posted at 8.3%, compared to 4% in the rural environment. These percentages were higher by 1.2 and 0.8 points respectively than in 2018. The provinces with the highest unemployment rates were Colón (12.1%), West Panama (8.3%), and Panama (8.2%). The lowest rates were in the provinces of Los Santos (0.6%), Herrera (2.1%), and Darién (3.3%).

2. Data available from the National Statistics & Census Institute (INEC), Ministry of Economy & Finance and ECLAC. Estimates by BBVAMF Research.

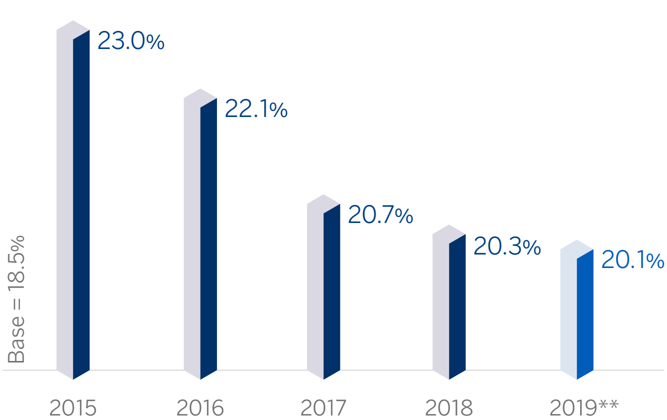
LABOR MARKET*
(%)



INFORMAL SECTOR*
Population (%)



MONETARY POVERTY***
Population (%)



44.9% of all employment was informal, an increase of 1.3 percentage points from 2018. By sex, more women (45.4%) were employed in the informal sector than men (44.5%).

In the indigenous districts, more than 85% of employment was informal, while the provinces of Darién (66.1%), Los Santos (55.7%), Bocas del Toro (55.2%), Coclé (54.5%), and Chiriquí (51.2%) had the highest rates of informal employment.

Around 20.1% of the Panamanian population was in a situation of monetary poverty. However, this percentage has fallen by 2.9 points in the last five years. Between 2015 and the end of 2019, around 78,300 people escaped poverty, with the greatest poverty reductions occurring in rural areas and indigenous districts.

* Source: National Statistics & Census Institute (INEC).
** BBVAMF Research estimate.
*** Source: Ministry of Economy & Finance.

Chile

Social Performance Report **2019**

Fondo Esperanza

Emprende Microfinanzas

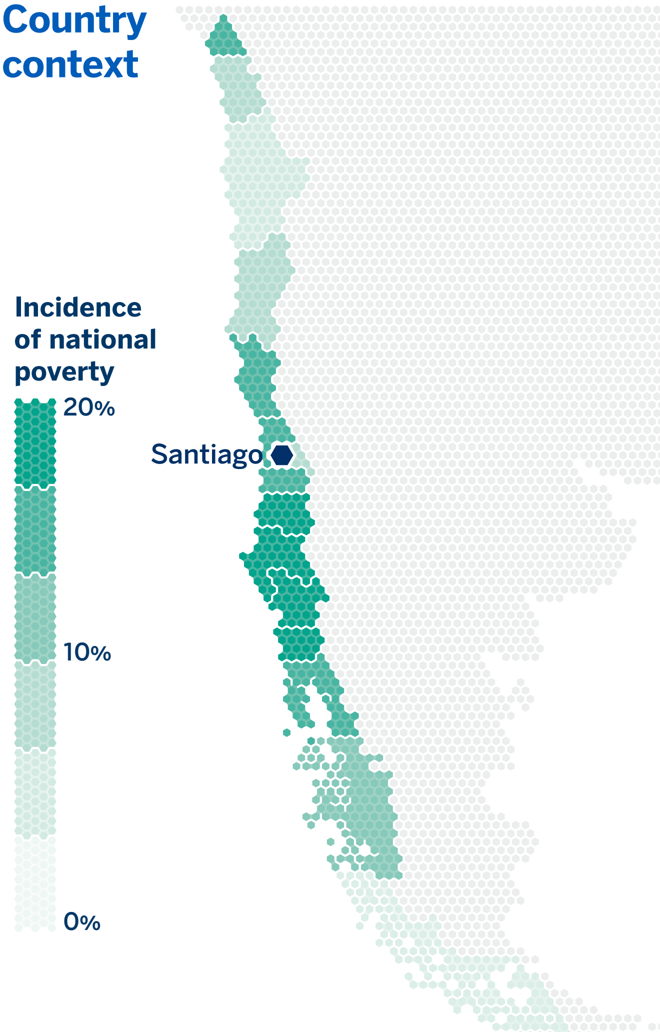
Chile

Fondo Esperanza

Informe de Desempeño Social **2019**

Empowering the vulnerable so that they go further

Country context



128,090 clients served in total

91% vulnerable

81% women

11% rural environment

33% primary education at best

13% older people (>60 years old)

14% young people (< 30 years old)

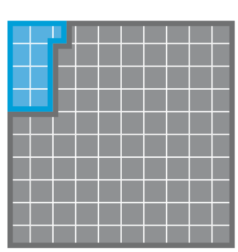
91% of these businesses generate under USD 10 a day (and so are vulnerable).

The principal cause of vulnerability is income instability. The challenge is to make incomes more robust and to plan for the future.

They become entrepreneurs to improve their economic situation

National poverty rate[1]

8.6%



Gini index[2]

0.4

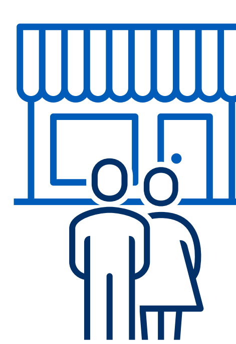
26%

of adults in Chile are unbanked[3]

44% Sales
Annual growth rate

54% Net incomes
Annual growth rate

BUSINESSES



85% Raise their incomes
Eight in ten clients who took out a loan in 2019 have raised their income since the previous loan.

HOUSEHOLDS

Financial health is essential to improve their capacity to deal with shocks and so that people can save towards a more stable future.

Well managed lending

Average loan
For all clients served in 2019:
USD **839**

There is potential for greater saving

38% of clients have the capacity to generate small savings.

Levers for improvement: create incentives for good habits and increase financial knowhow.

155,651
people received financial education

Generating incomes, together with solid financial management, makes it possible to improve household standards of living and create jobs.

7%
of clients improve their housing conditions within two years.

4%
of clients create new jobs within three years.

Indirect impact

(1) Ministry of Social Development, Casen Survey 2017.
(2) ECLAC, 2017. 1 = maximum inequality, 0 = perfect equality.
(3) Global Findex, 2017. World Bank.

Introduction

The social unrest in the last quarter slowed economic growth, which ended the year with a rise of 1%, forcing up inflation (3%), unemployment (7%) and the informal sector. Nevertheless, Chile remains the Latin American country that has achieved most in reducing poverty, which has hovered in the last few years at around 20.5%.

In 2019 the Chilean economy slowed its growth, expanding by 1%, compared to 4% in 2018. The main reason for this slowdown was the sharp shock on both supply and demand, associated with the events in the last quarter which triggered a shutdown of activity. This passed through into GDP, which fell by 2.5% year on year, despite having grown 2.3% in the first nine months of the year.

Between October and November, which concentrated most of the protests and disturbances, activity contracted by an average of 3.4%. By December there was timid expansion of 0.6%.

Non-mining activities suffered the greatest contraction, an outcome of the disruption to activities (damage to facilities, difficulties in moving workers and a reduction in operating hours). The sharpest falls were in services, trade and industry, and manufacturing.

Against this backdrop, inflation closed the year at 3% (2.6% in 2018). The peso's brusque depreciation and volatility in the final quarter was a contributing factor to the rise in prices of tradable products, doubling the rate of inflation on those goods compared to September. This in turn had an impact on headline inflation.

The central bank's monetary policy was designed to maintain an expansionary position, with a cut in the rate of 50 bp and two further cuts of 25 bp, taking it from 3% to 1.75% by year-end.

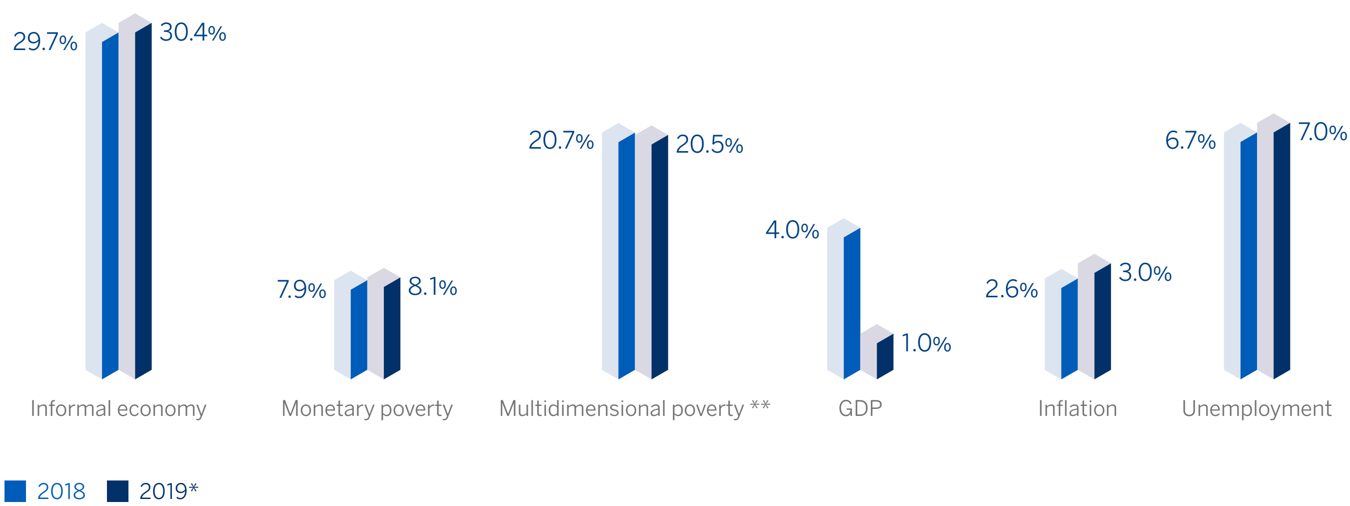
The unemployment rate rose by 0.3 percentage points to 7%. Male unemployment was 6.5%, having edged up by 0.1 pp, while female unemployment rate posted at 7.7%, a rise of 0.2 pp.

Around 30.4% of jobs were in the informal sector of the economy, an increase of 0.7 pp from the previous year. The rate of informal employment among men was 29.4%, an increase of 0.9 pp, while for women it reached 31.9%, a rise of 0.6 pp.

According to recent economic performance, our estimates of poverty levels by income were 7.9% for 2018 and 8.1% in 2019. That is, a net reduction of 36,367 people (8.6%) in poverty since 2017, despite the increase in the last year of 66,323 people in this predicament.

In recent years we have seen how this 5-dimensional indicator has got stuck and has not followed the population's improvement in purely monetary poverty terms. At the previous measurement in 2017 it remained at 20.7% and according to our own estimate in 2019 it has remained at 20.5%.

MACROECONOMIC DATA



According to the Economic Commission for Latin America and the Caribbean (ECLAC), in Latin America Chile is the country that has reduced poverty the most in recent years. However, there are many people who are still in poverty or vulnerability, both economic and social. Although inequality has improved in recent years, it remains a problem that affects millions of people.

The greatest reductions in inequality are connected to the increased incomes from work going into the households with the least resources. Nevertheless, more labor policies should be put in place since the informal sector is still flourishing. As such, support so that entrepreneurs can fashion a future for themselves, and mentoring their development towards the formal sector represents an excellent opportunity.

Of the three institutions in Chile that focus exclusively on vulnerable entrepreneurs, Fondo Esperanza SpA. (Fondo Esperanza) —with over 120 thousand clients— serves around 70% of all of them (approximately 170 thousand clients).

There is room for improvement in integrating women, in the context of the work that is being done for their financial inclusion across the world. Chile (nº 11 in the 2019 Global Microscope) is the only country in the ranking to have collected this type of data for over a decade. Nevertheless, the mere gathering of disaggregated data has not led to a reduction in the gender gap in terms of access to the financial system; this gap, according to Findex, widened from 2% to 6% between 2011 and 2017.

KEY FIGURES

Total number of clients	**128,090**
Number of disbursements in 2019	330,622
Gross portfolio (USD)	**82,268,584**
Average disbursement in 2019 (USD)	839
Amount disbursed in 2019 (USD)	**20,501,847**
Number of employees	619
Number of branches	56
People receiving financial education	155,651

* BBVAMF Research estimate.
** The 2018 figure is from the latest Casen survey, for 2017.

Introduction

One of the financial inclusion strategies used by Fondo Esperanza (FE) is to have clear priorities on gender. 74% of new clients served in 2019 were women. It is they who have the smallest enterprises and the lowest levels of specialized training. That is why not only do we smooth the way to their accessing financing, but with our School for Entrepreneurs we also support their training, empowerment, and network building.

The School for Entrepreneurs provides a complete education program. This mentors entrepreneurs throughout their journey in the group lending segment, going beyond financial education and business development, including the dimensions of empowerment and gender, family welfare and social capital, among others.

In addition, Fondo Esperanza has made a commitment to support its entrepreneurs with digital tools. *Somos FE* is an innovative mobile app that is unique in the microfinance system, created to form a community, which already has nearly 19,000 members (15% of the total portfolio). Both FE clients and the institution's employees can interact on the app (posting information, offering products and services, making comments, interacting with other users, and staying informed about what is going on). It was designed to generate new business opportunities, increasing their scope, and creating a virtual space to develop brand identities, manage customer relationships and find new suppliers.

Support networks are a necessary component of entrepreneurs' development. They are created by using technology platforms to bring new ways of communicating and of generating new markets.

Social policies are fundamental for the welfare of the vulnerable population and these, when combined with targeted programs, are key forms of overcoming poverty. Nevertheless, the challenge consists of generating surpluses that enable families to earn enough income, bearing in mind the cost of living.

The poverty line set by official bodies is based on the standard of living in Chile, instead of the cost (on a relative measure) of foodstuffs, goods and services, as is the case in the remaining countries in the region. It also varies according to the size of the household, on the assumption that there are shared costs and that these must be divided between each member of the household. So, whereas the basic food basket is USD 59, the extreme poverty line is USD 150 and the poverty line is USD 225.[1]

New clients served by Fondo Esperanza in 2019 had average monthly incomes per household member of USD 192, that is, three times the basic monthly food basket.

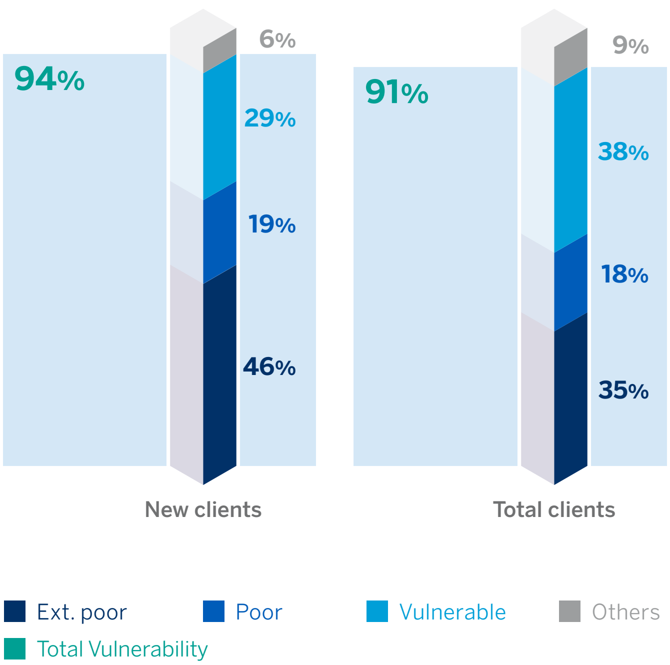
In 2019, 46% of new clients were under the extreme poverty line. This line represents the cost of food, goods and services classified as basic depending on that country's standard of living.

1. Poverty lines published by the Social Development Ministry, updated using the official CPI at year end. The basic basket of goods cost CLP 44,518. http://observatorio. ministeriodesarrollosocial. gob.cl/layout/doc/ipc/Valor_CBA_y_ LPs_19.12.pdf

19% of the new entrepreneurs served this year are classified as poor. Their businesses generate monthly incomes of under USD 131 on average for each household member. Those that manage to overcome the poverty threshold face the challenge of stabilizing these incomes, since they have a high likelihood of having to deal with financial stress in the event of any contingency. These clients are termed vulnerable. The amount set as the borderline for this vulnerability category is three times the poverty line (USD 675), since it has been shown that the probability of falling below it when monthly incomes are higher than this amount is under 10%. 29% of clients served for the first time in 2019 were classified as vulnerable.

Fondo Esperanza serves 128,090 entrepreneurs in total, of whom 91% are in vulnerability, so we need to support them and help them overcome this situation. Our service model involves accompanying them on a permanent basis, financial education, and the creation of support networks and sales channels through group sessions where entrepreneurs can cooperate with other entrepreneurs in similar situations and forge partnerships for the future.

CLIENT ECONOMIC VULNERABILITY*



PRICE OF THE BASIC BASKET

* According to the Social Development Ministry's poverty line (new methodology), by household size. Clients whose net income per capita (estimated as the net business income divided by the size of the household) is above the poverty line for each household size, but below the threshold calculated by multiplying the poverty line figure by three are classified as vulnerable.

The vulnerable clients we serve

Profile of our clients

Fondo Esperanza closed a difficult and turbulent 2019 supporting over 125 thousand entrepreneurs, most of them women. They all present a profile of economic and social vulnerability that made it difficult for them to get hold of the resources that would enable them to get ahead. In the last quarter, the country's overall situation affected entrepreneurs (see the end of the section ‘Social crisis in Chile’), with loan origination shrinking by 14% compared to the same quarter in 2018.

81% of the entrepreneurs with Fondo Esperanza are women (74% of new clients). What is more, 50% of them are heads of their household, so their incomes are the household's main source of money.

They encounter greater barriers to accessing the labor market and to finding a paid job that is compatible with their jobs at home, so entrepreneurship is a solid opportunity to obtain their own source of income. These are the most common client profiles:

- **34% of the total:** Urban women between 30 and 60 years old, who live in large households (more than three people). 34% of new clients fit this profile and 8 out of 10 have incomes that are below the poverty line. They have received less education than younger cohorts. A large proportion work in production/transformation activities (such as bakeries) and trade (e.g. selling clothes).
- **27% of the total:** Women with the same characteristics as the previous segment except with smaller households. In this group 63% are in poverty, since smaller families also means lower financial burdens.
- **28% of the total:** young women with higher levels of education and, although 79% have businesses that generate incomes under the poverty line, their outlook is more positive. This is because, as well as being better educated, a higher percentage work in the service sector, which generates higher margins.

Most of the women entrepreneurs served state that they set up their business to earn an income (42%) or because they saw a business opportunity (16%). Nevertheless, 14% declare that the reason for setting up an enterprise was to be able to look after their children and family members at the same time. Male entrepreneurs only give this reason in 2% of cases.

Another aspect that should be noted is the institution's focus on the country's poorest regions (11% of new clients live in rural areas) and on clients with low levels of education (25% of new clients have primary education at best). This issue is significant in a country with high levels of education. Those who have only primary education or fewer qualifications encounter more barriers to accessing the labor market, and the percentage of those with an account in a financial institution falls by 20 percentage points to 54%.[2]

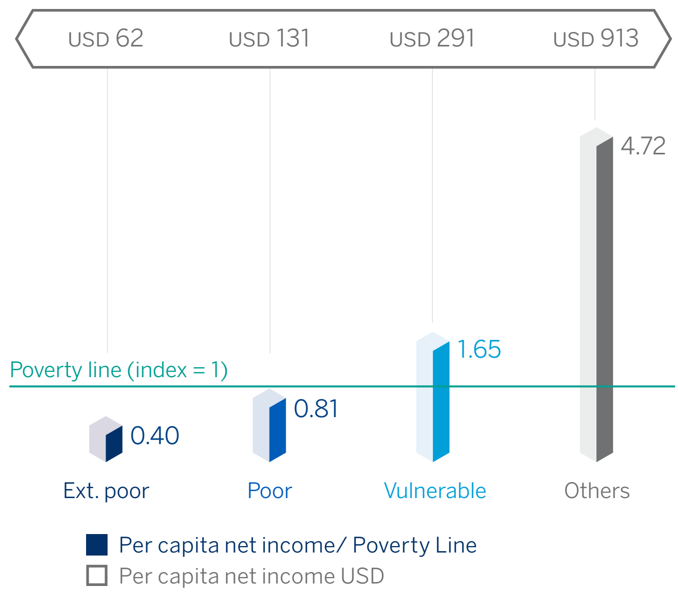
94% of new entrepreneurs served in 2019 were in a situation of vulnerability.

2. Global Findex 2017.

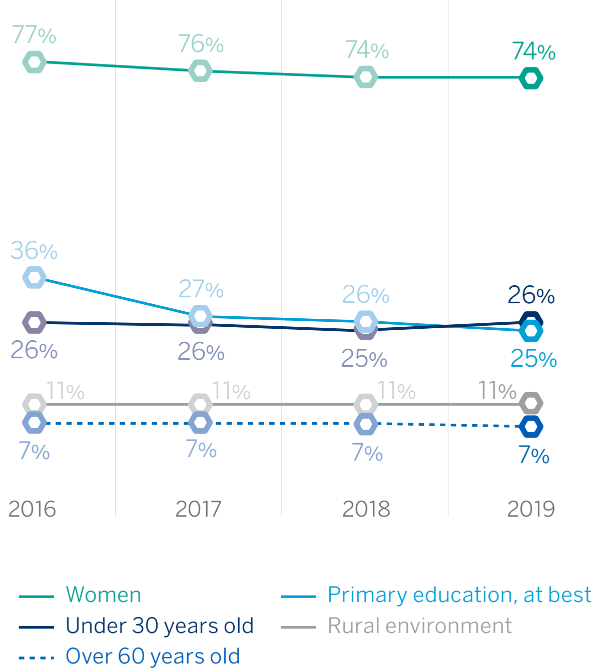
(1) New clients during the year (without previous loans). Vulnerability: Clients whose per capita surplus (business surplus divided by the number of people in the household) is above the country's official poverty line, but less than three times that line.
(2) According to the country's official poverty lines. New clients during the year (without previous loans).
(3) New clients during the year (without previous loans).

1 NEW CREDIT CLIENTS
New credit clients by year of entry

2 ENTREPRENEURS' INCOME
Income of segment over poverty line



3 NEW CLIENT PROFILE
New clients by year of entry (%)



4 SEGMENT OF MOST REPRESENTATIVE CLIENTS
New credit clients

	Poor	Primary educ. at best	Working in Prod./transf.
Urban women between 30-60 y/o with large household	82%	26%	36%
Urban women between 30-60 y/o with avg. household or single	63%	26%	34%
Young women	79%	15%	24%

% Portfolio:

Urban women between 30-60 y/o with large household: **34**%
Urban women between 30-60 y/o with avg. household or single: **27**%
Young women: **28**% | Rest: **11**%

The vulnerable clients we serve

We prioritize our support for women entrepreneurs

The situation of women in Chile
According to the 2017 CASEN survey, 42.4% of Chilean households have a woman at their head. 9.2% of them live below the poverty line, and 16.5% in multidimensional poverty, the worst shortfalls occurring in educational attainment, social security, decent housing and equal rights. With these deficiencies the search for a formal job as an employee of others is harder so for many women entrepreneurship offers them the possibility of earning their living.

Female participation in the labor market is 48.9%, a gap of 22.7 pp with men.

The 2020 Gender Gap puts Chile at number 57; it comes last in terms of the rate of women's economic participation. Of the 1.9 million entrepreneurs that exist in Chile, according to the Microentrepreneurship survey (EME), only 39.2% are women. This figure shows the disparities in labor occupation between the sexes.

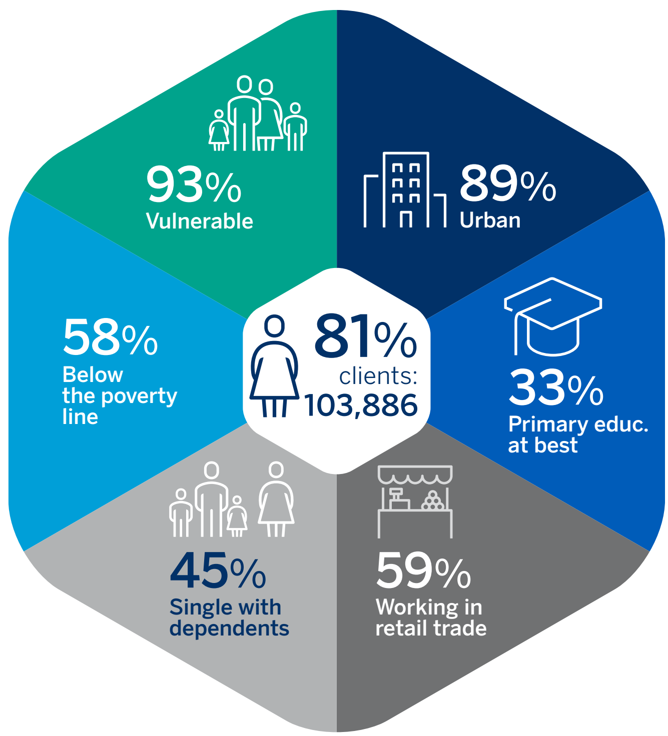
Profile of our women clients

Of our total client portfolio, currently 81% are women, which equates to 101,840 people. If we look at the new clients who joined us during 2019, 74% are women. That amounts to 32,199 new women members, the vast majority of whom (96%) are in economic vulnerability.

"Since I started with Fondo Esperanza I feel they have my back. What they taught me helped me a lot in my catering business. Now I write everything down and I know what money I have left, and what I can spend. I only wanted to work, because at my age nobody would give me a job. I feel alive."

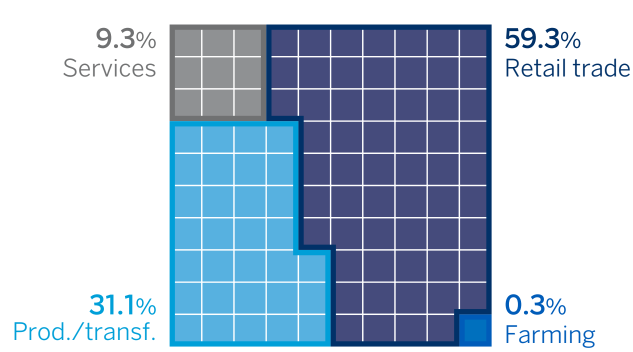
Gladys Chacana, 73-year old member.
Fondo Esperanza - Oficina Calama.

THE WOMEN IN FONDO ESPERANZA
Total current clients



THE PROFILE OF FONDO ESPERANZA'S WOMEN CLIENTS
All credit clients

ACTIVITY SECTOR



Value offering

- **Social and financial inclusion, through the Integrated Microfinance Service.**
- **When their abilities are acknowledged and strengthened, women entrepreneurs develop their businesses.**

Group Lending (GL) methodology makes it possible for our members to generate social capital by working together with groups of entrepreneurs who share their experiences in safe spaces. This encourages the formation of support networks and the advancement of some members, who become points of reference in the community. Clients develop leadership abilities, both personal and as a group, that are materialized in the lending groups' management positions.

This boosts the development of entrepreneurs' economic independence, enabling them to generate their own incomes, decide on the credit amounts they should apply for (these are managed by the group), and carry out business activities themselves, exercising their economic rights. The School for Entrepreneurs teaches them about gender and family issues, and makes sure that the gender approach is included throughout the network:
it addresses roles and co-responsibility, and strengthens female empowerment and their capacity to take important decisions, both family and business-related.

Partnership with FALP: Breast cancer prevention

Goal: To generate a partnership that fosters preventive access and early detection of breast cancer for our members. Over 4 thousand women a year are diagnosed with cancer in Chile. Many of these could be cured if they were detected and treated in time.
Description: We are building a collaboration partnership between the Arturo López Pérez Southbridge Foundation (FALP) and FE.
We choose three communes where the FALP mobile clinic carries out free explorations at a neighborhood meeting point.
- We invite members who are older than 40 and with a track record in the family of cancer.
- We allocate time slots so that members can attend the appointment.
- We deliver the results, respecting every member's confidentiality.

Needs met: Caring for and maintaining good health.

Sin Ataduras [Unbound] Women's Goal Lending Group

Goal: To provide opportunities to women in prison so that they can develop their enterprises. They are given access to financing and training in an inclusive space where they develop a feeling of belonging to facilitate their future social and economic reintegration.
Description: Only 8% of Chile's prison population is made up of women. However, the rate at which they are being locked up has increased more than that of men. The penitentiary system has multiple deficiencies in terms of physical infrastructure, management, opportunities for training and work, etc. This has left women in conditions of greater vulnerability. That is why we created a Lending Group inside the prison so that they can move on with their enterprises in mosaic artisan work, manicures, dress making, and baking.
Needs met: Empowerment, support networks, opportunities for social reintegration.

Mujeres Emprendedoras Conectadas [Connected Entrepreneurial Women]

Goal: Providing a chance for our members to access the digital world, making the new online opportunities and marketing channels known to them, and strengthening their IT abilities and digital empowerment.
Description: The *Mujeres Emprendedoras Conectadas* program consists of digital marketing courses developed by the Kodea Foundation. FE members interested in finding out about the online world of work can attend.
The headline subjects in the course are:
- Marketing and sales on digital channels.
- Online sales through electronic trading platforms and social media.
- Office solutions and payment for products.

Needs met: Educational development, empowerment, and networking.

The vulnerable clients we serve

Their business profiles

Most of Fondo Esperanza's clients, who are predominantly women, are involved in retail trade (small stores, foodstuffs, etc). Trade is an efficient and relatively easy way of working from home. Indeed, 39% of clients work from their homes.

Over the last few years, a larger proportion of clients (30% of the total) have been working in production and transformation (such as bakeries, footwear workshops), especially older women (>60 years old) and, to a lesser degree, in services (11%).

Younger entrepreneurs, who are more educated, are more inclined to work in the services sector, as are men in general. Businesses in this sector do not generate more sales than in others but, since their operating expenses are lower, final net incomes are higher (margins of 41% compared to 28% in trade). These services are likely to require more infrastructure and/or technical skills, so barriers to entry are higher.

Younger clients (27%) not only have more education but, according to the Microenterprise Survey (EME 2017), they have higher connectivity with the internet and all the services that implies. This in turn means that it is possible to create new business models.

The 2017 EME ratifies that Chilean enterprises managed by young people use the internet more.

Lack of clients and of financing were viewed as the biggest obstacles affecting business growth between 2015 (EME 4) and 2017 (EME 5).

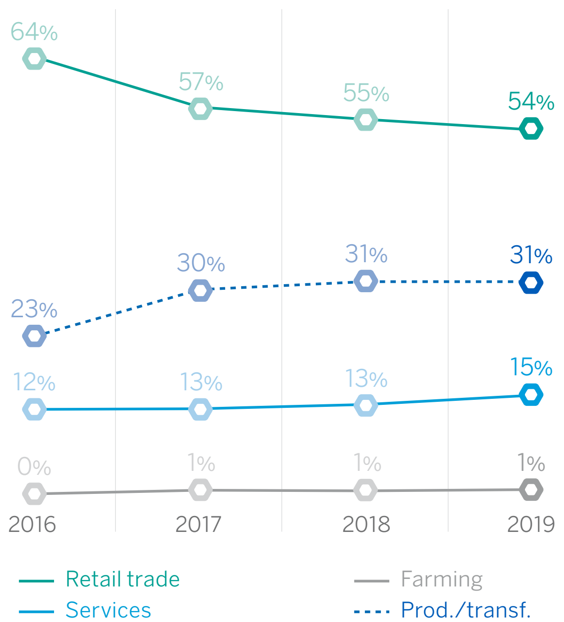
Fondo Esperanza is completing its financial offering with new tools such as its *Somos Fe* app, that foster exchange and commercial transactions between clients.

90% of loans are spent on buying merchandise or inputs, to generate short-term revenues.

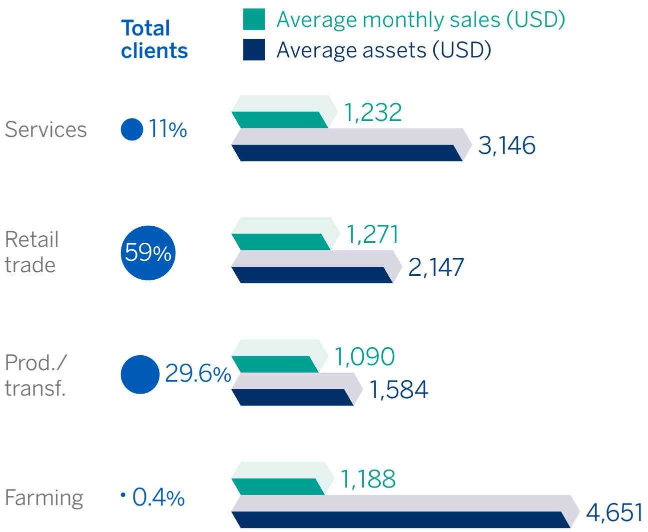
Most clients work in retail trade, but production and transformation businesses are playing a bigger role. The youngest clients, who are better educated, opt for businesses in the service industry.

(5) New clients during the year (no previous loans).
(6) Data on average monthly sales and average assets in each sector.
(7) Ratios of average costs over sales (o/sales) in each sector. Net income is taken after payment of the financial installment.
(8) Number of employees in our current clients' businesses on 12.31.2019.

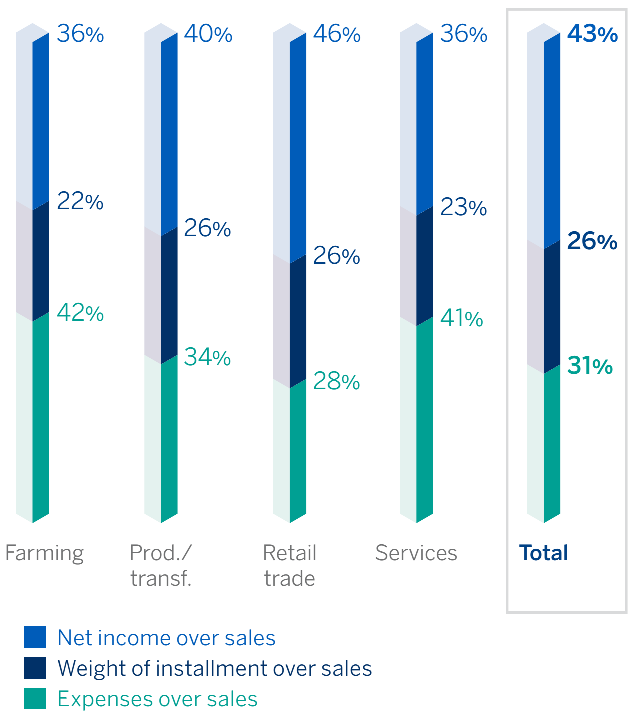
5 ACTIVITY SECTOR
New clients by year of outset (%)



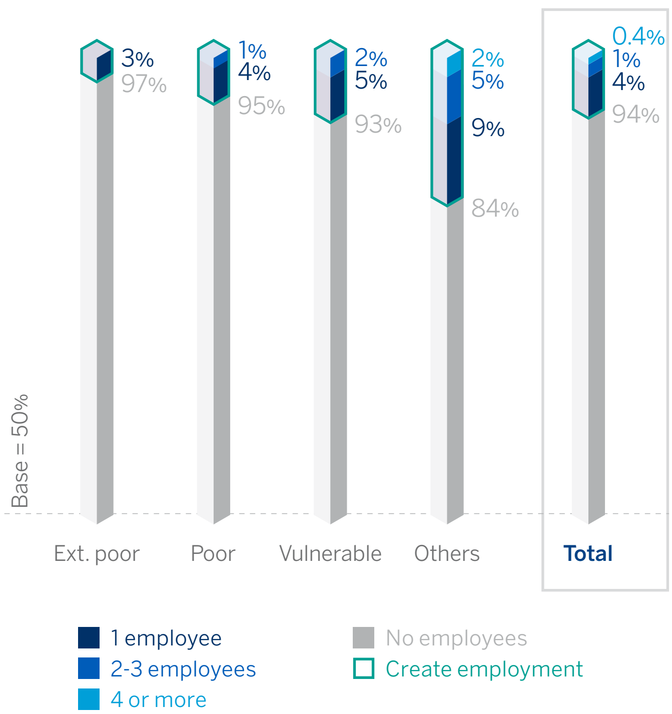
6 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients



7 P&L- MARGINS OVER SALES
Total credit clients



8 SOURCE OF EMPLOYMENT
Clients according to nº of employees in their business



The vulnerable clients we serve

Their business expansion

Fondo Esperanza is known for its close-contact support and mentoring of clients by means of its Group Lending meetings, the groups which clients form and which act as joint guarantors.[3] Their methodology is to grant small, short-term loans (three and a half months to seven), gradually increasing the principals and the periods as clients develop their businesses.

Given the small size of the enterprises and the limits of their potential, the financial volumes, surpluses, and assets grow at very fast rates, enabling a high number of clients to raise their living standards. To give an idea, women's monthly net incomes (USD 763) are double the cost of a one-bedroom apartment on the outskirts of the city (USD 339).[4] Men's incomes are higher (USD 1,074).

Fondo Esperanza works to provide a value offering that is differentiated and tailored to entrepreneurs, enabling them to understand all the dimensions and mentoring them on their progress.

This reflects the enormous amount of hard work put in by these entrepreneurs and the impact that access to financial resources can have on their sales and their net incomes. We can also see how the growth they enjoy can be a huge boost for their domestic economy.

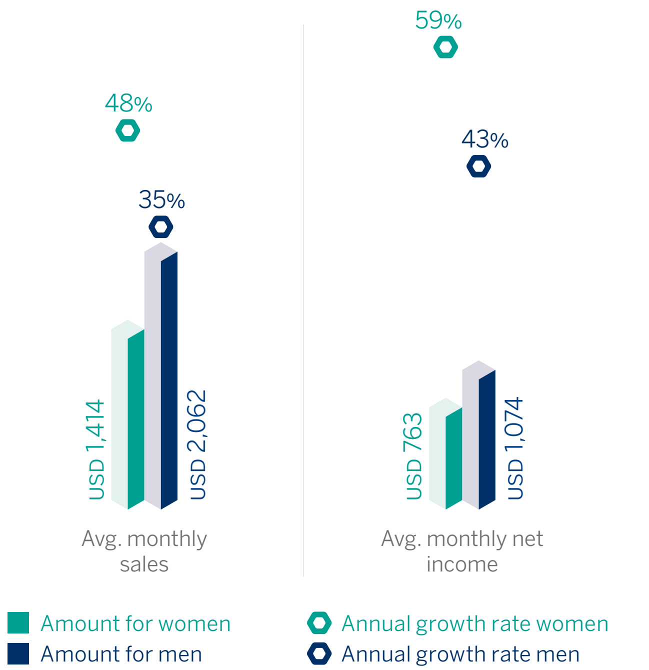
The data shows us that, although businesses in the production and transformation sector are slightly smaller than those in other sectors, they grow somewhat faster. Therefore, the number of clients working in this industry is increasing too.

The challenge for microenterprises lies in increasing their size and innovation to become more productive and achieve economies of scale, which entails training those managing these businesses. Fondo Esperanza offers an 18-module education program with three sessions on average in each module. Its aim is to mentor clients to make this qualitative business leap.

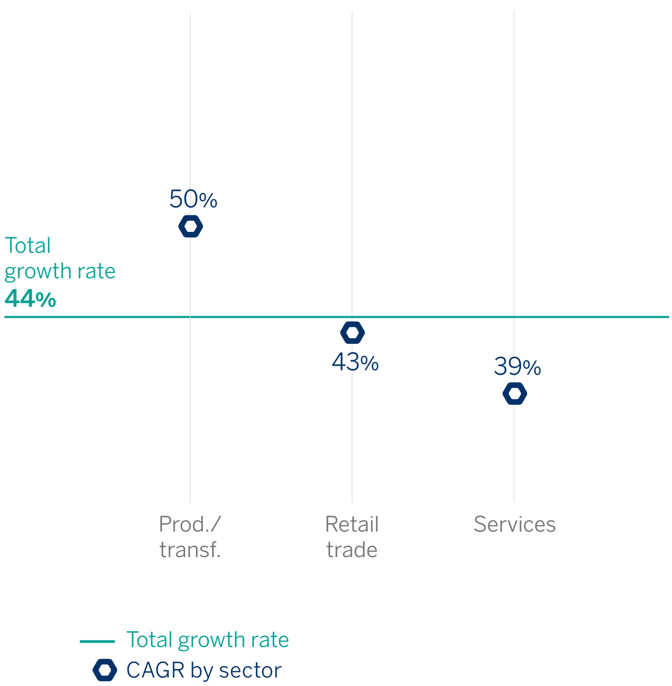
3. Also known as community banking.
4. Preciosmundi.com

(9)(10)(11) Data on clients current at some point over the year and who have rolled over a product in the last 12 months with the institution (hereinafter "renewing clients"). Monthly average sales and net incomes. All values are on the date of the latest loan disbursement. The compound annual growth rate (CAGR) for cohorts (entry year) between 2015 and 2019 was used for the calculation, taking the weighted average of these rates for each gender.
(12) For the sample of clients served during 2019 —classified according to their situation when they took out their first loan— net income per capita at each credit cycle is shown, relative to each country's poverty line (current in the year of the disbursement). Relative per capita net income has a value of 1 when it is the same as the poverty line figure.

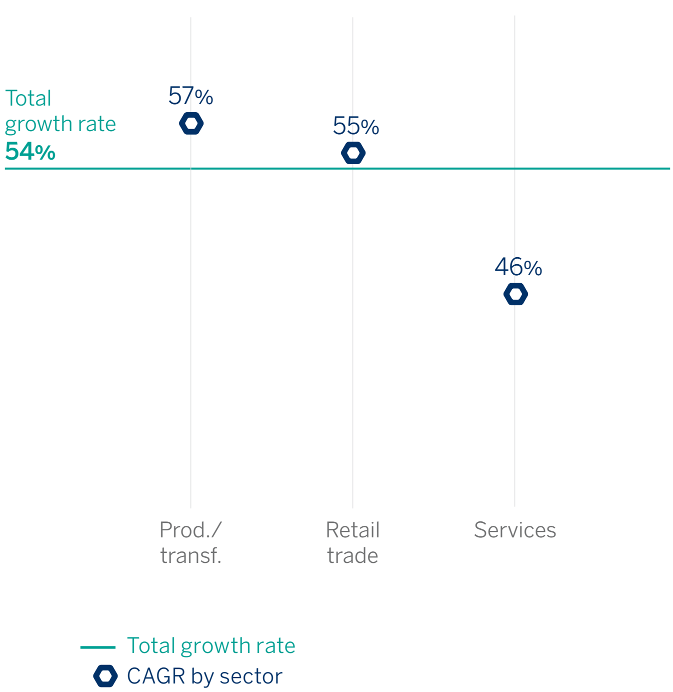
9 **GROWTH IN FINANCIAL VOLUMES, BY GENDER**
Compound annual growth rates



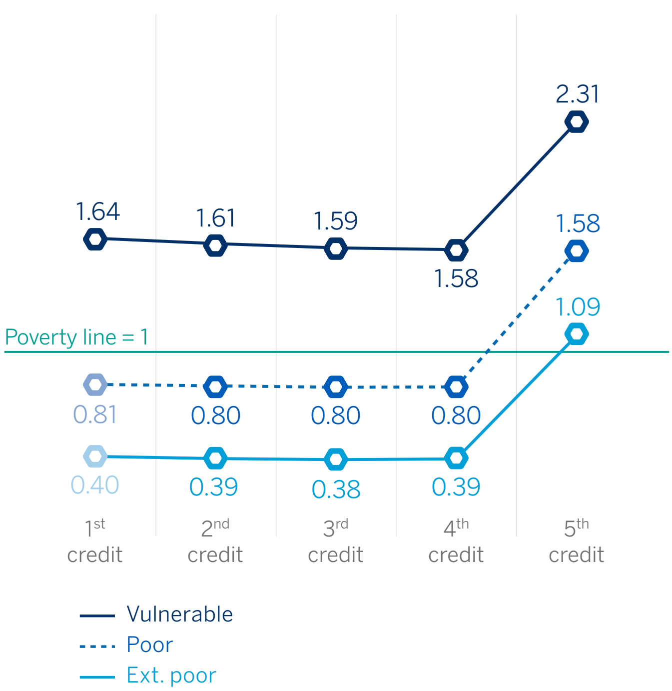
10 **SALES GROWTH**
Compound annual growth rates



11 **GROWTH IN NET INCOME**
Compound annual growth rates



12 **GROWTH IN INCOME**
Income of segment over poverty line



Our clients' development

Escaping poverty

A high proportion of entrepreneurs, through their own hard work and by overcoming difficulties, have succeeded in increasing their incomes, reinvesting in assets, and improving their surpluses. In the measuring model we use, the client must be observed at least twice to check their progress. With the group lending meetings, Fondo Esperanza's monitoring is continuous, although the financial information is updated every 18 months (on average), which coincides with the fifth credit cycle. This period (around a year and a half of development) represents a sufficiently long timeline to be able to observe their development.

So, when we note income growth (business surplus divided between each family member), we see that in the period between the first and the fifth cycle, on average, both those entrepreneurs with incomes below the basic food basket (extremely poor) and clients in poverty increase their revenues and manage to get them above the poverty line.

The segment of clients in poverty falls by 49% after two years. Entrepreneurs' experience is a determining factor. Young people have lower rates of overcoming poverty than those with more experience, and the over 50s segment performs best (see diagram 13). Development hangs on many factors. Experience and time invested developing an activity seem to be differential factors, but we need to find other areas where the institution can have a part in strengthening this progress.

Indirect impact

The impact of their businesses on clients' immediate surroundings can be multiplied when jobs are created, whether it is taking on family members or other people in the community. Providing employment broadens development. In Chile only 17% of microenterprises manage to create employment, with the remaining 83%[5] self-employ only, which highlights the exceptional achievement of those microenterprises that manage to grow and gain scale. The turbulent past year has had an effect on our entrepreneurs' businesses. Currently only 6% of clients are managing to employ other people in their company.

The official multidimensional poverty measurements taken by public-sector bodies (CASEN Survey, 2017) reveal, too, the important part played by housing shortfalls in Chilean society. Of clients with an unmet basic need, 29% of these are due to something relating to their home (particularly as regards whether it is fit to live in).

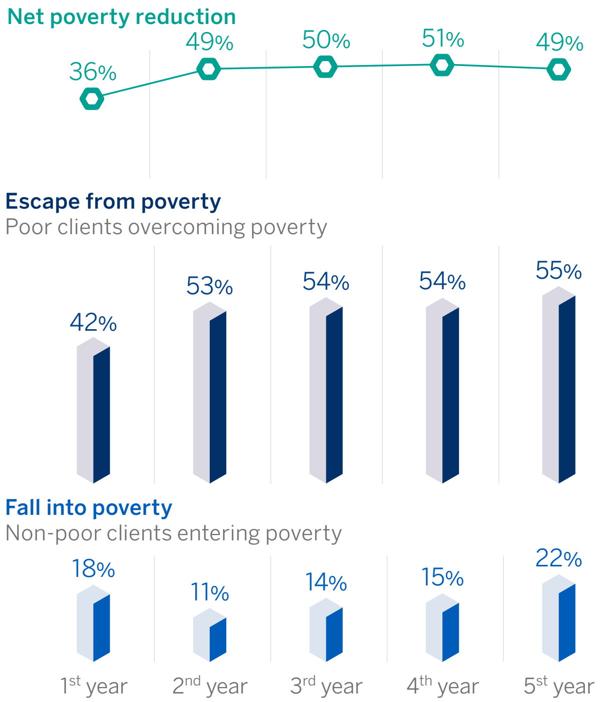
Fondo Esperanza clients have been able to implement improvements in their homes, increasing standards of living for their whole family. After four years banking with the institution, 7% of clients have made improvements which, while they may appear modest, have a huge impact for their households.

(13) Renewing clients. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.
• **Escape from poverty:** Clients in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.
• **Entry into poverty:** Clients not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.
• **Net reduction:** Escape from poverty minus entry into poverty.
(14) Renewing clients.
• **Escape from poverty for each segment:** Clients in each poverty segment at the outset of their relationship with the institution (classified as extremely poor or poor), who have generated incomes above the poverty line.

(15) Increase since the outset in the number of employees in the business, for clients current on 12.31.2019. Averages from 2015-2019 cohorts.
(16) Proportion of clients current on 12.31.2019 in each cohort who have upgraded their housing (from living in the parental home to their own or from renting to owning). The proportion from cohorts 2015-2019 is shown.

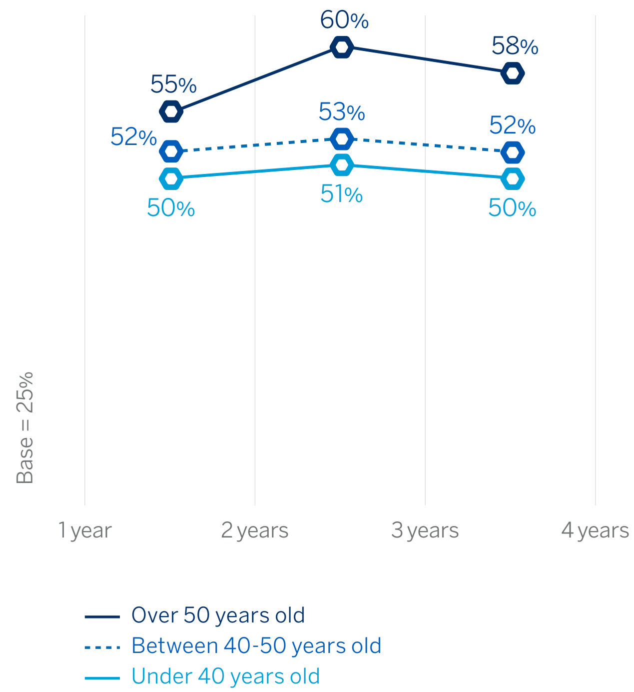
5. INE, 5th Microenterprise Survey, 2017.

13 VARIATION IN POVERTY SEGMENT



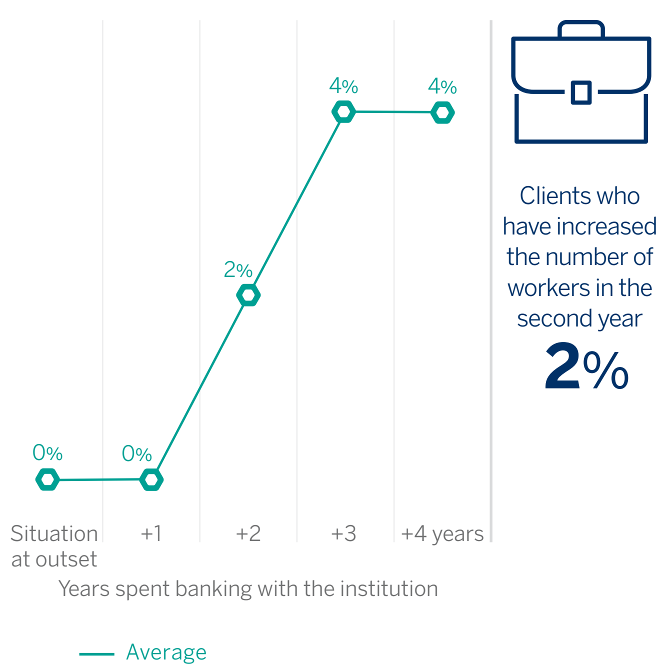
14 ESCAPE FROM POVERTY BY SEGMENT

Poor clients overcoming poverty



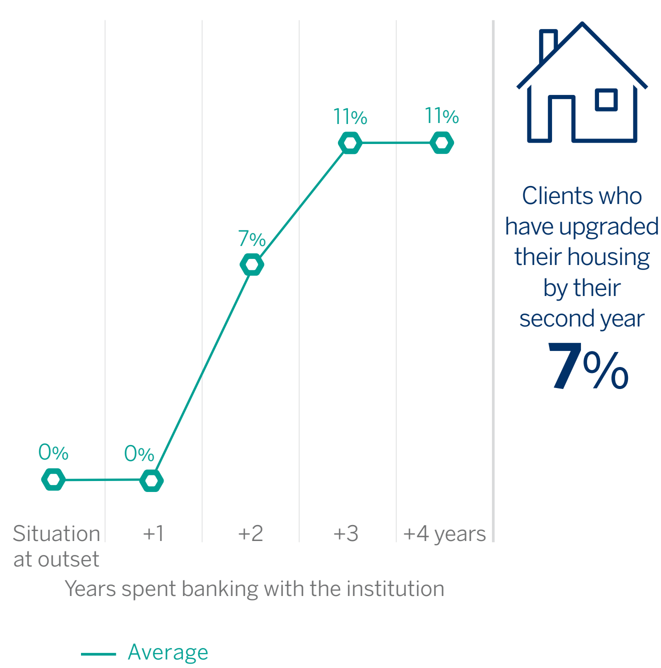
15 JOB CREATION

Credit clients who hire more employees (%)



16 IMPROVEMENTS IN THE HOME

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



Our clients' financial health

In the case of vulnerable entrepreneurs, it is vital to understand fully their capacity to cope with and recover from financial shocks with their own resources. In other words, how they administer their finances today (management and liquidity), how they anticipate dealing with future scenarios (planning) and what tools they have to do so (resilience).

The financial health of Fondo Esperanza entrepreneurs is measured along two dimensions:

- **The client's ability to pay and payment behavior,** reflecting the current status of their financial management.
- **The range of the products they have taken out and whether they have insurance.** This shows their efforts to guarantee a future in which they can cover contingent expenses and meet goals.

The purpose of the research is to anticipate action that may improve clients' financial health effectively over time.

Income levels and financial education are two key factors in having good financial health or improving it. That is why we set relative scales in our measurements; an absolute measurement is not possible, given the specificity and characteristics of our entrepreneurs.

56
Offices

361
Loan officers

155,651
People receiving financial education

FINANCIAL HEALTH DIMENSIONS

Available liquidity from managing the business	Payment of financial debts
Access to and use of financial products	Planning & saving

Entrepreneurs who have taken out loans

Fondo Esperanza's close to 125 thousand clients are microentrepreneurs who can make investments in their businesses or make their input acquisitions more efficient, thus helping their businesses, once they receive financing.

Fondo Esperanza's methodology is based on short cycles in which entrepreneurs receive financial education and training in looking after their finances and improving their enterprises. 16% of them also take out a voluntary insurance product.

Group lending means that we can offer a service which entails labor-intensive mentoring, both by the institution, and by the support groups it generates. These act as co-guarantors, so the lending group or community bank has to accept the client and include them in its structure for them to access the loan.

In terms of their capacity to pay off the debt they have incurred, we note that both the group's trust and the client approach are conducive to clients meeting their payments. Despite the difficulties in the final quarter of 2019, 95% of clients in rural environments and 92% of those in urban ones have not been late with any of their payments in the last three months. This shows that clients take responsibility for the amounts they apply for and the sums they access, loan after loan.

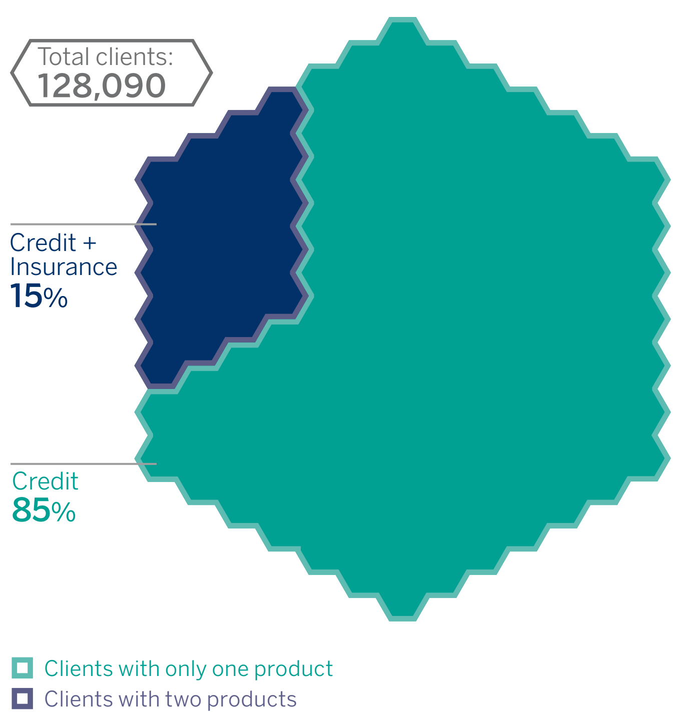
15% of clients have credit and insurance, while insurance is most popular among clients between 30 and 60 years old.

New clients' average disbursement is USD 395, the equivalent of six basic food baskets. If we look at how the average loan sum changes, by the age of entrepreneurs' businesses, we see how the experience and growth of these businesses gradually increases, until it goes over USD 1,100 after three years with the institution. Loan by loan, clients learn how to manage larger sums.

Our clients' financial health is also linked to their capacity to plan and to sacrifice something in the present to guarantee peace of mind in the future. Taking out voluntary insurance is a clear indicator of this longer-term vision.

16% of Fondo Esperanza entrepreneurs have insurance of some kind. Nevertheless, their income level conditions this. Clients in more adverse situations contract fewer insurance products than the non-vulnerable. Furthermore, entrepreneurs between 30 and 60 show the greatest preference for this product.

(17) **CLIENTS BY PRODUCT TYPE**
Total clients



(17) Clients current on 12.31.2019.

Our clients' financial health

Savings potential

To discover clients' likelihood of generating "cushions" or buffers against adversity, we have analyzed their potential to save. It is essential to save to improve resilience and generate stability, so that they can invest for the medium term and fulfil their dreams. Therefore we analyzed whether the clients we serve have the capacity or not to save part of their net incomes, given their high vulnerability and family structure.

To do this a consumption function was constructed that depends on income level. The consumption of families in extreme poverty or in poverty was taken as being the same as the poverty line (taking 'average household' size as one made up of three people). For vulnerable clients and others, the expenditure of families in the third income quintile in the 7th Family Budget Survey (updated by CPI prices in 2019) was used as the consumption figure. If income from the enterprise is assumed to be the only source of family financing, and a consumption function is estimated, the remainder is the potential saving that entrepreneurs could use to create financial "cushions" to ensure their future.

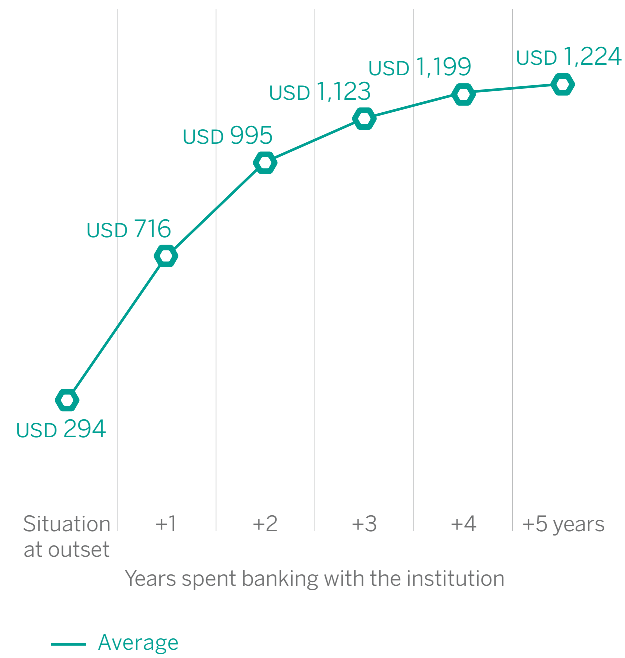
18% of clients would have saving capacity. The remaining 82% would need to use additional sources of income (other family members, transfers or other means of support) for there to be money left over after the estimated consumption that each household we serve is likely to generate.

Given that women have smaller enterprises and that their homes contain more people (3.6 individuals, against 3.1 for men), they have less left over for the future. As such, their capacity for saving is lower than that of men and they sign up for insurance products less frequently.

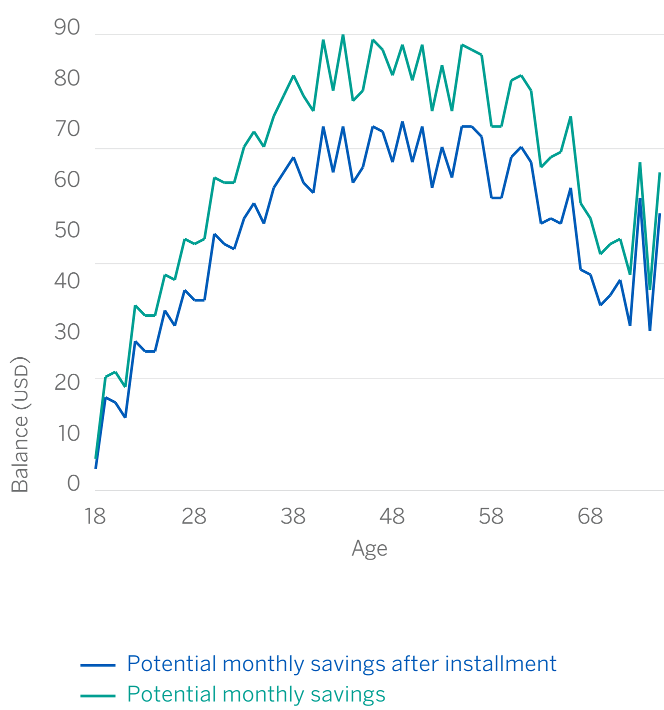
(18) New clients. Average disbursement calculated from the average first disbursement for new clients each year. Weight in the payment installment calculated as average ratio (installment over sales) of each client.
(19) Clients in each cohort (joining between 2015 and 2019) on date of each data collection. Value at the outset is the average initial value (first disbursement by year of entry), to which the average growth after one year, two years, etc of the disbursements to groups of clients from the 2015-2019 cohorts is applied.
(20) Estimated average saving for the portfolio of clients current on 12.31.2019.
(21) Estimated saving capacity for the portfolio of clients current on 12.31.2019. The capacity rate is the theoretical ratio over the net income that could be used monthly on saving.

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

19 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship



20 POTENTIAL & REAL SAVINGS
Estimate for clients with both credit & savings



21 ESTIMATED SAVING CAPACITY
Estimate for clients with both credit & savings

	Capacity for saving (potential)	Capacity for saving after installment
Young people (< 30 years old)	10%	6%
Between 30-60 years old	14%	8%
Older people (> 60 years old)	16%	9%

Social crisis in Chile: providing hope despite the difficulties

Scope of the crisis

The deepest social crisis in Chile for decades has made a response essential, especially to help the most vulnerable.

The triggers for the unrest include the country's severe inequality, both in economic and social terms, together with the gender gap. This has provoked demonstrations and massive protests throughout Chile.

The effects have hit small business owners and entrepreneurs hard in nearly the entire country, with impacts on the development of their enterprises and markets (reduced sales, loss of merchandise and damage).

Listening to the most vulnerable

Fondo Esperanza is backing five key partnerships to achieve greater impact.

As well as providing commercial and material help to Fondo Esperanza clients, one of the key issues of this crisis has been to acknowledge the legitimate grievances of those who have been excluded from structural decision taking.

So, partnerships were set up with *Hogar de Cristo* and *Techo,* among others, to listen to clients' voices. This has led to the building of a new social agreement through civic dialogs known as *Círculos Territoriales* [Area Circles].

Supporting clients

The impact of the crisis has been much greater than can be seen from outside: over 160 thousand people in the FE community have been affected, between clients and direct family members.

The most vulnerable households, where business performance directly affects the family budget, have been hardest hit.

Since in most cases these businesses are the main source of household income, the losses and damages (looting, impossibility of selling, delays in arrival of supplies, etc) have affected all members of entrepreneurs' families.

Most are women who are heads of their families

81% women

47% heads of family

32% primary education, at best

Who manage flexible business that give them the autonomy to bring up their families as well

USD 1,300 Average monthly sales

USD 2,162 Average assets

USD 948 Average disbursement

They work from home and generate incomes for at least another 2 members of the household

72% parental or own home

37% work from home

75% live in families with 3 or more people in the household

+46 thousand vulnerable households affected

+USD 36 million in total losses to their enterprises*

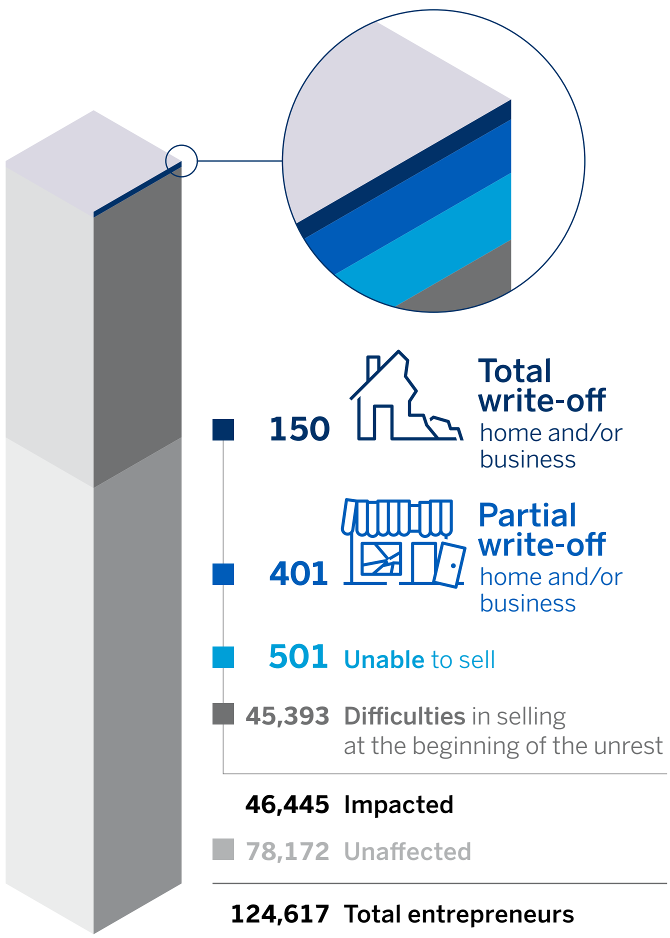
+160 thousand people impacted indirectly

* To calculate the impact on businesses, an average loss of three weeks of sales was estimated. For members who suffered damage to their place of business or home we have estimated a 30% loss to their productive assets, and 80% for those members with total write-offs on their home/business.

Social crisis in Chile: providing hope despite the difficulties

IDENTIFYING THE RISKS

From the beginning of the unrest, Fondo Esperanza carried out a register of the affected entrepreneurs. The aim was to come up with an emergency plan with commercial and social support measures addressing five categories:



46 thousand women who are members (37% of the total) have been affected, directly (complete or partial write-offs of their home or business) or indirectly by not being able to sell their goods and services.

Generating integrated solutions

Commercial measures[1]

- All affected clients were offered flexible, interest-free, terms on paying their installments. Furthermore, they were exempted from paying the guarantee when the Group Lending debt was incurred by clients with total write-offs.
- Clients with total or partial write-off of their business or home were able to access an emergency loan with a lower interest rate and a grace period on the installment payments.
- Affected clients were given the possibility of obtaining a new loan using debt and of rescheduling it if they had difficulty in paying their repayment installments.
- A grace period was given to all affected individual loan clients. This product has been called Emergency Rescheduling.

Social measures

- Emergency partnerships with social institutions such as *Desafío Levantemos Chile,* PUC Legal Clinic, Central University, *Hogar de Cristo* and *Techo,* to provide merchandise, tools, machinery, infrastructure, and emotional support to affected clients.
- Setting up a virtual store to make available products and services offered by around 1,000 clients affected by the reduction in their sales.
- Development of civic dialogs, known as *Círculos Territoriales,* in partnership with *Hogar de Cristo* and *Techo.* The purpose was to provide a platform for the concerns of clients about the new social agreement for Chile and to escalate their opinions to spaces where decisions are taken.

1. Although nearly 20% of the affected clients have insurance, unfortunately these do not cover cases of force majeure.

Círculos Territoriales: a forum for opinions

Up to December 10th 2019, 672 civic dialogs had taken place, in which 9,852 people took part, from Arica right down to Magallanes. 75% of those participating were women, and nearly 85% were members of Fondo Esperanza. The goal of these circles is to bring participants' points of view to the attention of the different public decision-making arenas.

“I felt that my opinion counted”

Isabel Guerrero is an entrepreneur in Talcahuano (in southern Chile), and a member of the *Las Sirenitas* Lending Group. She took the opportunity of taking part in one of the *Círculos Territoriales* with her entire group.

“It was useful because I was being listened to, I felt that my opinion counted and that there are people who think along the same lines as I do. They were complicated times in which many people lost their whole businesses, or were looted, so the *Círculos Territoriales* were a necessary place for the group to let off steam about what we were living through.

We talked about difficult issues that you cannot just speak about anywhere, and it helped us to empathize with one another, always in a climate of respect, understanding and self-restraint.”

Measures with an impact on lives

The credit and social solutions worked up in conjunction with other organizations enabled Fondo Esperanza to support around 46 thousand of its clients affected by the crisis, thus reinforcing its mission to inspire people to overcome their obstacles.

“I can get my business up and running again”

Nelly Alcaide Toro, an entrepreneur with the *Renaciendo* lending group from La Florida, Santiago de Chile, was one of the people affected financially by the crisis, with her clothing store being completely looted. Thanks to the work in conjunction with *Desafío Levantemos Chile,* Fondo Esperanza and other social organizations, she received merchandise valued at around USD 2,600 (2 million Chilean pesos) to recharge her business.

“All the help I was given was truly useful; I wasn't expecting it. I am so grateful for what people have done for me because, once again, in Fondo Esperanza they thought about us, they didn't leave me on my own, and with all they have done, I will be able to get my business up and running again.”

Macroeconomic environment

Economy[1]

Chilean economic growth slowed sharply in 2019, falling from 4% in 2018 to 1%. The main factor behind this slowdown was the major shock in both supply and demand associated with the social unrest in the last quarter of the year, which led to less dynamic consumption and investment.

In the first three quarters, household consumption expanded by 2.9%, despite the fall in demand for durable goods, while investment spiked by 4.7% in the same period.

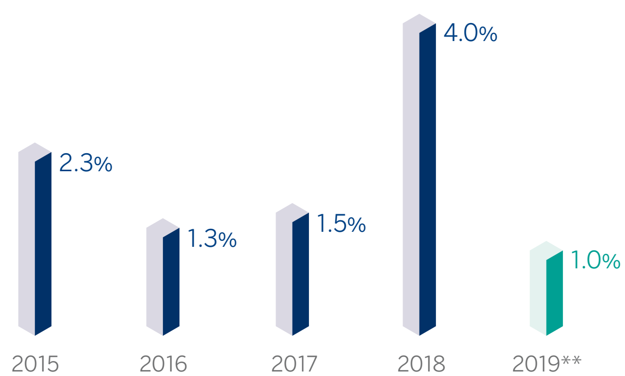
Significant contraction in mining (–2%), together with other supply-side shocks in primary sectors, account for the low GDP growth in the first half (1.7% year on year), which contrasts with the strong momentum seen in the first half of 2018 (5%).

However, this momentum reversed in the third quarter when GDP grew by 3.3%. Investment in construction and other civil works was the most dynamic segment of demand in this quarter, especially investment associated with mining projects. This supported activity in other sectors, such as business services and construction, which grew by 5.9% and 4.3% respectively.

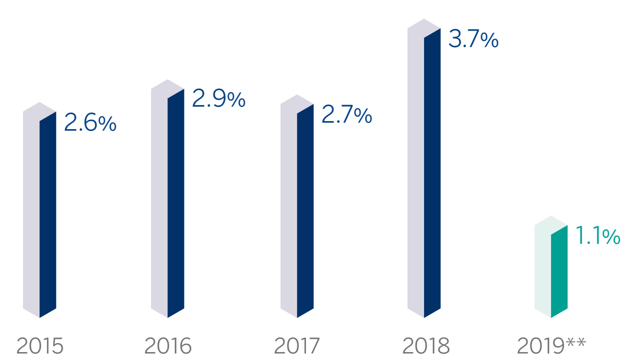
But events in the final quarter of the year paralyzed activity and triggered a contraction in demand that passed through into a GDP fall of 2.5% in year-on-year terms. In October and November, months in which most of the protests and riots took place, activity shrank by an average 3.4%, before recovering slightly by 0.6% in December.

Non-mining activities shrank the most, a result of the disruption in activities, including damage to their facilities, difficulties in transporting workers and reduced operating hours. The sharpest falls were in services, trade, and manufacturing.

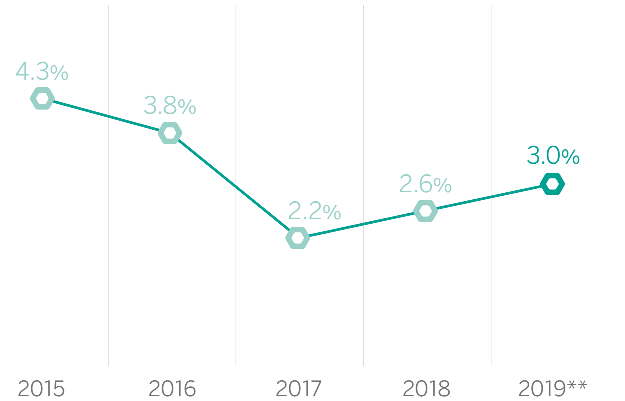
GDP*
Real variation (%)



CONSUMPTION*
Real variation (%)



INFLATION*
Real variation (%)



1. All data from Chile's central bank. Estimates to the end of 2019 by BBVAMF Research.

* Source: Chile's central bank.
** Estimates by BBVAMF Research.

Inflation closed the year at 3%, slightly below market forecasts. The segments with the highest impact on this change to inflation were housing and basic services (4.3%), food and non-alcoholic beverages (3.7%), transport (2.5%), and education (4.6%).

The main indicator of underlying inflation, not including food and energy, showed an accumulated variation in 2019 of 2.5%. Inflation of tradable and non-tradable components in the Consumer Price Index posted a variation of 2.6% and of 3.3% respectively.

The sharp depreciation and volatility of the peso in the last quarter, despite energetic intervention from the central bank, was a factor in the higher prices of tradable products, with the inflation rate on these goods doubling from September.

However, the pass-through of the currency depreciation onto inflation was lower than in previous similar scenarios. There are two effects that offset one another: the pass-through of the peso's depreciation onto inflation, which is positive, and the product gap, which is negative. The impact was lower because the product gap effect prevailed.

The performance of the real sector and inflation, taken with market uncertainty, meant that the central bank's monetary policy in the first part of the year changed from a bias towards contraction, with a rise of 25 bp in the first quarter, to a bias towards expansion, with a 50 bp cut to the monetary policy rate and two further cuts of 25 bp, taking it from 3% to 1.75%, where it closed the year.

Shorter-term interest rates have corrected as monetary policy has altered. Nevertheless, the central bank does not have much space to maneuver if it is to reduce the domestic rate curve.

Employment, poverty and welfare[2]

A sign of the economy's performance in 2019 is the 0.6% increase in the number of unemployed. This is explained by the 1.2% rise in the number of people who joined the labor force, 1% more than the number of the employed which, in a lower growth environment, has generated greater pressure on the labor market.

The unemployment rate rose by 0.3 percentage points to 7%. Male unemployment was 6.5%, having edged up by 0.1 pp as a result of the increase in the labor force referred to above (1.2%), higher than the 0.9% rise in the number of the employed.

Meanwhile, the overall number of the unemployed increased by 6.1%, caused mainly by the higher number of people being laid off (6.3%). Employment and unemployment rates posted at 69.7% and 65.2% respectively, falling by 0.4 pp and 0.6 pp. The number of men not in the labor force (unemployed) grew by 3.5%, which was due to a large extent to a higher proportion of those not in work being potentially active (15.2%).

The female unemployment rate posted at 7.7%, a rise of 0.2 pp, the outcome of a 1.3% variation in the overall work force, higher than the 1.1% increase in the proportion of women in work. Similarly, the number of unoccupied women grew by 3.8%, affected exclusively by those looking for work for the first time.

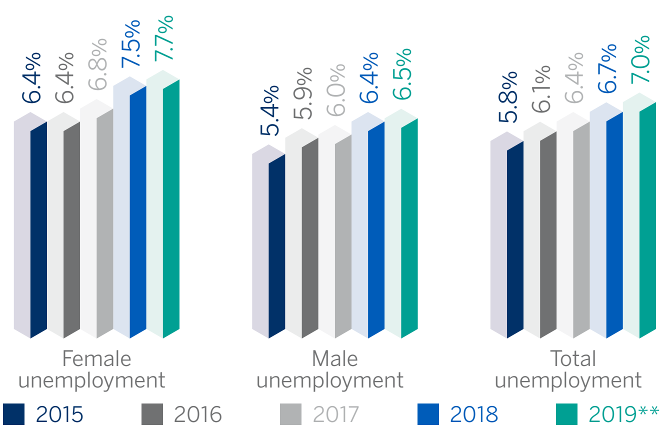
Meanwhile, participation and occupancy rates came in at 49.2% and 45.4%, falling by 0.3 pp and 0.4 pp respectively. The number of women not in the workforce rose by 2.2%, mostly caused by the number of inactive women with the potential to be active (11%).

The gender gap in the labor market widened, with the unemployment rate of men 1.2 pp lower than that of women, representing 0.7 percentage points more than in 2016. The gaps in the participation and employment rates were 20.5 and 19.5 percentage points, with participation and employment higher for men than for women in both cases.

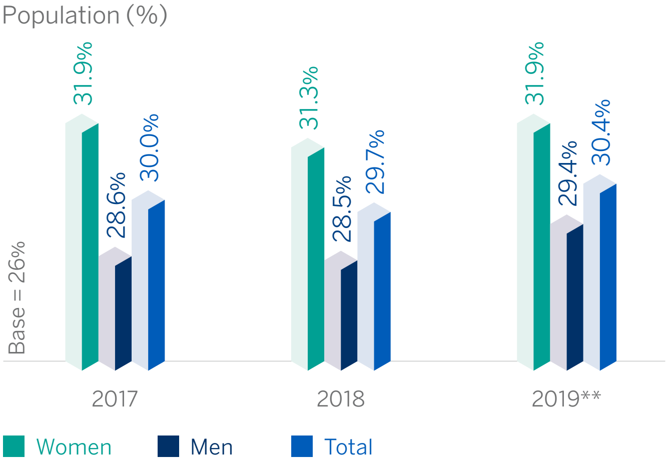
2. Data available from the INE Statistics Institute, the central bank of Chile and the Casen survey. Estimates by BBVAMF Research.

Macroeconomic environment

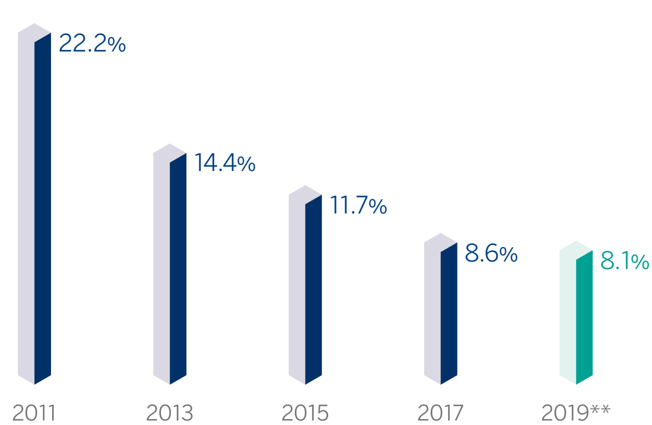
LABOR MARKET*
(%)



INFORMAL SECTOR*
Population (%)



MONETARY POVERTY***
Population (%)



By age segment, the most noticeable increases in the number of workers were in the higher age brackets. For those aged 65 and more the increase was 11.7%, for those between 50 and 64 it was 2.9%, whereas for those between 25 and 49 years old, it was just 0.1%.

By economic sector, those with the highest number of workers were trade (4%), healthcare (5.3%) and mining (11.9%), whereas by occupational category, there was a rise in the self-employed workers(4.7%) and in those working in the informal economy (4.3%), but no change among those working in the formal sector.

Following on from the social unrest in the last quarter, the labor market began a process of increasing the number of settlements, almost entirely the result of job terminations due to corporate difficulties. The impact of these measures will stretch beyond the end of the year.

The job pressure rate, in other words the number of economically occupied individuals (–4.3%) looking for a job, plus those doing so for the first time (starters), plus the unoccupied (5%), expressed as a percentage of the labor force was 12.5%, having edged up by 0.1 pp. The reduction in numbers of the economically occupied who were looking for work was particularly noticeable among workers in the informal economy and the self-employed.

The pressure on jobs among women rose by 0.6 percentage points, coming to 13.4%, whereas for men it fell by 0.4 pp to 11.8%.

Around 30.4% of jobs were in the informal sector of the economy, an increase of 0.7 pp from the previous year. The rate of informal employment among men was 29.4%, an increase of 0.9 pp, while for women it reached 31.9%, a rise of 0.6 pp.

The number of informally occupied grew by 3.5%, with this rate increase broken up into 4% for men, and 2.9% in the case of women. The rise was driven by the self-employed (6.7% more) and private-sector workers (2.9%), who accounted for 83.8% of informal workers.

* National employment survey, INE-Chile.
** Estimates by BBVAMF Research.
*** Casen survey.

Enterprises with up to 10 workers represented 78.6% of all informal workers, whereas those with 50 employees or more accounted for 13.7%. By economic segment, growth was driven by the rises in trade (6.9%) and healthcare (24.8%).

Turning to the regions, the country's highest rate of informal employment was in La Araucanía (39.3%). The lowest was in Magallanes (20.0%).

The extent of poverty in the country is measured every two years through the large-scale national Casen survey, which assesses the shortcomings faced by Chileans. The 2019 survey was scheduled to be conducted in October, but the events in the last quarter of the year forced its postponement.

The latest measurement available is the 2017 survey. At that time 8.6% of the population (1,584,050 people) was in monetary poverty, i.e. purely from the perspective of their incomes. By regions, the area with the highest rate of income poverty was La Araucanía, at 17.2%. It was followed by Ñuble (16.1%), Maule (12.7%), Biobío (12.3%), Los Ríos (12.1%), Coquimbo (11.9%) and Los Lagos (11.7%).

Nationwide, by 2017 poverty had fallen by 3.1 pp from 2015, when it stood at 11.7%. This reduction widens to 30 pp if compared against poverty levels in 1990 (38.6%). According to recent economic performance, our estimates of poverty levels by income were 7.9% for 2018 and 8.1% in 2019. That is, a net reduction of 36,367 people in poverty since 2017, despite the increase in the last year of 66,323 people in this predicament.

Many analysts have emphasized poverty and inequality as key factors accounting for the events occurring in the last quarter of the year. However, both the lower poverty levels and the reduction in inequality over the last few decades appear to contradict these claims, in view of the improvements in the Chilean economy over this period.

Nevertheless, the factors that stand in the way of growth in productivity and welfare are the continuing existence of too many adults with insufficient basic skills, and the excessive dependence on self-employment and short-term contracts.

Most of those in poverty work for themselves. A third of those with wages do not have contracts and over half of those employed are not accumulating any social provision.

Considerations such as the structural factors behind the economy's lower growth, the composition of the labor market and institutional factors propping up power structures in the market involving the parties supplying goods and services all exacerbate potential negative effects that end up creating conditions of greater discontent.

Finally, and no less importantly, we have low mobility between generations. In other words, there is a high positive correlation between parents' incomes and those of their children; in some cases, and despite their higher level of education, the younger generation's incomes are lower.

Chile

Emprende Microfinanzas

Social Performance Report **2019**

We back the hard work of our clients

With over 6,000 entrepreneurs served, of whom nearly 70%[1] are in economic vulnerability, Emprende remains focused on meeting microenterprises' financial needs, and targets people who find it difficult to access the financial system. 54% of current clients have primary education at best, which makes it hard for them to join the labor market, meaning that entrepreneurship is their main source of income.

Reducing the informality divide and supporting inclusion

In Chile self-employed workers tend to work in the informal economy. For this reason policies have been rolled out to encourage microenterprises to move into the formal system with the aim of improving competitiveness in micro and small companies, as well as raising tax collection. Formal lending has undoubtedly made it easier for many companies to transition and in Emprende Microfinanzas (Emprende) we have underwritten that process. In 2018, 17% of our clients were operating in the formal economy, that is they had registered their activities in the Domestic Tax Service, declaring their sales, and/or had a municipal start-up certificate; by the end of 2019 this was the case for 21.4% of our client portfolio. At Emprende we encourage our clients to go down this path, since this opens up opportunities for growth, in both public-sector and private bodies.

We are present in the Metropolitana, Valparaíso, Bernardo O'Higgins, Maule, Biobío and La Araucanía regions, where more of the labor force is entrepreneurial, but there are a high number of microentrepreneurs who have never applied for a business loan. There is much misinformation and lack of trust around applying for a loan from a formal institution, which is a huge challenge for the microfinance system in Chile and especially for Emprende. In its effort to increase territorial inclusion Emprende has a network of branch offices in Las Cabras, Licantén, Coelemu, Santa Barbara, Lautaro, and Carahue. In these locations Emprende, together with the State Bank, is the only financial institution.

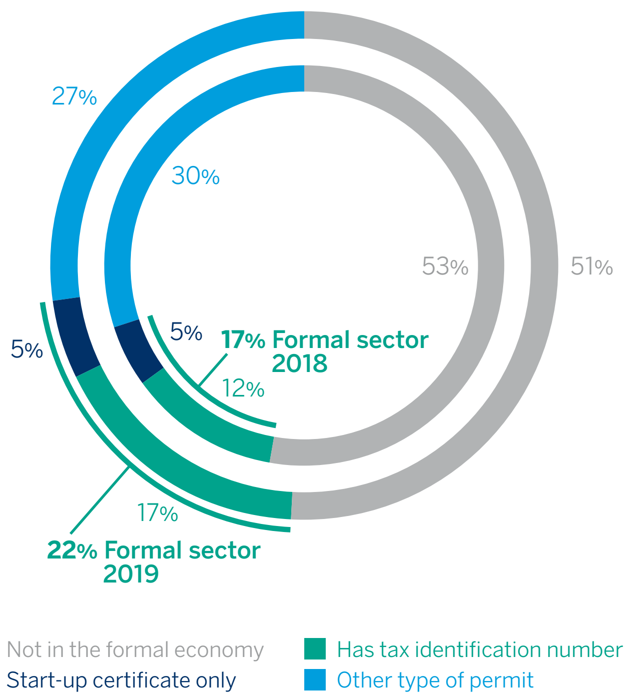
The entity has a footprint in six Chilean regions where the poverty rates are high, according to the Social Development Ministry, or where there are large pockets of poverty; during 2019 Emprende has managed to assist more vulnerable clients, especially in Biobío and La Araucanía, where 80% and 70% of its clients, respectively, are poor, while the poverty rate in each region is 16% and 21%.

These two regions contain 48% of all Emprende's clients, positioning the institution as a strategic partner in the development of entrepreneurs, contributing to reducing outbreaks of poverty.

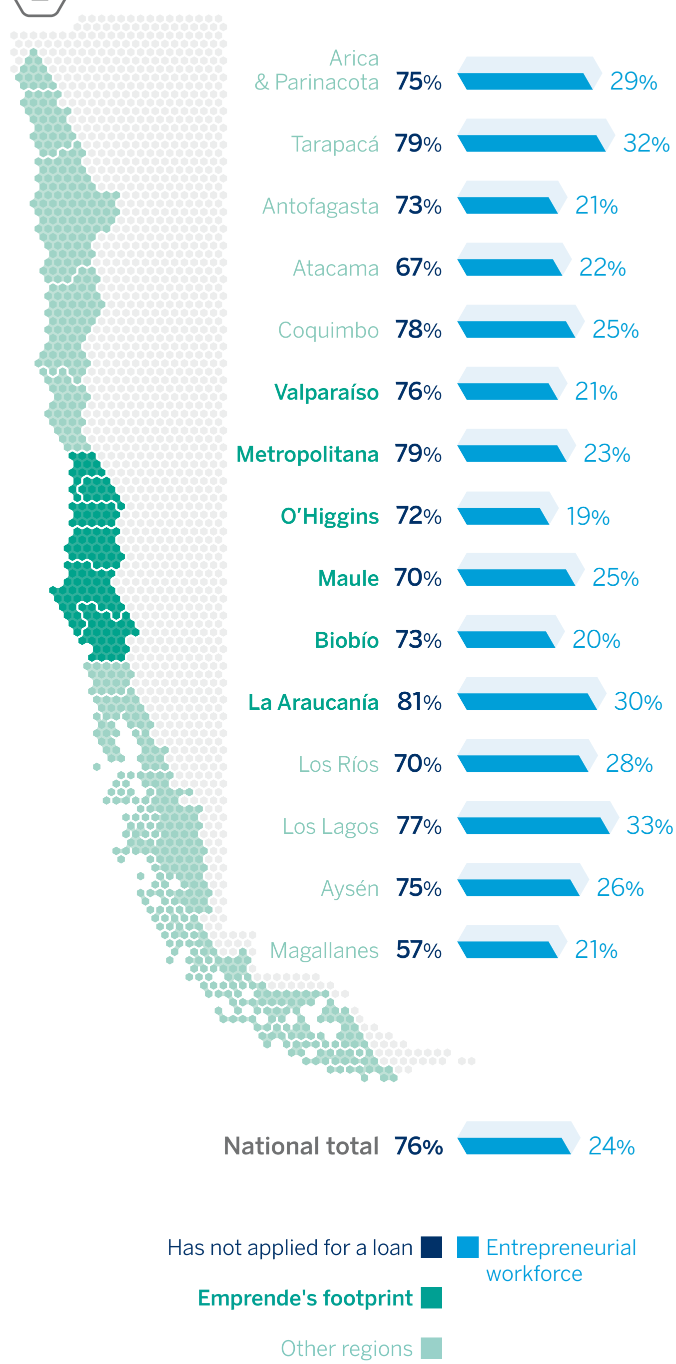
1. Percentage of vulnerable clients with loans on 12.31.2019, excluding those in the farming sector.

1 REDUCING THE INFORMALITY GAP

Current clients on 12.31.2018 and 12.31.2019



2 NATIONAL POVERTY & COVERAGE



Emprende supports informal entrepreneurs in their progress. 48% of these clients are in Biobío and La Araucanía, areas with high rates of poverty.

BBVAMF Group, based on 2017 Microenterprise Survey, INE Employment Survey & BBVA Research 2017.

We back the hard work of our clients

Relationship and proximity to our clients

During 2019, Emprende has worked hard to serve more entrepreneurs. Most of them have banked with the institution for well over a year, and 62% have been with us for over three. Having a long-term relationship with entrepreneurs and mentoring them during their progress is a key part of strengthening their expansion. Our value offering is the result of this greater trust: loans that adapt to the situation, needs and stage in the life cycle of the microentrepreneur.

We provide particular support to the most excluded with personal assistance, since the service we offer will depend on our microentrepreneurs' economic cycles, as is the case with the farming sector. We also place a special focus on socially vulnerable groups such as women (52%) and people in conflict zones, such as the Mapuche territory.

These enterprises generate a monthly per capita surplus[3] of USD 532.

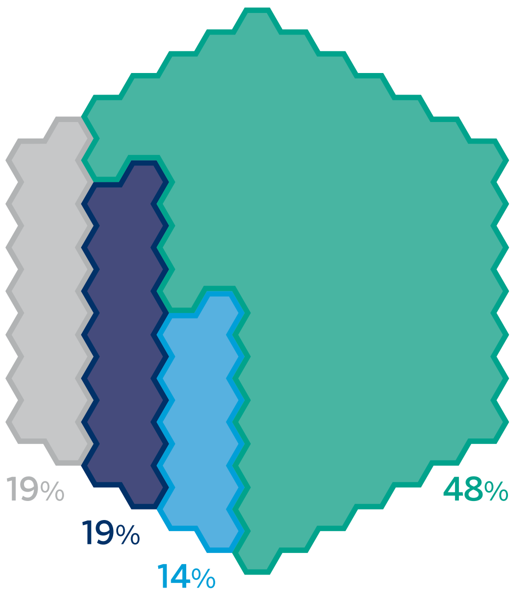
Entrepreneurs work mainly in the retail trade sector (41%). The farming sector is the second most popular, accounting for 24% of clients and 32% of total credit on 12.31.2019.

OUR CLIENT PROFILE

Total clients		New clients
6,604		949
52%	Women	50%
31%	Rural environment	29%
22%	Formal sector	48%
54%	Primary education at best	43%
7%	Young (< 30 years old)	10%
27%	Older people (> 60 y/o)	15%
68%[2,3]	In vulnerability	66%[3]

2. According to the Social Development Ministry's poverty line (new methodology), by household size. Clients whose net income per capita (estimated as the net business income divided by the size of the household) is above the poverty line for each household size, but below the threshold calculated by multiplying the poverty line figure by three are classified as vulnerable.
3. Farming clients are excluded from the vulnerability calculation and per capita surplus.

3 SENIORITY
Current clients on 12.31.2019



1 credit
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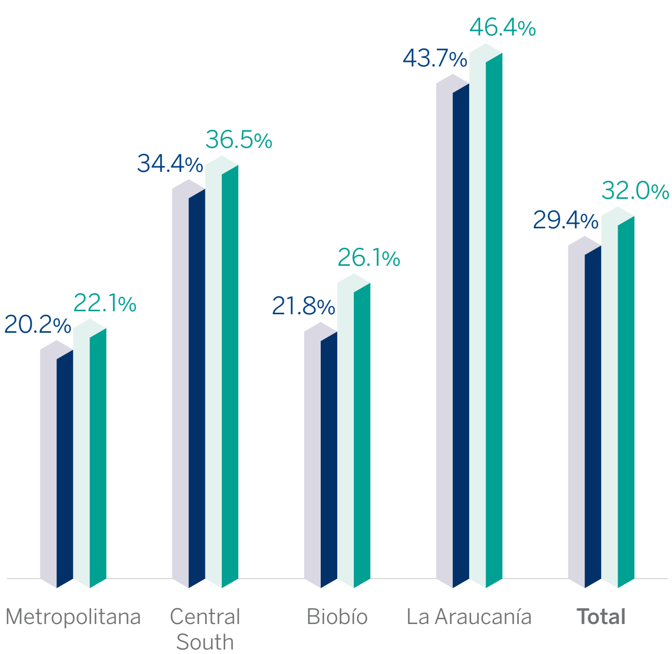
3 credits
4 credits & more

4 PRODUCTS ADAPTED TO OUR CLIENTS
Total clients on 12.31.2019

Farming loan
32%
of the credit sum

Voluntary insurance
49.5%
of clients

5 FARMING PORTFOLIO, CHANGE
Weight of performing farming loan total at each year end



Farming 2018 Farming 2019

We back the hard work of our clients

Improving the standards of their businesses and generating more jobs

Entrepreneurs' businesses have grown —their sales are up by 13% annually— and they have better collateral. When we analyze entrepreneurs who have renewed their loan during the year, we note that their incomes are higher than at the outset. In fact, the poor are getting over the poverty line.

Emprende clients are not the only ones to benefit from access to credit: the environment in which they operate also gains. The results of the 5th Microenterprise Survey (EME in the Spanish acronym) confirm the importance of entrepreneurship as a source of work in Chile. In 2019, 19% of clients created work for others.

18.7% of clients generate employment.

Looking to the future

To capitalize on existing market opportunities, Emprende will have to reformulate its business model to one that is more agile and efficient. It will use technology to get closer to its clients, bringing down the transactional costs of lending and providing appropriate financial products and service to all those microentrepreneurs who need it. The goal is to get more financial inclusion to foster the progress of microentrepreneurs who in turn generate more jobs, closing a virtuous circle.

6 **IMPROVEMENT IN RELATIVE INCOMES**
Clients renewing their loan in 2019, excluding the farming sector

Segment	Clients	Situation at outset	Renewal position
Ext. poverty	36	0.51	0.80
Poverty	113	0.87	1.58
Vulnerability	1,122	1.89	2.38
Others	483	6.15	6.57

13% **Sales**
Annual growth

13% **Net incomes**
Annual growth

7 **IMPROVING THE ASSET POSITION IN THEIR COLLATERAL**
Current clients on 12.31.2019 with assets guaranteeing their loans

4.53% ↗ **6.06%**

Measuring what really matters

Social Performance Report **2019**

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