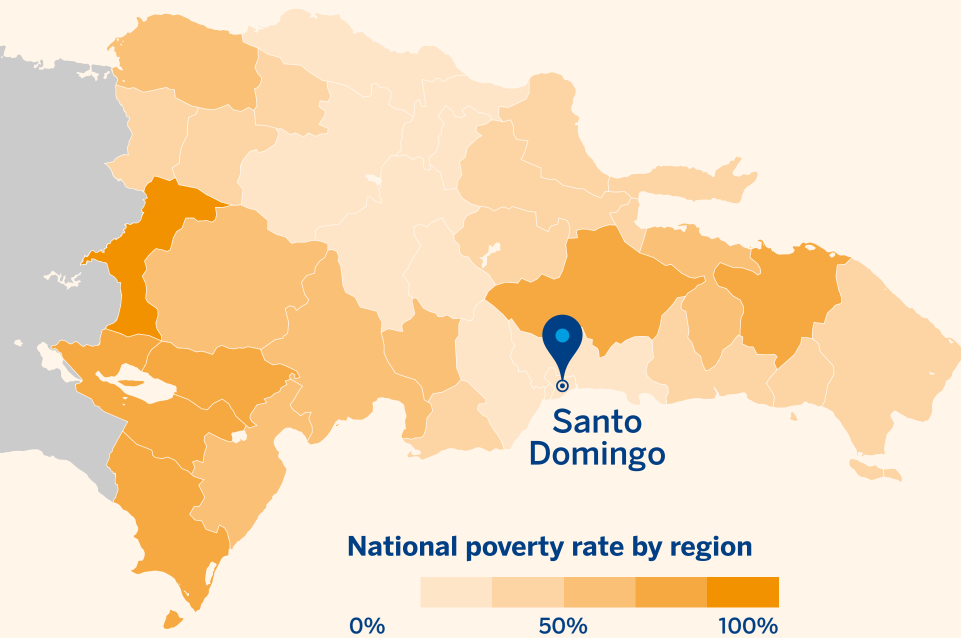
Dominican Republic

Banco Adopem

Coming closer to go further

National data



% Poor
According to the national poverty line[1].

% Vulnerability
According to the World Bank (USD 4–10).

44%
Unbanked adults[2].

1. CLIENTS

Committed to vulnerable people

Total credit clients[3]

215,914

83% Vulnerability

66% Women

41% Rural environment

51% Primary education at best

9% Over 60 years old

27% Under 30 years old

New credit clients 2018

47,761

87% Vulnerability

62% Women

42% Rural environment

58% Primary education at best

3% Over 60 years old

47% Under 30 years old

Source: Banco Adopem data; calculations by BBVA Microfinance Foundation (BBVAMF).
(1) National poverty rate according to MEPyD (Ministry of Economy, Planning & Development) data.
(2) Global Findex 2017. (3) Data as of 12.31.2018.

2. PROGRESS

Working with them as they develop

60% improve their income

Of those that signed up for a new product in 2018, 60% improved their income.

38% overcome poverty

In their second year banking with the institution.

...and their projects grow

↑23% assets

Annual growth rate.

↑17% sales

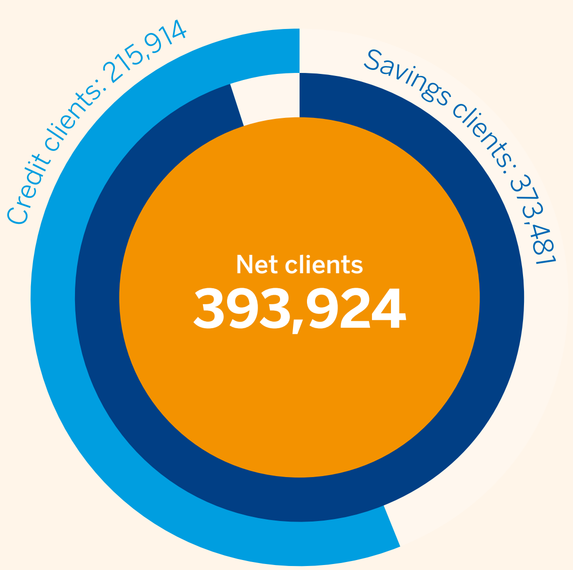
Annual growth rate.

3. RELATIONSHIP

Providing timely and relevant products and services

Present in all provinces

Branch offices	Loan officers	Banking agents
74	715	200



Average disbursement

Total clients served in 2018:

USD **762** +7.4% 2017–2018

New clients (first loan) served in 2018:

USD **415** -1.0% 2017–2018

Savings

USD **100**

Nearly half of all clients accumulate this sum in their deposit accounts.

USD **20**

21% of clients save this amount or more in programmed savings products.

Introduction

Poverty has continued to fall in the Dominican Republic. It is estimated that over 200 thousand people escaped this situation in 2017. Nevertheless, 3.2 million adults remain unbanked.

The Dominican economy recorded growth of 7.0% in 2018, a significant increase over the figure of 4.6% in 2017. This is due to the strong recovery in investment, which rose by 14.4%, while consumption grew by 5.8%. Core inflation moderated to 1.2% in 2018, enabling the central bank to keep its monetary policy rate unchanged for most of the year, raising it halfway through the year by 25 base points to 5.5%.

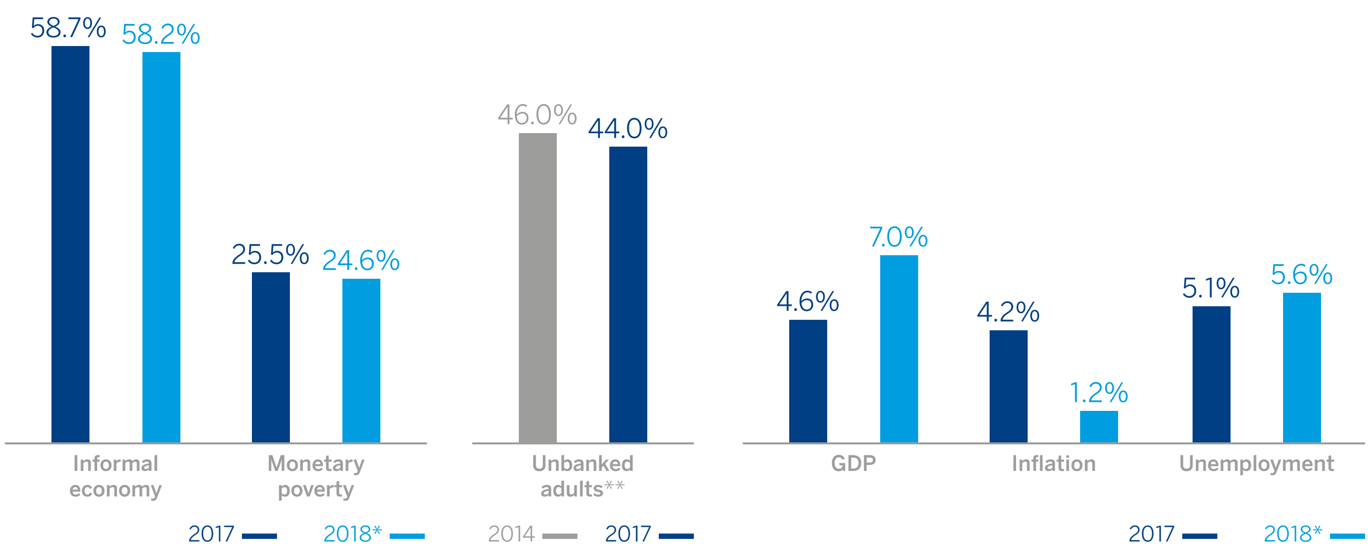
Employment was helped by the momentum in economic activity, mainly in the services and construction sectors, which are major job creators, bringing unemployment to 5.6%. The reduction in the Dominican population's monetary poverty rate continues to fall, posting at 24.6% in 2018.

Around 3.2 million adults are still unbanked, 44% of the total population, most of them in the more vulnerable strata of society, with the principal exclusion factors being: lack of money, the distance from branch offices and not having the necessary documents. Most savings and loans transactions continue to be conducted outside the formal financial system.

The mission of Banco de Ahorro y Crédito Adopem, S.A. (Banco Adopem), one of the country's leading microfinance institutions, is "to promote the development of Dominican families by bringing them into the formal economic and credit system, one that lives by ethical values, seeking its reward from wider society". Banco Adopem is governed by values of transparency, compliance, responsibility, its vocation of service and development.

It also helps to combat the effects of climate change with its Rural Finance & Environment Program (RFE), which encourages entrepreneurs to get involved in activities and businesses that strengthen their resilience to climate change and increase their environmental productivity.

Adopem became a bank in 2004, although it had been granting loans as an NGO for nearly three decades by then. In 2012 it joined the BBVA Microfinance Foundation's group of institutions. It has 1,449 employees and a footprint throughout the territory –74 branches and 200 banking agents–, in this way contributing to the growth of the most vulnerable sectors in the Dominican Republic.



The bank has solid liquidity and equity stability ratios. Fitch Ratings has confirmed the institution's long-term valuation at AA-(dom) with stable outlook. Similarly, te's international committee has maintaining its ALFA MAS (A+) rating. This is a reffirmation of its excellent positioning in the microfinance sector, putting it at the head of the ranking drawn up by this body in Latin America.

Banco Adopem, present in every one of the country's provinces, promotes the social and economic development of entrepreneurs so that they can pursue their dreams.

KEY VOLUMES[1]

Total clients	**393,924**
Number of employees	1,449
Number of branches	74
Gross portfolio (USD)	**132,053,924**
People receiving financial education	24,904
Client assets under management (USD)	70,937,740
Amount disbursed in 2018 (USD)	**143,927,044**
Number of disbursements in 2018	188,901
Average disbursement in 2018 (USD)	762

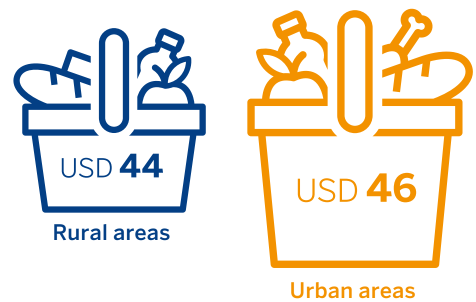
Source: Central bank, Dominican Republic.
* BBVAMF Research estimate.
** Global Findex World Bank, 2014 & 2017.

[1] USD/DOP 49.72 at 12.31.2018, BBVA Research.

Introduction

Credit clients	20,443
Credit and savings	195,471
Savings	178,010
Total credit clients	**215,914**
Total savings clients	**373,481**

PRICE OF THE BASIC FOOD BASKET



With around 400,000 clients, Banco Adopem continues to provide opportunities to low-income entrepreneurs who want to get ahead by making use of products and services that help them to increase their revenues and keep these steady. We achieve this by getting to know our clients better.

This report aims to show some of the learnings the institution has been making about the entrepreneurs it serves, their progress and their use of microfinance (mainly credit and savings). Of all the clients served, 215,914 have a current loan. Most of our analyses will be carried out on these clients, about whom we have more information.

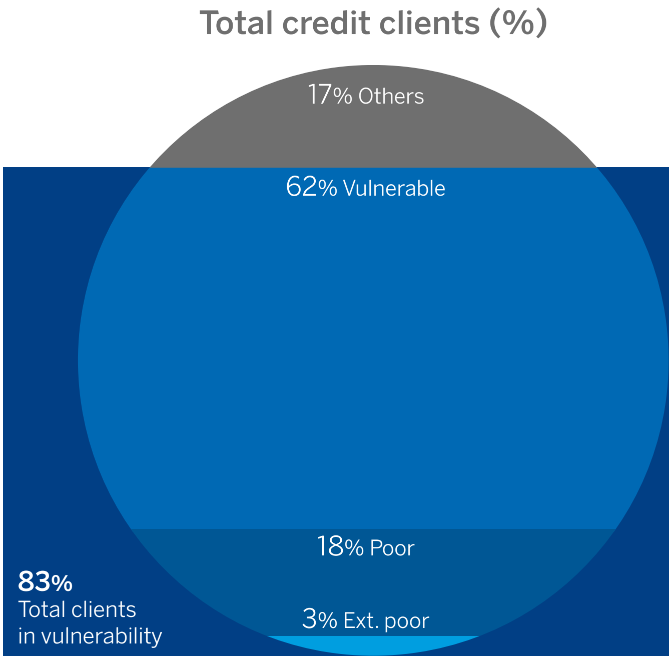
Microentrepreneurs take on debt in order to allow their businesses to grow and to provide a better future for their families. These credit clients have average surpluses (net income) for each member of the household (per capita) of USD 201, representing about 4.4 times the basic monthly basket of foodstuffs.

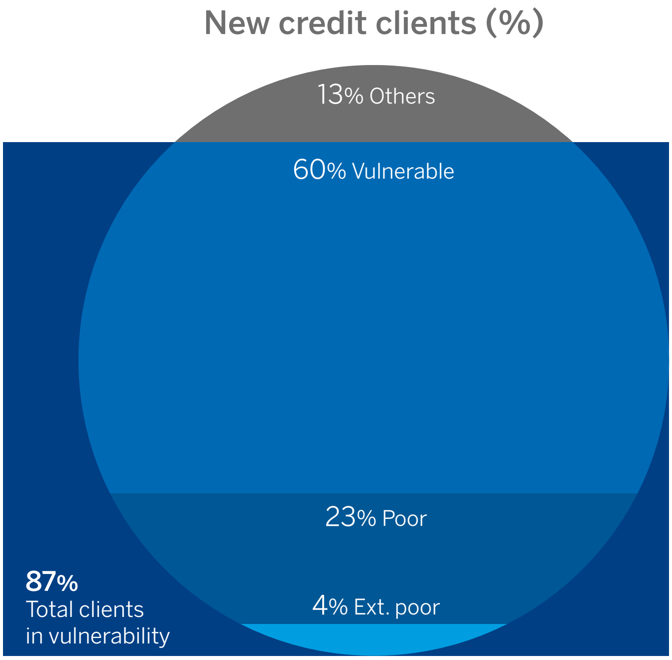
Those entrepreneurs whose businesses do not generate enough income to acquire this basic food basket are classified as extremely poor. Those who can buy the basic basket but do not have enough to cover certain goods and services, clothing and housing, are classified as monetarily poor. The price of this final set of goods determines the poverty line. In the Dominican Republic, this is USD 91 in rural areas and USD 102 in urban areas[2].

Poverty has diminished in the Dominican Republic thanks mainly to the increase in real incomes. In 2017 extreme poverty in rural areas fell by 2.4 percentage points.

[2] MEPyD updated using end-of-year CPI.

CLIENT ECONOMIC VULNERABILITY*





However, the category with the largest proportion of clients is that made up of vulnerable clients. These entrepreneurs, while not poor, have very volatile incomes and an unexpected eventuality can cause them to fall back into poverty. The point at which they enter this category is when their net incomes are less than 3 times the poverty line figure. 83% of our credit clients do not make it over this threshold.

In 2018, Banco Adopem served over 47,000 new credit clients, of whom 87% are vulnerable, and of these, 27% in poverty using the classification described.

The challenge facing Banco Adopem is not only to create opportunities, but also to support clients as they consolidate their incomes with products that differ depending on the client's goal or needs.

National statistics indicate that inequality between rich and poor has fallen more drastically in rural areas than in urban ones. In terms of all clients served, we can also see that the results in the rural environment are better in terms of escaping poverty, since more clients do so, and fewer fall back in over time.

* According to the Ministry of the Economy, Planning & Development's (MEPyD) poverty line (differentiating between the rural and urban environments). Clients whose per capita business earnings (estimated as the business surplus divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three are classified as vulnerable.

1. Our clients

SOCIOECONOMIC PROFILE

During 2018 Banco Adopem served over 47,000 new credit clients, always faithful to its vocation of serving low-income populations. According to our classification, 87% are in a situation of vulnerability. Despite the enormous challenge that extending financial inclusion represents, Banco Adopem has kept this indicator (% clients in vulnerability) at high levels. This is important, particularly in the context of the country's sustained economic growth (national GDP at 6.6%) and of reduced inequalities, particularly in rural areas.

Clients in a situation of vulnerability may be experiencing different degrees of severity:

- Vulnerable clients are those who are not in poverty but who are not yet in the middle classes because of the uncertainty of their incomes (60% of all new clients served).
- Poor clients have incomes below the poverty line (27% of the total).
- The incomes of the extremely poor are below the extreme poverty line (4% of the total).

The latter two segments do not generate enough resources to buy the basic basket of foodstuffs for their families. In the case of the extremely poor, every member of the household has an average income of USD 33 a month. Their income is 33% of the poverty line (food, goods and basic services).

In the case of clients in poverty, their average incomes are USD 75 a month.

Looking at our clients as a whole, the profile is characterized by its proportion of women (62% of new clients), because they are more vulnerable than men; people with low levels of formal education (58%); clients in rural areas (42%) and young clients (47%), a subsegment that is critical in order to break the vicious circle of poverty and to cement the basis for communities' development.

Although they do not own many assets to back up their businesses, the vulnerable population under 30 years old needs opportunities and financial support to build up a source of income. Early motherhood (the Dominican Republic has one of the highest rates of teenage pregnancies in the Caribbean) is an additional obstacle to improving living standards and escaping poverty[3].

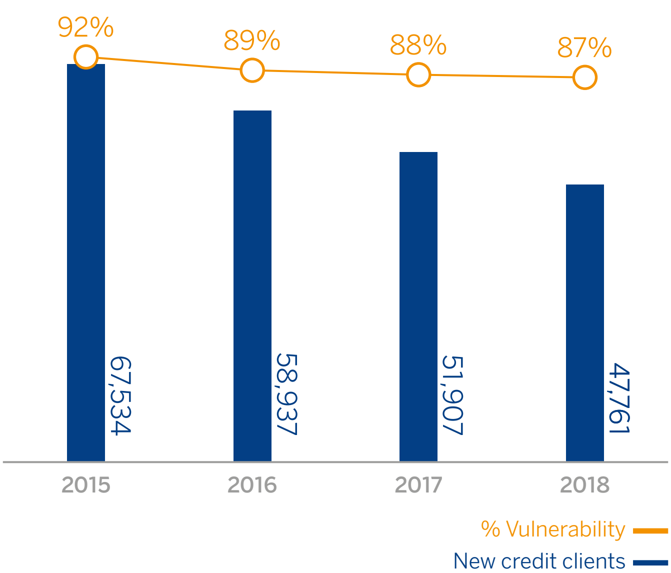
94% of clients under 30 years old in urban environments are in vulnerability. 2 out of every 10 new clients served in 2018 find themselves in this segment.

(1) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.
- Banked clients: those who have not previously had loans with regulated institutions.
- Exclusive clients: those whose only loans are with the institution.

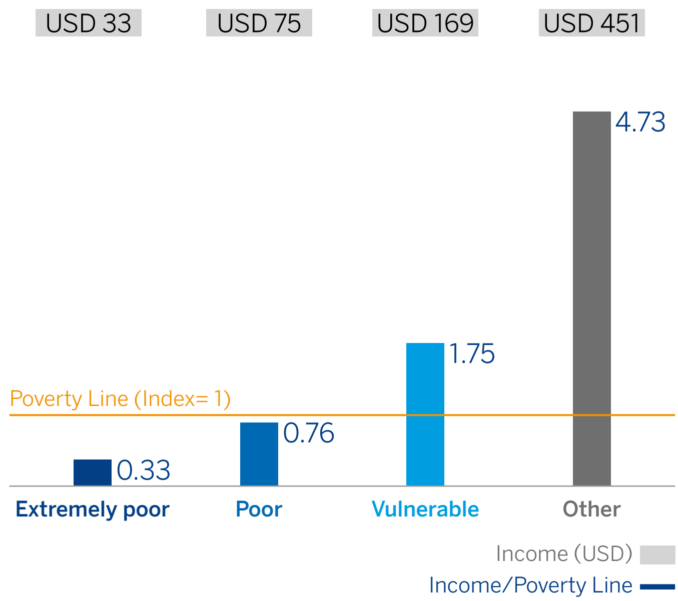
(2) According to the country's official poverty line. New clients (no previous loans) signed up over the year. Income refers to business earnings per household member.
(4) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.

[3] http://www.do.undp.org/content/dam/dominican_republic/docs/odh/publicaciones/pnud_do_INDH2017.pdf

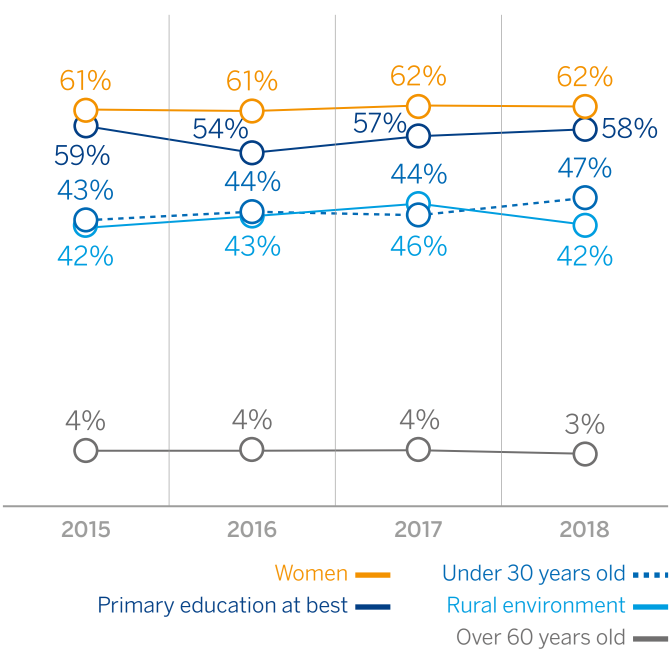
1 **NEW ENTREPRENEURS SERVED**
New credit clients by cohort
Nº banked clients 2018: 72%
Nº exclusive clients 2018: 68%



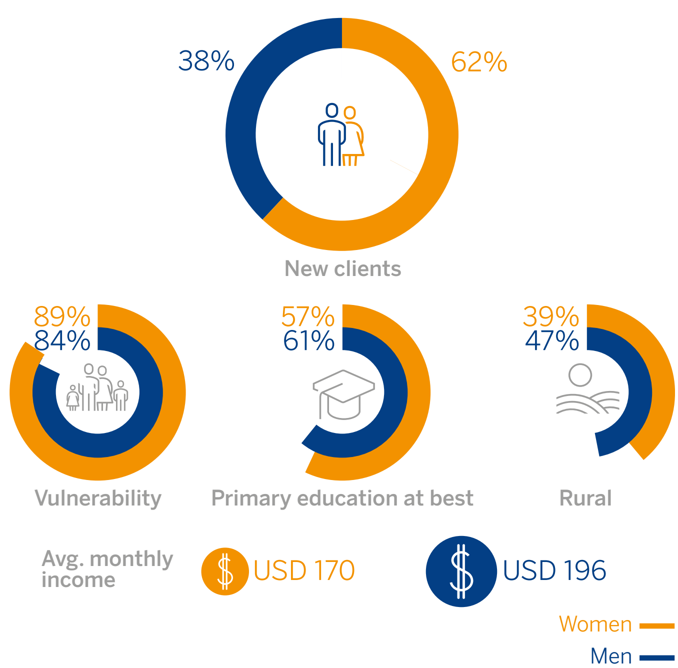
2 **ENTREPRENEURS' INCOME**
Income against Poverty Line



3 **NEW CLIENT PROFILES**
New clients by cohort (%)



4 **PROFILE BY GENDER**
New credit clients (%)



1. Our clients

PROFILE OF THEIR BUSINESSES

The most vulnerable, or those with the fewest resources, work in simple activities such as selling clothes, street vending, small convenience stores (retail trade accounts for 77% of the activity of all new entrepreneurs) and services such as hairdressers, beauty centers (services account for 15%). Only 4% of new clients this year have been employed in agricultural activities, since the geography of the Dominican Republic is challenging for this type of occupation.

The sector or kind of business in which entrepreneurs work is key in defining their initial investment needs (machinery, product inventory, etc.). Obviously, these assets condition the sales and net income they can make.

77% of clients served work in retail trade, businesses with low barriers to entry, but high operating costs. 63% of sales are spent on paying these operating expenses.

Most of Banco Adopem's clients work in retail trade, where the asset needs at the outset are not very high. They are small business units that seek immediate liquidity without having to make major investments in assets. In agriculture, on the other hand, initial asset needs are very high, because of technical requirements.

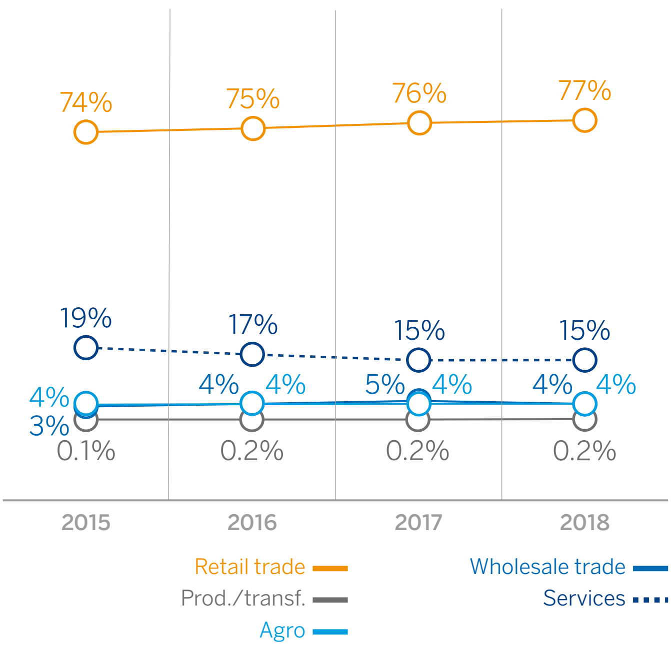
Tackling the financial needs of these groups continues to be imperative if their business performance is to improve. Responsibly managed, higher formal leveraging provides independence and the chance to make the business grow. Thus, agricultural clients, particularly those in rural environments, have lower leveraging (9% liabilities/assets) compared to other sectors such as trade (13% liabilities/assets) since it is quite possible that there is less access to formal sources of financing in these environments.

Clients' and their loan officers' knowledge and experience in certain business areas also means that the risk they take on is lower in sectors with which they are familiar.

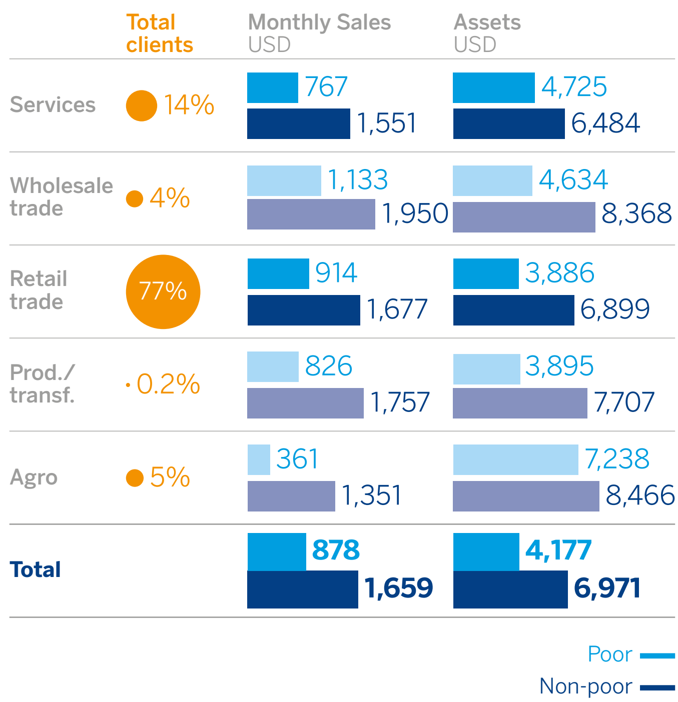
(6) Data on average monthly sales and average assets in each sector, segmented by clients below the poverty line (PL: extremely poor and poor) and clients above the PL (vulnerable and others).
(7) Ratios of average costs over sales in each sector. Earnings are taken after payment of the financial installment.

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

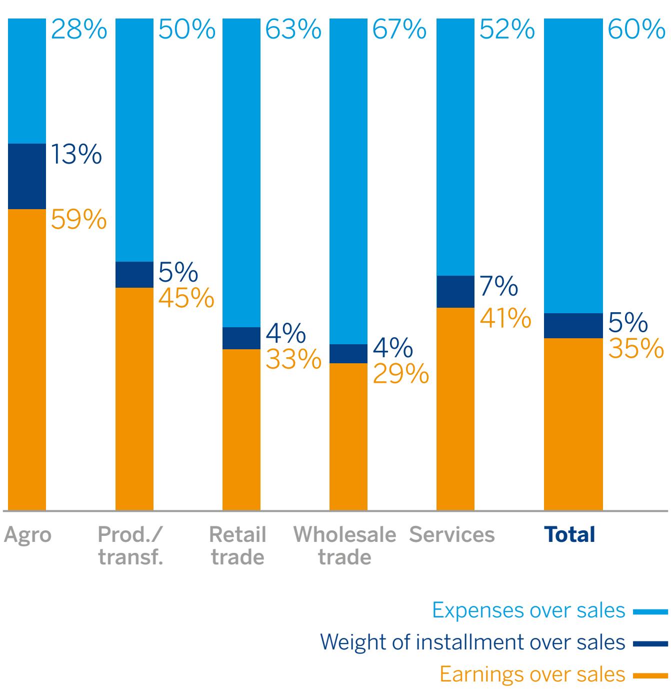
5 ACTIVITY SECTOR
New clients by cohort (%)



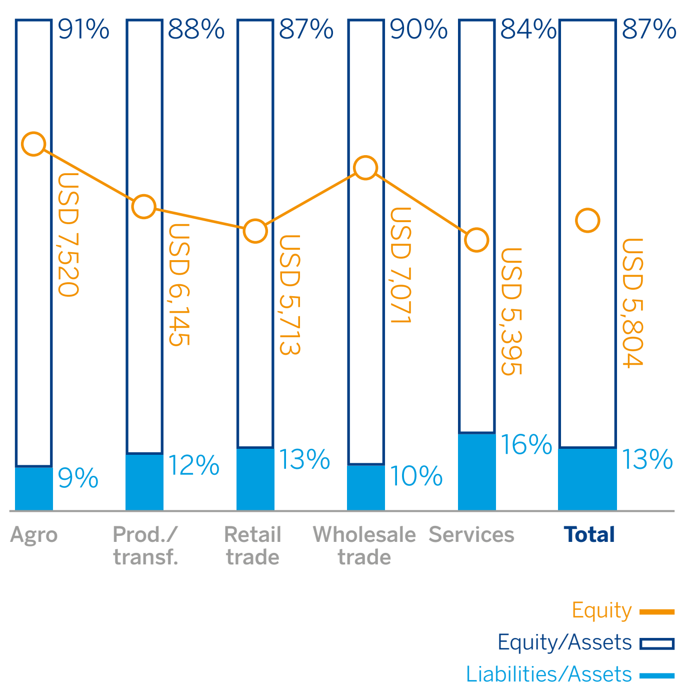
6 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients, poor and non-poor



7 P&L- MARGINS OVER SALES
Total credit clients



8 BALANCE STRUCTURE - LEVERAGING
Total credit clients



2. Our clients' development

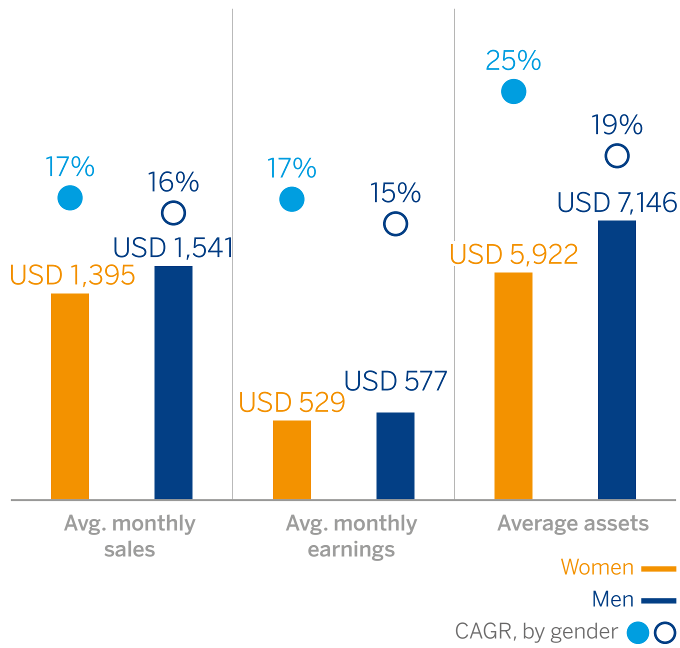
GROWTH OF THEIR BUSINESSES

Access to financing is an essential part of achieving growth in a business. Investment must be made in assets in order to earn higher net income for households and scale up the business. Sustained rates of positive growth can be seen in clients' businesses. In particular, in assets, the positive rates of annual growth in all sectors considered together (23%) demonstrate the perseverance with which the entrepreneurs we serve reinvest in their businesses, and their capacity to build a better future for their families.

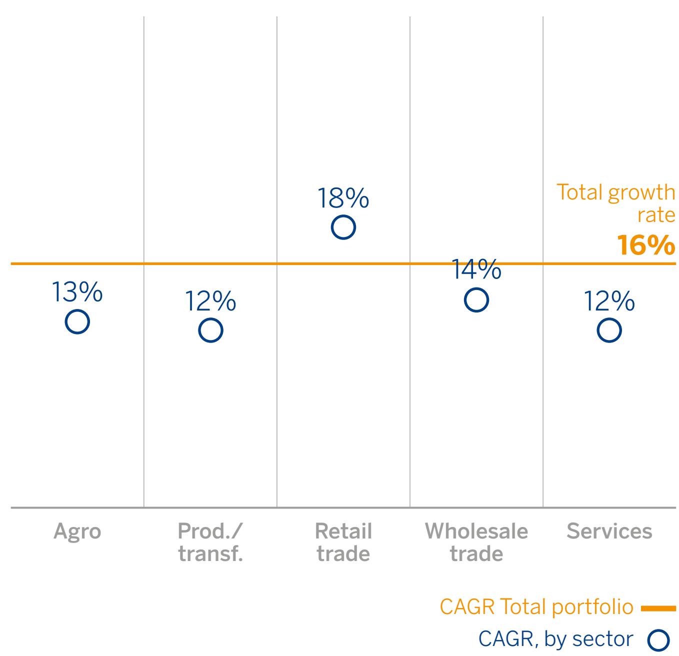
The rates of growth in businesses led by women are slightly higher than that of men; except in assets since they start off with much lower values. Indeed, in monetary terms their sales, assets and net incomes remain lower.

Furthermore, we see how in an environment of economic expansion the growth figures being generated by entrepreneurs' enterprises (sales, net incomes and assets) remain high, especially in sectors such as trade (nationally, trade grew by 8.5%). The agro sector also grew this year in the Dominican Republic (by 6.5%)[4]. Clients working in agriculture achieve higher sales growth than in other sectors, although in this sector costs prevent this sales growth from passing through into an increase in net incomes. These businesses require high assets, so in percentage terms their growth is lower than other sectors.

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



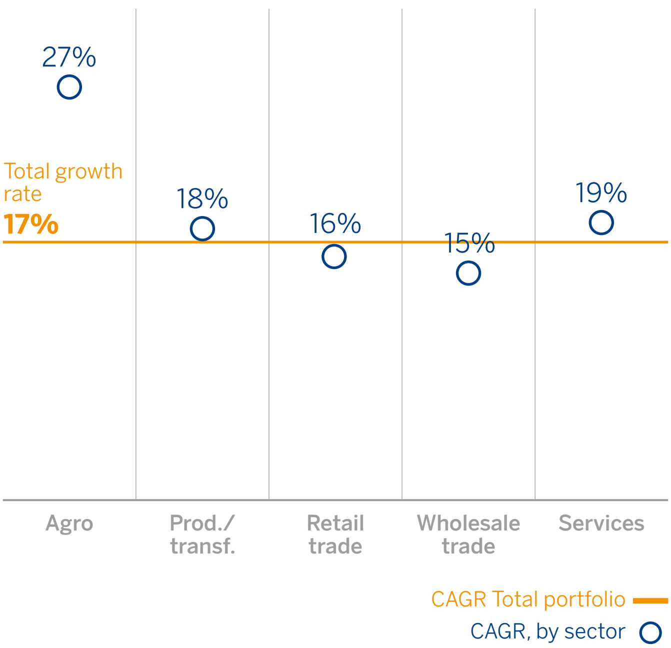
11 **GROWTH IN EARNINGS**
Compound annual growth rates



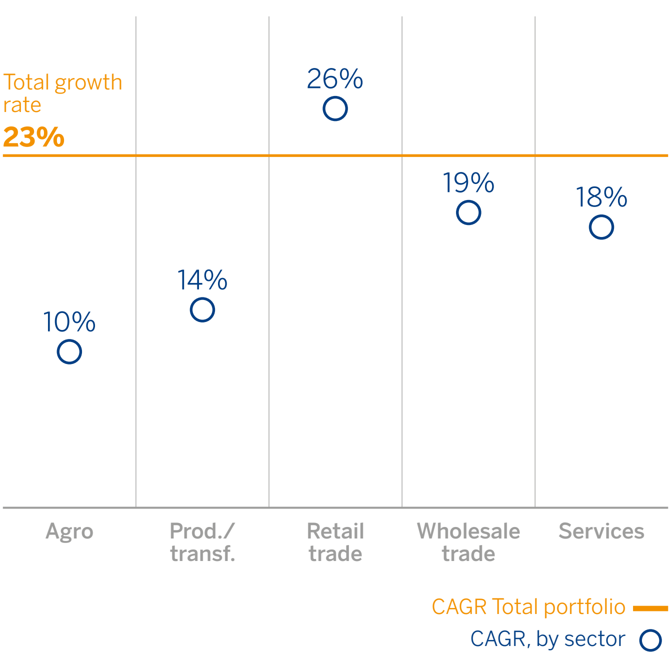
[4] https://www.bancentral.gov.do/a/d/4188-economia-dominicana-crece-70-en-el-ano-2018

(9) Data on clients current at some point over the year and who have rolled over a product in the last 12 months with the institution (hereinafter "renewing clients"). The compound annual growth rate (CAGR) for cohorts (entry year) between 2013 and 2018 was used for the calculation, taking the weighted average of these rates for each gender.
(10) (11) (12) Data on renewing clients. The compound annual growth rate (CAGR) for cohorts (entry year) between 2013 and 2018 was used for the calculation, taking the weighted average of these rates for each sector.

10 **SALES GROWTH**
Compound annual growth rates



12 **GROWTH IN ASSETS**
Compound annual growth rates



Retail trade accounts for the majority of clients, where asset requirements are lower than in other sectors and grow at a rate of 26%.

Average sales are high, but 67% of these are used to pay costs and the payment installment, with 33% left over as profit.

2. Our clients' development

ESCAPE FROM POVERTY

Growth in entrepreneurs' businesses is not only sustained but manages to cross certain thresholds. As time passes, they generate income over and above the cost of the basic food, goods and services basket and as such a growing number of people can escape poverty. In their second year the number of clients we serve who are still poor falls by 38%.

In fact, when we note this performance over time, we see how the escape from poverty increases as the years go by, but that entry into poverty remains unchanged. The effort is enormous, and it is essential to stay with the entrepreneurs over the long term.

In the rural environment, entrepreneurs perform better than in urban areas, especially those who have an individual loan.

When we drill down into this variation in poverty, we see that performance is stronger in rural areas: they have higher success rates of overcoming poverty, particularly those clients who have an individual credit (see Fig. 15). Low living costs and less competition may help their growth. In urban environments, on the other hand, the success rate in overcoming poverty is lower and the number of non-poor clients who fall into poverty is also higher. The difficulties in accessing resources, the competition and high cost of living, are some of the factors that may have impacted on these clients.

On average, performance is positive: the longer clients bank with the institution, more of them generate incomes above the poverty line. Access to financial opportunities is particularly effective in the first cycles of the loan (see Fig. 14). Inspection of all clients served since 2011 shows that clients in poverty start with incomes close to 76% of the poverty line. However, by the next loan, clients' average income is already above this line, with a significant proportion of clients remaining above it on a continuous basis.

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

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

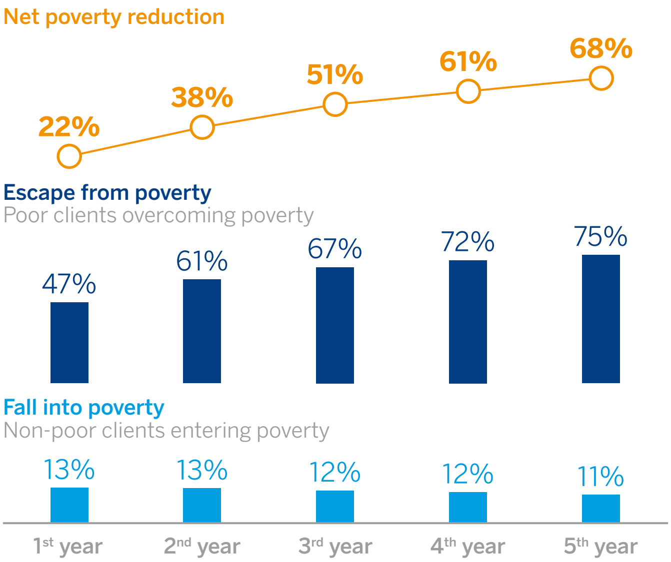
(15) Renewing clients. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.

- Escape from poverty for each segment: Clients, by segment, in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.

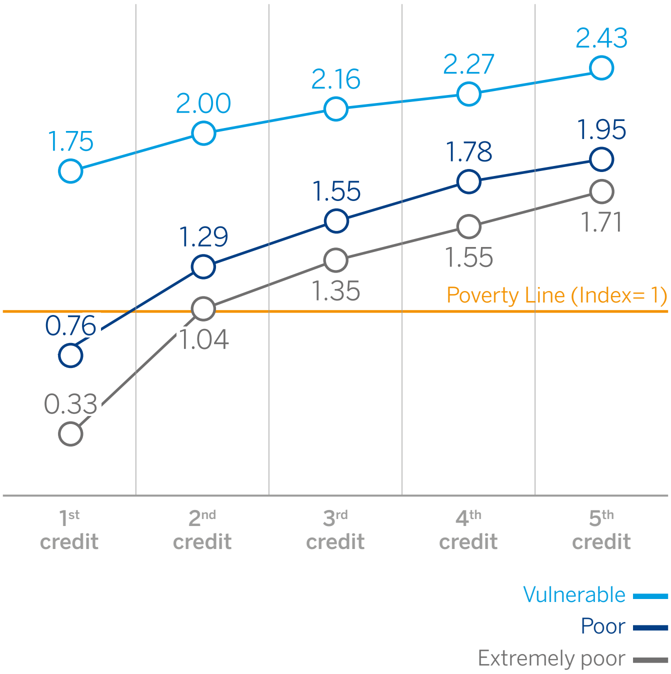
(16) Renewing clients.

- Fall into poverty, by segment: Proportion of clients in each segment not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.

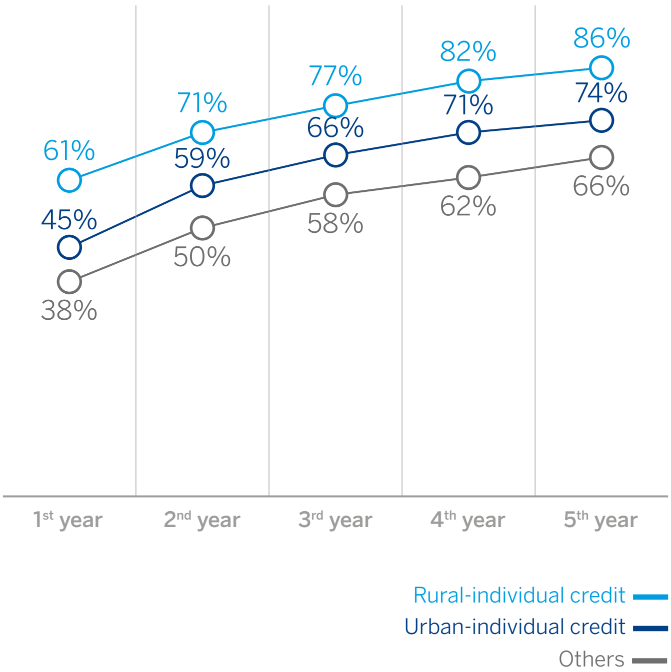
13 VARIATION IN POVERTY SEGMENT



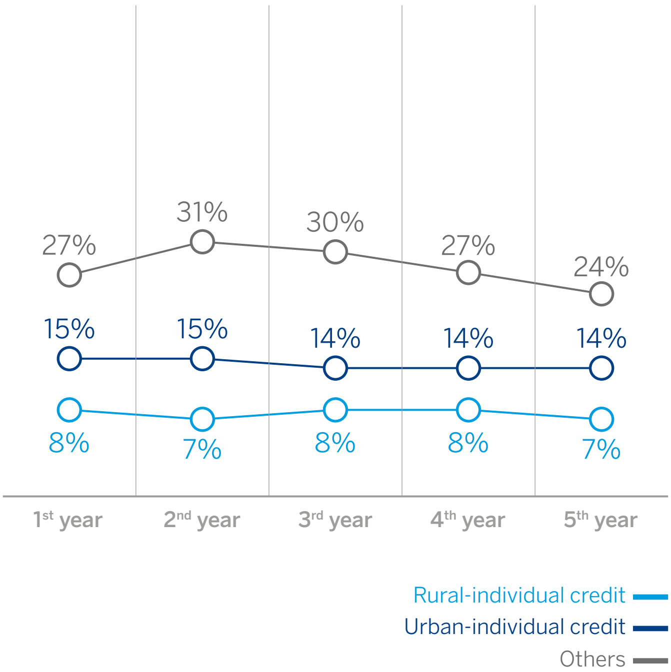
14 GROWTH IN INCOME
Income by segment over Poverty Line



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



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



2. Our clients' development

VULNERABILITY AND ASSET ACCUMULATION

Of all the micro-entrepreneurs served 79% are not in a situation of economic poverty, but the likelihood that their businesses generate low revenues is high. In fact, if we analyze non-poor clients who have had at least five credits with Banco Adopem, 55% have been in a situation of poverty at some point during the period (of whom 47% were so only temporarily). Clients crossing the poverty line in either direction at least twice are classified as volatile (see Fig. 17 and 18). Banco Adopem clients are more volatile in urban environments.

As clients start creating financial buffers or manage to reinvest in assets, the probability that they will fall back into poverty diminishes, and their resilience to contingencies improves. Among poor clients, asset accumulation is key so that they can smooth their income. Of those escaping poverty, a greater proportion accumulate assets (58%) compared to those who remain in poverty (31%) asset levels are moderate or falling (69%).

In the case of non-poor clients, the majority are able to accumulate assets. In fact, 70% of clients who are above the poverty line increase their asset levels significantly (65% increase their assets and 5% remain high), compared against those who fall back into poverty. Of those who enter into poverty, 44% increase their assets or these assets remain high, compared to 56% whose assets fall or remain the same.

Preliminary studies appear to show that rural clients tend more to accumulate assets compared to urban customers, which is also an outcome of the kind of activity and the external causes they are facing (in the countryside there is greater exposure to external factors and as such assets are accumulated for more difficult periods). They do not have stable incomes yet, so one way of saving is to accumulate assets.

The purpose of financial inclusion is to move forward in the use of different products and services that help to reduce the risk of falling into poverty in response to particular events, that smooth consumption and allow people to take longer-term decisions. That is why we need to dig deeper into client performance.

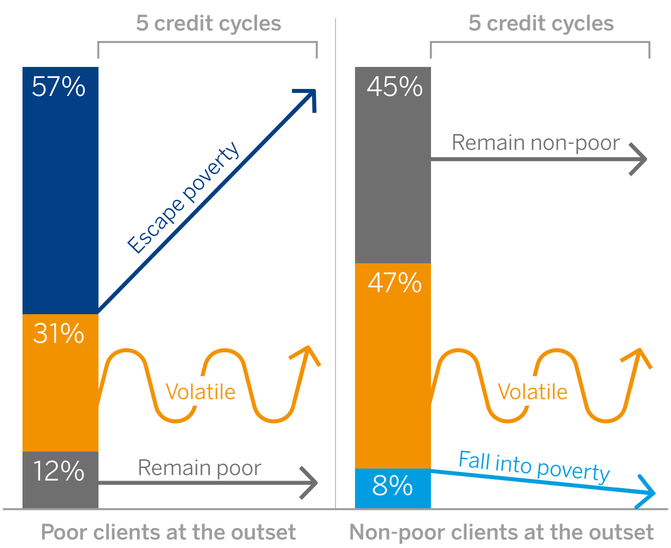
(17) (18) Sample of clients served between 2011 and 12.31.2018 who have had at least five disbursements. The number of times a client crosses the poverty line (PL) is analyzed.
Volatile: Clients whose incomes fluctuate across the PL more than once.

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

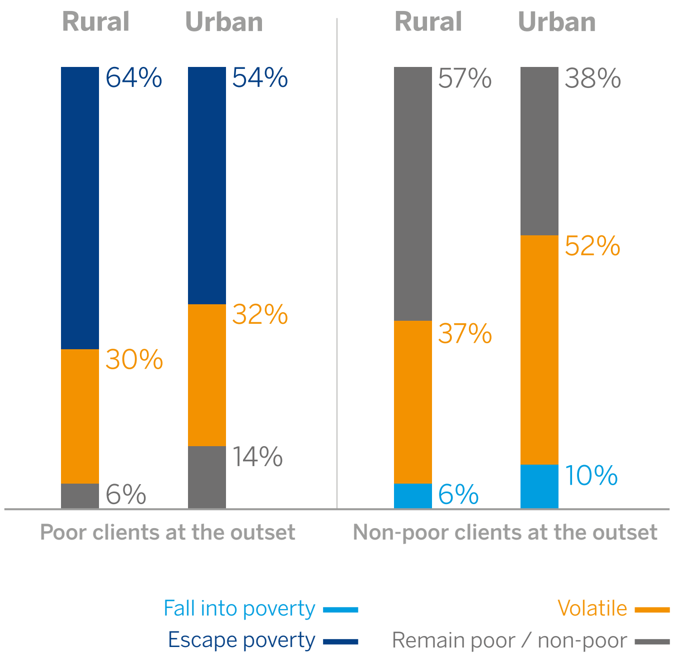
(19) (20) Sample of clients served from 2011 to 12.31.2018 who have had at least five disbursements. The agro sector is not included. Performance is analyzed by looking at the situation at the outset and comparing it to the outcome in two dimensions: Income performance by whether clients are still in poverty or not.
Asset changes are analyzed according to whether the asset levels change, differentiating between the following categories:

- Very low (between 0 and 20 multiples of the poverty line).
- Low (between 20 and 60 multiples of the poverty line).
- Medium (between 60 and 100 multiples of the poverty line).
- High (more than 100 multiples of the poverty line).

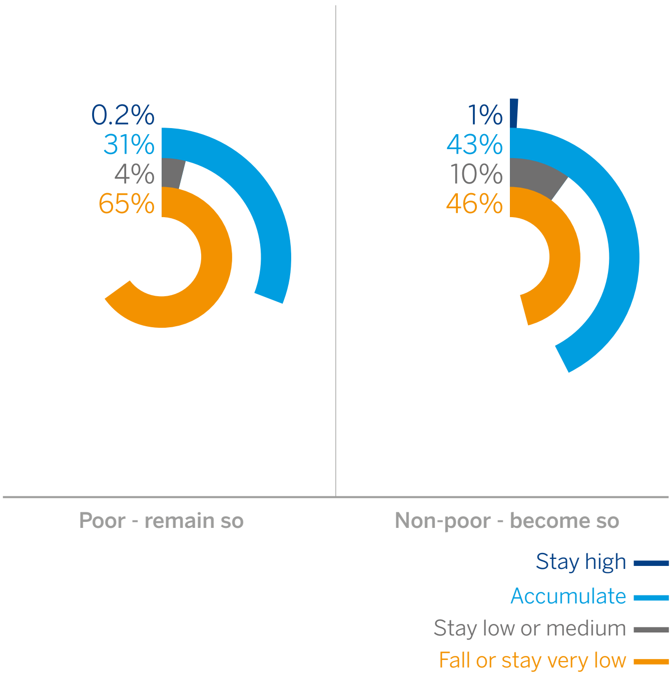
17 **INCOME VOLATILITY**
Clients with 5 credits, classified by nº times they fall below/overcome PL



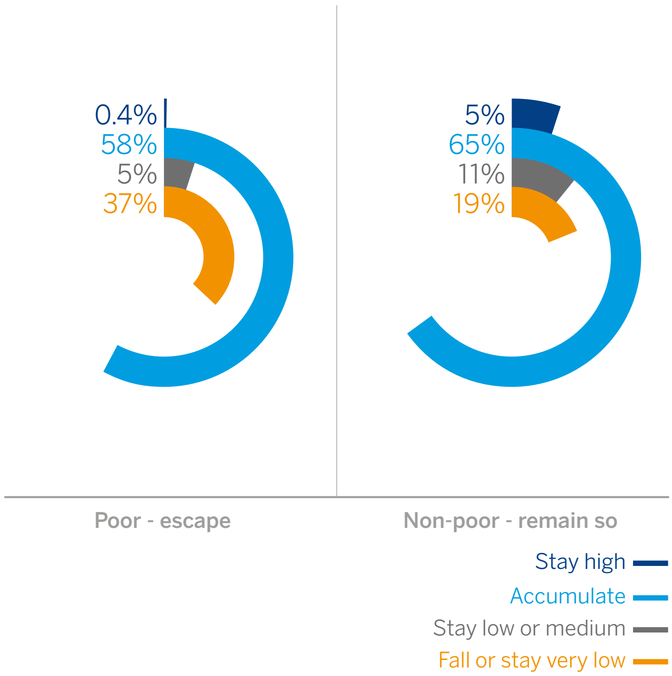
18 **INCOME VOLATILITY - RURAL/URBAN**
Clients with 5 credits, classified by nº times they fall below/overcome PL



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



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



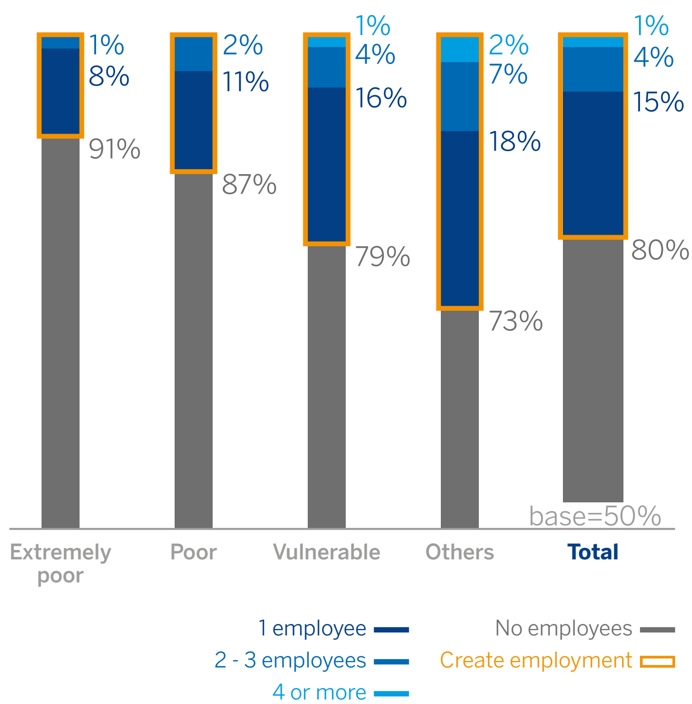
2. Our clients' development

INDIRECT IMPACT

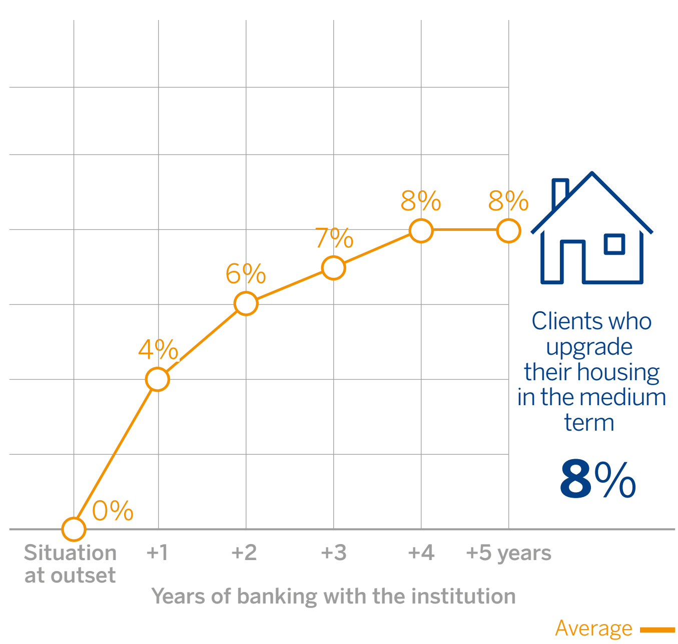
Looking beyond access to financial services and on to the progress of their micro-enterprises, we see that the longer clients stay with Banco Adopem, the greater their interest in expanding and improving their standard of living and that of their families in general. Poverty does not only manifest itself as a lack of income; many clients start off in precarious conditions in terms of basic needs such as housing, healthcare, etc., so improvements in their sources of income bring with them improvements in clients' quality of life and that of their community as indirect impacts. Thus, in the case of clients who stay with the institution over time, we see that:

- In two years, 6% of clients manage to upgrade their housing situation, going from renting to owning their own, thus increasing their safety and standard of living.
- Clients tend to work in labor-intensive sectors and a smaller percentage of them employ people from their community. As their enterprise grows, it generates more jobs, thus multiplying the impact of their entrepreneurship in the surroundings where they live.

21 EMPLOYEE BREAKDOWN
Clients according to nº of employees in their business

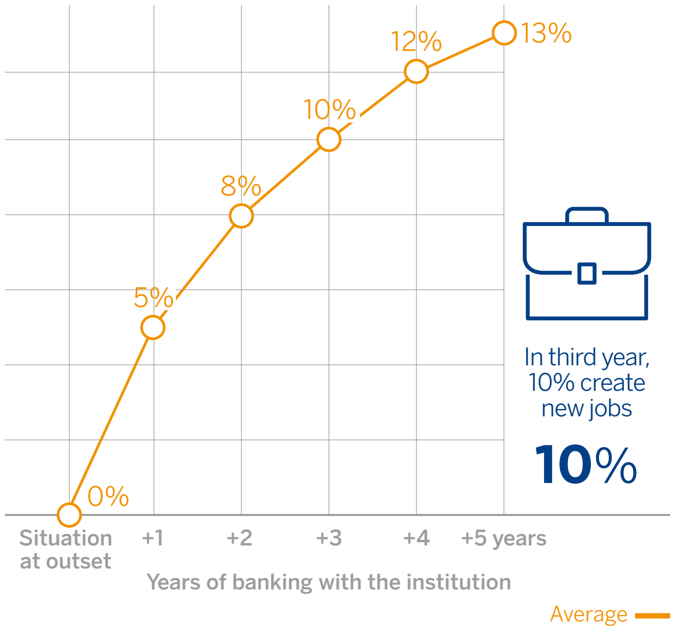


23 HOUSING UPGRADE
Credit clients who improve, by years spent banking with the institution (%)



(21) Considers the number of employees in current clients' business at 12.31.2018.
(22) Considers the increase in the number of employees compared to the outset, in the businesses of clients current at 12.31.2018. Averages for the 2013–2018 cohorts (year of entry).
(23) Proportion of clients current at 12.31.2018 of each cohort, who have improved their housing situation (bought their own home). Average for 2013–2018 cohorts (year of entry).

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



Growth in their businesses has an impact on improving their standard of living and promotes growth in their communities.

3. Relationships with clients

RELATIONSHIP WITH OUR CREDIT CLIENTS

Lack of money, having no branch offices nearby and lack of documents are the main reasons for adult financial exclusion in the Dominican Republic. A personalized service and getting branches closer to clients are two of Banco Adopem's key strategies. 715 loan officers look after clients, provide information, advice and follow-up over the long term. In fact, in line with their needs, 24,904 people have been trained in 2018. The institution uses an extensive network of channels, one of which are its flexible customer service points (banking agents) where clients can conduct transactions close to home, thus avoiding the need for long journeys and the risks of transporting money in cash.

Credit continues to be the most popular product. Clients access financing applying for fairly small amounts, that grow over time.

The average for a new client credit is USD 415, which is 9 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 2018). The average monthly payment installment represents 3.6% of revenue from their business sales. For example, on sales of USD 1,000, the credit would entail a monthly repayment of USD 36. Clients look for inexpensive and short-term financial charges so that they can better manage their cashflows. As clients progress and the credit relationship is consolidated, they access bigger loans, doubling them by the end of two years.

It is important to create long-term relationships that enable them to generate financial and reinvestment opportunities. After two years, more than half of credit clients still have a credit product. In fact, 68% sign up for a second credit, which indicates the importance and usefulness of such products to entrepreneurs. One in three credit clients takes out a voluntary insurance policy.

Number of branches **74**

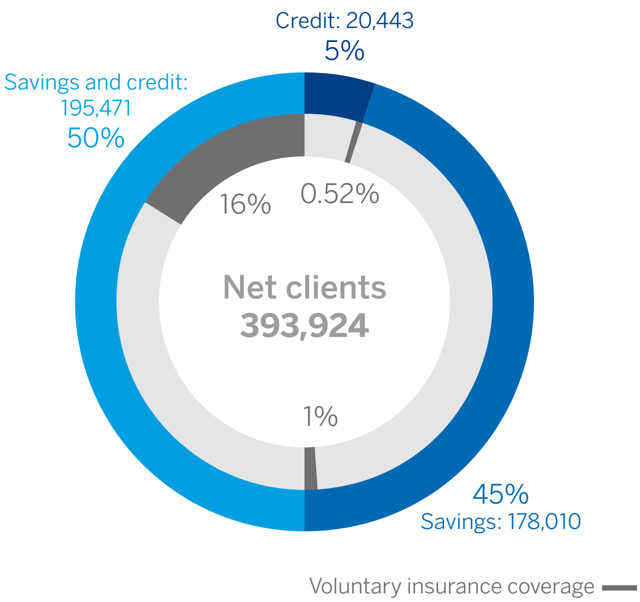
Number of loan officers **715**

Banking agents **200**

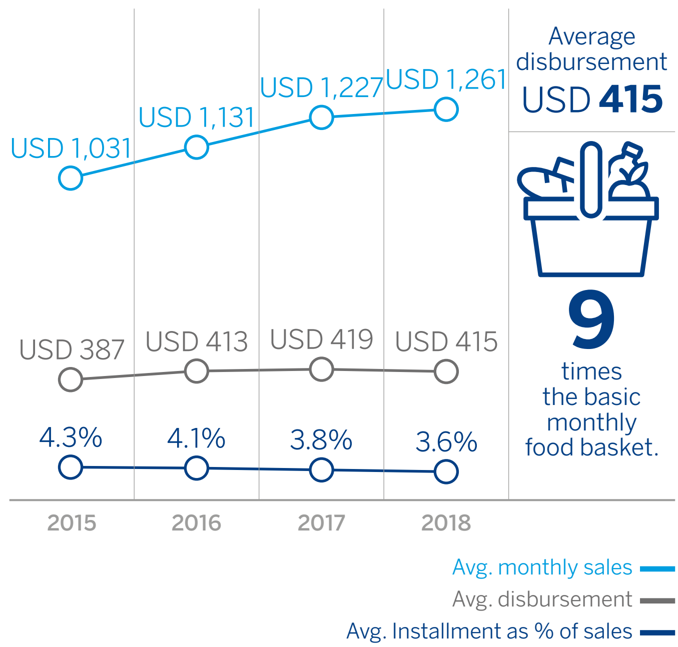
People receiving financial education **24,904**

(24) Clients current at 12.31.2018.
(25) New clients. Average disbursement, calculated as the average first disbursement for new clients each year. Weight of the installment calculated as each client's average ratio (loan installment payment over sales).
(26) Clients in each cohort on date of each data collection. Value at the outset is the average initial value of the 2013–2018 cohorts, to which the average growth of the disbursement by the 2013–2018 cohorts (year of entry) is applied.
(27) Retention: Percentage of clients in each cohort (year of entry) that remain current at the end of each year and up to 12.31.2018. Averages of the 2013–2018 cohorts.
Recurrence: Clients served since 2011. Percentage of clients who, after their first loan, take out another. The distance between cycles is the gap (in days) between disbursements of one credit and those for the next (the first one need not necessarily have been cancelled).

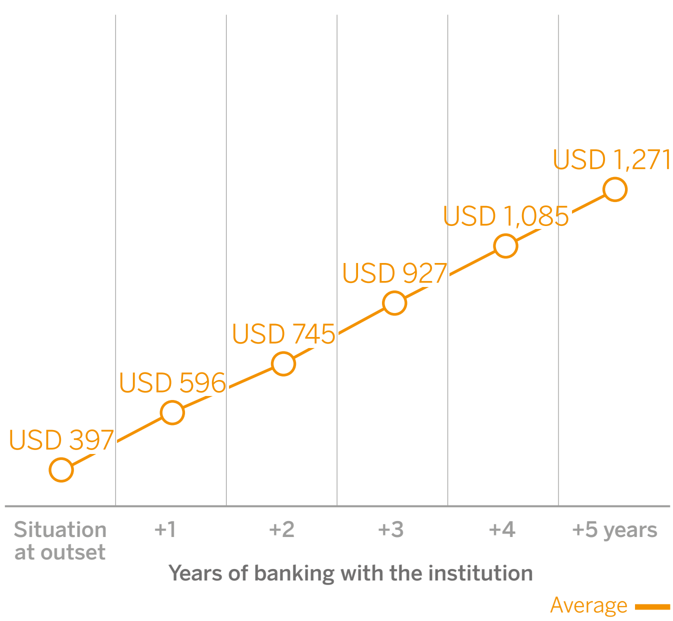
24 CLIENTS BY PRODUCT TYPE
Total current clients



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



26 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship



27 RETENTION & RECURRENCE
Of credit clients

Clients with a credit relationship after x years

	Situation at outset	+1	+2	+3	+4	+5 years
Retention	100%	74%	56%	42%	33%	28%

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

	1st credit	2nd credit	3rd credit	4th credit	5th credit	6th credit
Recurrence	100%	68%	47%	32%	22%	13%
Distance (days)	–	383	411	426	431	420

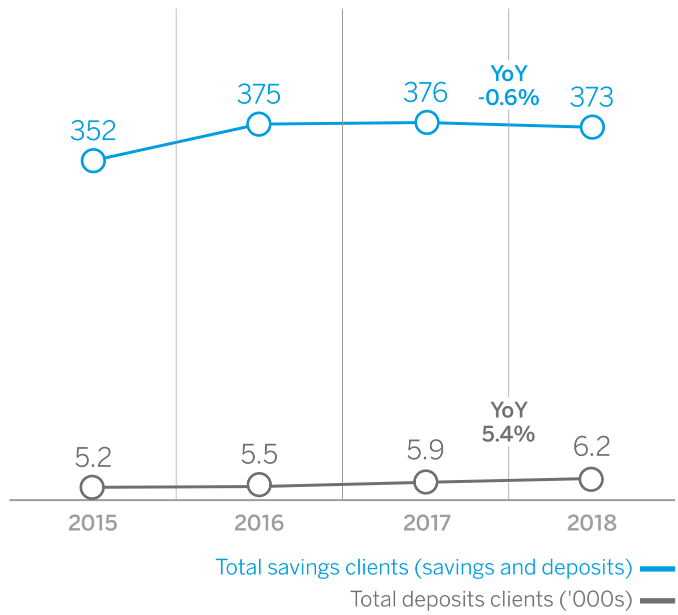
3. Relationships with clients

RELATIONSHIP WITH OUR SAVINGS CLIENTS

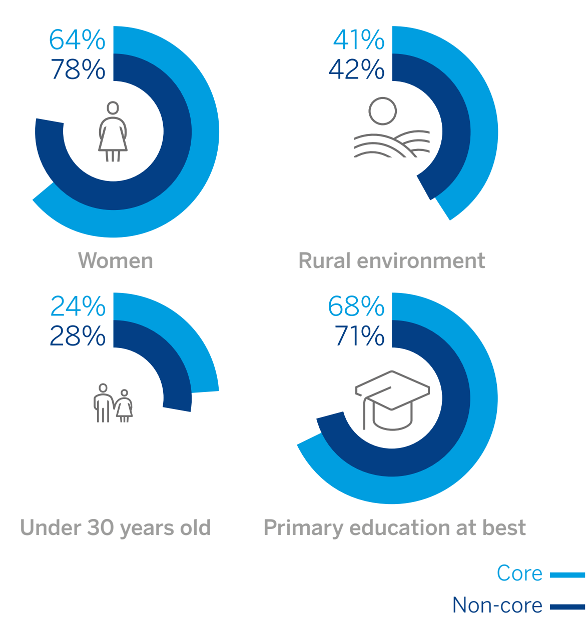
It is important that vulnerable people start to turn saving into a habit so that they can better absorb financial shocks. In 2018, 373,481 clients had a savings product. Banco Adopem upholds the practice of distinguishing between clients who save and those who only make transactions. To this end, one has to understand the products being sold:

- Sight savings products: Open savings accounts, including a programed saving product (an account that encourages steady saving to achieve a target).
- Non-sight savings products or deposits (term saving). It should be noted that the number of clients with deposits has increased over the last year.

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



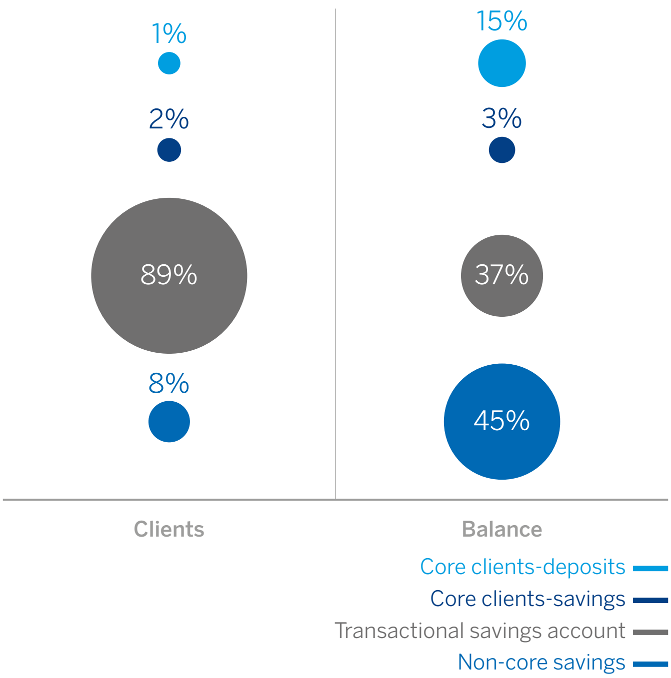
30 SAVINGS CLIENTS, TYPES
Core clients (savings & deposits) vs. non-core clients



(28) Clients with savings products (savings and deposits accounts) on each data collection date.
(29) Clients with any kind of savings current at 12.31.2018 (excluding institutional clients and employees).
- Core clients-savings: Clients with a programed savings product.
- Core clients-deposits: Clients with non-sight products (deposits) who have had a credit with the institution at some point.
- Transactional accounts: Clients with a current savings account.
- Non-core savings: Non-core term deposit clients, remittances, etc.

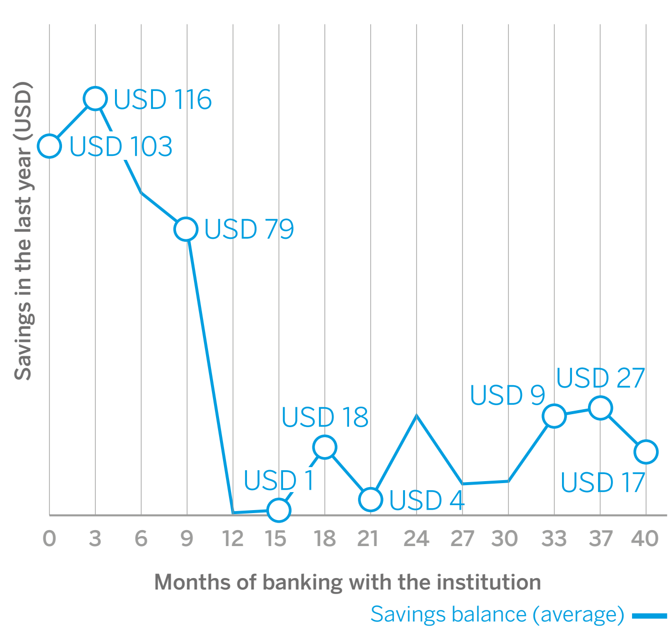
(30) Clients classified as core (core savings clients and core deposit clients) compared with non-core clients. All clients current as of 12.31.2018.
(31) Clients with programed savings product, comparing balances at t-12 and t. The average saving by client seniority is shown.
(32) Clients with financial certificates (deposits) current at 12.31.2018 who have had a credit with the institution at some point. Median saving by seniority. The median accumulated saving is shown.

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

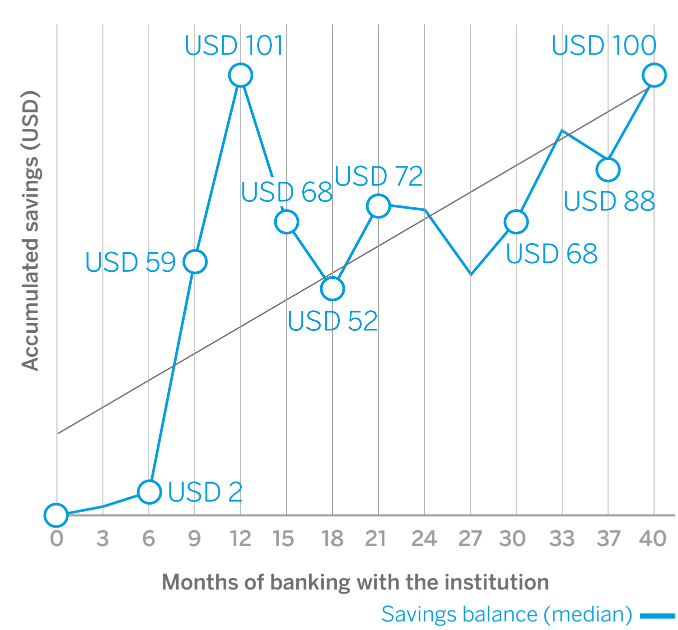


CLIENT TYPE	PURPOSE
CORE Clients with products designed to capture micro-entrepreneurs' savings or savings contracted by our credit clients	**What are the micro-entrepreneurs to whom we sell savings products like? How much do they save?**
TRANSACTIONAL Clients with a savings account where the loan, interest payment, etc. is paid in. They may have other products (credit or savings) or not	**Do they really use the transactional account?**
NON-CORE Remaining clients, source of funding	

31 **HOW MUCH THEY SAVE - SAVINGS**
Core savings clients



32 **HOW MUCH THEY SAVE - DEPOSITS**
Core deposit clients



3. Relationships with clients

Most clients with savings products have transactional accounts, that is, a sight savings account which they use to manage their finances. These clients account for 37% of the institution's liabilities.

Clients find using these accounts challenging, perhaps because of the difficulties they have in getting to a physical branch office to manage the account, or because they are not used to them. Exclusive savings clients (those who have never taken out a loan) tend to use their accounts more, ie. they are more transactional, with this concept referring to those clients who have carried out 3 movements or more in the last 3 months. In the case of exclusive savings clients, 22% are transactional, compared to remaining clients, only 17% of whom are transactional.

Most of the institution's liabilities are in the hands of 11% of its clients: these should be divided into core clients (the bank's target clients, whether because they take out products that are specifically designed for microentrepreneurs, or because they have taken out at least one credit with the institution) and non-core clients (the remainder)[5].

Core savings clients sign up for programed savings products, committing themselves to saving a certain amount on a regular basis, or otherwise to term deposits. The former account for 2% of clients and the latter for 1%. Between them they make up 18% of the institution's liabilities.

In terms of savings volumes, clients who take on programed savings products manage to save in their first year, but as more time passes, their savings diminish (see Fig. 31). This may be due to emergencies, lack of discipline (it is difficult to stick to a permanent savings path) or to the fact that the product no longer interests them after the term has ended.

Among core clients investing in term deposits, although there are not many of them, we see a positive pattern over time: there is a positive correlation between saving and the seniority of clients who succeed in accumulating capital. 49% of clients with this product have saved over USD 100 (see Fig. 32). They can be considered more sophisticated clients, because it is an effort that requires a minimum level of net income and a stability or motivation that enables to take out this type of product, which is not often found. That is why there are so few of them.

If we can continue deepening out understanding of these clients, we will be able to adapt the timings and features of our savings products to their needs.

Saving is a key tool in financial inclusion. 17% of clients use their accounts proactively.

[5] Please note that institutional clients and employees have been excluded from the savings client study.

Financial health: the first step to making a bigger impact

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

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

Banco Adopem has pioneered the implementation of this new methodology:

- **578 clients** interviewed in Santo Domingo metropolitan region
- **40 questions** about financial health

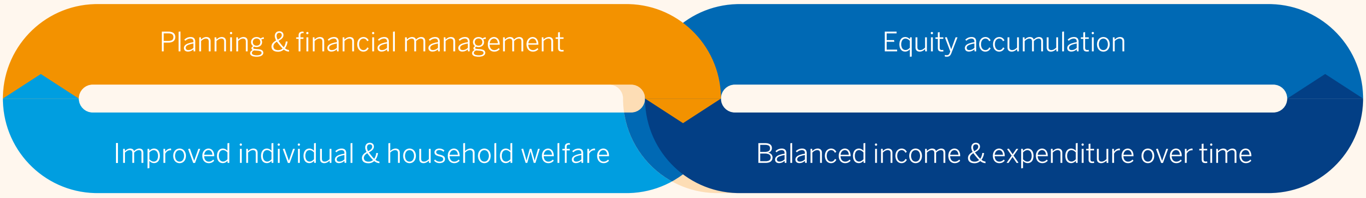
A new dimension that enables us to get to know our clients better and their financial management of their households.

BILL & MELINDA GATES *foundation* CFSI Center for Financial Services Innovation ipa INNOVATIONS FOR POVERTY ACTION

97%

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

GOOD FINANCIAL MANAGEMENT GENERATES IMPACT



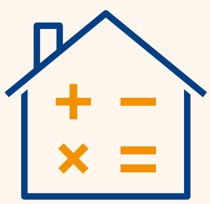
The survey helps us to continue designing effective tools that are adapted to the needs of our entrepreneurs.

PLANNED FINANCIAL MANAGEMENT OF THE HOUSEHOLD IS IN PLACE

They have their finances under control

70%
reply that they do not behave impulsively.

75%
say that they plan their payments in the short term and slightly more than half acknowledge doing annual planning.

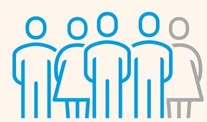


They know when to apply for a loan and for how much

3 out of 4
say that they take sound decisions about the amount of the loan and the right moment to apply for one.

They fulfil their commitments

4 of every 5
say that they make their installment payments on time.



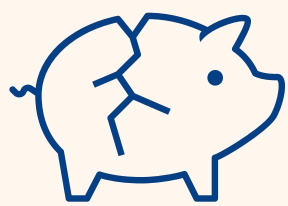
THE LIKELIHOOD OF SUFFERING POVERTY UNDERMINES PLANS FOR THE FUTURE

They have unstable and infrequent incomes

50% say they don't have stable monthly incomes.

63% don't receive incomes from their businesses every day.

67% don't have a regular monthly wage coming into the household.



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

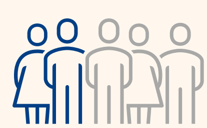
MICROFINANCE IS AN OPPORTUNITY TO SMOOTH SHOCKS

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

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

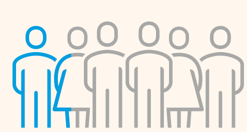
They are interested in saving

2 out of 5
acknowledge that they have a savings goal for the next 12 months.



They welcome formal savings, but it remains a challenge

1 in every 6
have recourse to formal savings to deal with unexpected expenses.



For a more sustainable rural environment

"In the greenhouses I learned when and how much to produce."

Alberto Castillo Hernandez
Banco Adopem client

His long experience of working the land has given Alberto Castillo Hernández the skills he needs to set up an enterprise. For the last nine years he has been producing a range of different crops, including Indian chili, long chili and Chinese eggplant, among others.

Banco Adopem has been with him all this time and thanks to Eco-credit, this entrepreneur has been able to invest in boreholes, an irrigation system, planters and in modernizing his greenhouse. All this has meant his agricultural production system is better, so he can ensure high productivity and sign up for the Good Agricultural Practices certification (BPA in Spanish), allowing him to export.

"I am very grateful for all the advantages I have obtained because, as well as being my own boss, I have gained a lot more: I can spend more time with my children and support them to become professionals. That is priceless."

Our priority is to make a value offering to rural inhabitants (19.7% of the country's population[1]), since it is they who suffer the highest rate of poverty. Furthermore, this demographic group is where agricultural activity is concentrated, a sector on which over 177,799 Dominicans depend[2].

At the end of 2016 Banco Adopem launched **"Rural and environmental Finance"** (FRA). Supported by the ADA organization and in partnership with the Central American and Caribbean Microfinance Network (REDCAMIF), a program was designed to accelerate rural financial inclusion, including measures to improve environmental conditions and help people to adapt to climate change. Its purpose is to make it easier to get credit in order to improve the environmental productivity of crops in rural areas and raise their resilience to climate change. This initiative has taken shape in three main lines of action:

- **Eco-credit**, with specific measures for environmental adaptation. We have provided these for **841 clients**.
- **Agro-Mujer** swith conditions tailored to rural women. To date **251 clients** have benefited from these.
- **Financial training** programs.

This product package also includes training and environmental adaptation measures for our clients, ensuring that the means of production are used correctly and efficiently, as well as improving their incomes and resilience to the effects of climate change. The program began in 7 branches across 4 very rural provinces in which agriculture is the predominant activity.

IMPACT:

- Increased social and/or economic resilience among rural populations.
- Lowered risks associated with climate events in productive activities.
- Protection, restoration or use of ecosystems and biodiversity in a sustainable manner.
- Positive contribution in the short term to people's personal economies.

[1] World Bank.
[2] National Statistics Office (ONE). https://www.one.gob.do/censos/agropecuarios

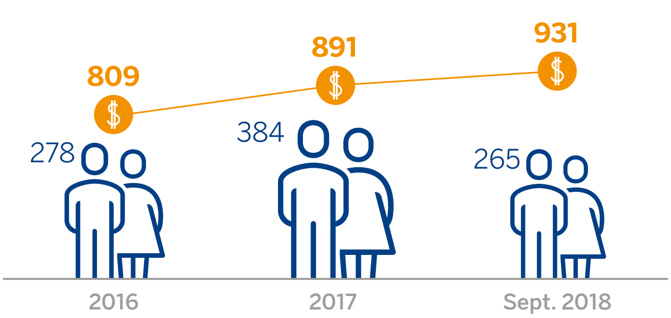
ECO-CREDIT

The purpose of this product is to **improve agricultural clients' environmental conditions.**
In addition, it is designed to adapt to irregular harvesting seasons.

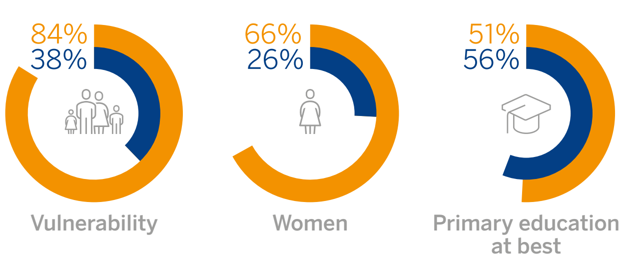
Adaptation measures:

- Supporting organic crops
- Environmental management of water resources
- Appropriate handling of agrochemicals
- Permanent arboreal cover
- Appropriate handling of manure

CLIENTS SERVED AND AVERAGE DISBURSEMENT



CLIENT PROFILE

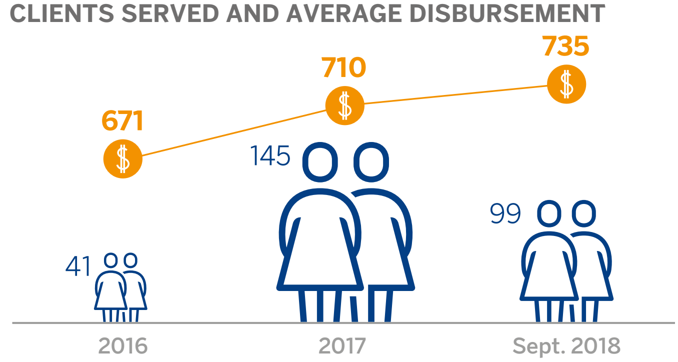


Data as of September 30th, 2018.

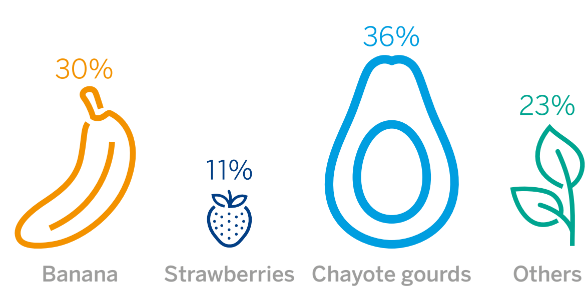
AGRO-MUJER

The purpose of this initiative is to generate greater **gender equality** in the rural environment and in the agricultural sector, improving access to land and **women's empowerment.**

CLIENTS SERVED AND AVERAGE DISBURSEMENT



MAIN CROPS



Macroeconomic environment

ECONOMY[1]

The Dominican economy expanded by 7.0% in 2018, driven by supply-side performance in its largest sectors: construction, trade, communications and other services. In fact, all sectors grew apart from mining, where gold production dipped because of the temporary shutdown of the country's main production plant for maintenance in the first half of the year.

The exterior sector has been a major factor in this hike, mainly thanks to record levels in remittances and tourism. Both are linked to the solid performance of the US economy, a key source for these sectors, and have given the Republic better external liquidity, exchange rate stability and multi-dimensional social development throughout its territory.

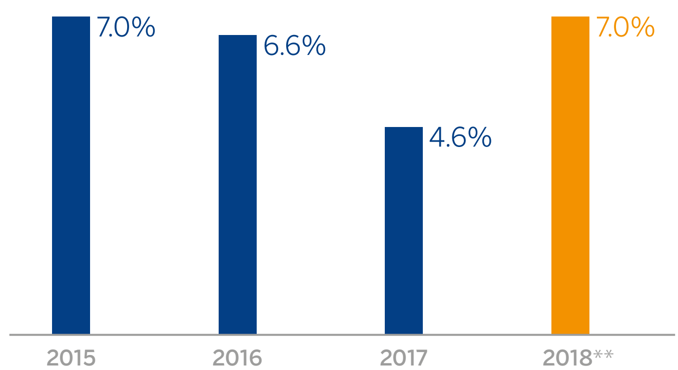
On the demand side, in 2018 there was a healthy recovery in investment, which surged ahead by 14.4%, after zero growth the previous year, while consumption was up by 5.8%. In the last few years, this variable has been less volatile, posting average growth of 5%.

This stabilization in private consumption in recent years is due to its close correlation with remittances, enabling household consumption to rely less on the domestic cycle, helping to create more stable GDP, given the important weighting of this component.

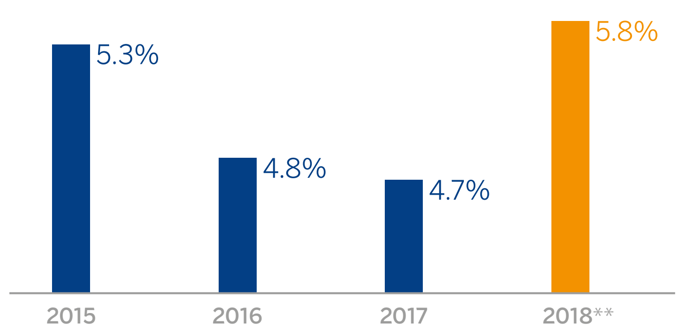
Inflation fell to 1.2% in 2018, just tipping over the lower end of the target range. This was mainly accounted for by better performance of the food and non-alcoholic beverages group, which offset the rise in the international oil price in the first part of the year, but which slipped back in the final quarter. The greater weighting of food in the household basket among the more vulnerable strata of society enabled these segments to experience a recovery in their disposable income.

The central bank has gone back to the restrictive position it adopted in 2016, raising the monetary policy rate by 25 basis points, which left it at 5.5% at the end of 2018.

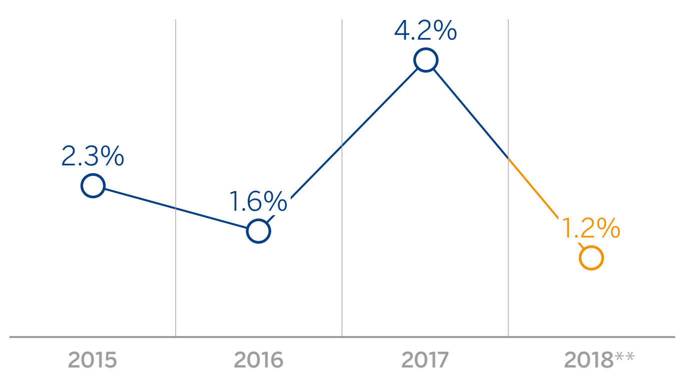
GDP*
Real variation (%)



CONSUMPTION*
Real variation (%)



INFLATION*
Real variation (%)



[1] All data from the central bank of the Dominican Republic. Estimates to the end of 2018 by BBVAMF Research.

* Central bank, Dominican Republic.
** BBVAMF Research estimate.

EMPLOYMENT, POVERTY AND WELFARE

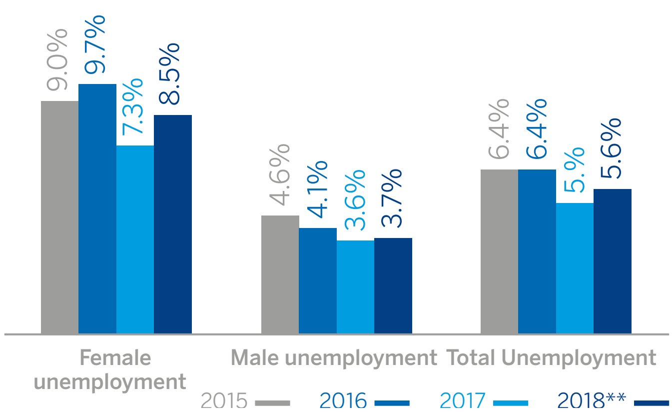
Employment benefited from the dynamic economic activity, mainly in the service and construction sectors, which are significant job creators, which brought the unemployment rate down to 5.6%. However, if the under-employed, who are not classified as unemployed, are included, the rate would rise to 10.4%. 58% of the employed are working in the informal economy, with the implications that has in terms of productivity and welfare.

In the case of men, the unemployment rate was similar to the previous year, at 4.1%, whereas, for women, the rate rose by 1.2 percentage points, from 7.3% to 8.5%. If the under-employed are included, this rate comes in at 7.9% and 14% for men and women respectively, with the gender gap widening as a result of the significant weighting of under-employment in women's employment rate (they work fewer hours and would like to work more). These figures flag up the need to continue implementing public policies that provide incentives for women's employment.

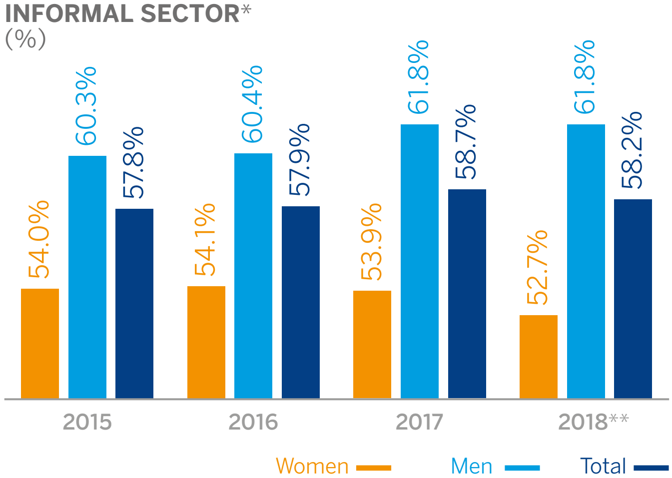
Of the total active population, 62% of men and 53% of women work in the informal economy.

Drilling down into the data by region, according to the latest available figures, the area with the highest unemployment is the Eastern region, at 8.2%, compared to the Northern region of Cibao with just 1.3%. In the Metropolitan region the unemployment rate is 7.5%, while in the Southern region it stands at 6.5%. In this last region around 9% of the workforce is under-employed, whereas in the Eastern region this is the case for only 1.6%, which shows the significant divergences between the regions when it comes to the quality of their employment.

LABOR MARKET*
(%)



INFORMAL SECTOR*
(%)



* Central bank, rolling survey (ENCFT).
** ENCFT, third quarter.

Macroeconomic environment

Around 24.6% of Dominicans are in a situation of monetary poverty, while 15% of the population is in extreme poverty.

There has been a 0.7p.p. drop in the rate of monetary poverty in urban zones, falling 24.5% to 23.8%. It has also shrunk in rural areas, from 29.6% to 28.4%, a reduction of 1.2 percentage points in one year.

The momentum of economic activity and low levels of unemployment and under-employment have enabled around 550,000 people to escape poverty in the last three years, with this figure falling by 6.2p.p. Of this reduction, an estimated 3.2p.p. (52.5% of those escaping poverty) sis due to the rise in the real per capita income of Dominican households, with the remaining 3p.p. of the fall associated with the behavior of household income distribution.

These results came in conjunction with a nationwide reduction in inequality, more so in rural than in urban areas.

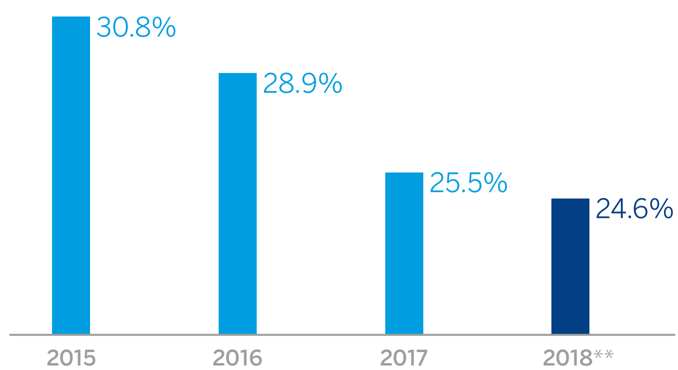
FINANCIAL INCLUSION[2]

According to the latest available figures, in the Dominican Republic around 3.2 million adults remain unbanked. 44% of the total –most of them from the more vulnerable segments– do not have a bank account in a financial institution. 53% of all unbanked adults are women, while 63% of banked adults are in the workforce.

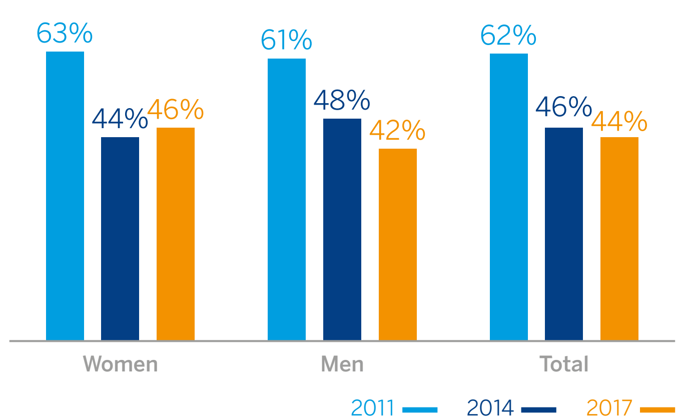
By income segment, of the 40% poorest adults, 58% are outside the financial system. Of the 60% with the highest incomes, 34% are unbanked.

Nationwide, 57% of adults with primary education at best are unbanked, demonstrating that the population with the lowest educational attainments is more likely to be excluded from the financial system.

MONETARY POVERTY*
Population (%)



UNBANKED ADULTS***
Total over 15 years old (%)



* National Statistics Office, using national labor force survey (ENFT) data.
** BBVAMF Research estimate.
*** Global Findex 2017, World Bank.

[2] Global Findex 2017, World Bank.

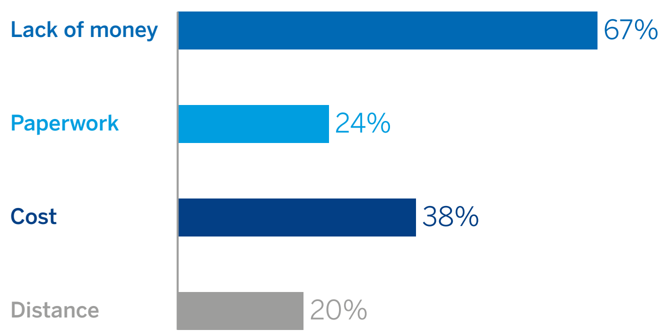
Several reasons are given for being unbanked. The most common is that they had very little money. Specifically, 67% of adults claimed that this was one of the reasons why they do not have an account in a financial institution, while close to 20% gave it as the sole reason.

20% of adults says that they do not have a bank account because the financial institutions are too far away, while 38% argue that financial services are "very expensive". 24% comment that it is because they do not have the documents needed to be able to open an account, while 31% say that another family member has an account that is used by the rest of the family.

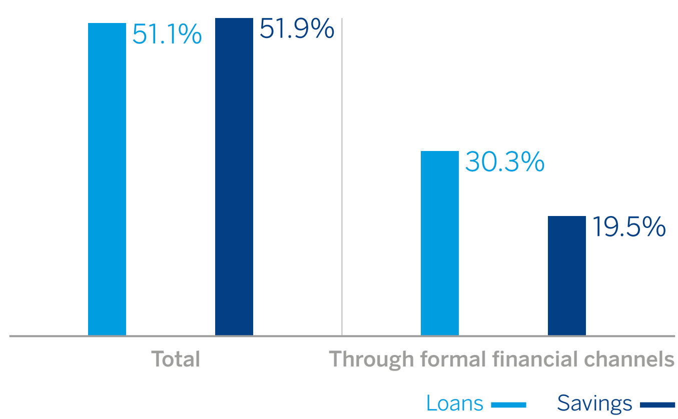
Looking at the financial products held, while 51% of adults have received a loan in the last year, only 30% have had one that is issued by the financial system and 19% have used money lent by family members or friends. Turning to savings, 52% have saved something in the last year, but only 19% have done so in a financial institution and only 13% have saved for their retirement.

All these factors make up a route map showing the areas that should be tackled to encourage and extend financial inclusion across the nation.

EXCLUSION FACTORS*
Excluded adults (%)



PRODUCTS IN DEMAND
Adults (%)



* Global Findex 2017, World Bank.