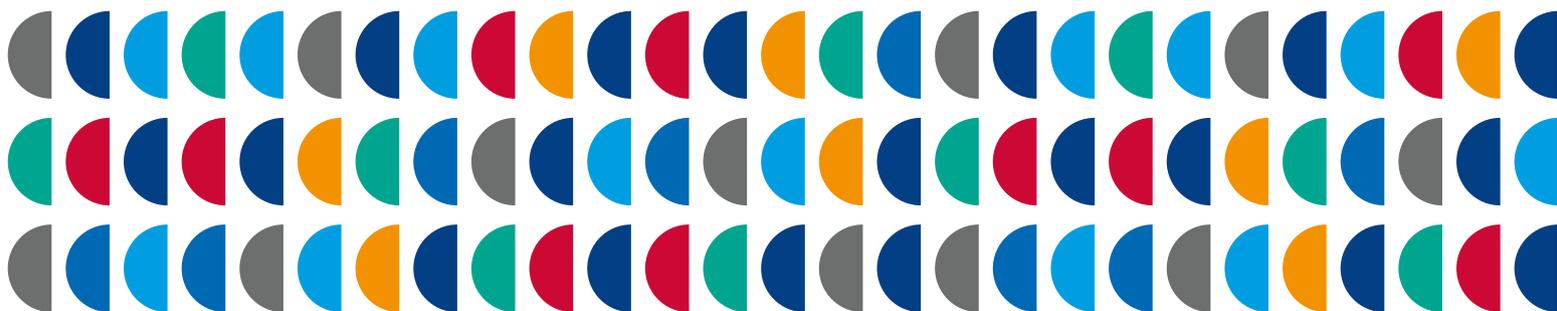




Measuring what really matters

 SOCIAL PERFORMANCE
REPORT **2018**



Social Performance Report 2018

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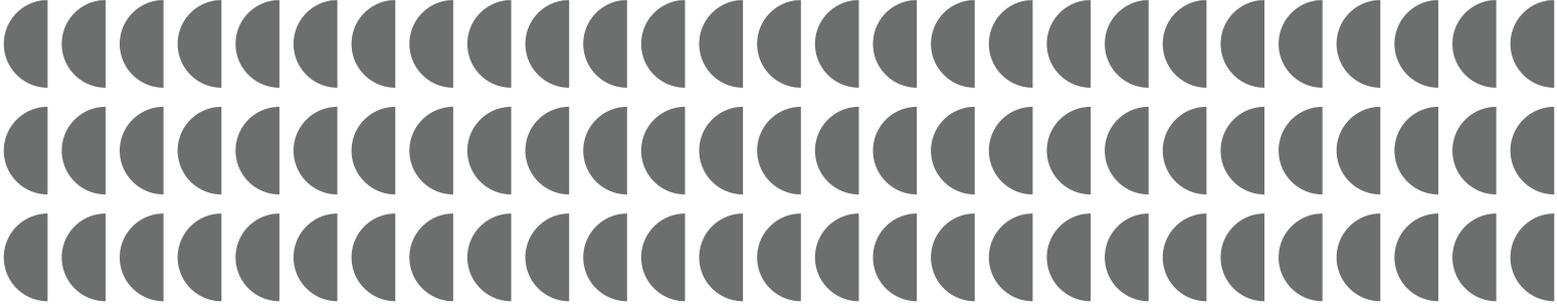
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Introduction

 SOCIAL PERFORMANCE
REPORT **2018**



BBVA Microfinance Foundation

The Foundation is the leading philanthropic initiative in Latin America, serving over 2 million vulnerable entrepreneurs in 2018 with microfinance products and services. It combines more than 150 years of banking activity with the experience of important microfinance institutions. The challenges facing the region are immense: according to the latest estimates, 182 million people live in poverty, and 203 million are excluded from the formal financial system.

The financial system plays a vital role in development. Financial policies that help talented people with entrepreneurial mindsets to access financing are critically important. They bring stability, encourage growth, reduce poverty and help to achieve a more equitable distribution of resources and capabilities.

The BBVA Microfinance Foundation (BBVAMF) is a non-profit institution, created as part of the corporate social responsibility framework of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) to put its entire banking experience at the service of people in vulnerability.

The purpose of the Foundation is the sustainable development of vulnerable entrepreneurs through Productive Finance. This methodology is based on personal knowledge of microentrepreneurs and their needs, to support them in generating economic surpluses that are sustainable over time. In this way, they improve their welfare, their standards of living and those of their communities.

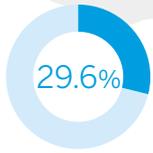
BBVAMF Group's microfinance institutions in five countries provide a complete range of financial products and services to over 2 million entrepreneurs, who are also supported with training. In 2018 the Group signed off USD 1.44 billion in credits to vulnerable entrepreneurs. These numbers put the Foundation in a leading position in microfinance with individual methodology in Latin America, making it the philanthropic initiative with the greatest social impact in this part of the world.

BBVAMF has two strategic focus points of activity: managing a group of sustainable microfinance institutions that are a reference in Latin America aligned with the UN's Sustainable Development Goals; while at the same time implementing initiatives which drive forward transformation in the sector.

* Economic Commission for Latin America and the Caribbean (ECLAC), based on its Household Surveys Database (BADEHOG); Global Findex Database 2017, World Bank

** ECLAC | 1 = maximum inequality, 0 = maximum equality.

THE DIMENSION OF THE CHALLENGE IN LATIN AMERICA*

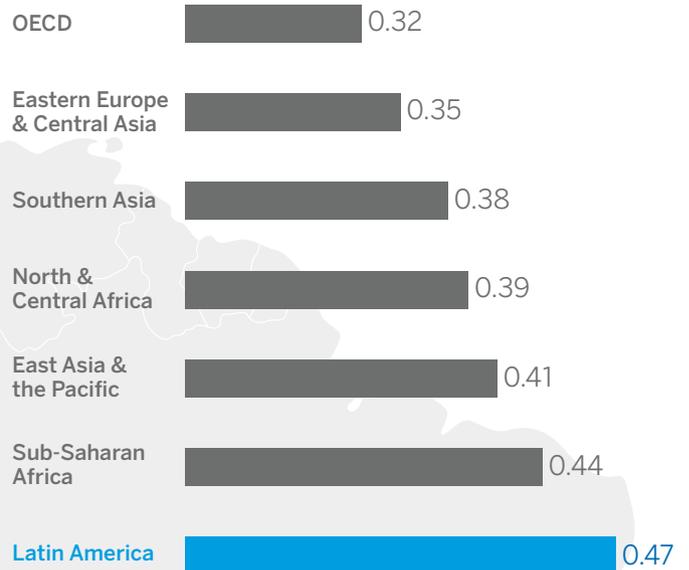


182
million people live in **monetary poverty.**



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

THE MOST UNEQUAL REGION IN THE WORLD**



KEY NUMBERS

N° of clients

2,085,945

Gross portfolio

USD 1,155M

Credit transactions

1,131,583

Credit disbursement

USD 1,469M

N° of credits/day

4,500

Disbursement volume/day

USD 5.9M

Client savings & deposits

USD 616M

Average loan disbursed in 2018

USD 1,298

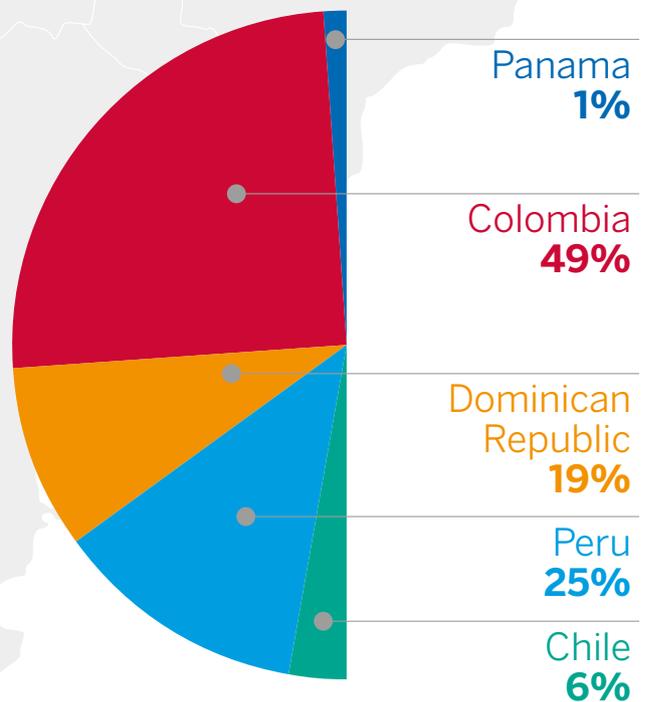
Number of employees

8,022

Number of branches

515

WHERE TO FIND OUR CLIENTS



Sustainable Development Goals (SDGs)

Financial inclusion and microfinance play a key role in poverty reduction, ensuring economic and social development. The 2030 Development Agenda acknowledges this transversal role in several of the SDGs. It also highlights the importance of guaranteeing access to financial services for all people, and underlines in particular the significance this has for women, who have lower rates of financial inclusion.

A series of indicators have been built since 2015 that track BBVAMF Group’s contribution to the Sustainable Development Goals. This system picks out the key impacts that the Group’s efforts have on 11 of the 17 ODS.



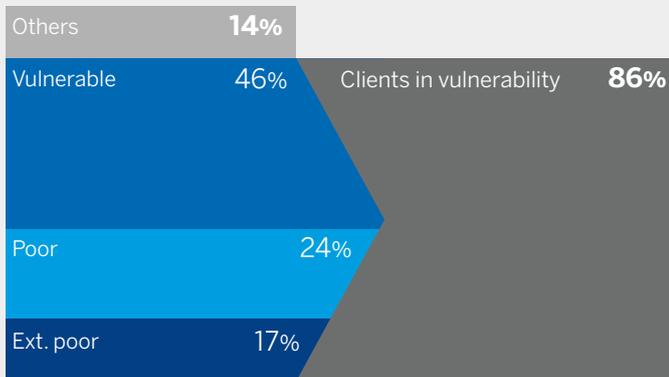
Providing financial services to vulnerable populations



2,058,890 credit clients served (2015–2018).

ECONOMIC VULNERABILITY

Economic vulnerability of clients at the outset of their relationship. Clients served between 2015-2018.



Targeting financial resources for food producers in rural areas to boost their growth



681,408 rural credit clients served (2015–2018).

CLIENTS CURRENT AS OF 31.12.2018

35%
Rural clients



Their assets grow at **18%**

Empowering clients with financial education so that they can make better decisions



FINANCIAL EDUCATION



1,366,744

people have received financial education (2015-2018).

Promoting equality between men and women



57% of new clients in 2018 are women.

FINANCIAL GAPS BETWEEN OUR CLIENTS

New clients served in 2018



8 out of every 10 clients overcoming poverty **are women.**

Sustainable Development Goals (SDG)

Improving sanitary conditions, a basic need

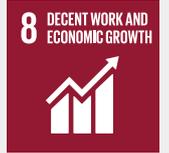


+7,000 clients financed to improve access to water and sanitation in their homes.

As a result of the partnership between Financiera Confianza and Water.org, we have financed sanitary improvements in our clients' homes, helping to improve their standards of living and that of their families and mitigating the deterioration of the ecosystem.



Financial services that encourage businesses to grow



Clients' businesses grow sustainably over time, their sales grow at 17% and their assets at 23% yearly.

GROWTH IN SALES

Years banking with the institution



Providing opportunities so that no-one is left behind



So that growth reaches everyone, we serve women, young people, older people and the rural population. We see the incomes of the clients we serve rising over time.

CLIENTS WITH INCOME OVER THE POVERTY LINE

By years banking with the institution (%)



Upgrading housing, their basic services and reducing risk



+24,000 clients take out home improvement loans (2016–2018).

We implement innovative mechanisms for financing and access to sustainable housing solutions. These are supported by technical assistance to upgrade clients' housing infrastructure and give them greater resilience against climate shocks.



Finding solutions to build up their resilience and adaptation to climate change



+1,200 clients served with green loans.

Fully aware of the challenge posed by climate change, we are committed to implementing a green growth approach, where we adopt procedures and develop products that mitigate environmental impact and promote more sustainable development.



In conflict zones, we work as a team



Helping clients in post-conflict zones and promoting the integration of refugees.

COLOMBIA
Restoring peace

PANAMA
Welcoming refugees

61%
Bancamía's footprint (municipalities)

+250
Credits disbursed (worth more than USD 200,000)

Present in the areas designated as priority by the **government of Colombia** to put the **peace agreement** into action.

UNHCR and Microserfin have renewed their working agreement for refugee integration for the third time. The Government of Panama has 2,500 registered refugees.

Strategic partnerships, to achieve goals



Strategic partnerships to improve the inclusion of entrepreneurs in vulnerability, our efficiency and scope.

BBVAMF has reached agreements with other organizations that drive and multiply the impact of its activities and contribute to the development and strengthening of the microfinance sector.



BBVAMF Group's strategic lines of action

Ultimately, our purpose is for the progress made by the entrepreneurs we serve to be sustainable and as broad as possible, impacting on several economic and social development dimensions. In other words, the development of our activity should be inclusive (reach), have an impact on as many vulnerable people as possible (scale), and always employ a sustainable approach. To that end, the BBVAMF Group puts financial and digital innovation at the service of its entrepreneurs.

Its roadmap follows six strategic paths:

This means putting entrepreneurs right at the heart of microfinance activity.

To strengthen this pledge, BBVAMF made a commitment to creating an impact measurement system that is shown in this Social Performance Report.

BBVAMF Group's efforts show that tackling development challenges robustly but with humility leads to a better diagnosis of the problems and triggers better-designed solutions.

This report allows us to feed strategy back into the process, creating maximum alignment between the Group's work and its mission, together with the opportunity to share this with other players.

**Corporate
governance**

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**Human
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Corporate governance

The Foundation supports the rollout of an appropriate corporate governance system in Group institutions, anchored in the principles of transparency, equity, responsibility and legality.

The true potential of corporate governance is only apparent when all those who make up the organization are engaged: shareholders, board members, executives, co-workers, etc. For this reason, the Foundation believes it is fundamental to create awareness that an appropriate corporate governance structure helps to improve institutions' performance and their reach.

Main lines of action

→ *Good governance workshops*

→ *Legal news e-zine "Progreso"*

→ *Corporate governance code for microfinance institutions*

Our commitment to good governance promotes the creation of value for our stakeholders.

WORKSHOPS

In line with its mission, since 2011 the Foundation has contributed to the microfinance sector's development and transformation by running training workshops on corporate governance. This provides the opportunity to make participants understand that good governance is a strategic and distinguishing factor, enabling it to:



Generate greater social impact



Strengthen stakeholder trust



Guarantee sustainability



Manage their risks effectively



Broaden their access to financing



Improve their organization's efficiency



Differentiate themselves from the competition

The Foundation aims to create awareness among participants in these workshops of the need to identify stakeholders' expectations and demands, involve them in its activities and integrate them into its corporate strategy, in order to further improve efficiency, achieve solid socio-economic performance and open up access to more markets.

They are designed for professionals who want to deepen and broaden their understanding of governance and to spearhead the changes needed to consolidate their institutions as solid institutions that are sustainable in the long term, enabling them:

- To develop the competences they need in the planning and strategic management of their institution's relationships with its environment
- To learn about the key risks facing institutions that lack good governance in their processes
- To assess the extent to which their institution has implemented good governance
- To stay abreast of new regulations, codes, recommendations and trends, both domestic and international
- To participate in a dynamic forum for dialogue where experiences can be exchanged

Since 2011



11
workshops



450
Participants

Working with:

Abancord, Asomif, Banca de las Oportunidades, Bancoldex, Fepcmac, Redcamif/Redcom, ESAN, Universidad Católica San Pablo.

PROGRESO MAGAZINE

The Foundation has been publishing a quarterly e-zine with legal news on inclusion and social development, *Progreso*, since 2014. This compiles new legislation and regulations affecting the microfinance sector, as well as the latest news and international trends in corporate governance.

In addition, each edition contains an interview with a prestigious name in the field, as well as summaries of expert papers and publications by multilateral bodies.



CODE OF CORPORATE GOVERNANCE

Another of the Foundation's initiatives to promote good corporate governance is the *Code of Corporate Governance for Microfinance Institutions* it has written and disseminated. This Code has been put together to provide the bodies and officers in charge of administering microfinance institutions –especially their organs of governance and management– with a set of good practices, standards and principles that are fundamental for transposing the general principles of good corporate governance into practical action.

Given that these types of principles are universal, the Code can be used as a guideline for any institution, whatever its legal form (companies, financial institutions, NGOs, cooperatives, foundations, etc.) or the sector in which it operates.

Human capital

The BBVAMF Group is fully aware that commitment to people is key in generating impact in the microfinance sector and is therefore driving initiatives that empower human capital.

CULTURE

In order to create opportunities and improve the lives of people in vulnerability, the Foundation has looked to the cornerstone principles of its corporate culture: a clear mission, a relationship of trust with its clients based on generating value, and principles that are ethical and focused on social responsibility.

The impact of information technologies on the transformation, not only of the microfinance sector, but on society as a whole, is the reason the Foundation is adapting and developing its corporate culture to put all the potential of digitalization at the service of vulnerable entrepreneurs, viewing the attendant challenges as an extraordinary strategic opportunity.

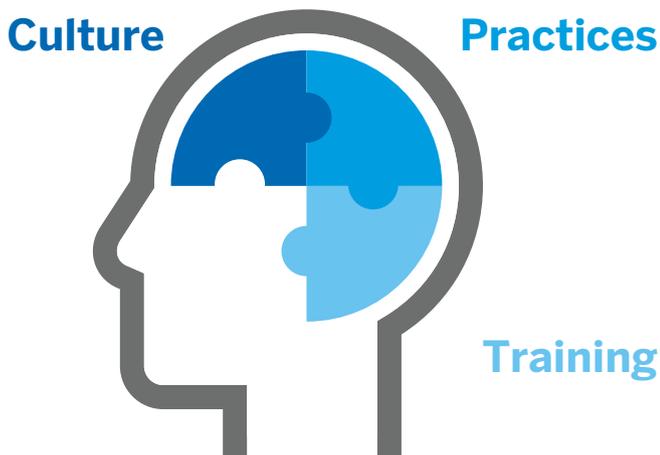
This initiative aims to drive forward a framework of values and patterns of behavior that reinforce the Group's identity and its relationship model with clients based on Productive Finance. It also hopes to inspire those working with the Group by its purpose of promoting the development of entrepreneurs in vulnerability and to foster a leadership model that is committed to people and encourages innovation in the use of technology and in working methodologies.

GRANTS

As part of its commitment to training and preparing young people in the countries where it operates to be fit for the job market, the Foundation runs a work experience program.

In the last five years, over 1,800 students have had work practice in our institutions. This group is one of the Group's main incubators of young talent. Around 20% of these students were hired once they had completed their work experience program.

In 2018 we launched the DIME Grants (Development, Inclusion, Microfinance and Entrepreneurship), an initiative allowing students at Spanish universities to experience the reality of microfinance in our Latin American institutions. For four weeks, students visit our entrepreneurs to learn about the social impact of our mission and the possibility in the future of working in a job with a meaningful purpose.



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.

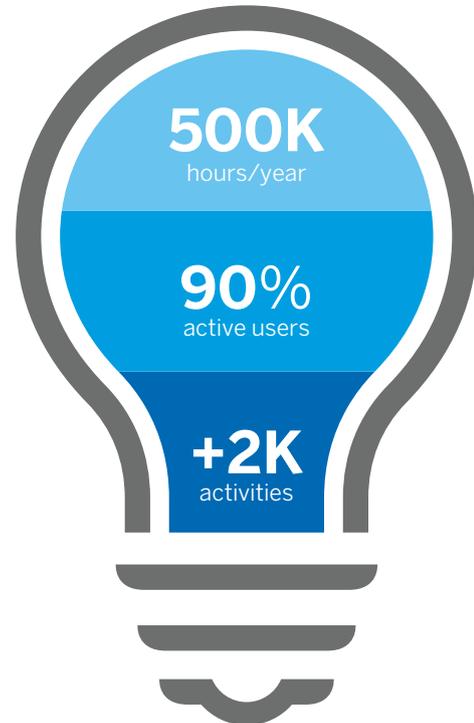
Activity on Campus is as busy as ever. Over 1.8 M hours of training have already been given. This past year 90% of employees have received a total of 500,000 hours, half of these online.

The subject matter available include over 2,000 activities; contents can be either generic, or specific to each institution. Global courses have continued to embed the Group's DNA more deeply, with best practices from our institutions and from the wider sector, drawn up using demanding pedagogical criteria and user experience.

To improve the capacities of supervisors and branch office coordinators, who manage 80% of the Group's employees, the Foundation has extended the scope of its School for Managers. With this in mind, it has 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 certifies the program in Bancamía, Peru's ESAN University does so in Financiera Confianza, and the Technology Institute of Monterrey supports Fondo Esperanza. To date, 500 people have already completed this program successfully.

We are innovating in training too, using game-based learning with interactive tools. The much-awarded Amigotchi app has helped over 800 supervisors and coordinators on the Campus program to improve their team management skills.

We have developed *Héroes* for this purpose: a fast immersion program for co-workers, both for those who have joined us recently and as continuous training for existing colleagues. This uses a game simulating the work of loan officers, who lie at the heart of our institution, empathy with the client, value generation and mobility strategy, among other issues.



Social innovation, critical in generating impact.



Women's empowerment

Women are real catalysts of a country's progress. They go into business for the sake of their families, in whom they invest up to 90% of their resources, improving their education, nutrition and healthcare. This is how they contribute to the development of human capital and to sustainable and inclusive growth. They are the cornerstones to reach the 2030 Agenda for Sustainable Development.

In Latin America, the lack of labor opportunities for women and the large amounts of time they spend on unpaid domestic and care work, restricts their income-earning possibilities. This leads them to depend economically on a third party, to take jobs in the informal economy or to start up a small self-employed business. For the latter, financial inclusion is a must.

Financial inclusion is an efficient tool for women's economic empowerment.

Women's entrepreneurship is a way of encouraging economic self-reliance and women's empowerment in the region. Latin America has one of the highest rates of women's entrepreneurship in the world (8 women for every 10 male entrepreneurs*), but their enterprises are a response to their needs, often at a subsistence level, and face numerous obstacles to growth. Their businesses are extensions of the household, so they tend to be smaller and less productive than those of men.

SITUATION OF WOMEN IN LATIN AMERICA

<p>FEMALE HEADS OF HOUSEHOLD</p> 	<p>LATIN AMERICA 28%¹</p> <hr/> <p>BBVAMF 45.2%² Aggregate data</p>
<p>TIME SPENT ON UNPAID WORK PER WEEK</p> 	<p> 35.8 hours³ </p> <hr/> <p> 11.9 hours³ </p>
<p>FINANCIAL INCLUSION GENDER GAP</p> 	<p> 40.3%⁴</p> <hr/> <p> 50.2%⁴</p> <p> GAP 9.9%</p>

* GEM data.

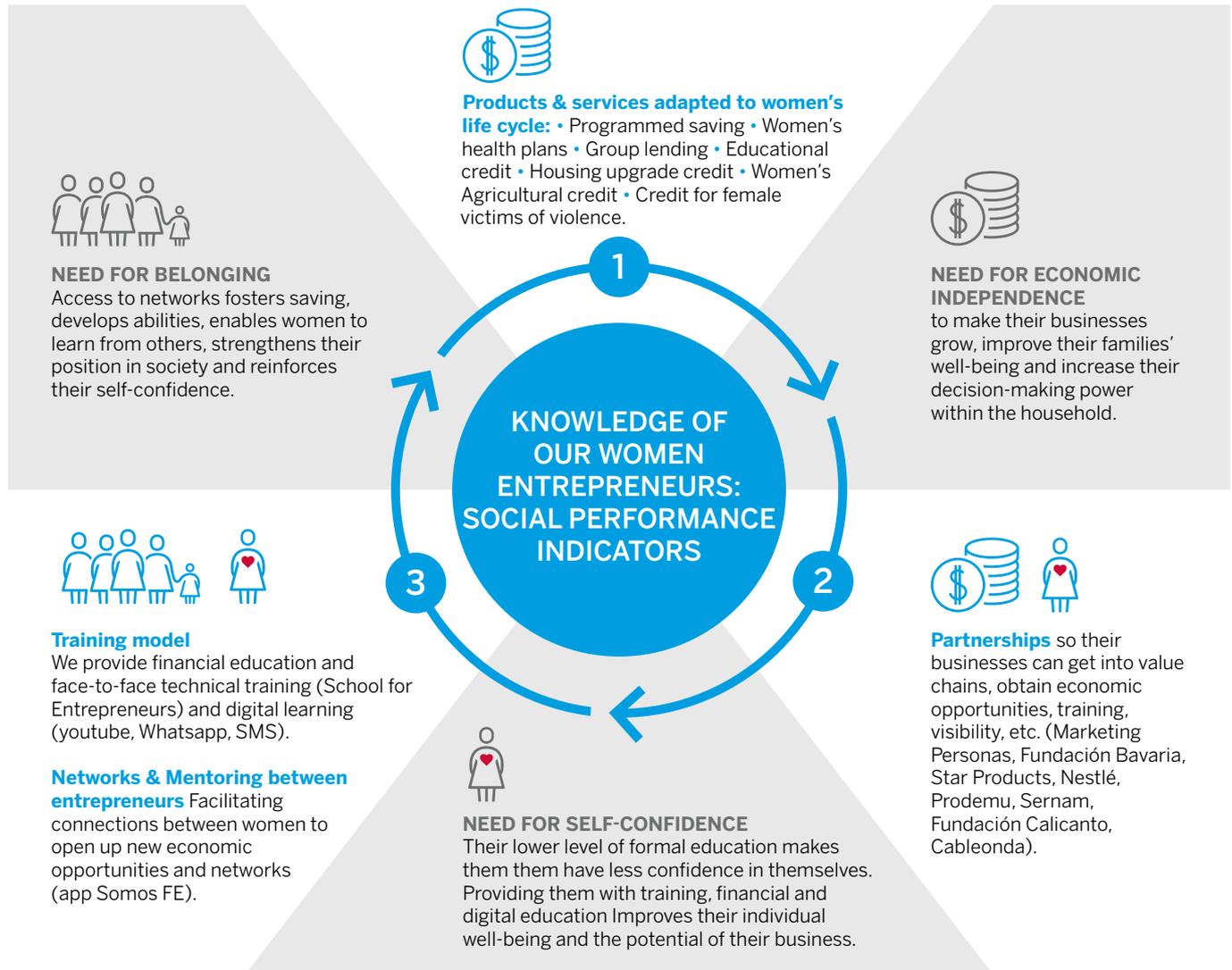
¹ BBVAMF table using ECLAC figures for Latin America: Weighted calculation from "Type of household by gender of head of household, by geographic area" data base (CEPALSTAT) and Total population, by gender (CEPALSTAT).

² Single women with dependents as a ratio of total BBVAMFG current clients at 12.31.2018.

³ BBVAMF table using ECLAC figures for Latin America: weighted calculation from "Total working time by type of household and sex" (CEPALSTAT) and "Total population, by sex" (CEPALSTAT).

⁴ People with an account in a financial institution. BBVAMF Group calculations for our geographies using data from Global Findex 2017.

A STRATEGY THAT MATCHES THEIR NEEDS



COMMITTED TO INTERNAL GENDER EQUALITY

Women's empowerment is embedded in our corporate culture.

The BBVAMF is a signatory to the Women's Empowerment Principles (WEP) developed between UN Women and UN Global Compact and has carried out a self-diagnosis of these principles in all its institutions.

This has allowed us to review our strengths and areas for improvement in our Human Resources policies in

order to improve the work-life balance, support for parents and caregivers, etc. We are producing training materials to raise awareness among our 8,000 co-workers of the importance of working for gender equality.

ADVOCACY

We fight for women's economic empowerment in major domestic and international fora. Our institutions participate in Gender Parity Initiatives set up by the IDB and World Economic Forum and in the Aequales PAR ranking.

Digitalization & technological innovation

In the digital era, when most consumers have mobile devices, BBVAMF has seized an opportunity to put within reach of vulnerable people the opportunities that others enjoy: tools that enable them to grow in a sustainable, responsible and efficient way. A hybrid digital/face-to-face model, that combines immediate and accessible response with personal service.

THERE IS AN OPPORTUNITY TO LEVERAGE THE DIGITAL WORLD IN THE INTERESTS OF DEVELOPMENT

2018 represented a milestone in the use of mobile devices in Latin America. In some of the countries where we operate, over 96% of the population has a smartphone, and our clients use digital resources that help them in their daily lives. We view this revolution as a great opportunity to get even closer to them, offering channels and responsible services that support their sustainable development.

We want to center our efforts on getting a hybrid digital/face-to-face model out to them, one which enables us to get to know clients well and to support them in generating sustainable incomes over time. The idea is to provide them with the tools that let them connect in order to develop, but without losing the human touch or being there for them. The balance between personal and digital contact allows us to give access to a world without physical barriers in which entrepreneurs can sell more, acquire inputs more cheaply, optimize timings and reduce the impact of any setbacks.

BBVAMF GROUP'S DIGITAL TRANSFORMATION

We want the businesses of thousands of entrepreneurs to do better and to generate jobs and development around them. That is why we concentrate our efforts on creating a differentiated value proposition, and to do that, we need to transform our internal and external reality.

Internally we are working on the acquisition of new capabilities and skills that allow us to know clients more fully, to organize ourselves better. We want to use information and data that enables us to help them even more and open ourselves up to the digital ecosystem and find allies who share our vision.

Externally, our goal is to generate a better customer experience (immediacy, convenience, facilities, limited risk exposure), new business models that benefit them (marketplaces to sell their products and buy others at better prices), and to develop new distribution channels so that they can manage their finances in a straightforward, agile and convenient manner.

In an increasingly digital world, the path of inclusion and sustainable development looks promising. The Foundation and its member institutions have already started a journey in which entrepreneurs are benefiting, because our perseverance and determination is nearly as strong as theirs.

THE 6 PRIORITIES THAT ENSURE OUR VALUE PROPOSAL FLOURISHES

Route map for the digital transformation of BBVAMF and its institutions

INTERNAL

01



Organization & Planning

Digital unit

Strategic planning

Aligning priorities

Constant deliveries

02



Talent

New profiles

Developing existing profiles

03



New skills

Technologies

Digital client

Methodologies

Data

Open innovation

EXTERNAL

04



Client experience

Simple mobile solutions

New transactional mobile experience

New technologies

Smart Data

05



Business models

New clients, wider reach

New business models

Digitalizing the ecosystem

New partnerships

06



Distribution model

Changing the paradigm

New channels

New distribution models

Digitalization & technological innovation

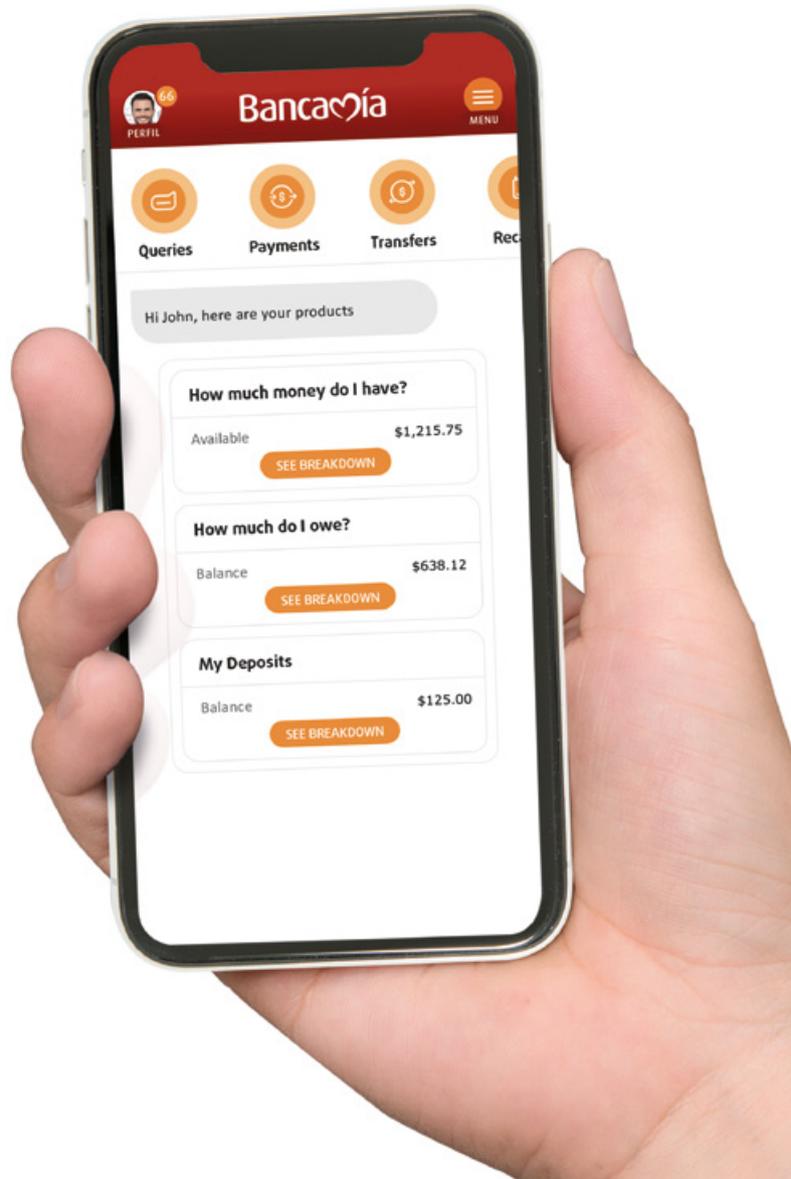
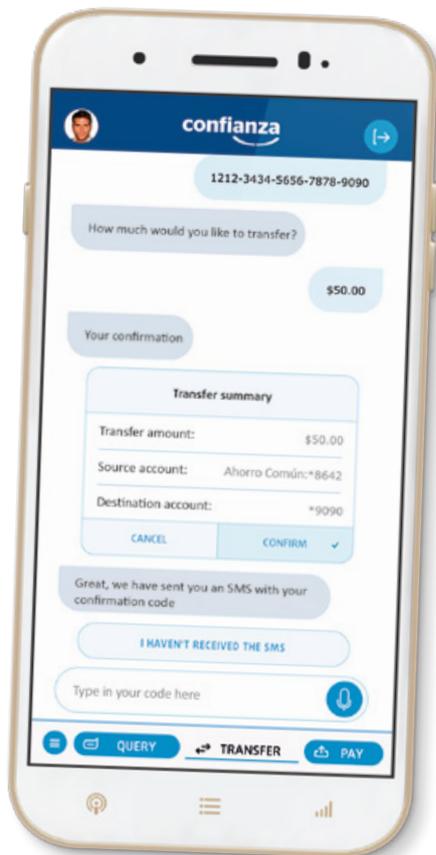
IN 2018, WE ALREADY STARTED THE JOURNEY

Optimizing the user experience in mobile banking

The first major task we set ourselves in 2018 was to optimize our clients' time. Two types of tasks stood out: the ones that clients carry out in a simple and immediate manner, and those requiring a loan officer to be present. For the first category, the routine tasks where time can be saved, we designed a new user experience through a corporate mobile banking app concept. Its innovative format is based on Whatsapp,

the tool most used by our clients (+93% in some of the countries where we operate). This new mobile infrastructure will be rolled out during 2019 and will contain functions such as utilities payments, transfers and loan renewals.

Colombia is the first country where we have made mobile banking available, and it has already been downloaded by over 120,000 clients.



We generate trust by bringing our services closer and making them more user-friendly

Through their mobiles, we offer clients simple and immediate solutions that help them in their credit relationship. This option is highly accessible, distances them from unstable and insecure credit sources and provides the right environment for their sustainable development.

Our chatbot asks questions and collects photos of the business and relevant data about the purpose of the loan. This app can be used without a network connection and the replies are sent when the entrepreneur is next connected to WiFi. It works with both voice and text, and the questions are adapted to the entrepreneur's credit history. A loan officer then goes to visit the client and checks the information received, quickly finding solutions. In 2018 we granted numerous loans using this method.

We have added this response in real time, such an important factor in achieving sustainable development, to our goal of renewing credits responsibly.

Our clients evolve; we do too!**Greater reach, using friendship networks**

We have also concentrated on the scope that our help can provide in the region, and on how to get to more of the people who need us. This year we have offered the first mobile solution that, with voice and images, allows an entrepreneur to identify and recommend another by answering simple questions. Identifying and referring someone who could be a development driver in the region is a task that our clients, partners and agents know how to do better than anyone.

The results of this responsible new business tactic have been striking: one in three people referred has been able to complete the credit process and obtain a loan for their business, compared to a ratio of 1 in 12 with the traditional recommendation process. In the short space of time in which this solution has been implemented, it has shown that our clients are our best ambassadors.

We want our sales force to have efficient support from digital tools, and to digitalize our procedures for analyzing and granting loans, so that we can reach all corners of the countries in which we operate.

Social impact assessment

Microenterprises are important drivers of growth and employment and for improving the standards of living of vulnerable people. Gaining more knowledge about these entrepreneurs is key to giving better quality access to financing and training throughout their journey to progress, and thus propelling a sustained socio-economic development.

BBVA Microfinance Foundation’s vision is built around Productive Finance. This is based on individual knowledge of clients, their environment and their reality, and it allows us to support microentrepreneurs in generating economic surpluses that are sustainable over time. This in turn generates greater welfare for entrepreneurs, their families and their communities.

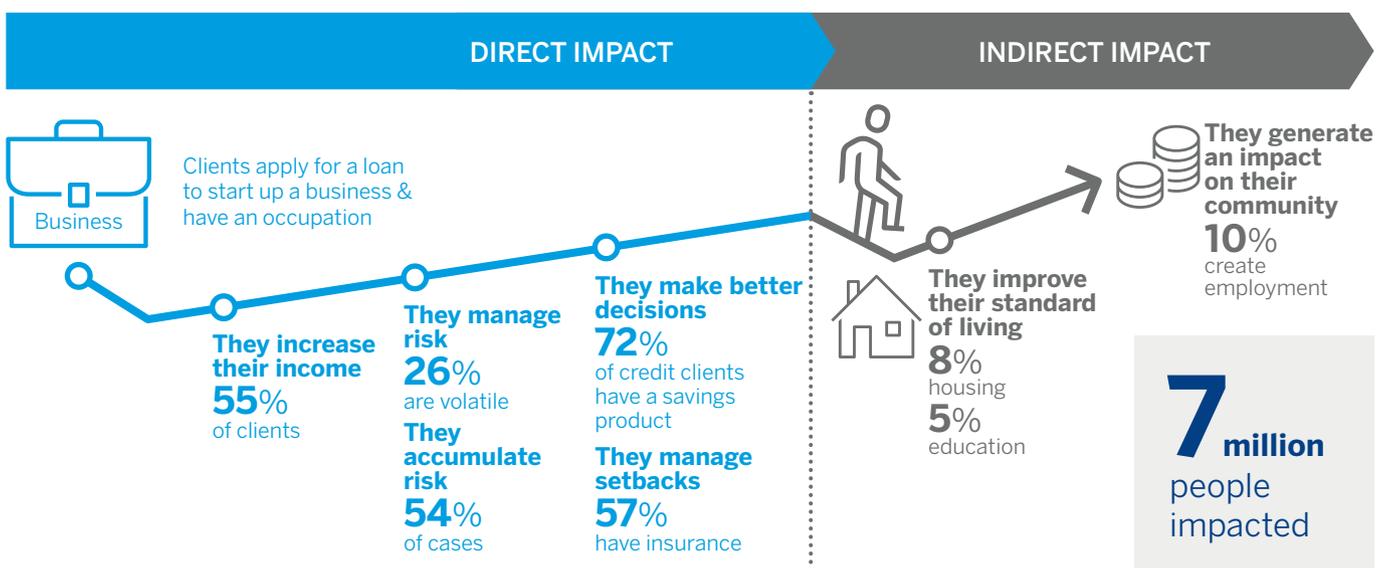
After tracking our clients’ performance for seven years, we have defined a simple, practical model (standardized across the Group) through which we learn and study over the passage of time:

- The social characteristics of each client (gender, educational level, type of housing, etc.)
- The surroundings in which they operate (rural/urban).
- The type of business they are running (sector, assets, sales figures, etc.).
- Their relationship with the microfinance institution (loan amount, etc.).

This enables us to analyze the changes in over 82 client variables over time.

For low-income entrepreneurs, stability over time, or persistence, is just as important as the money they earn. Our challenge is to find ways of mentoring them better over time.

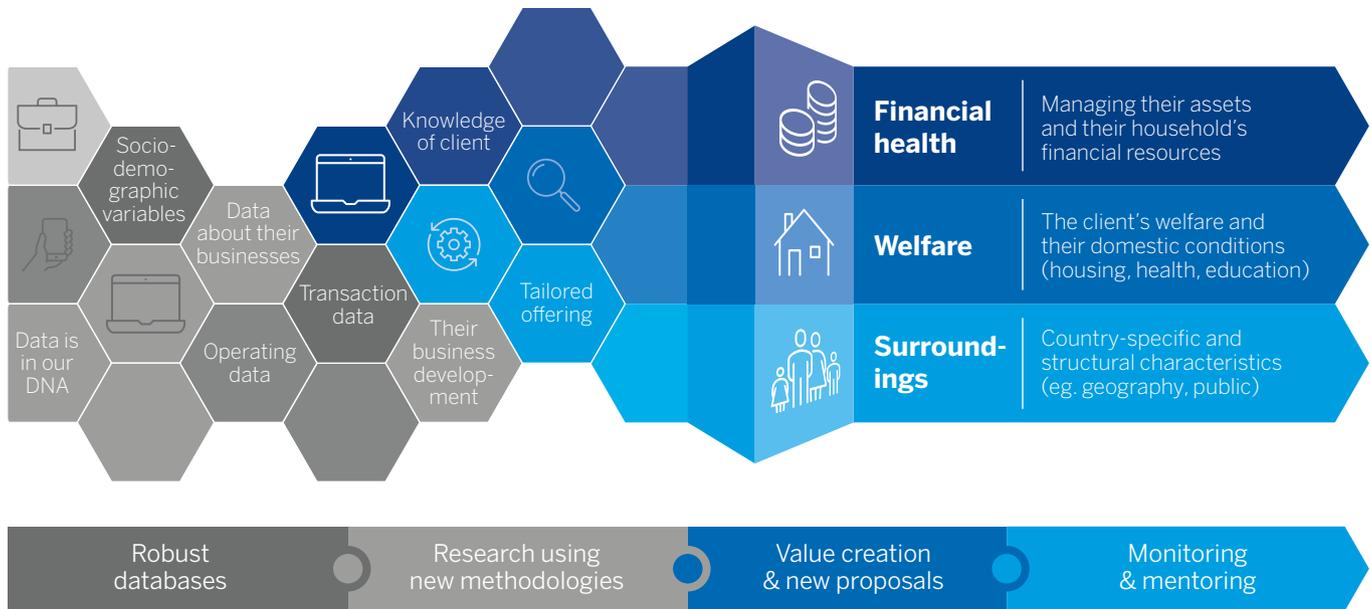
WE GENERATE A DOUBLE IMPACT ON THE LIVES OF ENTREPRENEURS



WE REINFORCE IMPACT THROUGH OUR KNOWLEDGE OF THE CLIENT

Social impact analysis is grounded in the information we handle on a daily basis

We want to strengthen that impact through three dimensions that guide our strategy



In the Foundation we advocate analysis and research. This allows us to position the client at a particular stage of their development cycle, to better understand their needs and to tailor our value proposition to those needs.

By using new dimensions and methodologies we can mentor them more effectively, on their activities' performance and on their socio-economic progress.

To this end, we are conducting research in a number of areas –household conditions, financial solvency and surroundings– seeking to broaden our understanding of clients and their businesses. These studies give us a transversal vision so we can pool the impact factors:

1. Different types of studies are being carried out, combining methodologies, accessing information sources (primary and secondary), examining conclusions in situ, etc.
2. These will be mined to come up with specific project proposals and new indicators will be brought into the monitoring process.

A range of tools are employed, from basic to cutting-edge research (based on information technologies).

The idea is to actively embed the outcomes of assessments so as to broaden them into interdisciplinary domains. At the same time, this enables us to self-assess with the purpose of improving the quality of the studies. Putting the studies into practice through specific projects means that we can bring the theory closer to our practice and in particular, in alignment with our mission.

The benefits of sharing this knowledge and the BBVAMF Group's impact measurement experience will improve the service for our entrepreneurs and all those involved who want to help development.

There is great potential for continuing to move towards understanding of the vulnerable entrepreneur's performance, which is the main source of our knowledge.

Environmental sustainability

BBVAMF Group is fully aware of the challenges and difficulties facing many people in Latin America as a result of climate threats and of their adverse impacts on their communities, that is why it has designed a Green microfinance program. This further demonstrates its firm commitment to create economic, social and environmental value through sustainable development.



Biodiversity is endangered and being lost at a worrying rate because of rising temperatures and sea levels, among other factors, which are generating a number of environmental impacts in the region¹:

+ 50% greenhouse gases
in the last 10 years.

+ 157 million people
living in urban areas with deficient water supply & waste management infrastructures.

+ Rainfall, droughts and hurricanes
in the zones where our institutions operate.

These impacts are also closely linked to the settlement of the most vulnerable sectors of the population in areas suffering major environmental degradation. People's health and productivity are affected, which drives them to emigrate. The consequences of climate change and environmental degradation trigger greater vulnerability, poverty and inequality. As such, interventions are needed that guarantee sustainable environmental, social and economic benefits.

A World Bank study² shows that if climate change is not sufficiently mitigated, more than 100 million people could fall into poverty over the next 15 years.

¹ Source for all data shown: ECLAC.

² World Bank Group study, Hallegatte 2016.

MITIGATION STRATEGIES AGAINST ENVIRONMENTAL DEGRADATION AND CLIMATE CHANGE

CLIMATE CHANGE RISKS		
BBVAMF GROUP	CLIENTS	
STRENGTHENING INSTITUTIONS	RESILIENCE	ADAPTATION
+		
ENVIRONMENTAL FOOTPRINT (CUSTOMER SERVICE)		
Environmental footprint (Group)	Environmental scoring	
Policies & internal regulations	Programs and products that increase productivity, resilience and adaptation	Energy-efficient products
Eco-efficient programs		Sustainable housing
	Waste management	

EDUCATION, PARTNERSHIPS, GREEN CERTIFICATIONS

ONGOING PROGRAMS

BANCAMÍA: MEbA

See pg. 146

The Microfinance for Ecosystem-based Adaptation to Climate Change program (MEbA) offers loans and technical advice to smallholder farmers to use environmentally efficient measures so that their crops can adapt and become more resistant to climate change. Ovens, illumination, irrigation systems, mechanical milking, pumps and organic fertilizers are just some of the options being financed through this microcredit program.

+500
clients served

BANCO ADOPEM: FRA

See pg. 216

The Rural & Environmental Finance program (FRA) provides microfinance products and services that enable vulnerable rural and peri-urban populations in the Dominican Republic to invest in activities relating to eco-system sustainability. An agreement was signed at the end of 2018 with UN Environmental agency to implement MEbA in Banco Adopem as well, making it the first microfinance institution in the country associated with the program.

+1,000
clients served

Selected as one of the 10 best sustainable finance programs for **Latinoamérica Verde Prizes**.

Acknowledging the need for combined action, the BBVA Microfinance Foundation and member entities serving its clients have designed the “Green Microfinance Program” with the aim of improving productivity, reducing environmental impact and increasing clients’ resilience in the face of climate change.

BBVAMF has begun to implement the programs in two of its institutions: Bancamía (Colombia) and Banco Adopem (Dominican Republic).

These microloans are flexible and adapt to the clients' situation. Thus, payment conditions are linked to the activity and their harvesting dates.

Board of Trustees

Anna Escobedo Cabral
Chair

Tomás Alfaro Drake
Member

Claudio González-Vega
Member

Ana Revenga Shanklin
Member

María Begoña Susana Rodríguez Vidarte
Member

Nancy M. Barry
Member

José Barreiro Hernández
Member

Javier M. Flores Moreno
CEO, Non-voting Member

Management Team

Chief Executive Officer
Javier M. Flores Moreno

Finance
Alejandro Lorca Salañer

Human Talent
Miguel Ángel Ferrer Amigo

Communication & External Relations
María Oña Hernández

Digital & Customer Experience
María José Jordá García

Technology & Data
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

Auditing
Joaquín Cortés Hernández



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

Institutional Activity 2018

January

Paris, January 24th-25th

Participation in the OECD's "Policy Dialogue on Women's Economic Empowerment".

Paris, January 24th-25th

Participation in the OECD's "Gender netFWD".

March

New York, March 5th

BBVAMF event at the United Nations HQ: "SDGs and the Role of Financial Inclusion: Women & Innovation".



Madrid, March 6th

Participation in "Women's Entrepreneurship in Iberoamerica". Casa de América.

Amsterdam, March 12th

Participation in "The Power of Partnerships: Making Finance Work for Women Entrepreneurs". FMO and KIT Royal Tropical Institute.

New York, March 12th-15th

Participation in CSW62 "Commission on the Status of Women". UN Women.

New York, March 14th

Participation in "Rural Women Leadership in a Digital World". UN, Government of Spain, ECLAC, AFAMMER (Spanish Association of Families & Women in the Rural Environment).

New York, March 14th

Participation in "WEPS in Action". UN Women, TURKONFED.

Madrid, March 14th

Institutional presentation to BBVA shareholders, before the 2018 AGM.

New York, March 16th

Participation in CSW62 "High Level Event on Rural Women, Peace and Development". UN Women and the governments of Colombia and Sweden.

April

Madrid, April 18th

MOU signed with Pilar López Álvarez, country manager of Microsoft Spain.



Madrid, April 27th

Visit to HQ of BBVAMF by María Noel Vaeza, Global Director of UN Women.

May

Madrid, May 10th

Participation in Google Cloud Summit.

Dominican Republic, May 22nd

Visit by H.M. the Queen of Spain to Diana Céspedes.



Madrid, May 28th

Meeting with Irene Arias, Managing Director of FOMIN (IDB Group).

Madrid, May 28th

Participation in the Forum for Spanish Business, Heritage & Family Foundations with the European Commission's International Cooperation & Development Directorate (DEVCO).

Madrid, May 30th

Presentation to BBVA's Board of Directors.

Madrid, May 31st

Participation in the "Inclusive Businesses and the Spanish Corporation" conference run by the Anti-poverty Business Observatory.

June

Santiago de Chile, June 5th-6th

5th edition BBVAMF Corporate Open Days: "Building the Future" with speeches by representatives from UN Women and IFC.

Santiago de Chile, June 7th

Meeting with the regional FAO office, the UN Women office in Chile and the Chilean Foreign Ministry.

Santo Domingo, June 12th

Reception of awards at the III Latin American & the Caribbean Forum on Housing & Habitat. UHPH, Habitat for Humanity, Cities Alliance and UN Habitat.

Alicante, June 18th

Participation in the III Workshop "Blockchain & AI: New Global Challenges in the Financial System and Enterprise Cooperation Models".

Luxembourg, June 18th-19th

Participation in "Responsible Inclusive Finance 2018". Luxembourg's Ministry of Foreign & European Affairs, SPTF Meeting and Luxembourg's Network of Inclusive Finance.

Madrid, June 19th

Participation in InnovaS3.

July

Lima, July 4th

Corporate governance workshop: "Gaps, challenges & goals". Organized by BBVA Microfinance Foundation, ESAN University and the Governance & Corporate Governance Institute.

Colombia, July 11th

Visit by Carlos Torres Vila, CEO of BBVA, to Bancamía entrepreneurs in Barrancas, Cartagena, Colombia, July 17th-19th

Participation in IX *Asomicrofinanzas* Congress. "The microentrepreneur as a key player in economic and social development: innovation and technology at the service of inclusion."

Bogotá, July 24th

Presentation of the BBVAMF Social Performance Report.

Lima, July 25th

Presentation of the BBVAMF Social Performance Report.

August

Puebla, Mexico, August 16th

Participation in "Ten years connecting social protection and financial inclusion". Department of Social Development and Social Inclusion Program, Government of Mexico.

San Salvador, August 22nd-24th

IX Microfinance Conference for Central America and the Caribbean: "Financial Inclusion in Competitive Markets and Challenging Environments". REDCAMIF.

September

Madrid, September 4th

Visit to the HQ of BBVAMF by Manuel Otero, General Manager of the Inter-American Institute for Cooperation on Agriculture (IICA).

Madrid, September 6th

Visit to BBVAMF by senior management from Peruvian microfinance institutions as part of ESAN University's II International Program for senior management in microfinance.

Santiago de Chile, September 6th

Presentation of the BBVAMF Social Performance Report.

Panama, September 11th

Presentation of the BBVAMF Social Performance Report.

Santo Domingo, September 13th

Presentation of the BBVAMF Social Performance Report.

Vienna, September 17th

Participation in the Euro-Latin American Women's Parliamentary Forum for Women.

Arequipa, September 21st

Workshop on Excellence in Corporate Governance. BBVAMF and the University of San Pablo.

Surrey, UK, September 24th-26th

Participation in Global CIO Banking Summit.

October

Buenos Aires, October 2nd-3rd

Participation in BBVA EduFin Summit 2018.

Madrid, October 15th

BBVAMF event: "The Gender gap, environmental sustainability & technology: challenges for rural women" with the participation of the FAO.

Washington D.C., October 15th

Participation in "Latin American program: The Colombian private sector makes a commitment to rural areas in conflict". USAID.

Madrid, October 22nd-23rd

Iberoamerican meeting with Ministers: "Legal Strategies for Economic Empowerment of Women". SEGIB, UN Women and the Government of Spain.

Bogotá, October 23rd

X Anniversary of Bancamía: "Microfinance Forum on progress towards an entrepreneurial Colombia".



Colombia, October 29th-31st

Participation in FOROMIC "Reinventing inclusion". IDB.

- Panel: "Changing Finance: Microfinance institutions in a digital world"

- Panel: "Reducing barriers and costs in financial services"

Paris, October 29th-30th

Participation in the OECD Gender Development Aid Committee.

Paris, October 31st

Participation in "United Nations inter-Agency rendezvous on women and gender equality".

Madrid, October 31st

Meeting with the Regional Manager for Latin America & the Caribbean of the United Nations' World Food Program.

November

Barcelona, November 7th

Winner of the Responsible Communication Award at the IX Corresponsables Awards.

Madrid, November 8th

Finalists at the III OCARE Awards for CSR Communication.

Madrid, November 13th

Participation in Ericsson Innovation Day Madrid 2018.

Punta Cana, November 13th

Participation in "Accelerating Gender Equality in Latin America and the Caribbean". IDB Invest.

Luxembourg, November 14th-16th

Participation in European Microfinance Week 2018. European Microfinance Platform.

Madrid, November 26th

Participation in the presentation of the book "Responsible Communication". OCARE (Observatory of Communication & Action in Business Responsibility).

December

Washington, December 6th

"2018 Corporate Citizen of the Americas", awarded by Trust for the Americas, Organization of American States (OAS)



Madrid, December 13th

Participation in Women Leaders event hosted by Nova Talent.

Acknowledgements

FMBBVA

2015

Chosen by the UN's Sustainable Development Goals Fund as a member of its Private Sector Advisory Group for its contribution to the SDG.

The University of Harvard's Kennedy School, in its report "Business and the United Nations. Working together towards the SDG: A framework for action", recognized BBVAMF's social impact measuring system as best practice.

2016

Awarded consultative status at the United Nations' Economic and Social Council (ECOSOC).

Considered one of the 10 best transparency and good governance initiatives by the *Compromiso y Transparencia* Foundation.

2017

In its report "Contributing to peace, more just and inclusive societies" the University of Pennsylvania recognizes the Foundation as an example of contribution from the private sector to SDG 16.

Chosen as one of the 10 most innovative social initiatives by the CAF and the *Compromiso y Transparencia* Foundation.

Media World Festival Award, Hamburg for the TVE documentary (*Informe Semanal*) "Stories of Achievement" about BBVAMF women entrepreneurs.

Honorary Mention for Innovation Wolters Kluwer's Human Capital Awards.

2018

Finalist in the OCARE (Business Responsibility Communication & Action) Awards.

Responsible Communication Award for the most innovative communication campaign by organizations and corporates.

Corporate Citizen of the Americas Award from the OAS (Organization of American States) Trust for the Americas program for the Women's Empowerment Program.

Microfinance institutions

COLOMBIA Bancamía

Colombia's Securities National Fund Award
Best Institution in Risk Quality (2010)

Mix Market
Transparency Certificate.
5 Diamonds (2010)

Smart Campaign
Ethics Code among the 10 Best in the World (2012)

Andesco Prize for CSR
Finalist (2016)

Colombian Agency for Reintegration
Special mention in the entrepreneurship category (2017)

Corresponsables Awards
Co-Responsibility Communication (2018)

CHILE Fondo Esperanza Emprende Microfinanzas

Mix Market
Transparency certificate.
5 Diamonds in transparency, quality and reliability (2008)

Superintendencia de Bancos e Instituciones Financieras (SBIF) [Banking & Financial Institutions Authority]
Award for Financial Education in the "Contribution to Financial Inclusion" category, for the Excluded Segments program (2016)

PWC Award for Innovation
(2018)

DOMINICAN REPUBLIC

Banco Adopem

FOMIN (IDB Group)

- Institution with Best Outreach (2009).
- Best Microfinance Institution in Latin America and the Caribbean (2010)
- Best Microfinance Institution in Latin America and the Caribbean (2012)
- Inter-American Award for Financial & Business Innovation, in the "Financial Services to Smallholder Farmers" category (2017)

Mix Market

Transparency certificate
5 Diamonds (2013)

Mix S.T.A.R.

Socially Transparent and Responsible Certificate (2014)

Citi Microentrepreneurship Awards

Most Innovative Microfinance Institution of the Year (2013)

Women's World Banking (WWB)

- Recognition of Leadership (2013)
- Award for Excellence in Leadership (2016)
- Award for Excellence in Leadership (2017)

Smart Campaign certification

(2015)

Microrate

- Best MFI* in Latin America (2015)
- Best MFI with international reach in institutional performance (2017)

Argentarium

Argentarium Award (2016)

Latinoamérica Verde Prizes

Selected as one of the 10 best sustainable finance programs (2018)

European Microfinance Awards

Finalist (2018)

CODESPA Awards

Finalist in the Social Innovation category (2018)

PANAMA

Microserfin

Mix Market

5 Diamonds certification for transparency, quality & reliability of financial information (2014)

FOMIN (IDB Group)

Only Panamanian company in the general ranking "Microfinance in the Americas: The Top 100 in 2014"

Panamanian Credit Association (APC)

- APC Awards for Satisfaction, data maintenance & compliance (2013)
- APC Awards for compliance and data maintenance (2014)
- APC Awards for Satisfaction, data maintenance & compliance (2015)

Redcamif

Transparency certificate (2017)

UN-Habitat

Inspirational Practice, Latin American & the Caribbean Forum on Housing & Habitat (2018)

National Entrepreneurship Council AMPYME**

National Entrepreneur Award.
2nd prize in the Institutions category (2018)

PERU

Financiera Confianza

Mix Market

Transparency certificate. 5 Diamonds in Transparency, Quality & Reliability (2008)

Premio Citi (Premic)

- Most innovative financial institution for its *Ahorro para Todos* [Savings for All] program (2015)
- Award for Responsible Financial Inclusion (2018)

Mix Market

First Peruvian institution in microenterprise outreach in the general classification Microfinance Americas: The Top 100 in 2014

América Económica journal

Selected as one of the Best 300 companies in Peru and Latin America in its 2013 ranking

FAO

Honorary Mention in the Rural Women competition for the life story of Rut Pelaiza, officer with the Peruvian institution (2017)

UN-Habitat

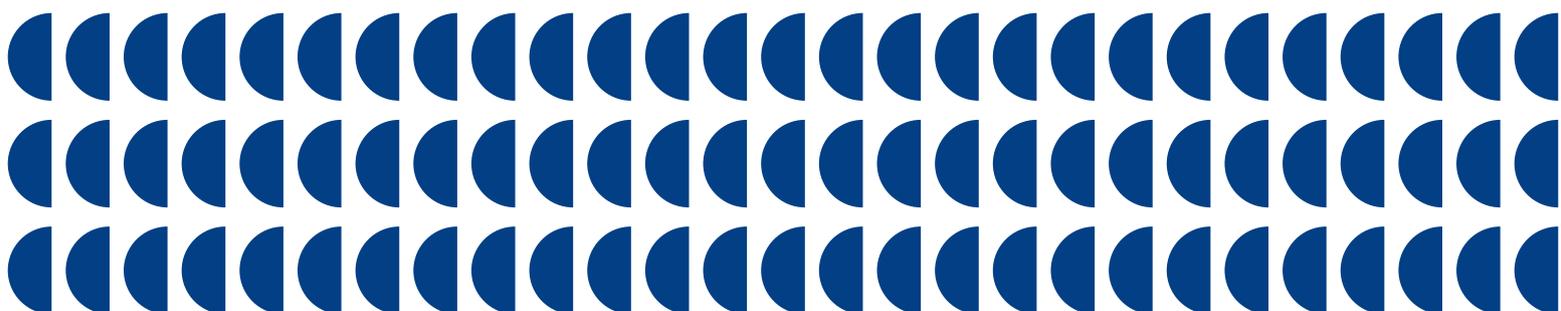
Inspirational Practice, Latin American & the Caribbean Forum on Housing & Habitat (2018)

* MFI: Microfinance Institution.

** AMPYME: Micro, Small & Medium-sized Companies Authority.

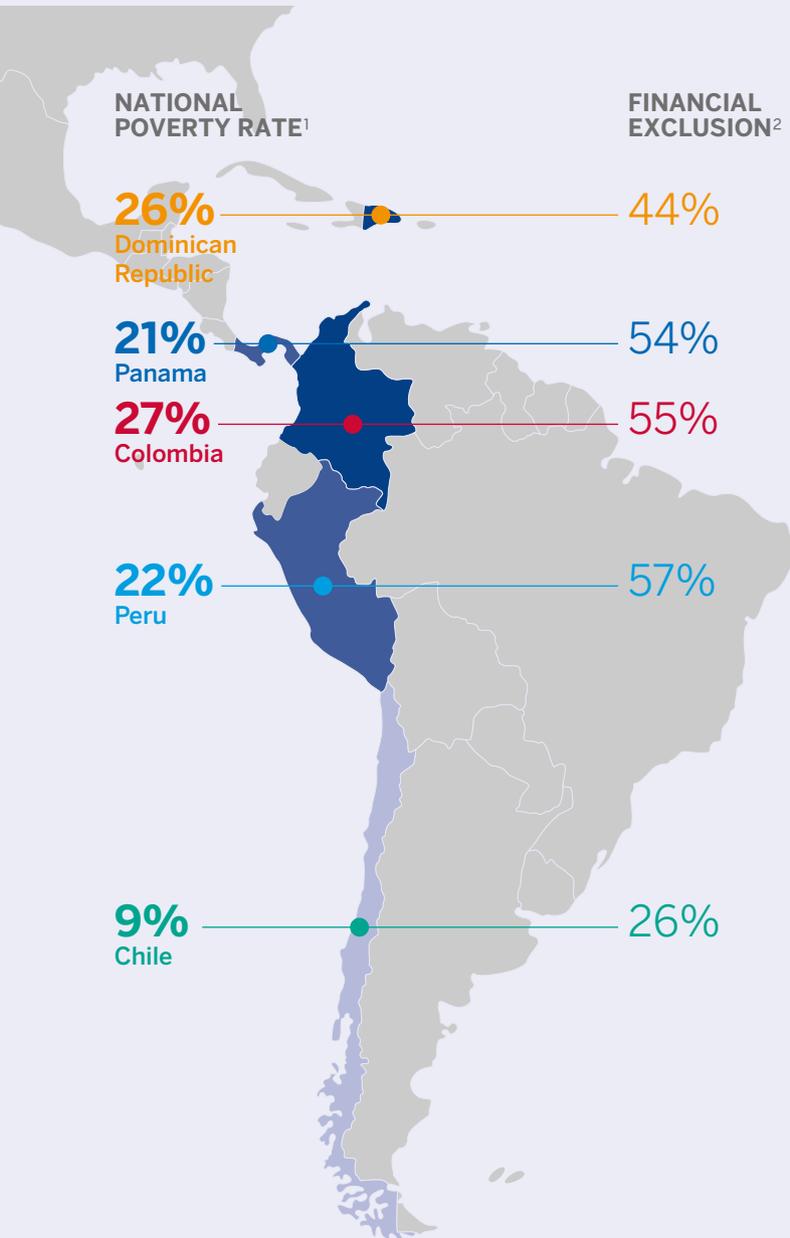


 SOCIAL PERFORMANCE
REPORT **2018**



Supporting them now, to improve their tomorrows

National data



(1) According to each country's official poverty line.
 (2) Unbanked adults. Global Findex, World Bank, 2017.
 (3) Data as of 12.31.2018.

1. CLIENTS

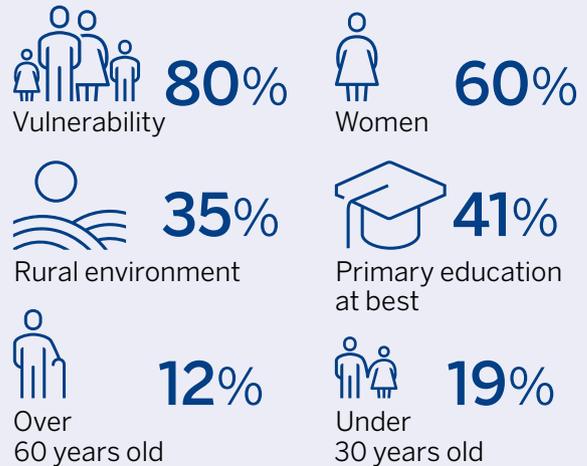
Committed to vulnerable people

Net clients

2,085,945

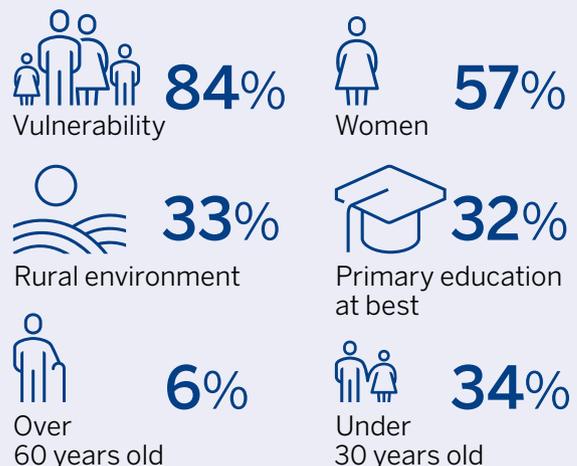
Total credit clients³

923,615



New credit clients 2018

271,519





2. PROGRESS

Working with them
as they develop



1 in every 2 renewing clients has improved their income.



In their second year banking with the institution.

...and their
projects grow



Annual growth rate.



Annual growth rate.

3. RELATIONSHIP

Providing timely and relevant
products and services



Average disbursement

Total clients
served in 2018:

USD **1,298**

+6%
2017-2018

New clients
(first loan) served in 2018:

USD **897**

+15.2%
2017-2018



Savings

8.2%

The total n^o of savings
clients has risen by
8.2% in 2018.

Branch
offices

515



Loan
officers

3,857



Service
points

514



Financial
education

557,680



Introduction

Access to financial services allows entrepreneurs and those in their community to drive their projects forward. It represents an opportunity to raise their incomes, smooth their consumption, increase their investments and achieve protection with insurance. This lets low-income people transform their personal economies and improve their standard of living. There are still 56 million people (49% of adults) in the area of our footprint who do not have access to the formal financial system¹.

In 2018, Latin America faced a global environment marked by intense trade tension between the United States and China. As well as the negative impact on global trade, more restrictive financial conditions and greater volatility in raw material prices passed through to exchange rates, triggering sharp falls in the region's largest currencies. Against this backdrop, the region's economy² grew by an annual 1.7%, a similar rise to the year before.

In the countries where institutions belonging to the BBVA Microfinance Foundation operate ("the footprint"), activity grew by 3.7%³, more than double the region's average growth. This is largely accounted for by more robust domestic demand due to a significant uptick in private spending.

Inflation posted at 2.4%, continuing the downward trend that began in 2017 after the jumps in 2015 and 2016. These were caused by the rise in food prices in Colombia and Peru resulting from climate factors.

Despite greater economic growth, the unemployment rate over the footprint rose by 0.3%, coming in at 6.8% in 2018. This is the outcome of labor market deterioration in the Dominican Republic, Colombia and Chile, although it improved in Panama and Peru. In fact, self-employment, as a proportion of total employment, expanded, while waged jobs contracted. 53% of adults are employed in the informal economy, with the rate at 50% for men and 55% for women. A higher proportion of those who are active in the labor market tend to be banked.

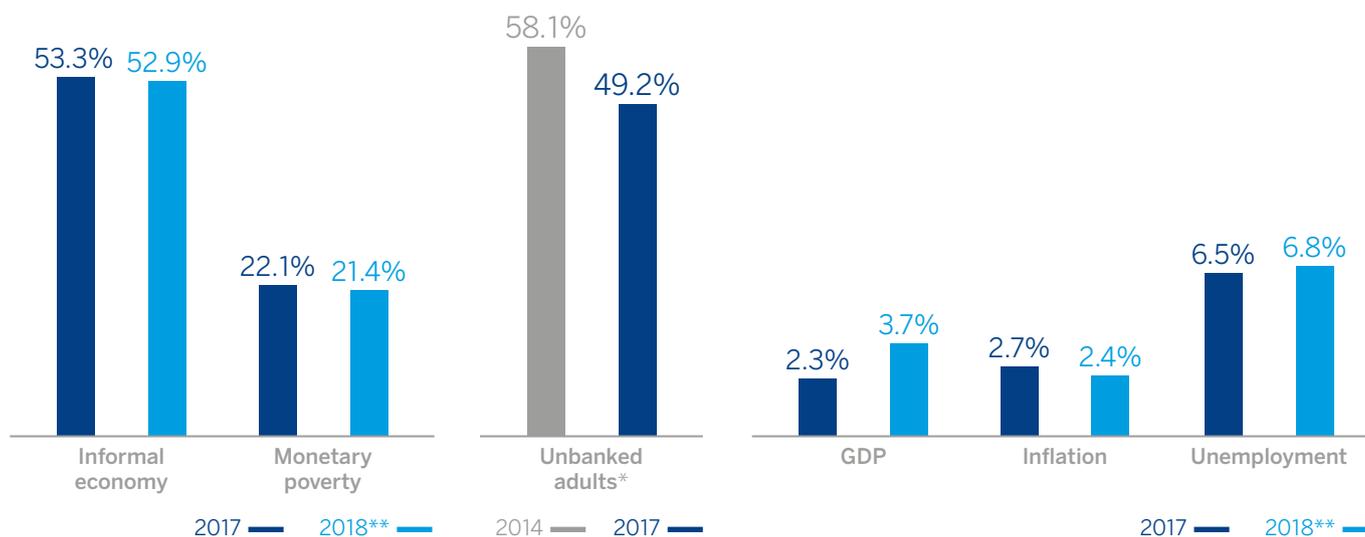
¹ Global Index 2017, referring to the 5 countries where the BBVAMF Group operates.

² Excluding Venezuela, in the throes of a deep economic and humanitarian crisis, which is affected by idiosyncratic factors.

³ Growth weighted by the size of each of the economies where BBVA Microfinance Foundation institutions operate.

FOOTPRINT

Colombia, Peru, Dominican Republic, Panama y Chile



21% of the population –around 24 million people– are still in poverty and 49% of adults are financially excluded (having neither bank account nor financial product).

Microenterprises are important drivers for growth, employment and higher standards of living for people in vulnerability. To make all phases of development more resilient, it is critically important to empower these microentrepreneurs with access to finance through a series of instruments (credit, insurance, savings, etc.) combining these with financial education. This not only improves entrepreneurs' performance per se but, furthermore, several research studies suggest that financial access improves local economic activity more widely in the communities where they live.

KEY VOLUMES OF THE BBVAMF GROUP

Total clients	2,085,945
Number of employees	8,022
Number of branches	515
Gross portfolio (USD)	1,155,140,721
People who have received financial education	557,680
Client funds administered (USD)	616,390,107
Amount disbursed in 2018 (USD)	1,468,643,447
Number of disbursements in 2018	1,131,583
Average disbursement in 2018 (USD)	1,298

National sources. BBVAMF calculations.

* Global Findex World Bank, 2014 & 2017.

** BBVAMF Research estimate.

Introduction

Over the course of 2018, the six institutions that make up the BBVA Microfinance Foundation Group (the BBVAMF Group or BBVAMFG) have mentored two million low-income people, making financial products and services (credits, savings, insurance, money remittances, etc.) available to them, as well as training to help them prosper.

Using Productive Finance, which starts from personalized knowledge of clients, their surroundings and their reality, the BBVAMF Group supports microentrepreneurs as they generate economic surpluses that are sustainable over time.

The BBVAMF Group fosters the development of productive activities on the part of its clients, helping them to take decisions that optimize their actions, that lead to risk reduction and that increase their likelihood of success in the long term.

Increasing access to digital technology (55% of adults in Latin America and the Caribbean have mobile phones and internet access⁴) means that this service can increasingly be more personalized, convenient and efficient.

The combination of technology and client knowledge is propelling responsible and personalized financial inclusion. Technology and the digitalization of processes and channels –developed using innovative relationship models– allow us to adapt to clients, promoting their empowerment and giving them information and skills that help them improve their business management and, as a consequence, their standard of living.

Microfinance provides more options as to how to administer money and finance businesses. It allows vulnerable people to support financial stress⁵ and setbacks and to plan their resources, giving them more flexibility and choices so that they can accumulate assets over time. Technology, financial education and women's empowerment models need to be combined so that the inclusion of vulnerable groups goes beyond the purely financial. These are two of the BBVA Microfinance Foundation's six strategic components (BBVAMF or the Foundation) (see pages 20 and 18 respectively). The other four strategies are Corporate governance (page 14), Human capital (page 16), Environmental sustainability (page 26) and Social Impact Assessment (page 24).

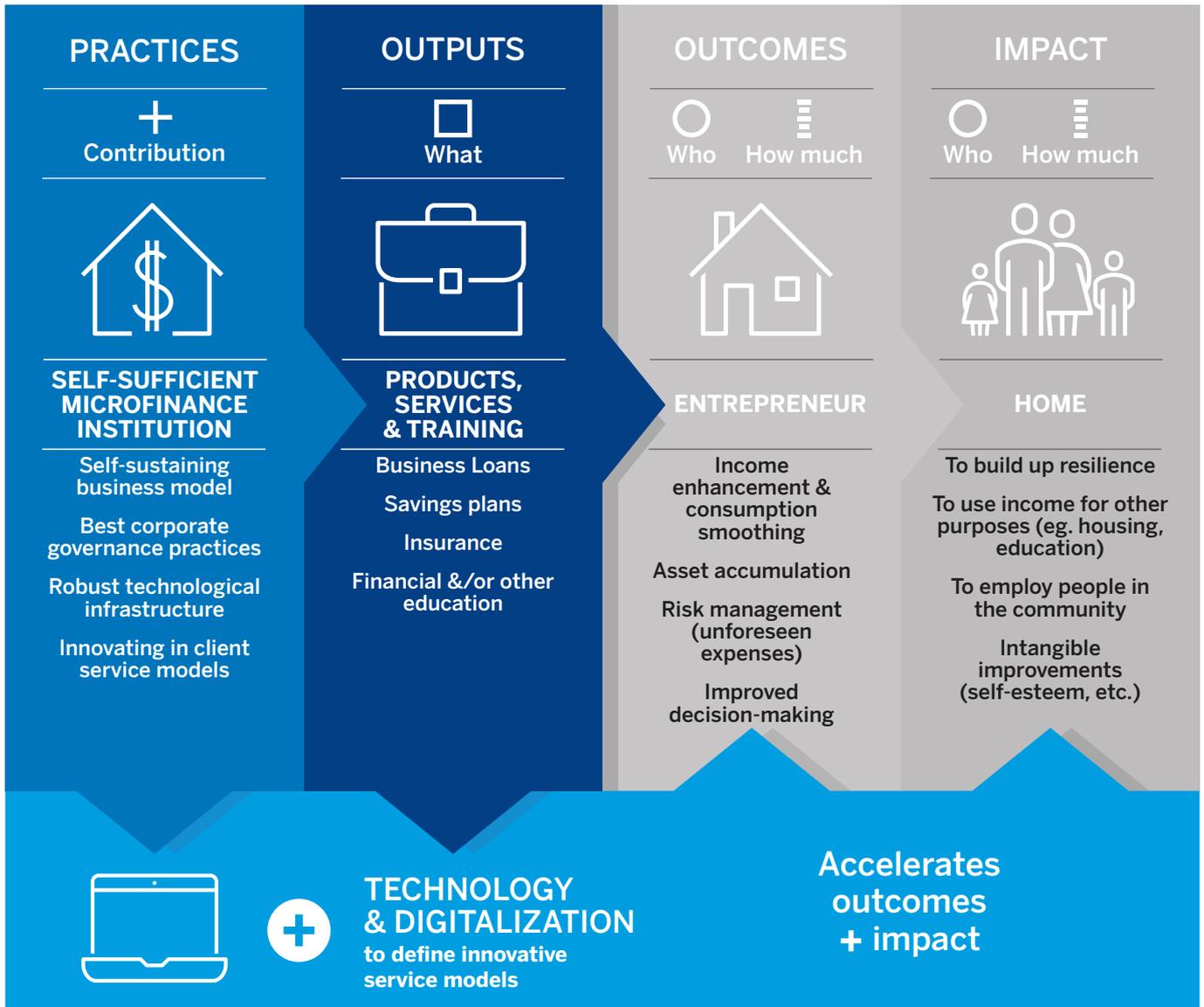
These entrepreneurs develop in a multidimensional way (they raise their incomes, smooth their consumption, upgrade their housing, etc.) that also looks at their individual circumstances. It considers factors such as people's specific abilities, their decision taking, changes in their environment, etc. Financial services provision is an additional indispensable component. As such, the Foundation analyzes this performance but does not attribute to itself the causality of the impacts.

The Foundation is committed to promoting innovation, productivity and job opportunities for vulnerable people, enabling clients to improve their own standards of living and those of their families on a sustainable basis.

⁴ <https://openknowledge.worldbank.org/bitstream/handle/10986/29510/211259ovSP.pdf>

⁵ The capacity to meet the various financial commitments taken on. That is, to manage the financial situation, including debt, so that these match the desired patterns of consumption.

A CLIENT SERVICE MODEL



* The diagram has been adapted from the one presented by Global Partnerships in its 2017 impact report, and is aligned with the Impact Management Project’s impact measurement standard. This is based on four principles of action: “Contribution, What, Who, How much”. For more details, see: impactmanagementproject.com/impact-management/what-is-impact/

Introduction

The strength of the Foundation's performance models lies in the fact that it has a quantitative and qualitative metrics template that analyzes, in a detailed, systematic and periodical manner, the changes experienced by entrepreneurs in the development of their businesses and to their standard of living during the time they bank with the institutions. These analyses are based on knowing the entrepreneurs, their needs and, in turn, the most appropriate products and services for their development. As such it links the value offering with social performance.

This Social Performance Report is a reflection of the Foundation's commitment to measuring the progress of the entrepreneurs it serves in order to understand and find ways of improving our service and the social impact generated.

In 2018 we met our goal of serving more than two million people. This reach represents a huge opportunity.

Our monitoring of clients' development is based on:

- **Our commitment to low-income clients:** recognizing all forms of vulnerability (economic, social and geographic).
- **Observing entrepreneurs' progress:** analyzing their performance to understand their preferences and needs in more depth.
- **Relationship with the client:** nurturing their growth through a range of financial products and services, together with training.

We analyze clients' development, their characteristics and the progress of their businesses, as well as their access to our institutions' products and services. Traditionally, and for its ability to change entrepreneurs' reality substantially, the most popular product is credit. That is why most of the analyses discussed here have been conducted on this category of clients, although this year we have also focused on savings⁶.

⁶ Three regulated institutions in the BBVAMF Group can grant client deposits as well as credits (Bancamía, Financiera Confianza and Banco Adopem).

WHAT THE KEY FIGURES FOR 2018 TELL US⁶

The metrics shown reflect the stories of vulnerable clients who, through their own efforts, set up activities that give them a source of income for themselves and their families.

The numbers indicate that:

- The clients we serve, most of them women (60%), work mainly in retail trade activities (44% of them), in artisanal product trading, for example, or services (18%), such as hairdressing salons.
- As the institutions move further into rural areas, where poverty is greater, they serve increasing numbers of farmers and stockbreeders (19% work in agro). Their businesses present differentiating features, such as a higher level of assets, and seasonal variations in income, so these clients' vulnerability is different. It is important to carry on serving them, especially because of their high importance in the food security of their respective countries.
- Their environment and type of activity are significant factors in these entrepreneurs' development:
 - In rural areas a higher proportion of entrepreneurs perform better (more clients escape poverty).
 - However, if they operate less flexible activities (eg. agro) they are confronted with more obstacles and, as such, perform more poorly (a higher proportion of clients fall into poverty).
- With greater income stability comes greater asset accumulation in the long term, which improves entrepreneurs' capacity to handle unexpected setbacks. Asset accumulation is a buffer against contingencies and is crucial for maintaining growth and not relapsing into poverty.
- Diversification and effective use of financial products to reduce risks and support our clients' growth continues to be a challenge. Most of them (88%) have savings accounts for conducting transactions. Those that do take out specific savings products manage to save between USD 20 and USD 100 after a year.

Access to financial products and services has a positive impact on clients' development. Linking financial activity to clients' performance in the medium term is a unique opportunity to make the client journey with them over time.

1. Committed to serving low-income clients

For over a decade, BBVAMF Group has been providing financial products and services to a specific group of entrepreneurs, with the mission of staying with them: entrepreneurs excluded from the traditional financial system or not served and in economic and/or social vulnerability.

During 2018 the institutions that make up the BBVAMF Group⁷ have reached the two-million net clients mark, of whom nearly a million are credit clients.

Increasingly more clients have a savings account. In 2018 we looked more closely into the savings relationships they have with the institution to identify what issues impact on their development. We will go into this below, in section 3 Relationship with savings clients.

In Latin America, becoming an entrepreneur is one of the solutions to the barriers that a high proportion of the population face when they look for employment. In fact, it is one of the most active regions in terms of self-employment, with MSMEs accounting for 90% of the business ecosystem and generating 50% of the employment and 28% of GDP⁸.

Access to the labor market and to the formal financial system is more difficult in populations with scarce financial resources or societal exclusion. This is the case with young people or those with little formal education and with women who, even when they have the same levels of education, encounter more difficulties in finding opportunities, whether because of their family responsibilities, their (unpaid) work in the home, or other reasons.

Vulnerability is thus a key dimension when the Group measures its activity. In line with international benchmarks, the Foundation's analysis looks at three criteria:

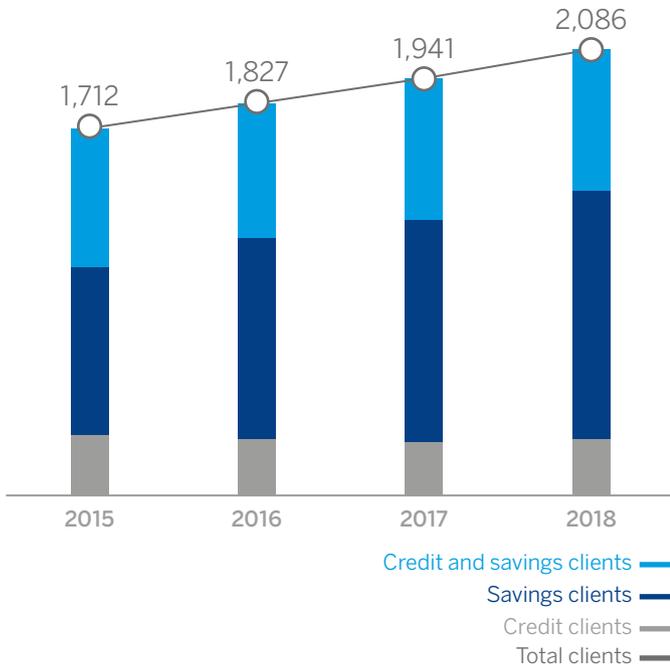
- **Economic vulnerability.** This focuses on entrepreneurs' business net profits and, as such, on the financial resources available for their households.
- **Social vulnerability.** Analyzes the characteristics that might condition a person's fragility such as their level of education, gender, age, etc.
- **Geographic surroundings and/or context.** Considers the area in which they live and perform their activities, since infrastructure and access to certain resources are not always uniform.

The Foundation monitors these characteristics in the new entrepreneurs it serves, consistent with its stated mission.

⁷ Aggregate data from BBVAMF Group's 6 institutions are shown throughout the report, except for performance variables, which do not include Emprende Microfinanzas.

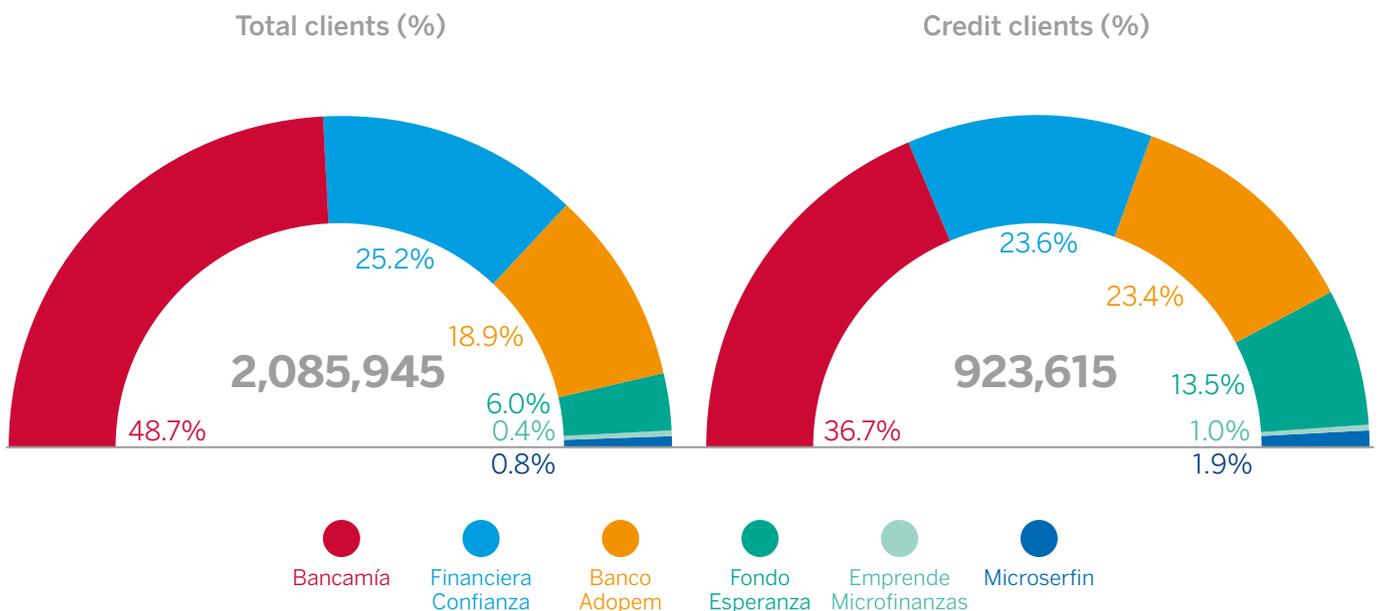
⁸ Micro, small and medium enterprises (MSMEs); www.ceoe.es/es/contenido/actualidad/noticias/las-mipymes-generan-el-28-del-pib-en-latinoamerica-pero-carecen-aun-del-impulso-necesario

1 BBVAMF GROUP CLIENTS
 Clients current at December 31 of each year ('000s).



Credit continues to be the most important financial instrument for entrepreneurs. For this reason, most of our analysis in this report centers on the information received during the credit application and approval process.

2 DISTRIBUTION OF TOTAL CLIENTS AND CREDIT CLIENTS
 Current clients at 12.31.2018



1. Committed to serving low-income clients

KEEPING THE FOCUS ON ECONOMICALLY VULNERABLE CLIENTS

We have defined four client segments by the ability of their microenterprises to generate net surpluses for each member of the household. We analyze these per capita surpluses against the cost of a basic food basket (extreme poverty line) and another, larger basket with the cost of basic services (poverty line)⁹.

Each country's national basic food basket, except in Chile, is a benchmark which contextualizes the information and compares performance over time, since each country's calculation methodology is based on shared precepts. This basic basket, except in Chile, represents the extreme poverty line.

Vulnerability levels are relative, depending on the country where each client is based. Different poverty lines indicate different costs of living, particularly between rural and urban areas. For example, the poverty line in Colombia in rural areas is 40% lower than in urban areas (whereas in Peru it is 31% lower), perhaps due to the concentration of growth in the cities. This difference is less marked in the case of extreme poverty lines.

BBVAMF Group classifies economic vulnerability as follows:

- **Extremely poor:** when the business earnings for each member of the household (income) is below the extreme poverty line in that country.
- **Poor:** when income is higher than the extreme poverty line, but lower than that country's poverty line, represented by the cost of the basic basket of food, goods and basic services.
- **Vulnerable:** when income is above the poverty line, but less than three multiples of that country's poverty line (for more details see Methodological note).
- **Others:** when income is more than three times that country's poverty line.

Although this classification is the Group's own, it is comparable with the standards used by international bodies such as the United Nations and the World Bank.

In 2018, BBVAMF Group originated loans for more than 271,000 new entrepreneurs. Of these, 84% were in economic vulnerability.

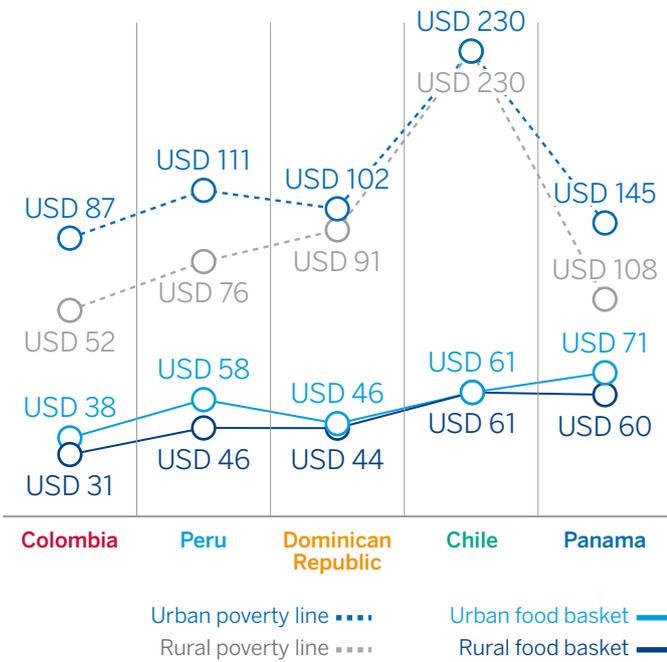
⁹ These poverty lines vary between the rural and urban environments in Colombia, Peru, Dominican Republic and Panama. In Chile, they vary depending on the size of the household.

(3) According to each country's official poverty line. The segment made up of clients whose per capita net surplus (net business surplus divided by number in household) is above the poverty line but less than three times their country's figure, is considered vulnerable.

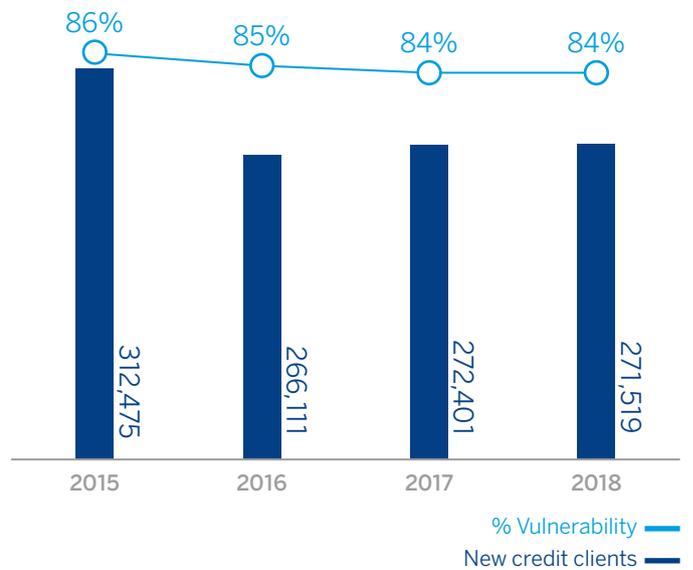
(4) Clients joining the institution during the year (without earlier loans). Vulnerable refers to the proportion of clients with income less than three times their country's official poverty line.

(5) 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.

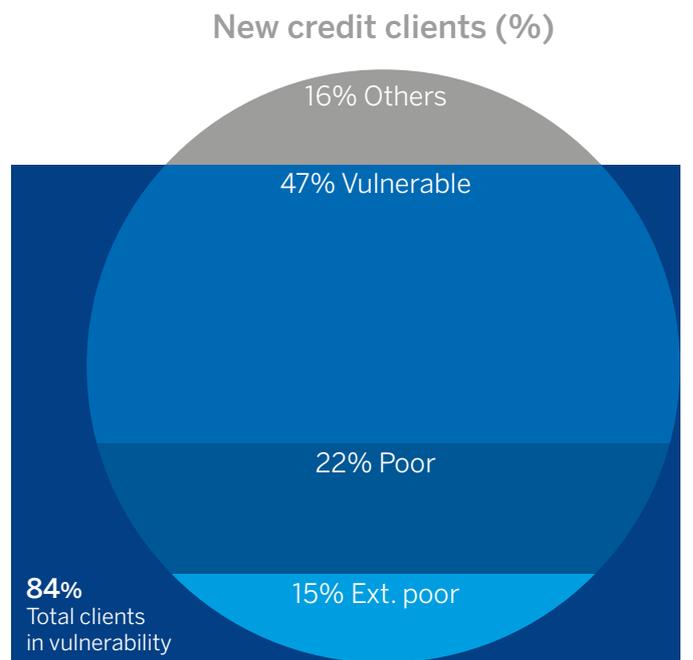
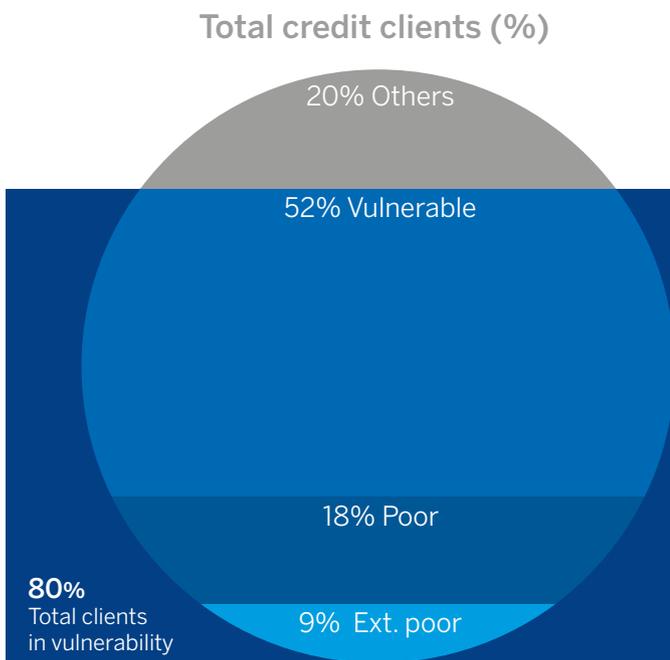
3 POVERTY LINE AND BASIC FOOD BASKET
In the countries where BBVAMF Group operates



4 NEW ENTREPRENEURS SERVED
New credit clients by cohort



5 CLIENTS' ECONOMIC VULNERABILITY



1. Committed to serving low-income clients

The vulnerability metric allows us to discover our reach, the number of people being impacted by the BBVAMF Group. In 2018 more than 270,000 new credit clients joined us, of whom 84% were in vulnerability (vulnerable, poor or extremely poor), with 37% generating incomes below the poverty line. Note how Group institutions remain focused on signing up entrepreneurs in economic vulnerability.

Relative income is the business surplus divided by the number of people in the household relative to the poverty line (PL). This relative income measures the distance from the PL and as such enables us to measure how poor a particular group of clients is, how much their businesses will have to grow to get over the PL and whether they are more or less at risk of falling back under that line.

The relative income of the vulnerable clients we served in 2018 was 1.73 times the PL, marking a wide gap with the incomes of clients in the “Others” category, which was a long way over the poverty line (5.36 multiples of the PL), so the likelihood of vulnerable clients falling back into poverty is much greater.

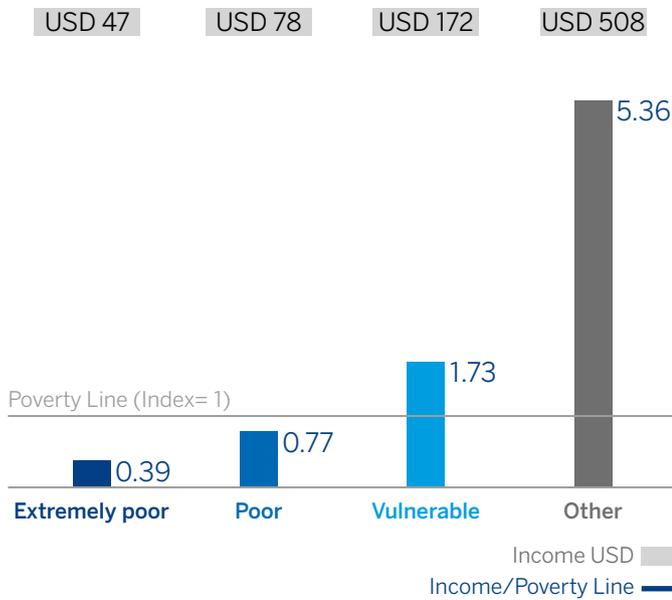
This indicator is also a proxy for the poverty concentration in the portfolio. As an institution takes on more poor clients, their relative average income falls. Another way of looking at it is that it enables us to differentiate between the number of poor people and how poor they are. If we draw a line showing the positive correlation between relative income and the number of vulnerable clients served, the microfinance institutions with lower concentrations of poverty would be underneath that line, and above it, the institutions with higher concentrations of clients in poverty (see Fig. 7).

Identifying the concentration of poverty in a portfolio is useful for demonstrating the impact on the performance of clients served by the institution. Thus, in BBVAMF Group we see there is a greater concentration of poor clients in Fondo Esperanza, Bancamía and Banco Adopem. Comparing these concentrations over time and in different regions gives us greater understanding of how they make decisions.

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

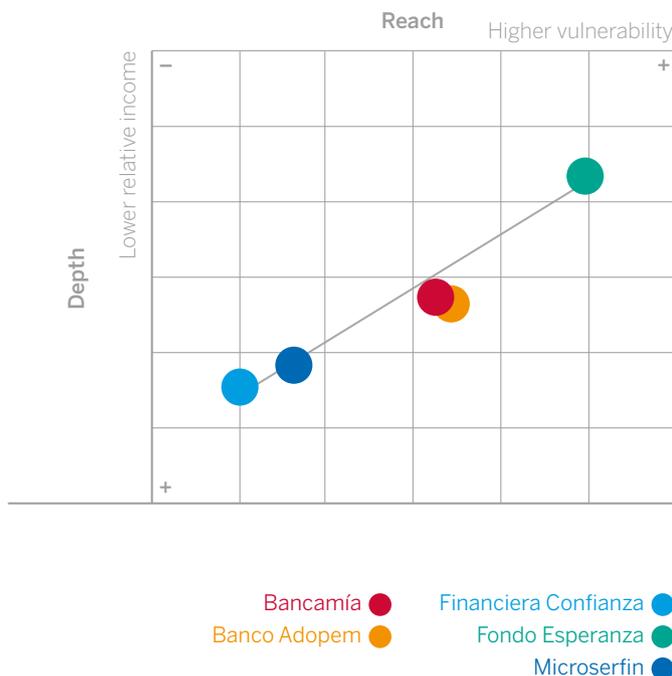
(7) Each graph position shows each Group institution's combination of reach (% vulnerability) and depth (earnings relative to the PL) for new credit clients in 2018.

6 ENTREPRENEURS' INCOME
Income of segment against Poverty Line



BBVAMFG serves a growing number of vulnerable entrepreneurs every year and also keeps its focus on providing specialist services to those with the lowest incomes.

7 REACH & DEPTH
Reach: Vulnerable clients (%)
Depth: Average earnings relative to that country's PL



1. Committed to serving low-income clients

WOMEN AS CATALYSTS OF DEVELOPMENT

Throughout 2018 we continued to serve clients in the principal segments identified as priority from the social perspective:

- **Women** Account for 57% of new clients.
- **With basic education** (primary at best). Represent 32% of new clients.
- **Young people** (under 30 years old). 34% of new clients.
- **Older people** (over 60 years old). Constitute 6% of new clients.

We should point out that our emphasis is on serving women because access to the financial system is more difficult for them. In general, in Latin America, women face greater barriers to accessing an independent source of income (the likelihood of being unemployed is particularly high in emerging countries). Even though education gaps are residual, family structures and the scarcity of time available to work in the end turn into barriers to accessing the labor market. Becoming an entrepreneur is a solution for earning income and to find a work/life balance.

Their enterprises generate lower incomes on the whole and, as a result, they encounter greater levels of economic vulnerability. Of the women served by BBVAMF Group, 89% are in vulnerability, 11% more than men (78%). This is partly due to the fact that they have to take on all the domestic chores and work in sectors with low productivity (53% of all women work in retail trade).

Indeed, this situation is particularly critical during women's childbearing years. Of the more than 155,000 new women clients served during 2018, 36% are under 30 years old. In this age segment, women have to balance developing their business with bringing up and looking after their family. 43% of our women clients in this age range are classified as poor with our methodology, compared to 27% of men in the same age group.

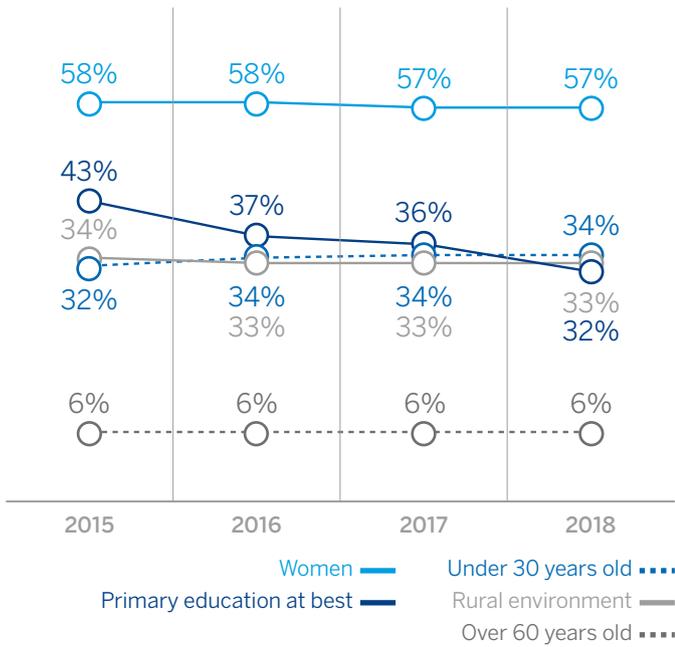
Women's businesses are smaller in scale and require greater effort to make them grow.

Furthermore, we can see how family size impacts differently on men than on women. The gap between income generation (sales) by men and women widens as families become larger. Women suffer a loss of income compared to their male peers when their families are bigger, possibly because they need to spend more time with their family. In the urban environment the gaps are wider than in rural areas: a single urban woman's income is only 10% less than her male equivalent, but women with families of more than 3 members earn 33% less than their male peers.

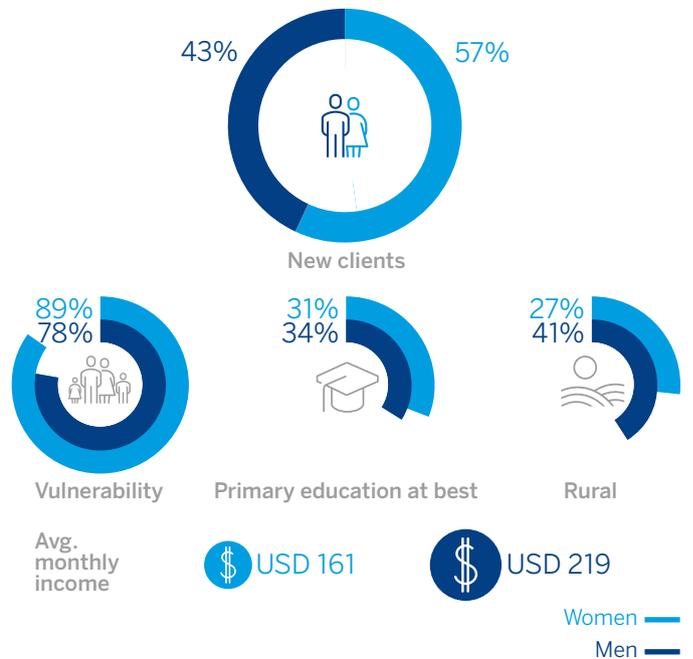
In addition, women entrepreneurs are particularly concentrated in urban zones, since in the rural environment it is difficult to have title over productive assets, which considerably restricts their access to the agro sector. Of the women granted loans, only 34% work in agricultural activities. Reducing the gender gap requires the number of obstacles to be reduced, not only financial ones, so that they can generate greater impact on their own lives and those of their families.

(9) 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.

8 SOCIAL VULNERABILITY
New clients by cohort (%)



9 PROFILE BY GENDER
New credit clients (%)



10 ECONOMIC VULNERABILITY & STAGES IN THE LIFE CYCLE
New credit clients (%)



The gap in income generation between men and women varies over the different phases of people's lives.

Women miss out on income compared to their male peers when their households are larger, possibly because they are spending more time looking after their families.

1. Committed to serving low-income clients

THEIR BUSINESSES

The rural population in Latin America and the Caribbean represents 18% of the whole, but its contribution to poverty is 29% and to extreme poverty 41% (ECLAC, 2018). The BBVAMF Group centers its work on productive activities, with particular emphasis on the most vulnerable areas of the countries in which it operates, where it generates greater positive impact on human development.

In all countries the pockets of poverty are mainly in rural areas, where access to basic infrastructure and services is limited. During 2018, 33% of new clients served lived in rural locations. The Group's scale, together with its understanding of risk and the costs of serving low-income entrepreneurs, mean that its institutions can take care of them.

The characteristics of entrepreneurship in rural areas are different to those of towns, and these characteristics determine the enterprise's change and growth. Features of rural enterprises that should be taken into account in raising financial inclusion are¹⁰.

- Distances and less/worse infrastructure (transport routes, communication, technology, markets, etc).
- Low population density.
- Lower investment in human capital.

BBVAMF Group places particular emphasis on serving clients in rural areas where there is greater potential for development.

For microfinance institutions this involves higher transaction costs, including transport and those caused by cultural and language barriers, among others. As such, it is critical to reach these areas, but sustainably.

BBVAMF Group institutions try hard to serve rural clients, making their office and service channels more efficient. This innovation has led to a rise in the representation of the agricultural sector. New agro clients accounted for 19% of all clients in 2018, compared to 15% in 2015. Agriculture is the second most important sector in our portfolio, jointly with services.

The rural environment is the greatest beneficiary and the best ally in eradicating hunger (SDG 2).

Entrepreneurs in the rural area need a high level of productive assets, particularly those who work in the agricultural sector. They tend to sell foodstuffs (products that have little added value) for own consumption, sale or export. Getting liquidity and profitability from assets earnings over the year/assets) is a challenge. Their average margin is 33%, compared to other sectors such as production/transformation and services, which convert their sales into earnings at rates of 36% and 40% respectively. Furthermore, their financing needs are higher: most are financed by equity (87% in agro and 82% in services).

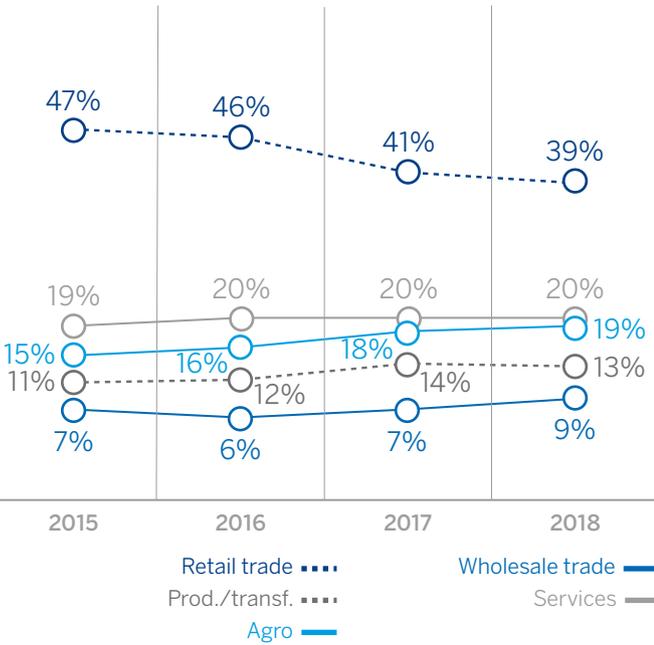
¹⁰ The rural environment, hunger and poverty in Latin America and the Caribbean – ECLAC, 2018 (in Spanish only).

(12) Clients current at 12.31.2018.

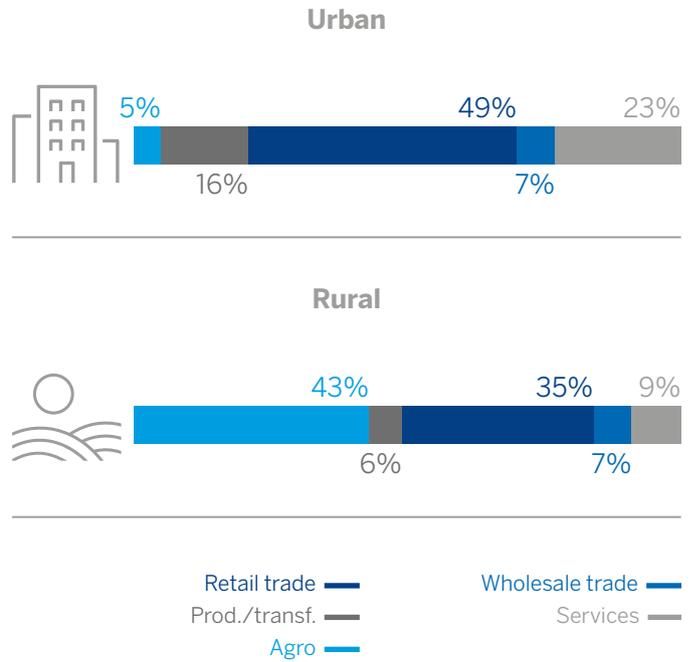
(13) Ratios of average costs over sales in each sector. Earnings are taken after payment of the loan installment.

(14) 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.

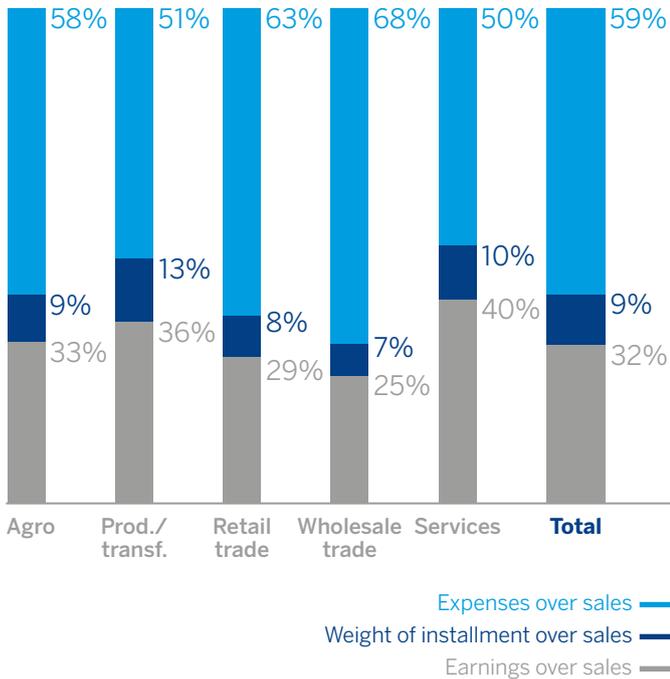
11 ACTIVITY SECTOR
New clients by year of outset (%)



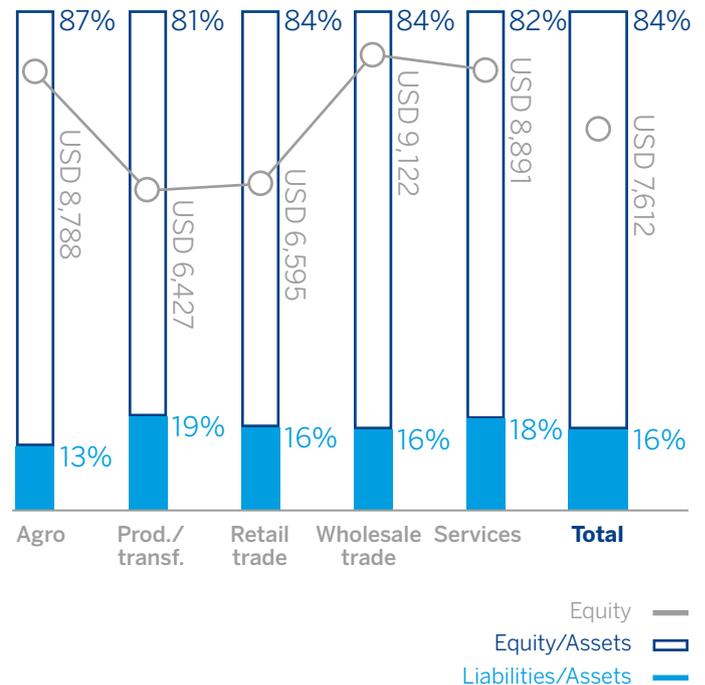
12 ACTIVITY SECTOR BY ENVIRONMENT
Total credit clients (%)



13 P&L- MARGINS OVER SALES
Total credit clients



14 BALANCE STRUCTURE - LEVERAGING
Total credit clients



1. Committed to serving low-income clients

Agricultural development is one of the most effective ways of ending extreme poverty and of improving food security. It is also one of the most effective mechanisms for generating revenue among the poorest segments of the population and those with the least education. Eradicating hunger (Sustainable Development Goal 2) entails supporting agriculture and production systems, since this is how food security can be achieved, both for own-consumption and by selling the surpluses generated by those working in the sector.

In general, trade continues to be the predominant sector among the clients we serve (52% of the total). Even in rural areas, trade accounts for 43% of all activity. Entrepreneurs prefer to work in flexible sectors in which they can easily switch business, so they operate with low costs and lower asset volumes. This sector is characterized by high asset rotation.

Whereas entrepreneurs look for the kind of business that best adapts to their circumstances, environment creates conditioning factors of other kinds that have a major impact on poverty and on development. It is therefore of the utmost importance to find new instruments that help these entrepreneurs to grow, bearing in mind their respective options. To do so, we need to construct a strategy that involves training our loan officers as well as our clients and designing specific products and channels. In the rural environment, this entails adapting to climate change and not further deteriorating resources. Therefore, in order to increase clients' resilience to climate adversities, BBVAMF Group is backing a strategy of environmental sustainability (see Environmental Sustainability on page 26).

43% of rural entrepreneurs work in agriculture. In cities the largest sector is retail trade (49%), followed by services (22%).

2. Tracking entrepreneurs' progress

Micro, small and medium-sized enterprises (MSMEs) play a fundamental role in expanding the economy of countries in Latin America. They account for a high percentage of GDP growth (28%) and provide employment for a large proportion of the country's active population (50%). These small productive units face different challenges to stay afloat over time, grow and create jobs. Their ultimate aim is to improve the standard of living of families and impact on the development of the communities where they operate.

For BBVAMF Group, 55% of the 380,000 clients who have renewed a loan in 2018 have increased their income relative to the poverty line in each country, with that percentage staying above 50% for the fourth year in a row. As was the case last year, a quarter of these clients were in poverty or extreme poverty at the beginning of the year. This segment of clients fell by 13%. Out for the population in poverty is as important as looking out for vulnerable people, i.e. all those who encounter difficulties in stabilizing their economic situation.

THE GROWTH OF BUSINESSES, PART OF A WIDER CONTEXT

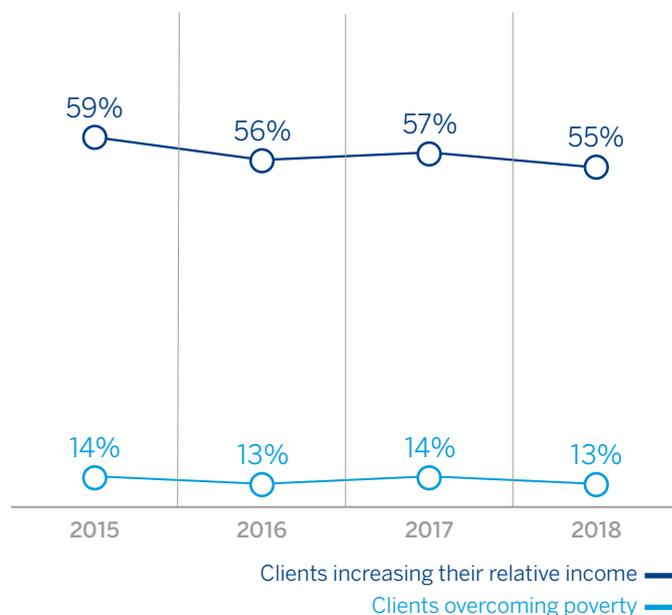
Entrepreneurs' business sales have risen at much faster rates than consumer prices (17%), even more than their respective sector growth rates at a national level. This is partly due to the size of their businesses and, above all, the continued effort made by entrepreneurs in ploughing their profits back into productive assets. The growth in earnings (16%) is particularly important, since this is what finally reaches the families and enables clients to improve their situation. Growth in trade and in production/transformation has posted higher rates, since this is where the greatest concentration of poor clients is to be found.

(15) Clients renewing their loan each year.

(16) 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.

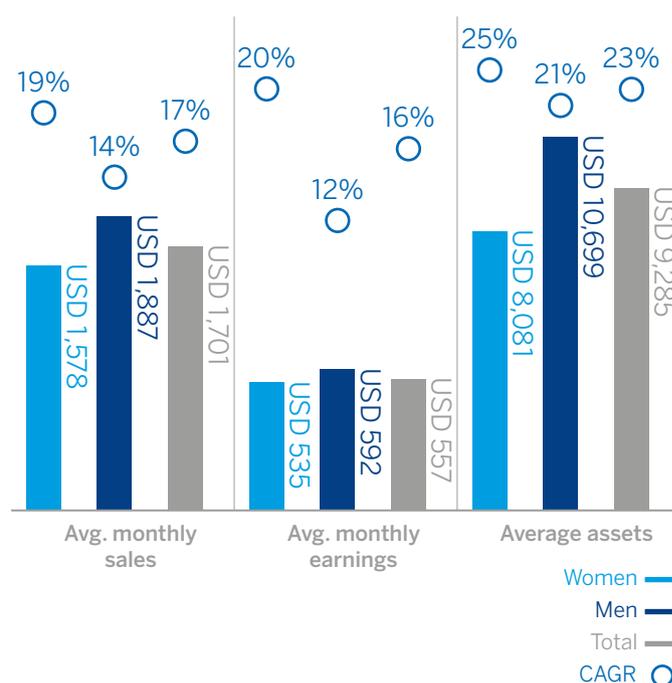
15 CLIENT PERFORMANCE

Clients served during the year, at each measurement date



16 GROWTH IN FINANCIAL VOLUMES, BY GENDER

Compound annual growth rates



2. Tracking entrepreneurs' progress

The agro sector reports lower growth rates from higher earnings and assets, meaning that every dollar reinvested in agro assets has a marginally lower impact.

On average, clients' income performance shows positive net growth during the time in which they keep their link with institutions. In fact, entrepreneurs who have renewed a credit in 2018 perform better than the average.

Microenterprises are small businesses that arise from the need to survive and generate income in the short term. Their development is directly linked to family structures and household needs and expenses, but there are differences between businesses run by men and those run by women.

We see gaps between sales figures, surpluses and above all, the assets managed by women, which are 25% lower than those of men. Women entrepreneurs are more prevalent in sectors with lower investments such as services or retail trade, and less present in sectors requiring higher assets (such as agro).

Growth rates in financial volumes of businesses run by women are a little higher although not enough to close the financial gaps. Turning to earnings, women's businesses post high growth rates (20% compared to men's 12%) with an absolute value that is only USD 57 lower.

The development of each of our clients' businesses is conditioned by a series of assets, which can be manageable or improved over time by the entrepreneur (eg. working capital, skills and partnerships) or, on the contrary, depend on different bodies (such as the government, etc) that support them (eg. infrastructure, transport and communications).

These assets are:

- **Natural capital** (natural resources, of greater or lesser importance depending on the client's business).
- **Physical capital** (infrastructure, technology, etc.).
- **Financial capital.**
- **Human capital** (entrepreneur's skills and abilities).
- **Social capital** (trusted relationships, cooperation, etc.).

It is not only the amount of these assets that is important, but their quality and productivity are also critical in defining present and future income streams. The environment, the sector and other characteristics will define a combination of assets that condition the client's development. For example, even if all other characteristics are equal, rural clients will have less infrastructure and probably a smaller potential market than urban entrepreneurs.

Driving forward economic and financial development, as well as human capital (supporting training in skills and abilities) will allow us to row in the direction of growth and development for each and every one of our clients. Public-private partnerships will in turn make it possible to change realities that can impact on other necessary assets.

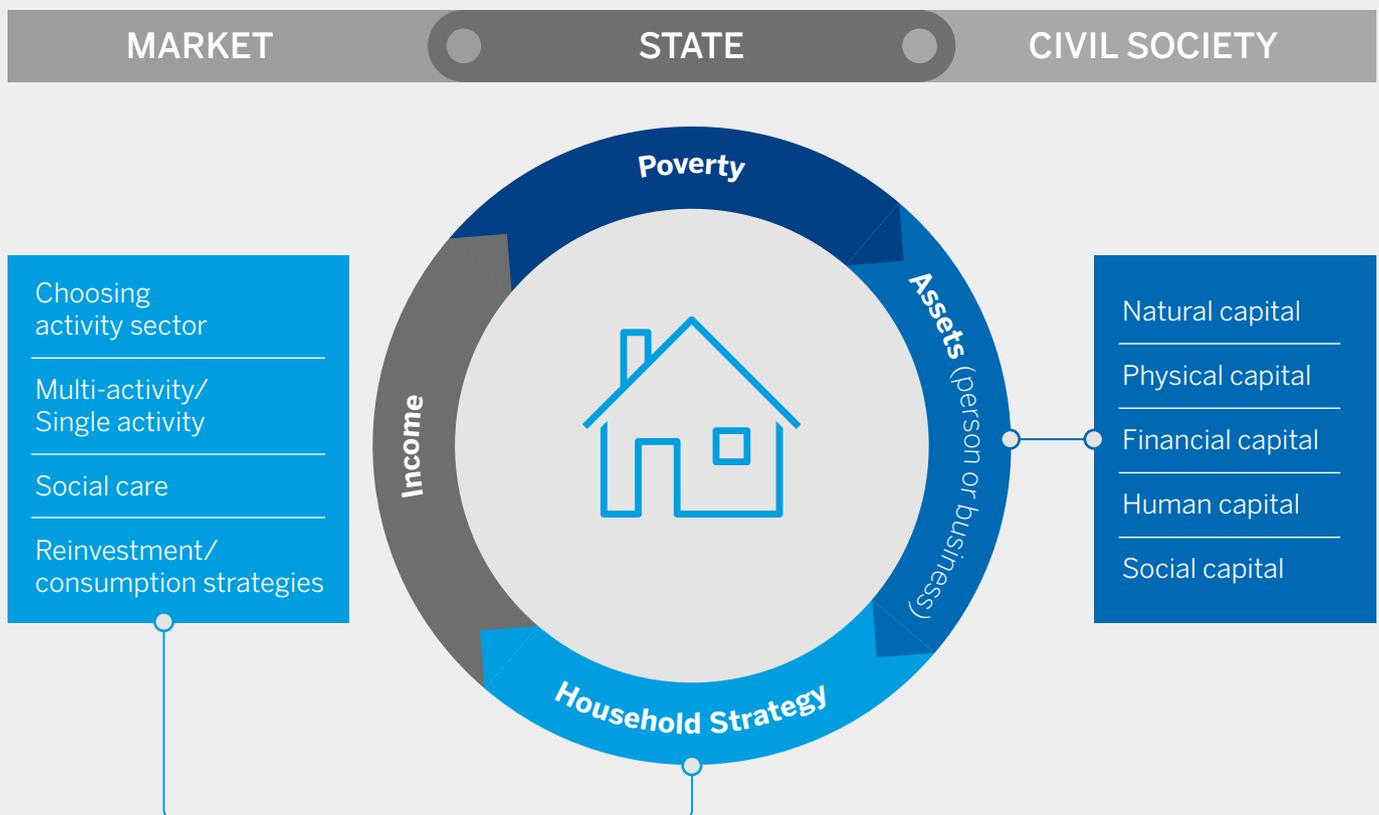
Clients' progress and supplying financial products and services have the overall aim of improving their standards of living and to change the reality of the most vulnerable families in order to improve the future of many people permanently.

To achieve this, entrepreneurs work to:

- Make their business grow.
- Increase their incomes and overcome their poverty or vulnerability.
- Consolidate improvements and increase their future capabilities by reinvesting in assets.
- Pass these improvements on by raising their families' standard of living and that of their communities.

This is shown in detail in the following sections.

OVERCOMING HOUSEHOLD POVERTY¹¹



¹¹ The rural environment, hunger and poverty in Latin America and the Caribbean – ECLAC, 2018 (in Spanish only)

2. Tracking entrepreneurs' progress

VARIABLES THAT DETERMINE ENTREPRENEURS' ECONOMIC PERFORMANCE

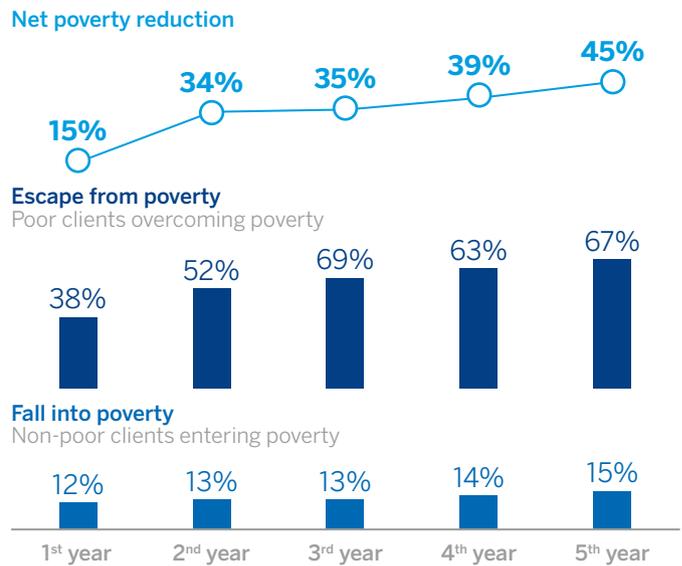
Of the clients who raise their income, many succeed in getting over the poverty line. Indeed, of clients who are poor at the outset, 52% overcome poverty in their second year banking with the institution, although there are others who sink into poverty. Thus, of non-poor clients each year, on average 13% will see their incomes affected. The proportion falling into poverty is stable over time, unlike those escaping it. Net poverty reduction in the second year comes in at 34%. The numbers prove that long-term banking relationships encourage a positive net escape from poverty.

BBVAMF has analyzed the set of socio-economic variables, covering business data and the financial services provided (which products and services are used by clients and the conditions in which they are served), that have the greatest influence on the good performance of entrepreneurs in poverty and their escape from it. The purpose was to isolate the characteristics raising poverty levels (since the more precarious their situation at the outset, the more difficult it is to overcome poverty) and to identify the factors that determine or give rise to their better or worse performance. For more methodological details, see Methodological note, page 104.

- (17) 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 entry into poverty.

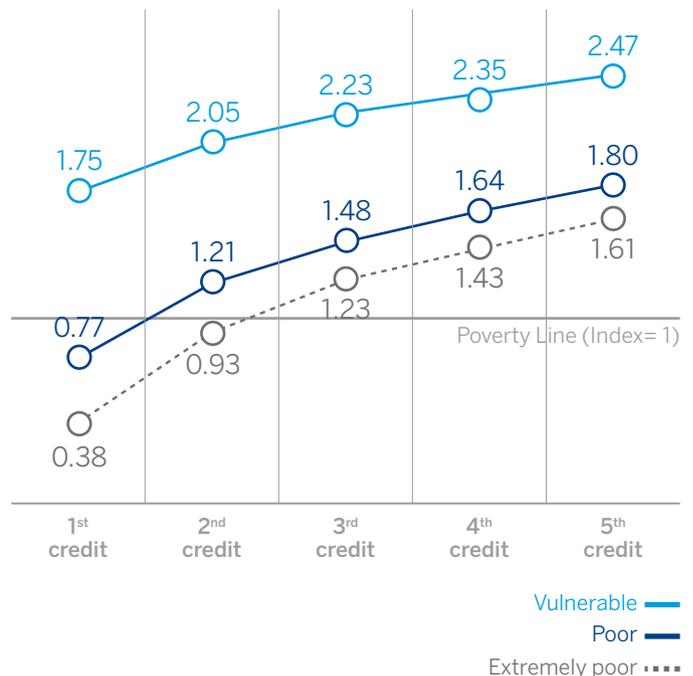
(18) For the sample of clients served during 2018 –classified according to their situation when they took out their first loan– net income per capita at each credit cycle is shown, relative to each country's poverty line (current in the year of the disbursement). Relative per capita net income has a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

17 VARIATION IN POVERTY SEGMENT



18 GROWTH IN INCOME

Income by segment over Poverty Line



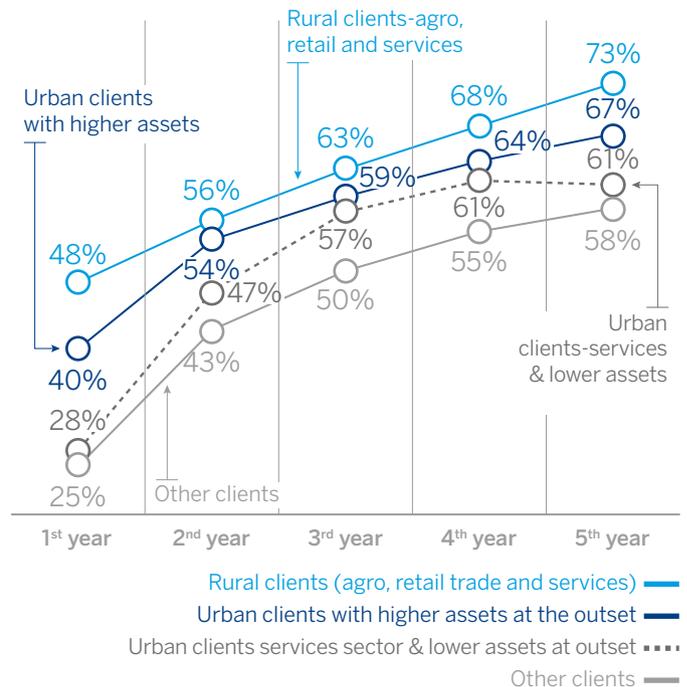
We have analyzed client performance, both those escaping poverty and those falling into it, in terms of their income growth rates.

As explained above, the degree of poverty is linked to several issues, such as, for example, entrepreneurs' abilities or the barriers that exist to joining the labor market, gender, level of education, the surroundings where they carry out their activity, access to other sources of income, etc.

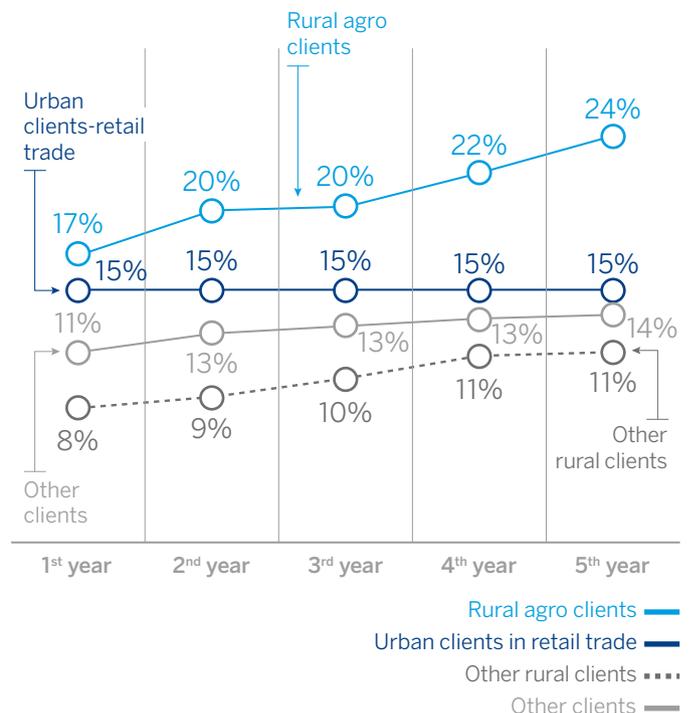
When we look at our clients' performance, we identify three key factors characterizing entrepreneurs' escape from or fall into poverty:

- Their **environment**. In our experience, the likelihood of escaping poverty is greater in the rural than in the urban environment, whatever their initial income. We expect this behavior to be partly explained by the lower cost of living, which leaves greater surpluses, as well as less competition in their activity. After four years, 68% have escaped poverty. Specifically, rural clients in retail trade and services perform better. In the urban environment, on the other hand, the opposite is true. This may be due to greater competition which leads to tighter margins and, in the event of uncertainty, their surpluses are more heavily impacted.

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



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



(19) 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.

(20) 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.

2. Tracking entrepreneurs' progress

- Their activity **sector** has a particularly strong bearing on whether they fall into poverty. Agriculture is an outlier here, with greater numbers falling into, but also escaping from, poverty. Because of its intrinsic characteristics, revenue is more seasonal (volatile), and faces exogenous risk inherent to climate. In urban environments, retail trade shows a higher rate of entry into poverty because it concentrates a higher number of poor clients. Precariousness and instability are both endemic in a sector, one that seeks small, flexible transactions.
- **Asset levels at the outset.** This item has a positive effect on the rates of escape from poverty, especially in urban environments. A bigger asset buffer means greater capacity to absorb shocks and mitigate adverse scenarios, as well as to generate new productive investments. For this reason, urban clients with more assets perform significantly more strongly over time: after four years, 64% of poor clients have overcome poverty.

On the other hand, the performance of entrepreneurs is not linear; they fall in and out of the poverty category several times over time (mobility). When we analyze clients with at least five disbursed loans (since 2011), we see that both clients who were poor at the outset and those who were not may suffer these fluctuations in their incomes. This volatility increases the more economically vulnerable our clients are: 30% who were poor at the outset cross the poverty line twice or more times, compared to 22% of the non-poor.

This also reconfirms the importance of the surroundings in clients' development: in the case of poor rural clients, the proportion of clients escaping poverty is higher than in urban environments, but so is their volatility, a sign of the difficulties facing these clients, most of them farmers.

In the case of the non-poor, the environment is less relevant. Those in urban areas suffer slightly higher volatility.

Despite this volatility, there are two positive aspects: one is that 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, succeed in staying over the poverty line (69%).

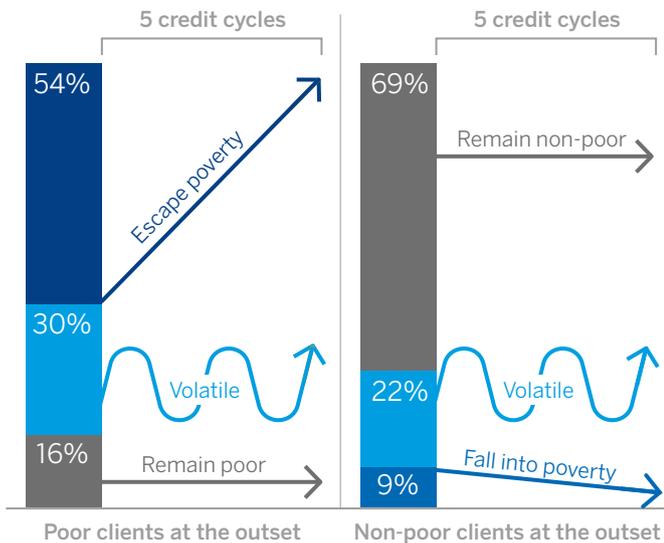
Growth in business profits and the accumulation and availability of productive assets are dimensions that complement one another. In-depth knowledge of both contributes to understanding the nuances of poverty.

(21) (22) Sample of clients served between 2011 and 12.31.2018 who have had at least five disbursements. The number of times a client crosses the PL is analyzed. Volatile: 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).
- Fall into 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.

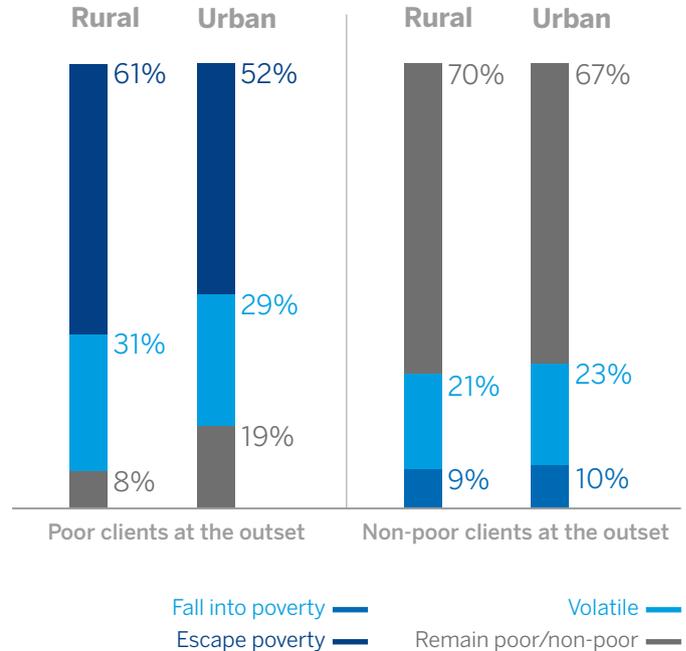
21 INCOME VOLATILITY

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



22 INCOME VOLATILITY - RURAL/URBAN

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



INVESTMENT IN PRODUCTIVE ASSETS

At Group level, there is a positive growth trend of clients' business assets growth over time, whatever their level of at the outset or their degree of income vulnerability.

Clients' business assets stock is classified by physical assets (premises, machinery, land, etc.) and working capital. Assets have been divided into four categories:

- **Very low:** assets below or equal to 20 multiples of the poverty line (PL) (USD 835 to USD 4,419).
- **Low:** assets below or equal to 60 multiples of the PL (USD 3,129 to USD 7,858).
- **Medium:** assets below or equal to 100 multiples of the PL (USD 6,971 to USD 12,595).
- **Higher or high:** assets above 100 multiples of the PL (USD 19,939 to USD 25,307).

Client performance has been analyzed by the changes in their assets' categories. Based on this analysis, we have reached the following conclusions:

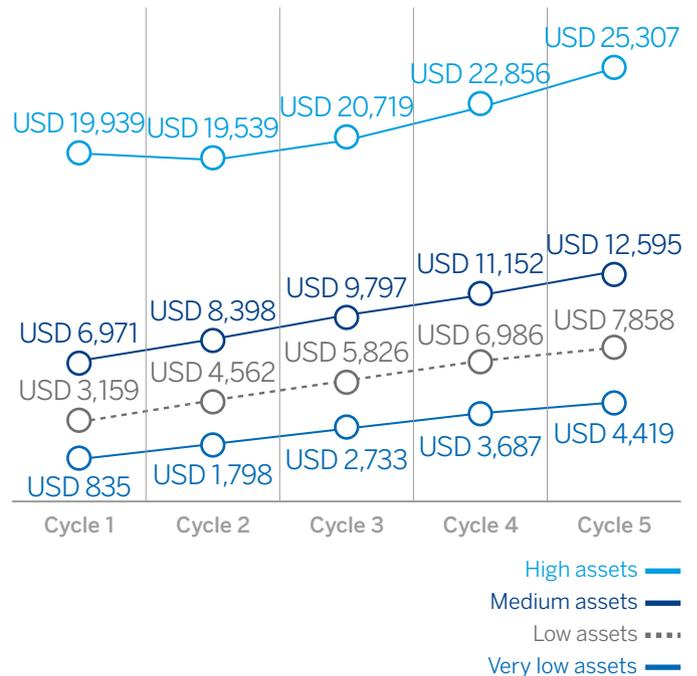
- **Assets owned at the outset.** Having a solid asset base allows people to improve the profitability of their resources and gives them greater capacity, if required, to respond to setbacks. Higher levels of assets at the outset are associated with greater client income growth. For example, poor clients with higher assets finish a credit cycle before those with very low asset levels.
- **Asset profitability** (in this case, business profits). As clients earn more and their earnings are possibly more stable, their capacity to make profits from these assets is greater. We see how asset growth is higher among clients with high incomes (non-poor) than clients with low incomes (poor). In other words, the first category of clients can reinvest most of their profits back into their business. Furthermore, since they have more surpluses they can deal with unexpected setbacks, they do not need to cash in productive assets when they need money, but rather can consolidate their business.

2. Tracking entrepreneurs' progress

- Management/Consumption and investment choices:** The capacity to manage businesses (dependent on factors such as training) defines the cost level of the productive activity, whereas personal and lifestyle decisions determine the level of household consumption (note the informal nature of these businesses means that on many occasions business management and household consumption are mixed together). Generating earnings that are more than each family needs to spend, and are earmarked for investment, serves to increase the level of productive assets. This creates a virtuous circle of higher profitability rates in the future, that imply progress and development. The degree of vulnerability conditions the productive choices made by entrepreneurs, whether because their surplus only just covers living costs, or when they are deciding how (re)invest productive surpluses efficiently.

59% of entrepreneurs who have managed to escape poverty have accumulated assets, compared to 35% of those who are still poor. Similarly, for non-poor clients the destruction of productive assets is associated with worse (income) performance. One in every three clients who have fallen into poverty has reduced their asset level (34%).

23 ASSET ACCUMULATION BY ASSETS AT THE OUTSET



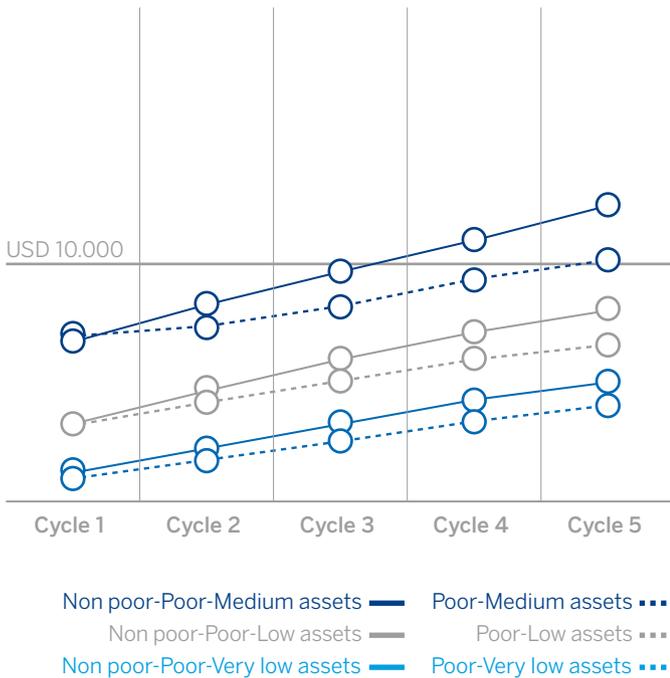
(23) Client samples from the 2011 cohort onwards are classified according to their situation at the outset. Graph shows Bancamía, Financiera Confianza and Banco Adopem clients, excluding agriculture sector. To compare monetary values from different years, values were deflated with the official CPI prices at each year-end. This methodology is used for all the figures in this section.

(24) (25) For the sample of clients in the 2011 and later cohorts, classified according to their situation at the outset. Clients of Bancamía, Financiera Confianza and Banco Adopem, excluding agricultural sector.

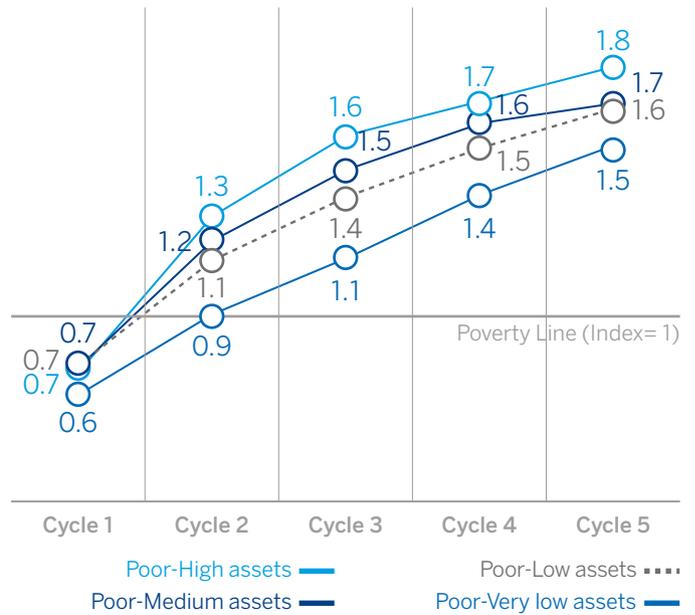
(26) (27) Sample of clients served from 2011 to 12.31.2018 who have had at least five disbursements. The agro sector is not included. Performance is analyzed by looking at the situation at the outset and comparing it to the outcome in two dimensions:

- Income performance by whether clients are still in poverty or not.
- Asset changes are analyzed according to whether the asset levels change.

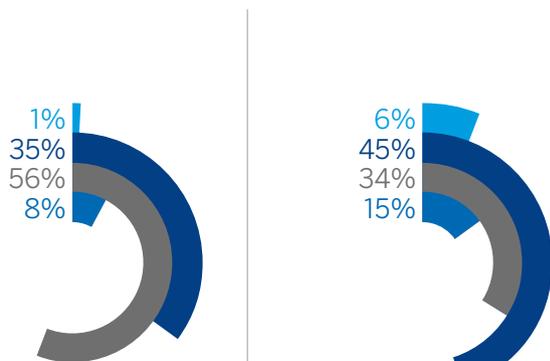
24 ASSET ACCUMULATION
 Poor and non-poor clients at the outset with 5 credits



25 INCREASE IN INCOME BY ASSET LEVELS
 Clients poor at the outset with 5 credits



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

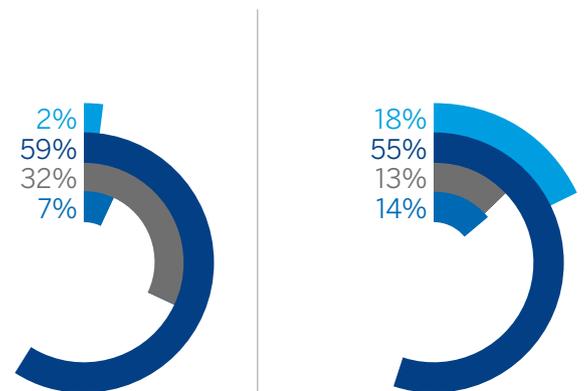


Poor - remain so

Non-poor - become so

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

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



Poor - remain so

Non-poor - become so

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

2. Tracking entrepreneurs' progress

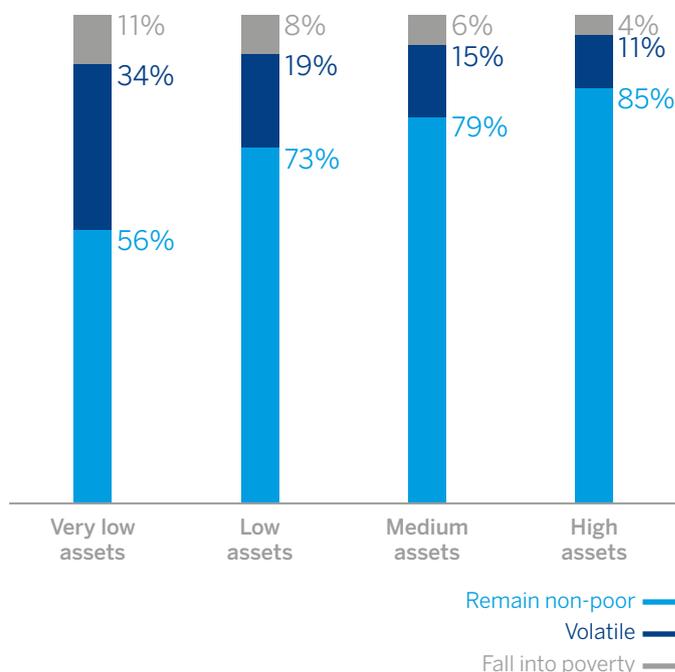
Clients with lower levels of income –in poverty and in conditions of scarcity– may come to take short-term, low-risk decisions in order to get over this situation. Consumption to meet basic needs reduces the possibility of investing in other alternatives that could be more efficient.

The degree of entrepreneurs' vulnerability conditions their productive choices substantially.

Perhaps the most important finding is that higher assets are associated with greater income stability over time, especially among non-poor clients. 85% of these, with five disbursements and who have high levels of assets, remain non-poor throughout the period monitored, compared to 56% of those with very low asset levels.

Asset accumulation over time increases the probability of improving business productivity and keeps consumption stable.

28 ASSET LEVELS AMONG NON-POOR CLIENTS
Clients with 5 credits, non-poor at the outset



(28) The asset classification is based on the information collected at the first disbursement. Definitions are as follows:

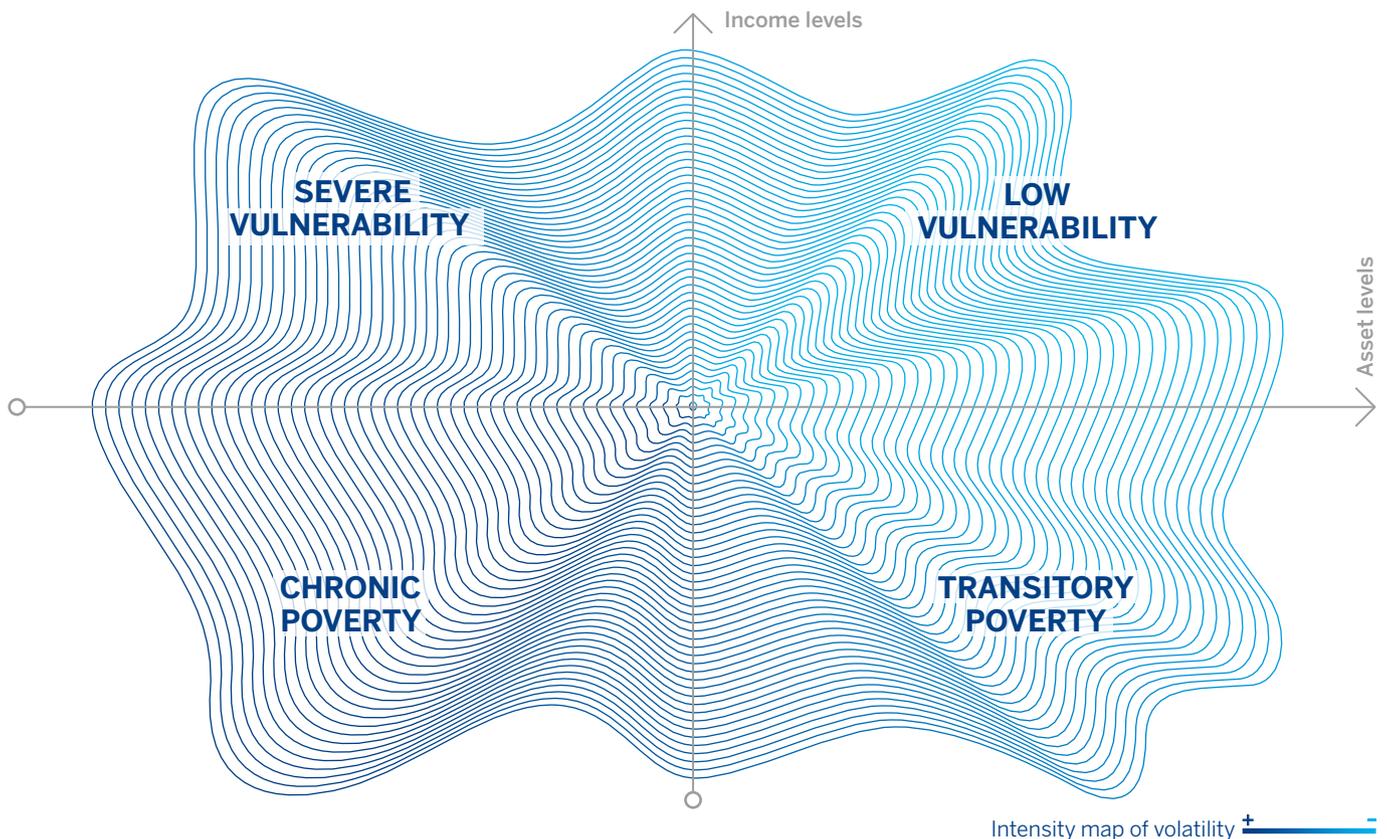
- Volatile: Clients who cross the poverty line at least twice.
- Fall into poverty: Non-poor clients at the outset whose income falls below the PL (and does not increase again).
- Remain non-poor: Clients who remain non-poor throughout the 5 disbursements.

Based on this analysis, we suggest a further segmentation of clients:

- **Chronic poverty:** Among poor clients, having low levels of assets implies that they are in poverty, where the capacity to deal with unexpected contingencies is very limited and, furthermore, there is less likelihood of saving or insurance.
- **Temporary poverty:** As poor clients acquire more assets their possibilities of improving their income and escaping poverty rise.
- **Severe or low vulnerability:** Among vulnerable clients, higher levels of assets help them to keep their income stable over time, whereas low levels of assets are associated with income volatility and entry into poverty.

There is great potential for making continued progress in our understanding of how performance changes, linking our analysis of asset profitability development with clients' other economic and social variables. Greater understanding will lead to a service and product offering that is better adapted to clients' needs, thus accelerating their progress.

RELATIONSHIP BETWEEN ASSETS AND INCOME



2. Tracking entrepreneurs' progress

FROM IMPROVING THEIR BUSINESSES TO IMPROVING THEIR STANDARD OF LIVING, INDIRECT IMPACTS

"Monetary poverty indicators need to be complemented by others that account for the complex and diverse reality faced by people living in poverty." (World Bank, 2018). Our measurements analyze some of these diverse indicators: access to housing, education, electricity, sanitation and other social protection variables.

The Foundation's impact measuring system looks at how improvements in clients' businesses affect these indicators and the impact these improvements have on their families and communities. We note, for example, how being an entrepreneur is a tool for self-employment for 83% of clients. The remaining 17% succeed in employing one or more people. Although this figure is not high, it reveals significant effort and impact on their communities, because it is difficult for small businesses to create employment for third parties. The bigger the business, the lower the entrepreneur's vulnerability, and the greater the likelihood that they will employ other workers.

BBVAMF Group microentrepreneurs provide employment for 208,319¹² people. On average, 10% of clients create at least one new job after three years of banking with the microfinance institutions.

It is also relevant here to point out that, after two years banking with their institutions, on average, 6% of clients improve their housing conditions and 2.2% their educational level, which has a positive impact on future generations.

(29) Considers the number of employees in current clients' business at 12.31.2018.

(30) Proportion of current clients at 12.31.2018 who have upgraded their housing situation (bought their own home), have made home improvements (eg.put in a bathroom, installed electricity), or have increased the number of rooms. Average for 2013-2018 cohorts (year of entry).
Note: Information available for all 6 institutions.

¹² Data provided by 88% of all clients to 12.31.2018. The extrapolated figure would come to a total of 242,754 jobs.

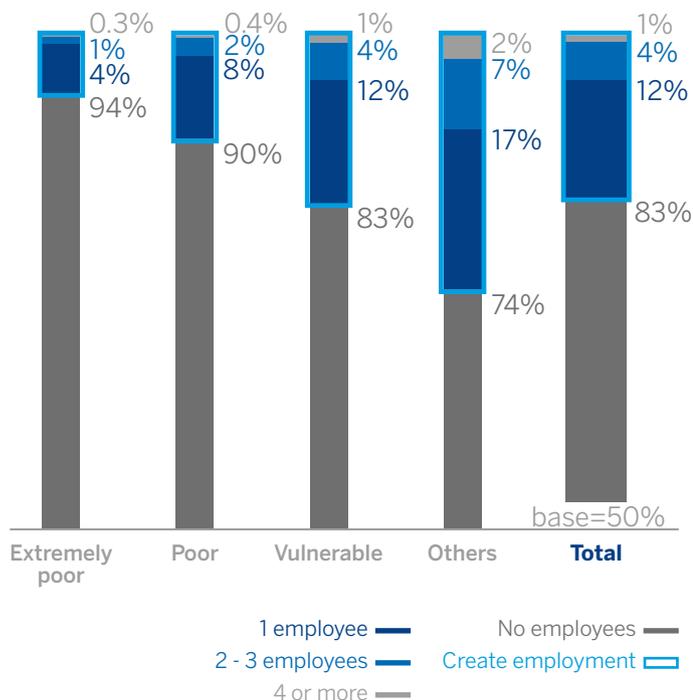
(31) Considers the increase in the number of employees compared to the outset, in the businesses of clients current at 12.31.2018. Averages for the 2013–2018 cohorts (year of entry).

Note: Information available for Banco Adopem, Fondo Esperanza and Microserfin.

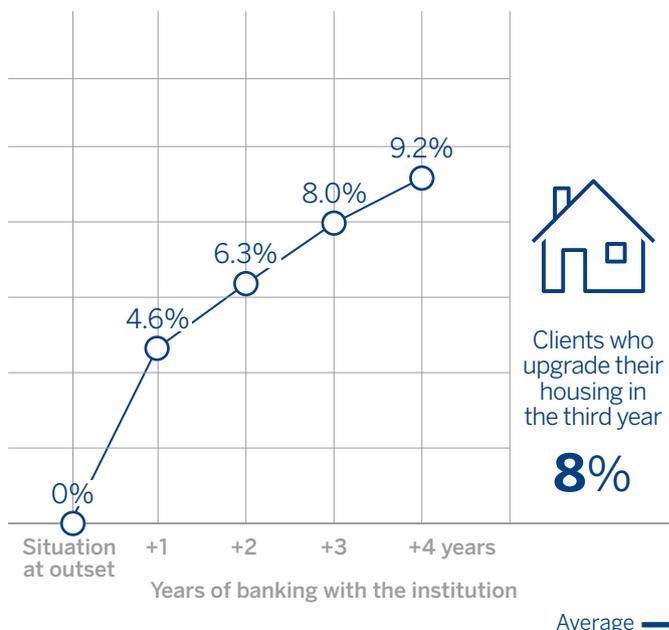
(32) Proportion of clients current at 12.31.2018 who have raised their education level. Average for 2013–2018 cohorts(year of entry).

Note: Information available for Bancamía only.

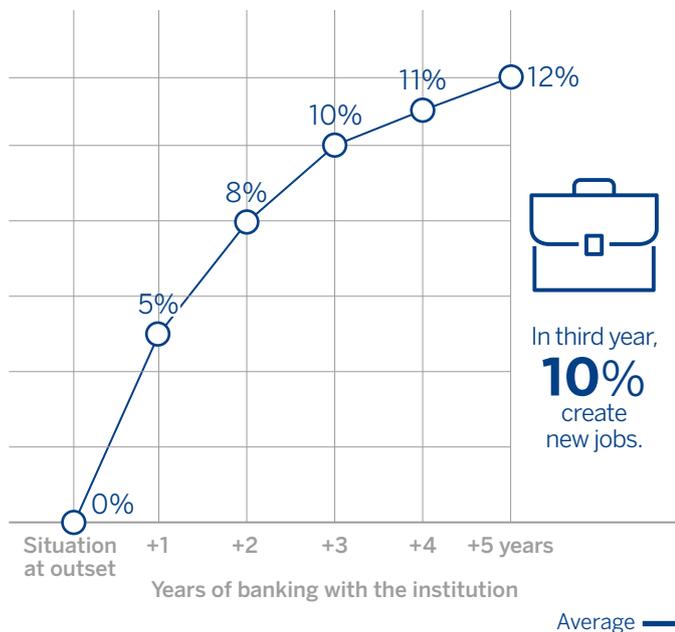
29 EMPLOYEE BREAKDOWN
Clients according to n° of employees in their business



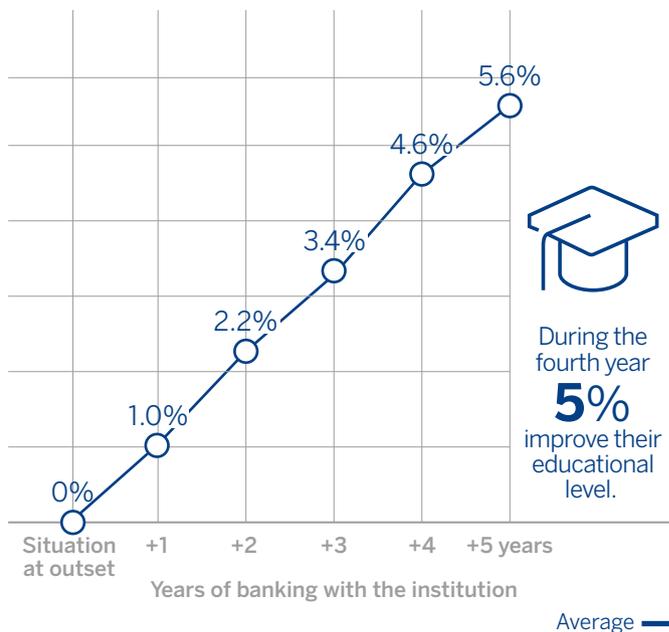
30 HOUSING UPGRADE
Credit clients who improve, by years spent banking with the institution (%)



31 JOB CREATION
Credit clients who hire more employees (%)



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



3. Relationship with clients

After years of experience in serving low-income clients, we know how important it is, as well as including them in the financial system, to mentor them throughout their journey, supporting them as they consolidate and keep their businesses running. Income stability over time enables positive impacts to reach their families and communities.

Breaking down the barriers faced by entrepreneurs, helping them generate bigger financial buffers and to better manage setbacks, requires an extensive offering of financial and non-financial tools, as well as closer (formal) multi-channels to ensure their distribution. According to the 2017 Latin America Global Findex survey, the reasons for which clients find themselves excluded from the financial system are: lack of funds, physical distance and because they perceive them as expensive.

In terms of service, we have a network of 3,494 loan officers who make our services and products available to clients with personalized advice. An ever-higher percentage of our advisors have mobility tools that let them access client information from wherever they are, avoiding delays and tiresome journeys.

515 branch offices provide cover in the most disadvantaged regions in each country. Over 514 banking correspondents¹³ –service points that increase our network’s capillarity– are new channels that help to reduce clients’ transaction costs.

The Group’s entities provide a wide range of products (credit, remittances, savings, insurance, etc.) and training programs (focusing mainly on financial education).

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



Nº of branch offices

515



Nº of loan officers

3,494



Service points

514



People receiving financial education in 2018

557,680

¹³ Natural or legal persons acting on behalf of the bank in commercial establishments such as general stores, grocery stores and drugstores, principally in peri-urban neighborhoods and rural areas. They are a key channel for increasing the institution’s capillarity and reaching vulnerable clients and those who are difficult to reach who prefer to make their financial transactions through people they know.

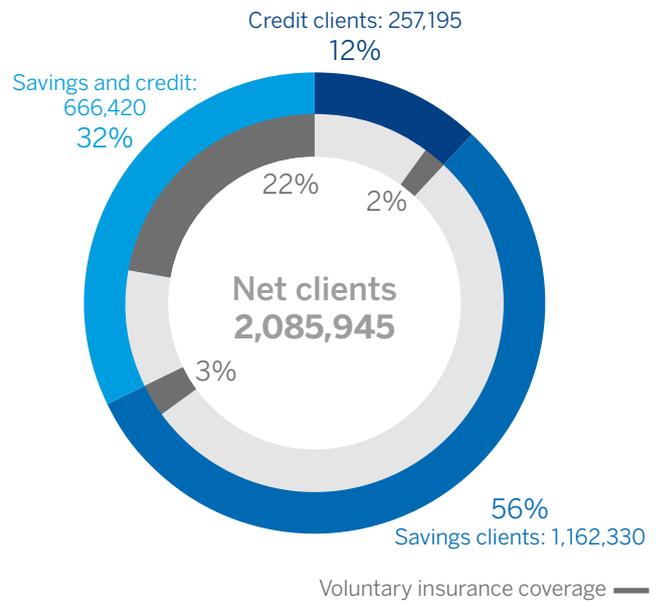
(33) Clients current at 12.31.2018.

On average, only 16% of adults in Latin American countries put their savings in banking institutions, compared to 50% in advanced economies (IDB, 2016). In response, governments in several Latin American countries have provided incentives for saving, encouraging institutions to suppress their minimum charges for taking out these products. Furthermore, those countries whose governments pay out pensions and subsidies using online procedures have succeeded in achieving higher inclusion for their low-income population. It is critical to work together on improving the use of these resources.

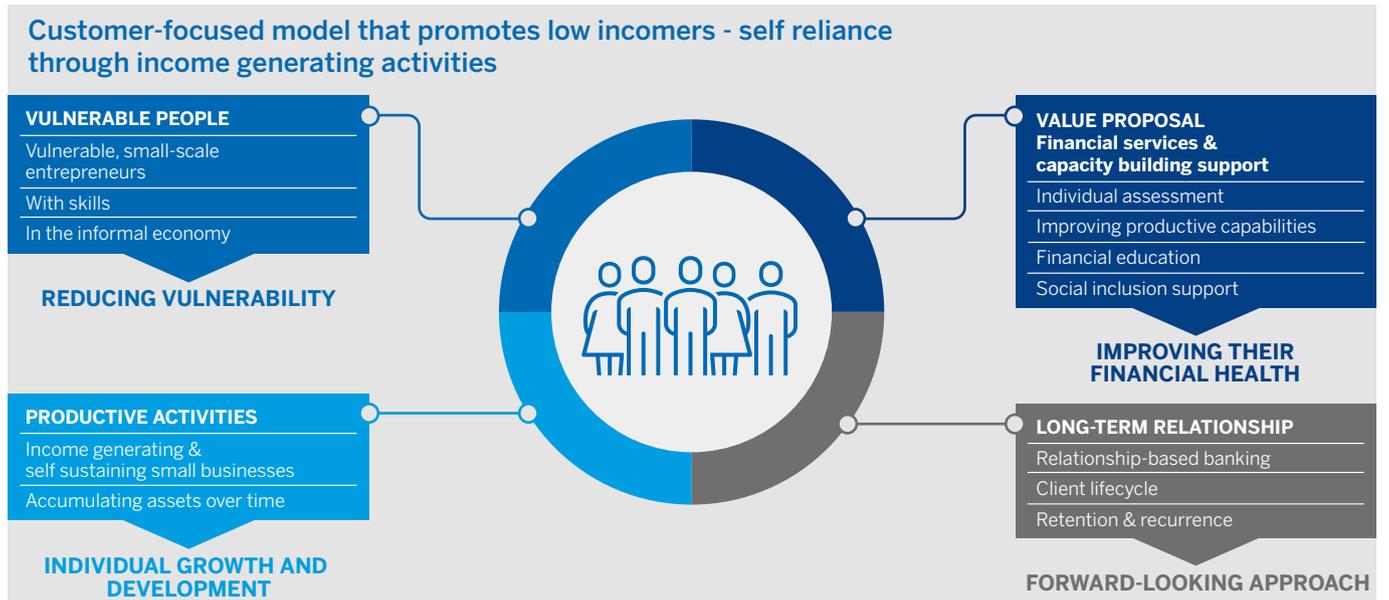
32% of clients served in the BBVAMF Group have credit and savings products and 22% have three types of product (credit, savings and insurance). Where clients only have one product, on the whole this is savings (88%). For this reason, much effort is being made to create specialist products to support:

- Savings that are programmed for a specific goal.
- Training and products for encouraging saving among the entrepreneurs with the least capital.
- Products facilitating transactions to pay suppliers, employees, to receive remittances, etc.

33 CLIENTS BY PRODUCT TYPE
Total current clients



PRODUCTIVE FINANCE



3. Relationship with clients

RELATIONSHIP WITH CREDIT CLIENTS

New credit clients served in 2018 received an average disbursement of USD 897, a sum that varied between the different countries where we do business. So, we can see that the purchase value of the first disbursement was between 4 and 21 basic baskets of goods, depending on the country and the credit methodology used (group vs. individual lending). In 2018, the average disbursement rose by 15%, whereas the weight of the installment payment in (monthly) sales remained around 8.6%. The effort made by clients in paying their loan is similar over time.

The relationship of trust with the clients and our better understanding of them gradually opens up financing options, so disbursements are larger with every loan. On average, 65% of credit clients remain associated with BBVAMF Group entities after a year, and 42% after two. Furthermore, 56% of clients access a second loan.

Clients access credit products on an intermittent basis and for different purposes: to invest in machinery, buy a plot of land or commercial premises, to resolve temporary cashflow problems, maintain their transaction levels stable, to buy stock, etc. These purposes vary depending on each entrepreneur's scale, maturity and management ability. These characteristics, combined with unstable production cycles and market fluctuations, have an influence on the probability of client attrition and the frequency with which clients come back for another loan.

(34) 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).

(35) 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).

RELATIONSHIP WITH CLIENTS WHO HAVE A VOLUNTARY INSURANCE POLICY

The Group's financial offering is completed with voluntary insurance products to provide cover in the event of unexpected difficulties. Insurance gives more stability to businesses, mitigates the risks associated with investments and prevents the need to resort to savings or to selling productive assets to cover the cost of the setback.

The provision of voluntary insurance policy entails numerous complexities (in designing the product, adjusting the cost and the intangible features). Despite the difficulties, in recent years the Group has made an effort to encourage more placings of this product. At the moment, 57% of credit clients also have a voluntary insurance policy, compared to 52% in 2017.

The realities of this product differ greatly in each institution, because of the individual particulars in the value offerings and the range of client needs depending on each market.

(36) 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.

(37) Credit clients current at 12.31.2017 and 12.31.2018. Includes all BBVAMF Group institutions, except for Emprende Microfinanzas. Microserfin does not market voluntary insurance.

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



35 RETENTION & RECURRENCE
Of credit clients

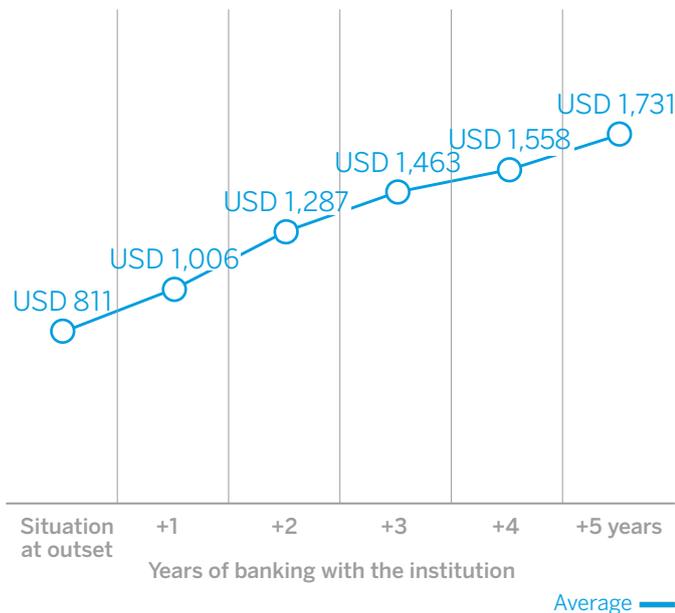
Clients with performing credit after x years

	Situation at outset	+1	+2	+3	+4	+5 years
Retention	100%	65%	42%	30%	23%	18%

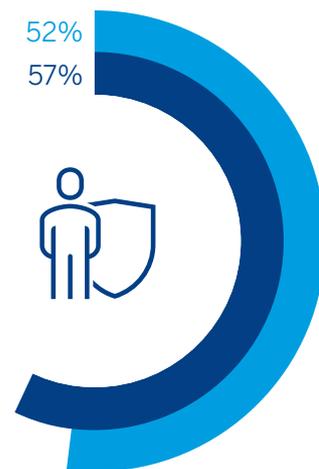
Clients with a 2nd, 3rd... credit

	1 st credit	2 nd credit	3 rd credit	4 th credit	5 th credit	6 th credit
Recurrence	100%	56%	34%	22%	14%	9%
Distance (days)	-	371	377	353	324	287

36 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship



37 CLIENTS WITH VOLUNTARY INSURANCE
Total current clients



2017 —
2018 —

3. Relationship with clients

RELATIONSHIP WITH SAVINGS CLIENTS

49% of the adults in the countries where we do business still do not have an account in a financial institution and therefore cannot make payments or receive funds online. Certain variables determine whether people have formal accounts or not, such as gender (the gap between men and women in Latin America is 6 percentage points), and educational level (a gap of 10 points between those who only have primary education or less and those who have secondary education or higher).

In BBVAMF Group we think it is just as important to finance productive activities as to provide insurance and savings mechanisms. These are a key component of financial inclusion, since they help to establish a more stable relationship with the client and enable them to operate within a formal system of deposits and payments. In 2018, over a million clients had a savings account.

The challenge is for this diverse client profile to use the account on a continuous basis. This would encourage more people in their community to become banked, eliminate the risk of cash (theft, loss) and reduce transaction costs.

At an aggregate level, 14% of savings clients use their account to make transactions (carrying out three movements or more a quarter), although there are differences between the different geographic areas. Banco Adopem (Dominican Republic) stands out: 17% of its clients use their account more than three times a quarter. We see in all Group entities that clients who have never had a loan with the institution have higher balances and transaction frequencies. In other words, there is a positive relationship between balances and the number of bank movements: with higher balances come more transactions, a sign of the client's greater sophistication.

Saving represents an economic reserve to meet unexpected or future expenditure, or to make new investments, whether financial investments and in financial or productive assets. Saving increases clients' resilience and protects them from negative events that could drag them down into poverty. Adapting traditional products to low-income clients' needs promotes the accumulation of capital.

In Group entities, savings products for entrepreneurs are of three types:

- **Programmed savings plan and specialized products.** Client commits to saving a specific amount on a regular basis. As an incentive, if they comply with the savings calendar, their interest rate improves. This group is classified as core savings clients.
- **Term deposits.** Targeting clients who want to invest their savings, more modest amounts in the case of entrepreneurs (core deposit clients). In most cases there is no minimum sum required, and everyone can sign up for these products. Note that the group of clients with deposits increased by 8% in 2018.
- **Transactional.** Clients with an account where they deposit credits (if they have applied for them), receive remittances and which they use for making charges and payments. These are the most frequent clients, referred to below.

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

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

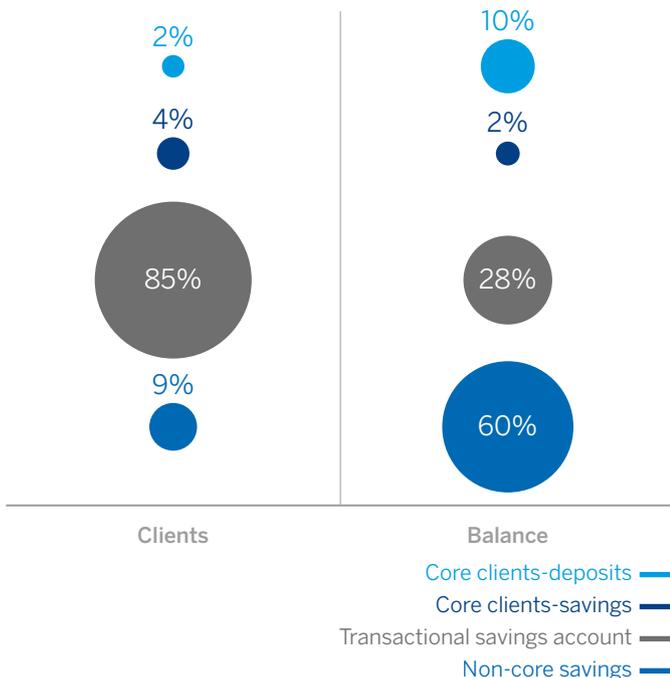
- Core clients-savings: Clients with a programmed savings product.
- Core clients-deposits: Clients with non-sight products (deposits) who have had a credit with the institution at some point.
- Transactional accounts: Clients with a current savings account.
- Non-core savings: non-core term deposit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

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



The number of clients with savings rose by 8% in 2018. It is vital to carry on fostering the economic conditions that let them overcome possible financial shocks.

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



CLIENT TYPE

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

PURPOSE

→ **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

3. Relationship with clients

The first type accounts for 4% of clients in the savings client portfolio and 2% of the total portfolio balance, while the second category is used by slightly more experienced clients and while only representing 2% of all clients, accumulates 10% of total balances.

More vulnerable clients tend to save in the short term and with defined objectives.

Turning to the balances saved, we see that core savings clients make savings during their first year with the institution (up to USD 67), but that as time passes, these savings fall. This may be because they are being used for emergencies, lack of discipline (it is hard to remain constant with saving) or to the fact that the product no longer interests them once the term is complete and the goal met (ie. balance saved for education).

Capital accumulation is more visible in clients who decide to take out term deposits, and we see a positive correlation between clients' time with the bank and their savings balances. 50% of clients with this product succeed in saving up to USD 113 after a year.

When we analyze the profile of savings clients, we see that 62% of core clients are women, compared to remaining clients, where women only account for 45%. In addition, they have lower levels of education (54% have primary education at best) and many live in rural areas (39% of core clients vs. 19% of the rest).

The core client profile is typically more vulnerable than the non-core client profile. Women are disproportionately represented, as are clients with lower educational levels and people living in rural areas. Non-core clients appear to be less vulnerable, given their socio-demographic characteristics.

Looking for savings patterns, we see that it is difficult to save effectively. Products that are specifically designed for low-income clients are proof of BBVAMF Group's efforts to not leave anyone behind, thus contributing to the population's real inclusion. Nevertheless, given its importance, the Group's institutions continue looking for ways to encourage saving.

Technology and mobile payments will have a positive impact on transaction frequencies and our clients' savings habits over the next few years. Digital payments are developing rapidly and becoming increasingly more frequent. Cost reduction and access to formal saving will make it easier for more vulnerable clients to adopt this habit.

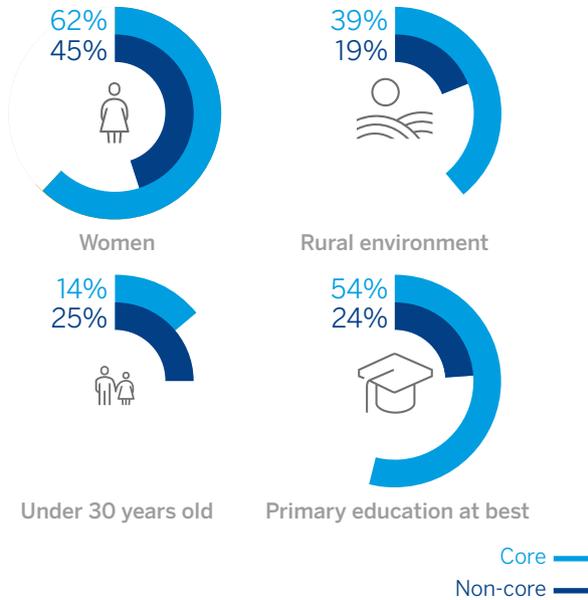
Access to formal financial products allows entrepreneurs to optimize their resources and generate favorable conditions for overcoming financial shocks in the future.

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

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

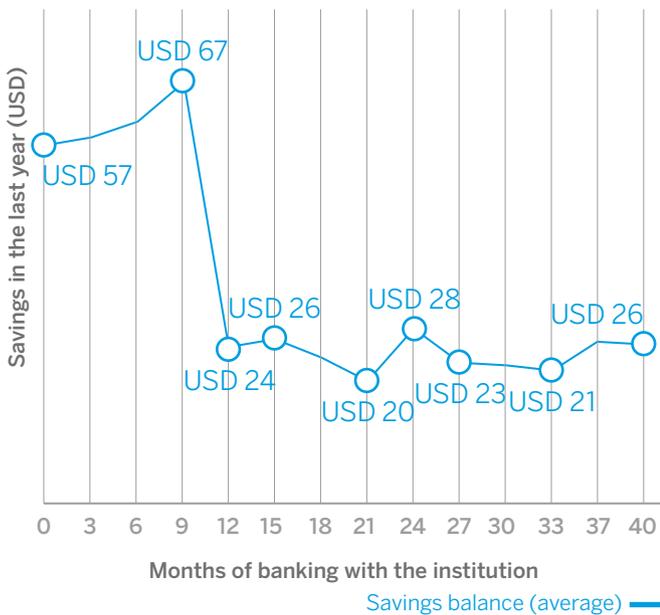
(42) Clients with financial certificates (deposits) current at 12.31.2018 who have had a credit with the institution at some point. Median saving by seniority. The median accumulated saving is shown.

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

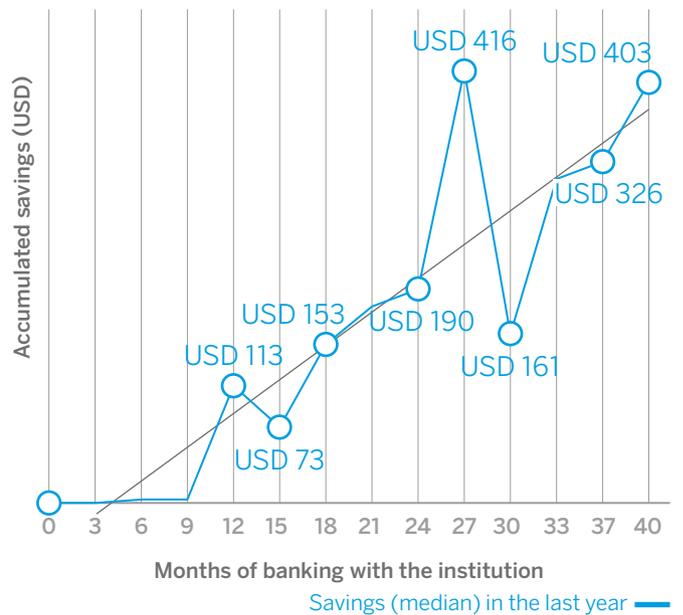


It is critically important both to finance productive activities and to facilitate safe savings mechanisms that enable entrepreneurs to move ahead in managing their financial resources.

41 HOW MUCH THEY SAVE - SAVINGS
Core savings clients



42 HOW MUCH THEY SAVE - DEPOSITS
Core deposit clients



Conclusion

At the end of 2018, BBVAMF Group was serving 2,085,945 low-income entrepreneurs, of whom 923,615 had loans, while 1.8 million had savings accounts. The work on signing up new clients over the course of 2018 has enabled 271,519 new entrepreneurs to take on credit and open 265,774 new savings accounts. It is important to find out more about clients' realities and dynamics, concentrating our efforts on serving them to guarantee their prosperity over time.

In accordance with its mission, the BBVA Microfinance Foundation has a permanent commitment of service to vulnerable entrepreneurs. The multidimensional nature of their vulnerability requires that microfinance embed its service within the economic, social and geographic context of each country.

In 2018, 84% of new clients served were in economic vulnerability, that is, poor or highly likely to fall into poverty (their earnings are less than three times the Poverty Line and they run a high risk of falling below that line).

The BBVA Microfinance Foundation remains firm to its commitment to understand and serve vulnerable entrepreneurs ever better over time.

As to other aspects of social vulnerability, it is particularly necessary to support women, since they face higher barriers to entry in the labor market. This situation is especially critical during their child-bearing years (36% of women served in 2018 were under 30 years old). Women find that entrepreneurship is an opportunity to find a work/life balance between their business and their families. As such, as well as their access to financing, training programs such as the School for Entrepreneurs in Chile and Palabra de Mujer [Women's Word] in Peru promote their upskilling, their empowerment and the creation of personal and working networks.

Entrepreneurs are increasingly important in the regions where they work, particularly in rural areas. Their surroundings and their individual characteristics mean that overcoming poverty is not achieved in the same way everywhere. In rural zones there are higher pockets of poverty because of asymmetries in access to infrastructure and resources. However, in these zones access to financing has a greater positive impact on people's development, so escape from poverty increases.

When we dig deeper into this performance, we see that the activity type (sector) is also a determinant. Thus, farmers and stockbreeders (agro) have more unstable incomes and as such are more likely to fall into poverty. Precariousness and instability are intrinsic characteristics, as they seek out small, flexible transactions.

Poverty entails decisions based on achieving short-term liquidity. Clients' development, their income growth and the strategies they come up with to overcome poverty: these all lead us to analyze their behavior in terms of their business asset accumulation over time.

In 2018 we saw that most entrepreneurs in the Group with at least five disbursements accumulated assets. In fact, this is the determining factor in helping them to grow and reduce their risks. Higher assets at the outset imply greater likelihood of achieving earnings associated with better performance: 59% of clients who have succeeded in escaping poverty have accumulated assets, compared to 35% of those who remain poor.

Financial inclusion is an opportunity which makes it possible for clients to expand their businesses. This inclusion must grow in scope, reaching a larger number of vulnerable clients, and must also increase their connectivity with the product offering. It should provide a diverse series of products and services that allow them to grow and consolidate or conserve the capital they have acquired. Savings and insurance are essential in an industry that has traditionally concentrated on credit.

Increasingly deep understanding of our clients enables us to track their performance. Overcoming poverty and their situation of vulnerability is not a straight path. Therefore, providing opportunities that reduce inequality and promote development for all requires a lot of effort, rigorous follow-up and the adaptation of services to their needs as these arise. Making the most of technology means we can offer services more efficiently to current clients and to those who, up to now, have been outside the financial system.

Linking the knowledge of the client with the work being done by microfinance institutions can unlock great potential.

We are aware of the multiple factors needed for a country to progress. Nevertheless, we have proven that by measuring the impact of BBVAMF's work, and by sharing the insights we have acquired about our clients with our stakeholders, together we can succeed in substantially improving the quality of life of low-income entrepreneurs.

“You can only make progress when you think big, it is only possible to move forward when you look far ahead.”

José Ortega y Gasset
Philosopher and essayist

Financial health: the first step towards greater impact

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

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 will be published/was published in April 2019.

Bancamía and Banco Adopem have pioneered the implementation of this new methodology:

- **1,157 clients** interviewed in the metropolitan regions of Bogotá and Santo Domingo
- **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.



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.

HOUSEHOLDS EFFECTIVELY MANAGE THEIR FINANCES

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.



HOWEVER, 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.

54% don't receive incomes from their businesses every day.

56% don't have a regular monthly wage coming into the household.



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

THUS, 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

1.3 in every 6

have recourse to formal savings to deal with unexpected expenses.



The financial health of our entrepreneurs and their households

Financial management, a key component of microentrepreneurs' performance, must be promoted in order to create opportunities for them to develop and help them become more resilient. The BBVAMF Group has joined forces with experts to measure the financial health of its entrepreneurs in Colombia and the Dominican Republic.

INTRODUCTION

With more than five years consolidating its social performance model in the BBVAMF Group using a range of indicators (financial, social and local context), the Foundation is committed to learning about its entrepreneurs by using new methodologies. Financial health is the first dimension on which it has focused, to extend and complete its vision of clients in their homes, identifying opportunities for growth and ways of meeting the challenges they face.

Financial health, depending on an individual's income levels and wealth, means managing money so that:

- Income covers expenses and investments,
- Possible contingencies can be dealt with, and
- Assets are accumulated for use at future stages of the lifecycle

Financial health is a key element in household development, especially for our entrepreneurs. Indeed, the financial inclusion community is increasingly in favor of viewing financial health indicators as an interim outcome, since it is more likely to be affected by access to and use of financial products than other more dynamic outcomes, such as poverty.

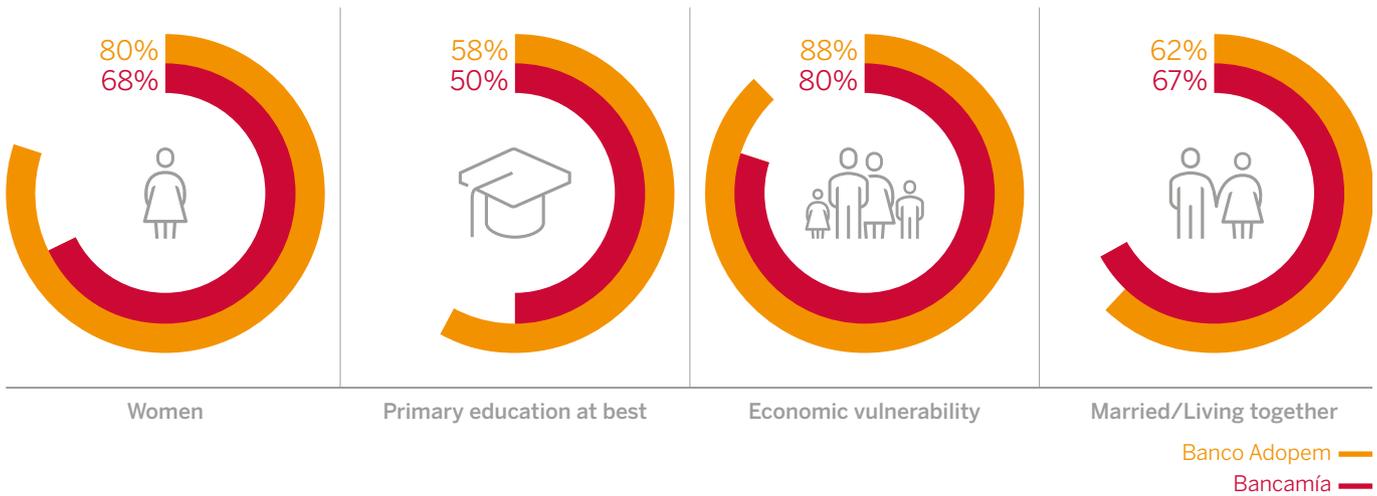
BBVAMF Group institutions (Bancamía and Banco Adopem) have been pioneers in using the new methodology (financial health surveys), which enables them to identify and prioritize new impact variables in the current measurement model. With around 40 questions, 1,157 clients were surveyed in the metropolitan regions of Bogotá and Santo Domingo, and the results were linked to other administrative variables that are handled on a regular basis.

GOOD FINANCIAL MANAGEMENT GENERATES IMPACT



PROFILE OF CLIENTS INTERVIEWED

In Bancamía (Colombia) and Banco Adopem (Dominican Republic)



The conclusions¹ confirm trends that we already knew about in our everyday practice: entrepreneurs and their families have unstable, infrequent incomes and are exposed to a series of contingent expenses that make medium and long-term financial planning difficult. Improving financial stability with products designed ad hoc and encouraging financial education for better planning is, as such, key for our clients, their development and that of their households.

Financial health is a first step of the different stages of our clients' wellbeing.

Interviewed sample

The profile of clients interviewed is a representative sample of our institutions' urban clients.

Bancamía and Banco Adopem have been pioneers in using the new methodology for measuring clients' financial health.

¹ Since interviews took place at a particular moment, the data do not enable us to chart clients' progress, although we can see how they manage their incomes, their spending patterns and capacity to save, among other behaviors.

Backed up by expert knowledge

The key indicators of financial health were initially tested and developed in the USA by the Center for Financial Services Innovation (CFSI).

In response to the interest generated in the financial inclusion community, in 2016 the Bill & Melinda Gates Foundation and the CFSI worked with those leading the Center for Financial Inclusion (CFI) project and Dalberg Design's Impact Group on validating a conceptual framework to help understand financial health at a global level.

Building on this framework, Innovations for Poverty Action (IPA), a global NGO specializing in identifying and providing effective solutions to global poverty problems, has developed a standardized set of metrics for measuring financial health, that can be applied in a variety of contexts (countries, segments of people, etc.). The survey has been tested and adapted in more than 10 countries, with publication planned for April 2019.

The financial health of our entrepreneurs and their households

THE POVERTY PROBABILITY INDEX

Using 10 questions based on the National Household Survey, the Poverty Probability Index (PPI) enables us to predict the likelihood that a person is under the poverty line. This methodology, historically used in microfinance and adapted across several countries, helps to understand the differences between clients in terms of their domestic financial management. Furthermore, it completes BBVAMF Group's current classification of economic vulnerability, and allows us to introduce a dynamic vision of clients' potential for development.

A high proportion of clients has access to other sources of income in addition to those from their business. Thus, in most cases, both the entrepreneurs with Bancamía (BA) and those with Banco Adopem (AD), receive income from multiple sources: wages, government transfers and pensions.

Despite this diversity of income, they remain unstable and infrequent:

- Around 50% of clients report having stable monthly incomes.
- The frequency of those incomes varies significantly, depending on the source:
 - In the case of their businesses, 56% and 37% of clients (BA and AD, respectively) receive income from their businesses daily.
 - Looking at wages, we should point out that in Bancamía, 55% receive them monthly and 37% fortnightly, while in Banco Adopem, 33% are paid monthly, and 57% every two weeks.

This means that as a population group they are highly likely to suffer poverty at some point in their lives.

Half of our clients have a 60% likelihood of being below the poverty line.

There is certainly a positive correlation between the PPI and the Foundation's economic vulnerability segments. That is, the more extreme the poverty in the economic segments categorized by the Foundation, the greater the likelihood they will be living below the poverty line according to the PPI. This suggests that BBVAMF Group's current measurements are estimating average vulnerability in a way that is close to the economic reality of the client's household.

This correlation is more accurate in those households where the business is the main source of income, since the Foundation's measurement is based exclusively on these enterprises. The PPI also shows that households face more severe poverty if other sources of income are not materialized.

These results confirm the importance of continuing to make an effort to measure each client's economic vulnerability over time, given the high probability of poverty.

Respondents to the survey state that they trust microfinance institutions more than other financing options.

FINANCIAL RELATIONSHIP

Practically all the clients interviewed (97% in Colombia and 99% in the Dominican Republic) believe microfinance institutions are the most trustworthy option when they are applying for a loan, followed by banks (used by 4 out of 5 clients)². This demonstrates that the approach to these segments needs to be a differentiated one, both in terms of client service, and in products.

² The next most popular source of financing is local moneylenders or informal sources: 63% of those surveyed in Colombia and 71% of those in the Dominican Republic have recourse to them.

FINANCIAL HEALTH INDICATORS FOR THE DEVELOPING WORLD

AN INDIVIDUAL IS FINANCIALLY HEALTHY WHEN HE OR SHE:



Source: Center for Financial Services Innovation 2017

Credit

Clients who understand their own financial needs use credit as a tool to smooth their activity cycle and, in consequence, their incomes and spending.

- They know how big a loan to apply for and when: 3 in every 4 clients feel that they take sound decisions about the sum of their loan and the moment in which they apply for it;
- They meet their commitments: 4 in every 5 clients declare that they make the installment payments on their loans on time; and
- They are responsible: around 70% of clients state that they do not have to use other sources to service the debts they have taken on.

In these population segments it is essential to act responsibly when granting loans to prevent over-indebtedness and to make financial inclusion permanent.

Saving

As we have seen in the Foundation's research, when clients have a short-term goal they are interested in saving: of every 5 clients, 2 in the case of Bancamía and 3 in the case of Banco Adopem acknowledge they have a savings goal for the next 12 months.

Thus, our clients are efficient when they set themselves targets in the present, but not so much in the medium-term execution. When the time horizon is extended to 5 years, only 1 in 5 clients sticks to their goal in Bancamía and 2 in Banco Adopem.

When we analyze the responses of clients with future goals in terms of their compliance with past goals, to a certain extent their predictions are more optimistic than their past behavior. That is, their goals are in short cycles (biased towards optimism). Indeed, volatile incomes do not make it easy to establish a savings goal over time.

Clients overestimate their capacity when setting savings goals.

The financial health of our entrepreneurs and their households

CLIENT BEHAVIOR

Financial management of the home

Our clients are very competent in the financial management of their homes: only 8% report that in the previous year their household expenditure was significantly higher than their income, and around 70% of clients declare that in the past year they have not been late with their payments on utilities such as water, electricity, etc. Moreover, about 70% of clients state that they do not behave impulsively in their purchases.

Furthermore, they plan their finances: around 75% reply that they plan their short-term payments (from a week to a month), while slightly more than half acknowledge doing annual planning.

Therefore, the main difficulty lies in managing contingencies, especially in the medium term. In fact, only 40% declare that they divide off part of their income as savings for the future (including for contingency spending) and only 30% state they have done so in the previous year.

Managing unexpected expenses

In view of the instability of their incomes, it is of interest to see where our clients turn when they have unexpected expenses, and here there are differences by country (see table below).

Clients find managing contingencies hardest but are good at daily household financial management and short-term planning.

SOURCES OF FUNDING TO WHICH CLIENTS TURN WHEN THEY HAVE UNEXPECTED EXPENSES

Colombia

In Bancamía, a savings product is not a source that is easily tapped. When they need to meet unexpected expenses, only 1 in 6 clients will use their savings.

The main sources used to cover unexpected expenses are, in descending order: social networks, formal sources and savings.

In the event of medical emergencies, clients always turn to their social network.

Formal sources are only viewed as a solution if a period of a month is available to cover the unexpected expense.

Dominican Republic

In the case of Banco Adopem, 1 in 3 clients use their savings to cover this type of expenses, and this is the main source of funds, whatever the payback period or the scenario.

However, the period and the type of emergency will condition the order in which remaining funding sources are used. So, with medical emergencies, the social network is particularly important, in second place after savings.

If there is an investment opportunity, the second most popular option is always a loan from a formal source.

On the whole, informal sources are used less frequently when clients have a month to meet the payment.

CONCLUSIONS

Our entrepreneurs know how to manage their household finances and plan them in the short term. In other words, they attach more value to the short than to the medium and long term. It is significant that being exposed to a variety of shocks makes them more interested in saving. However, they lack the capacity to set targets and to meet them consistently over time.

Clients' initial preparedness to save is a sign that a solid opportunity exists to design products that enable them to design products to improve their behavior, and in particular, setting specific targets that they can visualize. For example, products could be labelled according to a personal goal they wish to reach, or alternatively, partnerships sought that allow us to provide insurance that covers medical emergencies.

In short, this research not only validates the conclusions published by the Foundation about clients' economic vulnerability, but also digs deeper into their behavior and into how financial services support their development. The idea is to put clients, their households and their needs at the center of our activity in order to bring within their reach what they really need for their stability.

Designing products that are adapted to our clients' needs provides an excellent opportunity to continue smoothing their consumption and increasing their resilience in the medium term.

Quantifying clients' intangible financial attributes¹

The Foundation has built an innovative “intangible” impact measurement model based on generating the financial attributes that clients develop after having had several interactions with the formal financial system. In the same way as students who raise their academic knowledge base are more employable, so a person who is part of the formal financial system has more value as a financial individual.

THE CONCEPTUAL FRAMEWORK

The purpose of this section is to demonstrate the methodology and quantify the intangible attributes that clients build up as they access financial services, and which are rarely considered when measuring the impacts of financial inclusion. In earlier reports, and on a recurring basis, we have measured how clients develop by analyzing several tangible dimensions, such as sales, assets, revenues, income earned, etc, as well as the impact of these on people's living standards.

Financial inclusion has a dimension which is generally not assessed: the generation of financial attributes which are built up as people start to interact with the financial system, every time they have contact with it, whether through loans, savings, insurance or other products and services they use.

To make an analogy, it is similar to measuring how students build up their knowledge and skillset as they progress with their academic careers and as their curricular activities become more sophisticated during their university years.

Trying to measure how their employability builds up and how they increase their future incomes is a similar process to that which takes place with individuals as they gain access to the financial system and intensify their relationship with it. While they are restricted to interacting only with the “informal financial market”, these intangible attributes are not evaluated.

Exclusion factors such as geographical dispersion, lack of supply and high transaction costs when they have contact with financial institutions increase the likelihood that they will be excluded from the formal financial system. However, other financial isolation factors are just as important, such as the lack of collateral, absence of the necessary paperwork and references, as well as having no understanding of basic personal finance. All this results in a huge asymmetry and/or lack of information on the part of potential clients and also about them, which translates into higher costs and uncertainty, leading to greater risk.

¹ Based on Giovanni Di Placido (2018). “Measuring clients' intangible financial attributes. Cases in Colombia, Peru and the Dominican Republic” Working paper. BBVA Microfinance Foundation.

FINANCIAL ATTRIBUTES: THE UNKNOWN VALUE



It also creates a climate in which a percentage of the population has to look to the informal financing sector if they want to make the most of productive opportunities. Furthermore, they find themselves obliged to use alternative sources of financing/saving to channel short-term revenue surpluses (savings) or to find ways of mitigating the risk and uncertainty in their lives and how they earn their living (insurance). These alternative routes, outside the financial system, are more expensive, tend to be insufficient and insecure, and may reduce still further these households' standards of living.

There is mounting evidence that as vulnerable people access financial services and interact with them several times, they are better placed to improve their standard of living, deal with risks better and increase the productivity of their economic activities.

As people who have been included for the first time in the financial system move forward along its different iterations, this process acts as a hands-on model for building up attributes and growing capabilities.

In order to quantify the value of these attributes in a simple fashion, we need to know the degree of our clients' maturity and measure these attributes in "attribute units". The Foundation has a footprint in several countries, so we need to standardize these units and recognize the divergences between them. An attribute unit is equal to the cost of a basket of basic food, goods and services, using that country's poverty line as a monetary reference. For the purposes of this study, clients served by Bancamía (Colombia), Financiera Confianza (Peru) and Banco Adopem (Dominican Republic) were analyzed; all these are referred to hereinafter as "Aggregate clients".

Quantifying clients' intangible financial attributes

CLIENT CYCLES

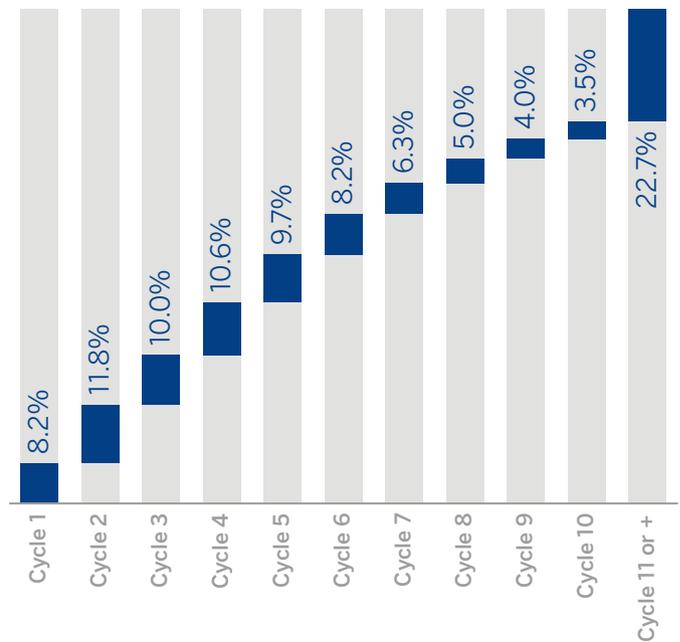
Our opening premise is that the intangible attributes measurement represents a proxy for the “financial abilities value” that Aggregate clients build up incrementally at each iteration. To that end, we need to know the number of interactions that they have already had within the financial system as a measurement of the degree of maturity or attributes “already obtained”, thus differentiating between those that are being generated in the current period (or the current iteration) from those they already possess.

Intangible attributes are a proxy for the “financial abilities value” that clients acquire and construct over time.

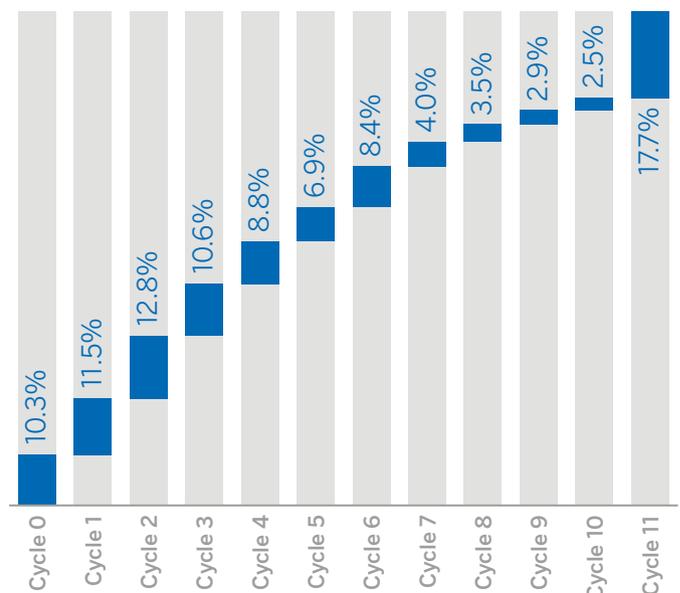
A higher number of attributes are built in the first iteration, while the marginal construction of attributes at each additional iteration decreases until it reaches a number of interactions where no further attributes are aggregated. By the end, clients have converged with the attributes of “mature”² segments in the financial system. We defined this threshold as the cycle during which clients’ average returns³ converge with that of “mature” clients and stabilizes. This is achieved after cycle 10, at which point no further intangible attributes are aggregated.⁴

When we examine the stock of Aggregate credit clients, 77% have built up some degree of intangible attributes, accounting for 50% of all clients, during the phases with the fastest aggregation of attributes (that is, at the beginning of their relationship with the formal financial system). In the case of savings clients, 82% of these are in these initial phases, in which they build up intangible attributes.

CLIENT CYCLE
Credit (%)



CLIENT CYCLE
Savings (%)



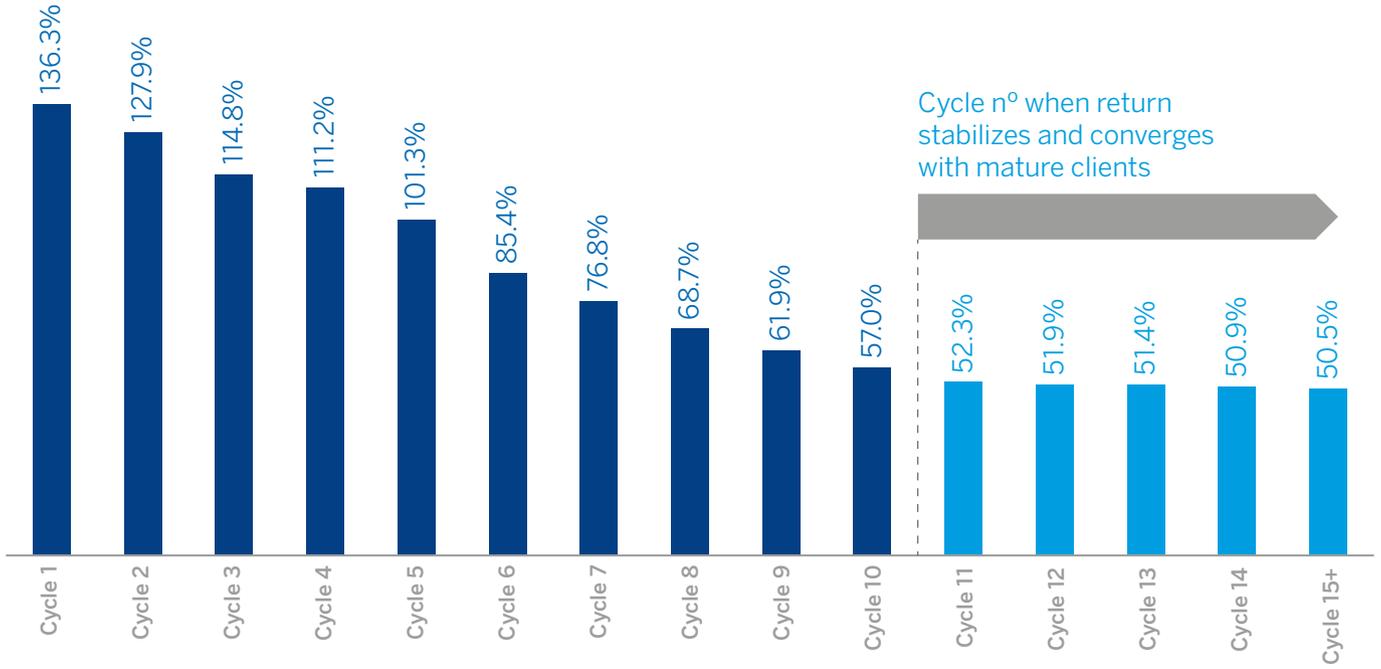
² Advanced clients who are no longer building up intangible financial attributes.

³ Returns measured as clients’ net surplus over their assets.

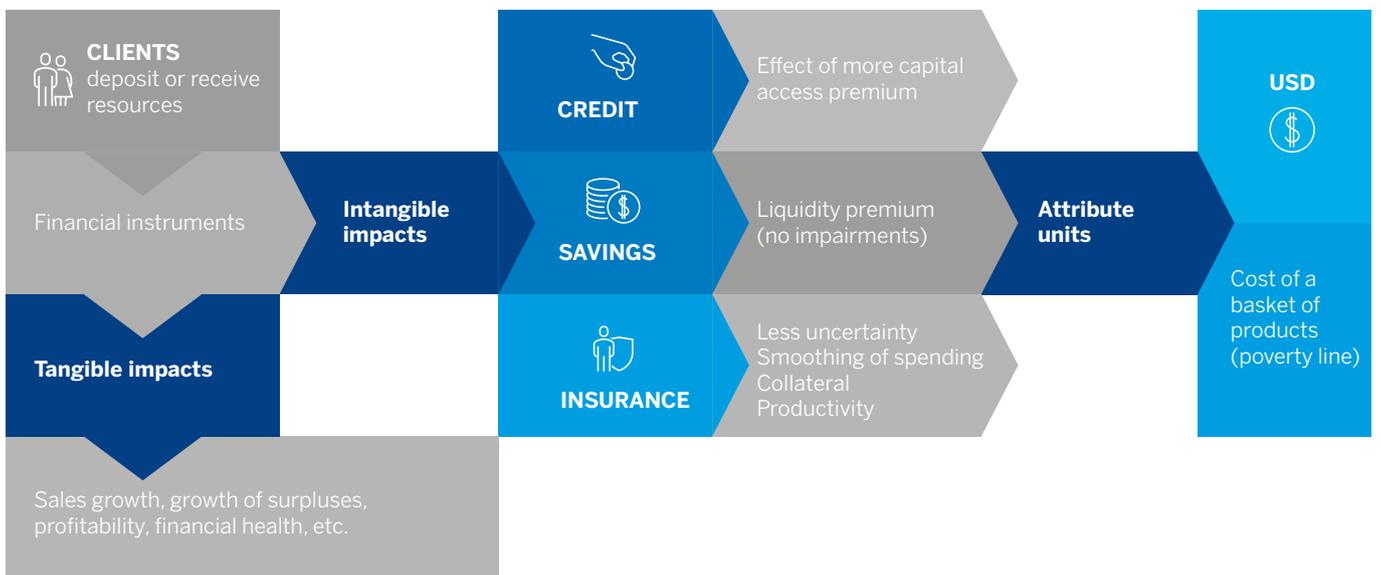
⁴ Based on Giovanni Di Placido (2018). Measuring clients’ intangible financial attributes. Cases in Colombia, Peru and the Dominican Republic” Working paper. BBVA Microfinance Foundation.

AGGREGATE CLIENTS

Return on assets by cycle (%)



FINANCIAL INSTRUMENTS



Quantifying clients' intangible financial attributes

DEFINING INTANGIBLE ATTRIBUTES

Credit

With no access to credit, clients are forced to use informal sources of financing, ranging from family members and friends (social networks) to loan sharks (payday lenders). If we assess the cost⁵ of borrowing, using the median cost in those markets where BBVAMF has its footprint⁶, it is around 16% a month, representing an annual interest rate of 474%⁷.

The minimum cost of financial resources in the informal market is around 150%.

When people access the financial system for the first time, there is what we might term an “access premium” – the difference between the informal market interest rate and the financial (formal) system rate they can get. This access premium is highest in the first iteration and falls at a rate of 1/10 from the initial rate with each subsequent iteration, until it disappears.

The second component is the effect of availability of more credit based on the performance of clients' activities, linked to more capital and recurrence, which allows a greater advantage to accrue for this factor, than they would be able to access in the informal market.

The proportion of transactions that go into default has to be discounted from both of these effects, calculated by the rate of non-performing loans or the likelihood of default based on the sector's track record for each transaction.

To simplify the analysis, the second-round and spillover effects into other sectors have not been considered, nor the long-term impacts on revenues as a result of the improvement in the family's attributes (education, health, etc).

When these impacts are quantified, we see that each Aggregate client with access to credit generates an average of 2.9 units of intangible financial attributes, equivalent to USD 252 per client per capita⁸.

ATTRIBUTES GENERATED PER CAPITA



⁵ The median is generally used to restore the central trend in the event of biased numerical distributions, as is the case in these markets.

⁶ We have only considered Colombia, Peru and Dominican Republic in the calculations for this section.

⁷ Rates weighted by financing sources. Based on Asobancaria data for Colombia, Asbanc for Peru and several media sources for the Dominican Republic.

⁸ In this section, per capita refers to “for each client”.

Saving

Formal saving enables people to manage increases in their cashflow, organize their spending and accumulate working capital. It makes it easier to use net incomes appropriately, avoiding unwished-for consumption, which is often linked to short-term decision making and problems with self-restraint.

When there is no access to formal saving, clients use other sources to channel their surpluses, which they need to cope with volatile incomes and to smooth their consumption. Restrictions on access to instruments for formal saving forces people to have recourse to other sources, including keeping cash, building up unwished-for inventory, household appliances, furniture and other assets⁹. These are imperfect substitutes given that when people accumulate them, they are unlikely to retain their value in the face of contingencies should they need to be made liquid.

Keeping cash leads to undesired spending, with problems of self-control, involving an estimated impairment of around 25%, while the building up of unwished-for inventory, in the event of an unscheduled liquidation due to contingencies, implies impairment of around 15% in rural areas and about 20% in urban areas. Liquidating household appliances and furniture entails higher rates of impairment, given the swift depreciation and discounting in the second-hand goods markets.¹⁰

Using informal saving channels represents a potential weighted impairment of 24% of the value of the saving.

In weighted terms, the shrinkage suffered by savers using all these informal sources is around 25% for rural areas, while in urban areas it is slightly lower, at around 24%.

The intangible attributes that come with access to formal savings channels mean this loss can be avoided. There is an “access value or liquidity premium” associated with the use of instruments that protects the saving value, even without considering the yields that they provide.

When these intangible attributes that are intrinsic to formal saving are quantified, we calculate that, on average for every Aggregate client given access to financing, 0.43 units of intangible financial attributes, equivalent to USD 41 per capita, are generated.

ATTRIBUTES GENERATED PER CAPITA



Savings

⁹ On average 35% of “informal savings” are kept in cash, 25% go on building unwished-for inventory and the rest on durable goods, including furniture and household appliances.

¹⁰ For more on informal saving, see: Financial Decisions of Households and Financial Inclusion: Evidence for Latin America and the Caribbean, Centro de Estudios Monetarios Latinoamericanos, CEMLA (Center for Latin American Monetary Studies).

Quantifying clients' intangible financial attributes

INSURANCE

Vulnerable segments of the population normally live and work in conditions of greater risk than others and are particularly prone to illness. Time off work and the resulting small losses of assets have a disproportionately heavy impact on their incomes, as do unexpected setbacks. Exposure to these risks subjects vulnerable households to a permanent state of uncertainty that reduces the likelihood that they can make the most of opportunities to generate income, that could potentially help to improve their situation.

The absence of protections such as insurance means that an adverse situation is likely to have a greater impact on these segments' spending. Furthermore, on many occasions, since they cannot rely on other mechanisms such as saving, this triggers a situation of serious frailty.

Insurance works as collateral, that lets people access credit under better terms and leads to a move towards sectors with higher productivity and returns but linked to greater risk. Conversely, when they do not change sector, insurance encourages an increase in the amounts that can be invested, since part or all of the risk associated with the activity is covered.

As such, access to insurance entails a "collateral premium", since it generates a productivity factor by virtue of its lower uncertainty, associated with changes of sector and greater investment.

When these intangible attributes that insurance brings are quantified, we see that Aggregate clients with access to insurance generate on average the equivalent of 0.3206 attribute units, that is, USD 28 per capita.

ATTRIBUTES GENERATED PER CAPITA



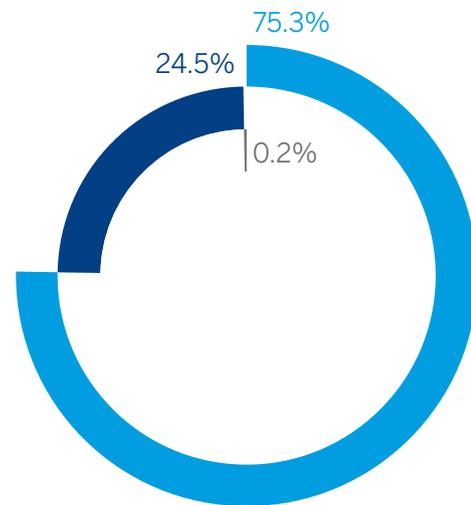
Insurance

TOTAL INTANGIBLE ATTRIBUTES

When the attributes generated by these three sources –credit, saving and insurance– are aggregated, **aggregate intangible attributes per capita are estimated at 3.65 attribute units, equivalent to USD 321 per client.** 75% of the total is generated by credit transactions, revealing that there is still scope to build more attributes by extending the penetration of saving and insurance in the formal sector.

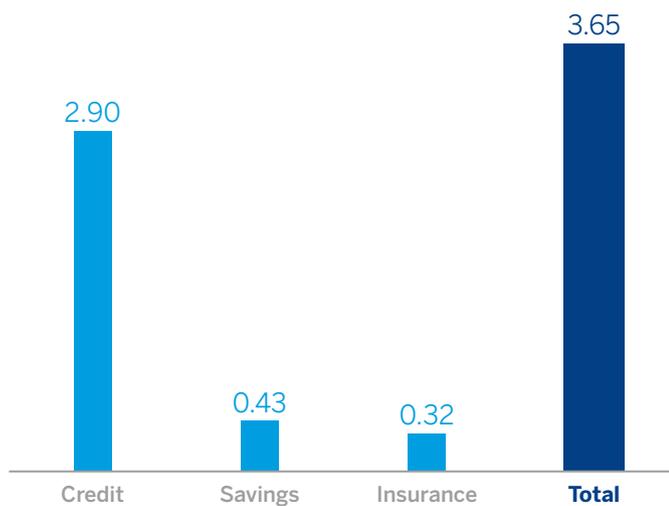
Looking at all products (credit, saving and insurance), clients manage on average around USD 1,938 per capita, with the intangible attributes accounting for around 17% of the resources managed by each of them.

CONTRIBUTION OF ATTRIBUTES, BY PRODUCT (%)

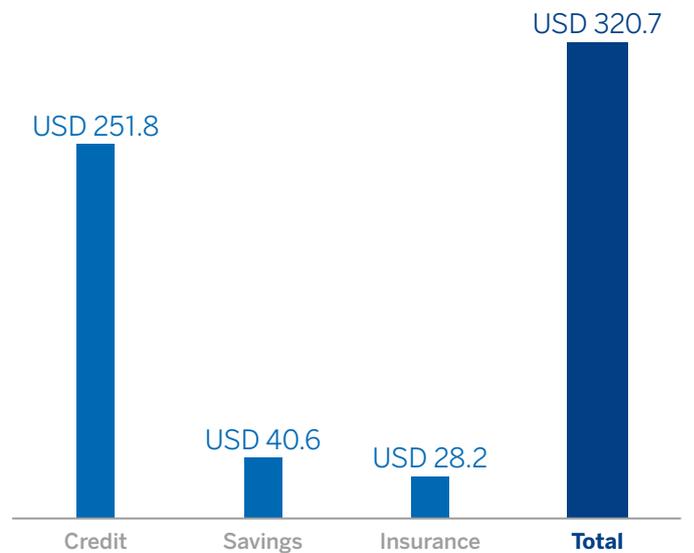


Credit —
Savings —
Insurance —

ATTRIBUTE UNITS GENERATED PER CAPITA



ATTRIBUTES GENERATED PER CAPITA USD



Latam macroeconomic environment: our footprint

ECONOMY¹

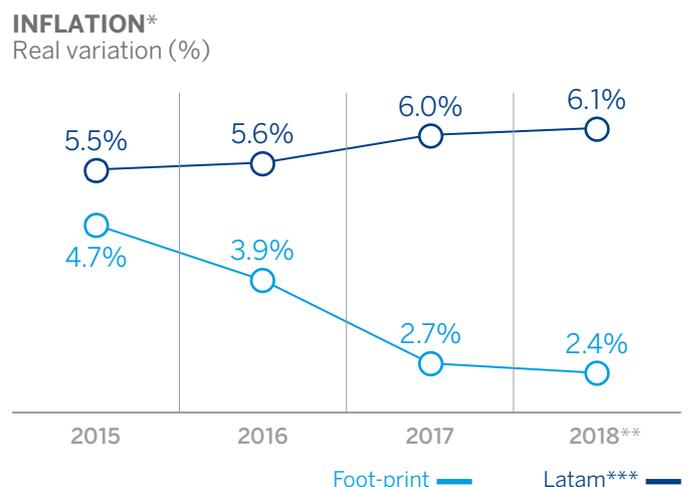
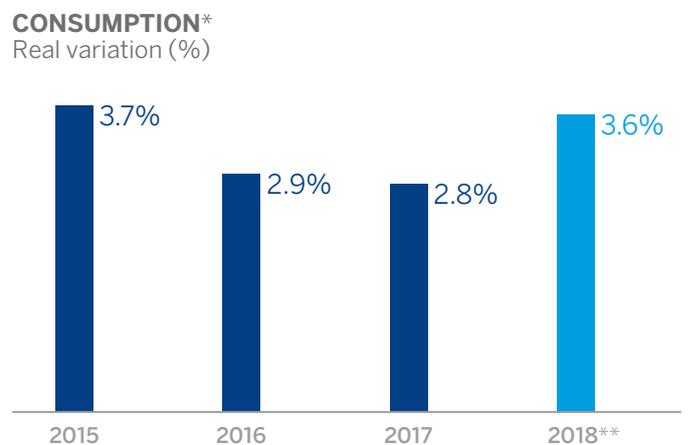
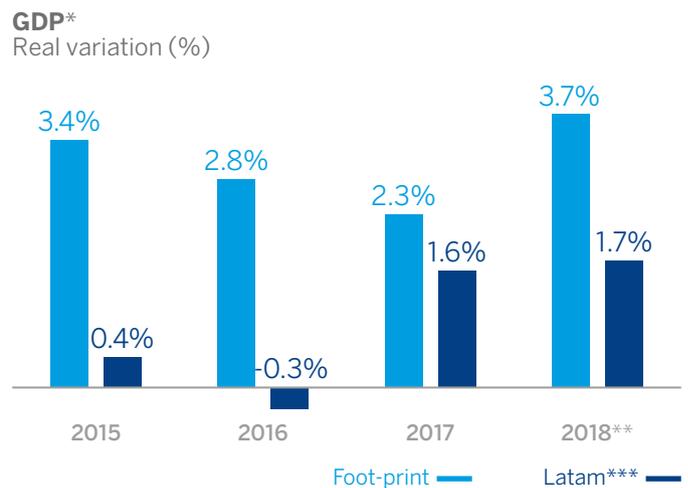
In 2018 Latin America faced a global panorama in which the flaring trade tensions between the United States and China loomed large. As well as their negative impact on global trade, financial conditions were more restrictive and there was greater volatility in raw materials, which passed through to exchange rates, triggering sharp falls in the region’s main currencies.

Against this backdrop, the economy of the region² expanded by an annual 1.7%, a similar rate to the year before, with a major contribution from investment, while the share of public consumption in growth contracted because of tighter fiscal policies in the area’s most important economies.

In the footprint³ within which the institutions belonging to the BBVA Microfinance Foundation operate (hereinafter footprint), activity grew by 3.7%⁴, more than double the region’s average growth rate. This was thanks particularly to more robust domestic demand, together with a significant upturn in private spending. Investment performed differently from country to country but continued to increase at a rate of 4.3%.

Slower momentum from international trade because of increasing trade tensions and their impact, both direct and indirect, on exports from the countries in the footprint were reflected in the smaller contribution to growth made by the external sector in 2018.

In the last few years, higher growth in the footprint countries has meant that their weighting in the region’s total GDP has increased by 1.5 percentage points, close to the weight of a single country such as Mexico, which makes the second biggest contribution to regional GDP after Brazil.



¹ National sources. Estimates to the end of 2018 by BBVAMF Research.

² Excluding Venezuela, submerged in a huge economic and humanitarian crisis, and which depends on idiosyncratic factors.

³ Chile, Colombia, Panama, Peru and Dominican Republic.

⁴ Growth weighted by the size of each of the economies in which BBVA Microfinance Foundation institutions operate.

* National sources. BBVAMF Research calculations.

** BBVAMF Research estimate.

*** Excluding Venezuela.

Except in Argentina, Uruguay and Venezuela, inflation in Latin America has remained anchored, despite recent depreciations in exchange rates. During 2018, average inflation in Latin America and the Caribbean⁵ rose by 0.1 percentage points over 2017, reaching 6.1% in 2018. The increase was mainly in South America, while in the remaining countries it fell.

Inflation in our footprint posted at 2.4%, continuing the reversal of the rises in 2015 and 2016 due to the increases in food prices in Colombia and Peru associated with climate factors.

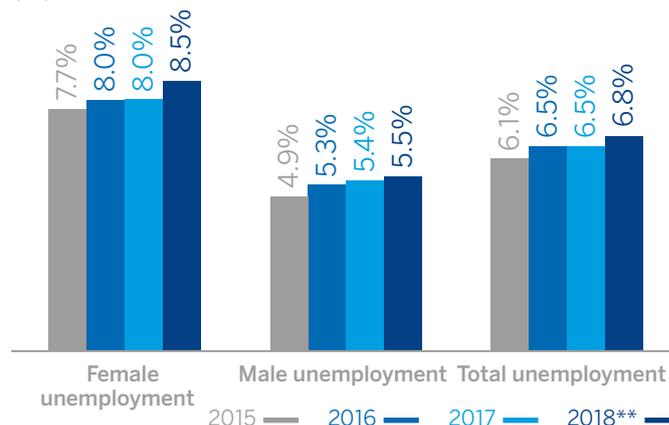
In this environment, monetary policy rates were raised in Chile and the Dominican Republic, as a result of there being less room for maneuver in the product gap, while the Colombian and Peru central banks reduced their monetary policy rates once inflation converged with their targets.

EMPLOYMENT, POVERTY AND WELFARE⁶

In Latin America as a whole the unemployment rate edged down from 8.1% in 2017 to 7.8% in 2018. However, in the footprint, despite greater economic expansion, this rate has nudged up by the same amount, 0.3 percentage points, to 6.8% in 2018. This is a product of the deterioration in the labor market in the Dominican Republic, Colombia and Chile, although the labor market has improved in Panama and Peru.

Around four million people in the region are unoccupied, 54.1% of these being women, whose unemployment rate is 8.5%. This reveals a gap of 3 percentage points with men’s unemployment, which posted at 5.5%.

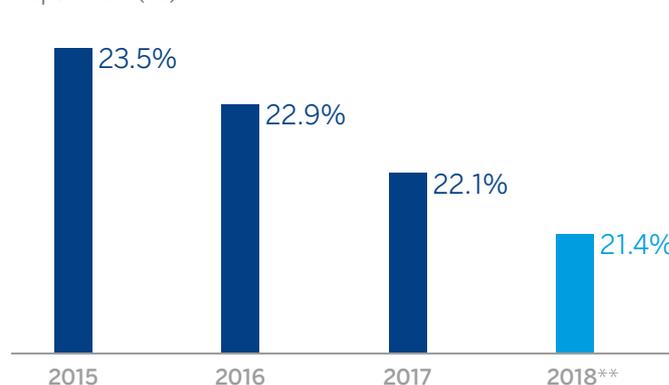
LABOR MARKET*
(%)



INFORMAL SECTOR*
(%)



MONETARY POVERTY*
Population (%)



⁵ Excluding Venezuela.

⁶ National sources. Estimates to the end of 2018 by BBVAMF Research.

* National sources. BBVAMF Research calculations.
** BBVAMF Research estimate.

Latam macroeconomic environment

The global participation rate slipped by 0.3% from 65.9% to 65.6%, with a 20.4% gap in participation between men and women, bringing the rates to 76% and 55.6% respectively.

This difference in participation is a sign of the difficulties faced by women in accessing the labor market, particularly among the most vulnerable segments. But on the other hand, it also shows the growing number of women signing up for formal education in these countries, a factor which delays their joining the labor market.

Women may also face economic disincentives –low wages in particular– when they participate in the job market. These disincentives can be especially onerous, if theirs is the secondary source of household income, because of the high direct costs faced by women with family commitments.

However, although the gender gaps in unemployment, occupation and participation remained high, they continued to narrow in most countries throughout 2018, in a slow but sustained process.

By type, self-employment expanded as a proportion of total employment, while waged employment shrank. However, the number of new waged workers is higher than that of new self-employed workers. This was reflected in the 0.4p.p. fall in the rate of informal employment. Even so, around 28.3 million workers, 53 of every 100 jobs in the footprint, work in informal conditions, with the rate by gender standing at 51% for men, and 55% for women.

In 2018, monetary poverty stood at 21.4%, which means that around 24.4 million people were in poverty. This last year, around 523,000 people have escaped poverty. The gender gap persists.

Nevertheless, even though income distribution has improved, shown by a reduction in the Gini ratio –this takes values between 0 (perfect equality) and 1 (maximum inequality)– the indicator for the footprint was 0.48⁷. Although current levels of inequality are considerably lower than in the past, in the last three years the indicator average has not changed significantly.

FINANCIAL INCLUSION

According to World Bank data⁸, in the footprint, 49.2% of adults are financially excluded, inasmuch as they possess no account or other financial product. 98% of those with an account have it with a regulated financial institution.

Financial inclusion faces a number of factors that generate significant gaps, among which the most important are: education, income, labor status and gender. 63% of adults with primary education at best are excluded and do not have an account with any financial institution. For those with more education, the percentage falls to 43%, demonstrating that unbanked adults are more likely to have a lower level of education, with the numbers showing a gap of 14 percentage points for this factor.

The poorest people make up the biggest proportion of the unbanked. 61% of unbanked adults belong to the poorest 40% of households, while of those in the richest 60% of households 41% are unbanked, so this factor accounts for a gap of 20 percentage points.

⁷ BBVAMF Research calculations.

⁸ Global Findex 2017, World Bank.

Calculations for the footprint by BBVAMF Research.

A higher proportion of the active members of the workforce tend to be banked. In the footprint, 34% of all adults are outside the labor market, and 65% of these are unbanked, while the proportion of those in the labor market who are unbanked drops to 42%. The gap, by this segmentation, is 23p.p., with the principal differentiating factor being financial inclusion.

Lastly, the gender gap in financial inclusion is very clear. Men beat women by 10 percentage points, with inclusion among the latter standing at 46%. In other words, nearly 6 in every 10 adult women does not have a bank account.

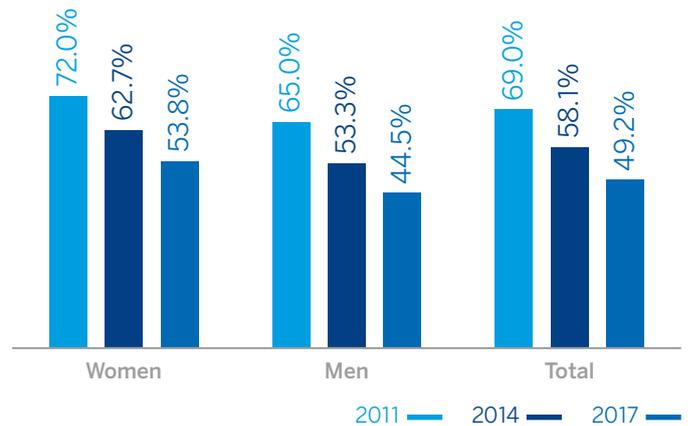
Digging down into the reasons why adults do not have an account in a financial institution, we see that 58% state that they have too little money to open an account, while 55% say that financial services are very expensive. Distance from a bank was a determining factor for 24% of adults, while the lack of the necessary paperwork to open an account was cited by around 27%.

41% of adults have made some kind of saving in the last year, but only 11% have done so in a financial institution. 31% of the adults with the lowest incomes have managed to save some money in the last twelvemonth.

As to loans, 41% have taken one out, but only 22% have done so through a financial institution. 18% have taken a loan from family or friends. Among the lowest-income adults, 31% have received a loan, and only 13% of adults in this segment have done so through financial institutions.

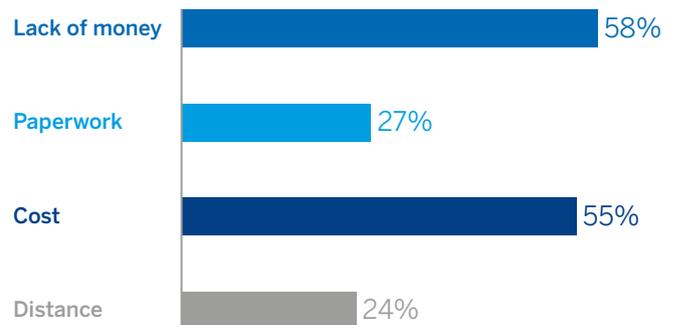
UNBANKED ADULTS*

Total over 15 years old (%)



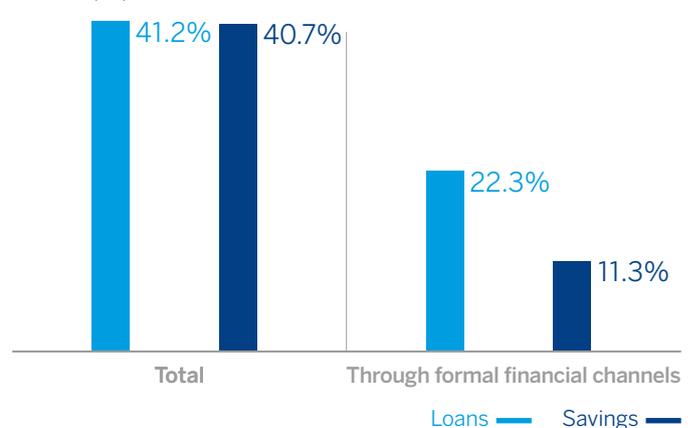
EXCLUSION FACTORS*

Excluded adults (%)



PRODUCTS IN DEMAND

Adults (%)



* Global Findex 2017, World Bank. BBVAMF Research calculations.

BBVAMF. Aggregate data

DATA AT DECEMBER 31, 2018

Exchange rate at December 31, 2018

Key performance indicators

	BBVAMF Group
Financial data	
Gross loan portfolio (USD)	1,155,140,721
Amount disbursed in 2018 (USD)	1,468,643,447
Number of disbursements in 2018	1,131,583
Average disbursement in 2018 (USD)	1,298
Deposits & others (USD)	616,390,107
Operating data	
N° of employees	8,022
N° of offices	515
People receiving financial education	557,680

Our clients

Total clients	2,085,945
Number of credit clients	923,615
As a % of all BBVAMF Group credit clients	–
Number of savings clients	1,828,750
As a % of all BBVAMF Group savings clients	–

Our credit clients

New clients

Vulnerability of credit clients (% clients)	
Extremely poor	14.9%
Poor	22.2%
Vulnerable	47.1%
% Vulnerability	84.3%
Others	15.7%
Rural	33.2%
Women	57.5%
Women's profile	
Poor	44.9%
% Vulnerability	88.7%
Primary education at best	30.6%
Rural	27.4%
Net monthly income (USD)	161
With primary education, at best	31.9%
Young (<30 years old)	34.0%
Old (>60 years old)	6.3%
Economic activity (% credit clients)	
Agriculture	19.0%
Production / transformation	13.5%
Retail trade	39.1%
Wholesale trade	8.9%
Services	19.5%
Average monthly sales (USD)	1,273
Average assets (USD)	6,540
Net monthly income (USD)	186

COP/USD	PEN/USD	DOP/USD	CLP/USD	PAB/USD	CLP/USD
0.0003057	0.2964716	0.0200856	0.0014393	1.0000000	0.0014393
Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Microserfin	Emprende Microfinanzas
404,990,650	494,446,087	132,053,924	81,947,313	27,508,472	14,194,275
352,874,470	668,554,944	143,927,044	271,074,255	19,535,498	12,677,235
280,814	325,193	188,901	316,374	12,590	7,711
1,257	2,056	762	857	1,552	1,644
219,867,589	325,584,778	70,937,740	–	–	–
3,373	2,173	1,449	615	274	138
200	154	74	56	13	18
315,220	38,271	24,904	172,743	6,542	–
1,016,625	524,750	393,924	124,530	17,328	8,788
339,386	217,669	215,914	124,530	17,328	8,788
37%	24%	23%	13%	2%	1%
999,784	455,485	373,481	–	–	–
54,7%	24,9%	20,4%	–	–	–
10.1%	7.9%	3.8%	48.1%	5.3%	–
25.5%	20.9%	22.6%	18.5%	17.9%	–
50.4%	46.4%	60.5%	27.9%	54.8%	–
86.1%	75.1%	87.0%	94.5%	78.1%	–
13.9%	24.9%	13.0%	5.5%	21.9%	–
45.3%	27.1%	41.8%	10.8%	49.5%	–
51.7%	52.9%	61.9%	73.9%	41.8%	–
40.7%	37.2%	29.0%	74.3%	27.2%	–
89.6%	81.6%	88.6%	96.7%	82.4%	–
32.5%	13.8%	56.5%	26.7%	21.4%	–
37.6%	21.2%	38.9%	11.2%	43.5%	–
119	204	170	151	253	–
37.2%	13.6%	58.3%	26.6%	26.3%	–
26.1%	38.9%	47.1%	27.2%	24.7%	–
8.7%	5.4%	3.5%	6.3%	6.4%	–
32.4%	22.0%	4.2%	0.5%	45.0%	–
15.7%	9.5%	0.2%	31.2%	5.6%	–
27.6%	21.9%	76.9%	55.1%	25.4%	–
5.9%	20.0%	4.1%	–	1.0%	–
18.4%	26.6%	14.6%	13.2%	23.0%	–
1,218	1,503	1,261	970	1,578	–
5,711	10,841	5,509	1,852	28,647	–
131	242	180	187	280	–

BBVAMF. Aggregate data

DATA AT DECEMBER 31, 2018

Our credit clients

Total current clients

Vulnerability level of credit clients (% clients)	BBVAMF Group
Extremely poor	9.2%
Poor	18.5%
Vulnerable	52.1%
% Vulnerability	79.8%
Others	20.2%
Rural	34.9%
Woman	60.0%
Women's profile	
% Vulnerability	83.9%
Primary education at best	39.5%
Rural	28.5%
With primary education, at best	41.1%
Young (<30 years old)	19.0%
Old (>60 years old)	12.0%
Economic activity (% credit clients)	
Agriculture	18.2%
Production / transformation	12.4%
Retail trade	44.5%
Wholesale trade	7.1%
Services	17.9%
P&L- Margins over sales	
Costs	58.8%
Income	31.9%
Installment	9.3%

Our savings clients

Total current clients

Total savings clients	1,828,750
YoY	8.2%
Clients with deposit accounts	55,343
Transactional clients (%)	10%

New clients

Total savings clients	259,517
------------------------------	----------------

Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Microserfin
6.7%	6.3%	2.9%	37.6%	4.9%
20.1%	16.6%	17.9%	17.9%	17.4%
53.5%	47.1%	62.0%	35.7%	51.3%
80.3%	70.0%	82.8%	91.1%	73.6%
19.7%	30.0%	17.2%	8.9%	26.4%
43.6%	28.1%	41.0%	10.5%	43.3%
54.3%	51.7%	66.4%	81.4%	42.8%
84.0%	75.9%	84.3%	93.4%	76.4%
46.9%	16.2%	47.6%	36.1%	25.4%
35.2%	22.3%	36.9%	10.7%	34.7%
50.5%	16.0%	50.5%	35.5%	30.5%
12.5%	24.6%	26.9%	14.2%	12.5%
15.9%	9.0%	8.8%	12.3%	12.2%
29.1%	–	4.8%	0.4%	35.8%
16.0%	9.6%	0.2%	29.5%	10.4%
30.5%	27.2%	76.6%	59.9%	26.4%
5.1%	17.2%	4.4%	–	1.4%
19.4%	23.1%	13.9%	10.2%	26.0%
61.3%	62.5%	59.7%	43.6%	52.1%
32.1%	25.5%	35.3%	31.1%	40.3%
6.6%	12.0%	5.0%	25.3%	7.6%
999,784	455,485	373,481	–	–
12.1%	7.7%	-0.6%	–	–
36,090	13,076	6,177	–	–
6%	–	17%	–	–
116,861	86,907	55,749	–	–

BBVAMF. Aggregate data

DATA AT DECEMBER 31, 2018

Credit clients' progress

Credit clients' progress	BBVAMF Group
Cohort performance	
Monthly sales growth (avg. CAGR)	16.8%
Monthly net income growth (avg. CAGR)	16.0%
Asset growth (avg. CAGR)	22.9%
Current value of core financial data by gender (M - Man, W - Woman)	
M - Average monthly sales (USD)	1,887
W - Average monthly sales (USD)	1,578
M - Monthly sales growth (avg. CAGR)	14.4%
W - Monthly sales growth (avg. CAGR)	18.7%
M - Average monthly earnings (USD)	592
W - Average monthly earnings (USD)	535
M - Monthly earnings growth (avg. CAGR)	11.5%
W - Monthly earnings growth (avg. CAGR)	20.0%
M - Average assets (USD)	10,699
W - Average assets (USD)	8,081
M - Avg. Asset growth (avg. CAGR)	21.3%
W - Avg. Asset growth (avg. CAGR)	24.8%
Net poverty reduction after three years	
In first year	15.1%
In second year	34.0%
In third year	35.4%
In fourth year	39.5%
Volatility of relative p.c. net incomes	
<i>Below the poverty line</i>	
Volatile	29.8%
Stable	16.2%
Escape poverty	54.0%
<i>Above the poverty line</i>	
Volatile	22.3%
Stable	69.0%
Fall into poverty	9.2%

Our relationships

New credit clients

Average disbursement of new credit clients (USD)	897
Avg. installment as % of sales of credit clients (%)	8.6%

Revolving clients

Average recurrence of credit clients	
Cycle 2	55.7%
Cycle 3	33.9%
Cycle 4	21.5%

	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Microserfin
	12.4%	15.9%	16.8%	43.1%	-
	10.3%	9.2%	16.2%	55.1%	-
	19.5%	27.2%	22.9%	-	-
	1,525	2,876	1,541	2,043	-
	1,324	2,510	1,395	1,403	-
	11.9%	15.0%	16.1%	34.0%	-
	13.0%	16.0%	17.3%	46.5%	-
	473	655	577	1,076	-
	407	536	529	753	-
	9.8%	6.3%	14.5%	43.0%	-
	10.7%	12.1%	17.2%	58.8%	-
	8,662	16,252	7,146	-	-
	6,934	14,539	5,922	-	-
	18.5%	24.9%	18.8%	-	-
	20.7%	29.4%	25.0%	-	-
	12.3%	9.1%	21.6%	29.2%	-
	12.1%	19.3%	38.2%	48.8%	-
	17.8%	24.0%	51.4%	49.6%	-
	16.4%	31.1%	60.6%	46.7%	-
	29.9%	24.1%	31.3%	35.6%	23.0%
	17.9%	29.4%	12.0%	21.2%	40.0%
	52.3%	46.6%	56.6%	43.2%	37.0%
	15.4%	12.5%	44.7%	53.1%	11.0%
	72.7%	80.4%	47.0%	33.1%	77.0%
	12.0%	7.1%	8.3%	13.8%	12.0%
	915	1,406	415	368	1,259
	7.0%	9.8%	3.6%	15.3%	6.9%
	50.0%	58.0%	67.6%	73.7%	52.1%
	28.1%	36.7%	46.7%	59.1%	33.0%
	16.7%	24.8%	32.4%	50.0%	22.0%

Notes on methodology

Information limitations

INFORMATION LIMITATIONS

Lack of information on certain variables. There are certain variables for which some client information is not available.

Positive bias. Clients' tendency to present a more favorable view of their micro-enterprise's performance.

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).

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.

COMMENTS

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.

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 he/she considers credible.

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 loans (group lending, where client meetings are communal and do not always involve on-site visiting the client's business) this limitation may be greater. As far as possible, when we have found the data to be less robust, it has not been presented.

- 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 (for example housing materials, 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 for the variables and indicators chosen

VARIABLE	COMMENTS												
New credit clients	New clients are defined as those who have not previously had a loan with any BBVAMF Group institution.												
Urban / rural environment	<p>The “environment” variable is defined by each institution as follows:</p> <table border="1"> <tbody> <tr> <td data-bbox="545 861 790 925">Bancamía</td> <td data-bbox="790 861 1477 925">The client’s business address (street, highway, etc.).</td> </tr> <tr> <td data-bbox="545 925 790 1159">Financiera Confianza</td> <td data-bbox="790 925 1477 1159">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-2007). If the rural proportion of the district is over 50%, according to the INEI, the entire district is classified as rural.</td> </tr> <tr> <td data-bbox="545 1159 790 1351">Banco Adopem</td> <td data-bbox="790 1159 1477 1351">Assigned according to the % of rural/urban land in the province where the office is located, according to the National Statistics Organization. All clients in the branch office are classified in the same category as the branch.</td> </tr> <tr> <td data-bbox="545 1351 790 1564">Fondo Esperanza</td> <td data-bbox="790 1351 1477 1564">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.</td> </tr> <tr> <td data-bbox="545 1564 790 1734">Emprende Microfinanzas</td> <td data-bbox="790 1564 1477 1734">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).</td> </tr> <tr> <td data-bbox="545 1734 790 1849">Microserfin</td> <td data-bbox="790 1734 1477 1849">The client’s address determines the environment, according to the parameters of the province and the district.</td> </tr> </tbody> </table>	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-2007). 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 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.
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Microserfin	The client’s address determines the environment, according to the parameters of the province and the district.												

Notes on methodology

VARIABLE

COMMENTS

Economic sectors

Based on the United Nations International Standard Industrial Classification of all economic activities (version 1).

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; activities of households as employers, undifferentiated goods –and services– producing activities of households for own use; activities of extraterritorial organizations and bodies.

Data from financial statements (income statements 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. When the figures refer to renewing clients or portfolio. The indicators with information on sales, disbursements, whatever the date it occurred. 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*).
-

VARIABLE	COMMENTS
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 monitoring, 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 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.

Monthly per capita earnings (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 the client and their families, rather than finding out 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 micro-enterprise, nor is there necessarily full documentary proof.

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.

Net income is calculated from the situation immediately before granting the loan, so does not include the future repayment of the installment. Where existing loans are still active (whether with the same institution or another), these should be included as an indirect business expense (classified as financial expenditure).

INDICATOR

Income relative to the poverty line

COMMENTS

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.

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*.

Notes on methodology

Selected indicators

INDICATOR

Vulnerability line (three times the poverty line)

COMMENTS

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 Bank¹.

91% of non-poor clients in rural areas and 93% in urban areas –both at the outset of their relationship with the institution– who fall into poverty over the course of their relation with the institution have relative incomes that do not reach three times the poverty line, so their likelihood of falling into poverty once they are over this threshold is small.

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	1.02	1.02

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 made a disbursement in the previous 12 months, 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.

Fondo Esperanza is an exception 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.

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

* Note: Data for clients served between 2011 and 2018.
Source: BBVAMF Group Institutions. BBVAMF calculations

INDICATOR
COMMENTS

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.

Segmentation of better performing clients. Multivariate analysis of the escape from and fall into poverty

A multivariate analysis was conducted on the historic data base of clients served between 2011 and 06.30.18, and a model then created on the “escape from poverty” variable (client classified as poor or extremely poor at the outset whose final situation is non-poor) and on the “fall into poverty” variable. The aim was to identify the set of variables with the greatest weight in each country, and on an aggregate level, to determine the client’s success or failure. These include socio-economic, business and service variables.

The set of clients making up the sample for the metric “Variation in the poverty segment” was then segmented; these provide the percentage rate of escape from or fall into poverty for each year of banking with the entity.

Client retention

The number of clients in each cohort (the year the banking relationship started) staying with BBVAMFG, that is, who continue to have a banking relationship with one of the Group institutions. An average of the cohorts between 2013 and 2018, representative of the total client portfolio trend, has been taken.

Recurrence

Recurrence is understood as the proportion of clients who have taken on successive loans, over those who took out a first loan. It is calculated with cohorts since 2011 and to be included in the calculation, a minimum period of monitoring is required, which depends on the institution’s average transaction periods. Generally, in order to qualify as recurrent in the second cycle, the cohort must have a minimum seniority of 12 months, to qualify for the next cycle, the seniority has to be 24 months, etc.

The differences in terms between individual and group banking mean that the transactions cannot be aggregated by cycles or disbursements; for this reason, they are not presented separately.

Notes on methodology

Selected indicators

INDICATOR

COMMENTS

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. 31.2018. The table for Bancamía is only presented in the Aggregate Table.

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 2012-2018.

Core & non-core savings clients

We analyzed the breakdown of clients with savings and deposit products by their own targets. These fall into four categories:

- **Core savings clients.** Those who have taken out products specifically designed for low-income entrepreneurs and to incentivize saving.
 - **Core deposit clients.** Those who have taken out deposit products but at some point have had a loan with the institution and as such are entrepreneurs.
 - **Clients with transactional savings accounts.** They include clients who have had at least one loan with the institution and others who have only taken out savings or deposit products.
 - **Non-core clients.** Those who have taken out another kind of product, such as savings for young people or remittance products, term deposit clients who have never had a loan with the institution, etc.
-

INDICATOR

Analysis of business asset accumulation

COMMENTS

In order to compare the information from the different institutions, we have classified business asset values, comparing them with their countries' respective poverty lines (relative to the year and the environment of the disbursement). Categories are as follows:

- High assets: 100 multiples of that country's Poverty Line (PL).
- Medium assets, between 60 and 100 times the PL.
- Low assets, between 20 and 60 times the PL.
- Very low assets, less than 20 times the PL.

Depending on how they perform over time and move from one category to another, clients' assets have been classified as follows:

- **Remain high:** client with high assets at the outset and the end of the period.
- **Accumulates:** client with very low assets at the outset and low/medium/high assets at the end of the period; with low assets at the outset and medium/high assets at the end, or medium assets at the outset that are high by the end.
- **Remain low or medium:** client with low assets at the outset and at the end with medium assets both at the outset and at the end.
- **Reduce or remain very low:** client with very low assets at the outset and at the end of the period; with low assets at the outset and very low at the end; with medium assets at the outset and low/very low assets at the end; or client with high assets at the outset and medium/low/very low assets at the end of the period.

The asset analysis looked at clients with at least five disbursements from the 2011–2018 cohorts, excluding the agro sector.

Notes on methodology

National Poverty Lines

Country	Source	Year	Poverty level	Rural (LOC)	Urban (LOC)
Colombia	2017 lines updated with Dec. CPI (3.2%)	2018	Extreme poverty	102,233	125,270
			Poverty	170,311	284,589
	National Statistics Department (DANE) ¹	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
Peru	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
	2017 lines updated with Dec. CPI. (2.5%)	2018	Extreme poverty	157	196
			Poverty	256	373
	National Statistics & Informatics Institute (INEI) ²	2017	Extreme poverty	153	191
			Poverty	250	364
Dominican Republic	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
Panama	2017 lines updated with Dec. CPI (1.2%)	2018	Extreme poverty	2,197	2,293
			Poverty	4,534	5,093
	Ministry Economy, Planning & Development (MEPyD). Mar. ³	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
Panama	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
	2017 lines updated with Dec. CPI (0.8%)	2018	Extreme poverty	60	71
			Poverty	108	145
	Finance & Economy Ministry ⁴	2017	Extreme poverty	59	70
			Poverty	107	144
Panama	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

¹ <http://www.dane.gov.co/index.php/estadisticas-por-tema/pobreza-y-condiciones-de-vida/pobreza-y-desigualdad>

² https://www.inei.gov.pe/media/MenuRecursivo/publicaciones_digitaless/Est/Lib1533/libro.pdf

³ <http://economia.gob.do/despacho/unidad-asesora-de-analisis-economico-y-social/estimaciones-de-pobreza/>

⁴ <https://www.mef.gob.pa/wp-content/uploads/2018/07/Pobreza-e-Indigencia-por-ingreso-Ano-2017.pdf>

Chile

We should draw attention to Chile where in 2015 the Social Development Ministry published a new methodology (NM), having reached a consensus with a broad group of experts⁵, given that "the traditional measurement no longer reflected the situation of poverty in which many families live"⁶. 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 factors).

The NM makes important changes, the most significant of which are summarized below:

Updated poverty line

The basic food basket has been updated⁷ 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: $LPE = \frac{2}{3} LP$

Where: PL: Poverty line, EPL: Extreme poverty line

Extreme Poverty Line: This value is set so that EPL covers food, clothing and housing⁸. The NM includes in its income a charge for renting the home for those who own or have the use of one. The traditional 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 Traditional 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.

⁵ The Commission for Poverty Measurement (2013–2014); Technical Cross-Institution Round Table, with representatives from the National Statistics Institute and the Social Development Ministry, with support from CEPAL (2014); Casen's 2013 Panel of Experts and the Oxford Poverty and Human Development Initiative (OPHI, 2014–2015).

⁶ Social Development Ministry, Una Medición de la Pobreza Moderna y Transparente para Chile, CASEN 2013, 2015 [A Modern and Transparent Poverty Measurement for Chile].

⁷ Minimum income set as necessary to meet one person's basic nutritional needs.

⁸ Nueva Metodología de Medición de la Pobreza por Ingresos y Multidimensional [New Multidimensional Methodology for Measuring Poverty by Income] (CASEN Social Observatory 2013), page 11.

Value of the lines for traditional methodology, is the value of the lines published in 2013 by the Social Development Ministry.

Notes on methodology

	Household size	2011	2012	2013	2014	2015	2016	2017	2018
Extreme poverty (LOC)	1	85,838	85,838	91,274	95,888	100,944	103,139	105,653	106,736
	2	139,444	139,444	148,275	155,771	163,985	167,550	171,633	173,392
	3	185,210	185,210	196,939	206,896	217,805	222,541	227,963	230,300
	4	226,528	226,528	240,874	253,051	266,394	272,187	278,819	281,677
	5	264,825	264,825	281,596	295,832	311,431	318,203	325,956	329,297
	6	300,875	300,875	319,929	336,103	353,825	361,519	370,327	374,123
	7	335,157	335,157	356,382	374,399	394,140	402,711	412,523	416,752
	8	367,996	367,996	391,300	411,082	432,758	442,168	452,942	457,585
	9	399,622	399,622	424,929	446,412	469,950	480,169	491,869	496,911
	10	430,209	430,209	457,454	480,580	505,920	516,922	529,517	534,945
Poverty (LOC)	1	128,758	128,758	136,911	143,832	151,417	154,709	158,479	160,103
	2	209,168	209,168	222,413	233,657	245,977	251,326	257,450	260,089
	3	277,817	277,817	295,409	310,344	326,707	333,811	341,945	345,450
	4	339,794	339,794	361,310	379,577	399,591	408,280	418,228	422,515
	5	397,240	397,240	422,394	443,748	467,146	477,304	488,934	493,946
	6	451,315	451,315	479,893	504,154	530,737	542,278	555,491	561,185
	7	502,739	502,739	534,573	561,598	591,210	604,066	618,785	625,128
	8	551,998	551,998	586,950	616,624	649,137	663,253	679,414	686,378
	9	599,438	599,438	637,394	669,617	704,925	720,254	737,804	745,367
	10	645,319	645,319	686,180	720,870	758,881	775,382	794,276	802,417

The official extreme poverty and poverty lines are taken for each country, whether it is urban or rural, as published by each country's official bodies. In the event that 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.

CURRENCY EXCHANGE RATES

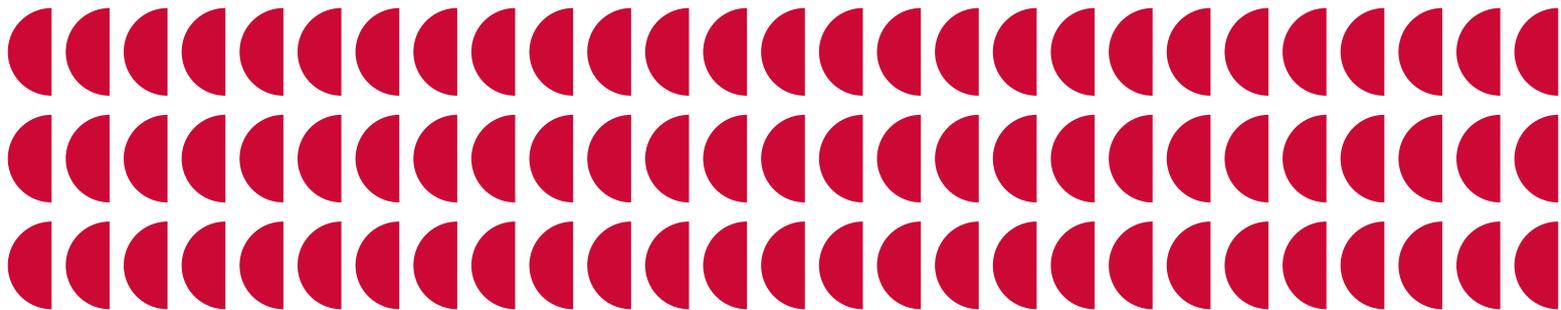
All the (historical) data from MFIs is incorporated in local currency and the exchange rate applicable at December 31, 2018 is applied so that exchange rate fluctuations do not have an impact on the conclusions.

Country	Country		Source
Colombia	COP / USD	0.0003057	BBVA Bank, mid-market rate on December 31, 2018
Peru	PEN / USD	0.2964716	BBVA Bank, mid-market rate on December 31, 2018
Dominican Republic	DOP / USD	0.0200856	BBVA Bank, mid-market rate on December 31, 2018
Chile	CLP / USD	0.0014393	BBVA Bank, mid-market rate on December 31, 2018
Panama	PAB / USD	1.0000000	BBVA Bank, mid-market rate on December 31, 2018

Colombia

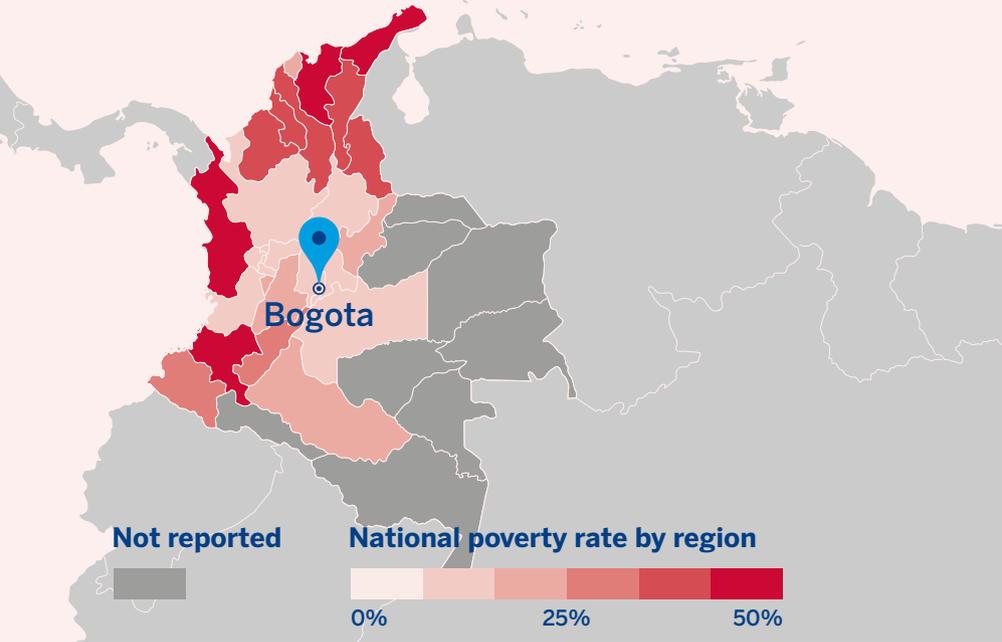
Bancamía

 SOCIAL PERFORMANCE
REPORT **2018**

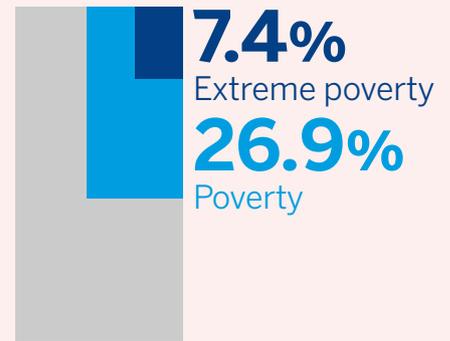


Measuring realities that drive dreams

National data



% Poor
according to the national poverty line¹.



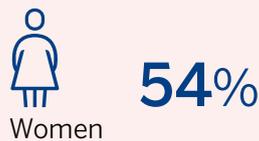
55%
unbanked adults².

1. CLIENTS

Committed to vulnerable people

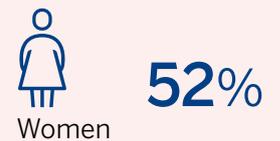
Total credit clients³

339,386



New credit clients 2018

87,617



Source: Bancamía data; calculations by BBVA Microfinance Foundation (BBVAMF).

(1) National poverty rate according to DANE, 2017. (2) Global Findex 2017. (3) Data as of 12.31.2018.

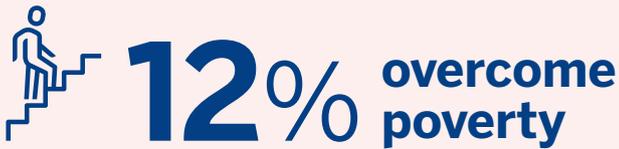


2. PROGRESS

Working with them as they develop...



1 in every 2 renewing clients has improved their income.



In their second year banking with the institution.

...and their projects grow



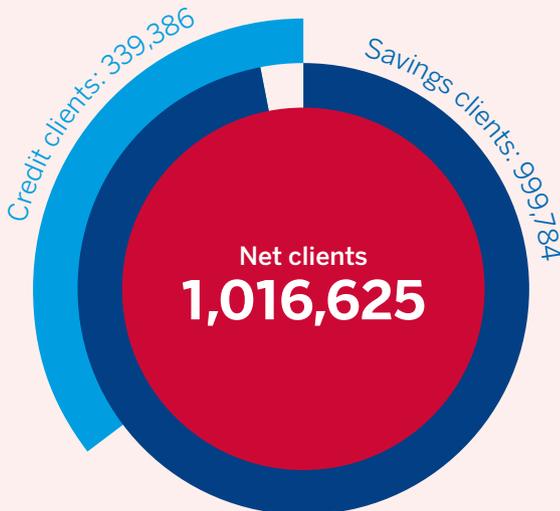
Annual growth rate.



Annual growth rate.

3. RELATIONSHIP

Providing timely and relevant products and services



Average disbursement



Savings

12%

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

USD 20

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



Introduction

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

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

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

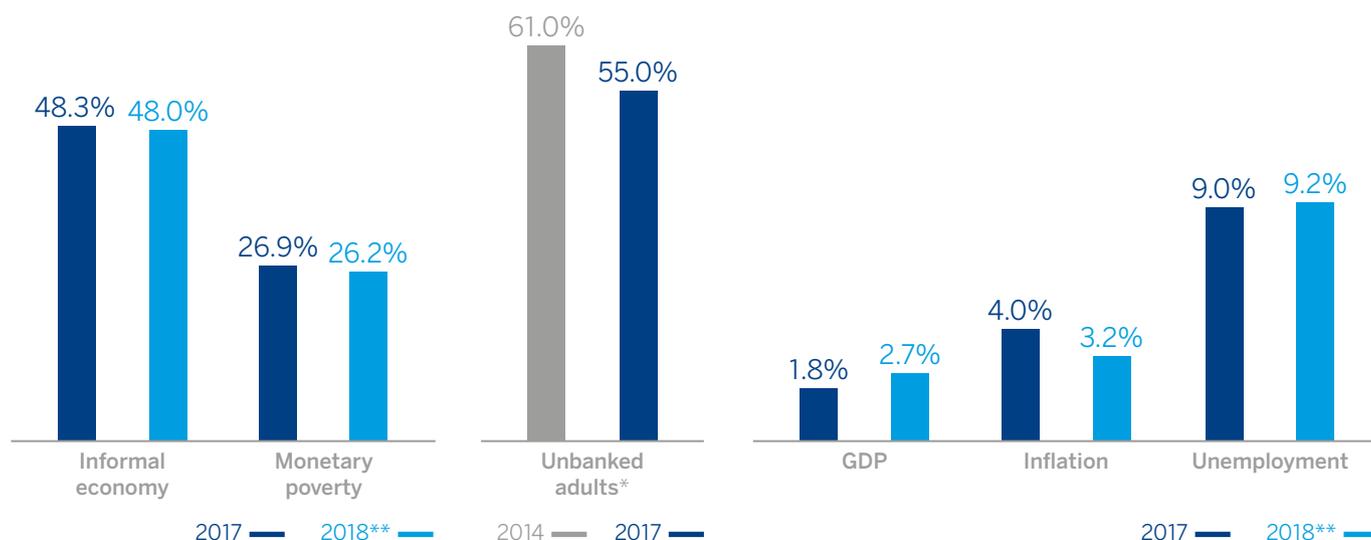
48% of workers still develop their activities in the informal economy, which breaks down into 46.9% for men and 49.2% for women. However, the Colombia's monetary poverty continues to fall, affecting 26.2% of the population in 2018.

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

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

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

¹ Drawn up by The Economist Intelligence Unit.



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

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

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

KEY VOLUMES²

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

Source: Central bank, Colombia.

* Global Findex World Bank, 2014 & 2017.

** BBVAMF Research estimate.

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

Introduction

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

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

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

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

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

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

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

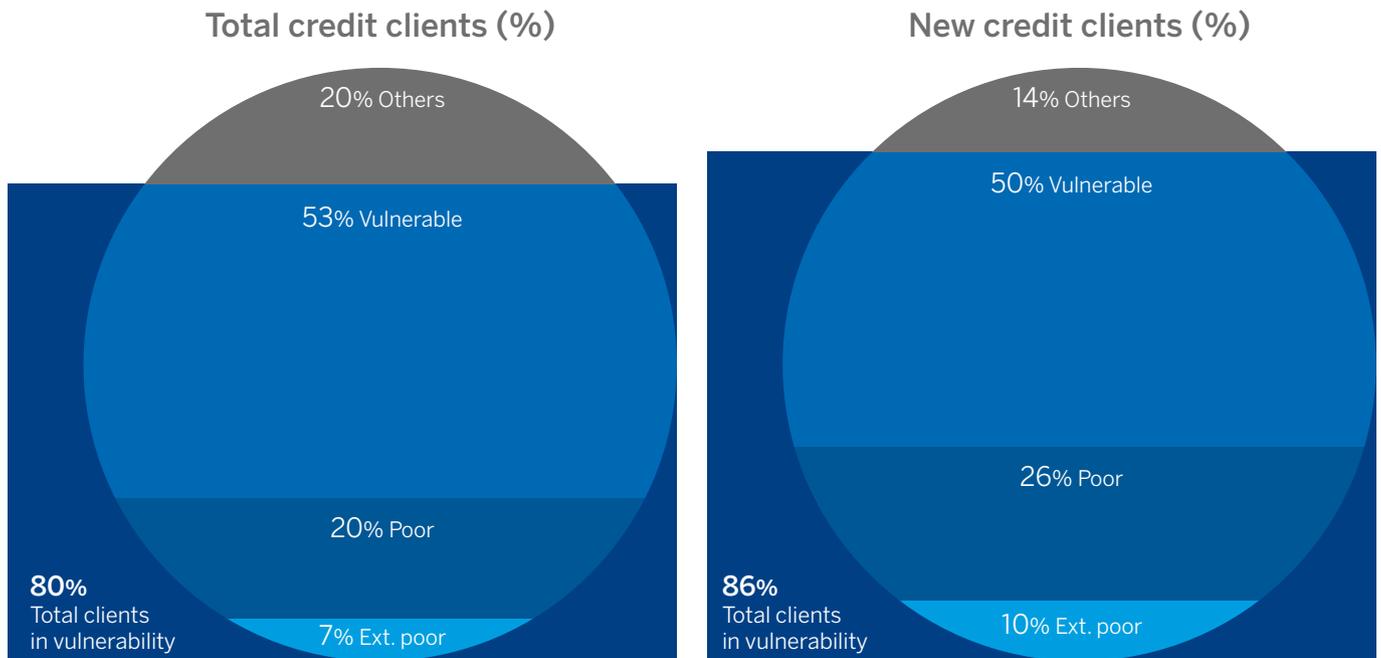
Sales figures in clients’ businesses grew by 12%, compared to 14% in 2017, with the outcome that escape from poverty was slower and enjoyed by fewer people. Solid economic forecasts and growth in certain sectors are expected to have a positive impact on clients’ own economies in the next few months.

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

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



CLIENT ECONOMIC VULNERABILITY*



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

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

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

* According to the DANE (National Statistics Administration Department) poverty line (differentiating between the rural and urban environments). Clients whose net income per capita (estimated as the net business income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three are classified as vulnerable.

1. Our clients

SOCIOECONOMIC PROFILE

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

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

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

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

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

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

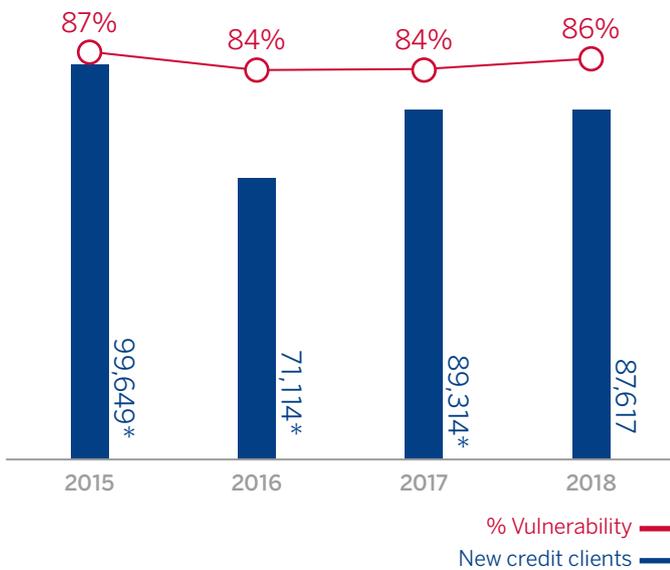
• Exclusive clients: those whose only loans are with the institution between t-12 and t.

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

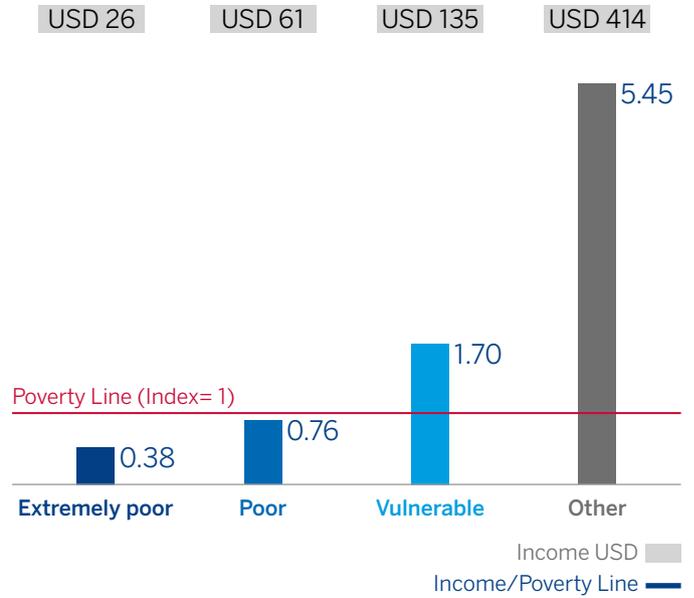
(4) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.

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

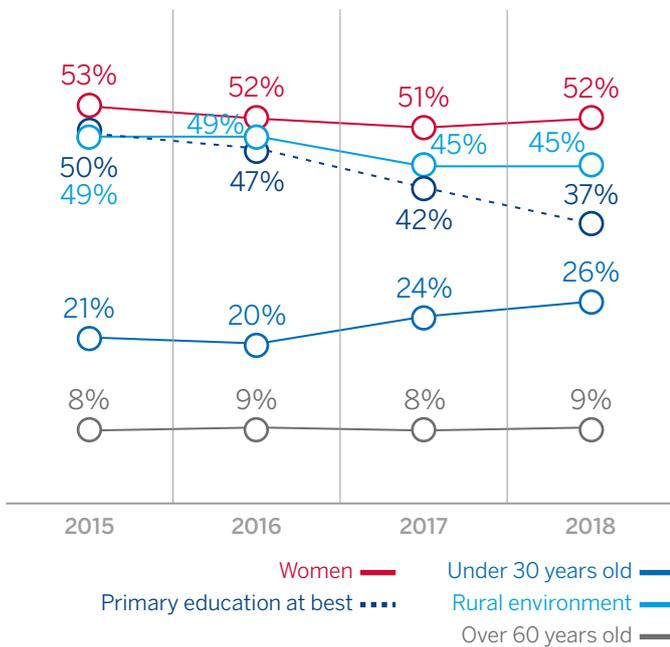
1 NEW ENTREPRENEURS SERVED
New credit clients by cohort
N° exclusive clients 2018: 55%



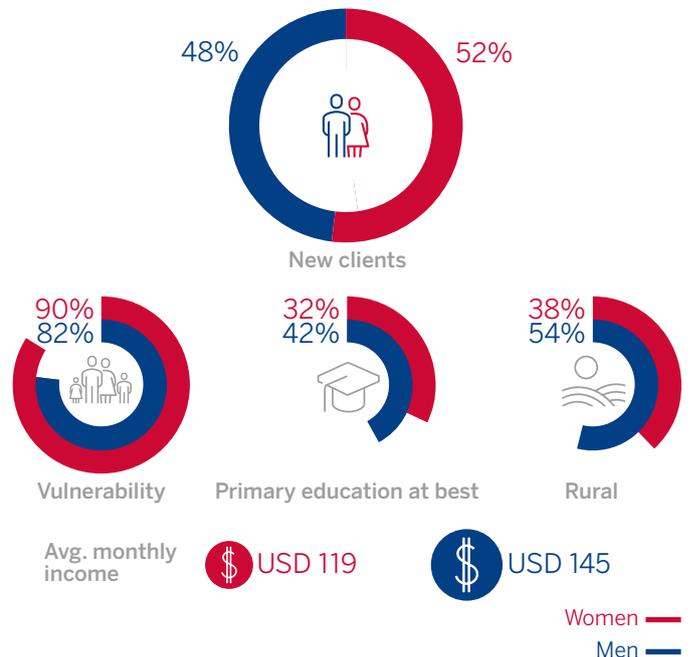
2 ENTREPRENEURS' INCOME
Income against Poverty Line



3 NEW CLIENT PROFILES
New clients by cohort (%)



4 PROFILE BY GENDER
New credit clients (%)



1. Our clients

PROFILE OF THEIR BUSINESSES

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

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

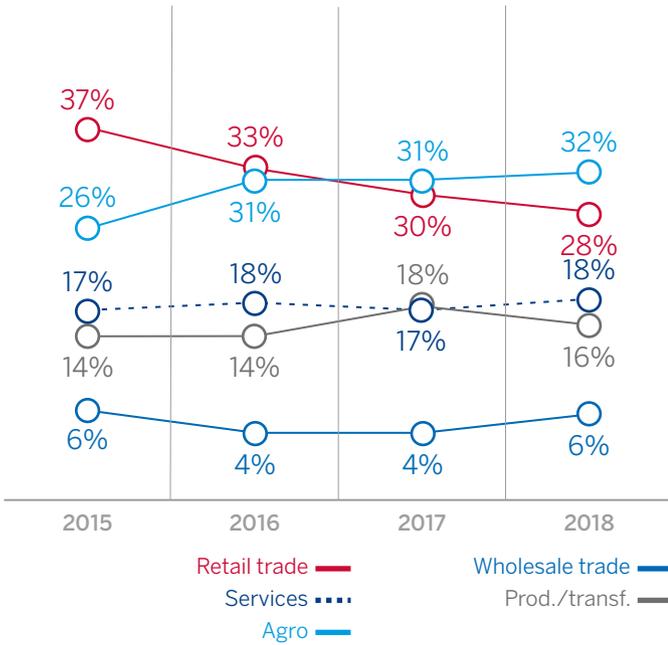
Trade continues to be the most popular activity sector overall for clients in the portfolio (31% of the whole), in particular the sale of clothes and accessories and general-purpose stores. This sector is more flexible and as such attracts more low-income clients in cities. It is a sector in which sales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

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

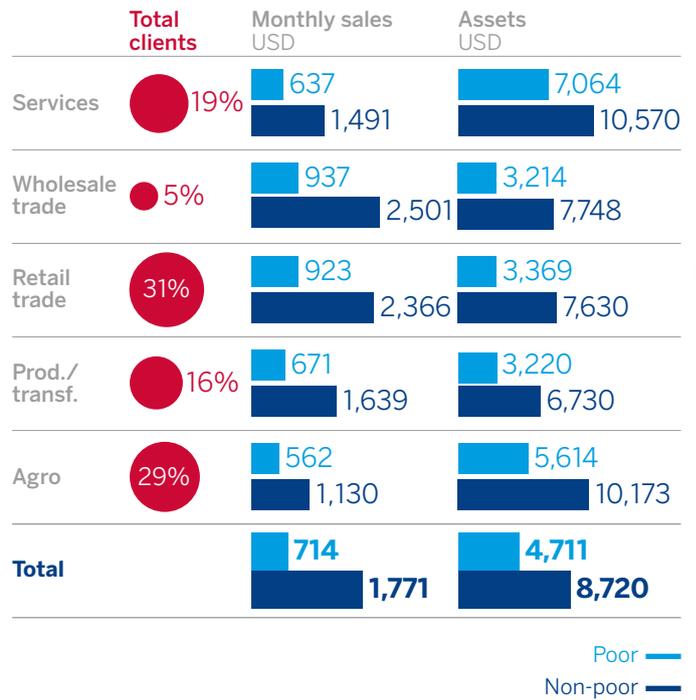
(7) Ratios of average costs over sales in each sector. Earnings are taken after payment of the financial installment.

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

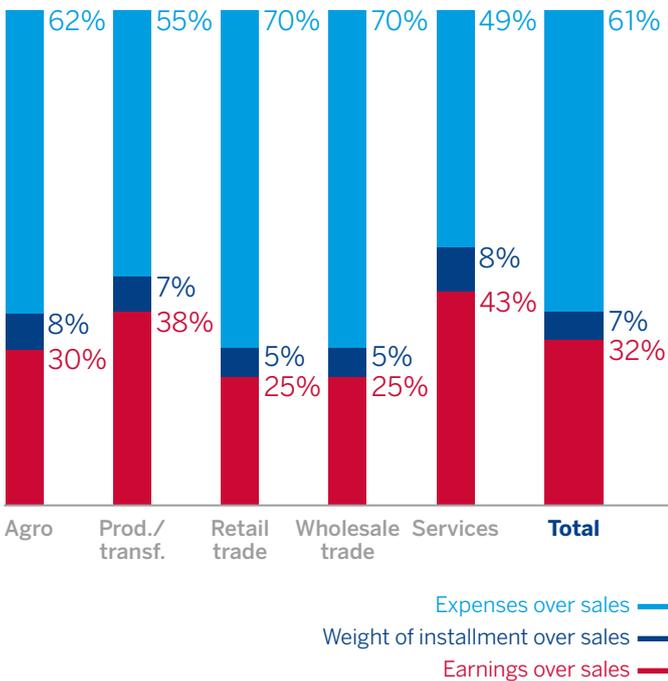
5 ACTIVITY SECTOR
New clients by cohort (%)



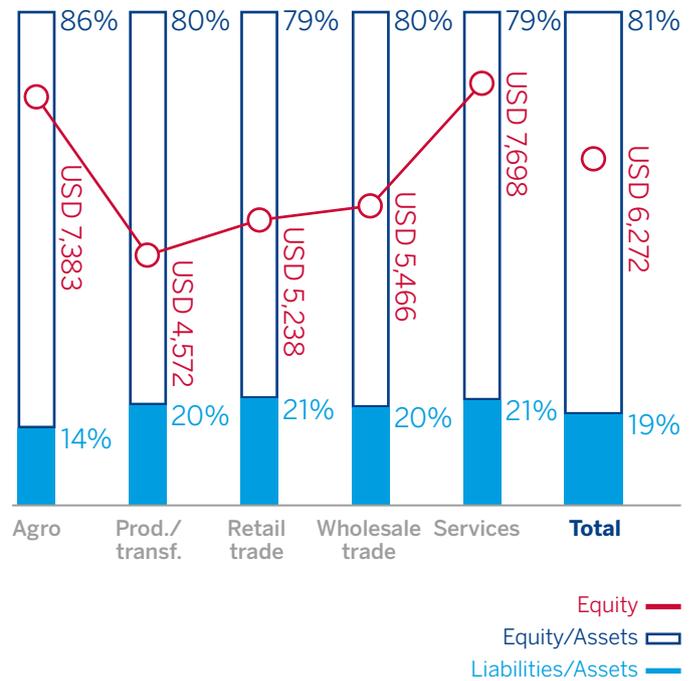
6 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients, poor and non-poor



7 P&L- MARGINS OVER SALES
Total credit clients



8 BALANCE STRUCTURE - LEVERAGING
Total credit clients



2. Our clients' development

GROWTH OF THEIR BUSINESSES

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

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

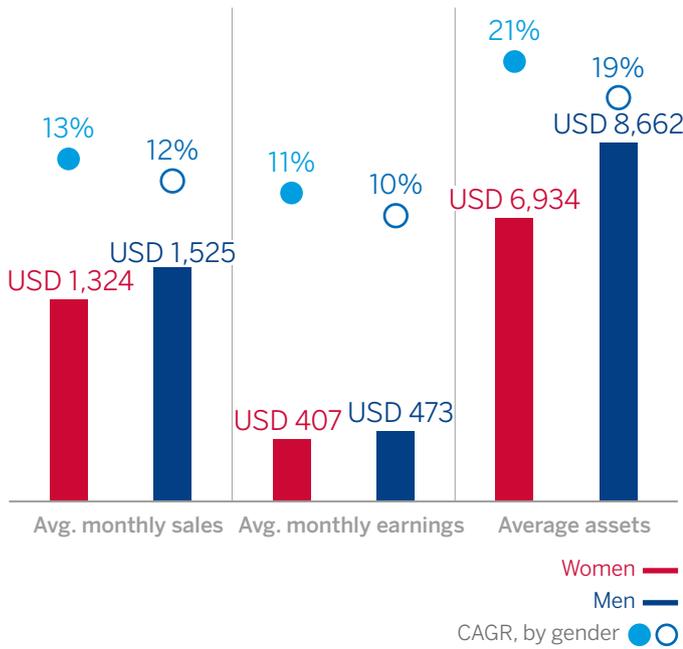
Clients' businesses grow at more than 10% along all financial indicators.

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

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

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

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



10 SALES GROWTH
Compound annual growth rates



11 GROWTH IN EARNINGS
Compound annual growth rates



12 GROWTH IN ASSETS
Compound annual growth rates



2. Our clients' development

ESCAPE FROM POVERTY

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

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

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

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

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

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

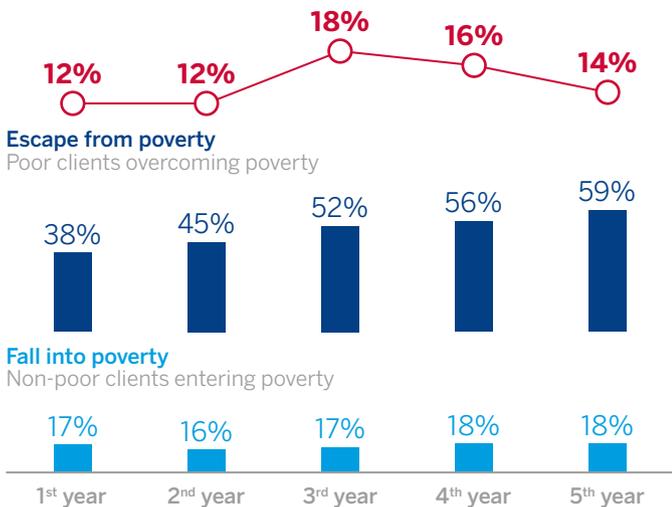
(14) For the sample of clients served during 2018–classified according to their situation when they took out their first loan– net income per capita at each credit cycle is shown, relative to each country's poverty line (current in the year of the disbursement). Relative per capita net income has a value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

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

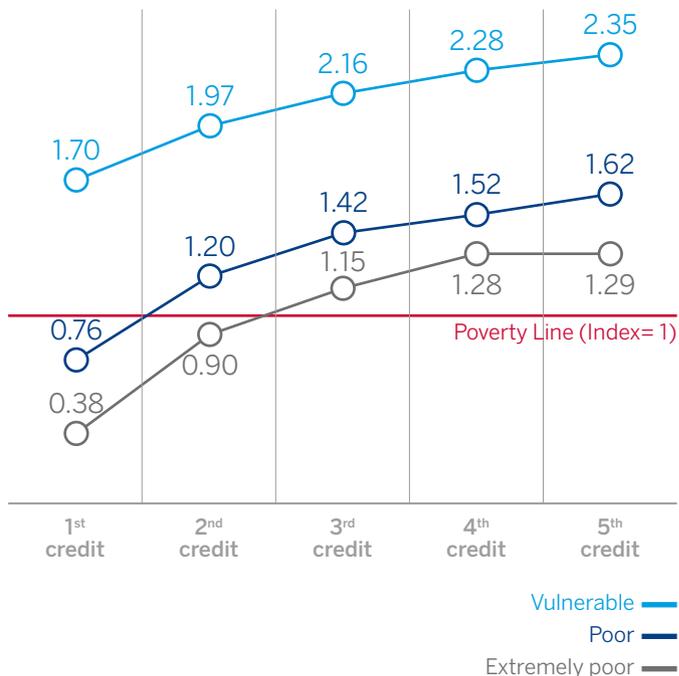
- Escape from poverty for each segment: Clients, by segment, in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.
- **(16)** Renewing clients shown.
- Fall into poverty, by segment: Proportion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

13 VARIATION IN POVERTY SEGMENT

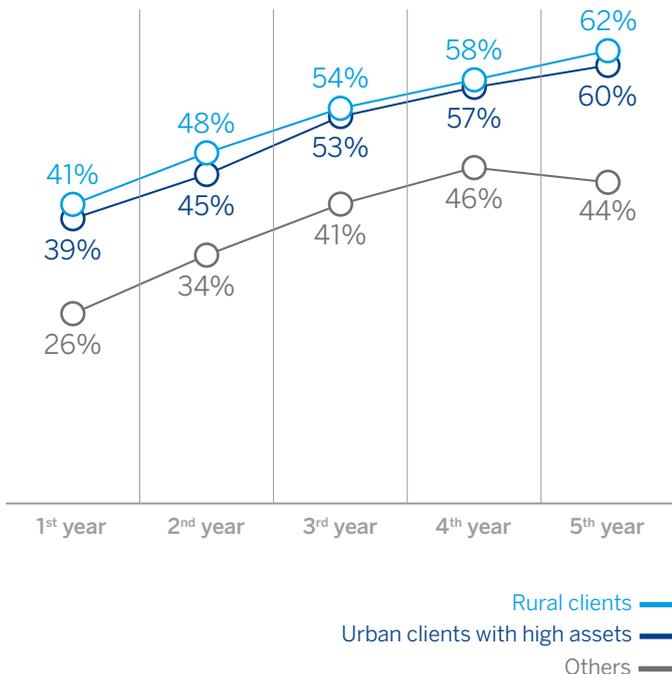
Net poverty reduction



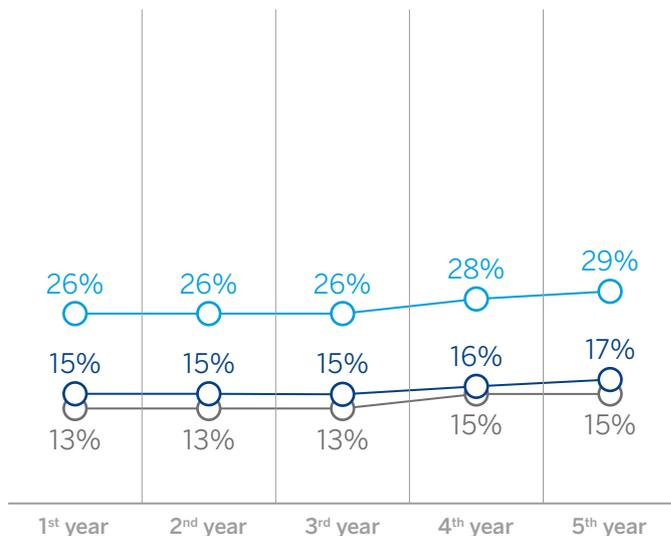
14 GROWTH IN INCOME
Income of segment over Poverty Line



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



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



2. Our clients' development

VULNERABILITY AND ASSET ACCUMULATION

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

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

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

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

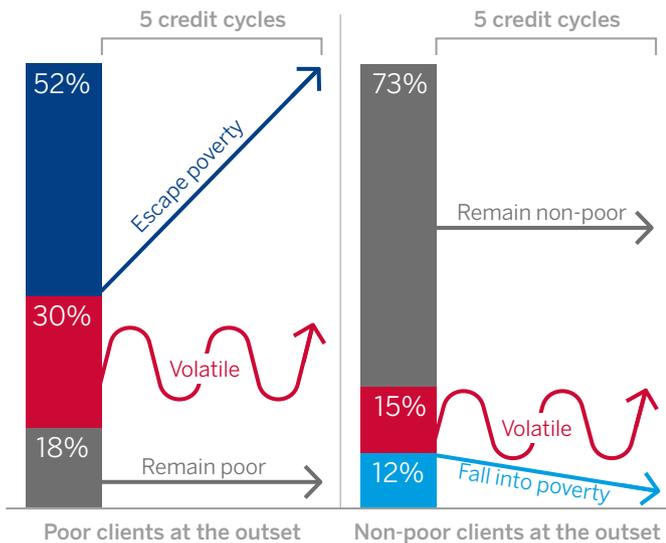
(17) (18) Sample of clients served between 2011 and 12.31.2018 who have had at least five disbursements. The number of times a client crosses the PL is analyzed. Volatile: Clients whose incomes fluctuate across the PL more than once.

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

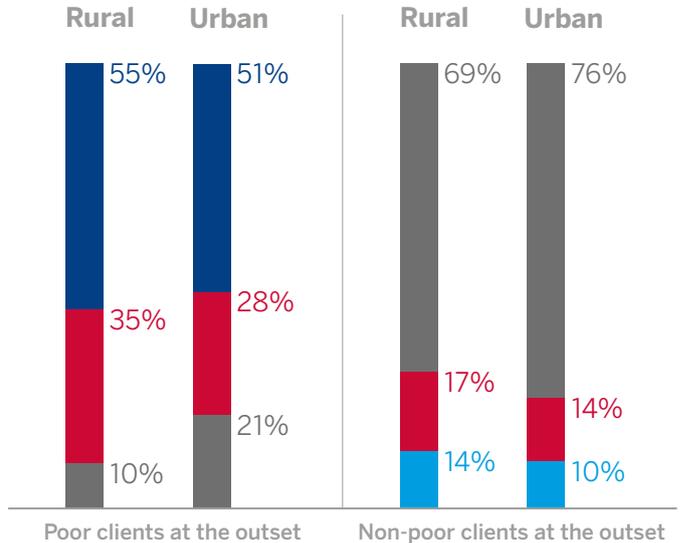
(19) (20) Sample of clients served from 2011 to 12.31.2018 who have had at least five disbursements. The agro sector is not included. Performance is analyzed by looking at the situation at the outset and comparing it to the outcome in two dimensions:

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

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

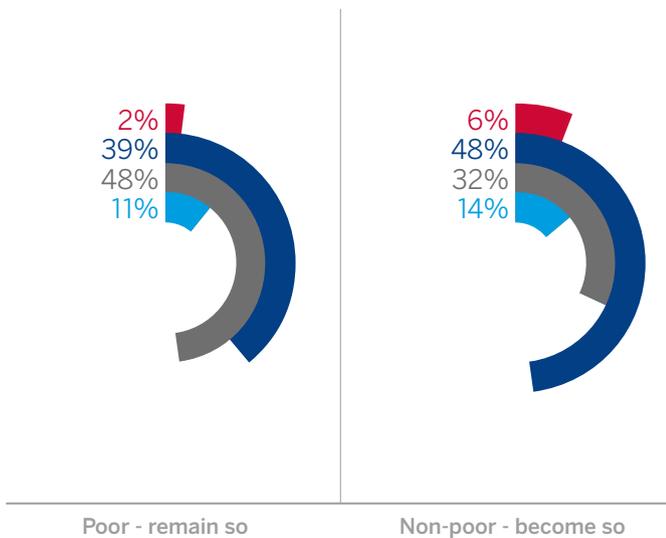


18 INCOME VOLATILITY - RURAL/URBAN
Clients with 5 credits, classified by n° times they fall below/overcome PL

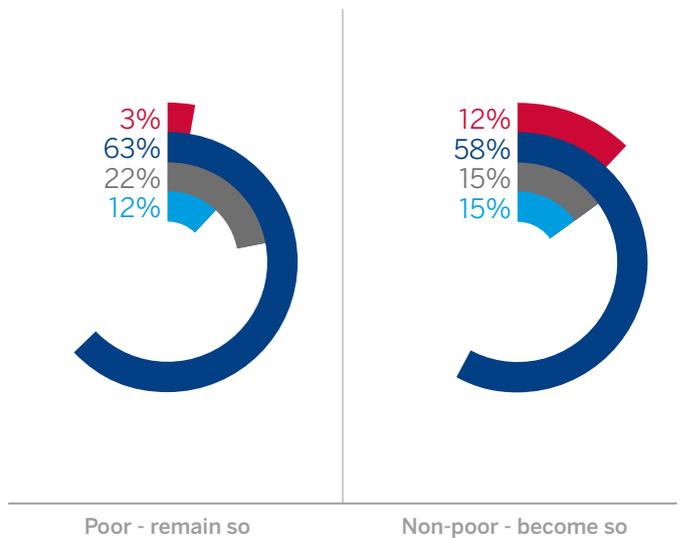


Escape poverty — Volatile —
Fall into poverty — Remainin poor/non-poor —

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



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



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

2. Our clients' development

INDIRECT IMPACT

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

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

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

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

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

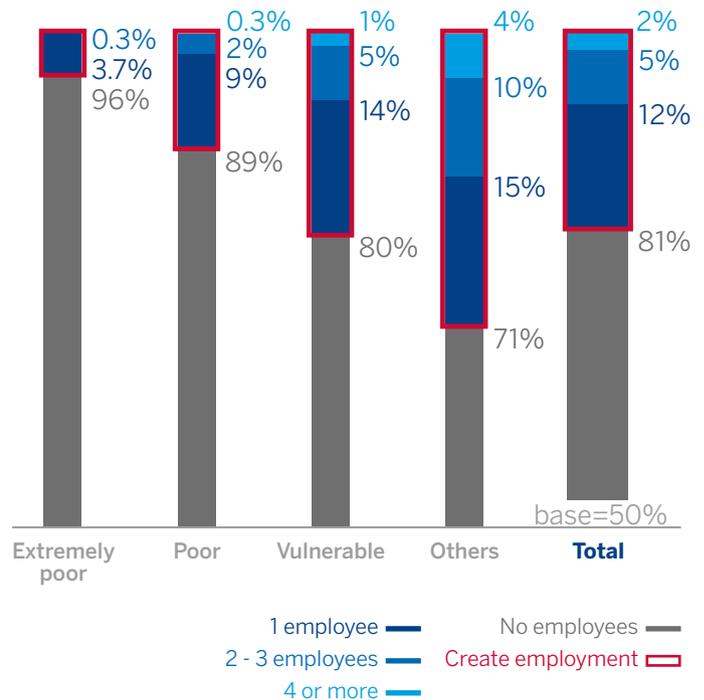
To improve families' welfare, it is essential to maintain long-term relationships with clients which enable them to consolidate their wealth and access a better standard of living.

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

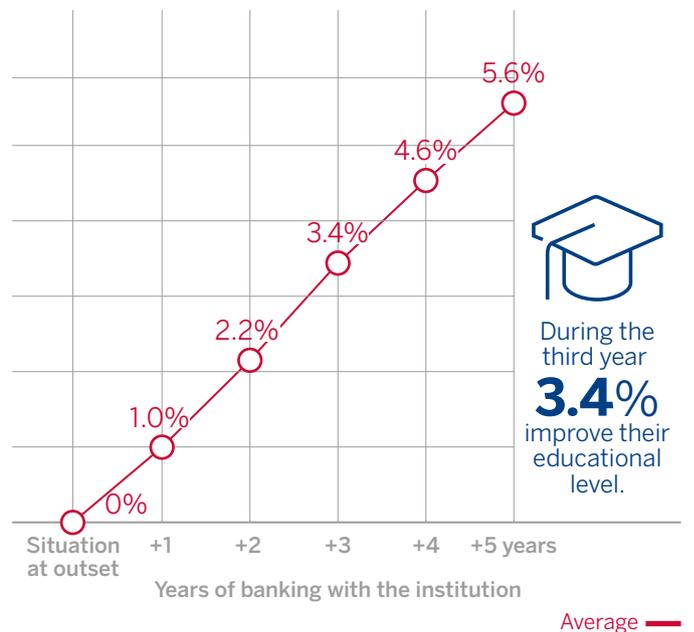
(22) Proportion of clients current at 12.31.2018 of each cohort, who have improved their housing situation (bought their own home). Average for 2013–2018 cohorts (year of entry).

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

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

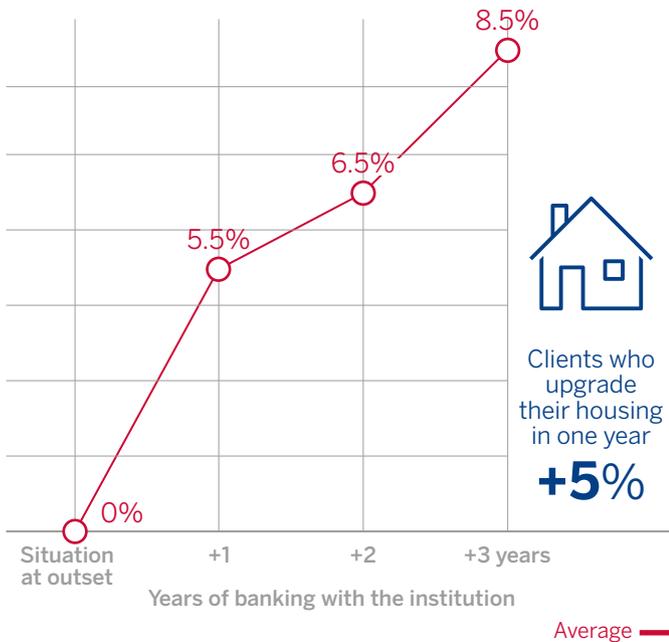


23 IMPROVEMENT IN EDUCATION LEVEL
Credit clients who improve, by years spent banking with the institution (%)



22 HOUSING UPGRADE

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



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

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

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

3. Relationships with clients

RELATIONSHIP WITH OUR CREDIT CLIENTS

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

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

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

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

(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.

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

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



Number of branches

200



Number of loan officers

1,395



Service points

246

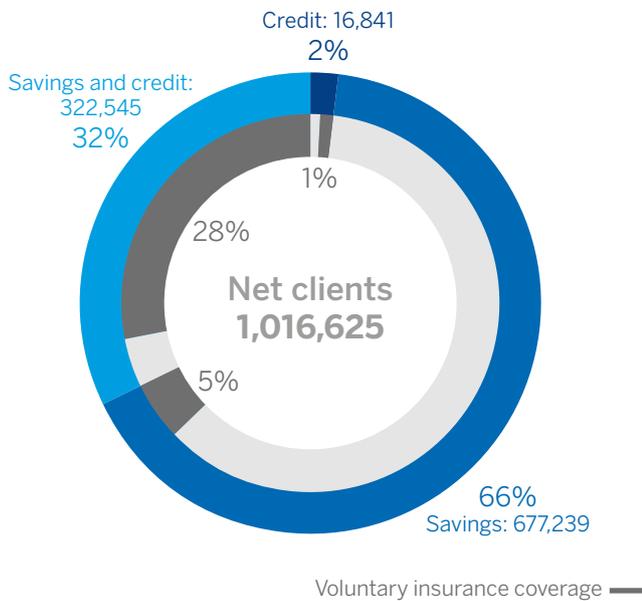


People receiving financial education

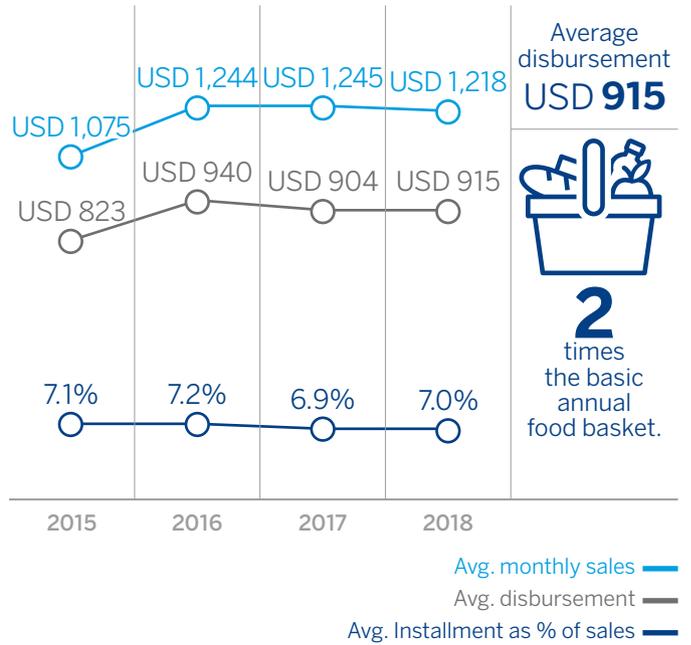
315,220

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

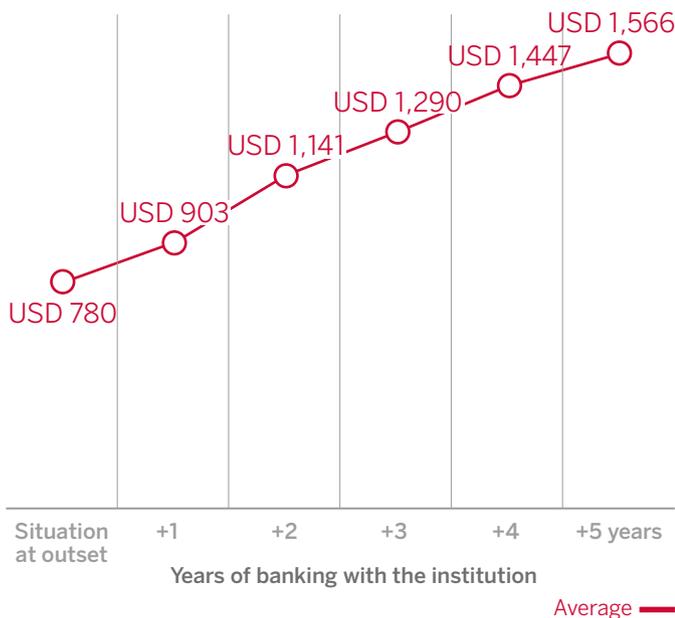
24 CLIENTS BY PRODUCT TYPE
Total current clients



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



26 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship



27 RETENTION & RECURRENCE
Of credit clients

Clients with a credit relationship after x years

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

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

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

3. Relationships with clients

RELATIONSHIP WITH OUR SAVINGS CLIENTS

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

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



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

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

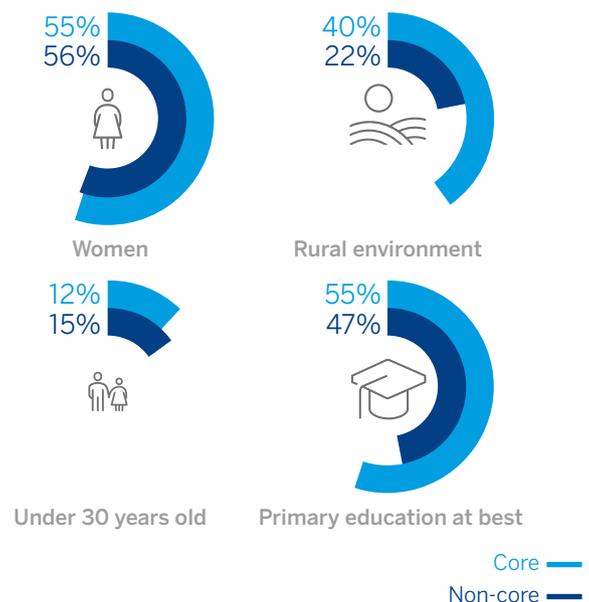
(29) Clients with any kind of savings current at 12.31.2018 (excluding institutional clients and employees).

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

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

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

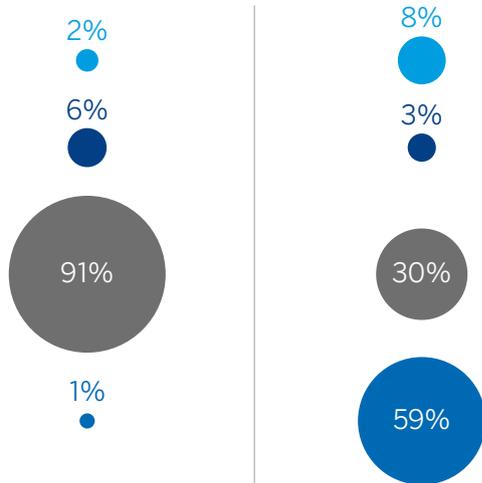
(32) Clients with financial certificates (deposits) current at 12.31.2018 who have had a credit with the institution at some point. Median saving by seniority. The median accumulated saving is shown.



29

SAVINGS CLIENTS BY PRODUCTS

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



Clients

Balance

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

TARGET CLIENT TYPE

PURPOSE

CORE

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



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

TRANSACTIONAL

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



Do they really use their transactional accounts

NON-CORE

Remaining clients, source of funding

31

HOW MUCH THEY SAVE - SAVINGS

Core savings clients



32

HOW MUCH THEY SAVE - DEPOSITS

Core deposit clients



3. Relationships with clients

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

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

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

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

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

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

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

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

Financial health: the first step to making a bigger impact

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

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

Bancamía has pioneered the implementation of this new methodology:

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

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

BILL & MELINDA GATES foundation

CFSI Center for Financial Services Innovation

ipa INNOVATIONS FOR POVERTY ACTION

99%

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



GOOD FINANCIAL MANAGEMENT GENERATES IMPACT



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

PLANNED FINANCIAL MANAGEMENT OF THE HOUSEHOLD IS IN PLACE

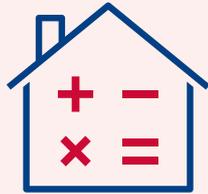
They have their finances under control

70%

reply that they do not behave impulsively.

75%

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



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

3 out of 4

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



They fulfil their commitments

4 of every 5

say that they make their installment payments on time.



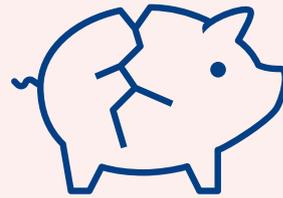
THE LIKELIHOOD OF SUFFERING POVERTY UNDERMINES PLANS FOR THE FUTURE

They have unstable and infrequent incomes

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

44% don't receive incomes from their businesses every day.

46% don't have a regular monthly wage coming into the household.



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

MICROFINANCE IS AN OPPORTUNITY TO SMOOTH SHOCKS

40%

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

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

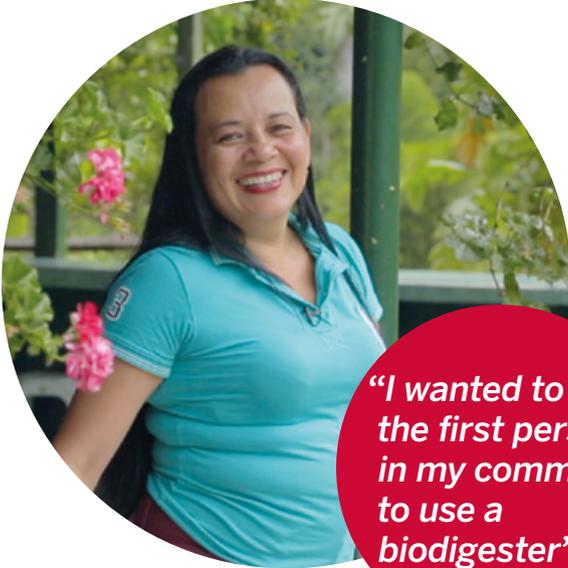
1 in every 6

have recourse to formal savings to deal with unexpected expenses.



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.

The climate is changing, we are adapting



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

Sandra Mendoza
Bancamía client

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

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

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

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

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

The Microfinance for Ecosystem-based Adaptation

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

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

Some of these measures are:

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

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

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



FOOD INSECURITY IN LATIN AMERICA

FAO, Latin America and Caribbean. Population (%)

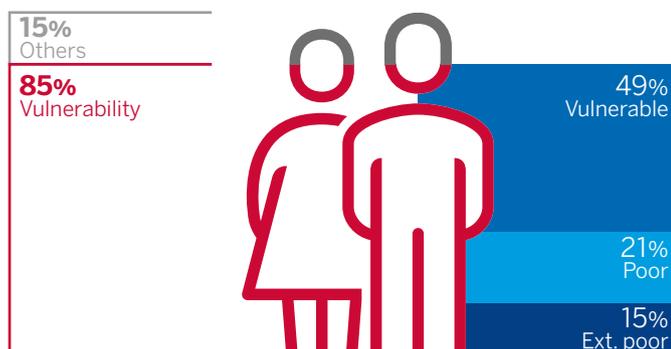
Sustainable agriculture is an essential part of ensuring the nation's food security.



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

MICROFINANCE FOR ECOSYSTEM-BASED ADAPTATION (MEbA)

475 clients served



MEbA client: Average disbursement USD 831

Key product benefits:

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

LOAN OFFICERS

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

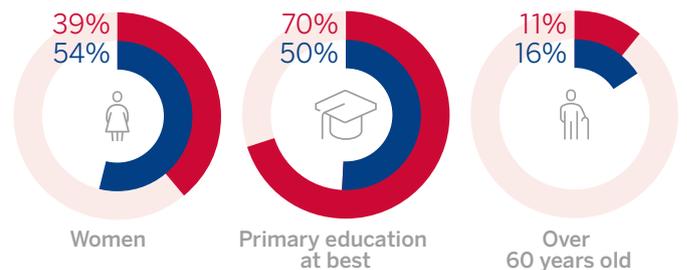


- Best adapted to climate change
- Greater resilience
- Revenue diversification
- Highest environmental productivity

PROFILE OF CLIENTS SERVED

1,710 people

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



MEbA clients —
Total Bancamía clients —

Empropaz: Productive enterprises for peace

empropaz

 Emprendimientos  Productivos  para la Paz

Productive Enterprises for Peace

BancaMía
Facilitamos su progreso

Fundación
BBVA MicroFinanzas



USAID
DEL PUEBLO DE LOS ESTADOS
UNIDOS DE AMÉRICA

In partnership with:

DE MIS MANOS
Cooperación Mundial de la Mujer Medellín

CMW
CORPORACIÓN
MUNDIAL DE LA MUJER
COLOMBIA

A REALITY

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

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

A PROGRAM CREATED TO MAKE A CONTRIBUTION

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

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

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

EMPROPАЗ WANTS:

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

IMPLEMENTERS

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

RESOURCES AND TIME

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

ECONOMIC EMPOWERMENT OF WOMEN

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

GOALS

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

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

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

10 years moving forward together

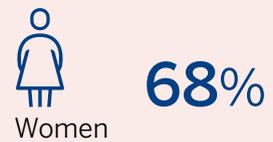
When we began work 10 years ago, a group of clients put their trust in us, clients who have demonstrated their fidelity and perseverance. These figures reflect just some of their entrepreneurial hard work.

Our continuing commitment to vulnerable clients

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



Profile of clients who have been with us for 10 years



Improving their financial health

How we serve them

Credit & growth

x1.4

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

They save twice as much

x2

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

Wider range of products

83%

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

We see a sustained level of growth in their businesses

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

10 YEARS

BUSINESS ASSETS (USD)*

Comparison between all clients vs. clients for +10 yrs



MONTHLY SALES (USD)*

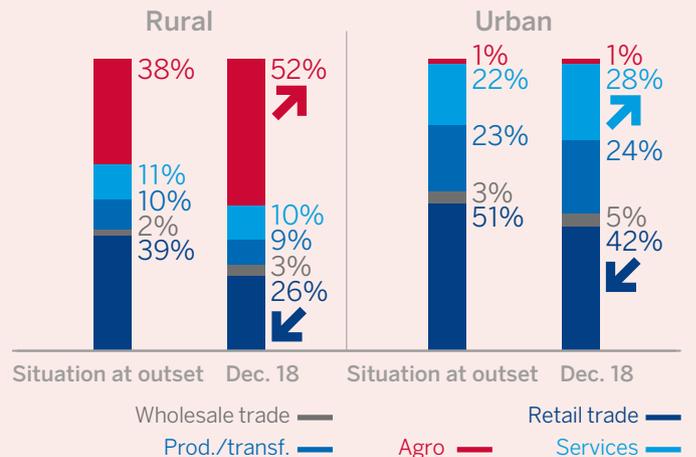
Comparison between all clients vs. clients for +10 yrs



More specialist businesses

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

CHANGES IN ACTIVITY SECTORS**



have changed their activity sector.

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

** All data on clients current at 12.31.2018.

Macroeconomic environment

ECONOMY¹

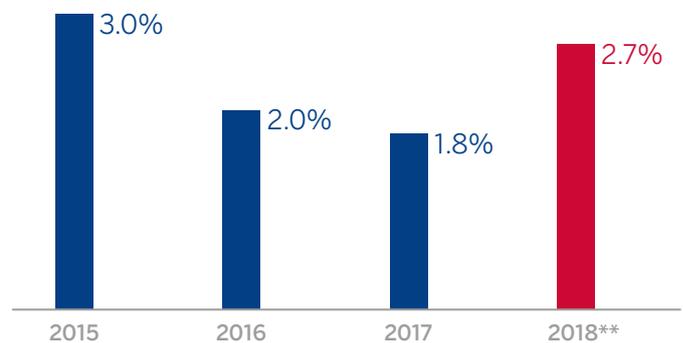
The Colombian economy grew by 2.7% over the year, recovering after two sluggish years (with growth rates of 2% and 1.8% in 2016 and 2017 respectively). The most dynamic sectors, in line with their GDP weighting, were: trade and transport & communications, both with growth rates of 3.1%, following by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

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

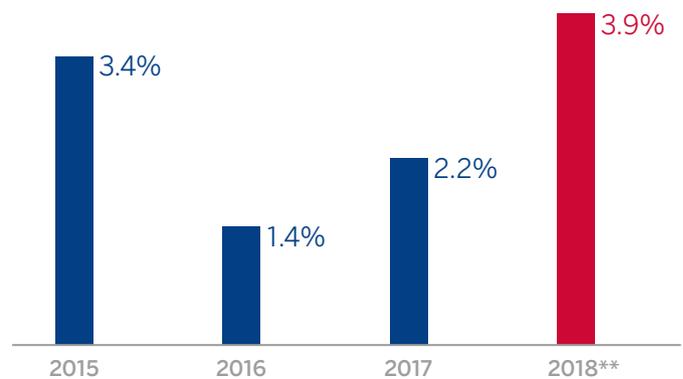
Public-sector and domestic consumption were the economic drivers, bouncing up by 3.9%. However, investment reported slower performance, up by 3.5%, most of it in the second half of the year. Exports, meanwhile, after two years of falls, recovered, expanding by 1.2%.

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

GDP*
Real variation (%)



CONSUMPTION*
Real variation (%)



INFLATION*
Real variation (%)



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

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

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

EMPLOYMENT, POVERTY AND WELFARE²

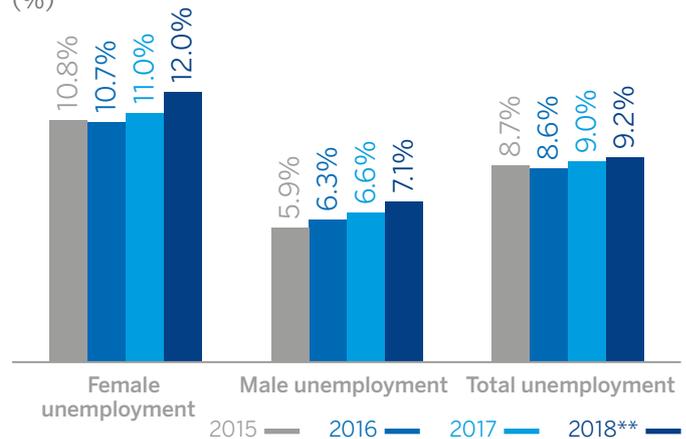
The economy's stronger performance notwithstanding, in 2018 the unemployment rate came in at 9.2% nationally, a 0.2p.p. increase. The economically active population edged down by 0.1p.p., from 64.7% to 64.6% year-on-year, while the occupancy rate slipped 0.3p.p., from 58.9% to 58.6%.

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

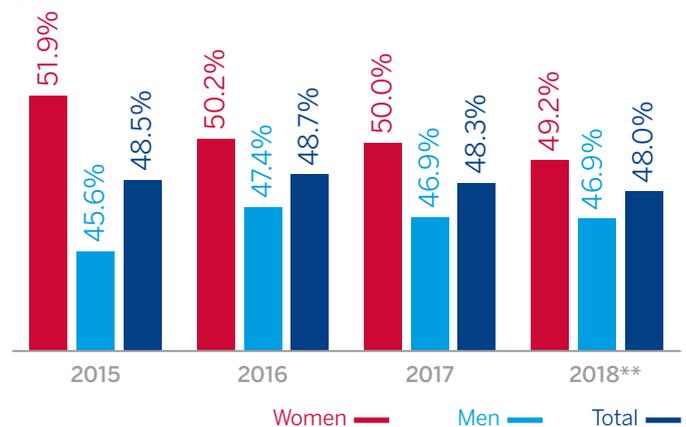
Men's unemployment rate posted at 7.1%, whereas that of women is 68% higher, at 12%, despite women's lower share of the economically active population.

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

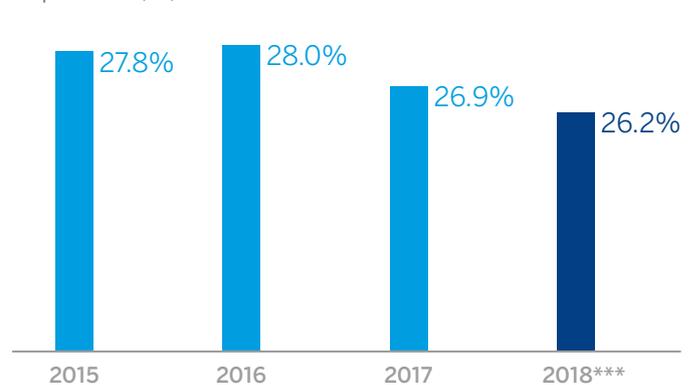
LABOR MARKET*
(%)



INFORMAL SECTOR*
(%)



MONETARY POVERTY*
Population (%)



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

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

Macroeconomic environment

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

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

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

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

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

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

FINANCIAL INCLUSION

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

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

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

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

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

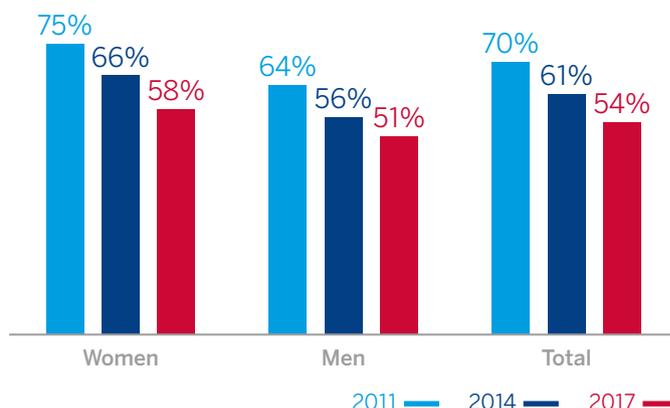
³ Global Findex 2017, World Bank.

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

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

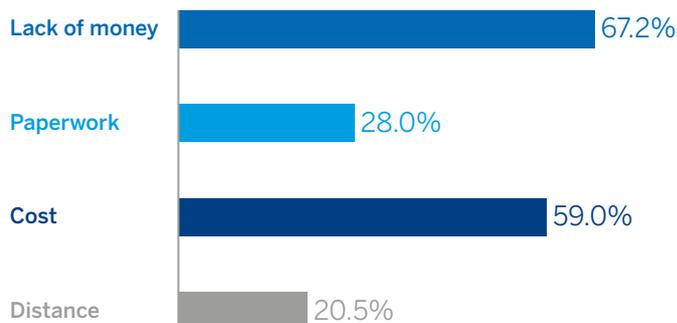
UNBANKED ADULTS*

Total over 15 years old (%)



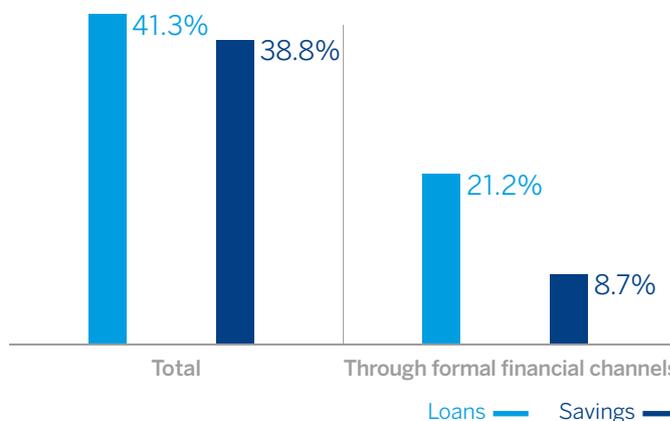
EXCLUSION FACTORS*

Excluded adults (%)



PRODUCTS IN DEMAND

Adults (%)



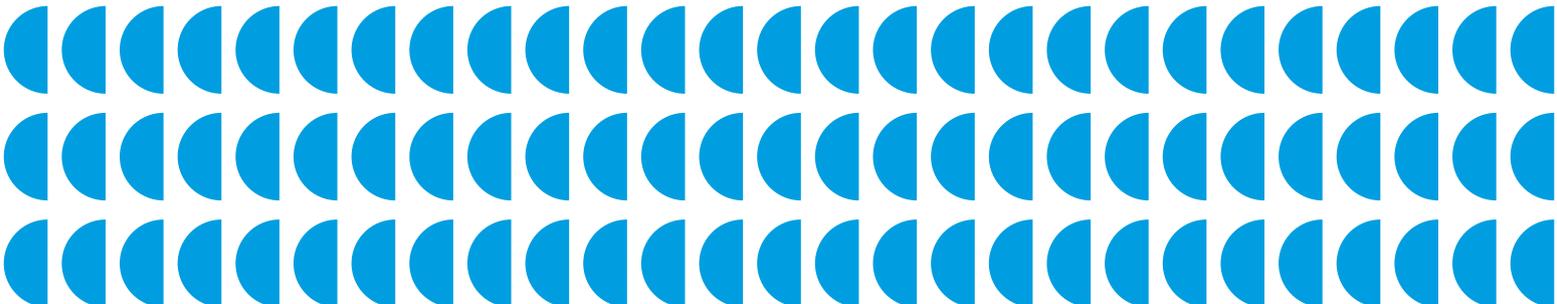
⁴Banca de las Oportunidades, Financial Authority and central bank, Colombia.

* Global Findex, World Bank.

Peru

Financiera Confianza

 SOCIAL PERFORMANCE
REPORT **2018**

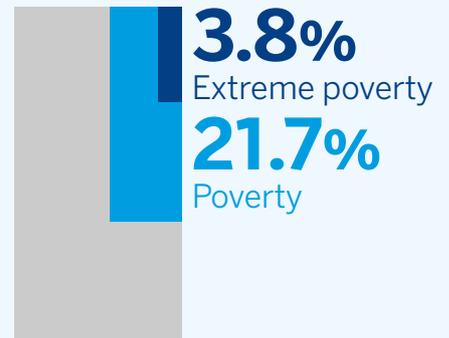


Numbers that measure achievements

National data

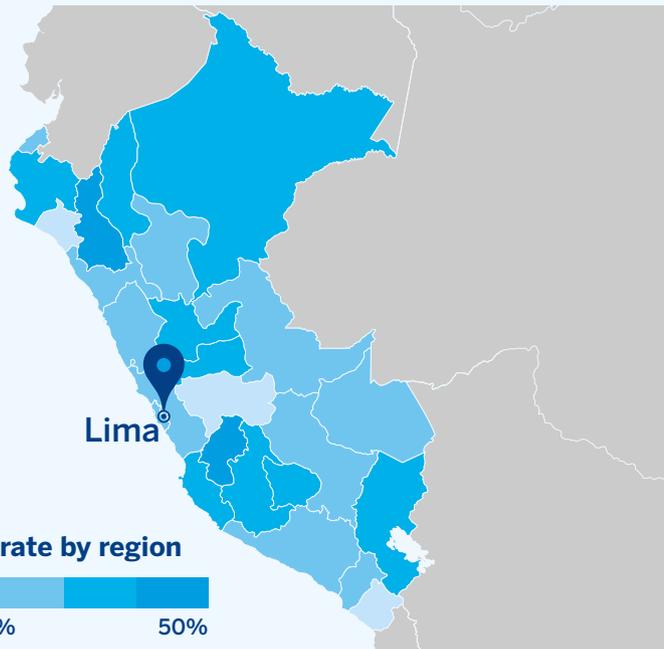
% Poor

according to the national poverty line¹.

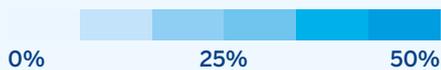


57%

Unbanked adults².



National poverty rate by region

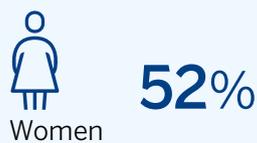


1. CLIENTS

Committed to vulnerable people

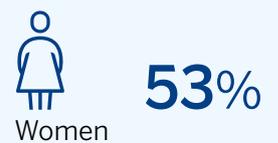
Total credit clients³

217,669



New credit clients 2018

85,195



Source: Financiera Confianza data; calculations by BBVA Microfinance Foundation (BBVAMF).

(1) National poverty rate according to INEI data.

(2) Global Findex 2017. (3) Data as of 12.31.2018.



2. PROGRESS

Working with them as they develop



More than 1 in every 2 renewing clients has improved their income.



In their second year banking with the institution.

...and their projects grow



Annual growth rate.



Annual growth rate.

3. RELATIONSHIP

Providing timely and relevant products and services

Present in regions throughout the country



Average disbursement



Savings

10%

10% of clients use their transactional account actively.

USD **400**

Deposits: 50% of clients saved USD 400 or more in 2018.



Introduction

Peru's economic recovery –its GDP has grown by 4%– enabled an estimated 120,000 Peruvians to escape poverty in 2018. Nevertheless, 21% of the population still does not earn enough to pay for the basic basket of foodstuffs, goods and services.

After moderate growth (2.5%) in 2017, notable particularly for the Coastal Niño phenomenon, 2018 was a year in which Peru returned to the path of robust growth. This was thanks to greater momentum in non-primary sectors, which expanded by 4.2%, while primary activities grew by 3.3%. Consumption recovered strongly, rising by 3.6% thanks to the improvement in employment and in accessing funding.

Inflation came in at 2.2% over the year, converging with its target range, and allowing the central bank to keep its reference interest rate at 2.75%, in a negative product gap context.

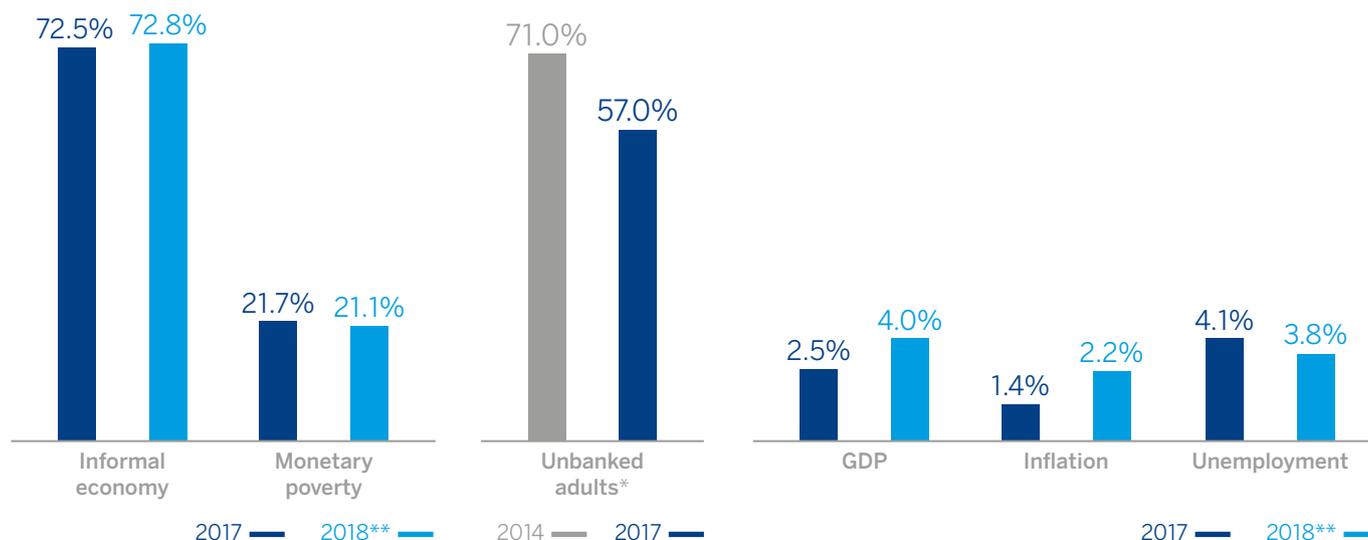
This stronger economic performance was reflected in a 0.3 percentage-point fall in the unemployment rate, which in 2018 posted at 3.8%. Even so, the gender gap, and the gap between young people and adults, persist. 76% of occupied women were in the informal sector, with men having a 6.5 percentage points lead in formal occupations, their informal occupation level standing at 69.5%.

The Peruvian microfinance system is one of the most developed in the world. According to the Global Microscope 2018¹, Peru ranked second in terms of the financial inclusion ecosystem it has built up for the excluded. The report highlighted the State's commitment to promoting financial inclusion over the long term and its goal of providing financial services throughout the country by 2021 (National Financial Inclusion Strategy).

In this environment, the microfinance industry plays an important role. As of June 2017, approximately two thirds of the system's borrowers had a loan with a microfinance institution. The extensive coverage of the microfinance system is also an important feature, with 2,400 agencies of a total 4,200 in the entire financial system, and significant footprint across the country's provinces, where a sizable proportion of the population still does not have access to the formal financial system.

However, the industry still has to cope 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. 36% of the population has taken out a loan in the last year. Peru also lags behind by number of depositors, since only 42% of

¹ Drawn up by The Economist Intelligence Unit.



Peru has one of the most developed microfinance systems in the world. But there are still opportunities to improve financial inclusion and reduce informality in the labor market.

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*.

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 VOLUMES²

Total clients	524,750
Number of employees	2,173
Number of branches	154
Gross portfolio (USD)	494,446,087
People receiving financial education	38,271
Client assets under management (USD)	325,584,778
Amount disbursed in 2018 (USD)	668,554,944
Number of disbursements in 2018	325,193
Average disbursement (USD)	2,056

* Global Findex World Bank, 2014 & 2017.

** BBVAMF Research estimate.

² USD/PEN 3.373 at 12.31.2018, BBVA Research.

Introduction

The cost of the basic food basket is 26% higher in urban areas.

Credit clients	69,265
Credit and savings	148,404
Savings	307,081
Total credit clients	217,669
Total savings clients	455,485

PRICE OF THE BASIC FOOD BASKET



Financiera Confianza S.A.A. (Financiera Confianza) 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.

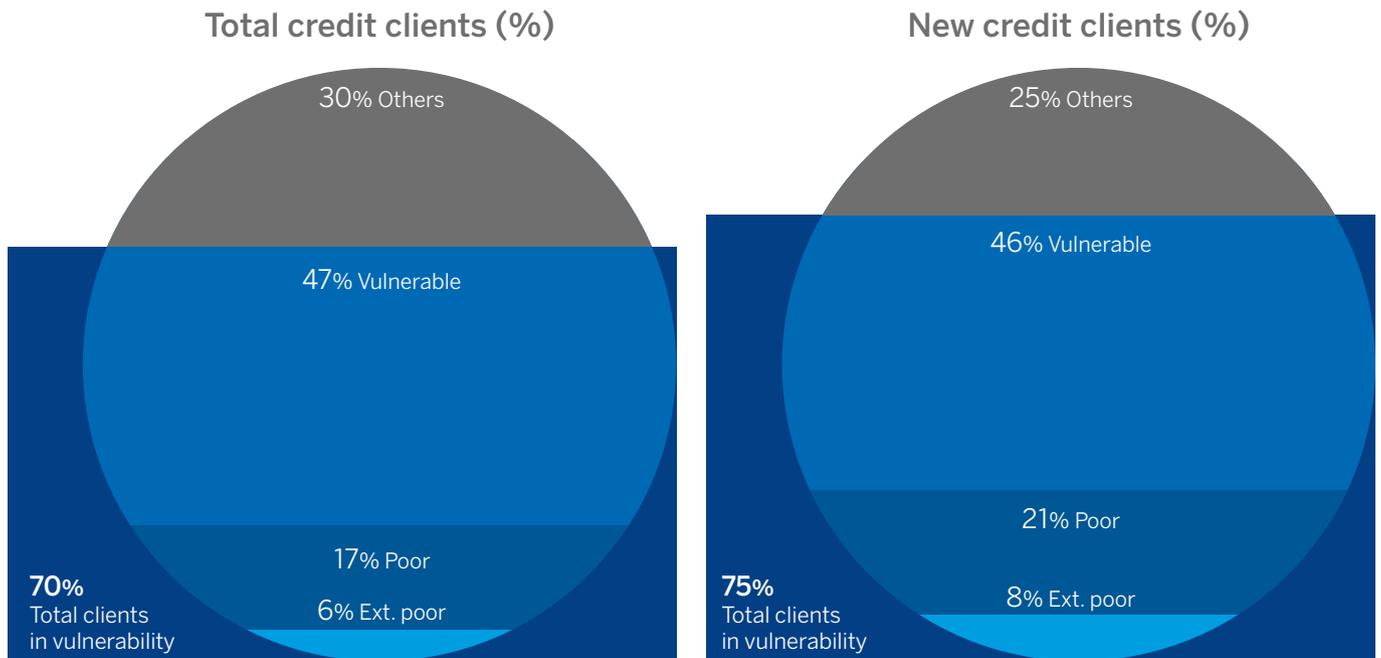
Financiera Confianza currently has a footprint in all of Peru's 25 administrative regions and is the first microfinance institution to achieve this reach. It has a major presence in the rural environment, with 28% of participation and 23% of its clients in the agricultural sector, where it is the institution in Perú with the highest stake.

In recognition of its work, in 2018 Financiera Confianza was awarded two Citi Microenterprise prizes (Premic). Financiera Confianza was the only entity to win in the category "Award for Responsible Financial Inclusion"; in addition, the entrepreneur Dionisio Huamán, owner of a specialty pastry business in Arequipa, won the "Award for the best microenterprise" in the Production category.

With around 220,000 credit clients, Financiera Confianza prioritizes low-income microentrepreneurs, and 70% of its clients are in vulnerability. Furthermore, 52% of its client base are women and 16% have primary education at best.

On the savings side, Financiera Confianza has 455,000 clients, 8% more than the year before. A visible sign of its commitment to the most vulnerable segments of the population is the fact that 28% of the entrepreneurs live in the country's poorest administrative regions. The institution prioritizes savings as a valuable tool for improving its clients' standard of living, particularly in the case of women, because saving empowers them and adds value to their role in the home as administrators of the family's resources.

CLIENT ECONOMIC VULNERABILITY*



New credit clients served in 2018 by Financiera Confianza have average monthly net surpluses (income) for every member of the household (per capita) of USD 242, which represents 4.2 times the basic monthly food basket in urban areas.

Those entrepreneurs whose businesses do not generate enough revenue to buy this basic basket are classified as extremely poor. Those who can buy the basic basket, but cannot afford certain goods and services, clothing and housing are considered monetarily poor. The price of this second set of goods determines the poverty line. In the case of Peru, it is USD 76 in rural areas and USD 111 in urban areas.

The category with the highest proportion of clients is made up of vulnerable people. These are entrepreneurs who, while not actually poor, have highly volatile incomes and who could be driven back into poverty by just one unexpected eventuality. The upper threshold for this category is that their per capita net incomes are equivalent to the national poverty line multiplied by three.

From the perspective of client relationships, the retention and recurrence ratios have improved this year, which has made it possible to stay with more clients for longer and foster their development. Their financial volumes have been higher than in previous years and the percentage of clients who have improved their incomes relative to the poverty line (ie. their purchasing power) has been higher.

* According to National Institute of Statistics and Informatics (INEI) poverty line (differentiating between the rural and urban environments). Clients whose net income per capita (estimated as the net business income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three are classified as vulnerable.

1. Our clients

SOCIOECONOMIC PROFILE

During 2018 Financiera Confianza served 85,195 new credit clients, bringing 36% of these into the banking system for the first time. It is one of the institutions in Peru that most actively pursues this policy. Clients served by Financiera Confianza are microentrepreneurs with small businesses who are looking for a financial institution to be a business ally, and from there to improve their standard of living. 75% of clients are in this situation of vulnerability and 29% are poor or extremely poor.

In the last few years, the commitment to serve clients in vulnerability has been kept. For this reason, the entity is particularly careful to include women and agricultural producers. So it is that 53% of new clients are women and 27% are in the rural environment.

Major efforts have been made to focus on the rural sector and agricultural clients, with the aim of banking them and giving opportunities to people who have up to now been excluded from the financial system. The agro sector is key in the fight to reduce poverty and Financiera Confianza, together with the municipal savings & loan entities, has become a key player in looking after this segment.

New clients served during 2018 who were in a situation of poverty had even lower incomes than poor clients in former years. Their per capita net incomes came to 77% of the poverty line, that is, they were each living on USD 2.7 a day.

In Peru the development of microfinance (as the second-ranked country according to the Global Microscope³) has meant it has been possible to research the more vulnerable layers of society, particularly in the urban environment. Despite high levels of poverty in rural environments, the institution has succeeded in serving clients in urban areas who are more vulnerable or poor. The most vulnerable clients are urban women, who present additional characteristics that may increase their vulnerability, such as not having further education or technical training, or their age, given that young women have fewer assets and lower incomes.

Urban women without further or technical education are the most vulnerable clients (85% of them are in vulnerability). More than 1 of every 4 clients served in 2018 belonged to this segment.

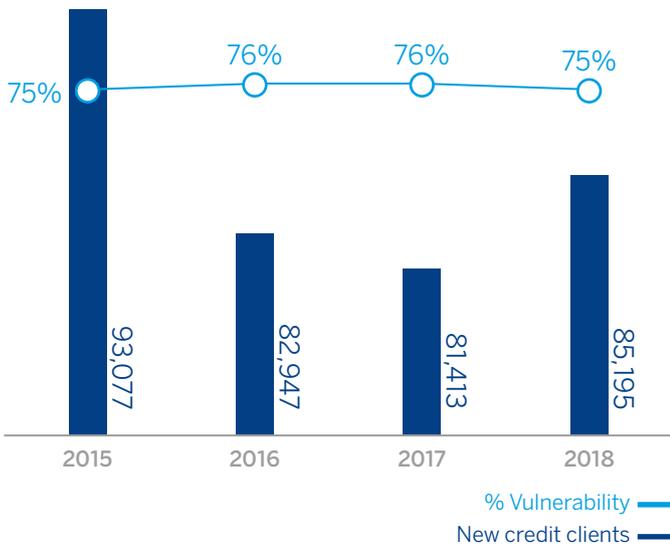
Gender-based indicators (see Fig. 4) show the differences that still persist. More of Financiera Confianza's female clients are urban, since access to land ownership is harder for them, and they produce per capita monthly net incomes (at USD 204) that are 27% lower than those generated by microenterprises managed by men.

- (1) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.
- Banked clients: those who have not previously had financial products with formal financial institutions.
 - Exclusive clients: those whose only loans are with the institution between t-12 and t.

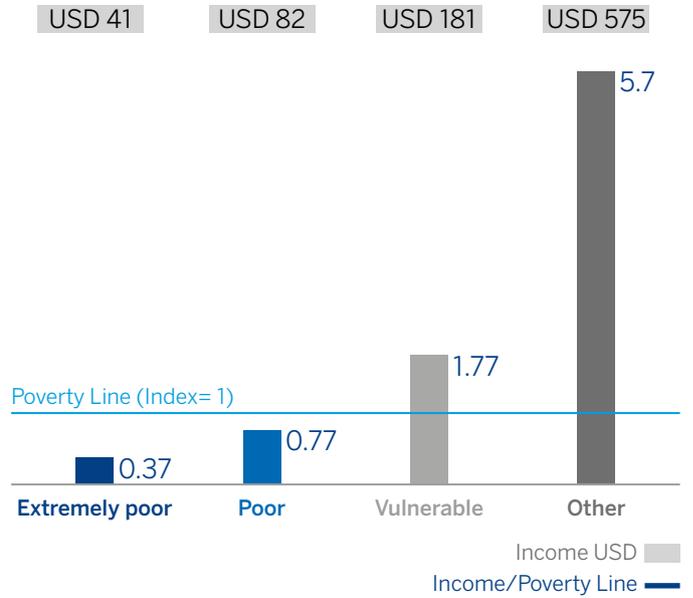
³ Drawn up by The Economist Intelligence Unit.

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

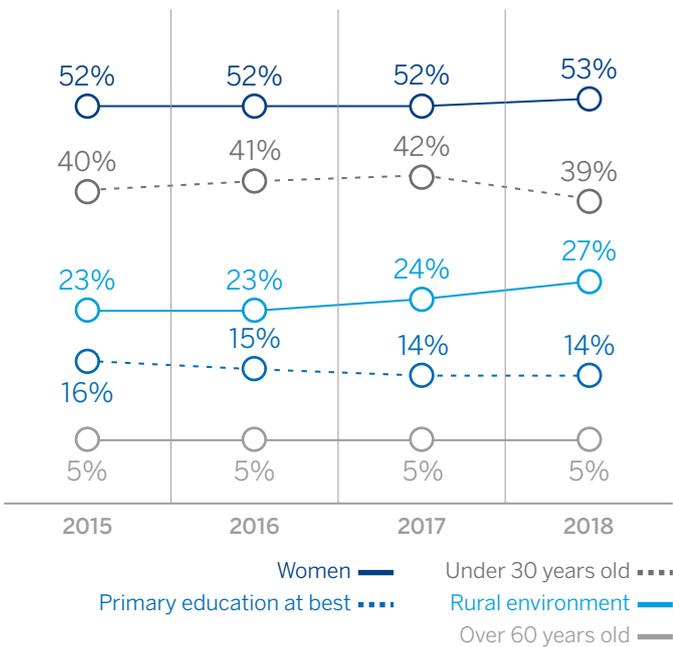
1 NEW ENTREPRENEURS SERVED
 New credit clients by cohort
New banked clients in 2018: 36%
New exclusive clients in 2018: 47%



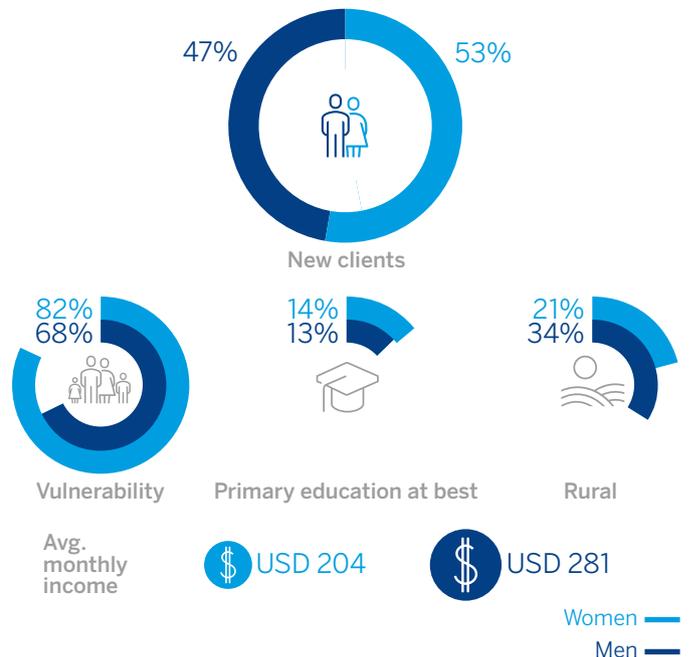
2 ENTREPRENEURS' INCOME
 Income against Poverty Line



3 NEW CLIENT PROFILES
 New clients by cohort (%)



4 PROFILE BY GENDER
 New credit clients (%)



1. Our clients

PROFILE OF THEIR BUSINESSES

New Financiera Confianza clients work mainly in the trade sector (42%), services (27%) and agriculture (22%). Since agro is a strategic sector, year-on-year the entity is serving more of these clients.

Many poor and vulnerable clients work in the retail trade sector (79% of clients in this sector are in vulnerability). Sales as a ratio of assets (asset rotation) in this type of business is high but operating expenses are high too, so cost and expenditure control in the microenterprise is critical if these revenues are to become net income. On average, 21% of sales pass through to earnings.

These small companies are more highly leveraged compared to other sectors and as such microentrepreneurs' capital is more efficient. This may be due to the concentration of these enterprises (especially in urban areas), the loan officers' good understanding of this type of business and the high rotation or liquidity.

Thanks to the advanced development of the microfinance sector in Peru, and competitiveness and specialization in the industry, entrepreneurs can access loans for higher amounts, with more leveraging.

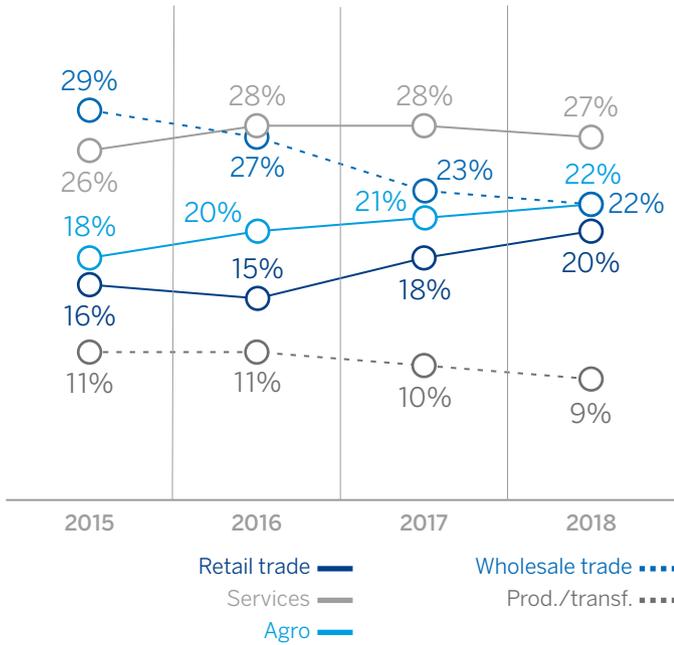
(6) Data on average monthly sales and average assets in each sector, segmented by clients below the poverty line (PL: extremely poor and poor) and clients above the PL (vulnerable and others).

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

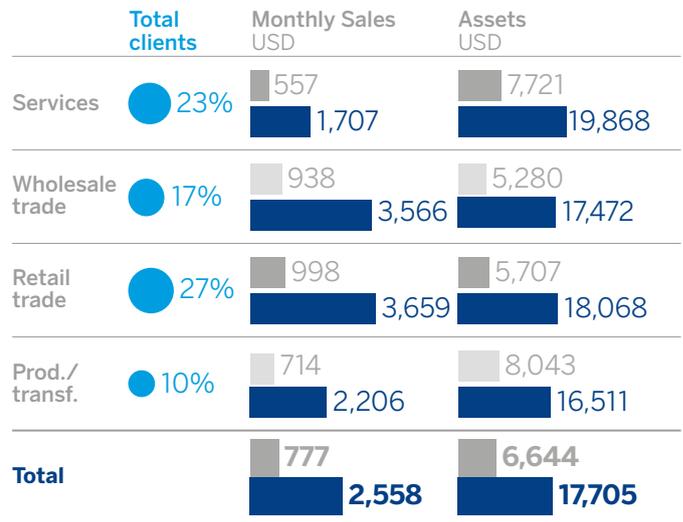
(8) Data on these clients' average assets, liabilities, equity and ratios, for each sector.

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.

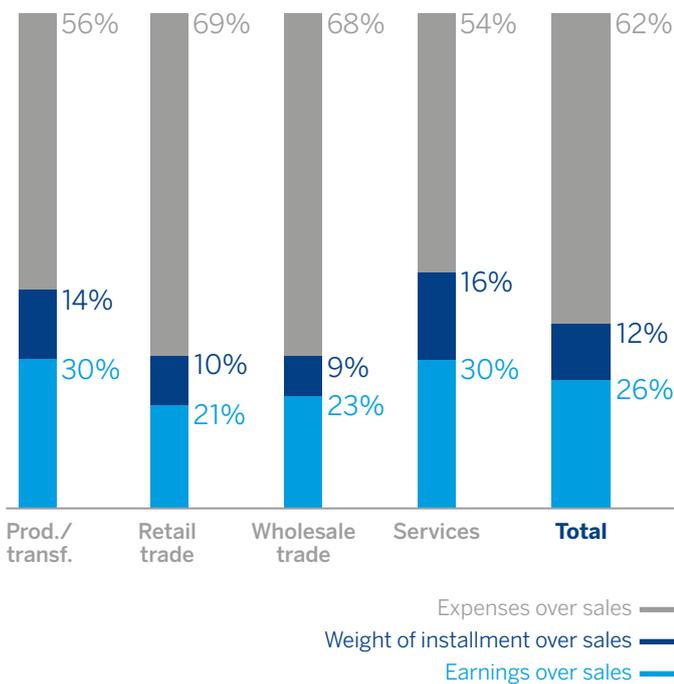
5 ACTIVITY SECTOR
New clients by year of outset (%)



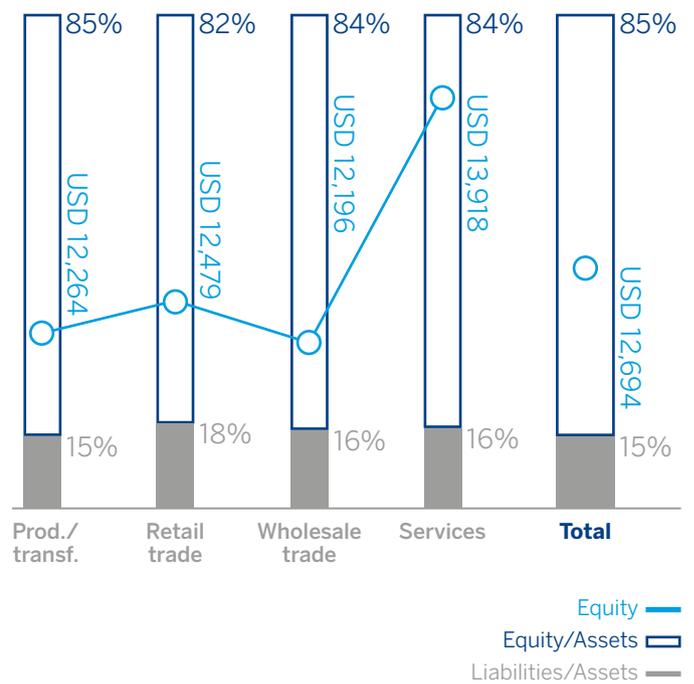
6 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients, poor and non-poor segmentation



7 P&L- MARGINS OVER SALES
Total credit clients



8 BALANCE STRUCTURE - LEVERAGING
Total credit clients



2. Our clients' development

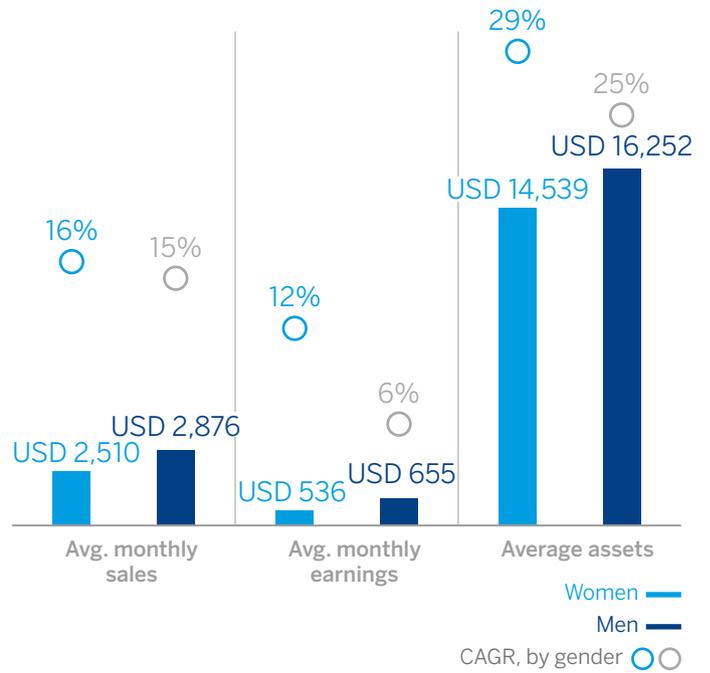
GROWTH OF THEIR BUSINESSES

The businesses of the clients continue to post growth rates well above the country's inflation rate. Growth rates in sales and net incomes are higher than 2017, especially in the case of enterprises in the production and transformation sector.

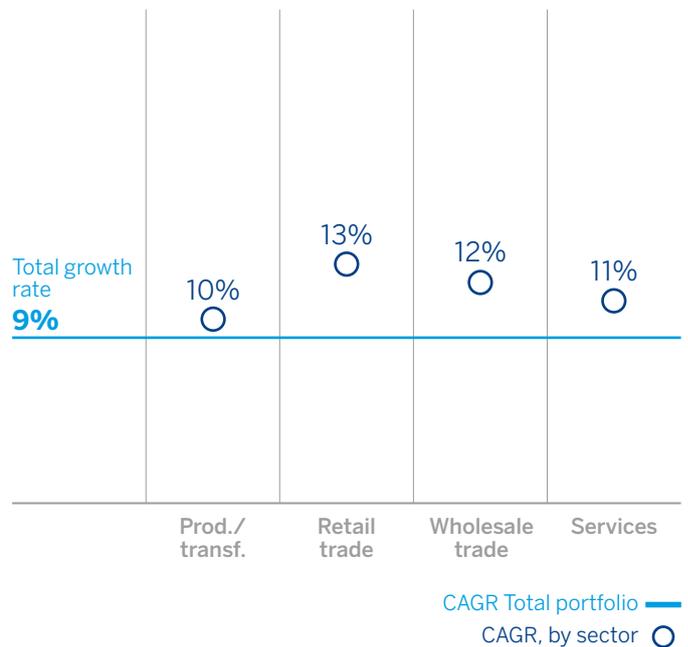
The growth rate of assets points to a re-investment of surpluses back into the microenterprises in order to increase their capacity to generate net income (whether the investment is in working capital or fixed assets). Assets are growing by an average of 27%. The highest growth in asset values is in trade which, as mentioned above, is the sector that generates the most liquidity.

Assets, net surpluses and sales are all lower in companies managed by women, although growth rates are higher so, as these are consolidated, the gender gap may narrow.

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



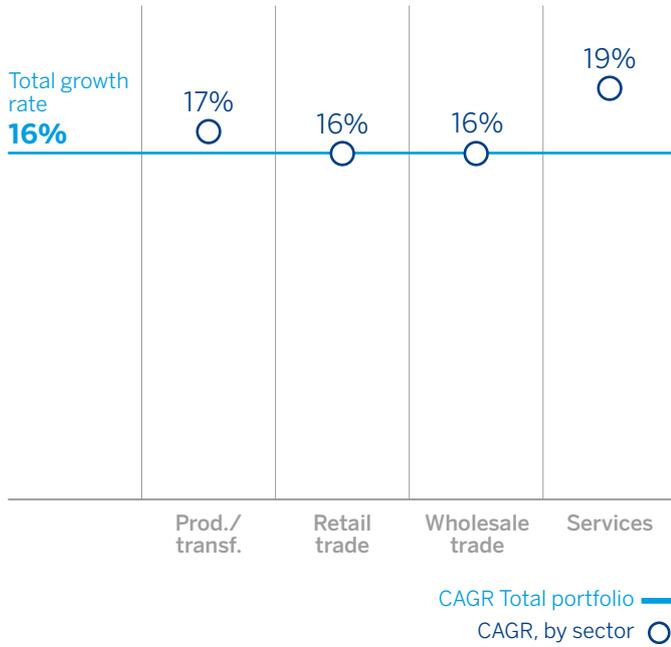
11 GROWTH IN EARNINGS
Compound annual growth rates



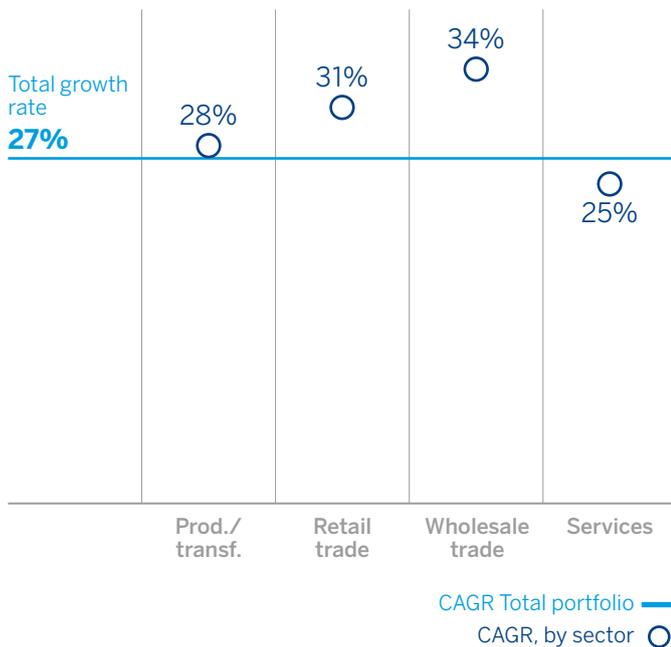
(9) Data on clients current at some point over the year and who have rolled over a product in the last 12 months with the institution (hereinafter “renewing clients”). The compound annual growth rate (CAGR) for cohorts (entry year) between 2013 and 2018 was used for the calculation, taking the weighted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



Fast growth in sales and assets reflects the robust momentum in these businesses. Efficiency improvements mean that earnings can expand more.

2. Our clients' development

ESCAPE FROM POVERTY

Access to financing for lower-income clients appears to be more important at the beginning: it is in the first credit cycles when we see the greatest impact on the entrepreneur's income growth (see Fig. 14). The positive change is visible in the graph and the number of poor clients falls by 46% in their second year of banking with the institution (see Fig. 13).

There is another set of clients who at the outset of their relationship with the entity had income above the poverty line but that has suffered a fall in income and now finds itself in poverty. The likelihood of falling into poverty for these clients is around 10%.

The net reduction of the group of poor clients is 19% in the second year. Escape from poverty slows down a little, perhaps because of slower growth in the economy and the Coastal Niño phenomenon in 2017.

The surroundings in which businesses develop appear to be a determinant for escaping poverty. When rural clients access financial services, they are more successful in pushing forward with their enterprises and escaping poverty than clients in urban areas. In the second year 59% of them climb out of poverty, compared to urban clients with higher sales in each sector who overcome poverty in the second year in 45% of cases.

Vulnerable clients face the challenge of consolidating their wealth and maintaining the standard of living they have achieved. That is why they need to take decisions that look to the medium and long term, invest in productive assets, etc. It appears that the level of educational attainment is a barrier for many clients. When we analyze clients' performance over time, we see that the likelihood of clients without further education falling into poverty is greater than in other segments we serve.

The high numbers of microentrepreneurs working in the informal economy and their inadequate training makes it difficult to improve productivity⁴ (*Creciendo con Productividad-Una Agenda para la Región Andina*. IDB – in Spanish only).

(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 entry into poverty.

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

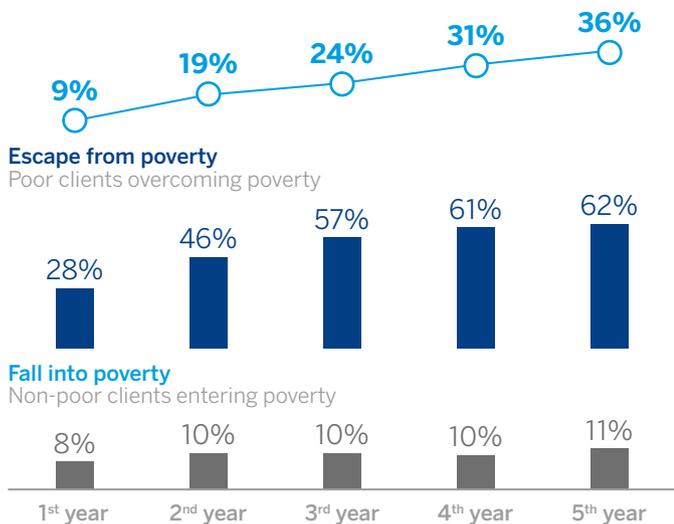
(15) Renewing clients. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.

- 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.

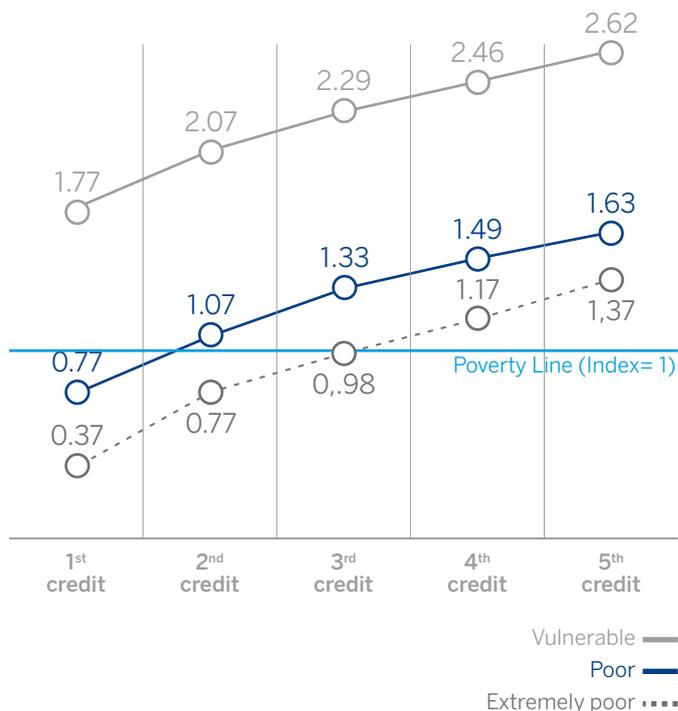
⁴ <https://webimages.iadb.org/publications/spanish/document/Creciendo-con-Productividad-Una-agenda-para-la-Region-Andina.pdf>

13 VARIATION IN POVERTY SEGMENT

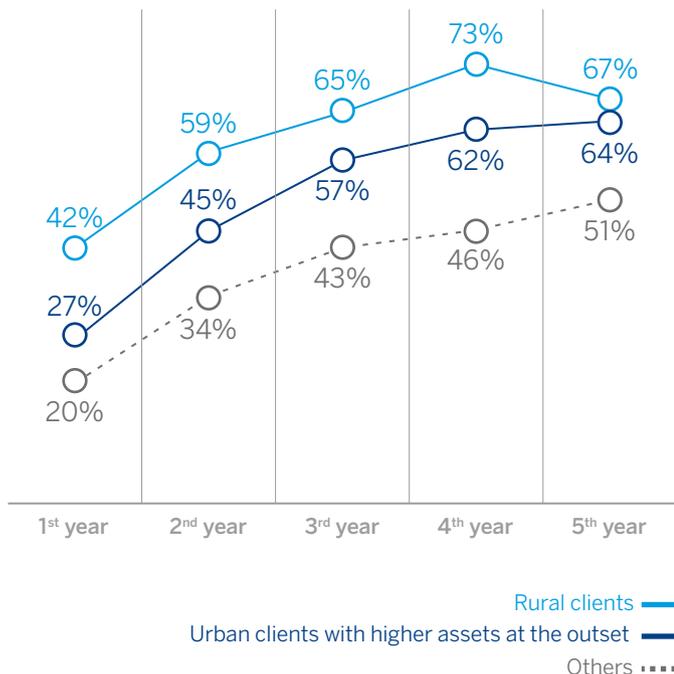
Net poverty reduction



14 GROWTH IN INCOME
Income of segment over poverty line



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



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



2. Our clients' development

VULNERABILITY AND ASSET ACCUMULATION

Vulnerability is characterized by volatility or by the possibility of unexpected reductions or interruptions in income that endanger the living standards achieved and put a strain on the household's financial situation.

When we analyze clients who have taken out at least 5 credits with the institution we see that, in the case of clients who were poor at the outset, the likelihood of overcoming poverty is high (71% of clients). Nevertheless, some are trapped once again (24% of the total).

Non-poor clients also experience volatility, although this is less frequent than for those in the former category, affecting 13% of them. The environment in which the activity takes place is a key factor, since it determines access to other sources of financing, the amount of competition, the cost of raw materials, etc. Clients in rural areas who were poor at the outset are more likely to overcome poverty, although their volatility is a little higher than that of clients in similar situations living in urban areas. Non-poor rural clients are least likely to fall into poverty.

A good number of entrepreneurs reinvest their surpluses in their microenterprises to increase capacity. Despite the obvious correlation between investing in assets and the capacity to overcome unexpected eventualities, the big challenge is to make these assets liquid and productive. Thus, there is a positive correlation between escaping poverty and asset accumulation.

Of clients managing to escape poverty, 65% have accumulated assets. In contrast, the majority of clients who remain poor reduce their assets (28%) or their asset levels remain unchanged (22%). The numbers show that for non-poor clients, having a solid asset base is critical in consolidating and stabilizing revenues over time. A higher proportion (33% of those who remain non-poor) enjoy high asset levels. It is essential to help our clients to continue building this solid backstop.

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

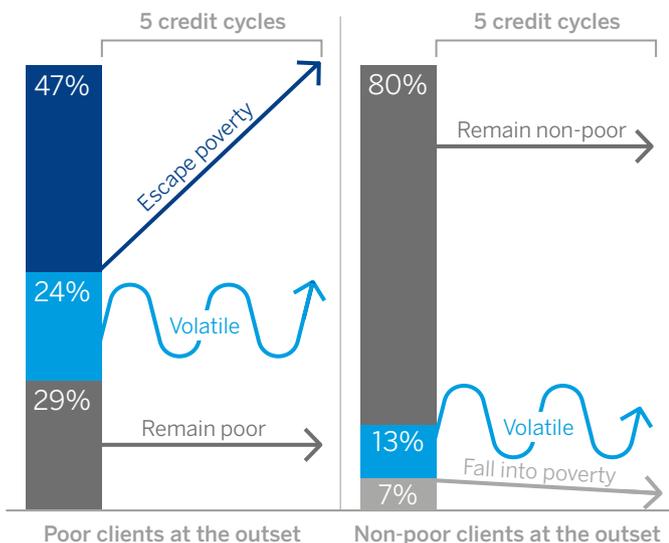
- Escape poverty: Poor clients at the outset whose income surpasses the PL (and is not reported as falling back).
- Fall into poverty: Non-poor clients at the outset whose income falls below the PL (and is not reported as recovering).
- Remain poor (or non-poor): Clients who remain poor (or non-poor)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

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

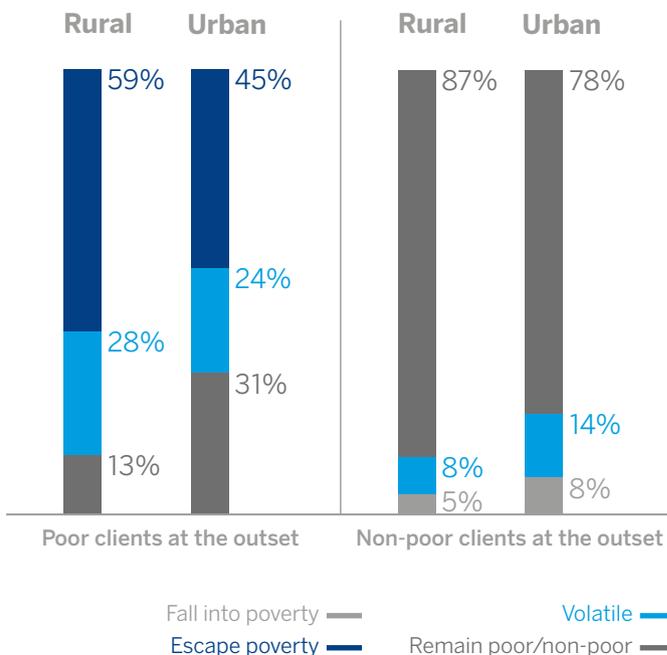
Income performance by whether clients are still in poverty or not
Asset changes are analyzed according to whether the asset levels change, differentiating between the following categories:

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

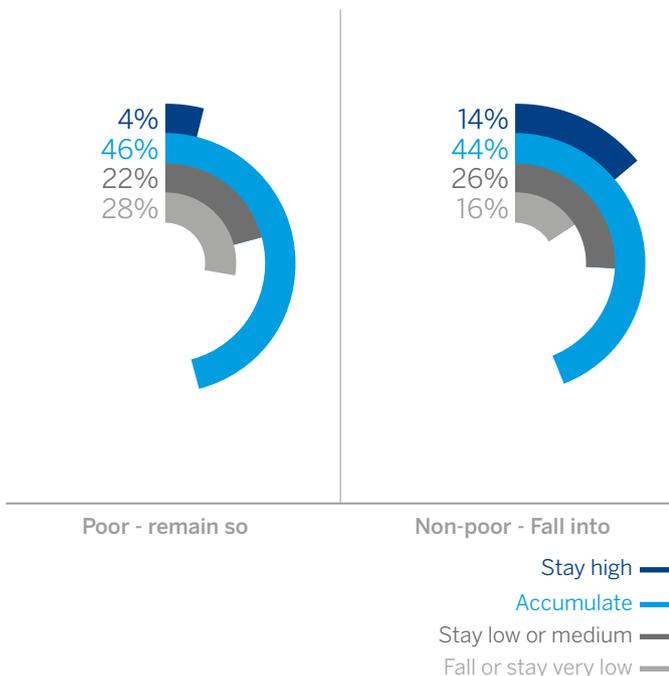
17 INCOME VOLATILITY
Clients with 5 credits, classified by n° times they fall below/overcome PL



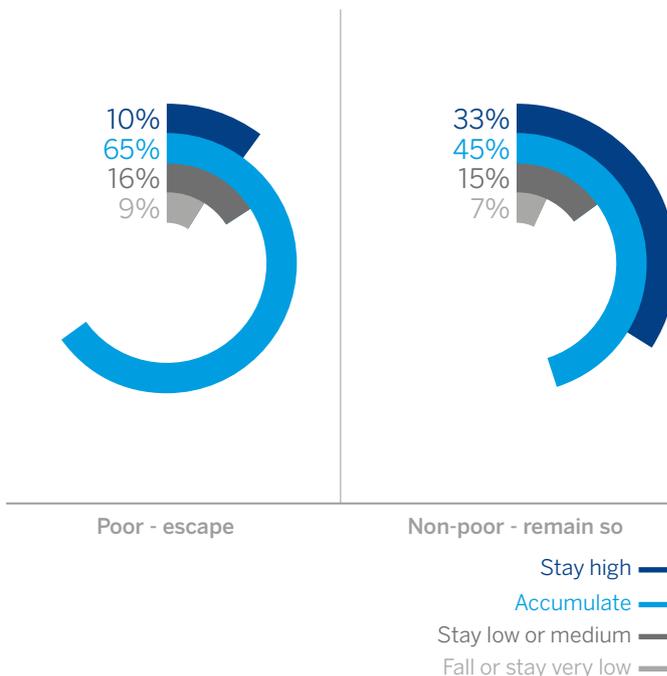
18 INCOME VOLATILITY - RURAL/URBAN
Clients with 5 credits, classified by n° times they fall below/overcome PL



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

Microenterprises are an integral part of Peru's financial ecosystem (approximately 96% of Peruvian companies are in this category)⁵, although they face enormous challenges in creating jobs, and most are only a source of self-employment. Furthermore, they are concentrated in the less productive sectors.

Financiera Confianza's clients fit this pattern, although we note that the proportion of clients that has managed to create jobs rises from 10% when the company generates very low revenues –extreme poverty– to 24% when clients are classified as "others".

The impact of business growth is also visible in improved standards of living. Around 8% of clients who remain with the institution after 2 years have made home improvements, making a positive impact on the entire household's standard of living.

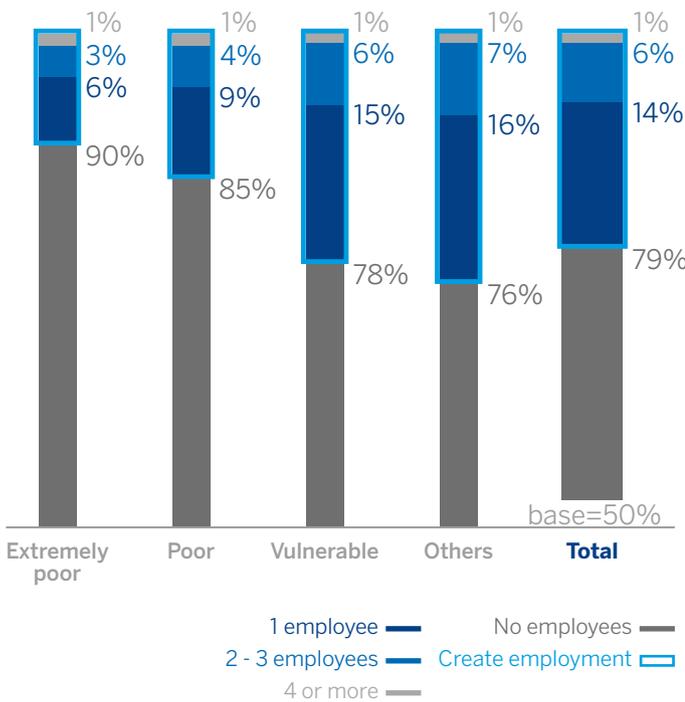
Microenterprises face major challenges in creating jobs. Even so, 21% have at least one employee and 7% have 2 or more.

⁵ <http://ogeiee.produce.gob.pe/index.php/shortcode/estadistica-oee/estadisticas-mipyme>

(21) Considers the number of employees in current clients' business at 12.31.2018.

(22) Proportion of clients current as of 12.31.2018 who get running water piped into their homes or who have upgraded their living conditions (going from rented to owned homes, improving construction materials or increasing the number of bedrooms).

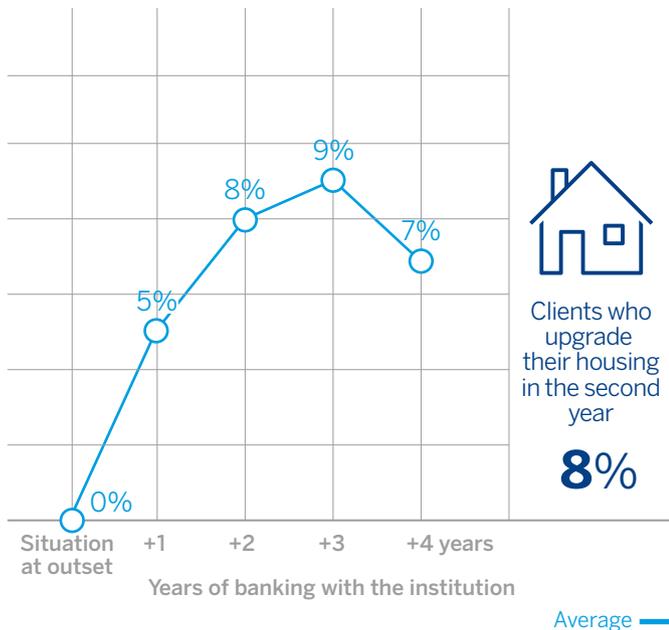
21 EMPLOYEE BREAKDOWN
Clients according to n° of employees in their business



The multidimensional poverty indicator that measures factors such as health, education and quality of life is around 10 times higher in rural areas.

32.7% of the rural population is in multidimensional poverty*.

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



*INEI, 2017

3. Relationships with clients

RELATIONSHIP WITH OUR CREDIT CLIENTS

Only 26% of adults belonging to the poorest 40% of households are banked, compared to 53% of adults in the richest 60%, revealing an inclusion gap (see Macroeconomic Environment).

Financiera Confianza has a network of 1,221 loan officers and 154 branch offices, 48 establishments for basic transactions and over 9,500 collection points, all working to bring financial products and services to entrepreneurs, many of whom live and work in remote areas that are difficult to reach.

Correspondent banking and customer service points are just some of the initiatives that enable loan officers and clients to consult information, as well as signing contracts in real time. It is critically important to bring the formal financial network to the thousands of people who are far away from urban hubs and lack this opportunity.

In 2018 the institution served 524,750 clients, of whom 41% had credit products. The average loan disbursed to new clients during the year expanded slightly to USD 1,406, the equivalent of 2 basic annual food baskets and practically the same as the average monthly sales figure of our clients' businesses. These sums will enable entrepreneurs to push ahead with their investments, making the most of the positive economic outlook.



Number of branches

154



Number of loan officers

1,221



Service points

48



People receiving financial education

38,271

Clients appreciate Financiera Confianza' products and services and, in a country with much competition, more than half (58%) take out a second credit and 57% stay on as credit clients after a year.

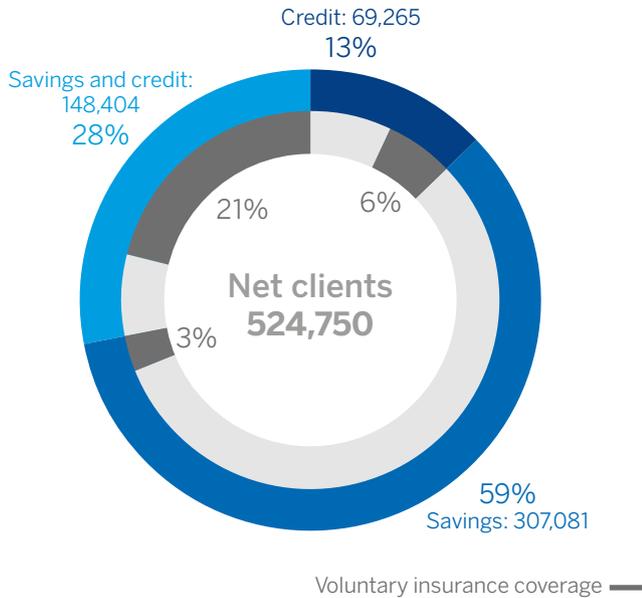
(23) Clients current at 12.31.2018.

(24) 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).

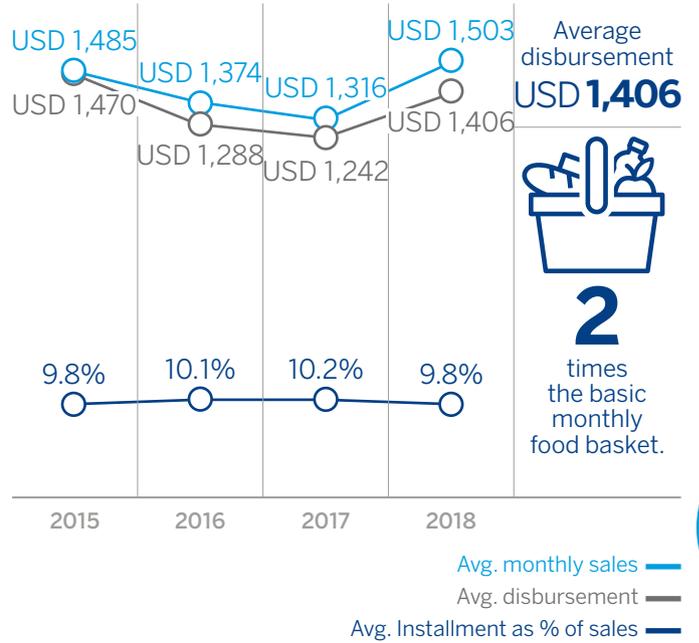
(25) Clients in each cohort (year of entry) between 2013 and 2018, at each data collection. The initial value is the average of the values at the outset (first disbursement by year of entry). The average growth after 1 year, 2 years, etc. noted from the disbursement to client groups in the 2013–2018 cohorts is added to this initial value.

(26) 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).

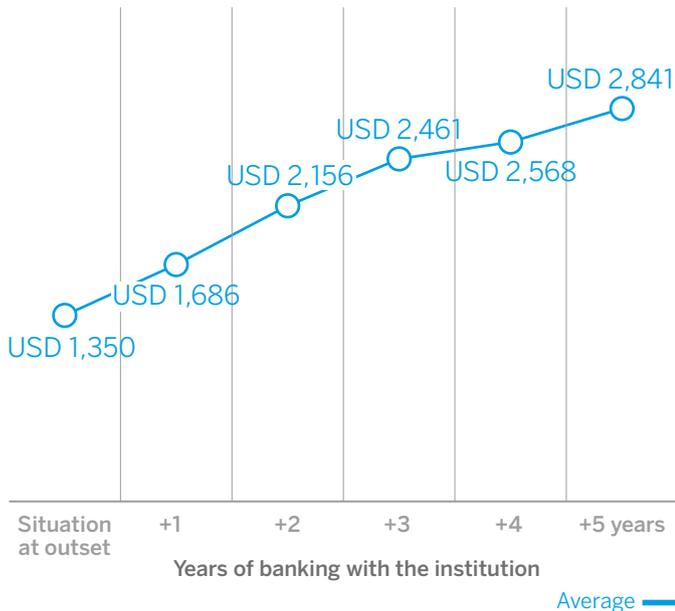
23 CLIENTS BY PRODUCT TYPE
Total current clients



24 SALES, DISBURSEMENT AND WEIGHT IN INSTALLMENT
New clients by cohort



25 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship



26 RETENTION & RECURRENCE
Of credit clients

Clients with performing credit after x years

	Situation at outset	+1	+2	+3	+4	+5 years
Retention	100%	57%	32%	22%	16%	12%

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

	1 st credit	2 nd credit	3 rd credit	4 th credit	5 th credit	6 th credit
Recurrence	100%	58%	37%	25%	17%	12%
Distance (days)	-	304	289	269	248	228

3. Relationships with clients

RELATIONSHIP WITH OUR SAVINGS CLIENTS

87% of Financiera Confianza clients have some kind of savings product with the institution. Demand is growing, with the number of clients reaching 455,000 during 2018, a 7.7% rise from the year before. Much of the increase was due to fixed term deposits, which grew by 26%.

Savings products, as well as electronic money, can represent a substantial change for microentrepreneurs, since they reduce accidental losses, help to improve financial decision making and encourage moving into the formal economy. For this reason, the Banking, Insurance and Pension Fund Management Authority (SBS) has adopted measures in this matter, supporting basic accounts, accounts that do not require a minimum monthly balance and that can be opened face-to-face or by using digital channels. In 2016 the government, in partnership with the private sector, launched the Peru Model initiative, an electronic money platform.

27

SAVINGS CLIENTS, CHANGE

Clients with any savings product on each data collection date



29

SAVINGS CLIENTS, TYPES

Core clients (saving & deposits) vs. non-core clients

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

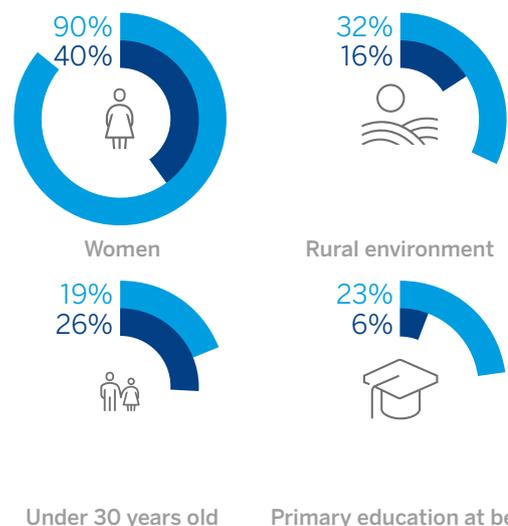
(28) Clients with any kind of savings current at 12.31.2018 (excluding institutional clients and employees).

- 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: all other clients.
- Non-core savings: all other clients.

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

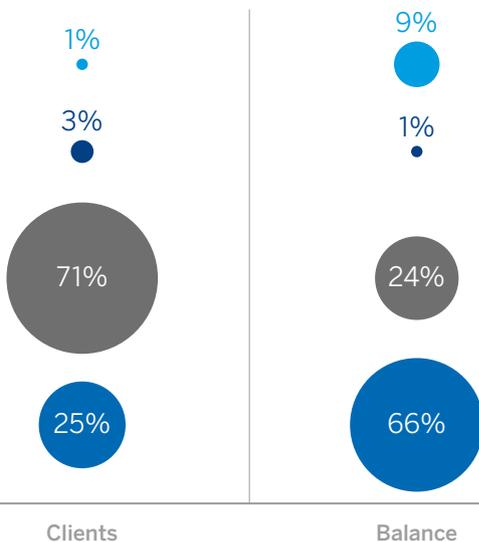
(30) Clients with programed savings product, comparing balances at t-12 and t. The average saving by client seniority is shown.

(31) 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.



Core —
Non-core —

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



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

CLIENT TYPE

PURPOSE

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

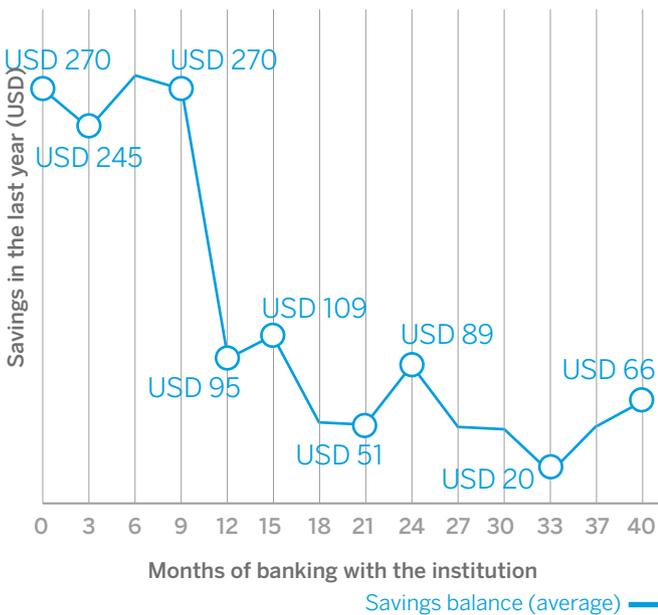
→ **What are the micro-entrepreneurs to whom we sell savings products like? How much do they save?**

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

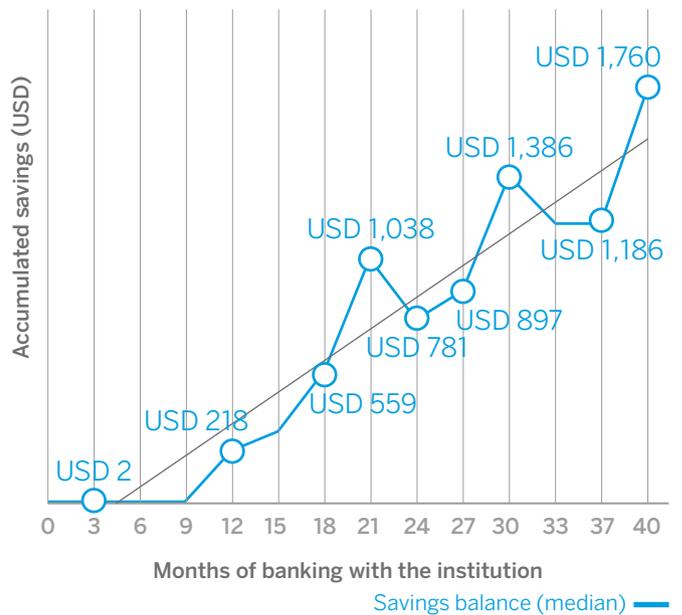
→ **Do they really use the transactional account?**

NON-CORE
 Remaining clients, source of funding

30 HOW MUCH THEY SAVE - SAVINGS
Core savings clients



31 HOW MUCH THEY SAVE - DEPOSITS
Core deposit clients



3. Relationships with clients

71% of the clients served by Financiera Confianza with savings products are clients with savings accounts. 24% of the institution's entire liabilities are grouped in these transactional accounts.

In addition, the institution provides specific savings products for low-income entrepreneurs (core clients), in both savings and deposit accounts. In savings accounts, the institution offers *Ahorro Palabra de Mujer* [Woman's Word Savings], a savings product linked to the loan of the same name.

The data show that on average core clients with savings products manage to save USD 200 or more in the first 12 months. After the first year, few clients continue saving with products of this type.

When they open a fixed term deposit account, they also succeed in making savings: after 2 years, 50% of clients have over USD 800 in their accounts.

Indeed, low-income clients are interested in saving (64% of the less poor population saves on a voluntary basis, whereas the proportion rises to 70% in the case of the poorer population (National Financial Services Survey, Peru 2016). The great challenge facing Financiera Confianza when it comes to saving is that a high number of clients uses the product on a recurrent basis, rather than saving capital in a more long-term product.

In the case of clients with transactional savings accounts, the challenge is to encourage them to use these accounts proactively.

As the service becomes more tailored to microentrepreneurs, and they are supported with financial literacy and training programs, the use being made of these types of products and the number of transactions will increase.

According to a national survey⁶, 70% of the poorest members of the population saves on a voluntary basis. Financiera Confianza is firmly supporting the development of these products, that increase resilience to shocks.

⁶ National Survey on the Demand for Financial Services, Peru, 2016.

Every drop of confidence counts



Mauricio Fernández
Manager at Lima's Chorrillos agency

In just nine months he has raised the percentage of clients who have improved their domestic running water or sewage arrangements from less than 5% to nearly 30% of his entire client portfolio.

Mauricio, who has been working for nearly nine years in Financiera Confianza, found out that a family member of one of his loan officers had contracted a skin infection from not having running water and sewage in their home. This prompted him to transmit to his team the importance of making it possible for enterprise owners to improve their sanitation arrangements.

"By improving piping, buying septic tanks and installing running water, we are changing their lives. The happiness on our clients' faces –and those of their children– is what inspires us to carry on this work".

Without the certainty of a reliable water supply, or adequate organic waste removal, vulnerable people in Peru face basic infrastructure shortcomings in their own homes. Improvements in these critical areas bring down the number of cases of infectious disease, which particularly affects the health of children and older people.

To support the improvement of installations to provide drinking water, properly working sanitation and sewage for its clients, at the end of 2017, Financiera Confianza joined forces with [Water.org](#), an NGO with 10 years of experience that operates in more than 10 countries and has over 80 financial partners.

Since many entrepreneurs run their enterprises from their homes, solving water and sanitation shortcomings represents a key improvement, not only for the home but also so that their businesses can develop properly, from both the social and economic perspectives.

The program began in the south of the country and involved 53 of the institution's agencies. As a result of the impact it made and the positive take-up, the second phase was rolled out in the north, with another 16 Financiera Confianza agencies getting on board.

Since November 2017 over

7,903 clients*

have been served, with a impact on nearly

22,000 people*

This partnership has enabled Water.org to upskill our loan officers and clients, so that they can put efficient, long-term solutions to work. In turn, Financiera Confianza has made it possible for enterprise owners, supported by our credit advisors, to make sustainable investments in bathtubs, lavatories and showers.

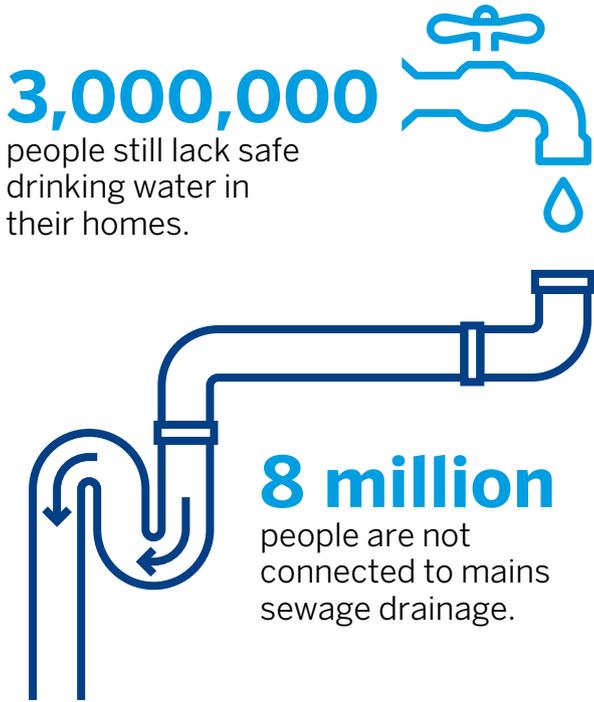
"The bathroom wasn't suitable for my children, sometimes they got sick, so I built a little bathroom. My children are so happy with it; I tell them that everything is possible, it's a question of putting your mind to it".

Rosa Ancco, Financiera Confianza client.

* All data on clients current as of 09.30.2018

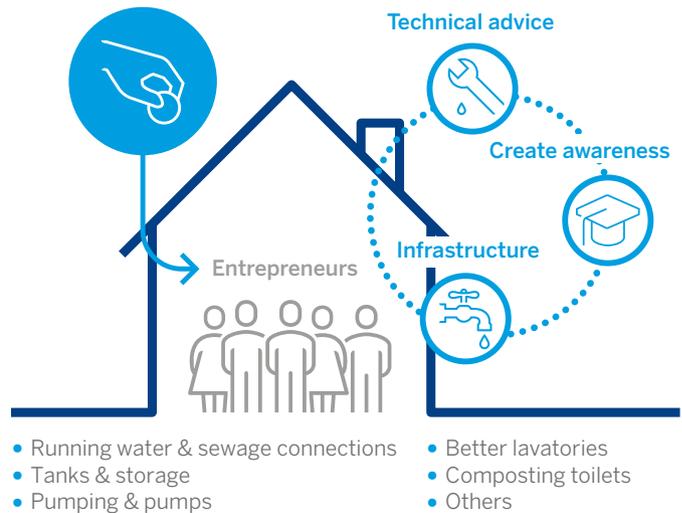


DIMENSIONS OF NEED
(INEI)



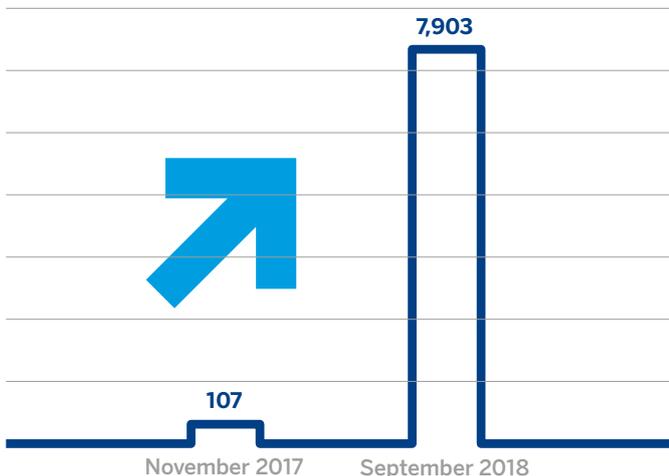
HOUSING UPGRADES
Water-related

Part of the loan is spent on improving physical infrastructure.



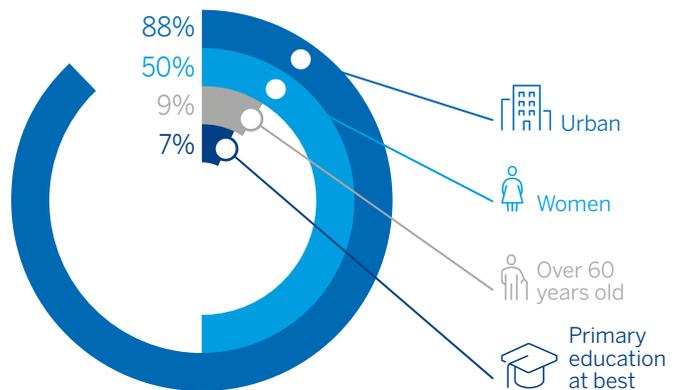
TOTAL CLIENTS SERVED*

For an average loan of **USD 1,928** (-10% of the general average loan at the institution) we can provide families in Peru with running water and sanitation.



NEW CLIENTS 2018*
New client profile

20% banked clients and **26%** exclusive clients



With increasingly dense urban populations and insufficient infrastructure, this loan provides a solution for vulnerable clients (72%):

- They are in urban areas, where their housing is predominantly made of brick and breezeblock
- Large numbers of clients over 40 years old want to improve their family's housing conditions
- Economic activity is mainly retail sales of food, beverages and tobacco (8%) and transport (14%).

Macroeconomic environment

ECONOMY¹

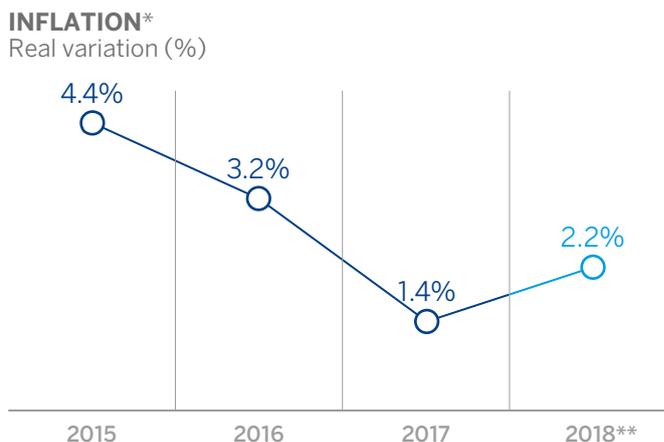
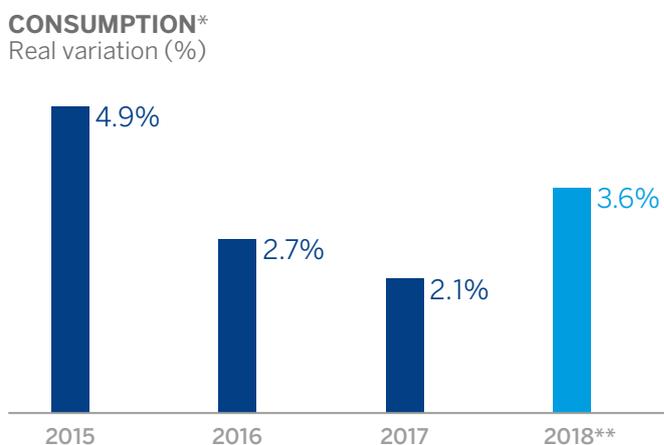
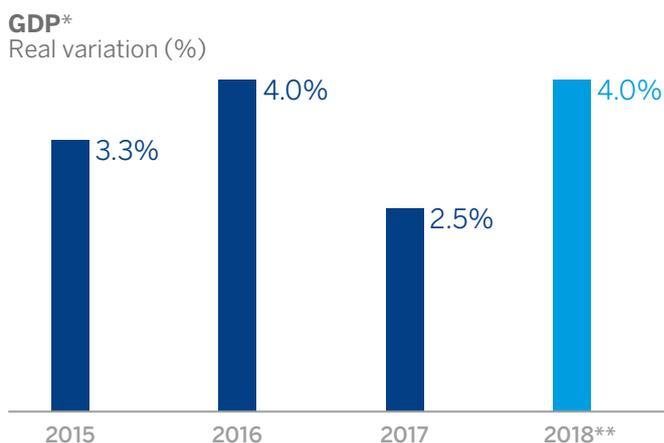
The Peruvian economy grew by 4% in 2018, recovering the rhythm it enjoyed prior to 2017. In that year, due to climate and political factors, expansion moderated to 2.5%. The recovery is linked to greater momentum in non-primary sectors, which grew by 4.2%, particularly construction, services and non-primary manufacturing, which expanded by 5.4%, 4.42% and 3.7% respectively.

Primary activities picked up by 3.3%, led by fisheries, which surged by 39.8%. This was down to the return to normal conditions in the sector, with bigger landings of Pacific anchoveta for industrial use, following on from the suspension of the second fishing season at the end of 2017. This in turn had an impact on the recovery of primary manufacturing, which jumped by 13.1% in 2018, driven by the improvement in fishmeal and oil production.

On the demand side, consumption recovered strongly, growing by 3.6%, compared to 2.1% in 2017. Private consumption was the real driver of annual growth, accounting for 63% of growth over the year, a result of solid employment and the availability of financing.

After three years of dips in private investment (2014–2016), and a modest recovery in 2017, private investment began to expand again in 2018, rallying by 4.4%. The same was true in public-sector investment; after contracting by 2.3% in 2017 because of delays in execution associated with the political crisis, this item surged by 8.4% in 2018. The steady improvement in domestic demand will continue to have an impact on greater growth in non-primary activity.

The adjustment to commodity prices in the second half of the year, which triggered a fall in the terms of trade, was a contributing factor to the reduction in traditional exports, offset by stronger growth in non-traditional exports. This allowed the balance of trade to stay fluid and enabled the current account deficit to remain at sustainable levels, financed by long-term capital, mitigating exchange rate volatility.



¹ All data from Peru's central reserve bank. Estimates to end of 2018 by BBVAMF Research.

* Peruvian central bank.
** BBVAMF Research estimate.

The annual inflation rate, meanwhile, posted at 2.2%. This is accounted for by a reversal of the negative shock that affected agricultural supply during 2017 because of the Coastal Niño phenomenon. This meant that since June it has been running very close to the central bank's target range (1%–3%), offsetting the growth in fuel and lubricant prices and the rise in May of the Selective Consumer Tax, which taxes the most polluting fuels.

Inflation's convergence with the target range allowed the central bank to keep its benchmark interest rate unchanged since March at 2.75%, in a negative product gap environment, transferring this performance and these expectations on to the remaining interest rate curves.

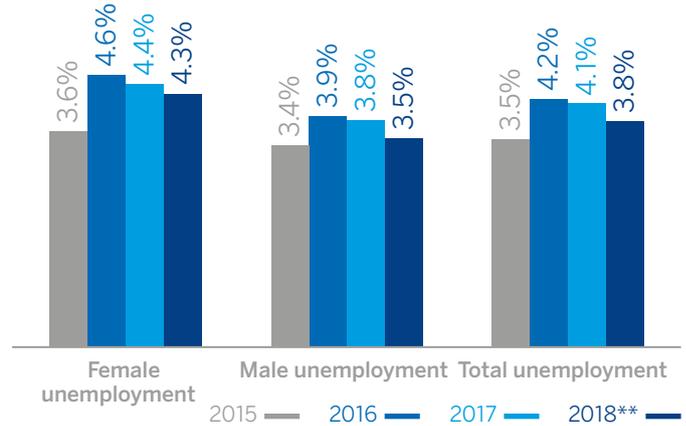
EMPLOYMENT, WELFARE AND POVERTY²

The recovery in economic activity manifested itself in an improvement in private-sector employment in the formal economy; from April onwards it enjoyed growth rates of 4% similar to those in total employment figures. This allowed the national activity rate, that is, the ratio between the economically active population (the population either in work or looking for work) and the working-age population (14 years and above) to rise by 0.2p.p., from 72.4% in 2017 to 72.6% in 2018.

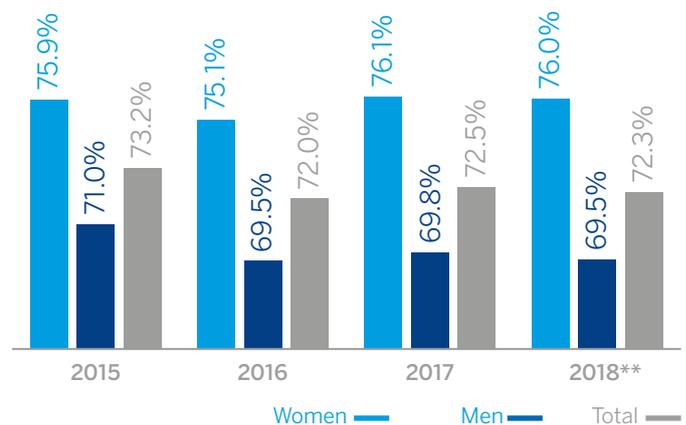
The activity rate in urban areas was 71%, whereas in rural areas it was 79.2%. This difference in favor of rural areas is conditioned by the lower activity rate in the coastal region [Costera], whereas the Sierra region has retained its higher activity rate.

There were clear differences, however, between these regions in terms of the quality of employment. While the coastal region had an informal employment rate of 62.8%, in the Sierra it was as high as 84.3%, similar to the Jungle region [Selva], where it was 84.5%. Nationally, the rate of informal employment improved slightly in 2018, edging down from 72.5% in 2017 to 72.3% in 2018.

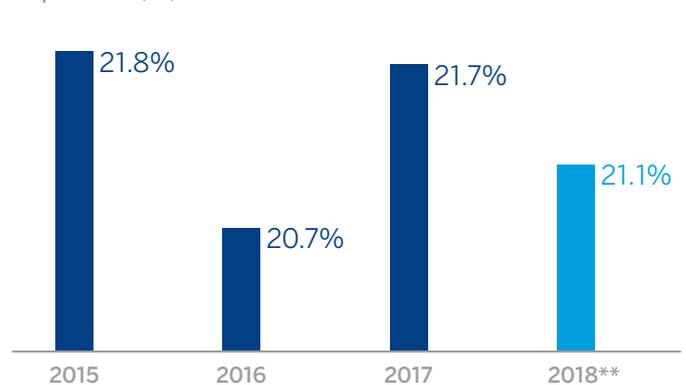
LABOR MARKET*
(%)



INFORMAL SECTOR*
(%)



MONETARY POVERTY*
Population (%)



² Data from INEI.
BBVAMF Research estimate.

* INEI.
** BBVAMF Research estimate.

Macroeconomic environment

There is a significant gender gap in the Peruvian labor market. Whereas the activity rate for men is 81%, for women it is 64%. So, on average, women are less likely to take part in the labor market, with a participation deficit compared to men of 17p.p. They work mainly in the informal economy, with the female informal job rate reported as 76%. Men are ahead in terms of formal employment by 6.5p.p., with an informal job rate of 69.5%.

The economy's stronger performance was reflected in a 0.3p.p. fall in the unemployment rate, down to 3.8% in 2018.

4.3% of women are unemployed, whereas for men the figure is 3.5%, widening the gender gap, which rose from 0.6 to 0.8p.p. in 2018. In the case of young people, the unemployment rate was 3.5 times higher than that of adults between 25 and 44, and 5.7 times higher than people aged 45 or more.

In 2017 the number of Peruvians in poverty went up by 375,000 people, to 6.9 million. In other words: 21.7% of the population was in poverty, as classified by income. The deterioration in the poverty indicators was linked to lower growth in activity, particularly in the sectors that generate most employment, as well as the uptick in the informal sector.

In 2018, better economic performance, mainly in the non-primary sector, the improvement in employment and less informality led to a 0.6p.p. fall in the poverty rate, which was recorded as 21.1%. This means that 120,000 people escaped poverty, while 6.78 million people remain poor.

These results were accompanied by very little variation in national inequality levels. However, the results over the last 10 years show a reduction in inequality across the nation and in all regions, with the Gini ratio (in which a value of 0 means total equality and a value of 1 is maximum inequality) falling from 0.50 in 2007 to 0.43 in 2017. The greatest drop in inequality was on the urban coast, followed by the metropolitan area of Lima, the urban Selva region and the urban Sierra region.

FINANCIAL INCLUSION

According to World Bank figures³, 42.6% of adults in Peru are banked, and this percentage has doubled since 2011. As is the case with most countries in the region, there is a noticeable gender gap in financial inclusion, with men ahead of women by 16.6p.p., the latter having an inclusion rate of 34.4%.

Only 27% of adults in the category of the 40% poorest households are banked, compared to 53% of adults in the 60% richest households. This inclusion gap by income differentiation, 26p.p., is a stronger differentiating factor than gender.

As adult educational attainment levels fall, the likelihood that they are not banked rises. In Peru, just 31% of adults with primary education or less are financially included, whereas in the case of those who have completed secondary education or higher, the figure is 45%.

On aggregate, the ratio of adults with an account but are not in the labor force is 25%. Among the unbanked, women are less likely than men to be in the labor force.

Looking at the reasons for not having a bank account, 47% of adults said that the main reason was insufficient funds. 31% gave the main reason as the distance from financial institutions, 29% pointed to difficulties as a result of not having the necessary documents, and 59% claimed that the main motive for exclusion was that financial services are "very expensive".

40% of adults had saved some money over the previous year. Only 9% of those with the least resources had done so, and just 8% of all adults had put these savings into a financial institution. This ratio fell to 2% for those adults in the category of the 40% poorest households.

14% of adults overall saved some money in order to start or expand a productive activity, whereas only 4% of adults with primary education or less did so. Among those completing secondary studies or higher, the percentage was 16%.

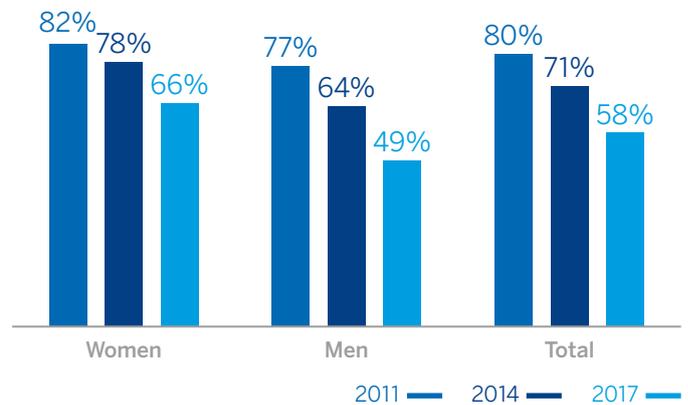
³ Global Findex 2017, World Bank.

Meanwhile, 36% had taken a loan of some kind, although only 19% had obtained it from a financial institution. 16% had received it from family members or friends. Among those with the lowest incomes, although 30% had received some sort of loan, only 7% had obtained it from financial institutions and 13% from family members and friends.

According to local sources⁴, in the last five years 1.2 million borrowers have joined the financial system, bringing to 6.8 million the number of individuals with a loan as of June 2018. As a result, the percentage of the adult population with a loan rose from 29% in June 2013 to 33% in June 2018. Over the same period, 524,000 micro and small entrepreneurs (MSMEs) joined the financial system, reaching around 2.4 million MSME borrowers by June 2018. Over this five-year period the number of service points (branch offices, ATMs, banking agents and establishments for basic transactions) has increased, rising from 240 to 867 service points for every 100,000 adults.

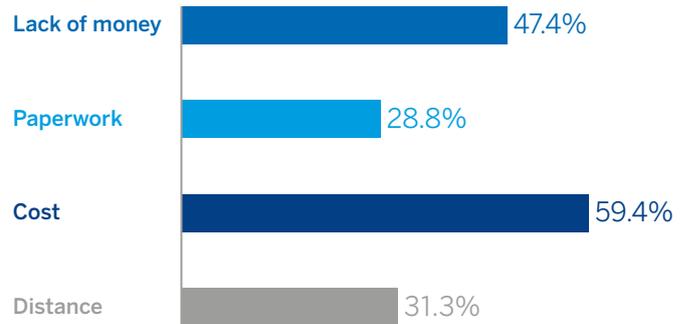
UNBANKED ADULTS*

Total over 15 years old (%)



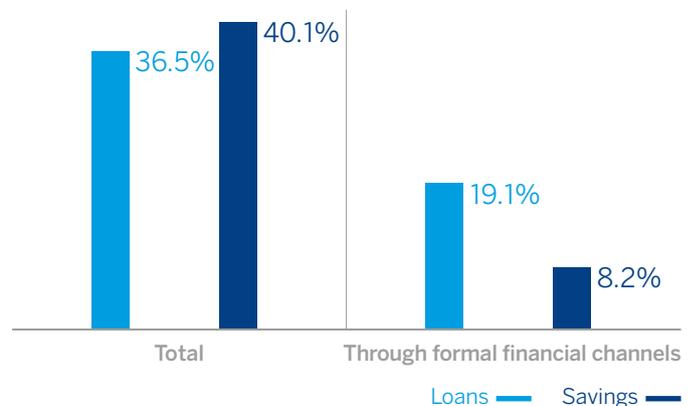
EXCLUSION FACTORS*

Excluded adults (%)



PRODUCTS IN DEMAND

Adults (%)



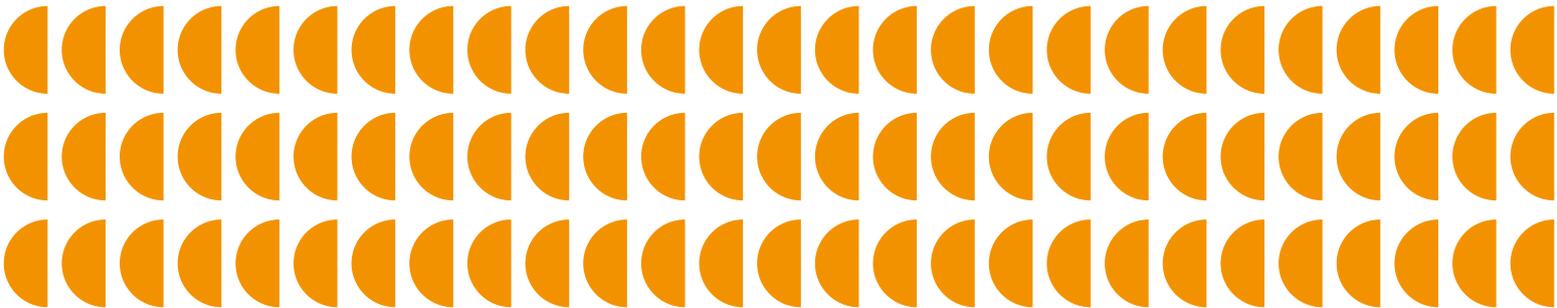
⁴ Banking, Insurance & Pension Fund Management Authority (SBS) of the Republic of Peru.

* Global Findex 2017, World Bank.

Dominican Republic

Banco Adopem

 SOCIAL PERFORMANCE
REPORT **2018**



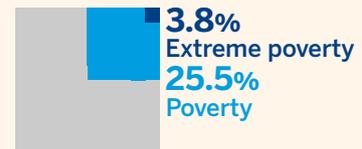
Coming closer to go further

National data



% Poor

According to the national poverty line¹.



% Vulnerability

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



70% <USD 10

44%

Unbanked adults².

1. CLIENTS

Committed to vulnerable people

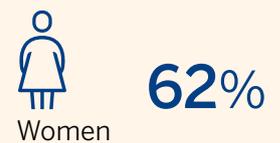
Total credit clients³

215,914



New credit clients 2018

47,761



Source: Banco Adopem data; calculations by BBVA Microfinance Foundation (BBVAMF).

(1) National poverty rate according to MEPyD (Ministry of Economy, Planning & Development) data.

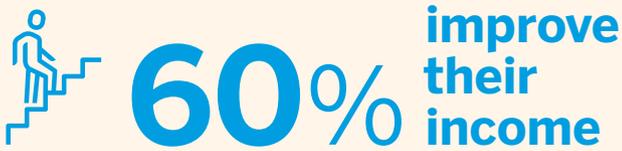
(2) Global Findex 2017. (3) Data as of 12.31.2018.



2. PROGRESS

Working with them as they develop

...and their projects grow



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



Annual growth rate.



In their second year banking with the institution.



Annual growth rate.

3. RELATIONSHIP

Providing timely and relevant products and services

Present in all provinces

Average disbursement

Branch offices

Loan officers

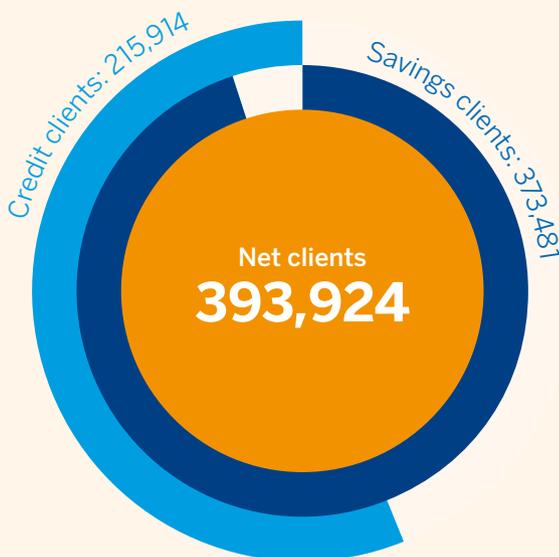
Banking agents



Total clients served in 2018:



New clients (first loan) served in 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%.

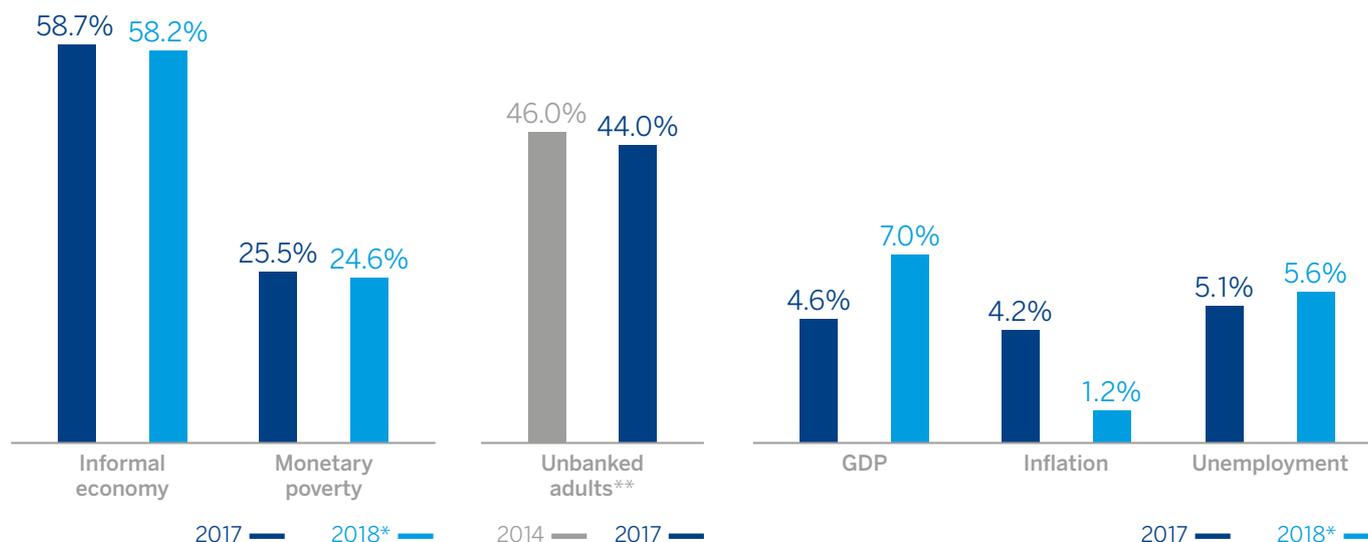
Employment was helped by the momentum in economic activity, mainly in the services and construction sectors, which are major job creators, bringing unemployment to 5.6%. The reduction in the Dominican population's monetary poverty rate continues to fall, posting at 24.6% in 2018.

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 reaffirmation 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 VOLUMES¹

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.

¹USD/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.

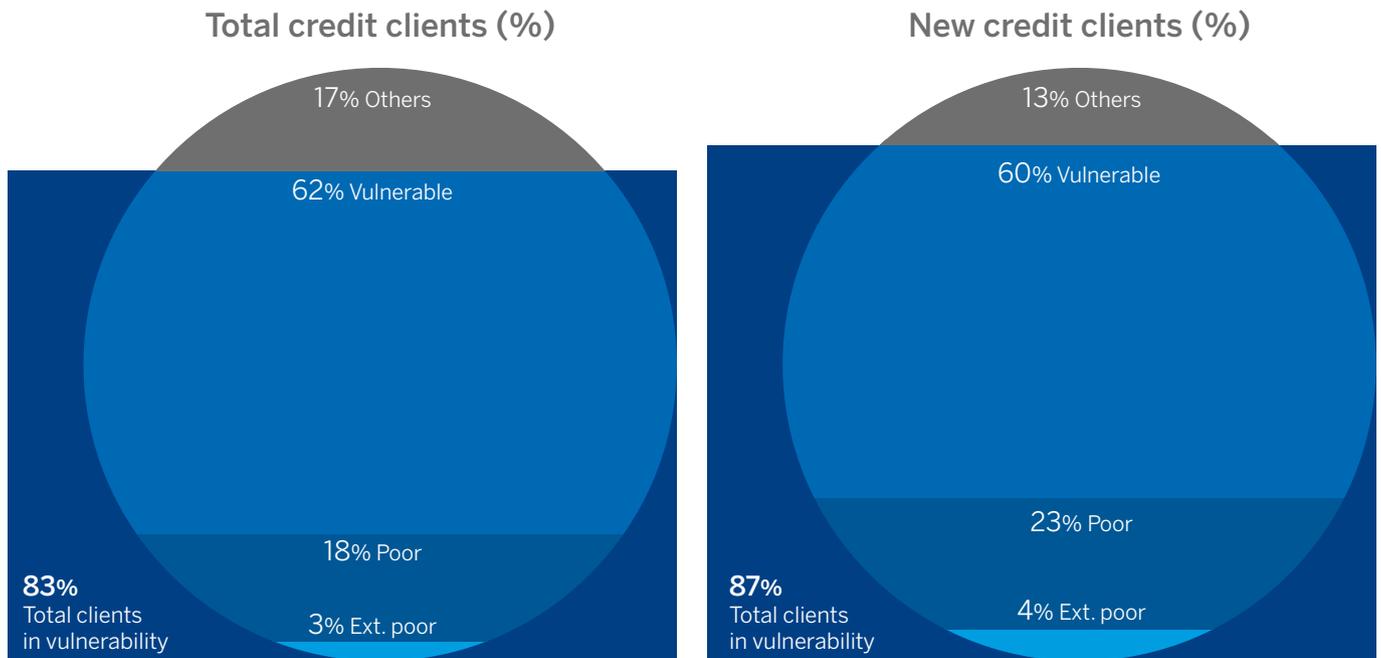
Microentrepreneurs take on debt in order to allow their businesses to grow and to provide a better future for their families. These credit clients have average surpluses (net income) for each member of the household (per capita) of USD 201, representing about 4.4 times the basic monthly basket of foodstuffs.

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 areas².

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.

²MEPyD 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 poverty³.

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.

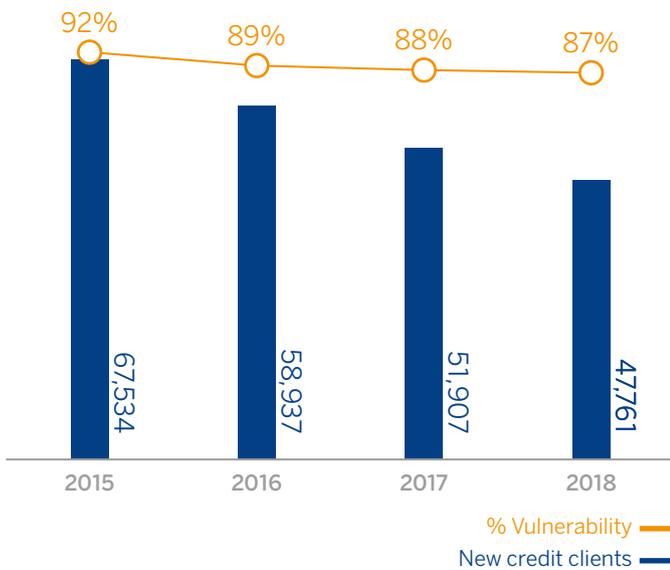
- Banked clients: those who have not previously had loans with regulated institutions.
- Exclusive clients: those whose only loans are with the institution.

(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.

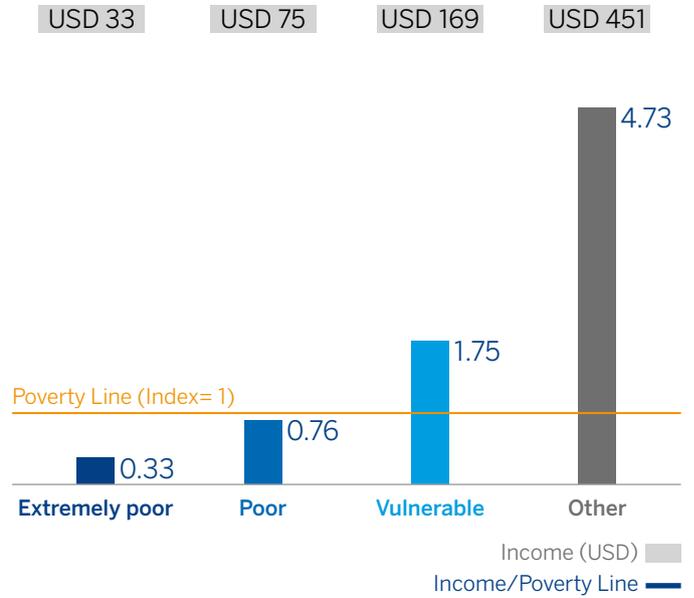
(4) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.

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

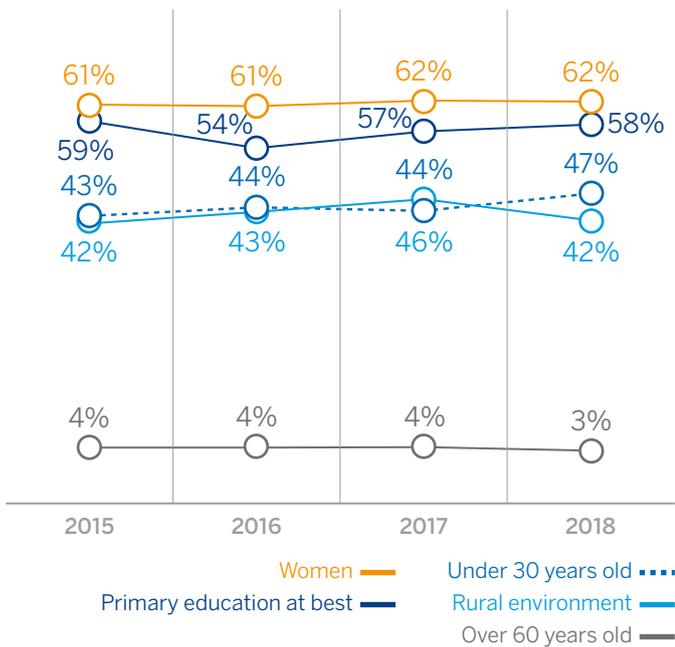
1 NEW ENTREPRENEURS SERVED
New credit clients by cohort
N° banked clients 2018: 72%
N° exclusive clients 2018: 68%



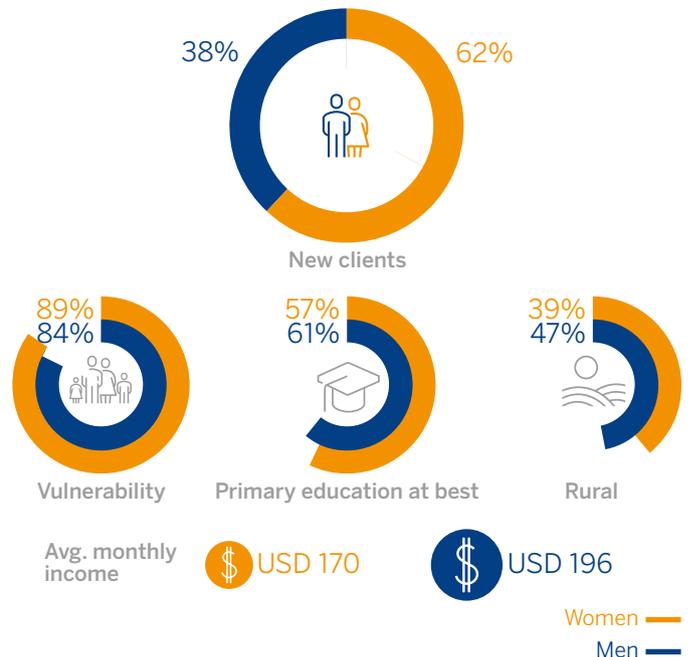
2 ENTREPRENEURS' INCOME
Income against Poverty Line



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.

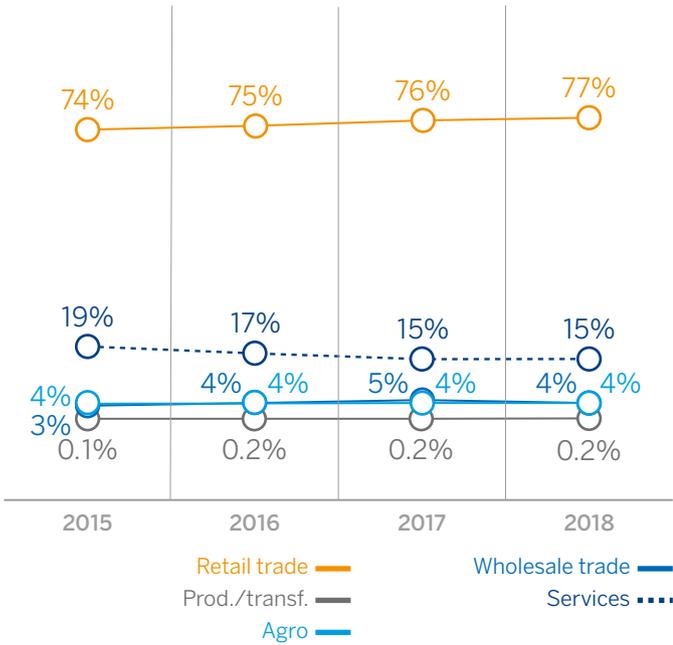
Clients' and their loan officers' knowledge and experience in certain business areas also means that the risk they take on is lower in sectors with which they are familiar.

(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).

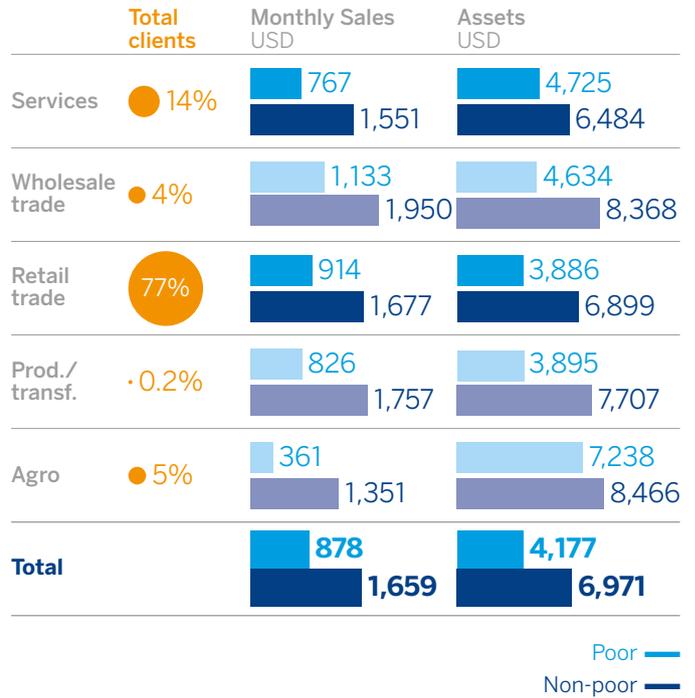
(7) Ratios of average costs over sales in each sector. Earnings are taken after payment of the financial installment.

(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.

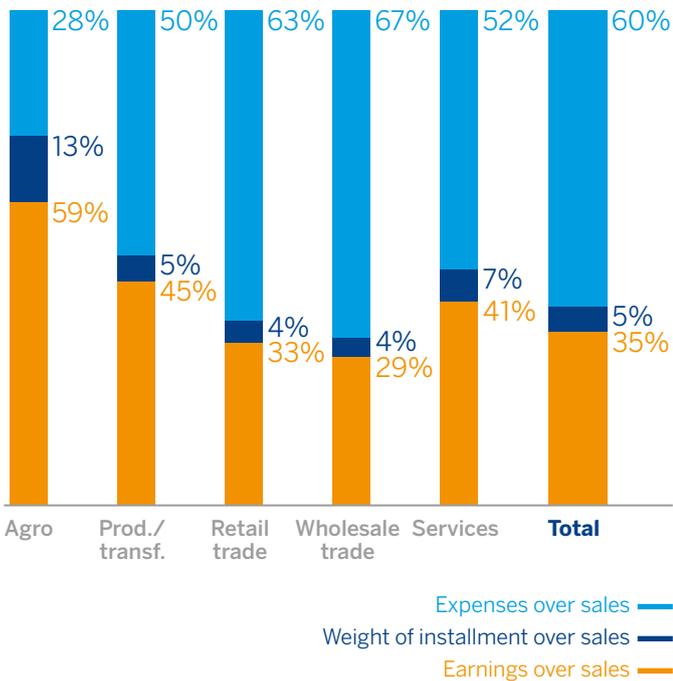
5 ACTIVITY SECTOR
New clients by cohort (%)



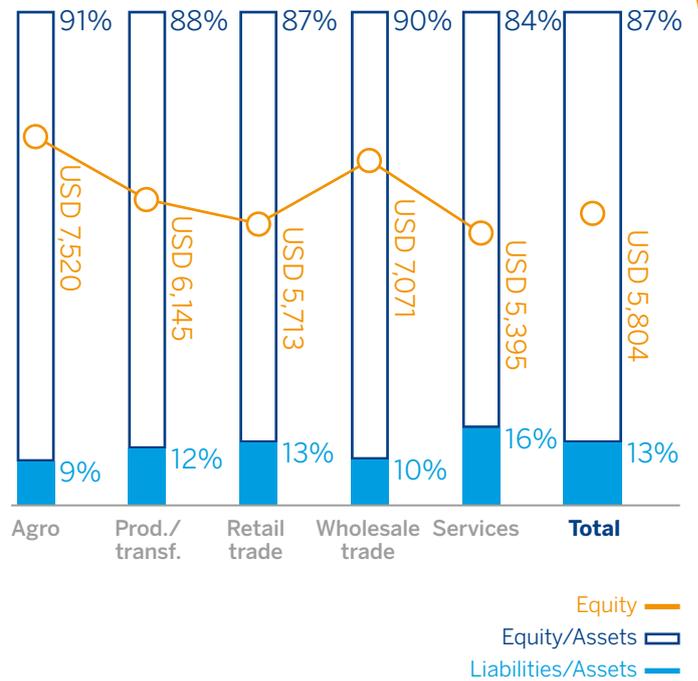
6 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients, poor and non-poor



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.

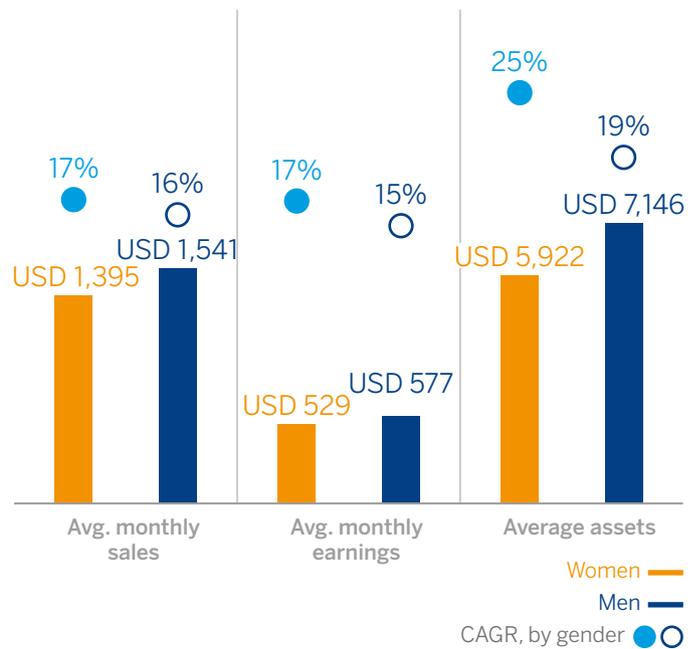
⁴ <https://www.bancentral.gov.do/a/d/4188-economia-dominicana-crece-70-en-el-ano-2018>

(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.

9 GROWTH IN FINANCIAL VOLUMES, BY GENDER

Compound annual growth rates



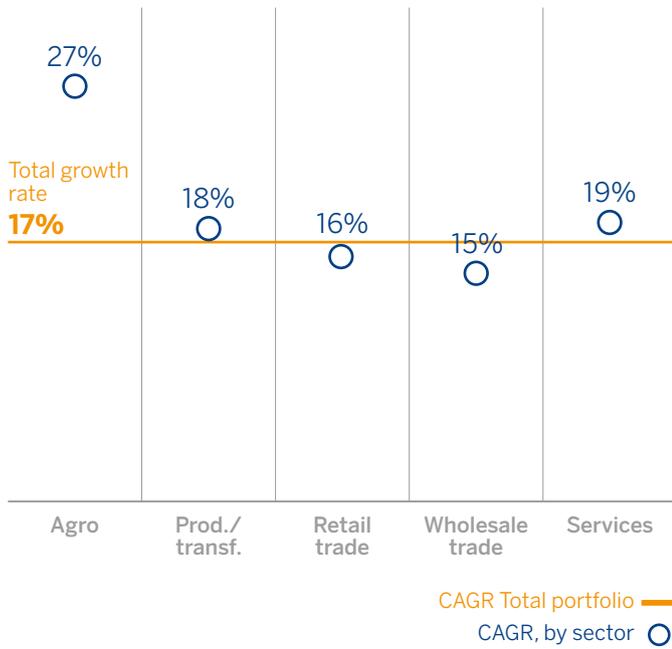
11 GROWTH IN EARNINGS

Compound annual growth rates



CAGR Total portfolio —
CAGR, by sector ○

10 SALES GROWTH
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.

12 GROWTH IN ASSETS
Compound annual growth rates



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.

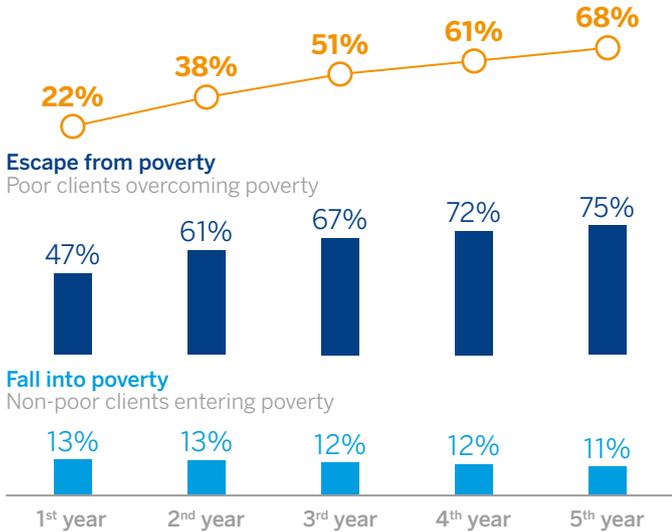
(14) For the sample of clients served during 2018—classified according to their situation when they took out their first loan—per capita earnings (income) at each credit cycle is shown, relative to the country's poverty line (current in the year of the disbursement). Relative income has a value of 1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

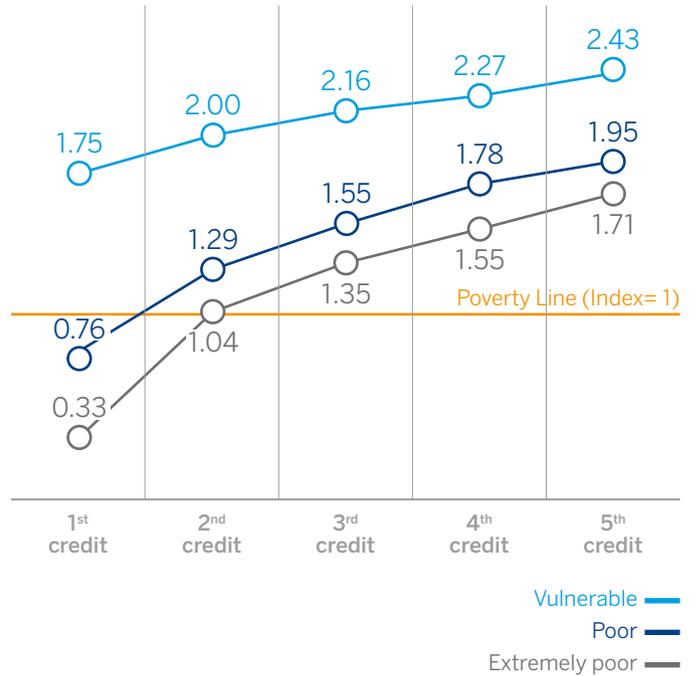
- Escape from poverty for each segment: Clients, by segment, in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.
- (16)** Renewing clients.
- Fall into poverty, by segment: Proportion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

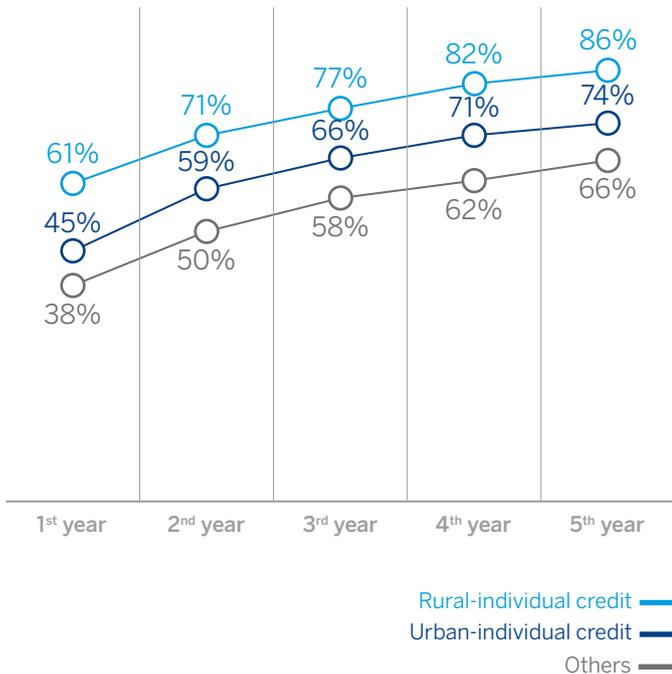
Net poverty reduction



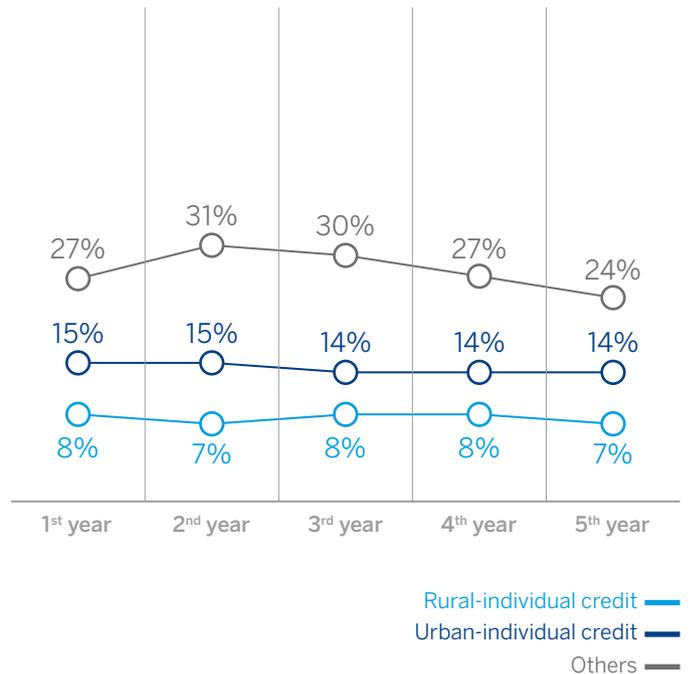
14 GROWTH IN INCOME
Income by segment over Poverty Line



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.

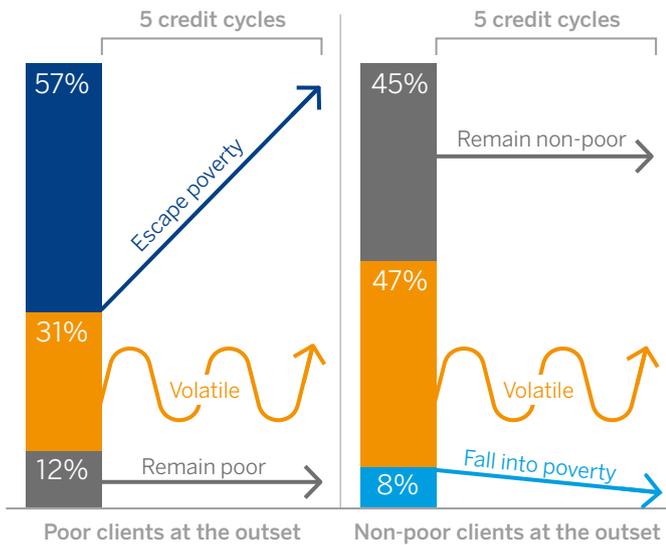
- Escape poverty: Poor clients at the outset whose income surpasses the PL (and is not reported as falling back).
- Fall into poverty: Non-poor clients at the outset whose income falls below the PL (and is not reported as recovering).
- Remain poor (or non-poor): Clients who remain poor (or non-poor)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

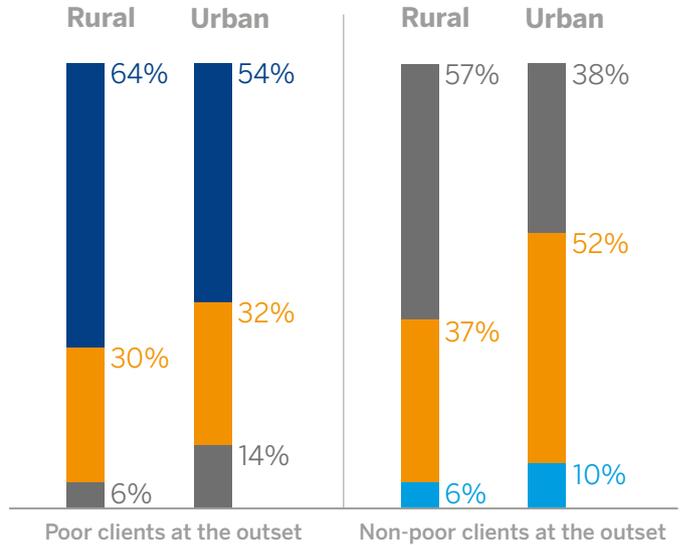
Asset changes are analyzed according to whether the asset levels change, differentiating between the following categories:

- 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 n° times they fall below/overcome PL

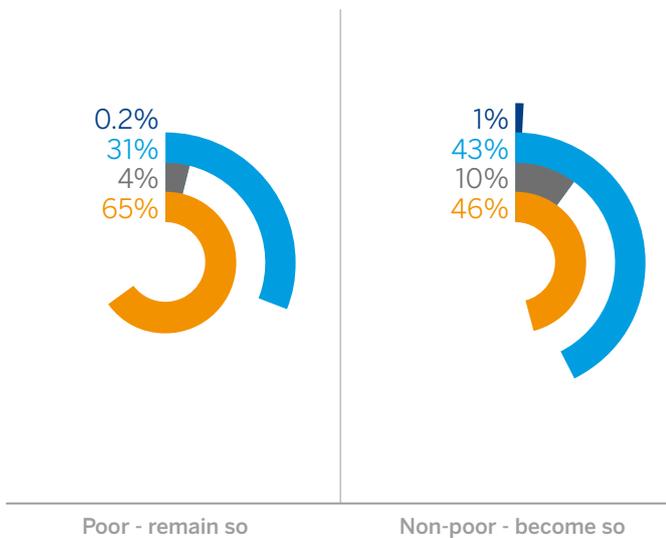


18 INCOME VOLATILITY - RURAL/URBAN
 Clients with 5 credits, classified by n° times they fall below/overcome PL

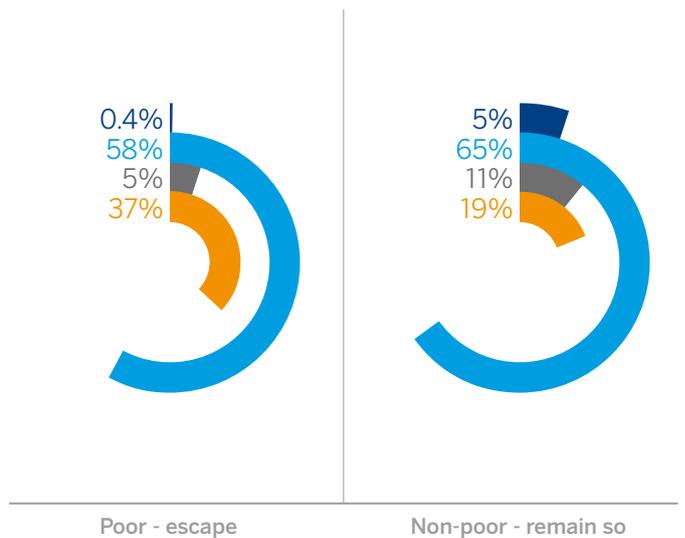


Fall into poverty — Volatile —
 Escape poverty — Remain poor / non-poor —

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



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



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

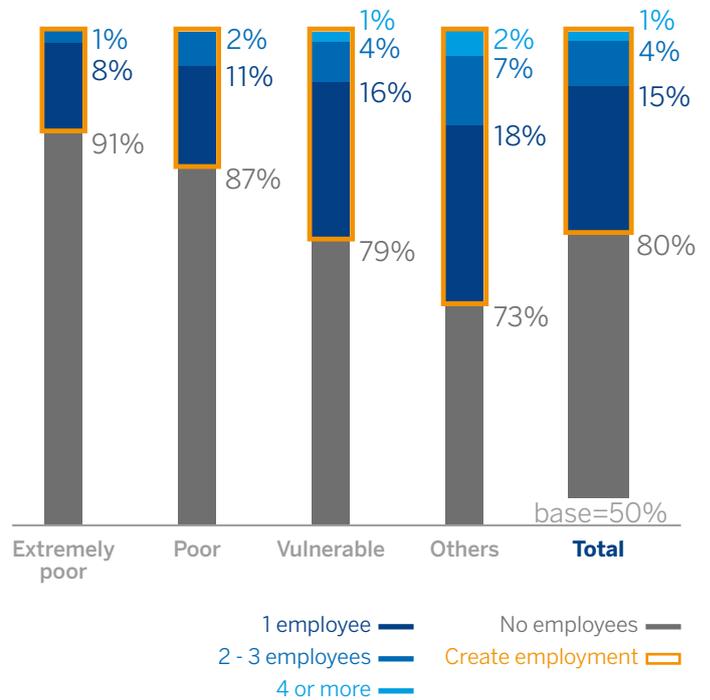
2. Our clients' development

INDIRECT IMPACT

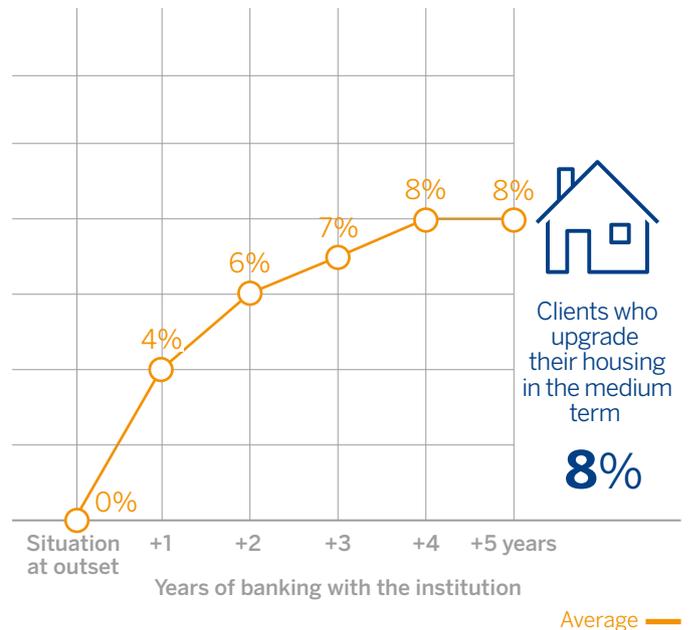
Looking beyond access to financial services and on to the progress of their micro-enterprises, we see that the longer clients stay with Banco Adopem, the greater their interest in expanding and improving their standard of living and that of their families in general. Poverty does not only manifest itself 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 n° of employees in their business



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

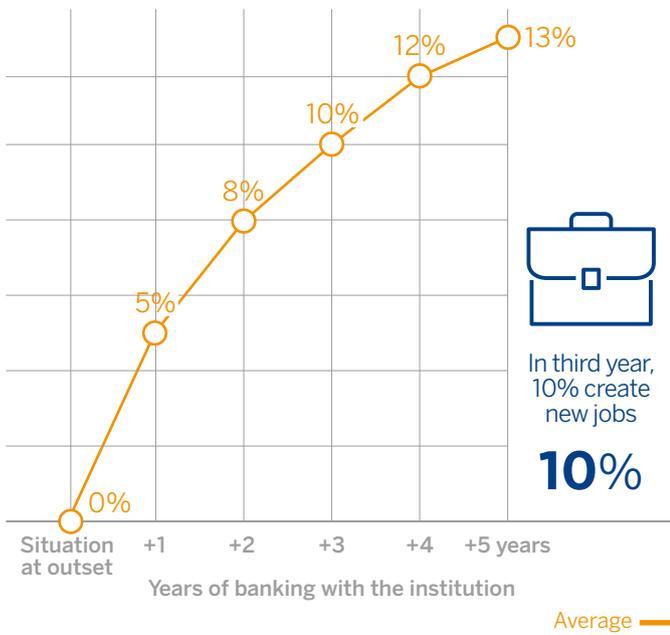


(21) Considers the number of employees in current clients' business at 12.31.2018.

(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.

(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).



Number of branches

74



Number of loan officers

715



Banking agents

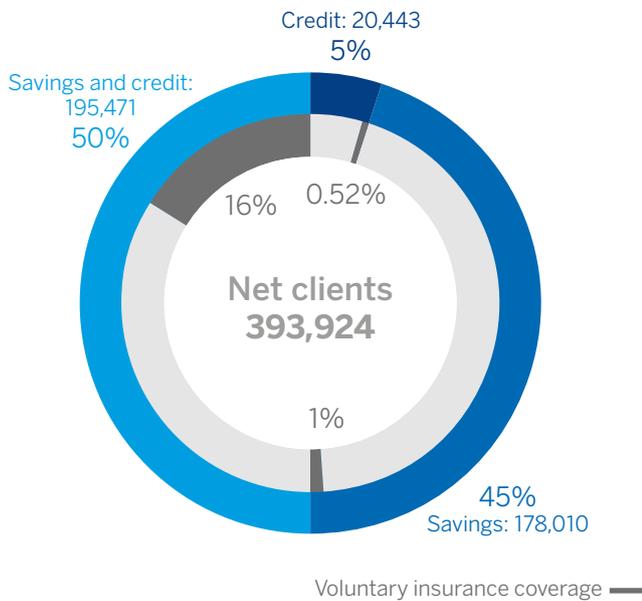
200



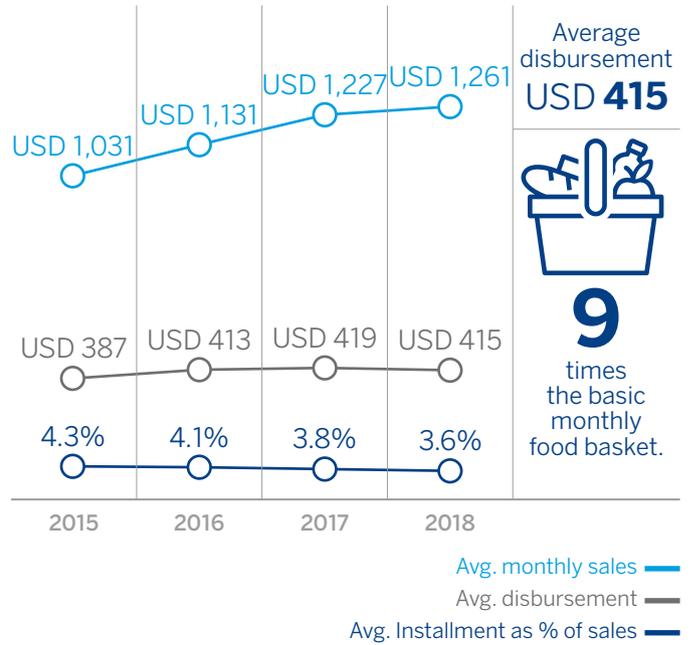
People receiving financial education

24,904

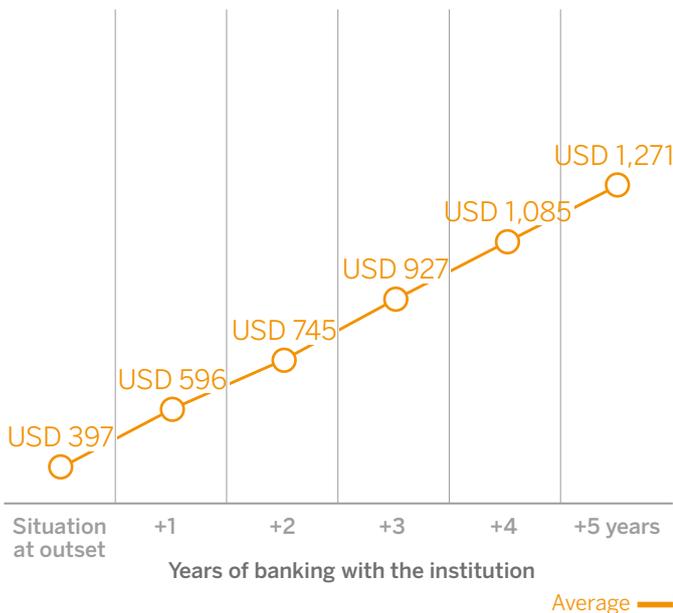
24 CLIENTS BY PRODUCT TYPE
Total current clients



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

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

3. Relationships with clients

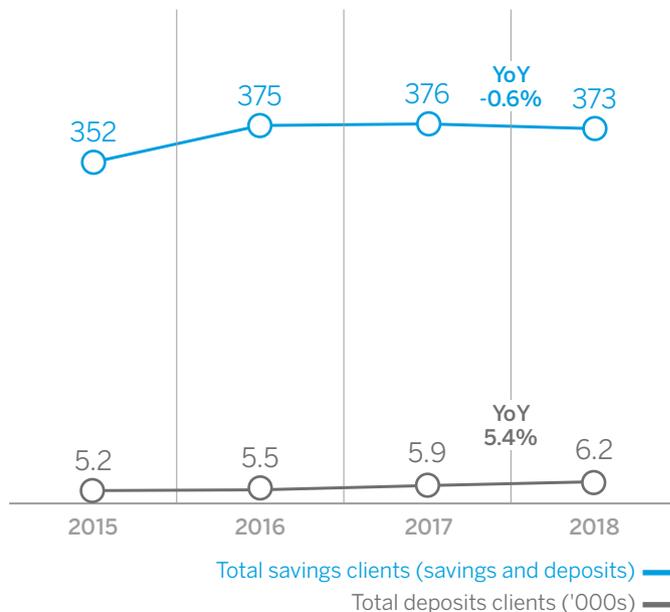
RELATIONSHIP WITH OUR SAVINGS CLIENTS

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

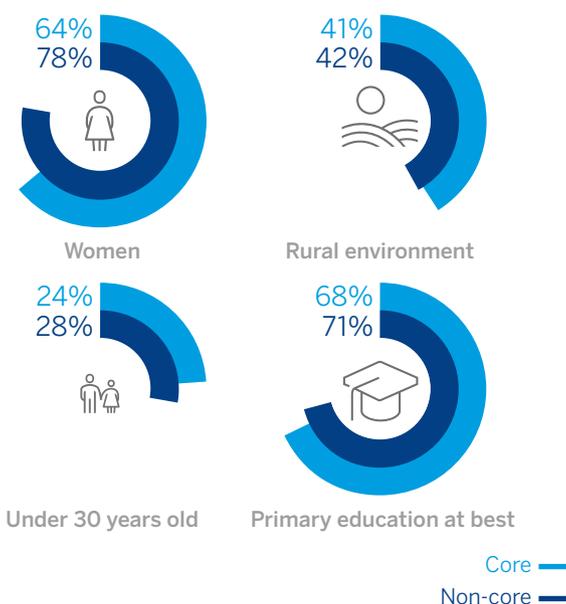
Clients with any savings product on each data collection date



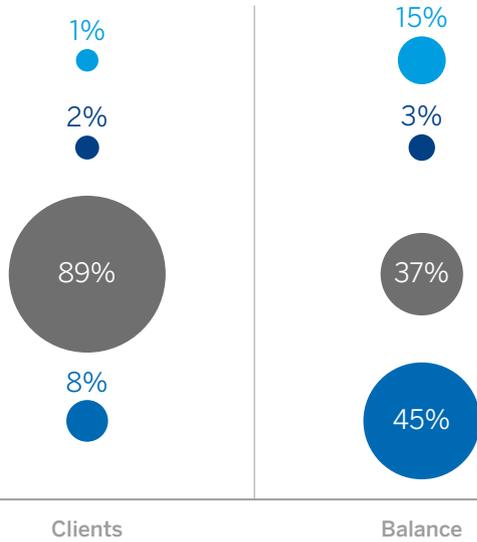
30 SAVINGS CLIENTS, TYPES

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

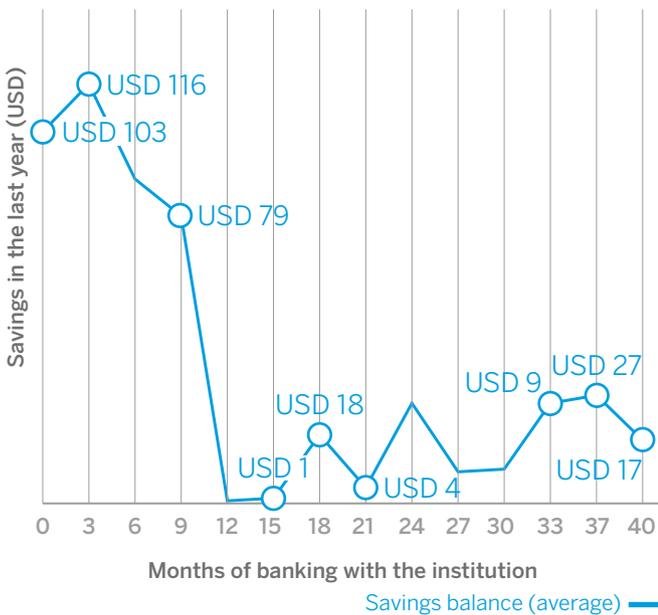
Clients with a savings account where the loan, interest payment, etc. is paid in. They may have other products (credit or savings) or not

➔ **Do they really use the transactional account?**

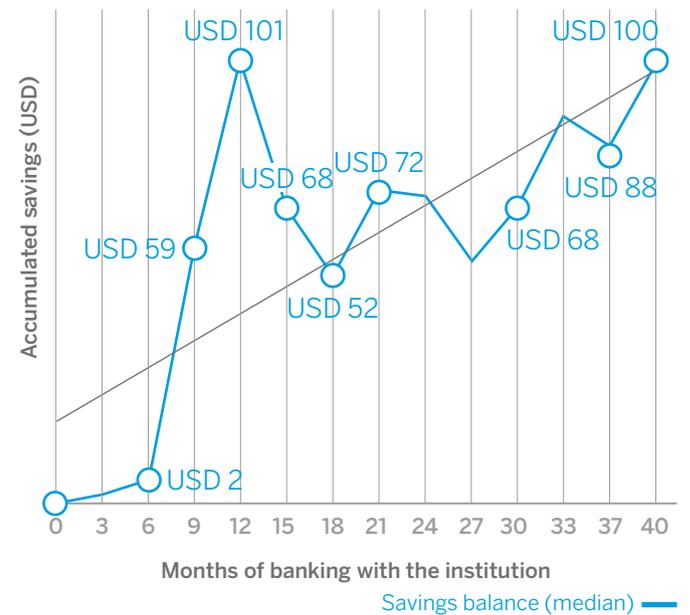
NON-CORE

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 our 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.



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.

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.



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.

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 population¹), 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 depend².

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** with 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.

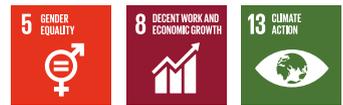
IMPACT:

- 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

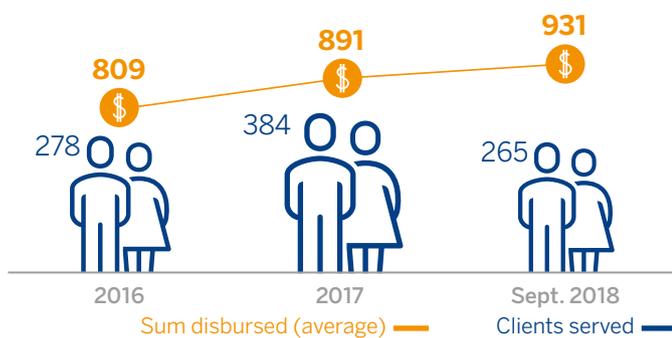
The purpose of this product is to **improve agricultural clients' environmental conditions.** In addition, it is designed to adapt to irregular harvesting seasons.

Adaptation measures:

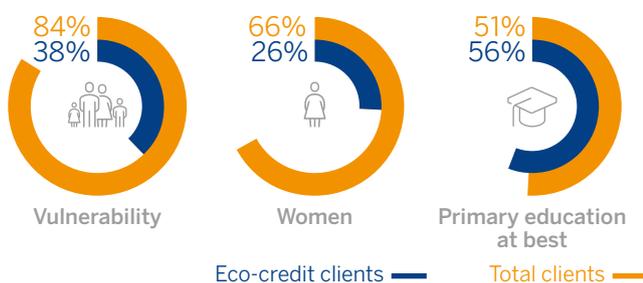
- Supporting organic crops
- Environmental management of water resources
- Appropriate handling of agrochemicals
- Permanent arboreal cover
- Appropriate handling of manure



CLIENTS SERVED AND AVERAGE DISBURSEMENT



CLIENT PROFILE



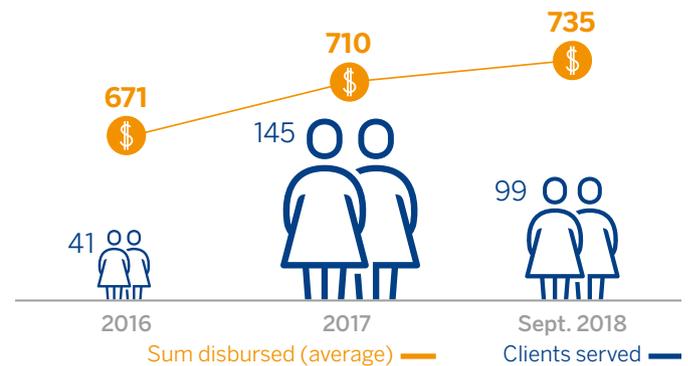
Data as of September 30th, 2018.

AGRO-MUJER

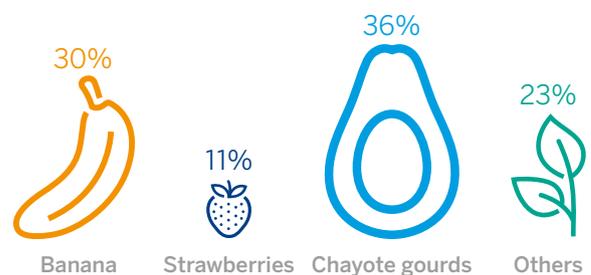
The purpose of this initiative is to generate greater **gender equality** in the rural environment and in the agricultural sector, improving access to land and **women's empowerment.**



CLIENTS SERVED AND AVERAGE DISBURSEMENT



MAIN CROPS



Macroeconomic environment

ECONOMY¹

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.

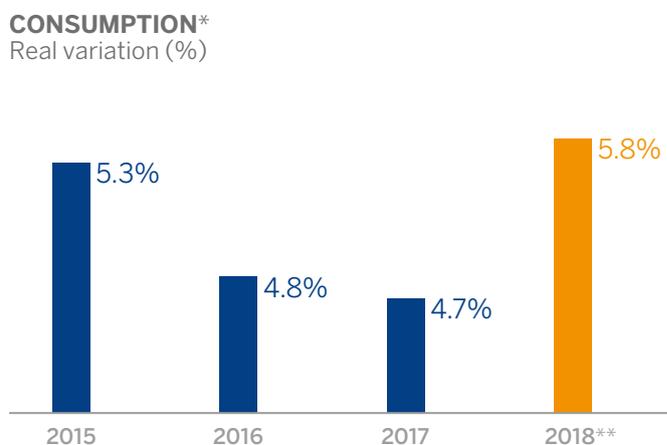
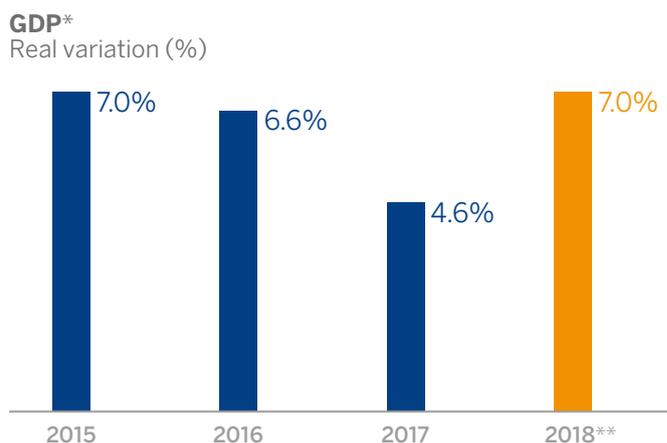
The exterior sector has been a major factor in this hike, mainly thanks to record levels in remittances and tourism. Both are linked to the solid performance of the US economy, a key source for these sectors, and have given the Republic better external liquidity, exchange rate stability and multi-dimensional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



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

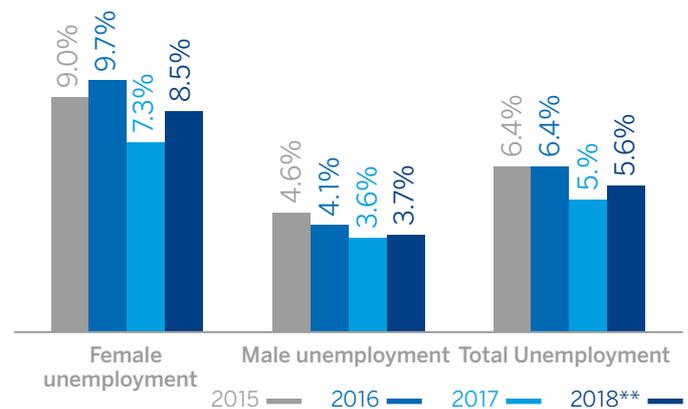
Employment benefited from the dynamic economic activity, mainly in the service and construction sectors, which are significant job creators, which brought the unemployment rate down to 5.6%. However, if the under-employed, who are not classified as unemployed, are included, the rate would rise to 10.4%. 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.

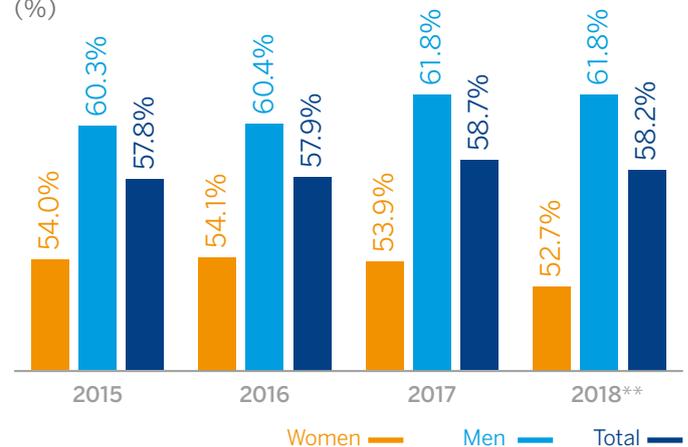
Of the total active population, 62% of men and 53% of women work in the informal economy.

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) is 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.

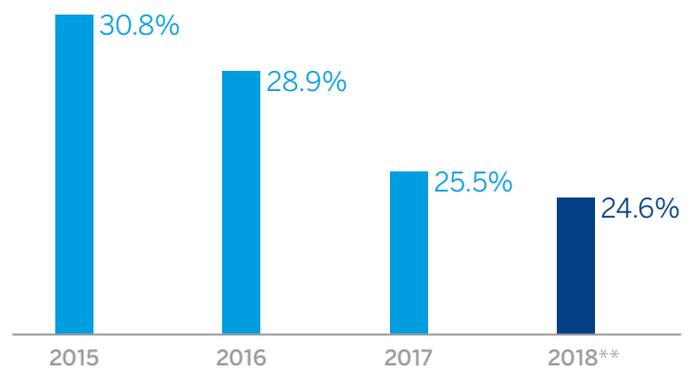
FINANCIAL INCLUSION²

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.

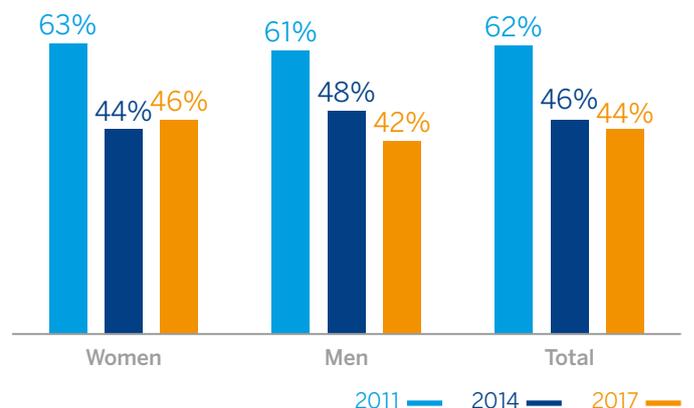
By income segment, of the 40% poorest adults, 58% are outside the financial system. Of the 60% with the highest incomes, 34% are unbanked.

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.

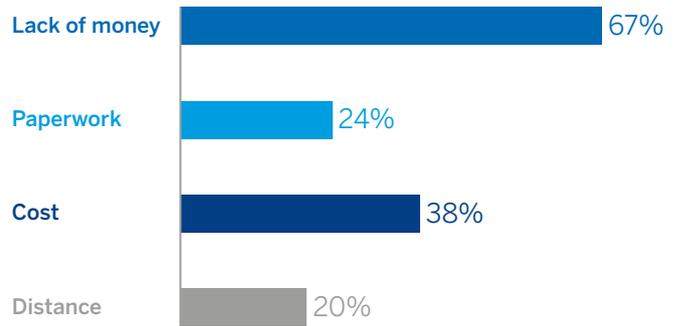
20% of adults says that they do not have a bank account because the financial institutions are too far away, while 38% argue that financial services are “very expensive”. 24% comment that it is because they do not have the documents needed to be able to open an account, while 31% say that another family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

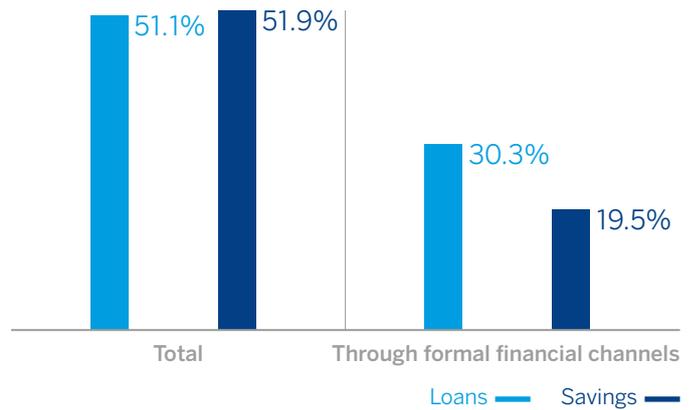
EXCLUSION FACTORS*

Excluded adults (%)



PRODUCTS IN DEMAND

Adults (%)



* Global Findex 2017, World Bank.

Chile

Fondo Esperanza

SOCIAL PERFORMANCE
REPORT **2018**



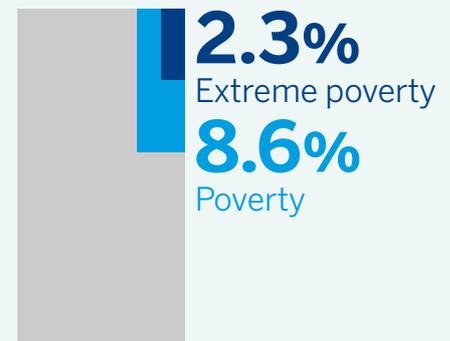
Building up stories, building on success

National data



% Poor

According to the national poverty line¹.



26%
unbanked adults².

1. CLIENTS

Committed to vulnerable people

Total credit clients³

124,530



New credit clients 2018

46,186



Source: Fondo Esperanza. BBVAMF calculations.

(1) National poverty rate according to Ministry of Social Development. (2) Global Findex 2017. (3) Data as of 12.31.2018.



2. PROGRESS

Working with them as they develop



Of those that signed up for a new product in 2018, 87% improved their income.



In their second year banking with the institution.

...and their projects grow



Annual growth rate.



Annual growth rate.

3. RELATIONSHIP

Providing timely and relevant products and services

Branch offices



Loan officers



School for entrepreneurs

People receiving financial education:

Average disbursement

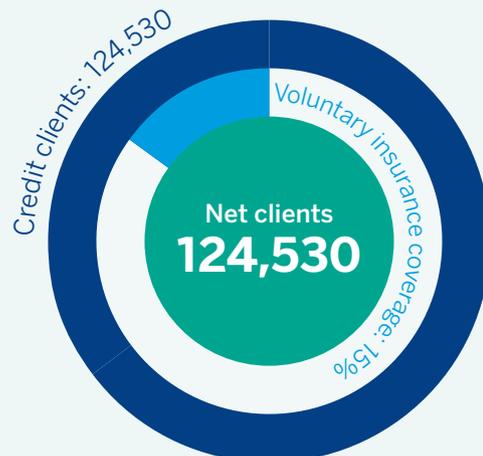
Total clients

served in 2018:



New clients

(first loan) served in 2018:



Introduction

Given that Chile is a country that places particular importance on entrepreneurship, Fondo Esperanza is a key ally in supporting entrepreneurs to finance and expand their businesses. Fondo Esperanza's vocation lies in mentoring entrepreneurs throughout their journey, using an integrated microfinance model.

The environment in which Fondo Esperanza operates is an interesting one. In 2018 the Chilean economy grew by 4,0%, driven by the uptick in domestic demand, and more specifically in investment, with a significant spike in the durable goods component. In the first semester, the economy expanded by around 4.9%, buoyed up by one-off factors that contributed to the upturn in non-mining activity. In the second semester the economy moderated, growing by 3.1%. This was due to a more demanding basis for comparison and poorer performance in mining and industry.

The expansion in 2018 has closed the activity gap, supporting stronger price momentum in the service sector and non-tradables, triggering an increase in inflation throughout 2018, which closed the year at around 2.6%. The monetary policy rate rose by 25 base points, ending the year at 2.75%, causing shorter-term interest rates to rise accordingly.

Despite the economy's stronger performance, the unemployment rate edged up by 0.6 percentage points to 7.1%. There was a 1.4 percentage point fall in the informal occupation rate, which closed 2018 at 28.6%. Poverty as measured by income stood at 7.9%, a reduction of 0.7 percentage points from 2017. This puts the country's poverty levels at one of the lowest in Latin America.

Multidimensional poverty (people who suffer deficiencies in education, health, work, social security and housing) has remained the same. In 2015 the proportion of people with these shortfalls was 20.9% and by 2017 the situation had only improved by 0.9p.p., posting at 20.7%.

Around 74% of adults are banked, and Chile has one of the lowest gender gaps in terms of financial inclusion. 49% of adults have made some kind of saving in the last year, and 45% have received a loan of some sort.

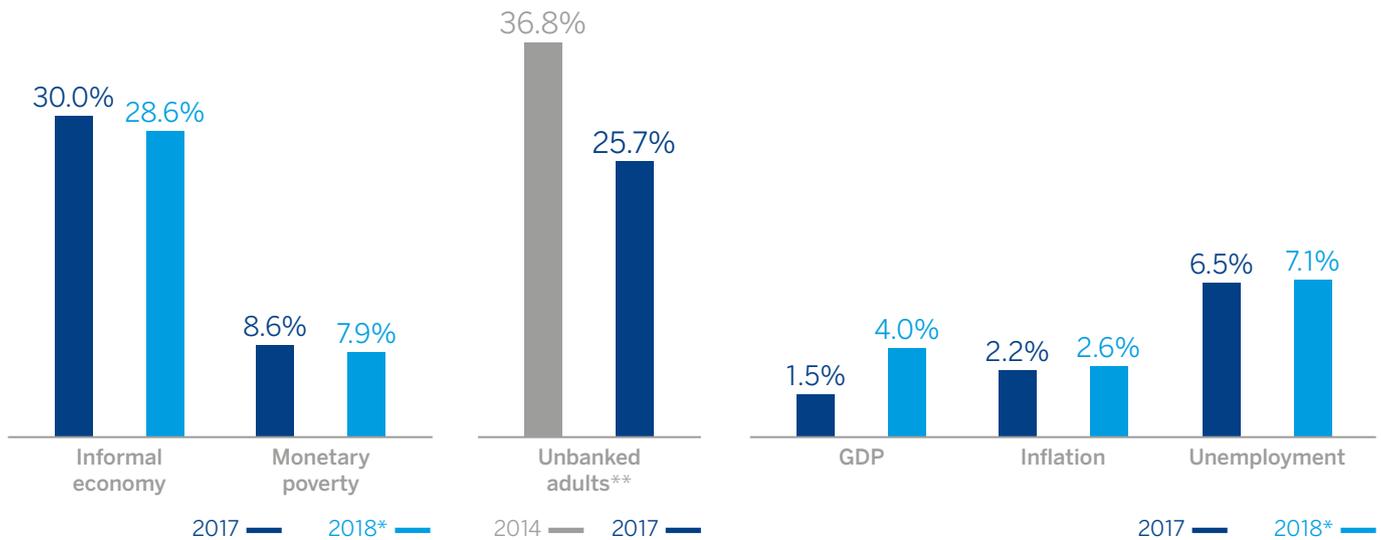
According to figures from the Economy Ministry, in Chile there are around 2 million microentrepreneurs¹, more than 85% of whom are self-employed². Chile is a country with a strong entrepreneurial spirit, coming third in an international ranking on this quality, according to a Randstad³ (2017) survey. The main limitations to microentrepreneurial growth are the lack of both financing and clients, a diagnosis that is same for those microenterprises with the lowest earnings⁴.

¹ Independent workers who own an economic unit employing up to 10 workers (including themselves). Microentrepreneurial Survey <https://www.ine.cl/estadisticas/laborales/eme> (in Spanish only).

² INE, 5th Microentrepreneurial Survey, 2017.

³ INE, 4th Microentrepreneurial Survey, 2015, Workmonitor, Randstad (1st quarter 2017, 33-country survey).

⁴ BBVA Research Chile.



This is especially relevant in the case of women, who find that entrepreneurship gives them the opportunity to make their home and working roles compatible. Of all enterprises, 39% belong to women, who nearly always work from home.

24% of microentrepreneurs in Chile took out a loan last year. 76% have not yet accessed the financial system⁵.

Supporting female entrepreneurs is particularly important, because their businesses are smaller and they have less specialized training. That is why they not only access financing but are also helped by the School for Entrepreneurs to receive training, become empowered and generate their own networks.

Productive Finance plays a key role in this context. Of the three institutions offering microfinance services in Chile focused solely on vulnerable entrepreneurs, Fondo Esperanza SpA. (Fondo Esperanza) served nearly 70% of the entire segment, accounting for over 120,000 clients (of its approximately 170,000 clients in total).

KEY VOLUMES⁶

Total clients

124,530

Number of employees

615

Number of branches

56

Gross portfolio (USD)

81,947,313

People receiving financial education

172,743

Amount disbursed in 2018 (USD)

271,074,255

Number of disbursements in 2018

316,374

Average disbursement in 2018 (USD)

857

⁵ INE, 5th Microentrepreneurial Survey, 2017.

Source: Chilean Central bank and Casen survey.

* BBVAMF Research estimate.

** Global Findex World Bank, 2014 & 2017.

⁶ USD/CLP: 694.80, at 12.31.2018, BBVA Research.

Introduction

Fondo Esperanza was set up in 2002 by Hogar de Cristo [Home of Christ], and has been run since 2011 by BBVAMF. From its beginnings it has always sought to support people in vulnerable sectors to transform their standards of living, those of their families and communities, broadening their opportunities through financial services, training and networks that enable them to develop sustainable enterprises. It does this using two methodologies, one with groups (group lending) and another with individuals (development credit). Its extensive footprint over the country has enabled it to reach regions with higher levels of poverty, doubling its size in the last 5 years.

One of Fondo Esperanza's unique features is its comprehensive education program, the "School for Entrepreneurs", that mentors entrepreneurs throughout their group lending journey, going above and beyond financial education and business development, incorporating issues around empowerment, family welfare and social capital. It also constantly seeks to reduce overhead costs by using technology for the services it offers in the field, as well as digitalizing the vulnerable entrepreneur segment. The Somos Fe [We are FE] app is already a real proposal that has won the PwC Chile award for Social Innovation. Digitalization is set to become one of the greatest challenges in the next few years.

There is a great opportunity to provide vulnerable entrepreneurs in Chile with financing, training and other tools so that they can invest in productive assets, generate revenues and improve their standard of living. Fondo Esperanza is backing them and analyzes the performance of the clients it serves. Specifically, it is committed to serving vulnerable people, measuring the performance of their enterprises against the nation's poverty lines.

PRICE OF THE BASIC FOOD BASKET

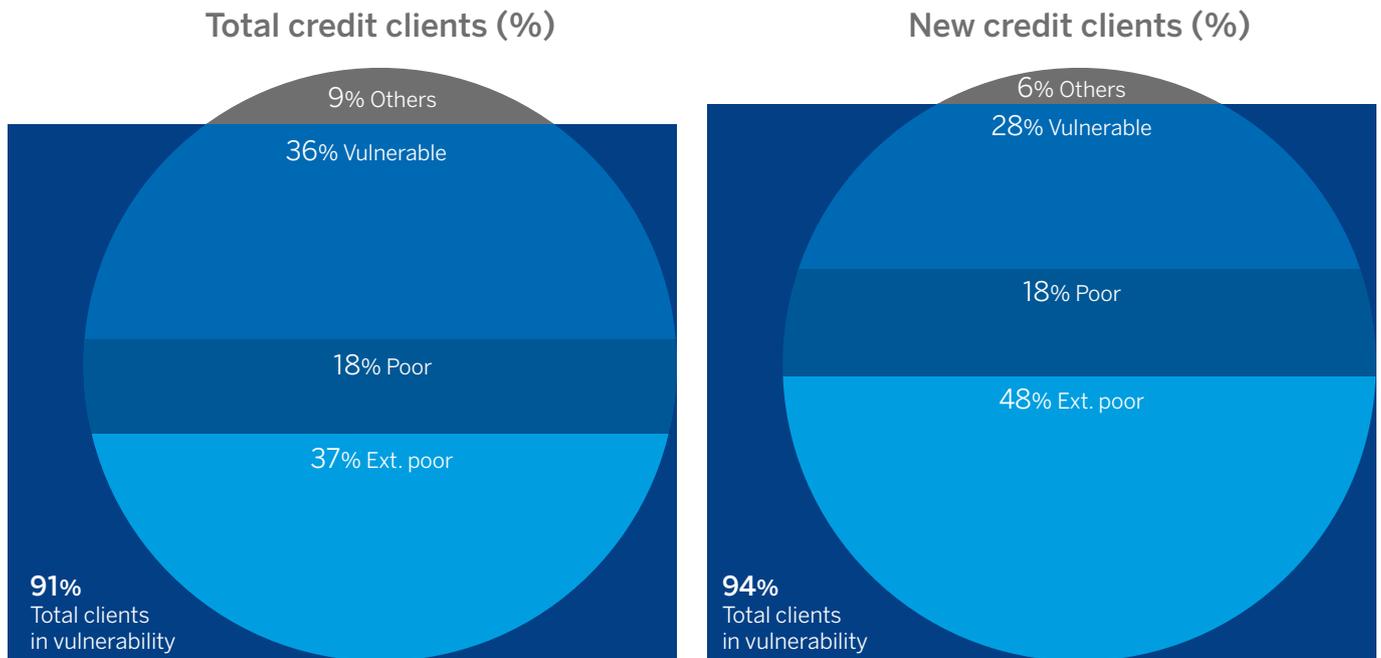


Chile's high standards of living, compared with the rest of Latin America, mean that its poverty line is much higher than in other countries. Given that the current methodology for measuring poverty by income sets an extreme poverty line that in the case of Chile covers not only food but also basic goods and services, this is higher than the basic food basket. The poverty line varies according to the size of the household. While the basic food basket costs USD 61, the extreme poverty line is set at USD 154 and the poverty line at USD 230⁷.

Clients who were new to Fondo Esperanza in 2018 have average monthly earnings of USD 187 for each member of the household, ie. 3 times the basic food basket. This shows the relative size of the enterprises being financed.

⁷ Poverty lines published by the Social Development Ministry, updated using end-of-year CPI.

CLIENT ECONOMIC VULNERABILITY*



48% of new clients in 2018 were below the extreme poverty line, which contains food, goods and services classified as basic in line with the country's standard of living, and are thus in the extremely poor category.

18% of new clients generate revenues that oscillate between the USD 154 of the extreme poverty line and the USD 230 of the poverty line (classified as poor). Clients who succeed in getting over the poverty threshold face the challenge of stabilizing their incomes, since there is a high likelihood that they will fall back into poverty (those classified as vulnerable). The threshold for this category is having net income of less than 3 times the poverty line (USD 691). 28% of new clients served in 2018 are vulnerable. Only 6% of clients have more stable incomes.

Over 91% of its total 124,530 clients are in vulnerability, according to internal measurements.

The institution's service model involves continuous mentoring and a smooth rise in credit so that clients can adjust their finances gradually. Entrepreneurs continue to trust the institution and 74% sign up for a second credit. Their continued efforts are reflected in sustained growth and encouraging results: in the second year of their relationship with the institution, 49% of clients who had been poor at the outset overcome poverty.

* According to the Social Development Ministry's poverty line, new methodology. Clients whose income (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

In 2018, Fondo Esperanza looked after nearly 125,000 clients, onboarding over 46,000 new clients. More than 34,000 (74%) of these are women with a higher vulnerability profile (97%, against 88% in the case of men).

Despite the high proportion of female clients, there is a wide gap with men: their average monthly net incomes are 52% those of men's. This indicates that women's businesses are more precarious and, furthermore, support more people; while the average female client's household has 3.7 members, the average for men is 3.2 people. In addition, 38% of female clients are heads of household.

Vulnerability can be analyzed from many angles. The critical one is that of income, in which we note that most clients (66%) generate net incomes that are below the poverty line (PL). Extremely poor clients' enterprises generate an average monthly USD 65 (USD 2.1 a day or 40% of the PL), while poor clients' enterprises generate USD 136 monthly (82% of the PL figure).

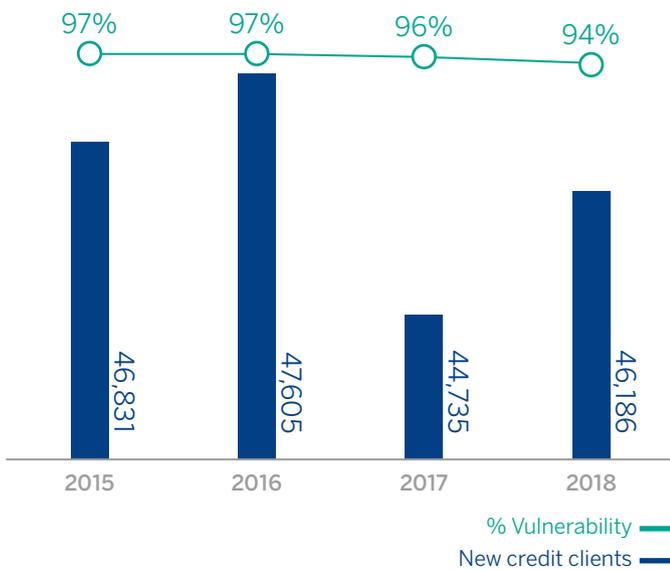
Another aspect worth pointing out is that the institution serves the poorest regions of the country (11% of new clients live in rural areas) and clients with low educational levels (27% of new clients have primary education at best). This is significant in a country with high levels of education. Those with primary education at best encounter more obstacles to getting into the job market, and the percentage of those with an account in a financial institution falls by 20 percentage points, to 54%⁸.

The principal reason why clients become entrepreneurs is to increase their income. 15% of women do so in order to look after their families while also working, compared to 2% of men who are motivated to do so for this reason.

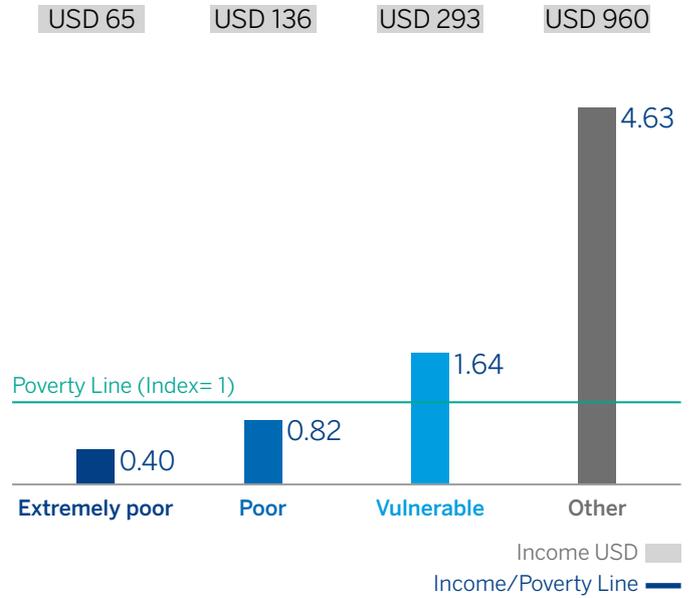
(1) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.
 (2) According to each country's official poverty line. New clients (no previous loans) signed up over the year.
 (4) New clients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

⁸ Global Findex 2017.

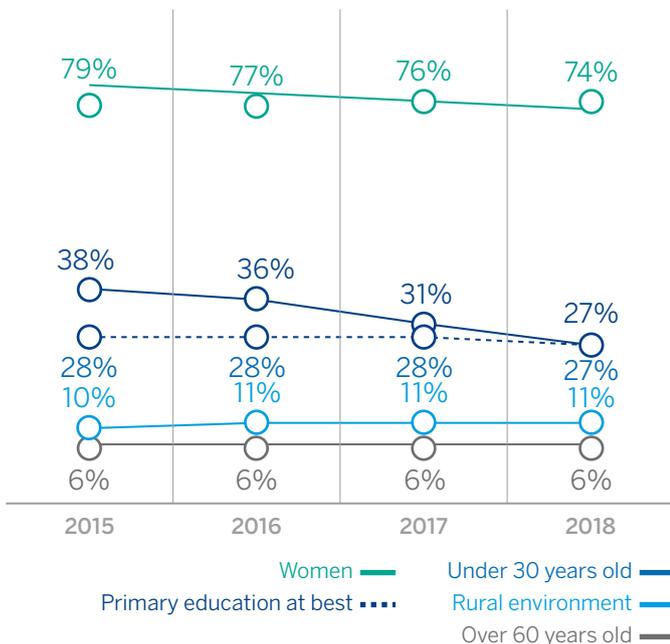
1 NEW ENTREPRENEURS SERVED
New credit clients by cohort



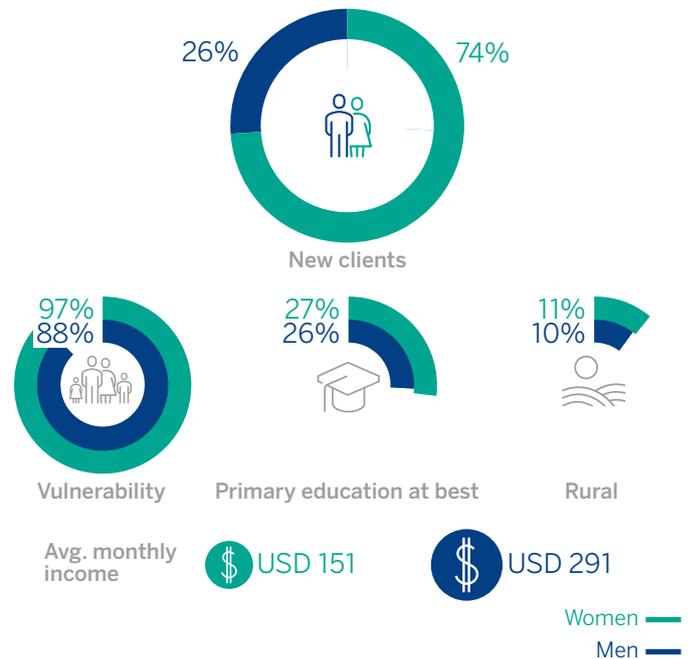
2 ENTREPRENEURS' INCOME
Income against Poverty Line



3 NEW CLIENT PROFILES
New clients by cohort (%)



4 PROFILE BY GENDER
New credit clients (%)



1. Our clients

PROFILE OF THEIR BUSINESSES

Fondo Esperanza clients, who are predominantly women, work in retail trade (small stores, grocery outlets, etc.). In recent years there has been growth in production and transformation activities (bakeries, shoe stores, etc.). Since it is a more productive sector, 33% of its sales are kept as net income, compared to 28% in trade.

Of the new clients served during the year, 13% worked in the services sector, businesses that, while not generating any higher sales than others, since they have lower operating expenses, can provide higher final net incomes. These services may possibly require more infrastructure and technical skills, so they have higher barriers to entry.

According to the Chilean Ministry for the Economy & Tourism's Gender and Enterprise Bulletin published in November 2018, 39% of the country's enterprises are managed by women. Their main reason for running their own business is to earn higher incomes and be able to manage work and bringing up their families at the same time. The many roles that have traditionally been demanded of women means that they are in charge of looking after their children or other family dependents, which is the case with Fondo Esperanza's new entrepreneurs, 15% of whom start their own business so that they can also look after their family and/or children, compared to 2% of men who do so for this reason.

A retail business is a quick and efficient way of working from home. This ratifies the national trend: 46% of women develop their businesses from the family home, compared to just 20% of men⁹. Of new Fondo Esperanza clients in 2018, 38% worked from home, either because they did not have commercial premises (27%), or because these premises formed part of their home (11%).

An analysis by sector shows that as clients make progress overcoming poverty, they acquire more assets in all sectors, with agriculture being the sector requiring most assets. The proportion between the average assets of non-poor and poor clients is about double, while that of sales is practically triple in all sectors, appearing to indicate significant economies of scale.

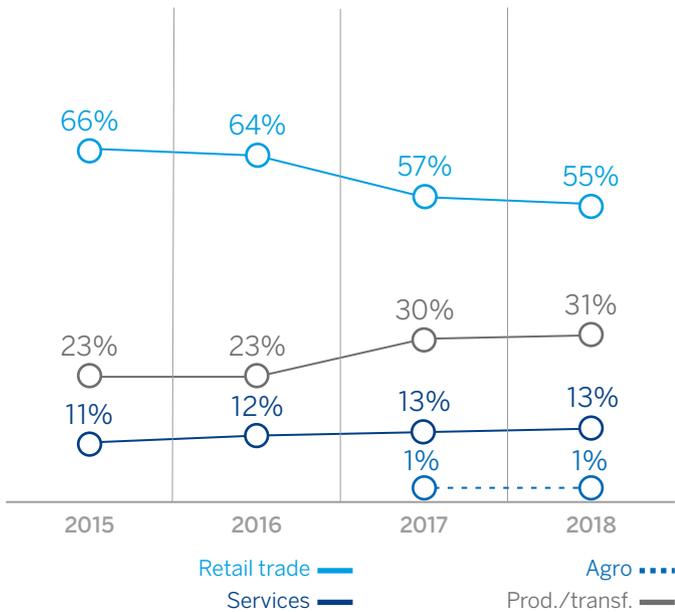
Most clients work in retail trade, but production and transformation businesses are beginning to account for more of them.

(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).

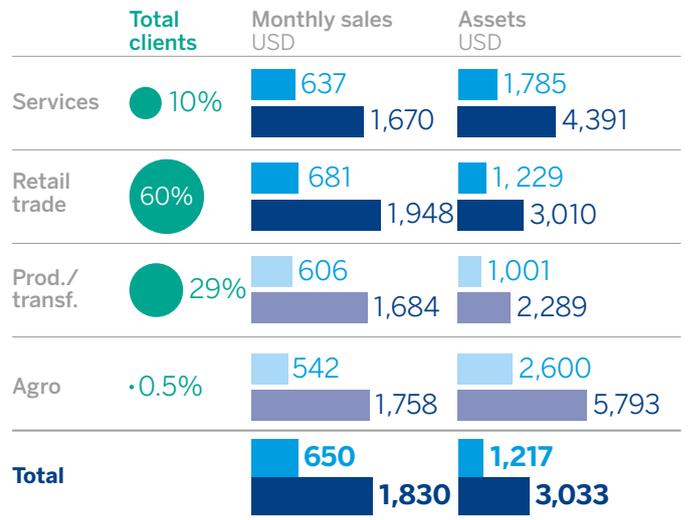
(7) Ratios of average costs over sales in each sector. Earnings are recorded after payment of the financial installment.

⁹ <https://www.economia.gob.cl/2018/11/16/boletin-genero-y-microemprendimiento.html> (in Spanish only).

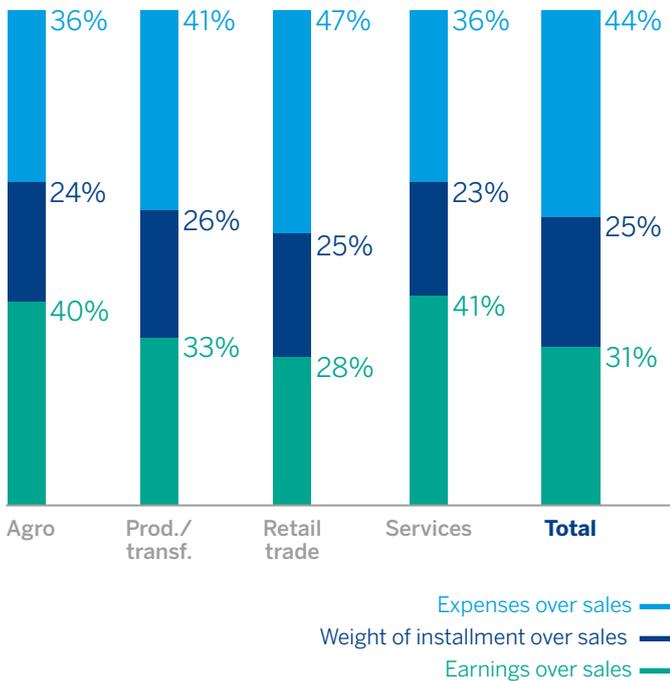
5 ACTIVITY SECTOR
New clients by cohort (%)



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



7 P&L- MARGINS OVER SALES
Total credit clients



90% of loans are used to buy merchandise or inputs, which enable people to generate sales in the short term.

2. Our clients' development

GROWTH OF THEIR BUSINESSES

Fondo Esperanza is characterized by its close support and mentoring of clients through group lending meetings (groups into which clients organize themselves and are joint guarantors, also known as solidarity banking) based on small, short-term loans (3.5 to 7 months), gradually increasing the amounts and the terms.

Given the small size of enterprises and their potential, the financial volumes of sales, surpluses and assets grow at very high rates, enabling a large number of clients to get ahead.

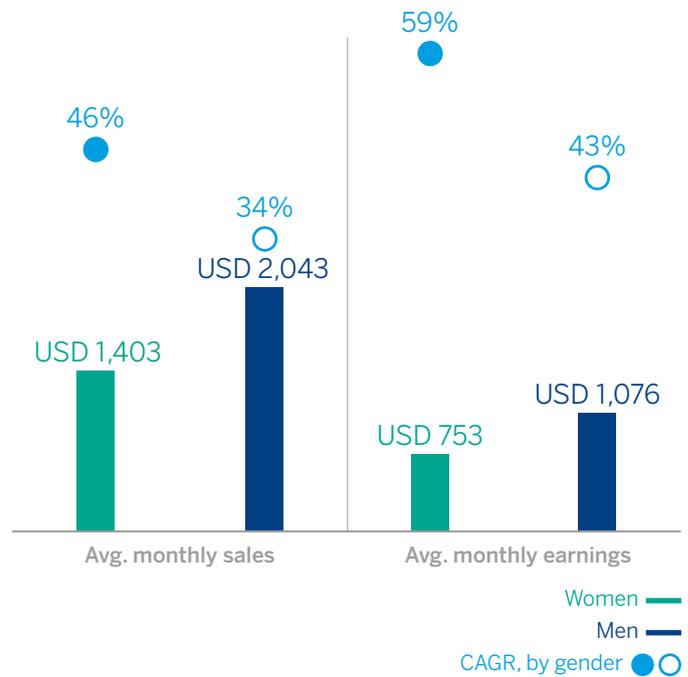
This is a reflection of these entrepreneurs' enormous efforts and the impact that access to financial resources can have, since their sales and net incomes are given a huge boost. The challenge for microenterprises is to raise their productivity and economies of scale, increasing in both size and innovation, which means that those leading them must be trained. Fondo Esperanza offers an 18-module educational program with an average of 3 sessions in each module which aims to mentor clients as they make this qualitative leap.

The data indicate that production and transformation businesses are slightly smaller than those operating in other sectors, but nevertheless grow at a higher rate. That is why the number of clients working in this area is expanding too.

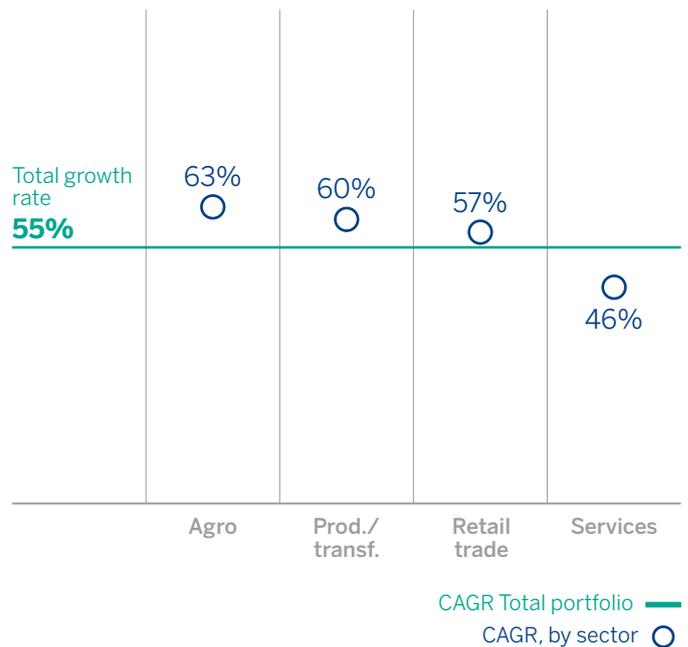
(8) Data on clients current at some point over the year and who have rolled over a product with the institution (hereinafter "renewing clients"). The compound annual growth rate (CAGR) for cohorts (entry year) between 2013 and 2018 was used for the calculation, taking the weighted average of these rates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

(9) (10) 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.

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



10 GROWTH IN EARNINGS
Compound annual growth rates

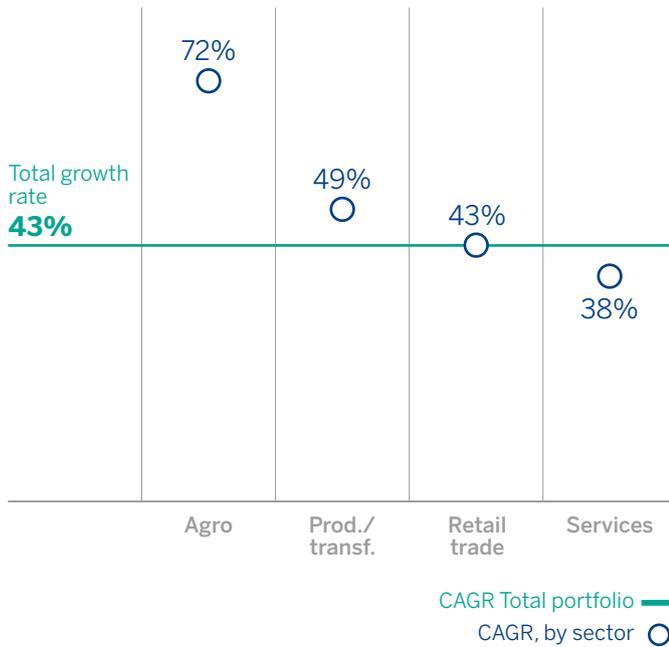


CAGR Total portfolio —
CAGR, by sector ○

9

SALES GROWTH

Compound annual growth rates



Fondo Esperanza is continually working towards better understanding its clients and how their businesses develop, in order to meet their needs more closely.

Following the route of entrepreneurs on their journey with Fondo Esperanza

Fondo Esperanza has an impact on the lives of thousands of partners who make up Chile's biggest community of entrepreneurship in solidarity. This impact is apparent in the Social Indicators File [*Ficha de Indicadores Sociales (FIS)*] – a set of variables that shows their entrepreneurial and social development – at two moments on the client's progress (those who have just taken out their first loan with group lending, and then after they have been with the institution for a year and a half).

The Fingerprint File, a new survey taken this year in which clients self-assess regularly, enables them to analyze how their business income is progressing.

This expands the information available to date. In other words, over one quarter we measure the income of around 20 thousand clients with FIS; with Huella [Fingerprint] we measure it for 64% more (approx. 33,000 clients).

Given that the client is at the center of everything we do, since 2018 this information has been calculated more frequently, in particular going beyond the fifth credit (we follow their fingerprint). We need to continue drilling down in our understanding of clients and their needs over time. Fondo Esperanza has done so, extending the scope of this information several times by means of new processes and infrastructure.

These strategies for adapting to an increasingly digital environment represent a change in microfinance in Chile, enabling the institution to strengthen its knowledge of its clients, while giving it flexibility and adaptability, since all the information is in the cloud.

2. Our clients' development

ESCAPE FROM POVERTY

Sustained growth in entrepreneurs' businesses is reflected in solid, continuous performance. If the variation in the poverty segment is analyzed by the time that has passed, we see that during the second year, 53% of clients who were poor at the outset overcome poverty. In the face of an unexpected eventuality, non-poor and vulnerable clients, taken together, have a 12% likelihood of falling back into poverty.

Given that, currently, the information held about clients is updated on the fourth or fifth credit (meaning, on average, after a year and a half with Fondo Esperanza), we see a jump in their performance. If we look at how their income is progressing (relative to the poverty line) we see how it has grown by the fifth credit (see Fig. 12). And how clients who were below the extreme poverty or poverty line manage to get over it. This improvement may have been happening earlier. Our entrepreneurs' efforts are particularly robust when their incomes are lower: the average income of clients who were extremely poor at the outset triples between the first and the fifth cycle.

As we have noted, this escape from poverty is not guaranteed, since clients face mishaps that may cause them to fall back in. If we consider clients in the medium term (all those who have had 5 loans with the institution) who were in poverty at the outset, the most probable outcome is that they overcome this situation. 43% of them do so in this period and only 21% remain in poverty. The remainder will suffer another income shock.

Non-poor clients (with net incomes above the poverty line), can also find themselves in situations that put their finances at risk and eat into their surpluses. Of clients who have had 5 credits, only 33% stay consistently over the poverty line. This low proportion shows that the clients we serve are very vulnerable, since as well as having low incomes, they experience a great deal of volatility. This volatility is greater in urban environments, perhaps due to greater competition or other barriers facing them.

It is critically important that entrepreneurs have a degree of income stability so that they can take financial decisions with a longer time horizon, sacrificing immediate or short-term income in favor of medium/long-term improvements.

(11) 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 entry into poverty.

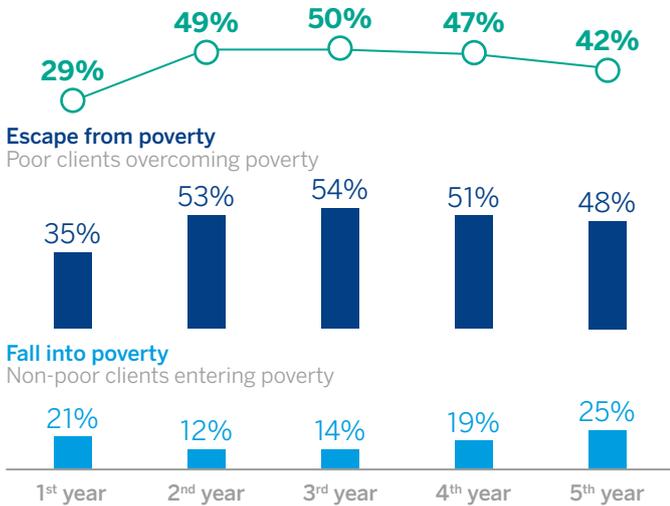
(12) For the sample of clients served during 2018—classified according to their situation when they took out their first loan—net income per capita at each credit cycle is shown, relative to each country's poverty line (current in the year of the disbursement). Relative per capita net income has a value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

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

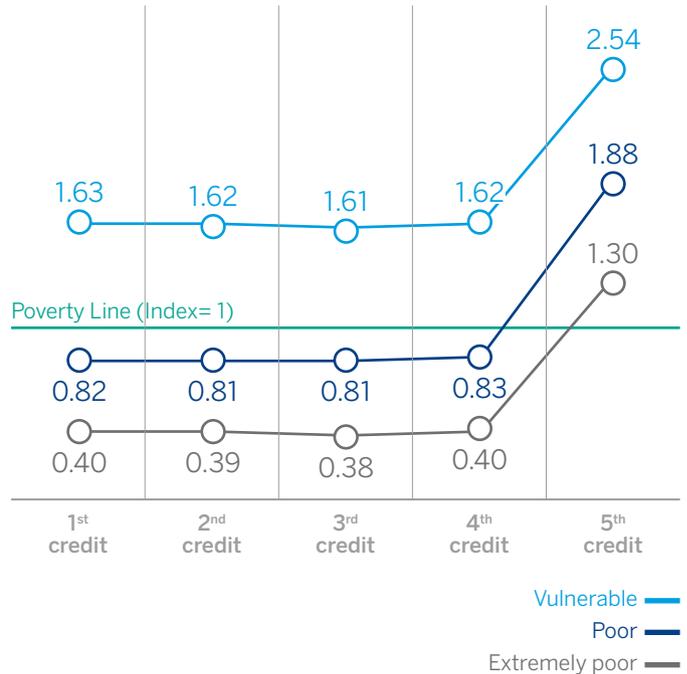
- Escape poverty: Poor clients at the outset whose income surpasses the PL (and is not reported as falling back).
- Fall into poverty: Non-poor clients at the outset whose income falls below the PL (and is not reported as recovering).
- Remain poor (or non-poor): Clients who remain poor (or non-poor)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

11 VARIATION IN POVERTY SEGMENT

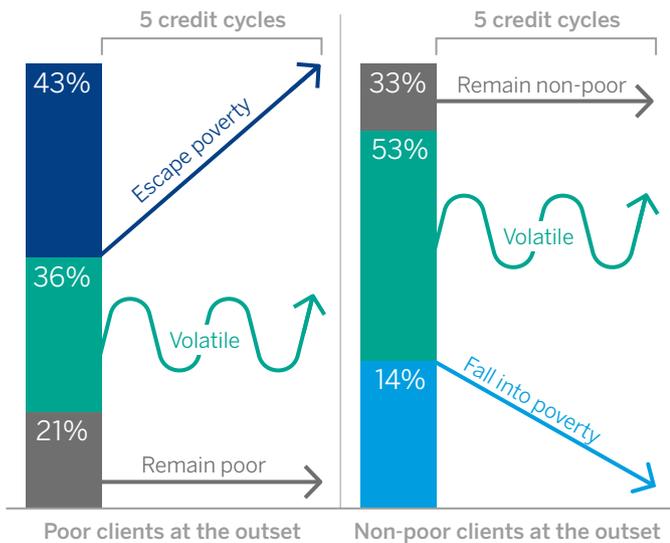
Net poverty reduction



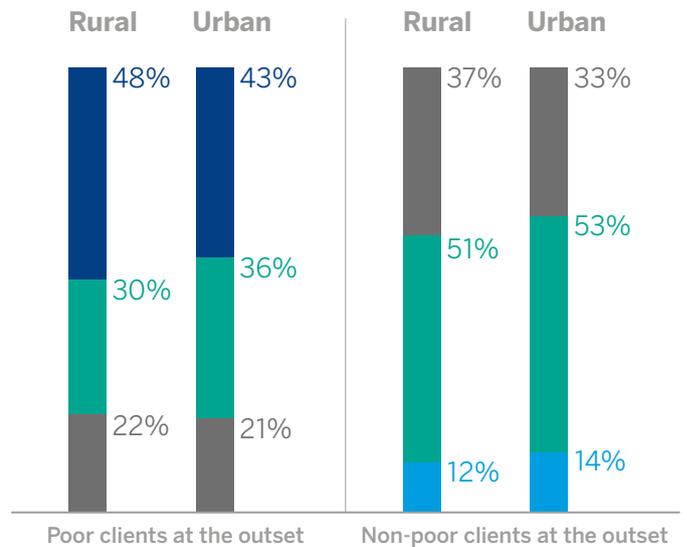
12 GROWTH IN INCOME
Income of segment over Poverty Line



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



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



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

2. Our clients' development

INDIRECT IMPACT

The impact of businesses on their direct surroundings can be multiplied if jobs are created. In Chile only 17% of microenterprises are capable of generating employment, with the remaining 83%¹⁰ being self-employed. The smaller size of clients' businesses means that normally they are focused on generating a source of income for the entrepreneur and for their family. 9% of Fondo Esperanza clients have employees in their business, and the more significant their development, the more employment they create.

The measurements conducted by official bodies (CASEN Survey) also show the important role that shortcomings in housing play in explaining vulnerability and non-monetary poverty in Chile (multidimensional poverty).

Fondo Esperanza clients have been able to implement improvements in their homes, increasing their entire families' standards of living: after 4 years, 12.6% of clients have made upgrades that, while they may look modest, have an enormous impact on their homes.

In the segment served by Fondo Esperanza, financial services clients need mentoring, but not only by the institution. In Fondo Esperanza, the support of all the group lending participants, combined with the education plan offered by the institution, helps microentrepreneurs to improve their technical and business skills and how they manage their finances. Clients value particularly highly the network creation intrinsic to group lending.

In 2018, Fondo Esperanza developed and rolled out its innovative Somos FE [We are FE] program, a social network in a digital environment exclusive to our institution's entrepreneurs, where they can interact and promote their products (see Special Project pg. 242).

9% of Fondo Esperanza clients succeed in creating employment and 3% of the total do so for two or more people in their community.

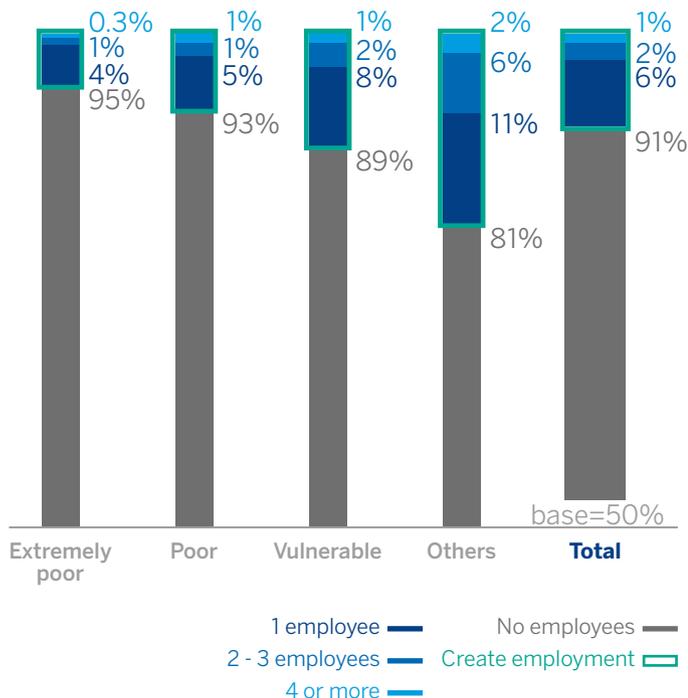
¹⁰ National Statistics Institute (INE),
5th Microentrepreneurial Survey, 2017.

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

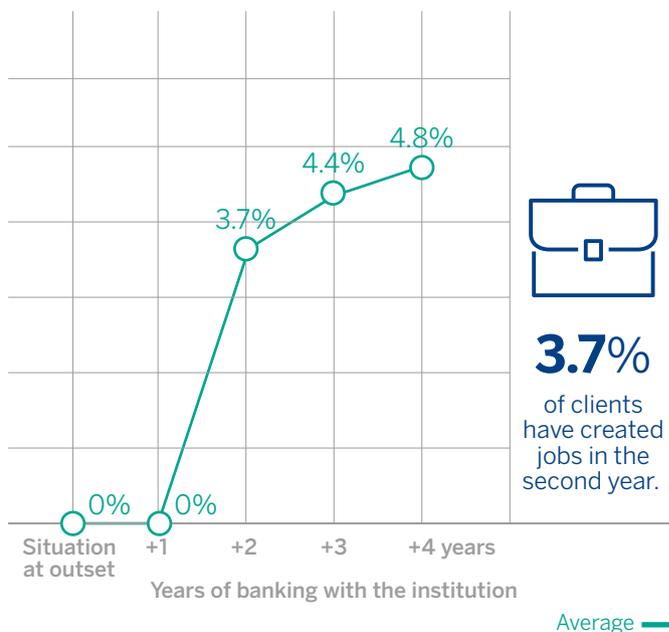
(16) Increase in the number of employees compared to the outset, in the businesses of clients current at 12.31.2018. Averages for the 2013–2018 cohorts (year of entry).

(17) Proportion of clients current at 12.31.2018 of each cohort, who have improved their housing situation (bought their own home).

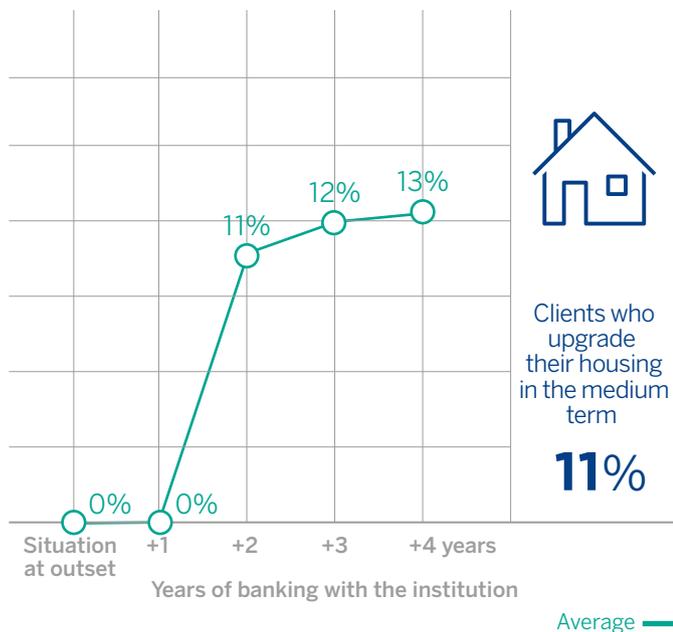
15 EMPLOYEE BREAKDOWN
Clients according to n° of employees in their business



16 JOB CREATION
Credit clients who hire employees (%)



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



3. Relationships with clients

RELATIONSHIP WITH OUR CREDIT CLIENTS

Fondo Esperanza’s more than 120,000 clients are microentrepreneurs who can make investments in their businesses to upgrade them and take them to the next step when they receive financing. Fondo Esperanza’s methodology is based on short cycles in which entrepreneurs receive financial education and training to take control of their finances and improve their businesses.

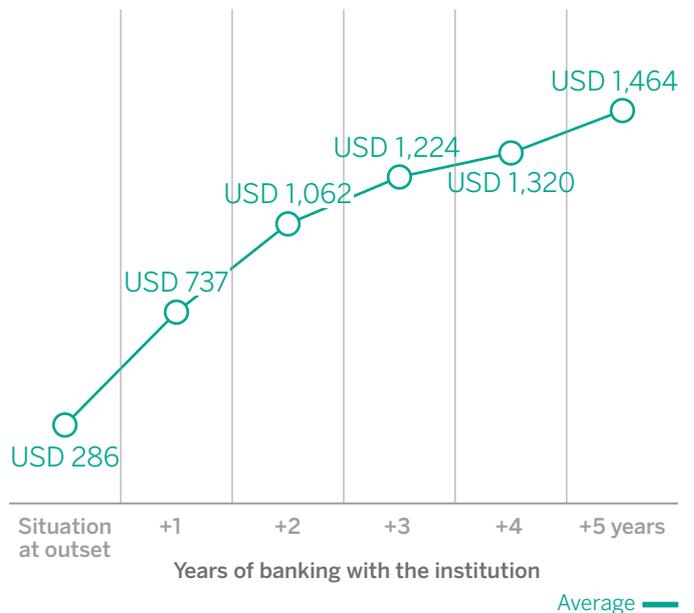
The first disbursement made to new clients served between 2013 and 2018 was on average USD 286, with an average credit term of 175 days, after which they could access a second credit cycle. 74% of clients apply for this next loan, with an average disbursement of (USD 737), so doubling the first credit.

Chile’s microfinance industry needs to increase the services offered to entrepreneurs, which is why Fondo Esperanza provides insurance products. Over the course of 2018, 15% of its clients took out voluntary insurance, 2 percentage points higher than the 2017 figures.



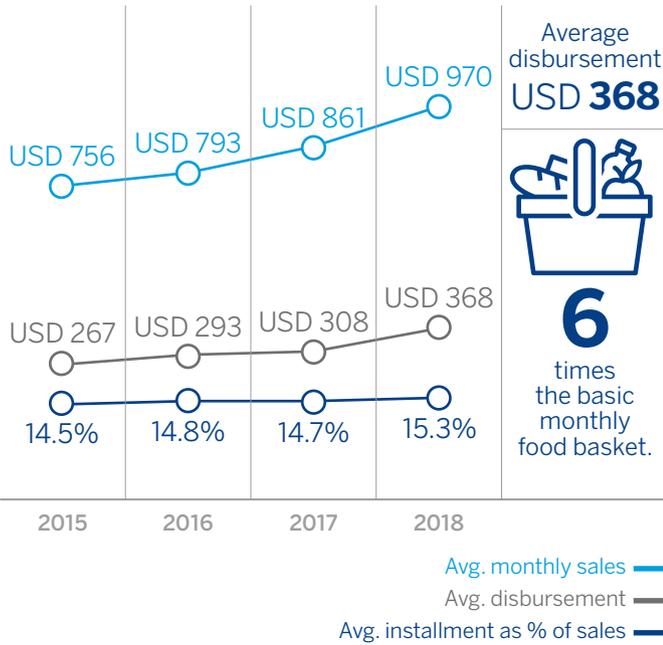
19 GROWTH OF AVERAGE DISBURSEMENT

Change, by duration of relationship



(18) 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).
(19) 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.
(20) 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).

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



“You are forbidden not to smile at your problems, not to fight for what you love, to leave it all behind out of fear, not to turn your dreams into reality.”

Pablo Neruda
Poet and diplomat

20 RETENTION & RECURRENCE
Of credit clients

Clients with performing credit after x years

	Situation at outset	+1	+2	+3	+4	+5 years
Retention	100%	44%	30%	24%	21%	19%

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

	1 st credit	2 nd credit	3 rd credit	4 th credit	5 th credit	6 th credit
Recurrence	100%	74%	59%	50%	42%	38%
Distance (days)	–	175	165	165	160	157

We connect people so that they can generate more opportunities



Margarita López
Fondo Esperanza Client

Since Margarita López downloaded Somos FE at the beginning of 2018, she has seen her kids' footwear and clothing sales business grow thanks to her work on the network. Her sales have increased and she connected with 10 new clients in less than six months.

"One of my biggest sales using the app was when some entrepreneurs from the city of Castro contacted me wanting to buy patent leather shoes. I sold 35 pairs!"

The app is an incentive for people to promote their business online, which nowadays is essential for trade. What is more, it is very simple. Since it is a nationwide platform, there are no limits, either of coverage or of reach; entrepreneurs from any sector, and from all round the country, can contact one another.

Support networks are an essential feature if entrepreneurs are to develop. This support, with the use of technology platforms, makes new ways of communication easier and creates a new market.

In Chile, around 90% of homes have internet access, and 95% of people who access it do so with mobile devices. To optimize the products and services it delivers, Fondo Esperanza (FE) decided to create a solution that generates value for its clients while making it easier for entrepreneurs to contact and communicate with FE staff members.

That was how **Somos FE** [We are FE] was born, an innovative mobile app unique in the microfinance world, that can be used on Android and iPhone systems. Somos FE is a community in which both clients and FE employees can post publications, offer products and services, make comments, interact with other users and stay informed about different activities going on, whether locally or nationally.

It is designed to be easy and straightforward to use for clients and so that it can generate new business opportunities for them, increasing their scope and creating a (virtual) space where they can develop their brand identity, generate loyalty among existing clients and find new suppliers.

The app was launched in January 2018. In just 10 months nearly 18,000 entrepreneurs downloaded it. They share their daily experiences, generate communications and sales networks, and strengthen their commercial links. It is worth pointing out that, according to FE's annual satisfaction survey, 85% of entrepreneurs who used the app gave it a 6 or a 7 (out of a maximum score of 7).

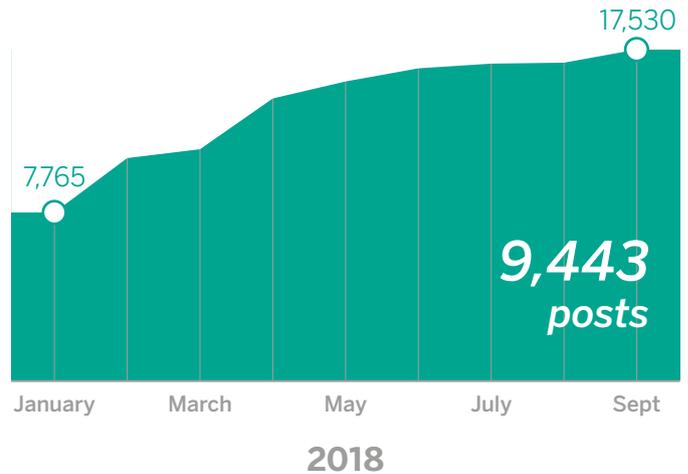
APP SOMOS FE



Nº OF SOMOS FE MEMBERS

Over 27,000
"Likes"
in this period

+125%



CLIENT PROFILE

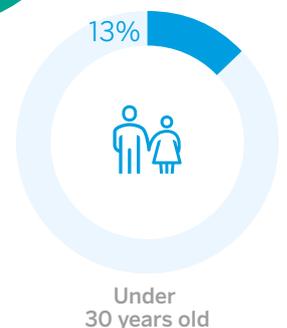
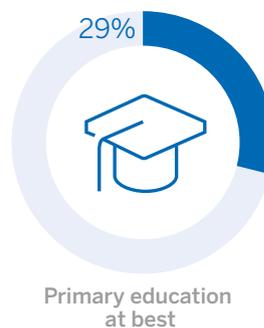
Predominantly **women clients with higher levels of education** and older than the average for the Fondo Esperanza portfolio.



Virtual entrepreneurs' network for exchanging information, goods and services, which triggers collaborative networks

What you can do on Somos FE:

- Share your experiences with other entrepreneurs and learn about theirs
- Offer products and services
- Find collaborators
- Stay informed about training and courses available in the area
- Interact with Fondo Esperanza employees and offices



Macroeconomic environment

ECONOMY¹

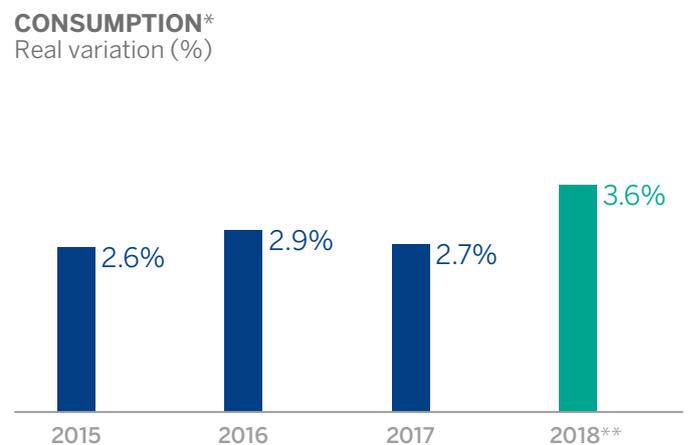
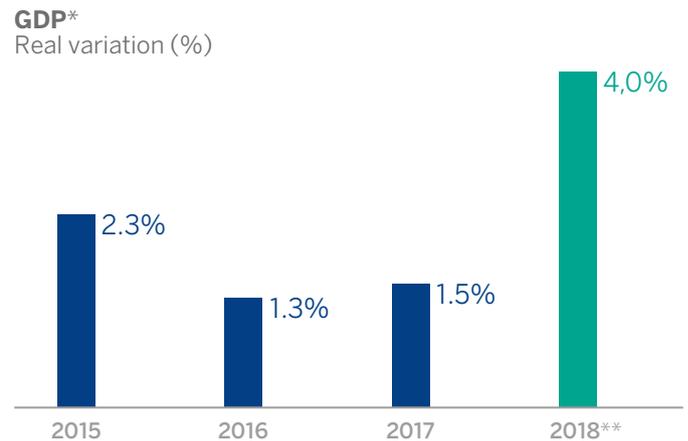
In 2018 the Chilean economy was much more dynamic than in preceding years, growing by 4.0%, fueled by the recovery of domestic demand, principally of investment, particularly the sharp spike in the durable goods component. In the first half the economy expanded by 4.9%, boosted by one-off factors that favored greater momentum in non-mining activities, especially trade, business services and industry. Domestic demand also grew strongly, reflecting greater expansion in private consumption.

However, in the second half the economy slowed, growing by 3.1%, accounted for by a more demanding basis for comparison and poorer performance in mining and industry. These sectors dragged down export momentum and their contribution to growth, in line with the fall in international copper prices and less favorable terms of trade in this period. Consumption also decelerated, due in part to higher unemployment and the fall in the real wage growth rate.

Growth over the year has closed the activity gap, putting the rise in GDP close to its potential, driving more dynamism in prices in the services sector and in non-tradables. This caused inflation, after slipping down to below 2%, to rise throughout 2018, posting at around 2.6% by year end. Goods inflation was 1.5% and in services 3.6%. Prices associated with the tradable sector rose by 1.8%, while those in the non-tradable sectors did so by 3.4%.

Underlying inflation (excluding from the basket a pre-specified quantity of products with volatile prices or whose price variation is a result of factors that are mainly exogenous to the economic cycle) came in at 2.1% in 2018, slightly above the figure for 2017 (1.9%).

Another factor that impacted on inflation in 2018 was the depreciation in the exchange rate, which slid by 12% against the US dollar, due to the greater strength of the latter globally and market turbulence, bringing the real exchange rate to levels close to its 10-year average.



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

* Chilean central bank.
** BBVAMF Research estimate.

Performance in the real sector, as well as price changes, meant that in October the central bank raised its monetary policy rate by 25 base points, taking it from 2.5% to 2.75%, the level at which it closed the year. As inflation converges towards the target, monetary stimulus will be reduced in order to align monetary policy with the medium-term inflation target of 3%.

Shorter term interest rates have risen in accordance with monetary policy developments, while long term rates and risk measures have remained stable due to favorable domestic financial conditions. In the area of credit, the cost remains low and placements are showing more movement.

EMPLOYMENT, POVERTY AND WELFARE²

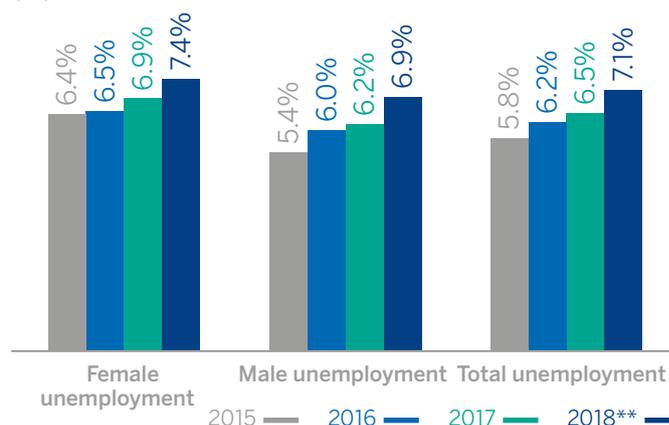
Despite good economic performance, in 2018 the unemployment rate rose by 0.6p.p. to 7.1%. This is accounted for by the 1.4% expansion in the labor force, larger than the increase in the occupied population (1.0%), putting greater pressure on the labor market.

This uptick was driven by the construction (4%), hotel & catering (6.6%) and education (3%) sectors. The main falls were noted in household-related activities such as domestic staff employers (-4.7%), public administration (-3.4%) and administrative and support services (-7.2%).

Pressure on the labor market was offset by an increase in the unemployed (bringing it up to 6.4%), around 37,140 more people than before. However, the proportion of those working part-time but who would like to work more, the under-employed, is 16.7%, down by 0.3 percentage points.

The participation and occupation rates fell by 0.2 and 0.5p.p., to 59.5% and 55.2%, respectively. The rate of unoccupied women posted at 7.4%, an increase of 0.5p.p. because of the 1.7% rise in the labor force, which was a shade higher than the 1.6% growth in the number of occupied women.

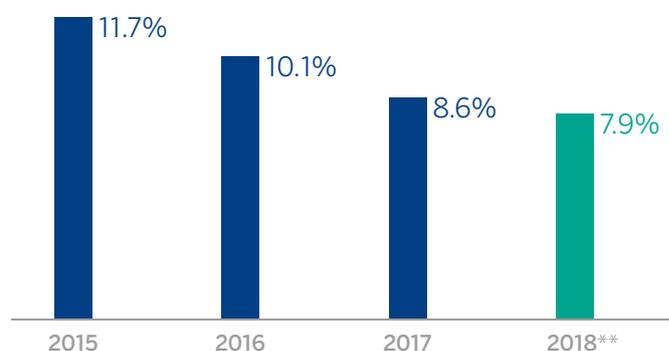
LABOR MARKET* (%)



INFORMAL SECTOR* (%)



MONETARY POVERTY* Population (%)



² Data from INE (the National Statistics Institute), the Chilean central bank and the Casen survey. Estimates by BBVAMF Research.

* INEI.
** BBVAMF Research estimate.

Macroeconomic environment

The number of unemployed women rose (by 2.7%), entirely due to the numbers of those looking for work for the first time (39.3%). Women's rates of participation and occupation stayed the same, at 48.9% and 45.3%, respectively.

The gender gap in the labor market remained stable, with men's unemployment rate at 6.9%, 0.5% lower than women's. The men's rate is 0.7p.p. higher than in 2017, the outcome of a 1.2% expansion in the workforce, which is larger than the 0.6% growth in the occupied population. The participation and employment rates were 70.4% and 65.5% respectively, revealing the significant gap –of 20.5p.p. and 20.2p.p.– with women in each case.

The rate of pressure on labor, that is, the number of occupied people looking for a job, plus the unoccupied and first-time job seekers expressed as a percentage of the work force, was 12.8%, expanding by 0.1p.p. from the year before. The rate of pressure on women rose by 0.2p.p. to 12.7%, whereas the statistic remained unchanged for men, at 12.9%.

Around 28.6% of jobs were in the informal economy, but the biggest growth in economic activity, even though it did not pass through to more employment, did bring about a reduction of 1.4p.p. in the occupancy rate in the informal sector. For men, the rate was 27.4%, while for women it was 30.3%.

The number of those occupied in the informal sector fell, principally among men (-2.4%) and, by age, in the 35–44 age group (-9.7%). By sector, the contraction of those occupied in the informal sector was mainly in the construction sector (-4.7%) and the manufacturing industry (-5.1%).

Poverty measured by income stood at 7.9% in 2018, according to the latest available Casen survey, a fall of 0.7p.p. from 2017 when it came to 8.6%. This puts the country's poverty levels among the lowest in the region.

Behind this percentage are 102,690 people in Chile who climbed out of poverty last year; there are still 1,481,361 people in poverty, of whom 393,779 are in extreme poverty, making up 2.1% of the population.

In 2006 income poverty in Chile affected 29.1% of the population, which means that over the last 12 years, around 3,275,875 Chileans have escaped it. However, even though income distribution has improved, as seen in the fall in the Gini ratio over the period, inequality has increased recently. The latest official survey showed that the incomes of the richest 10% are 39.1 times higher than those of the poorest 10%. In 2015 the multiple was just under 34 times.

FINANCIAL INCLUSION

According to the World Bank³, in Chile 74.3% of adults are banked, making it the country with the highest financial inclusion in the region. 67% of the adults in the poorest 40% of households are banked, compared to 79% of adults in the richest 60%, showing an inclusion gap by income differentiation of 12 percentage points, one of the smallest in the region.

71% of adult women are included in the financial system, representing a gender gap of 6.5p.p., in comparison with 77.8% of included adult men. The biggest gap (25.3p.p.) is between adults who are in the work force and those who are excluded.

54% of adults with primary education at best are included in the financial system, but this figure rises to 81% for adults who have completed secondary studies or higher, which confirms that unbanked adults are more likely to have a lower educational level.

Looking at the determinants for being unbanked, 54% of the unbanked give the main reason for exclusion as being that financial services are "very expensive". 23% have issues with the documents needed, 21% say that financial institutions are too far away, while 57% of adults alleged that the main reason was insufficient funds.

49% of adults have saved money in some way in the previous 12 months, but only 21% used a financial institution. In the segment of adults with the lowest 40% of incomes, 41% have made some kind of savings, but in this segment only 14% did so through a financial institution.

³ Global Findex 2017, World Bank.

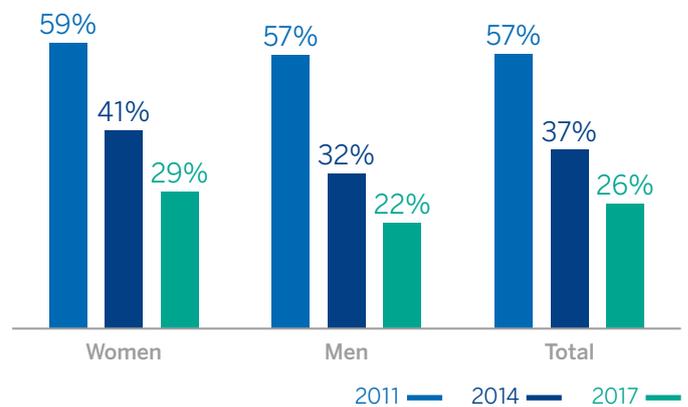
One of the purposes of savings was to begin or expand a productive activity. 17% of adults overall saved money in the previous year with this intention; while in the segment of adults with the lowest 40% of incomes it was 12%, this ratio rises to 20% in the higher income segment.

45% have received at least one loan, but only 13% have done so through a financial institution, whereas 15% have received their loan from family members or friends. For adults with lower incomes, although 38% have received a loan, only 12% have obtained it through financial institutions, whereas 15% borrowed the money from family members or friends.

According to local sources⁴, 98% of the population has a financial product of some kind. On average every Chilean has 5.3 products. One in every three adults has credit products, savings products and a checking account. 76% of the adult population has a checking account, while 69% and 52% have a savings or credit product, respectively.

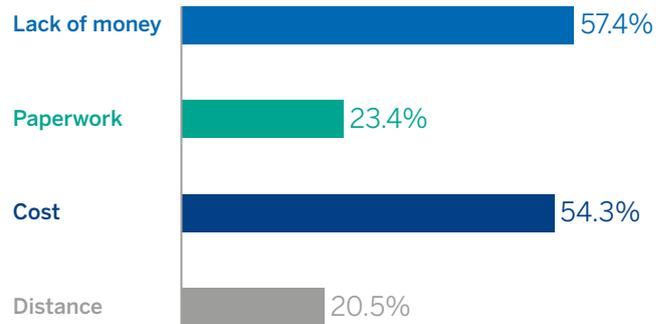
UNBANKED ADULTS*

Total over 15 years old (%)



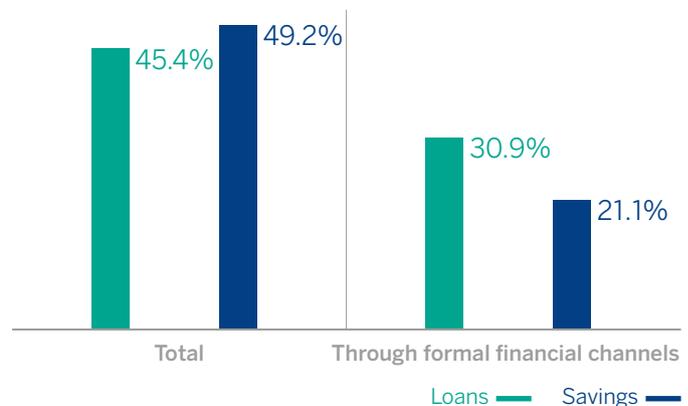
EXCLUSION FACTORS*

Excluded adults (%)



PRODUCTS IN DEMAND

Adults (%)



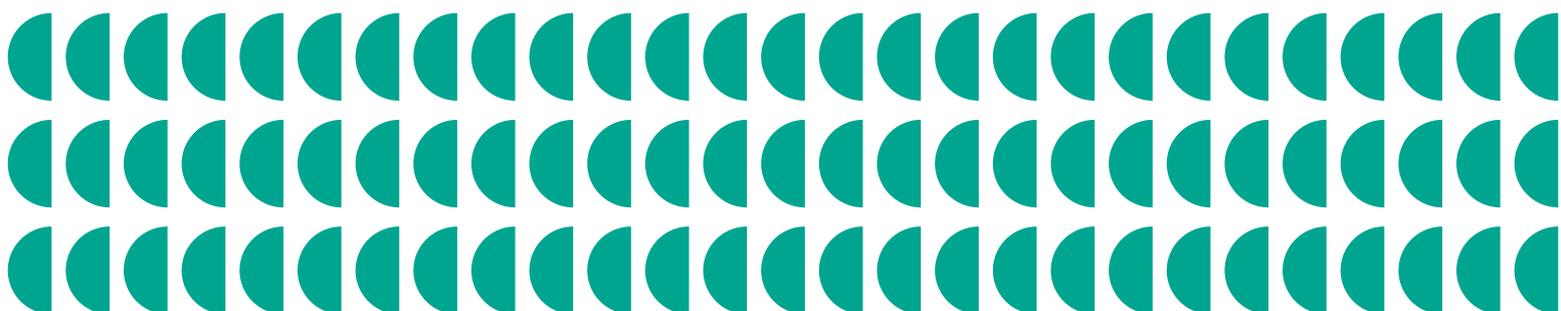
⁴ Source: 2016 Financial Inclusion Report. Chilean Banking & Financial Authority.

* Global Findex, World Bank.

Chile

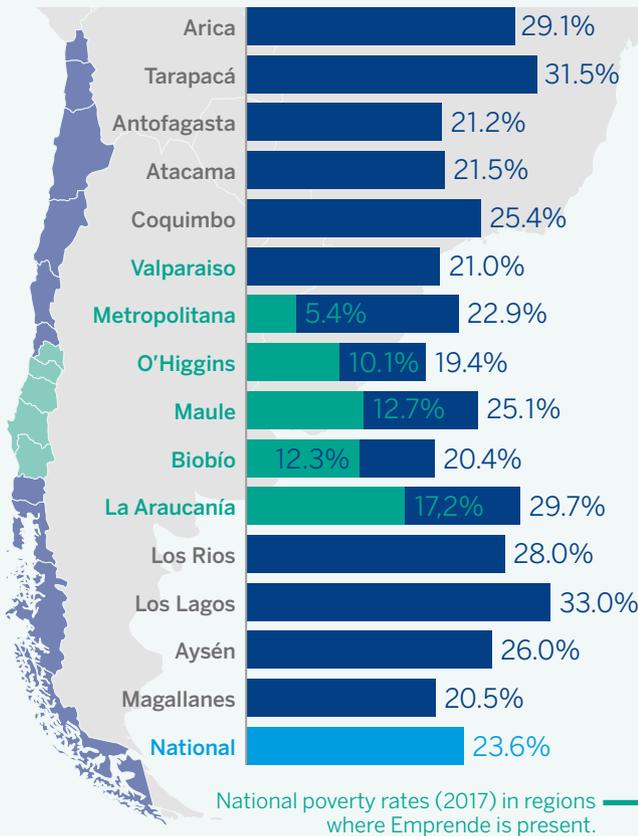
Emprende Microfinanzas

 SOCIAL PERFORMANCE
REPORT **2018**



Measuring the realities that help dreams come true

National data % regional labor force working as entrepreneurs (2016)¹



Emprende is present in the regions with the highest rates of poverty and where there are entrepreneurship opportunities.

% Poor According to the national poverty line²



Source: Emprende Microfinanzas. BBVAMF calculations.
 (1) INE (National Statistics Institute), Employment Survey. BBVA Research 2017.
 (2) National poverty rate according to Ministry of Social Development. Number of clients and financial data as of 12.31.2018.

1. CLIENTS High proportion of entrepreneurs in extreme regions

Total credit clients

8,788



New credit clients 2018

2,009

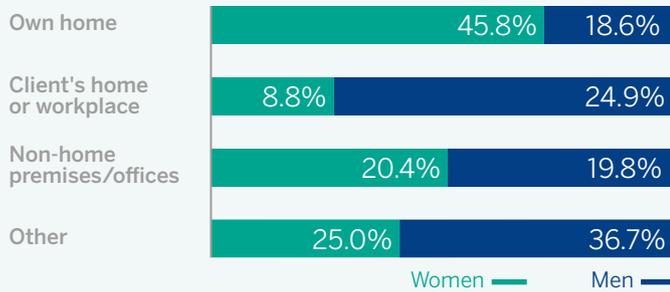




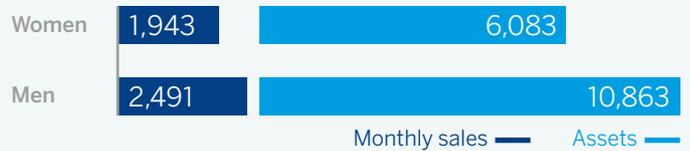
2. WOMEN'S PROFILE

Workplace, by gender³

National data 2017



Financial gaps in entrepreneurship, by gender



3. RELATIONSHIP

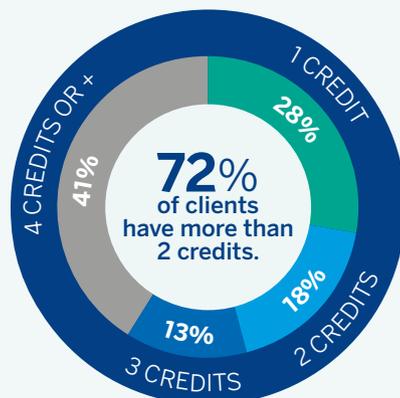
Providing timely and relevant products and services



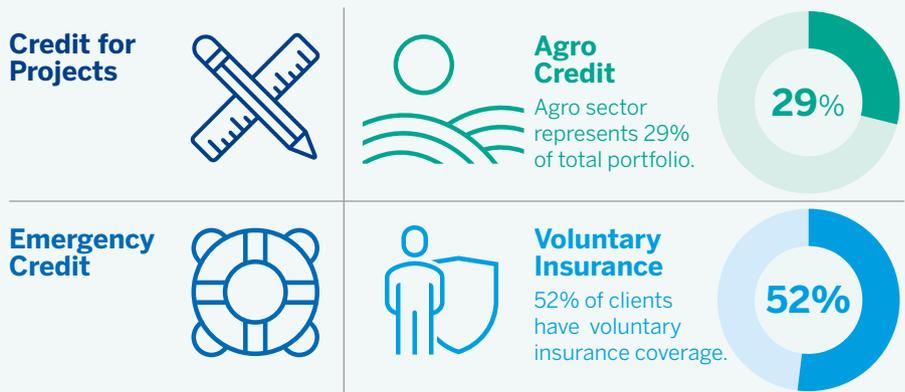
Average disbursement



High linkage of clients



Products adapted to clients' needs

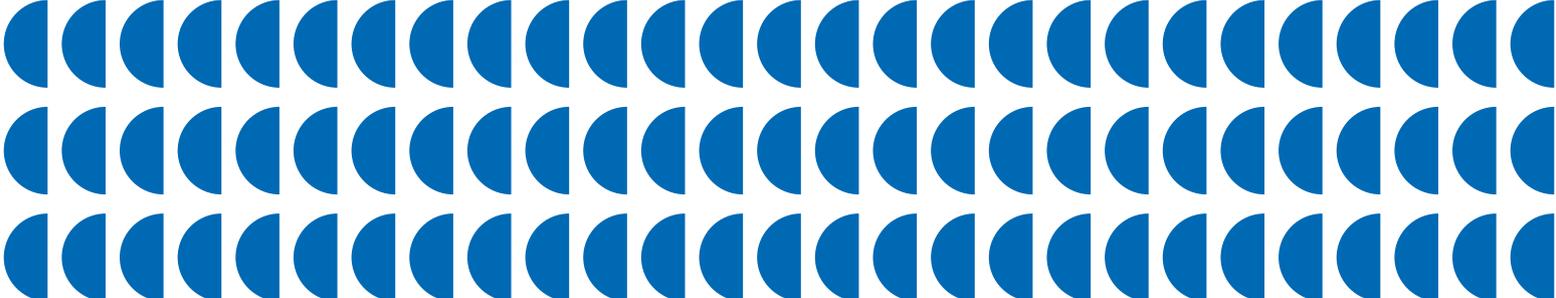


(3) 2017 Microentrepreneurial Survey (EME).

Panama

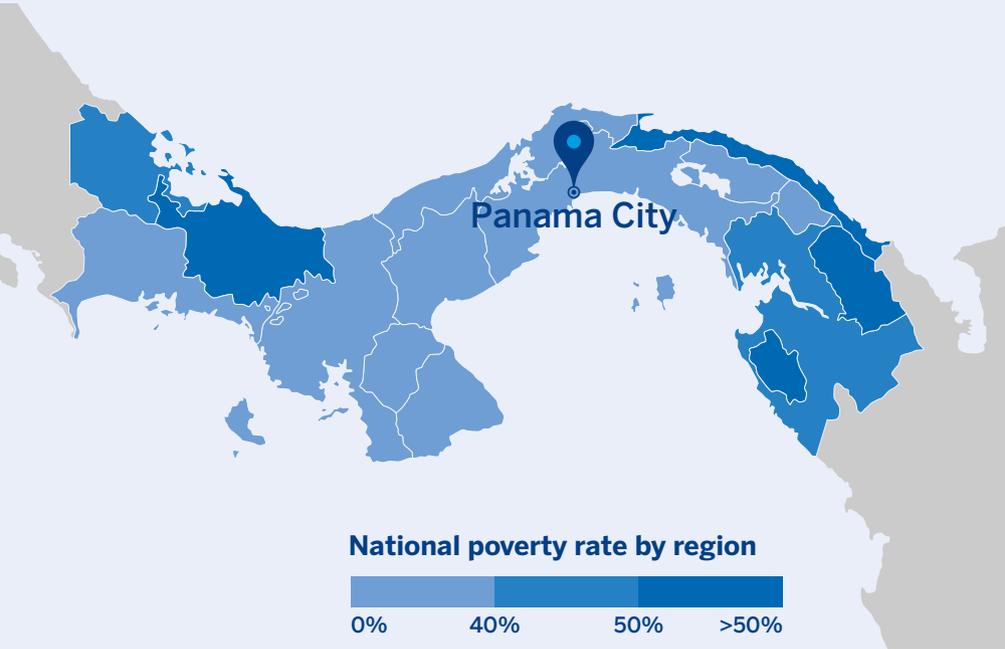
Microserfin

 SOCIAL PERFORMANCE
REPORT **2018**



Great entrepreneurs behind every number

National data



% Poor

According to the national poverty line¹.



54%
Unbanked adults².

1. CLIENTS Committed to vulnerable people

Total credit clients³

17,328



New credit clients 2018

4,760

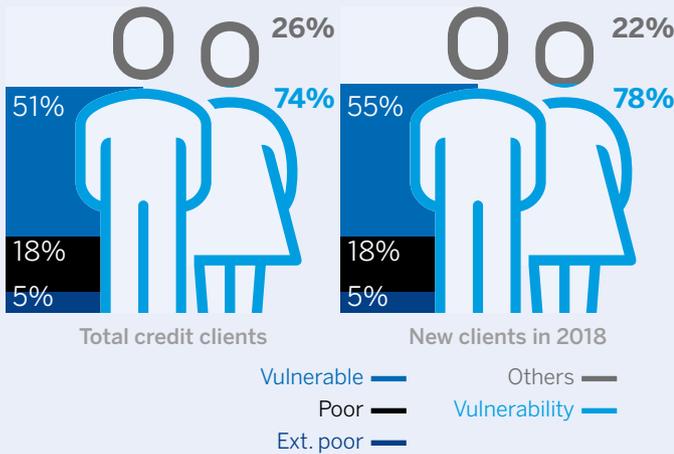


Source: Microserfin. BBVAMF calculations.

(1) National poverty rate according to the Economy and Finance Ministry, 2017. (2) Global Findex, 2017. (3) Data as of 12.31.2018.



Economic vulnerability
(%)



1 in every 2 new clients is rural, the environment in which poverty concentrates.

2. PROGRESS

Working with them as they develop



Clients who were poor at the outset with at least 5 loans.



Clients who take on new employees after three years.

3. RELATIONSHIP

Making a differentiated set of products and financial services available to clients

Branch offices



People receiving financial education



Service points



Loan officers



Average disbursement

Total clients served in 2018:



New clients (first loan) served in 2018:



Introduction

In Panamá, 20% of the population is still poor and 54% of adults do not have a formal bank account. By financing productive activities, Microserfin, Panamá's leading microfinance institution, is committed to mentoring these entrepreneurs along their journey.

In 2018 the Panamanian economy grew by 3.7%, one of the biggest activity hikes in the region. Lower growth compared to the previous year (5.4%), is due mainly to the effects of construction workers' month-long strike during the second quarter.

Panama has the lowest inflation in the region, closing 2018 at 0.2%, slightly lower than the 0.9% recorded in 2017, a result of the supply shocks that triggered rises in food and fuel prices. This situation was reversed in the second half thanks to the fall in the oil price.

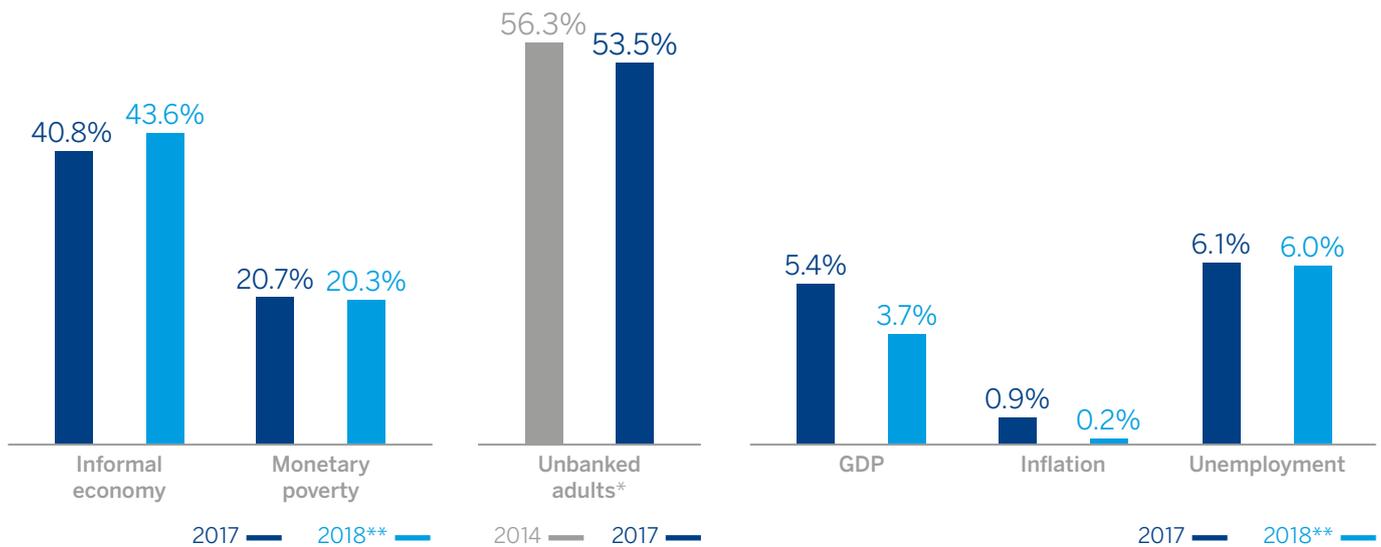
The unemployment rate came to 6%. Of those in work, 43.6% do so in the informal economy. By gender, female unemployment (7.6%) is 2.8 percentage points above that of men (4.8%), with a higher percentage of women working in the informal economy than men (44.5% vs. 42.9% respectively).

Panama has reduced its unemployment rate to 6%. Women are more likely to be unemployed or working in the informal economy.

46% of adults have a bank account. 42% of adult women are part of the financial system, as against 51% of men, making a 9 percentage-point gender gap. 48% of adults have saved some money in the last year, whereas 31% have received a loan of some sort.

For two decades, Soluciones de Microfinanzas S.A. (Microserfin) has built a significant track record in the microfinance environment, making it the first Panamanian institution to lead financial inclusion for small business owners using Productive Finance with relationship banking. This methodology puts the client at the center of our activity, encouraging sustainable development through the generation of surpluses over time, and decision making that helps them consolidate their improvements.

Microserfin is present in most of the country's poorest districts, serving clients in the provinces of Bocas del Toro, Coclé and Chiriquí. Since Panama is one of the most unequal countries in the region (after Guatemala and Colombia), reaching out to rural areas and indigenous districts is particularly important. In fact, the institution has specialized in these rural areas, where living standards are lower. There, among others, it serves agricultural entrepreneurs with personalized advice given by its loan officers.



Microserfin has been working with the Micro, Small & Medium-sized Enterprise Authority (AMPYME) since 2016 in a public-private partnership to push forward a national pact stimulating entrepreneurship. It has set up a working plan for the enterprise ecosystem with the vision of consolidating and institutionalizing its efforts by 2019.

Microserfin is working to reach rural areas and indigenous provinces to open up opportunities and reduce inequality.

KEY VOLUMES¹

Total clients

17,328

Number of employees

274

Number of branches

13

Gross portfolio (USD)

27,508,472

People receiving financial education

6,542

Amount disbursed in 2018 (USD)

19,535,498

Number of disbursements in 2018

12,590

Average disbursement in 2018 (USD)

1,552

Source: National Statistics & Census Institute (INEC), Ministry of Economy & Finance.

* Global Findex World Bank, 2014 & 2017.

** BBVAMF Research estimate.

¹ USD/PAB: 1, a 12.31.2018, BBVA Research.

Introduction

Microserfin mentors low-income entrepreneurs in order to raise their standard of living and that of their families, encouraging partnerships that are designed to help them go further. It is firmly committed to serving clients in the areas with the greatest inequality, promoting sustainable development throughout the country.

Microentrepreneurs look for financing alternatives to make their businesses grow and to provide a better future for their families. These credit clients have average surpluses (benefits) per household member (per capita) of USD 314 a month, roughly equivalent to 4.4 times the basic food basket.

Those entrepreneurs whose businesses do not give them enough income to buy this basic food basket are classified as extremely poor. Those who can afford the basic basket, but cannot pay for certain goods and services, clothing and housing, are considered monetarily poor. The price of this final set of goods determines the poverty line. In the case of Panama, it is USD 108 in rural areas and USD 145 in urban areas².

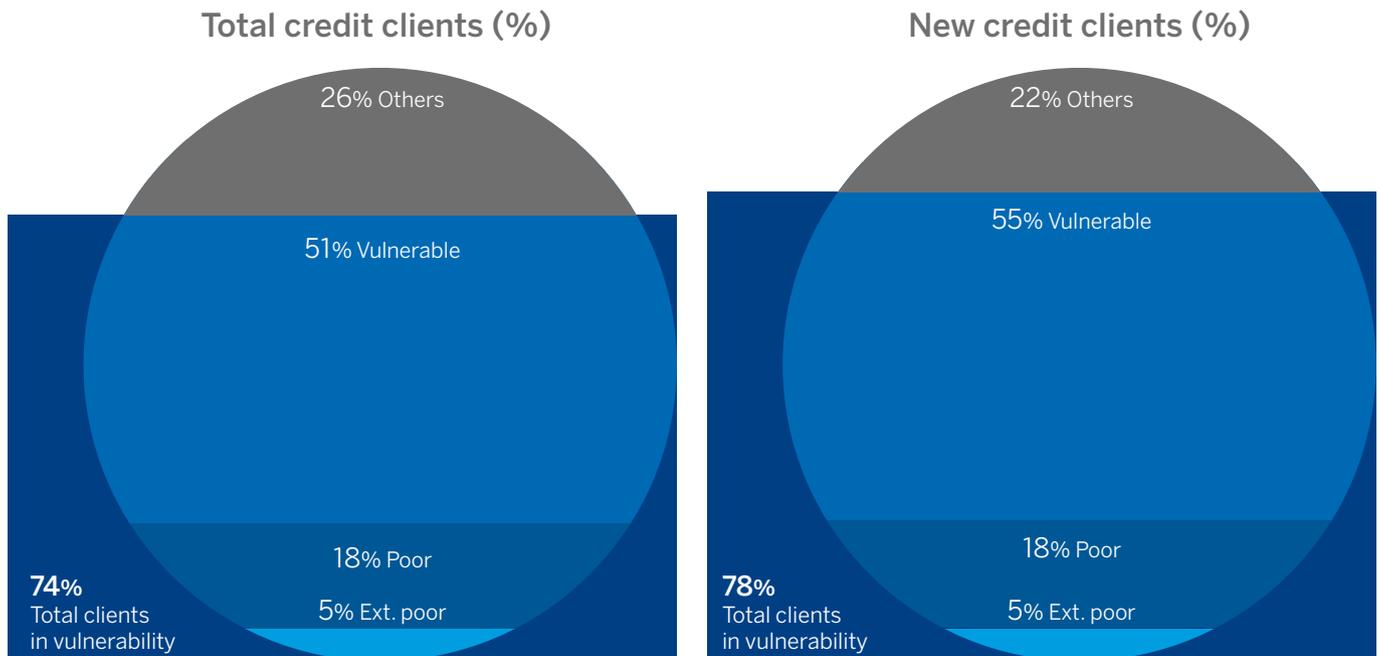
PRICE OF THE BASIC FOOD BASKET



Nevertheless, the category with the highest percentage of clients is made up of vulnerable people. These are entrepreneurs who, while not poor, have very volatile incomes, for whom a setback may cause them to fall back into poverty. The threshold for this classification is an income equal to the country's poverty line multiplied by three. 51% of credit clients fall within this category.

² 2017 poverty line published by the Economy & Finance Ministry, updated using end-of-year CPI figure.

CLIENT ECONOMIC VULNERABILITY*



In 2018, Microserfin served 4,760 new credit clients, 78% of them in vulnerability; of these, 23% had per capita incomes below the poverty line.

The effort to reach entrepreneurs who are excluded from the system has led the institution to reach out to rural areas and people with low levels of formal education, to offer them personalized advice and the opportunity to access funding that is easy to understand and close to hand.

78% of new clients served by Microserfin in 2018 are in vulnerability. 1 in 2 are in rural areas.

Over this year, Microserfin has made a big push forward in technology, with new core banking, which will give it more flexibility in adapting to clients' needs and giving them a better service.

Depending on the product type and client segment, the appropriate credit technology needs to be onboarded in order to develop and implement specialized operating processes and management systems in the microfinance portfolio.

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

1. Our clients

SOCIOECONOMIC PROFILE

Microserfin works to provide financial opportunities to clients with productive activities who are excluded from the banking system. Of the nearly 5,000 new clients served, 78% are in monetary vulnerability, 6 percentage points above the proportion of clients in vulnerability served in 2017. This shows the effort of the entity to expand its depth (clients with lower net per capita income).

The average income of poor clients represents 77% of the poverty line, leaving them with USD 103 a month to live on. In other words, 18% of clients served during 2018 had incomes of just USD 3.4 a day for each member of the household, and 5% (the extremely poor) generated net income of USD 1.6 a day per household member.

In terms of reach, 49% of clients served in 2018 conducted their activity in rural environments. Nevertheless, rapid urbanization has led to an increasing concentration of poor people in cities. Of clients served in urban areas in 2018, 84% are in vulnerability.

Another relevant factor is their level of education. Just 38% of the population with primary education at best has an account in a financial institution³. In fact, in the case of Microserfin clients, urban clients with little formal education (primary at best) are those with the greatest degree of vulnerability (89% of them).

The gender gap is also apparent among Microserfin clients, particularly when one looks at households' final disposable income. Business financial volumes show similarities in terms of sales –women receiving financing in 2018 for the first time have average sales of USD 1,551 compared to men's USD 1,597, making the gap just 3%–, but this widens when we look at business margins reaching 15% in the case of per capita surplus for each household member.

Urban clients without secondary or higher education have higher levels of vulnerability: 89% are in this category.

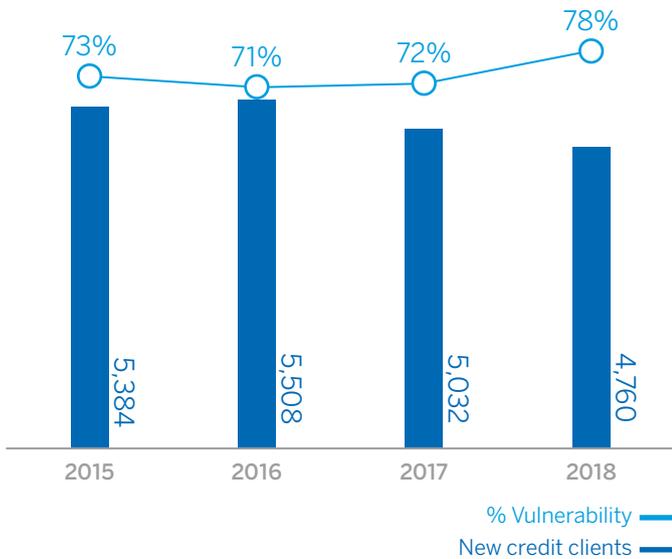
(1) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.

³ Global Findex World Bank, 2017.

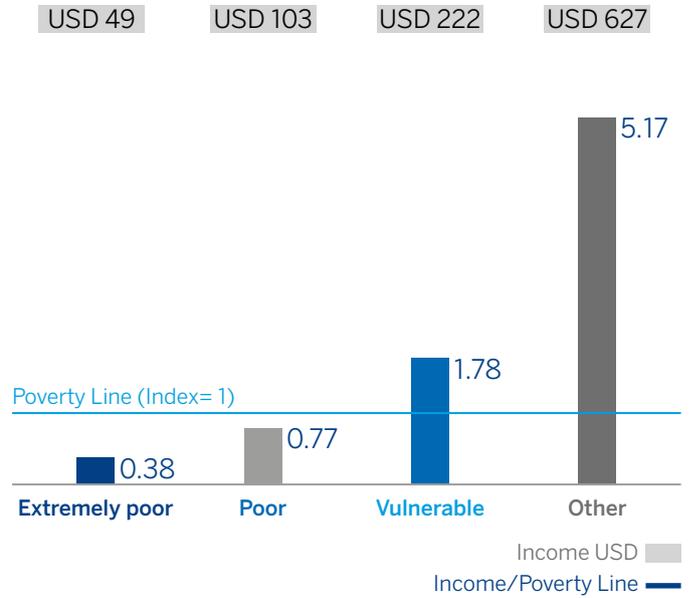
(2) According to the country's official poverty line. New clients (no previous loans) signed up over the year.

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

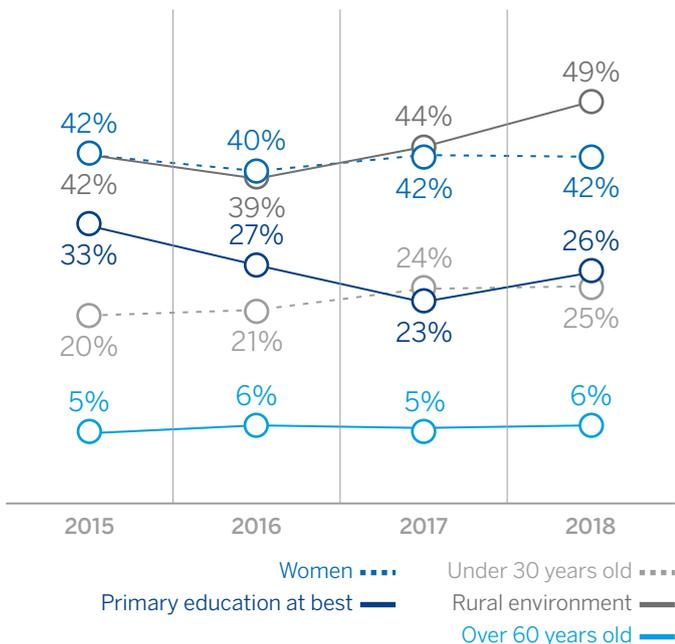
1 NEW ENTREPRENEURS SERVED
New credit clients by cohort



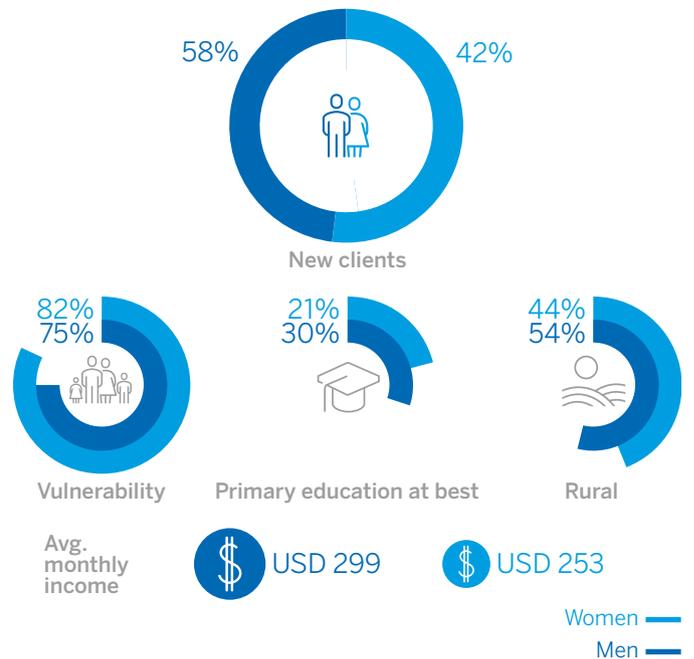
2 ENTREPRENEURS' INCOME
Income against Poverty Line



3 NEW CLIENT PROFILES
New clients by cohort (%)



4 PROFILE BY GENDER
New credit clients (%)



1. Our clients

PROFILE OF THEIR BUSINESSES

Because of its strategy of serving clients in rural areas, Microserfin focuses to a large degree on the agricultural sector (36% of the total). These entrepreneurs have lower average sales than other sectors, in the case of both poor and non-poor clients. Their expenditure is also lower than in other sectors, so a higher percentage of these sales passes through as surplus: 44% of sales is net income, compared to retail trade businesses, where the percentage falls to 30%.

At lower degrees of vulnerability there are bigger sales and economies of scale and, as such, greater efficiency. Thus, clients in extreme poverty have net incomes as a proportion of sales of 24%, compared to vulnerable clients, who achieve surpluses of 41%.

The poorest clients seek out small-scale activities which require little technical know-how and allow them to generate liquidity fast such as, for example, relatively simple businesses in the farming sector (cereal crops) or retail trade (food and beverages sales).

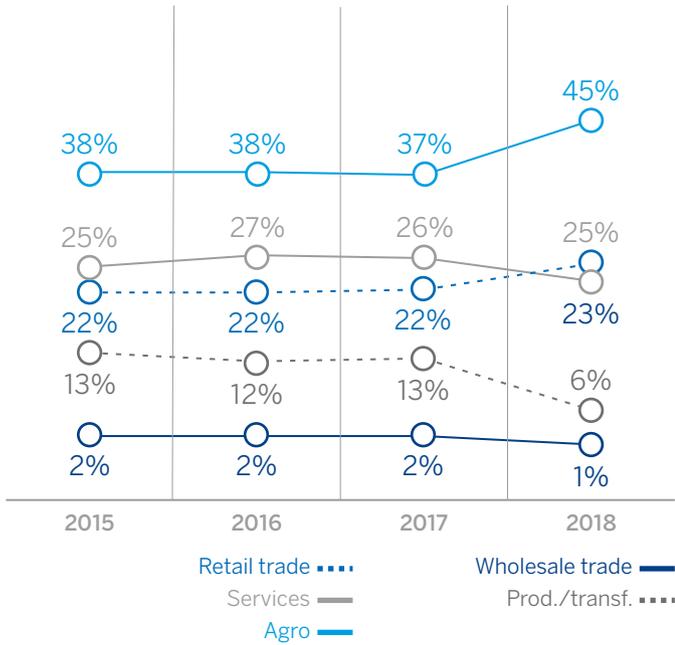
We also see that in the case of Microserfin clients, men and women choose different businesses. Women tend to set up enterprises in retail trade or services (taken together, 59% of them work in these types of activities), while men mainly work in agricultural activities (45%).

Women have higher educational levels, but their difficulties in accessing the job market are greater (there are higher rates of unemployment, more informal employment, etc.). Becoming an entrepreneur and access to finance are a great opportunity for reducing these gaps.

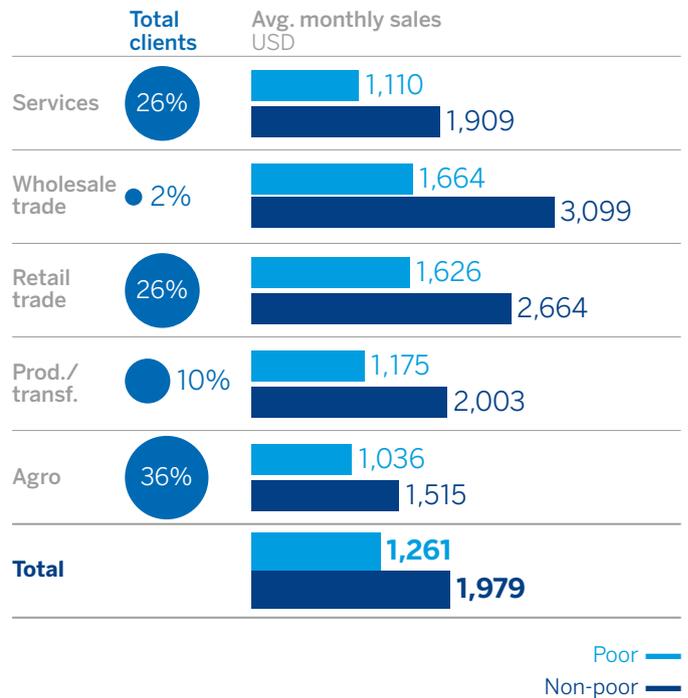
(6) Data on average monthly sales in each sector, segmented by clients below the poverty line (PL: extremely poor and poor) and clients above the PL (vulnerable and others).

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

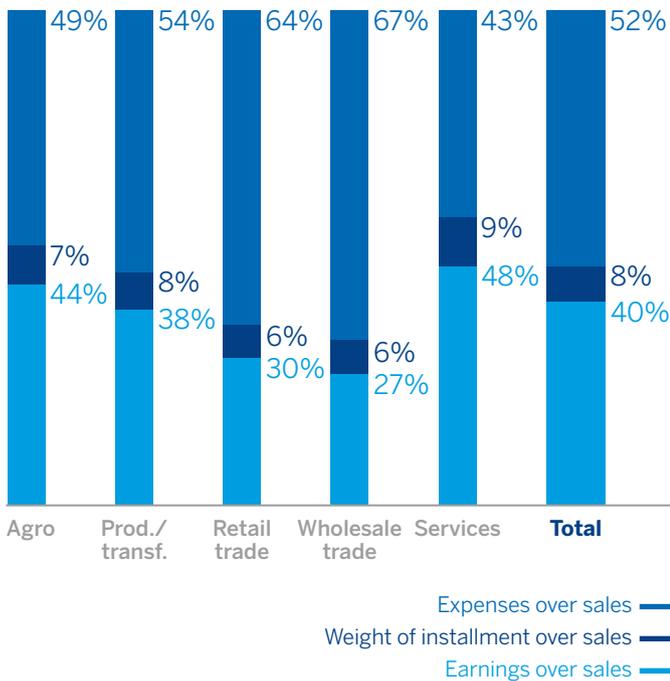
5 ACTIVITY SECTOR
New clients by cohort (%)



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



7 P&L- MARGINS OVER SALES
Total credit clients



2. Our clients' development

GROWTH OF THEIR BUSINESSES

The longer clients have been banking with the institution, the more we see sustained growth in their business surpluses. Thus, their household contribution (per capita net income) has a stable correlation with the national poverty line (PL).

Clients' incomes grow with each successive loan they take out. When they sign up for their first credit, in extreme poverty, their relative income ratio is 0.37 (that is, 37% of the PL), so their business income needs to triple if it is to get over the poverty threshold.

Vulnerability is characterized by volatility, or the possibility that there may be unexpected reductions or drops in income that once again endanger the standards of living achieved, altering the household's financial status.

When we analyze clients who have taken out fewer than five loans with the institution, and who were in poverty at the outset, we see that more than one in three has overcome it (37%). Nevertheless, some fall back into poverty (23% of the total). Non-poor clients also suffer volatility, although less so than in the previous category, at a rate of 11%.

It is critically important to carry on supporting our entrepreneurs as they accumulate assets, thus reducing their volatility and improving their performance.

As is also the case in the BBVAMFG, some studies suggest⁴ that the loans granted to accumulate assets are concentrated in the formal financial sector. Asset accumulation leads to wealth creation⁵. As a result, it is critically important to support these entrepreneurs wanting to accumulate assets in order to reduce economic inequality.

(8) For the sample of clients served between 2011 and 12.31.2018 –classified according to their situation when they took out their first loan– per capita earnings (income) at each credit cycle are 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.

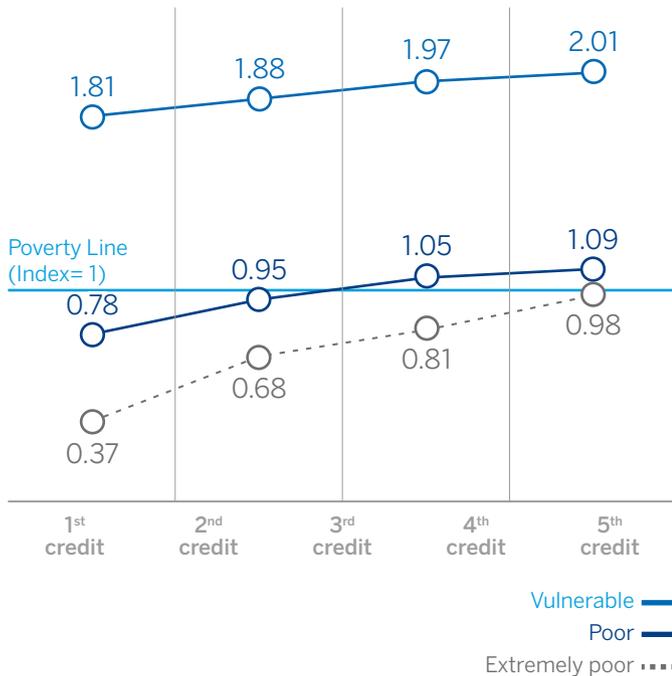
(9) Sample of clients served between 2011 and 12.31.2018 who have had at least five disbursements. The number of times a client crosses the PL is analyzed. Volatile: Clients whose incomes fluctuate across the PL more than once.

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

⁴ Deere & Catanzarite (2017) "Who receives loans to accumulate assets?", ECLAC journal, N° 122 Economic Commission for Latin America and the Caribbean (ECLAC).

⁵ Figueroa, A. (2011), "Income inequality and credit markets", ECLAC journal, N° 105.

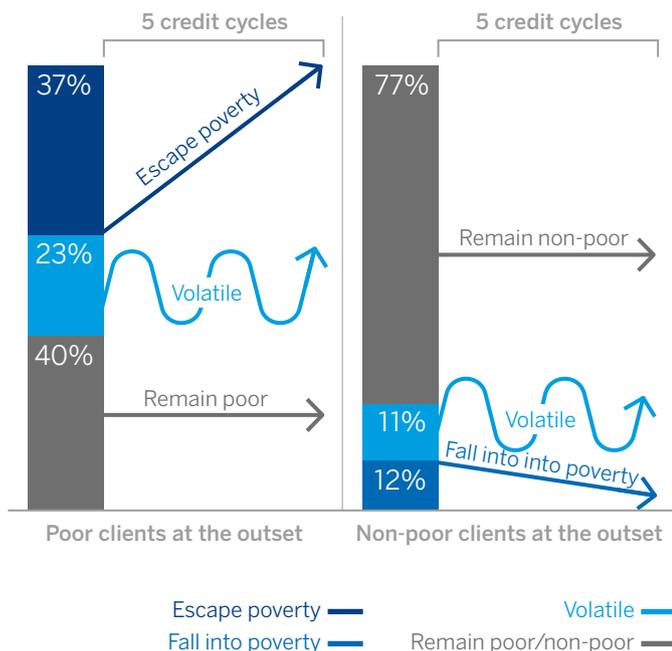
8 GROWTH IN INCOME
Income of segment over Poverty Line



The longer clients bank with us, the better their business performance.

Staying with our clients as they take out successive loans helps them to manage their finances better and to reduce their income volatility.

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



2. Our clients' development

INDIRECT IMPACT

Microenterprises are generally an important part of all countries' economies. According to data from INEC, the national statistics body, 27% of the active population is self-employed, is an employer (ie. with at least one employee) or works within the family unit. 27% of the clients served by Microserfin generate at least one additional job, while the remaining 73% have a microenterprise in a self-employed capacity.

As clients become less vulnerable, they are capable of generating more jobs and of having a positive impact on the communities where they develop their activity. After five years, 7% of clients have succeeded in generating more employment.

One of the key points in entrepreneurship lies in transferring business improvements so that they impact on entrepreneurs' families and their standard of living. We now have measurements on housing that demonstrate how, in the fourth year, 3% of clients have managed to improve their housing status and, as such, make tangible improvements to their situation.

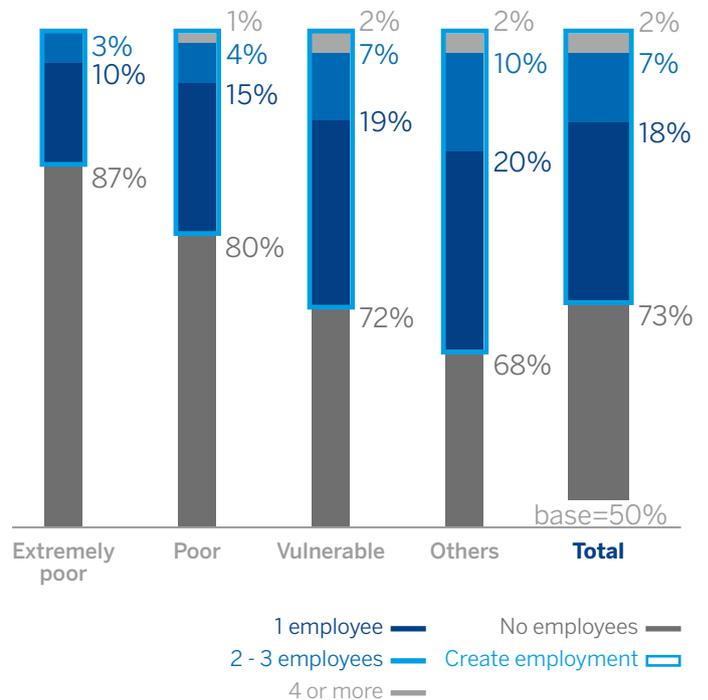
The Government of Panama has been publishing data since 2017 on multidimensional poverty, which measures the population's deprivations in the areas of education, employment, housing and healthcare. In 2018 this indicator stood at 19%, 0.1 percentage points better than the 2017 measurement. The institution's Casafin product is highly instrumental in supporting this client improvement.

(10) Considers the number of employees in current clients' business at 12.31.2018.

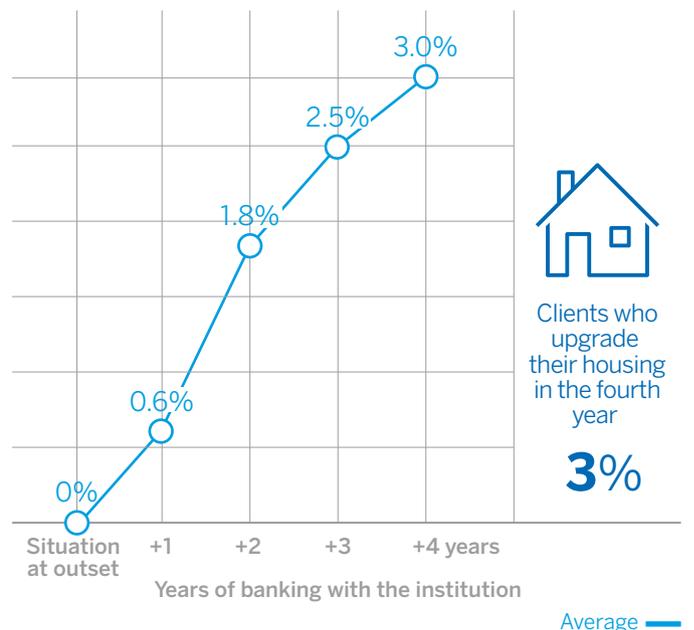
(11) Considers the increase in the number of employees compared to the outset, in the businesses of clients current at 12.31.2018. Averages for the 2013–2018 cohorts (year of entry).

(12) 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).

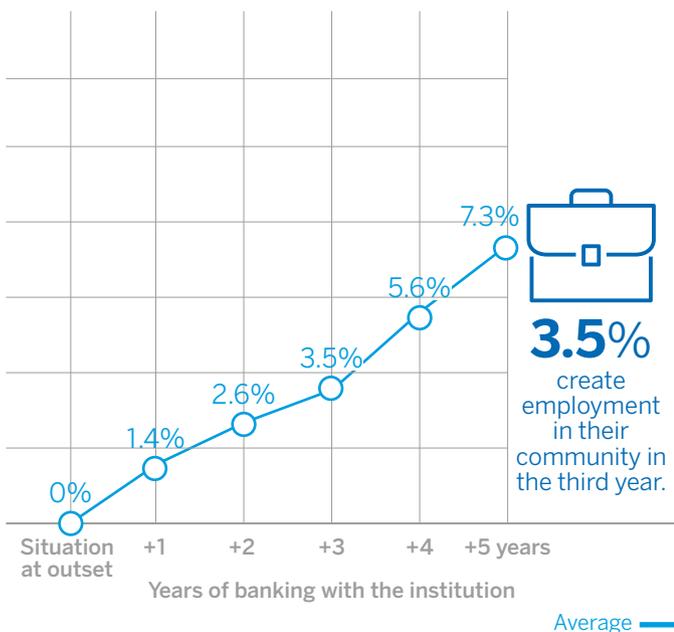
10 EMPLOYEE BREAKDOWN
Clients according to n° of employees in their business



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



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



19% of Panamanians are in multidimensional poverty. This indicator takes into account issues such as access to education, health, housing and employment⁶.

⁶ Economy & Finance Ministry, 2017.

3. Relationships with clients

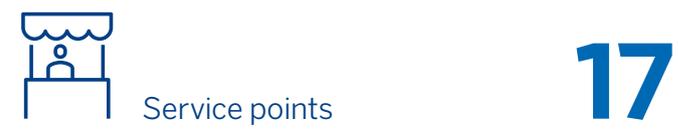
RELATIONSHIP WITH OUR CREDIT CLIENTS

In order to reach the entrepreneurs with the least opportunities who are excluded from the system, Microserfin needs a network that gives it capillarity throughout the length and breadth of the country. For this reason, it has 105 loan officers, 13 branch offices and 17 express offices.

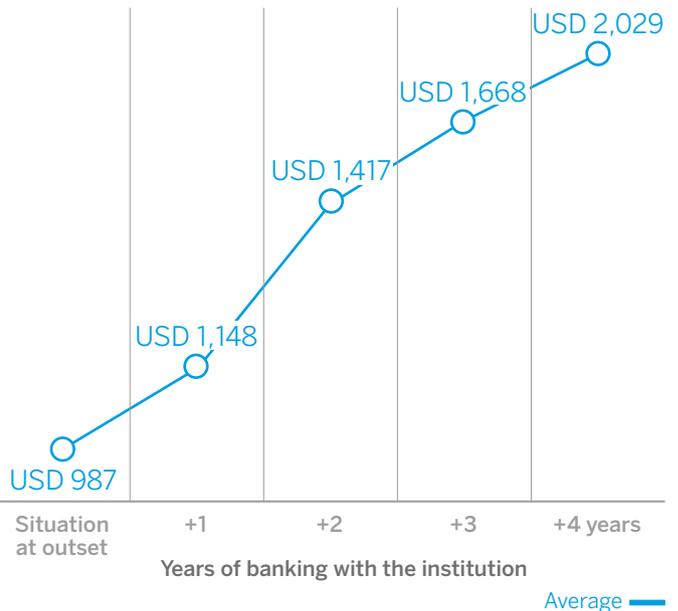
Long-term relationships between the institution and its clients enable us to track greater growth in their businesses, as well as access to higher sums in their financing. In 2018, the average disbursement for the first credit was USD 1,259, i.e. 18 multiples of the basic food basket. Given the level of client sales and the average loan term, this works out as a repayment installment of 7% of sales.

The longer clients remain with the institution, and as their credit history becomes more detailed, they can access bigger loans to give more momentum to their business. On their second loan the disbursement sum is 16% higher. The figures show that 52% of clients access a second loan.

Microserfin faces many challenges. It must consolidate its position and improve its services using ICT systems that generate relevant information that in turn enable its clients to take optimal financial decisions.

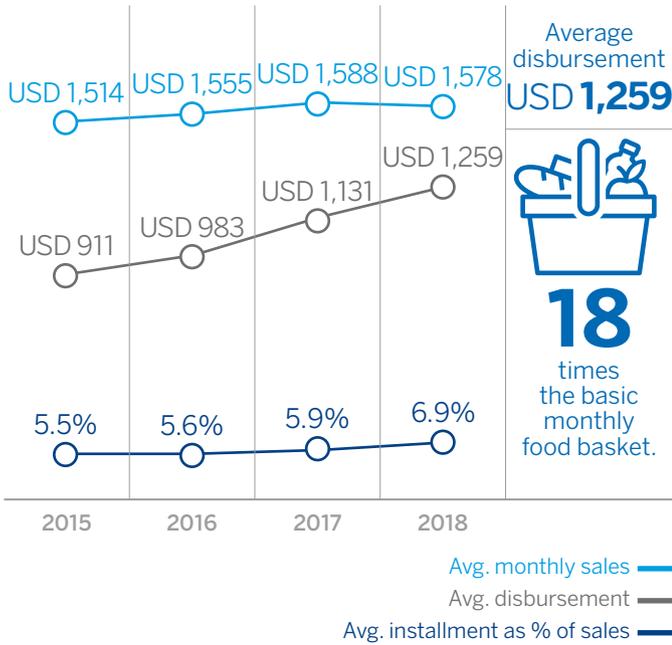


14 GROWTH OF AVERAGE DISBURSEMENT
Change, by duration of relationship



- (13) 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).
- (14) 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.
- (15) 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).

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



“We are simple farmers, sowing seeds of faith on an uncertain path of events, shared experiences and dreams of our Latin American land.”

Rubén Blades
Singer-songwriter

15 RETENTION & RECURRENCE
Of credit clients

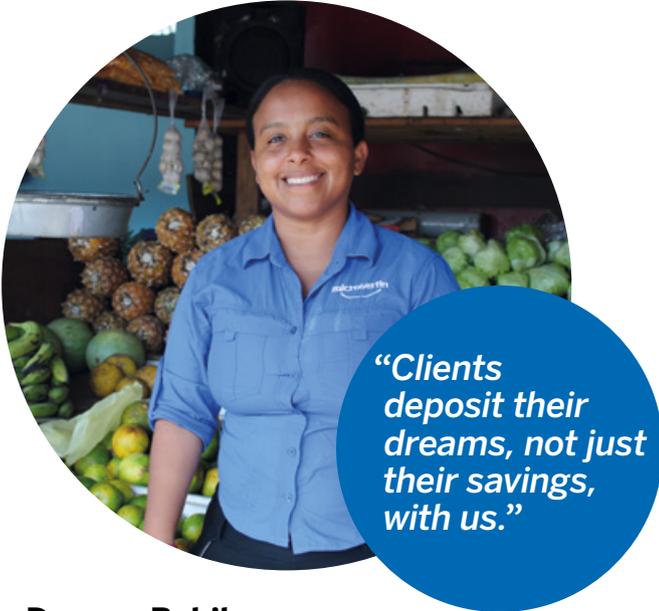
Clients with performing credit after x years

Situation at outset	+1	+2	+3	+4	
Retention	100%	72%	42%	33%	26%

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

	1 st credit	2 nd credit	3 rd credit	4 th credit	5 th credit
Recurrence	100%	52%	33%	22%	15%
Distance (days)	–	406	417	405	385

Partnerships to reach those who need it most



Dayana Babilona
Microserfin loan officer

“When my clients hear about Microserfin and its determination to include them in the country’s economic activity, they put their trust, and even their dreams, in the institution. They are entrepreneurs who are committed to giving back something positive to the country and grateful that they have been able to grow in Panama”.

Dayana remembers her client Juan Manuel Hincapié, originally from Colombia, who came to Panama 7 years ago as a refugee. He couldn’t get a job in the formal economy, so he decided to set up on his own, with a small cart selling the traditional rice drink “chicha” and food prepared by his wife, with a motorized service to transport them.

A client of Microserfin since 2014, he has always felt supported by them as he keeps his company moving and helps his family back in Colombia. Now he is a courier for insurance companies and sells all sorts of merchandise: perfumes, clothes, telephones, among others.

To provide access to banking services to refugees so that they can develop their enterprises and integrate into Panamanian society, solid partnerships need to be made. In 2018 the United Nations’ High Commission for Refugees (UNHCR), Red Cross Panama (RCP) and Microserfin renewed their agreement for the third time to finance enterprises led by people who have applied for refugee status in Panama.

In 2017, the number of asylum applicants in Panama was more than 2,500, 60% up on the year before. Most of them come from Venezuela and Colombia.

UNHCR and its partners carried out a diagnosis, in which the refugees stated that one of the challenges they face in the integration process continues to be access to financial systems and the opportunities for self-employment. The Panamanian government, through the National Refugee Office (ONPAR), UNHCR and civil society, continue working to promote actions designed to raise awareness about the refugee population’s situation and access to basic services that make it easier for them to integrate into society.



What UNHCR does

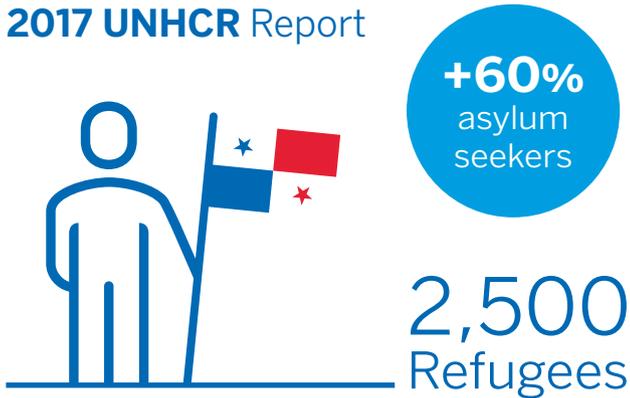
For more than 60 years, the agency has helped tens of million of people to restart their lives.

- More than **11,000 people** work for UNHCR around the world
- UNHCR works in **130 countries**
- **67.7 million people** have been served by UNHCR in 2017

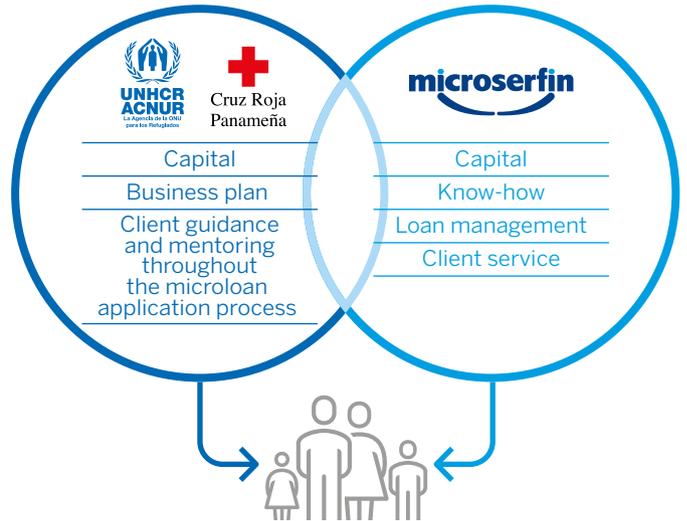
Through the Panamanian Red Cross, UNHCR helps refugees write a business plan, guides and steers them throughout the entire microloan application process and puts them in contact with Microserfin so that they can get loans.

ASYLUM APPLICATIONS

2017 UNHCR Report



3rd PARTNERSHIP AGREEMENT BETWEEN UNHCR, RCP & MICROSERFIN



How to integrate them?

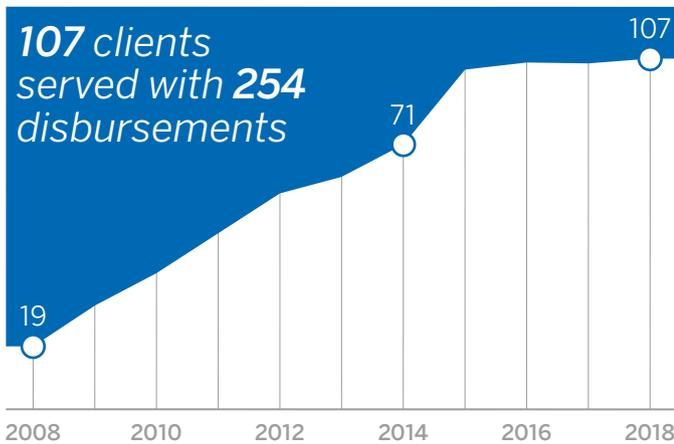
Helping them with their enterprises, making their access to financial resources smoother.



- Access for asylum seekers to financial resources for their enterprises
- Economic and social integration for refugees' families

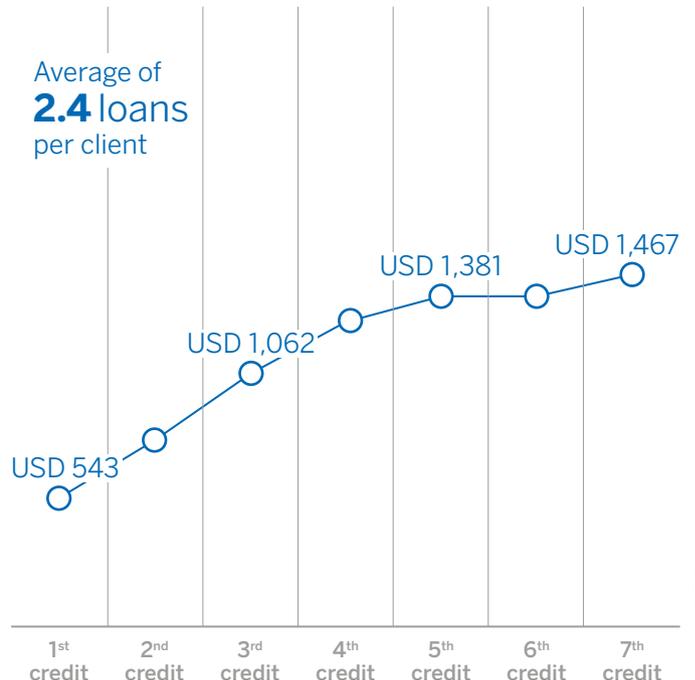
CLIENTS SERVED

Nº of clients



AVERAGE DISBURSEMENT PER CREDIT CYCLE

Total disbursements USD 202,950



SECTORS IN WHICH THEY SET UP BUSINESSES



Macroeconomic environment

ECONOMY¹

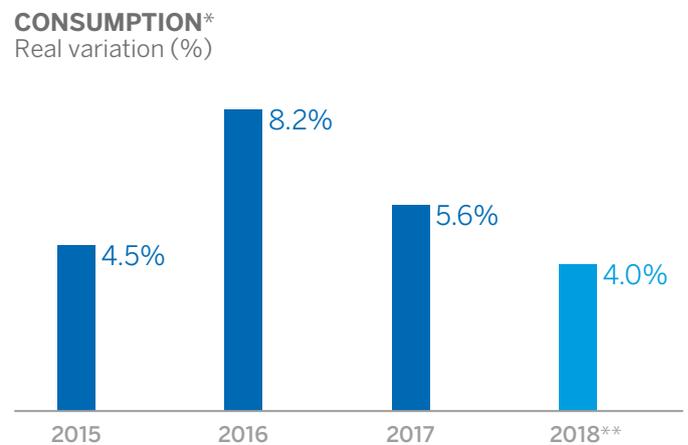
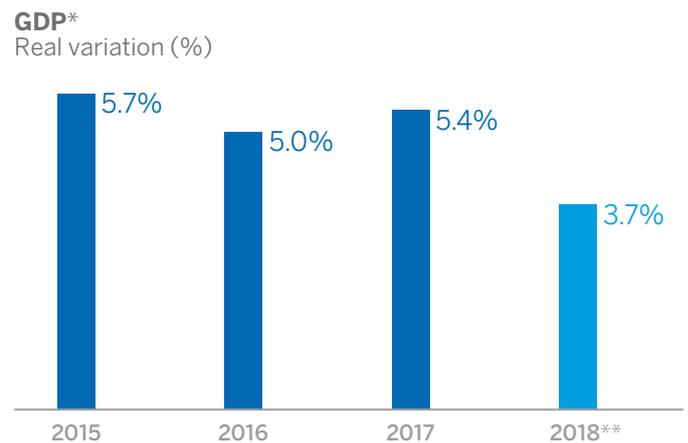
The Panamanian economy grew by 3.7% in 2018, making it one of the countries with the biggest increases in activity in the region. Growth was lower than the year before (having posted at 5.4% in 2017), mainly because of diminished activity in mining and quarrying and, in the construction sector, to the reduction in the area under construction and the effects of a long workers' strike in the second quarter of 2018.

Turning to events in the construction sector, real estate activities were impacted by the reduction in the area under construction and because of the need to register properties in the Public Registry, which translated into lower growth compared to the previous year.

The strike by construction workers –from April 18 to May 18–, had a direct effect on private-sector projects and on business owners' willingness to invest, as well as on some public-sector projects. However, investment in public infrastructure projects enabled the sector to stay in positive growth.

In addition to the problems arising from the stoppage, throughout the year there has been a lack of coordination at several levels of government and state bodies, which has also impacted on economic momentum.

During the quarter the strike took place, GDP growth was 3.1%, with the result that the first semester posted growth of 3.5%, that is, 1.7 percentage points (p.p.) below the same period in 2017.



¹ All data from the National Statistics & Census Institute (INEC). Estimates to end of 2018 by BBVAMF Research.

* National Statistics & Census Institute (INEC).
** BBVAMF Research estimate.

Activity returned to normal in the second semester and growth rose to 3.8%. The most dynamic sectors were transport, storage and communications. The causes were the increase in net tonnage going through the Panama Canal, the rise in the number of passengers transported by air and telecommunications, as well as trade, particularly the rally in wholesale trade and in the Colón Free Trade Zone.

In fact, wholesale activity in the Colón Free Trade Zone surged by 14.6%, mainly accounted for by re-exports of chemical industries products, machinery and electrical equipment.

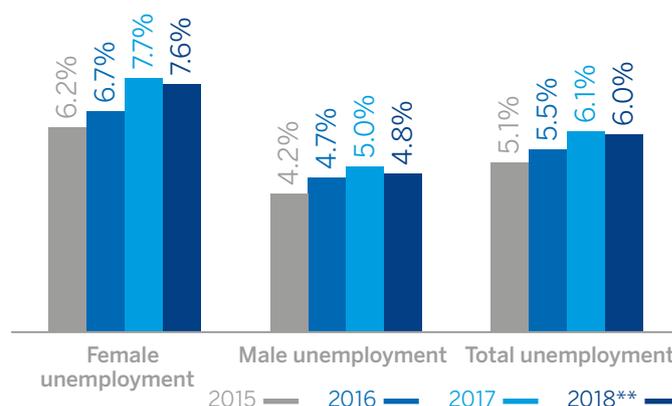
On the demand side, investment continues to be the main economic driver, within a consumption environment that is stable in real terms, bringing it to over 4% in 2018.

Inflation has remained low and steady. In 2018 it closed at 0.2%, slightly down on the 2017 result of 0.9%, although the average over the year posted at 0.8%. This is partly a result of the supply shocks, which pushed up food and fuel prices. However, these shocks were absorbed, mainly in the second semester, by the fall in oil prices, making Panama the country with the lowest inflation in the region.

EMPLOYMENT, POVERTY AND WELFARE²

The atypical reduction in economic activity in 2018, essentially a product of the temporary stoppage of activities because of the construction strike, was reflected in the fact that the unemployment rate fell by 0.1p.p. over the year, to 6%. By gender, the unemployment rate among men was 4.8%, whereas for women it was 7.6%.

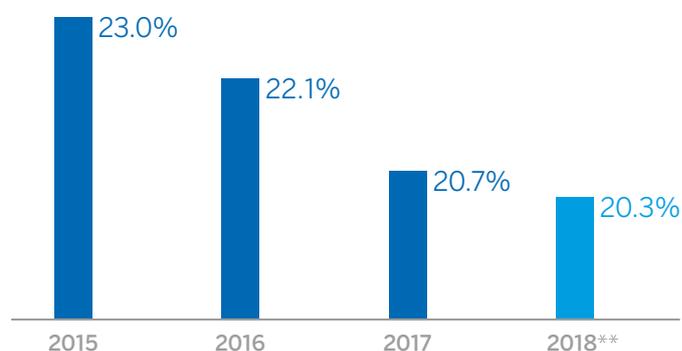
LABOR MARKET* (%)



INFORMAL SECTOR* (%)



MONETARY POVERTY* Population (%)



² Data from the National Statistics & Census Institute (INEC), Economy & Finance Ministry and Cepal. Estimates by BBVAMF Research.

* National Statistics & Census Institute (INEC).
** BBVAMF Research estimate.

Macroeconomic environment

In the 2018 labor market, the economically active population (occupied and unoccupied) rose by 4.4% over the year before. This segment of the population increased in both the urban areas (58,041 more people), and in the rural areas (26,422 people). The national economic participation rate posted at 65.4%, an increase of 1.4p.p. from 2017.

By gender, there was a 1.2p.p. rise for men, and a 1.6p.p. rise for women, putting the participation of men and women this year at 78.8% and 52.8%, respectively, meaning the gender gap is therefore 26p.p.

43.6% of the occupied population, that is, 679,166 people, work in the informal economy, an increase of 2.8p.p. over the previous year. By sex, there was a higher proportion of women occupied in the informal economy than men (44.5% and 42.9% respectively).

Around 20.3% of the Panamanian population, about 844,233 people, are in a situation of poverty, with incomes under the monetary value of the national poverty line per person, per month. Their incomes are insufficient to buy a basket of basic foodstuffs, goods and services. In 2015 the poverty rate stood at 23%. Since then, to the end of 2018, around 70,110 people have escaped poverty. The greatest reduction has occurred in rural areas and in indigenous districts. In the latter, the percentage shrank from 79.6% in 2017 to 77.9% in 2018 (according to own estimates).

Extreme poverty was recorded at 9.7%, which means that around 403,401 people found themselves in this condition. Despite the improvements, principally an outcome of state assistance and social programs, the extreme poverty rate in indigenous communities was still 63.1%, compared to the remaining provinces where the average was 6.1%.

In 2018, the Gini ratio, which has values from between 0 (representing the absence of inequality) and 1 (maximum inequality), in Panama was calculated as 0.509, an improvement on 2016, when it was 0.513. Even so, it is still one of the most unequal countries in the region, only surpassed by Guatemala and Colombia. This lays bare an unequal level of incomes, above all in the provinces, rural areas and indigenous districts, where the standard of living drops because of the difficulties in covering basic needs and a more limited supply of public services.

FINANCIAL INCLUSION

According to World Bank data³, 46.5% of adults in Panama are banked; this is below the average for Latin America (54.4%) and for countries with similar per capita incomes (73.1%), making it one of the countries in the region with low financial inclusion.

The gap between rich and poor has not narrowed since 2011. Possession of an account is 23 percentage points higher among adults living in one of the richest 60% of households in the country than among those living in the poorest 40%. In 2011 this figure was 11p.p., so it has doubled in the last seven years.

42% of adult women are included in the financial system, creating a gender gap of 9p.p., given that 51% of adult men are included. Women are still lagging behind men and as financial inclusion becomes more widespread, this gap widens. In 2011, it was only 3.2p.p., a third of the current figure.

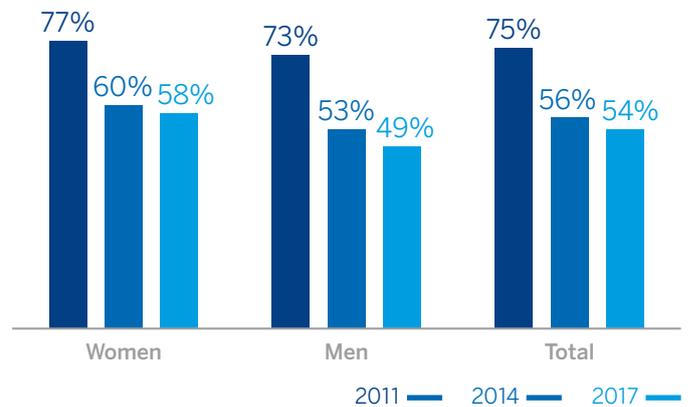
³ Global Findex 2017, World Bank.

Actively working people are less likely to be unbanked. Whereas 35% of all adults in Panama are outside the workforce, among unbanked adults the percentage rises to 40%. And among the unbanked, women are more likely than men to be outside the workforce.

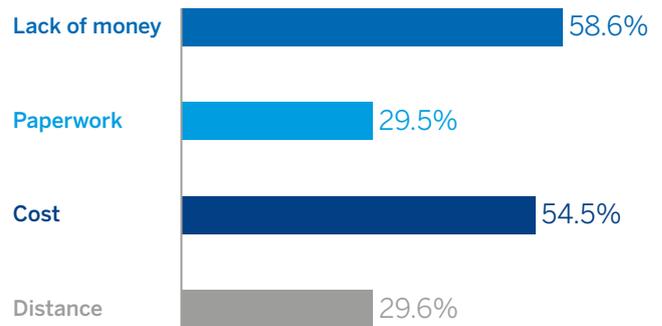
Looking at the factors that determine the condition of being unbanked, 55% cite as the main reason for exclusion that financial services are “very expensive”. 30% have problems with the documents required to open an account, 30% of adults state that the financial institutions are too far away, while 59% indicated that the main reason is lack of funds.

48% of adults have saved money in the last year, of whom 14% did so through a financial institution. 30%, meanwhile, have received a loan, but only 13% have been granted it by a financial institution, a fall of 4.2p.p. in the use of financial institutions compared to 2014. 10% use family members and friends to finance their activities or needs.

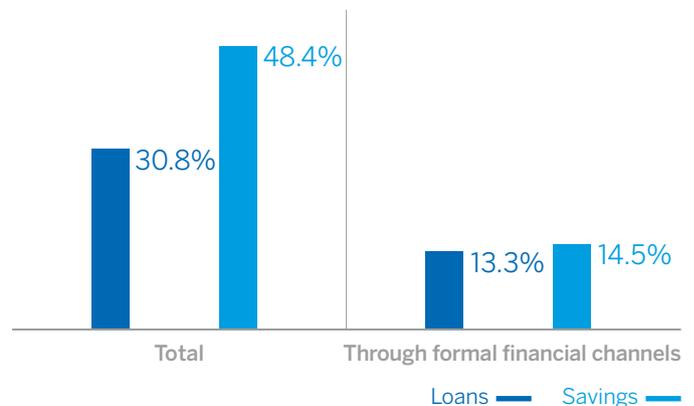
UNBANKED ADULTS*
Total over 15 years old (%)



EXCLUSION FACTORS*
Excluded adults (%)



PRODUCTS IN DEMAND
Adults (%)



* Global Findex, World Bank.

