Fundación BBVA MicroFinanzas

Measuring what really matters

SOCIAL PERFORMANCE REPORT **2018**

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.

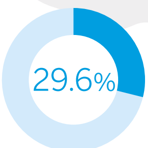
BBVAMF Group's microfinance institutions in five countries provide a complete range of financial products and services to over 2 million entrepreneurs, who are also supported with training. In 2018 the Group signed off USD 1.44 billion in credits to vulnerable entrepreneurs. These numbers put the Foundation 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.

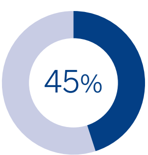
* Economic Commission for Latin America and the Caribbean (ECLAC), based on its Household Surveys Database (BADEHOG); Global Findex Database 2017, World Bank

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

THE DIMENSION OF THE CHALLENGE IN LATIN AMERICA*

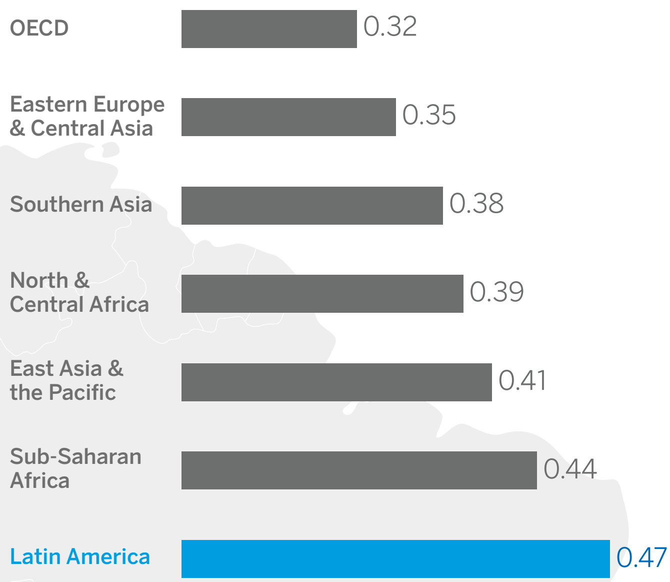


182
million people live in **monetary poverty.**



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

THE MOST UNEQUAL REGION IN THE WORLD**



KEY NUMBERS

Nº of clients
2,085,945

Gross portfolio
USD **1,155M**

Credit transactions
1,131,583

Credit disbursement
USD **1,469M**

Nº of credits/day
4,500

Disbursement volume/day
USD **5.9M**

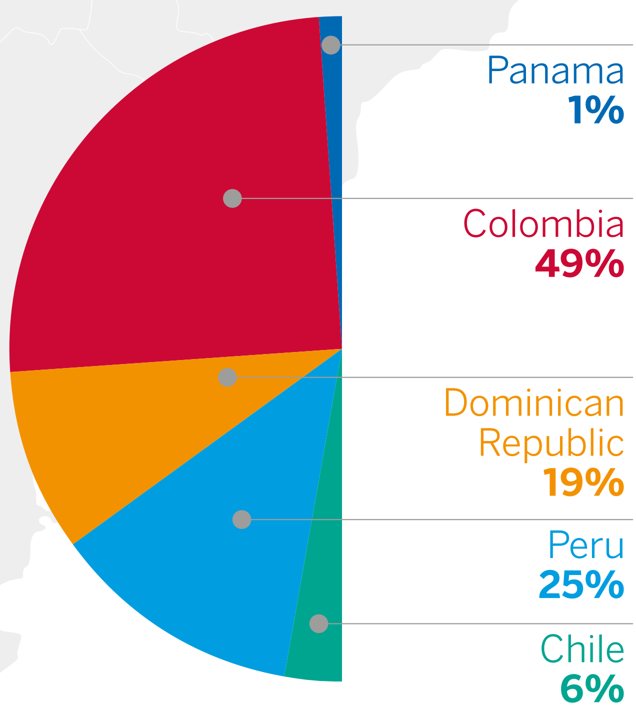
Client savings & deposits
USD **616M**

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.

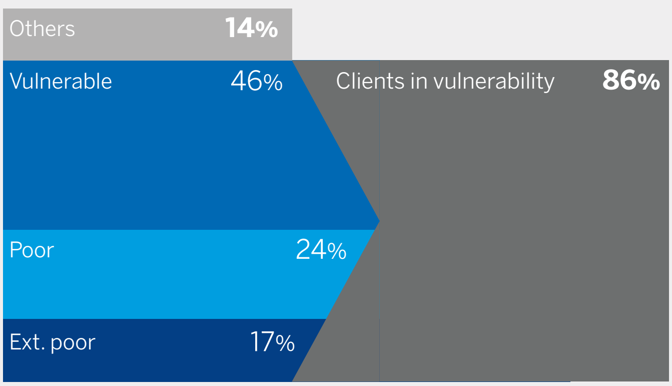
A series of indicators have been built since 2015 that track BBVAMF Group's contribution to the Sustainable Development Goals. This system picks out the key impacts that the Group's efforts have on 11 of the 17 ODS.

Providing financial services to vulnerable populations

1 NO POVERTY

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.



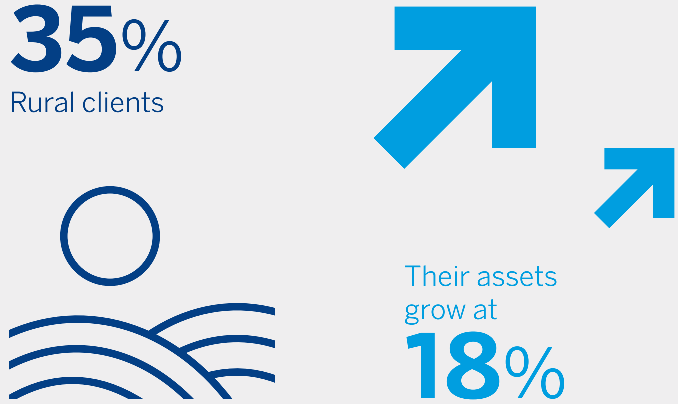
Targeting financial resources for food producers in rural areas to boost their growth

2 ZERO HUNGER

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

4 QUALITY EDUCATION

FINANCIAL EDUCATION

1,366,744

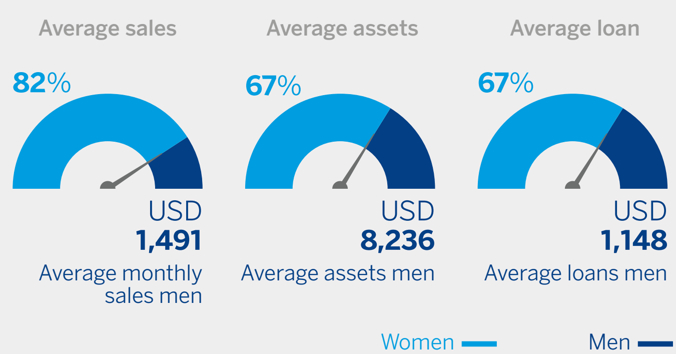
people have received financial education
(2015-2018).

Promoting equality between men and women

5 GENDER EQUALITY

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.**

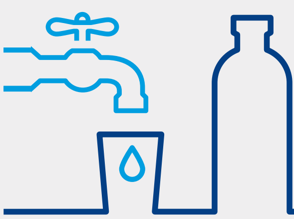
Sustainable Development Goals (SDG)

Improving sanitary conditions, a basic need

6 CLEAN WATER AND SANITATION

+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.



We contribute to raising living standards for them and their families.

Financial services that encourage businesses to grow

8 DECENT WORK AND ECONOMIC GROWTH

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

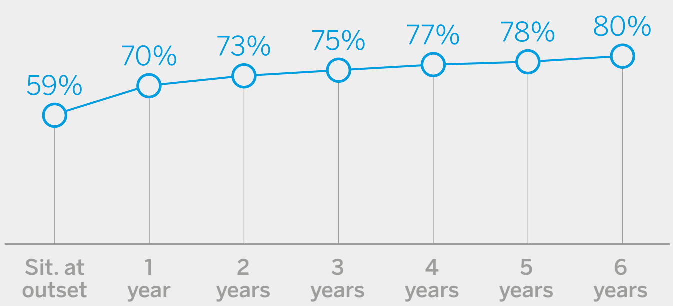
GROWTH IN SALES
Years banking with the institution

Providing opportunities so that no-one is left behind

10 REDUCED INEQUALITIES

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

11 SUSTAINABLE CITIES AND COMMUNITIES

+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

13 CLIMATE ACTION

+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

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

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

COLOMBIA
Restoring peace

61%

Bancamía's footprint (municipalities)

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

PANAMA
Welcoming refugees

+250

Credits disbursed (worth more than USD 200,000)

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

17 PARTNERSHIPS FOR THE 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.

USAID FROM THE AMERICAN PEOPLE · Microsoft · IDB

Cooperación Española · UN WOMEN · ECOSOC

IFC International Finance Corporation WORLD BANK GROUP · CAF DEVELOPMENT BANK OF LATIN AMERICA

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.

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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.

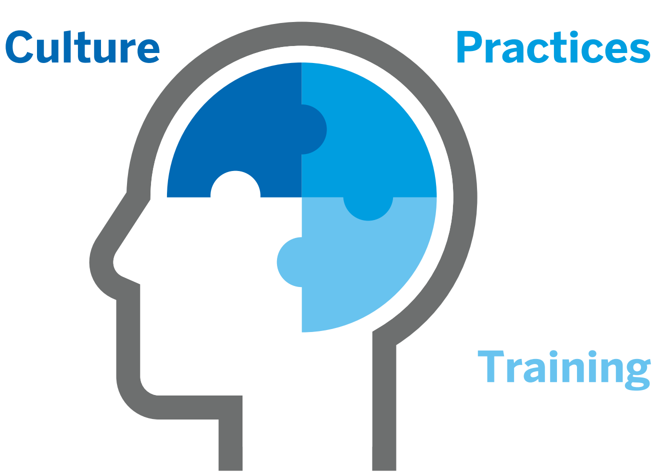
Human capital

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.

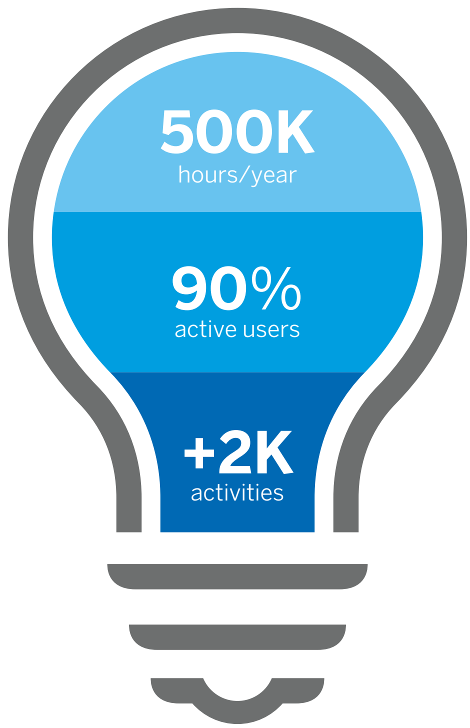
Activity on Campus is as busy as ever. Over 1.8 M hours of training have already been given. This past year 90% of employees have received a total of 500,000 hours, half of these online.

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

FEMALE HEADS OF HOUSEHOLD	**LATIN AMERICA**	28%[1]	
	BBVAMF Aggregate data	45.2%[2]	
TIME SPENT ON UNPAID WORK PER WEEK		**35.8 hours[3]**	
		11.9 hours[3]	
FINANCIAL INCLUSION GENDER GAP		**40.3%[4]**	GAP **9.9%**
		50.2%[4]	

* GEM data.

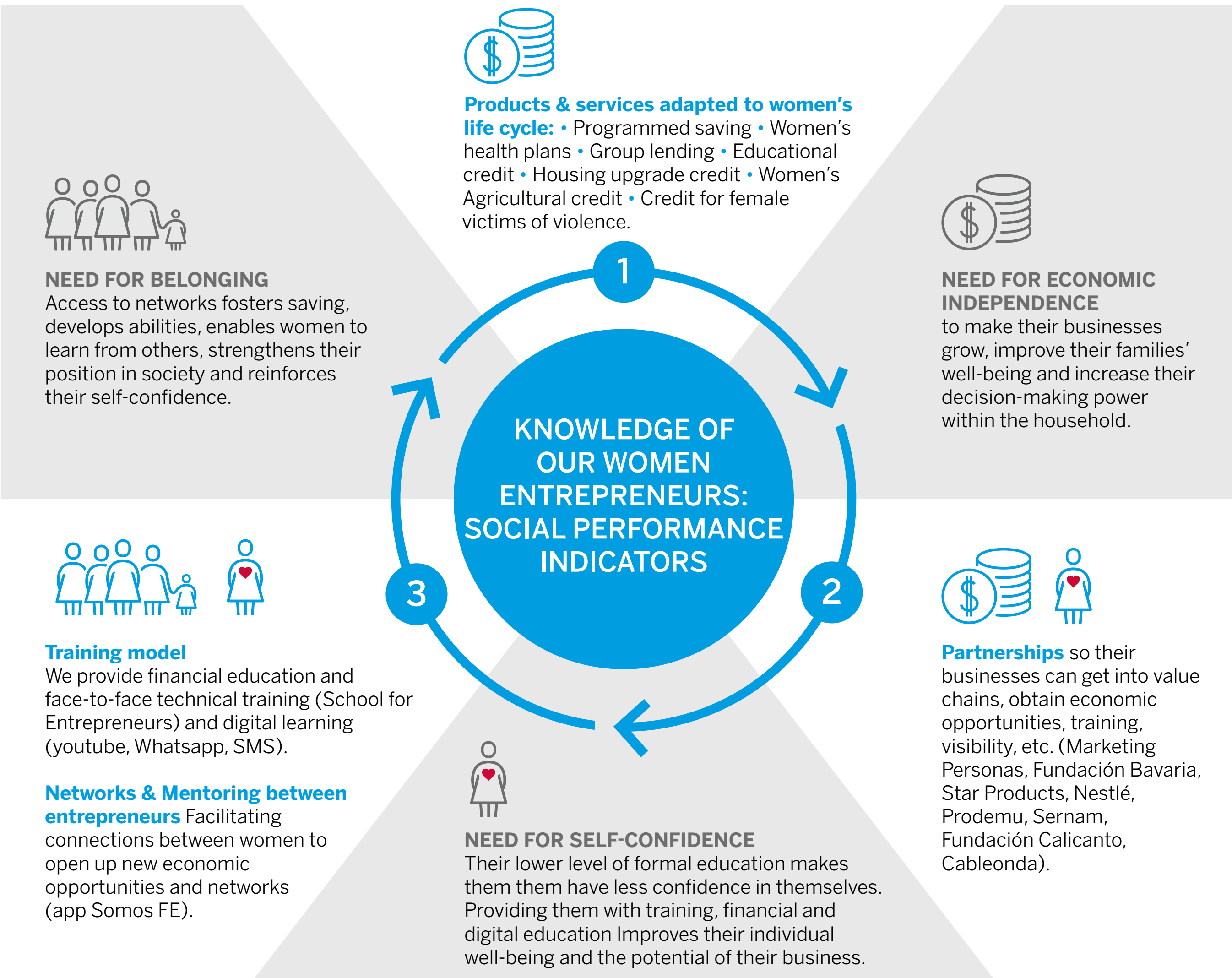
[1] BBVAMF table using ECLAC figures for Latin America: Weighted calculation from "Type of household by gender of head of household, by geographic area" data base (CEPALSTAT) and Total population, by gender (CEPALSTAT).

[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

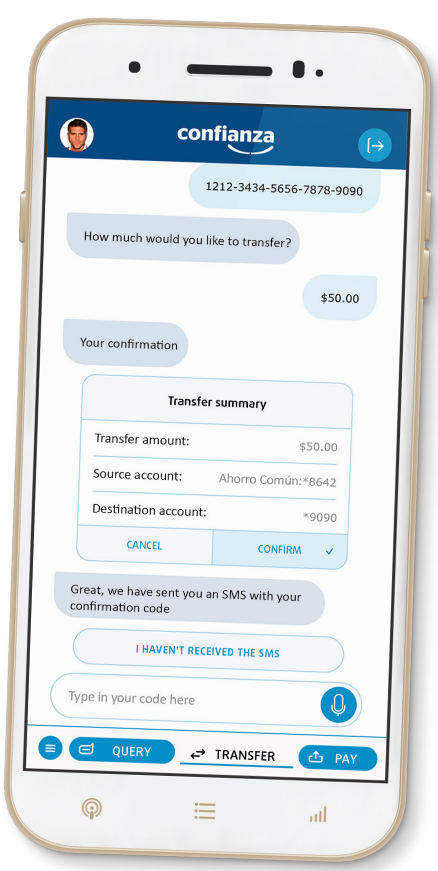
06 Distribution model
- Changing the paradigm
- New channels
- New distribution models

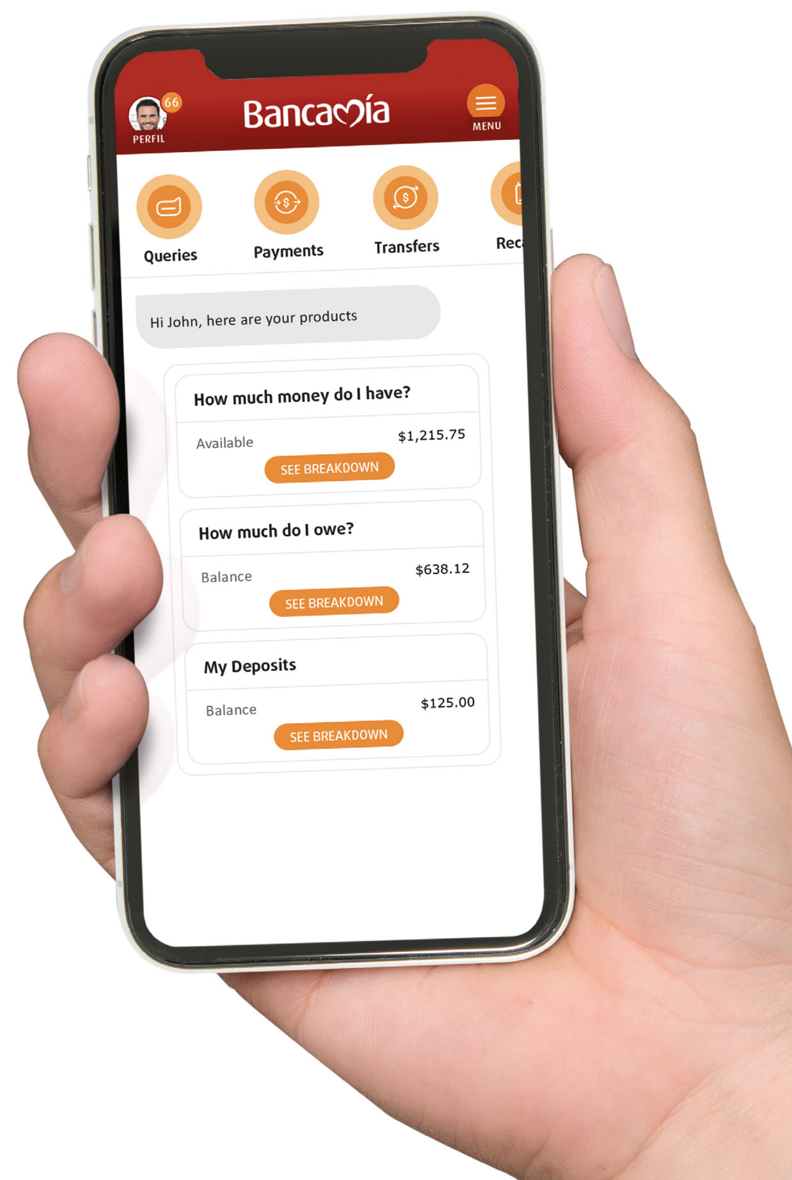
Digitalization & technological innovation

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.

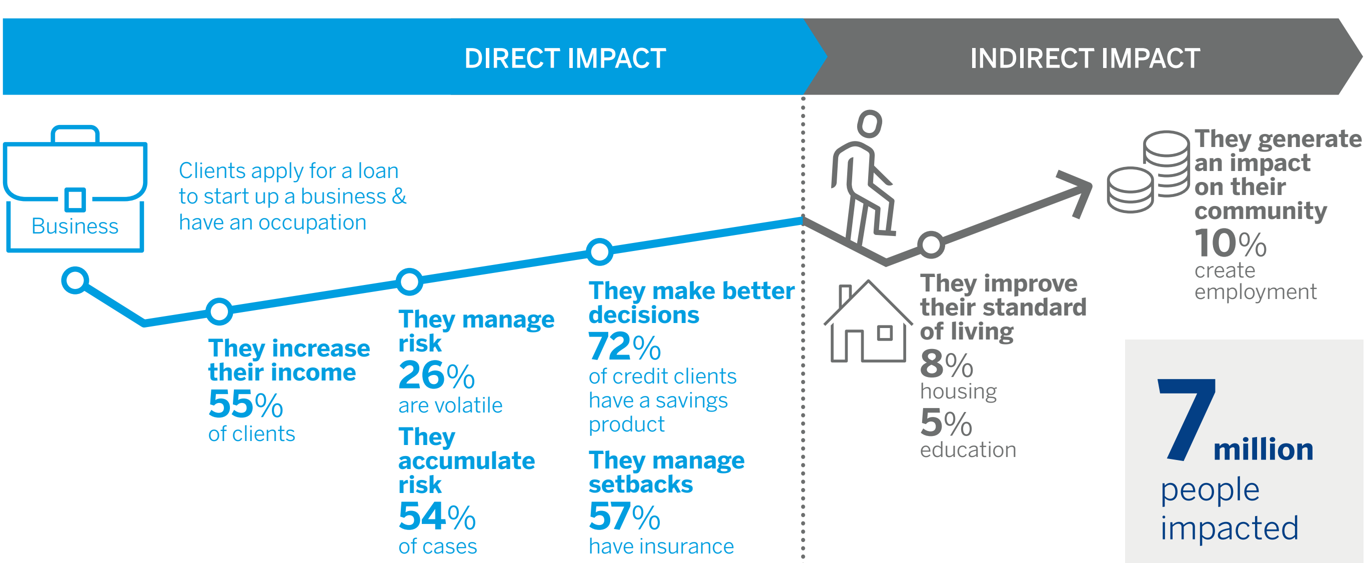
After tracking our clients' performance for seven years, we have defined a simple, practical model (standardized across the Group) through which we learn and study over the passage of time:

- 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.

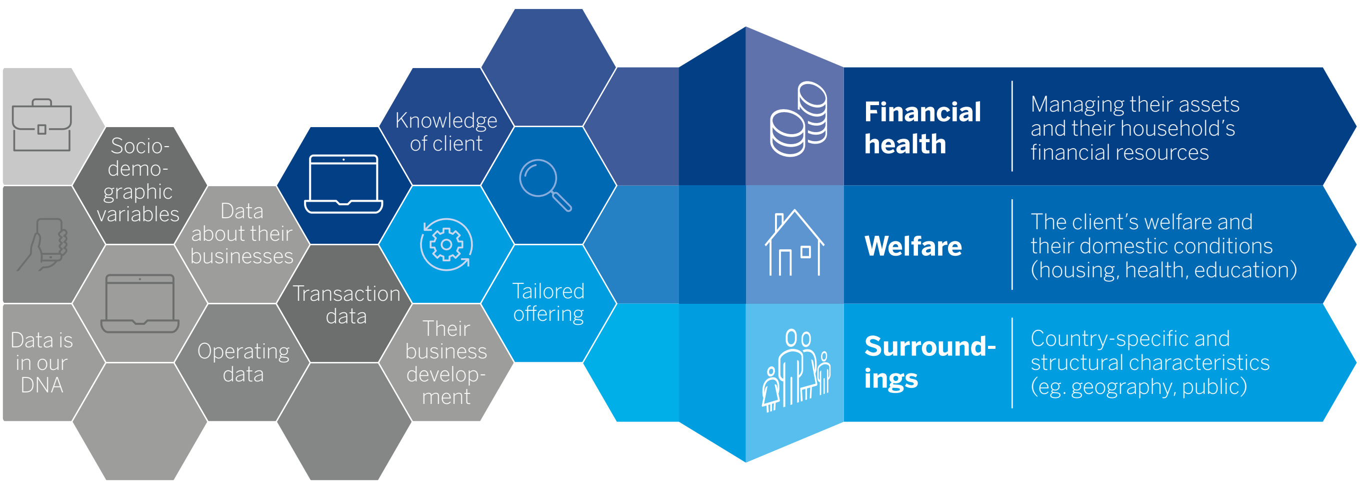
WE GENERATE A DOUBLE IMPACT ON THE LIVES OF ENTREPRENEURS



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 inter-disciplinary 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 region[1]:

+ 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 study[2] 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, Hallegate 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		
	Waste management	Sustainable housing
EDUCATION, PARTNERSHIPS, GREEN CERTIFICATIONS		

ONGOING PROGRAMS

BANCAMÍA: MEbA

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

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.

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

+1,000 clients served

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

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
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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)

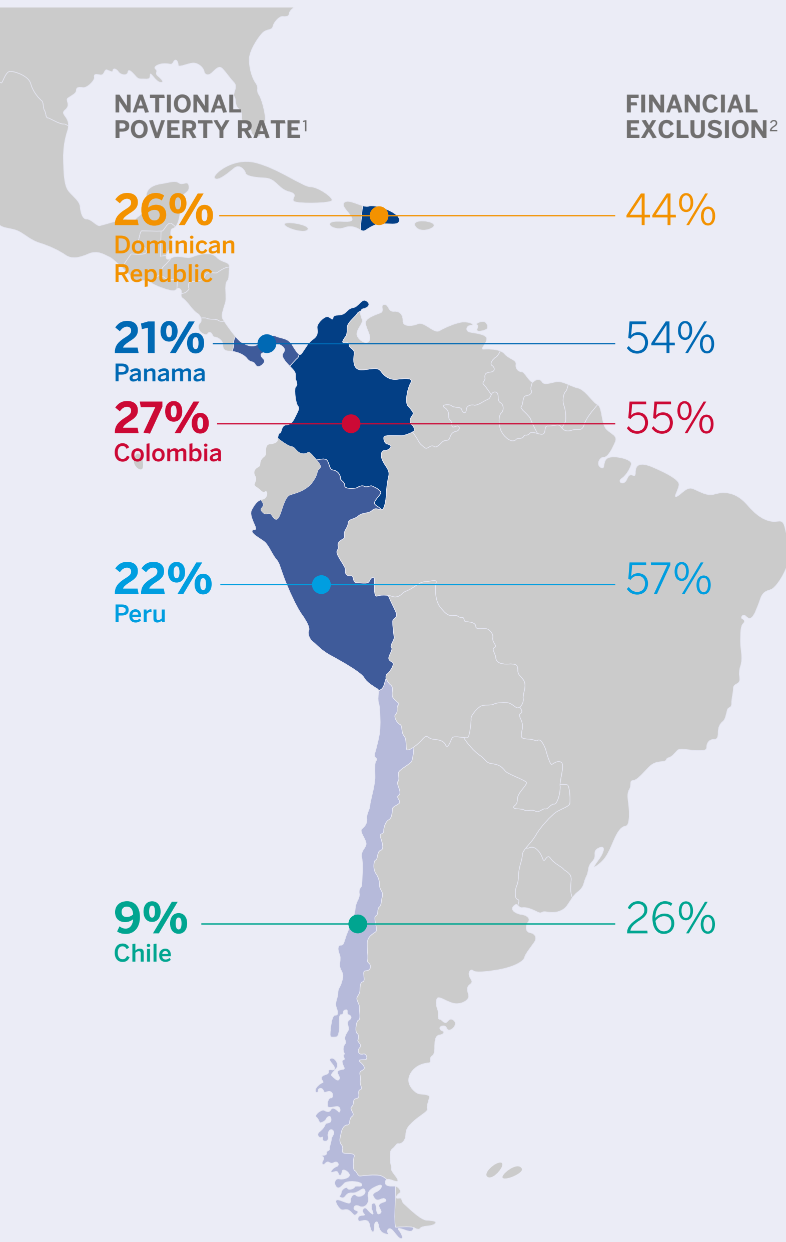
* MFI: Microfinance Institution.

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

Fundación
BBVA MicroFinanzas

Supporting them now, to improve their tomorrows

National data



National poverty rate by region

0% 15% 30%

(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 clients[3]

923,615

- 80% Vulnerability
- 60% Women
- 35% Rural environment
- 41% Primary education at best
- 12% Over 60 years old
- 19% Under 30 years old

New credit clients 2018

271,519

- 84% Vulnerability
- 57% Women
- 33% Rural environment
- 32% Primary education at best
- 6% Over 60 years old
- 34% Under 30 years old

2. PROGRESS

Working with them as they develop

55% improve their income

1 in every 2 renewing clients has improved their income.

34% overcome poverty

In their second year banking with the institution.

...and their projects grow

↑23% assets

Annual growth rate.

↑17% sales

Annual growth rate.

3. RELATIONSHIP

Providing timely and relevant products and services

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 nº 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 system[1].

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 economy[2] grew by an annual 1.7%, a similar rise to the year before.

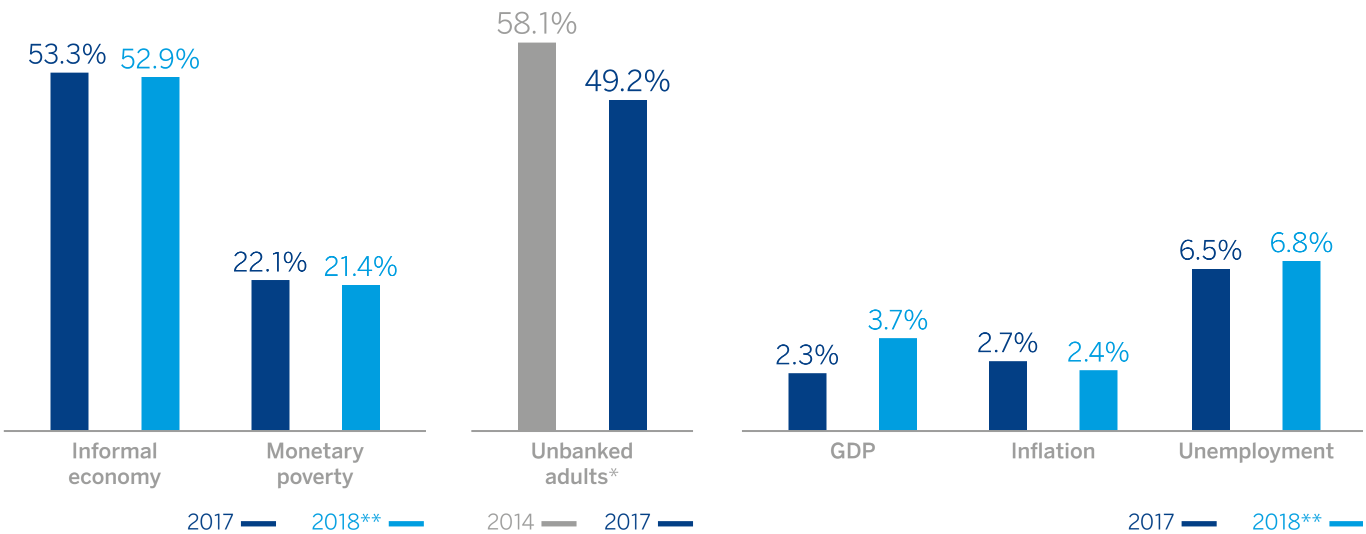
In the countries where institutions belonging to the BBVA Microfinance Foundation operate ("the footprint"), activity grew by 3.7%[3], more than double the region's average growth. This is largely accounted for by more robust domestic demand due to a significant uptick in private spending.

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 Findex 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.

National sources. BBVAMF calculations.
* Global Findex World Bank, 2014 & 2017.
** BBVAMF Research estimate.

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

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 access[4]) 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 stress[5] 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).

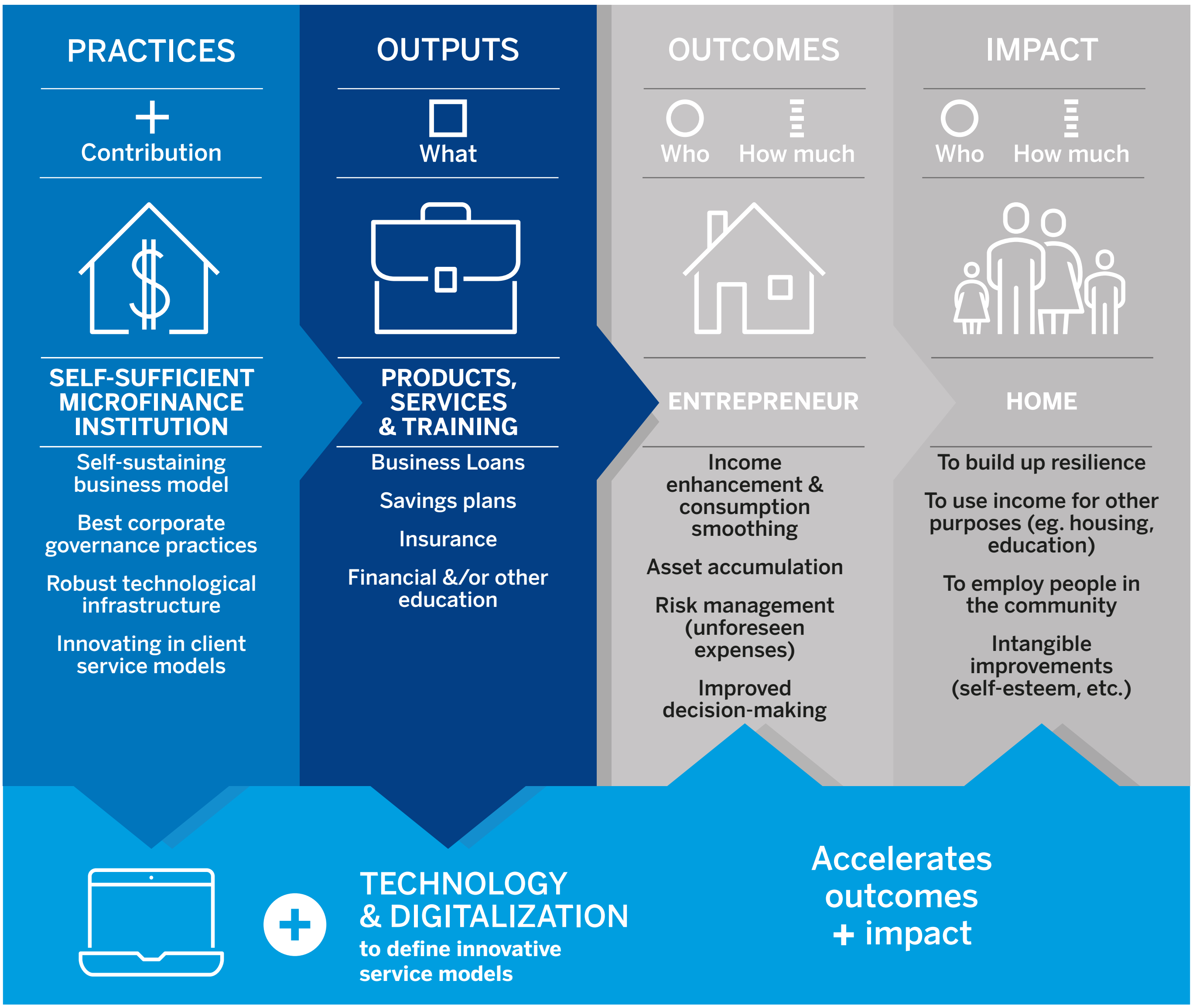
These entrepreneurs develop in a multidimensional way (they raise their incomes, smooth their consumption, upgrade their housing, etc.) that also looks at their individual circumstances. It considers factors such as people's specific abilities, their decision taking, changes in their environment, etc. 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 savings[6].

[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 US[6]

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 Group[7] 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 GDP[8].

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.

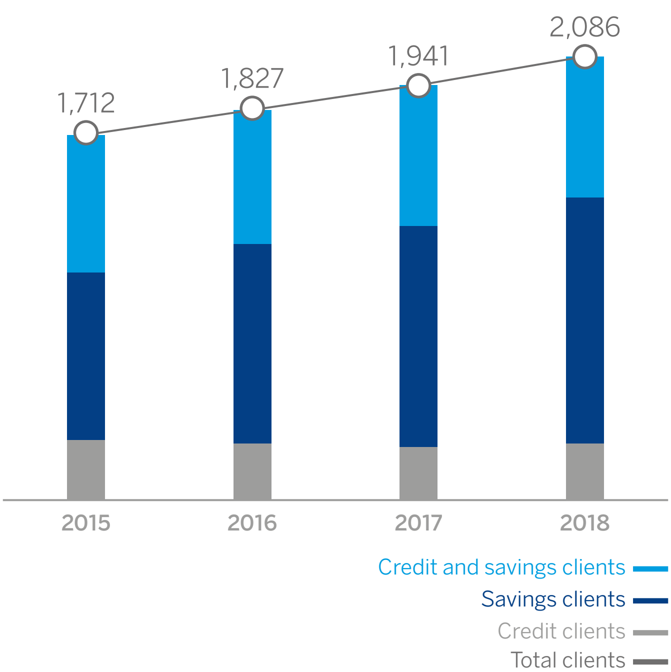
Vulnerability is thus a key dimension when the Group measures its activity. In line with international benchmarks, the Foundation's analysis looks at three criteria:

- **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.

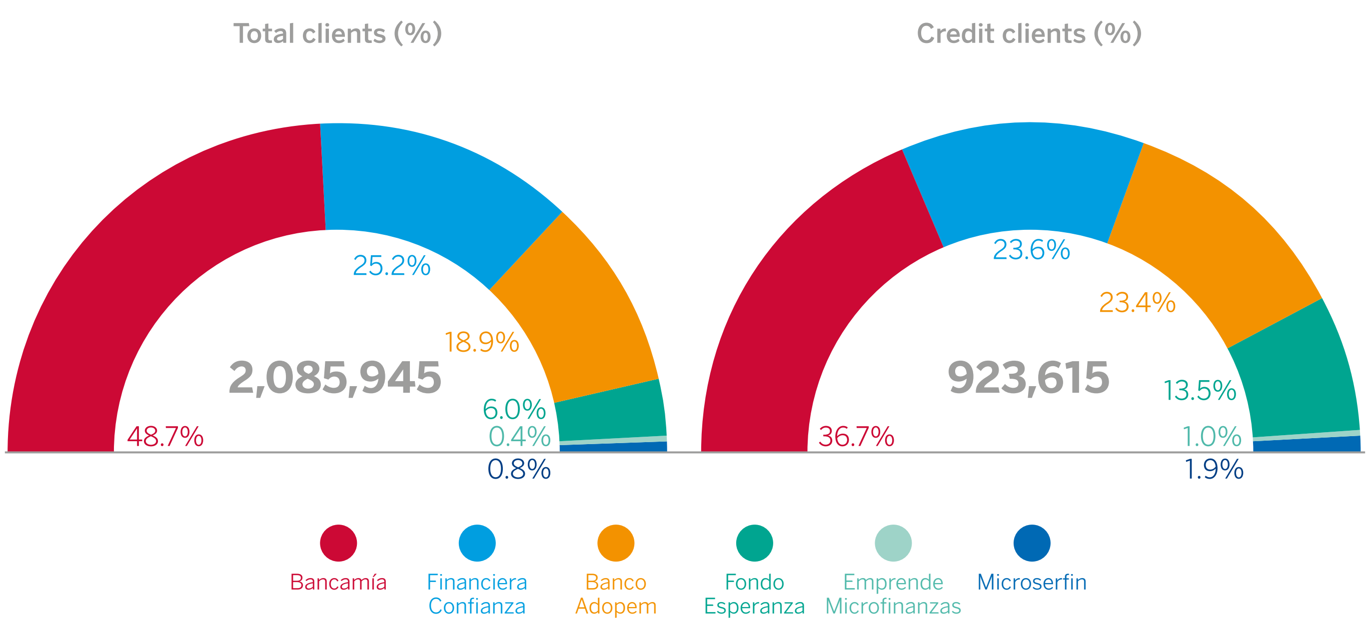
[7] Aggregate data from BBVAMF Group's 6 institutions are shown throughout the report, except for performance variables, which do not include Emprende Microfinanzas.
[8] Micro, small and medium enterprises (MSMEs); www.ceoe.es/es/contenido/actualidad/noticias/las-mipymes-generan-el-28-del-pib-en-latinoamerica-pero-carecen-aun-del-impulso-necesario

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.

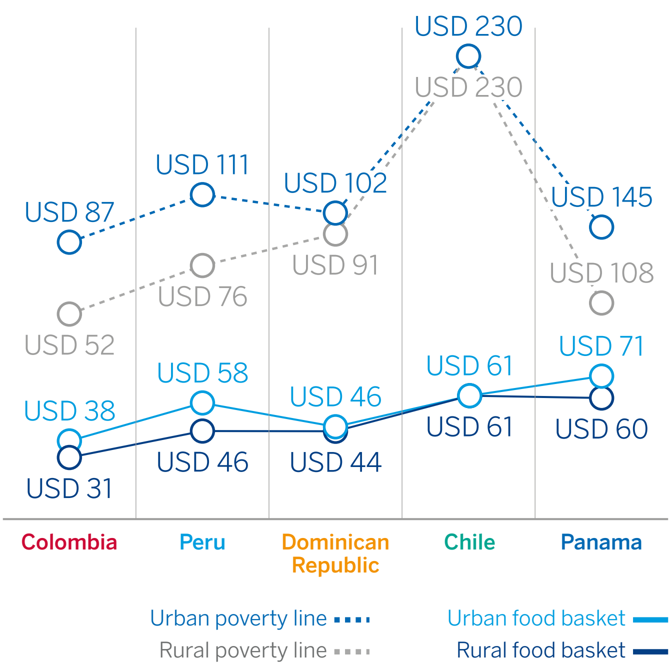
In 2018, BBVAMF Group originated loans for more than 271,000 new entrepreneurs. Of these, 84% were in economic vulnerability.

[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.

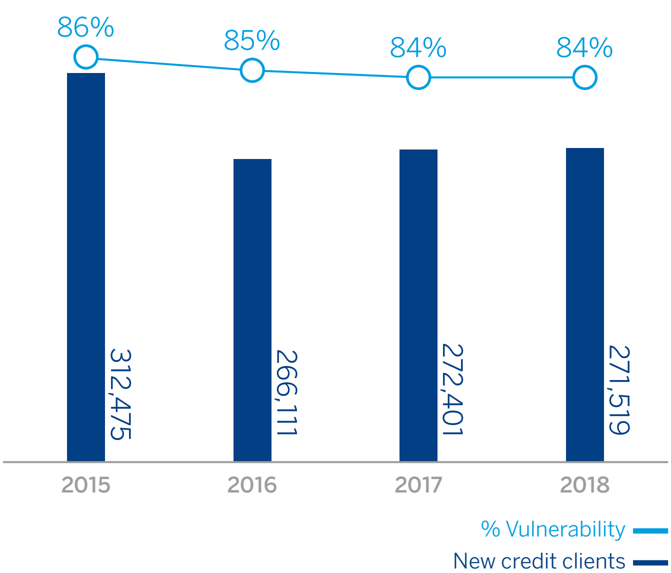
(3) According to each country's official poverty line. The segment made up of clients whose per capita net surplus (net business surplus divided by number in household) is above the poverty line but less than three times their country's figure, is considered vulnerable.
(4) Clients joining the institution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

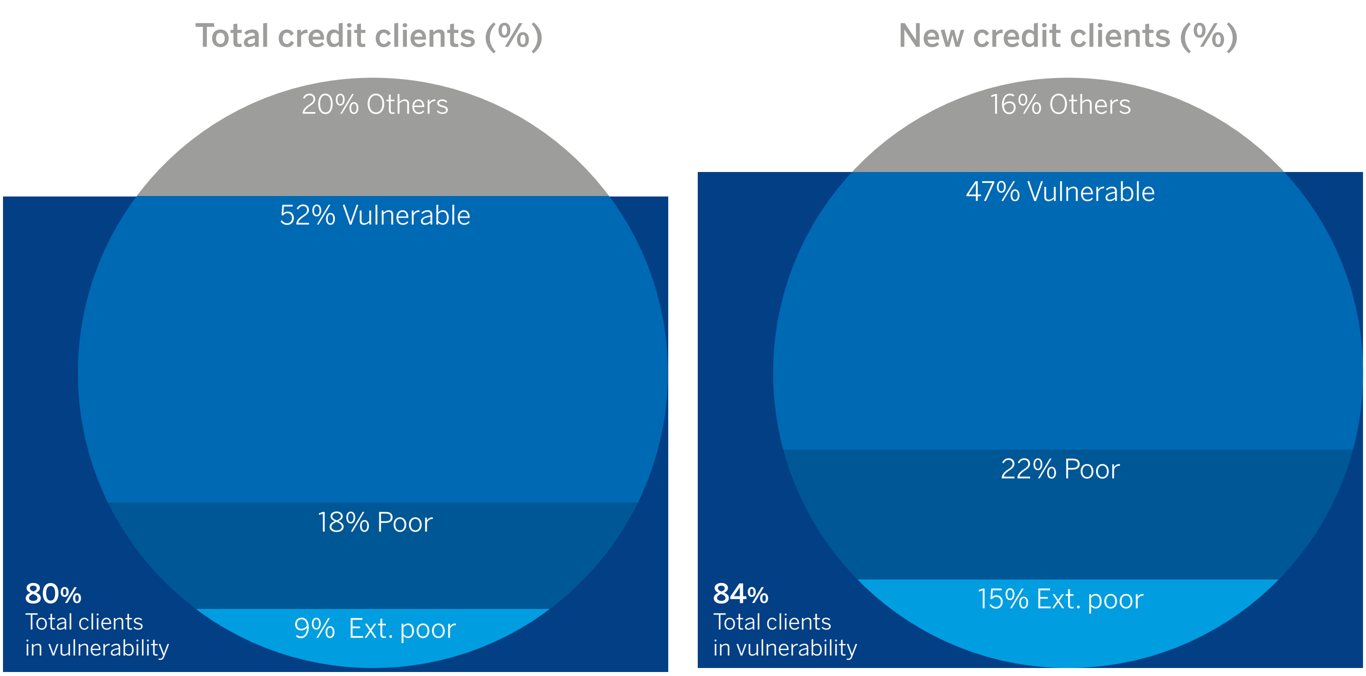
3 **POVERTY LINE AND BASIC FOOD BASKET**
In the countries where BBVAMF Group operates



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.

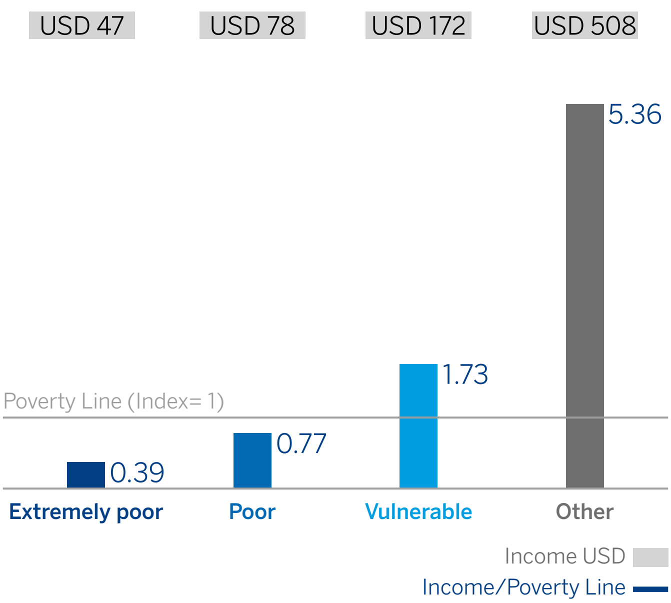
The relative income of the vulnerable clients we served in 2018 was 1.73 times the PL, marking a wide gap with the incomes of clients in the "Others" category, which was a long way over the poverty line (5.36 multiples of the PL), so the likelihood of vulnerable clients falling back into poverty is much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

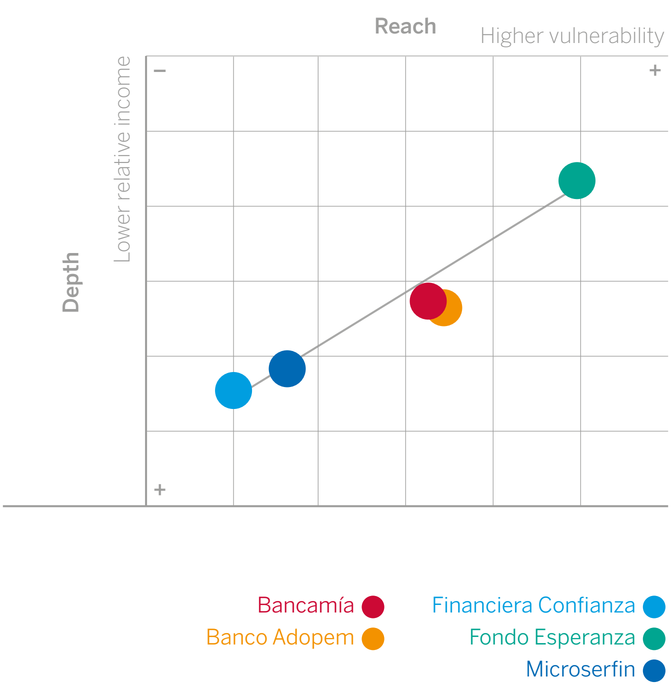
Identifying the concentration of poverty in a portfolio is useful for demonstrating the impact on the performance of clients served by the institution. Thus, in BBVAMF Group we see there is a greater concentration of poor clients in Fondo Esperanza, Bancamía and Banco Adopem. Comparing these concentrations 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



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



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.

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.

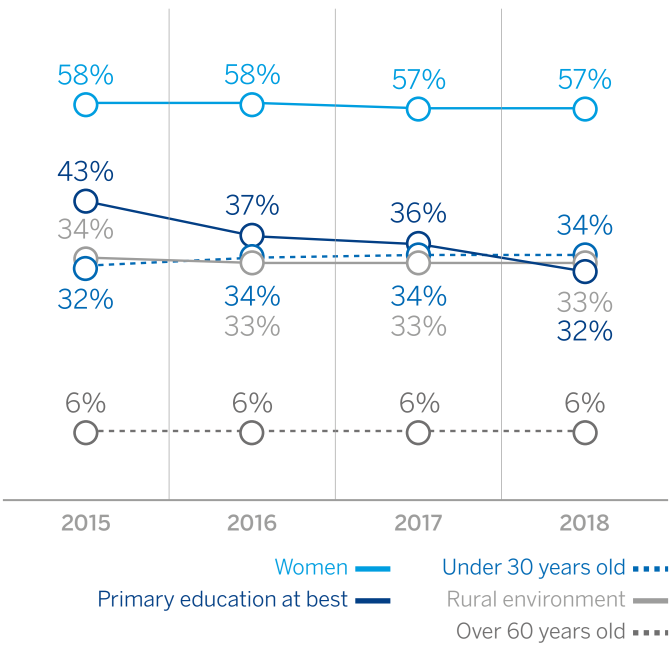
Women's businesses are smaller in scale and require greater effort to make them grow.

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.

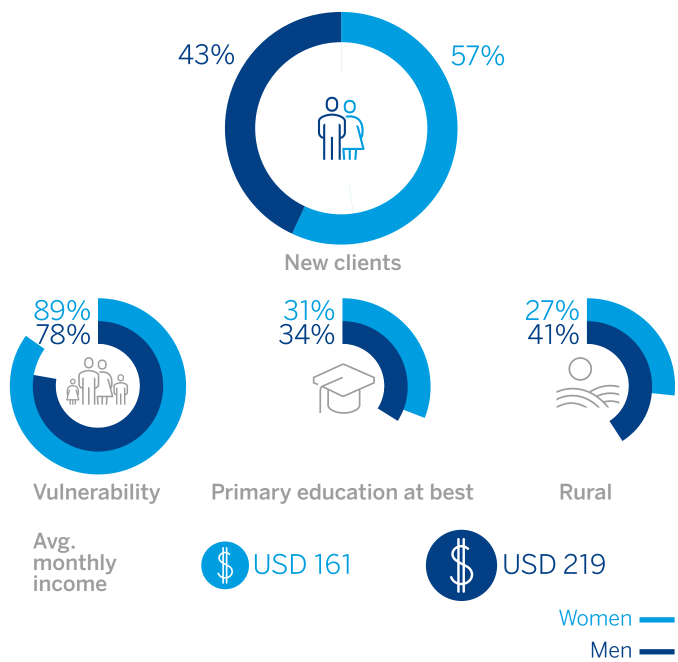
In addition, women entrepreneurs are particularly concentrated in urban zones, since in the rural environment it is difficult to have title over productive assets, which considerably restricts their access to the agro sector. Of the women granted loans, only 34% work in agricultural activities. Reducing 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.

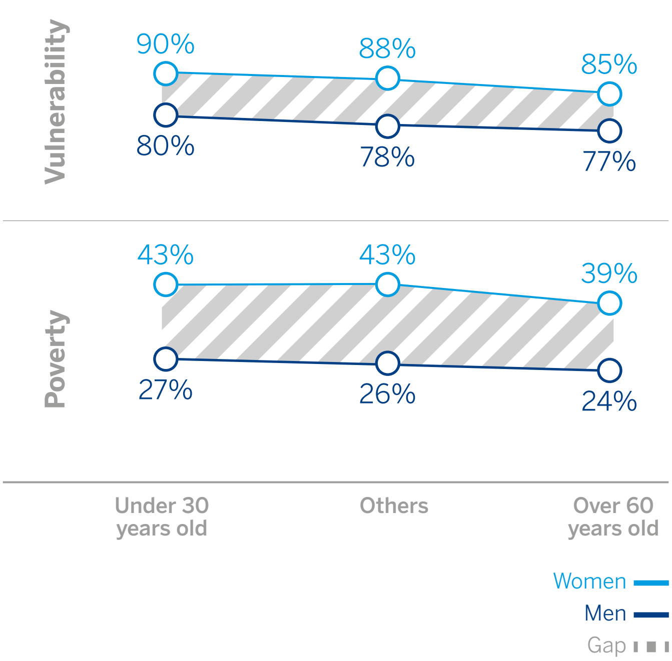
8 **SOCIAL VULNERABILITY**
New clients by cohort (%)



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 serves 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 are[10].

- 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).

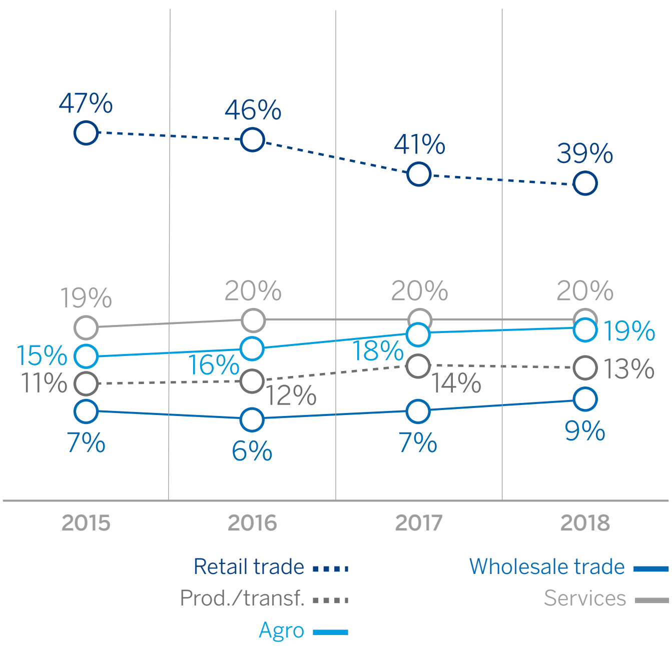
Entrepreneurs in the rural area need a high level of productive assets, particularly those who work in the agricultural sector. They tend to sell foodstuffs (products that have little added value) for own consumption, sale or export. Getting liquidity and profitability from assets earnings over the year/assets) 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).

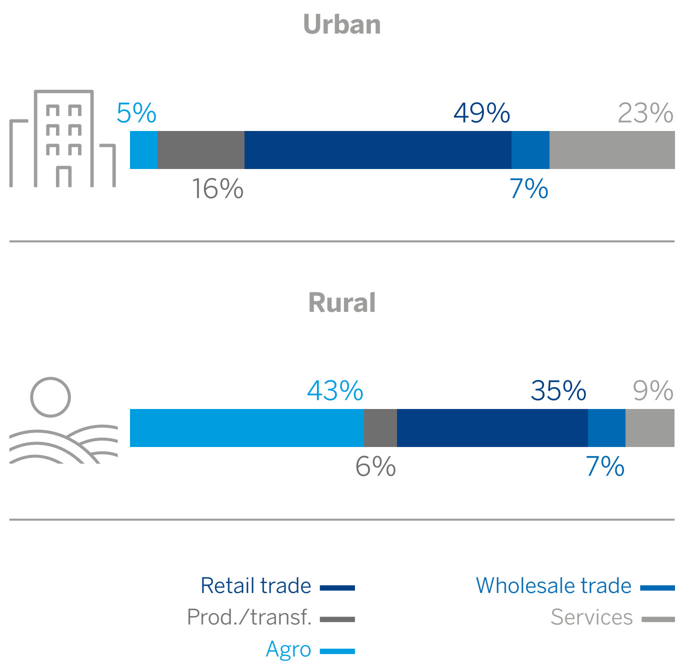
(12) Clients current at 12.31.2018.
(13) Ratios of average costs over sales in each sector. Earnings are taken after payment of the loan installment.

(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.

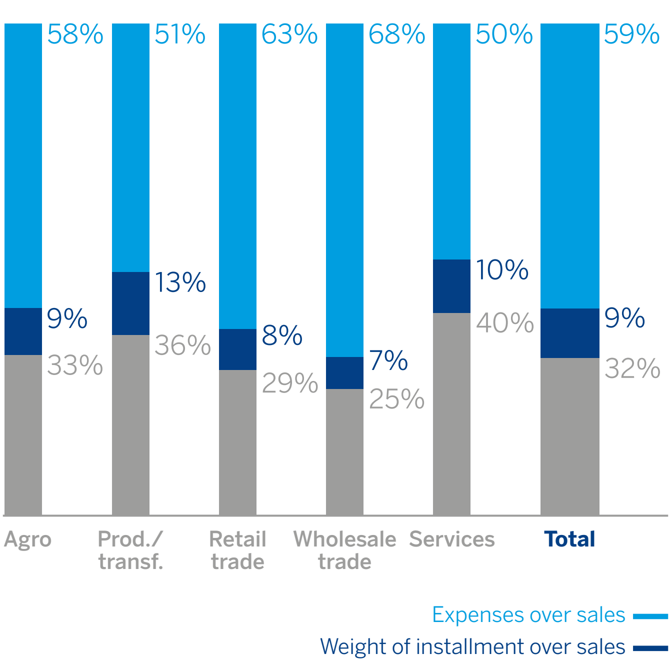
11 **ACTIVITY SECTOR**
New clients by year of outset (%)



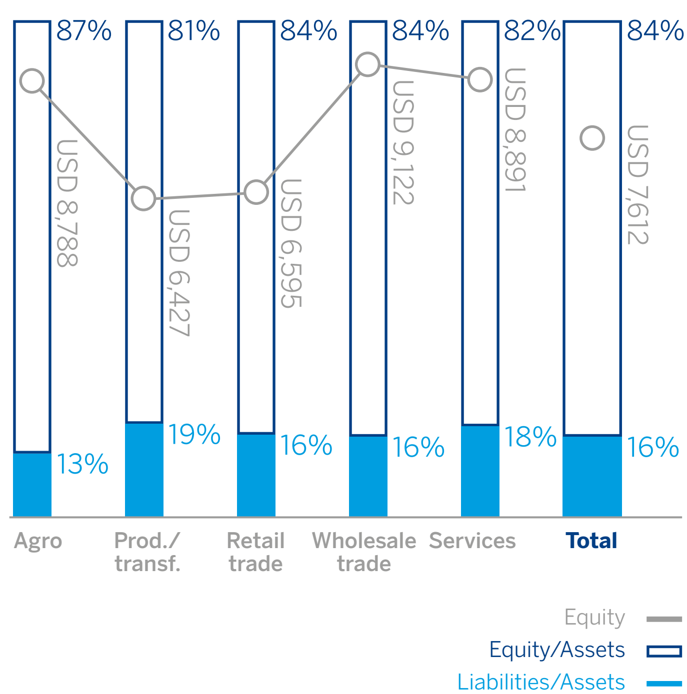
12 **ACTIVITY SECTOR BY ENVIRONMENT**
Total credit clients (%)



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.

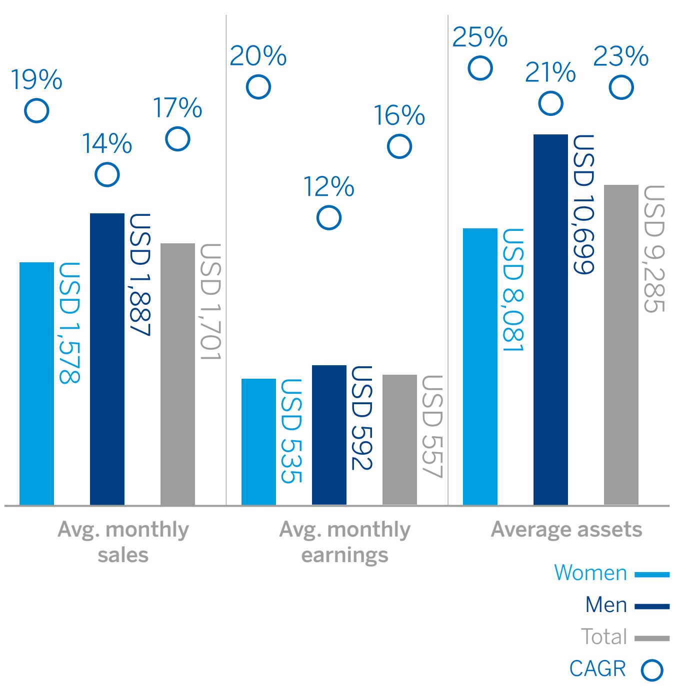
For BBVAMF Group, 55% of the 380,000 clients who have renewed a loan in 2018 have increased their income relative to the poverty line in each country, with that percentage staying above 50% for the fourth year in a row. As was the case last year, a quarter of these clients were in poverty or extreme 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.

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

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.

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



(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.

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 of 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.

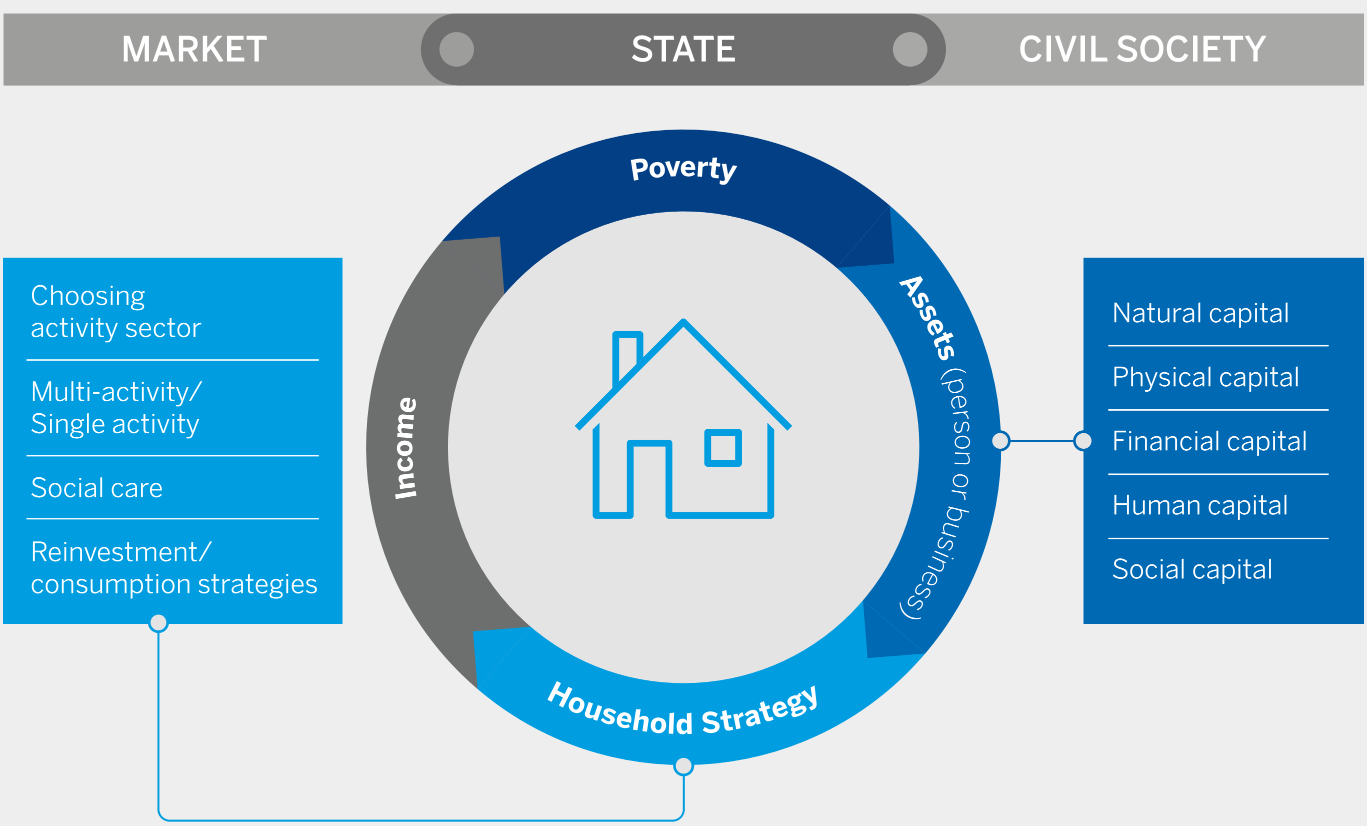
Clients' progress and supplying financial products and services have the overall aim of improving their standards of living and to change the reality of the most vulnerable families in order to improve the future of many people permanently.

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 POVERTY[11]



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

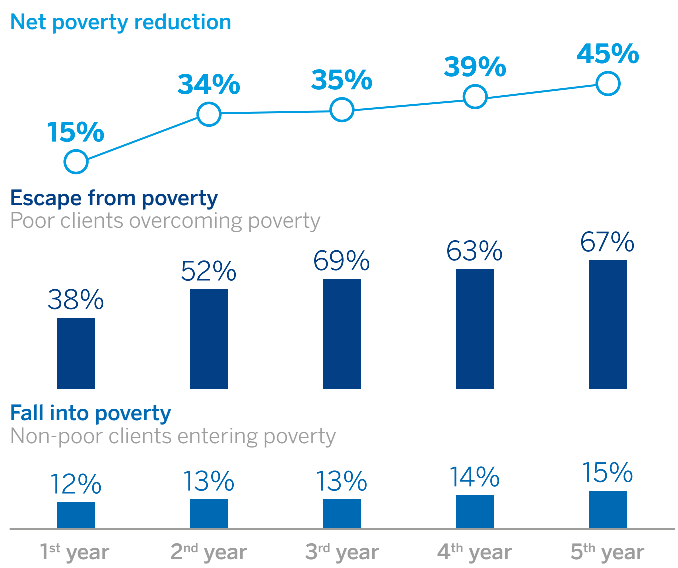
2. Tracking entrepreneurs' progress

VARIABLES THAT DETERMINE ENTREPRENEURS' ECONOMIC PERFORMANCE

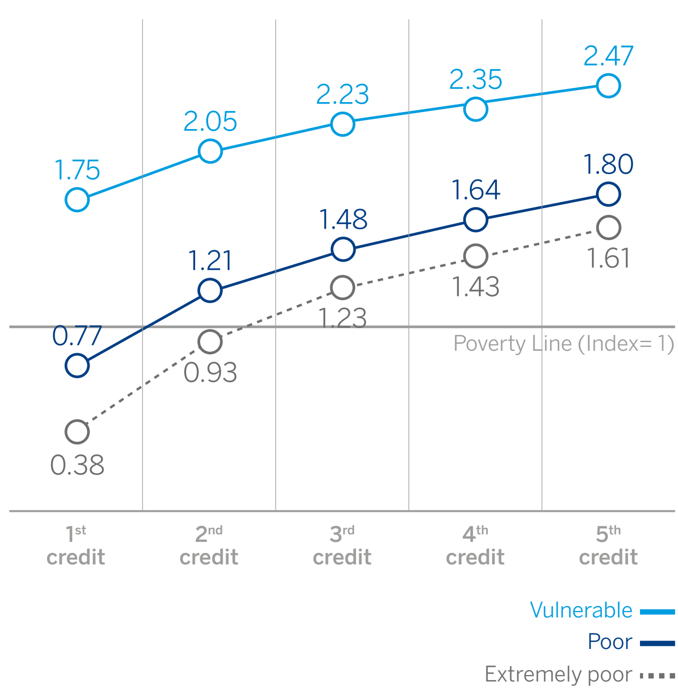
Of the clients who raise their income, many succeed in getting over the poverty line. Indeed, of clients who are poor at the outset, 52% overcome poverty in their second year banking with the institution, although there are others who sink into poverty. Thus, of non-poor clients each year, on average 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 102.

17 VARIATION IN POVERTY SEGMENT



18 GROWTH IN INCOME
Income by segment over Poverty Line



(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.

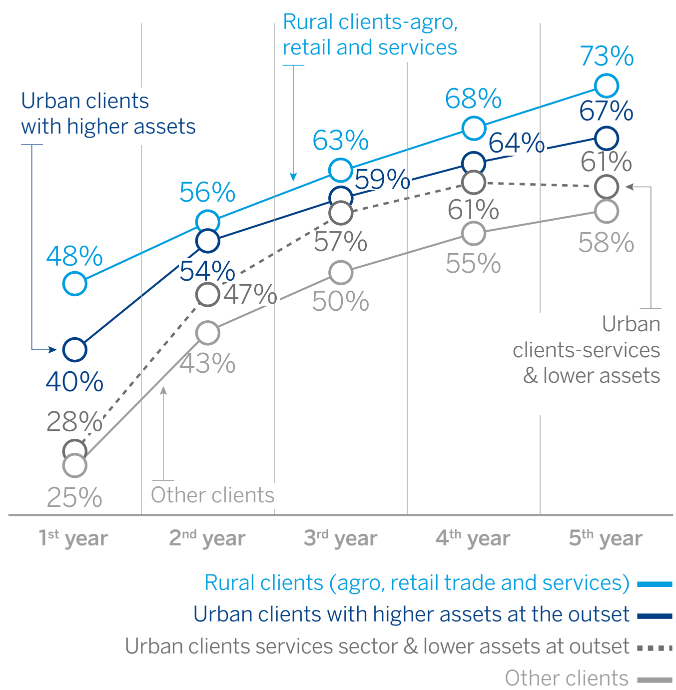
We have analyzed client performance, both those escaping poverty and those falling into it, in terms of their income growth rates.

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.

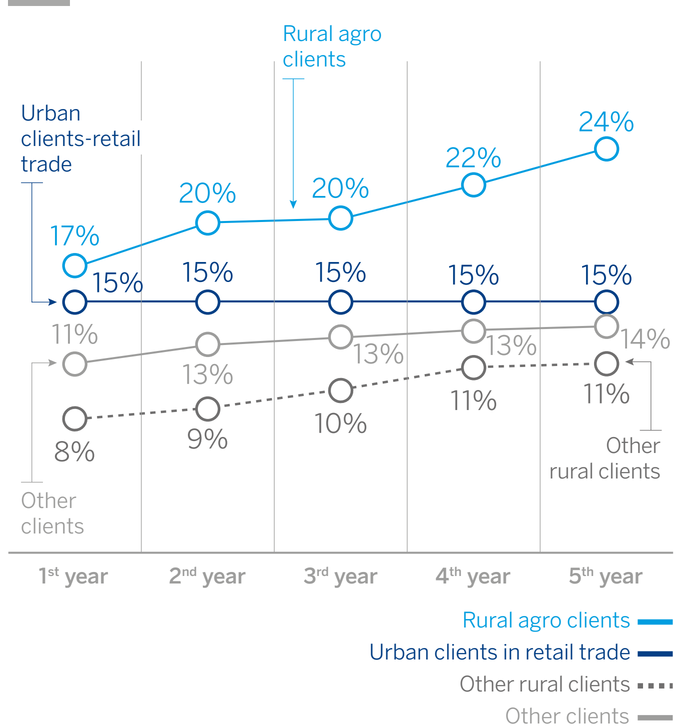
When we look at our clients' performance, we identify three key factors characterizing entrepreneurs' escape from or fall into poverty:

- 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.

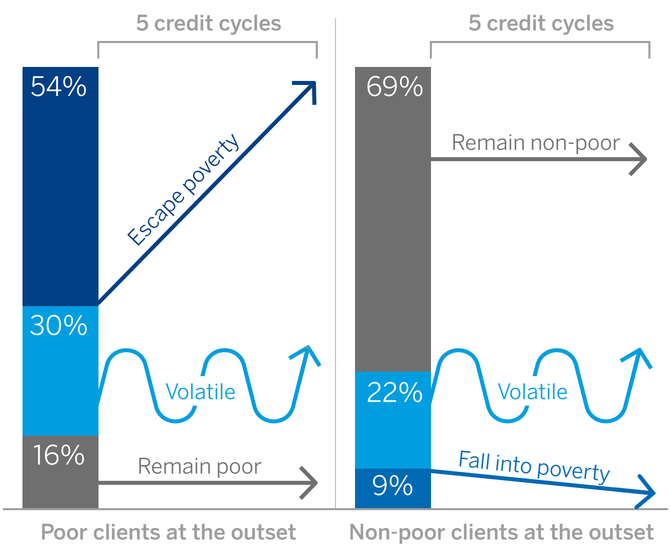
In the case of the non-poor, the environment is less relevant. Those in urban areas suffer slightly higher volatility.

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%).

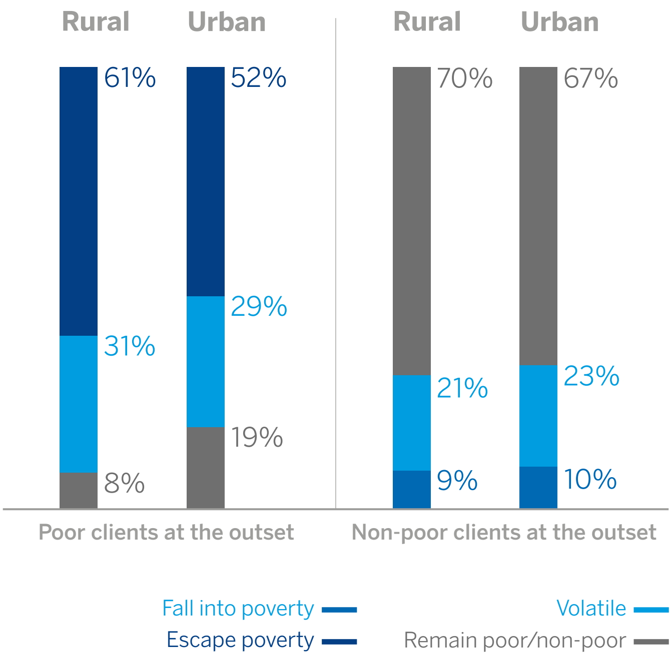
Growth in business profits and the accumulation and availability of productive assets are dimensions that complement one another. In-depth knowledge of both contributes to understanding the nuances of poverty.

(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 nº times they fall below/overcome PL



22 **INCOME VOLATILITY - RURAL/URBAN**
Clients with 5 credits, classified by nº 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:

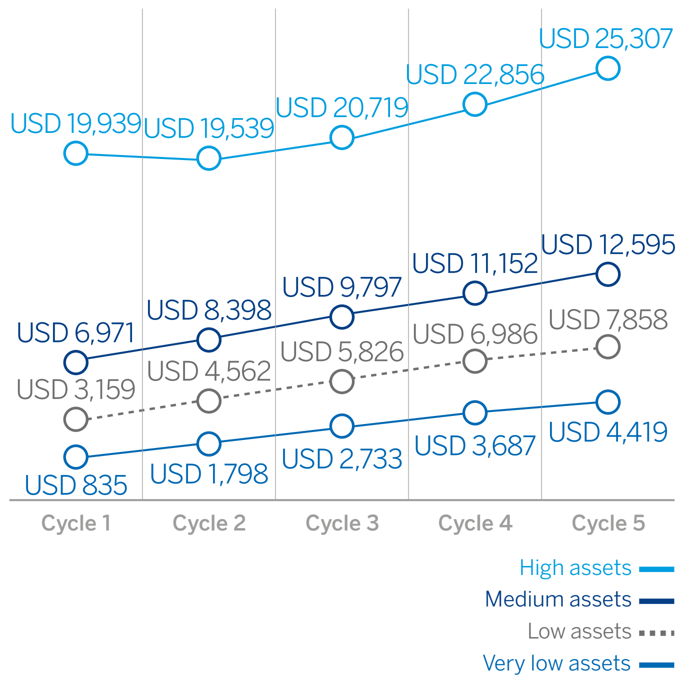
- **Assets owned at the outset.** Having a solid asset base allows people to improve the profitability of their resources and gives them greater capacity, if required, to respond to setbacks. Higher levels of assets at the outset are associated with greater client income growth. For example, poor clients 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 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**

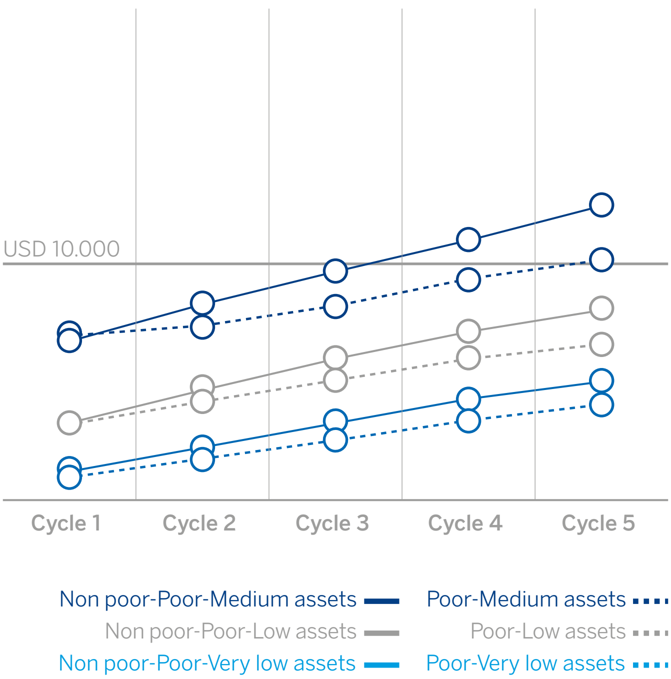


(23) Client samples from the 2011 cohort onwards are classified according to their situation at the outset. Graph shows Bancamía, Financiera Confianza and Banco Adopem clients, excluding agriculture sector. To compare monetary values from different years, values were deflated with the official CPI prices 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.

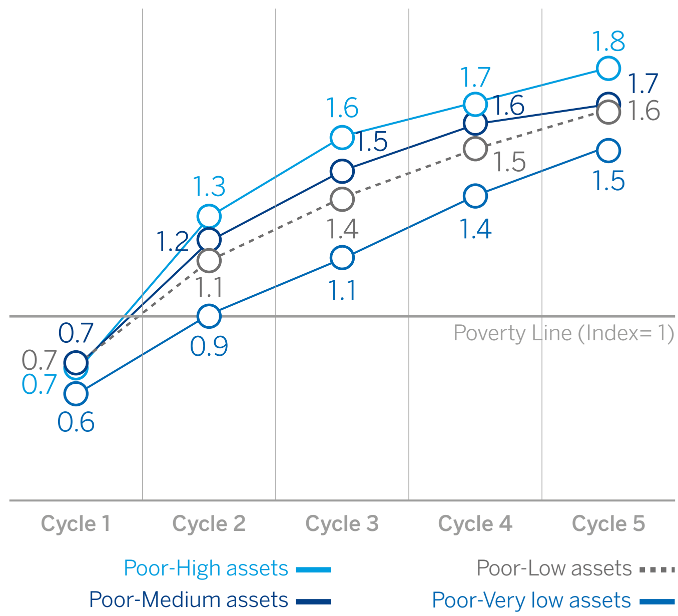
(26) (27) Sample of clients served from 2011 to 12.31.2018 who have had at least five disbursements. The agro sector is not included. Performance is analyzed by looking at the situation at the outset and comparing it to the outcome in two dimensions:

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

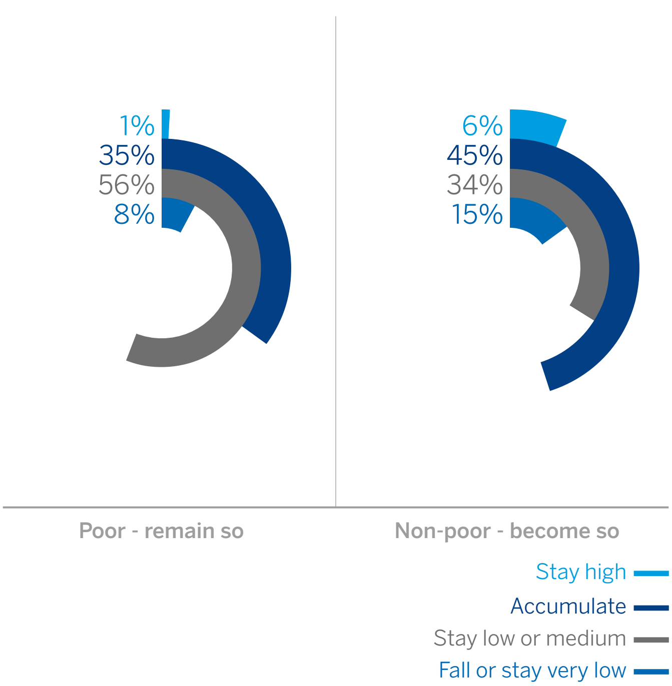
24 ASSET ACCUMULATION
Poor and non-poor clients at the outset with 5 credits



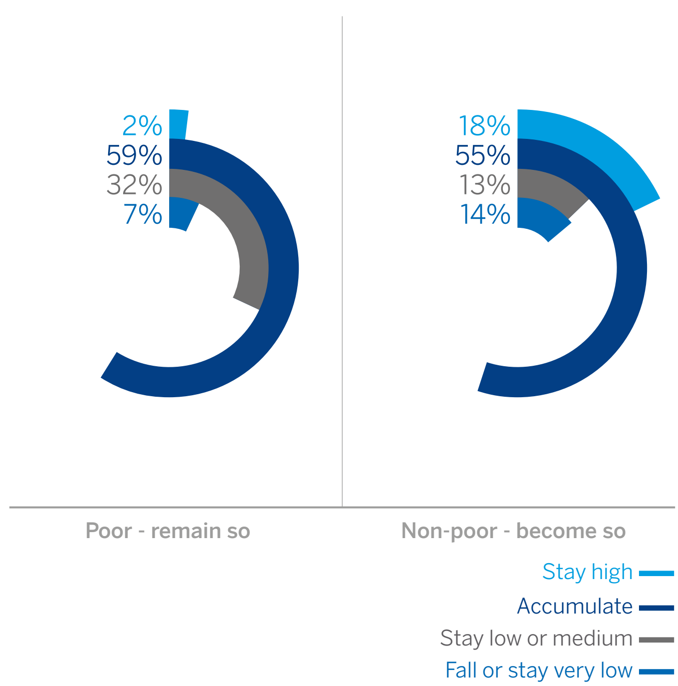
25 INCREASE IN INCOME BY ASSET LEVELS
Clients poor at the outset with 5 credits



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



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



2. Tracking entrepreneurs' progress

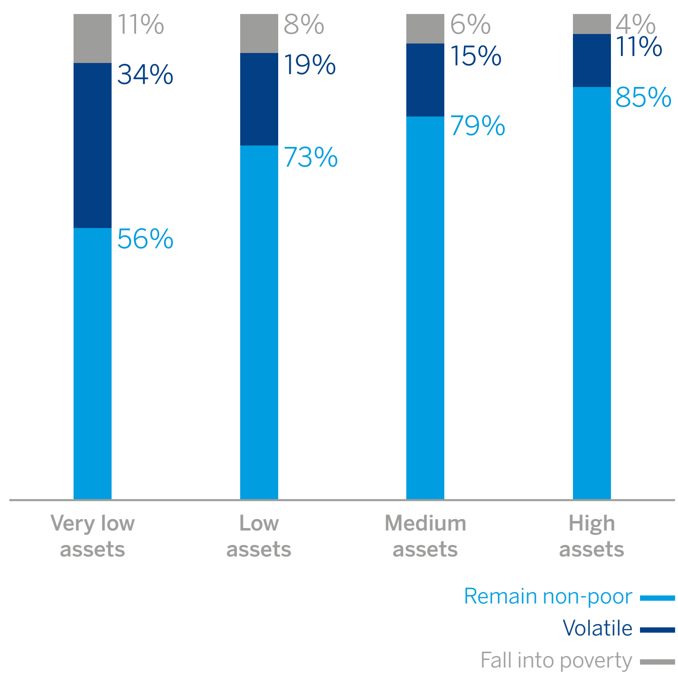
Clients with lower levels of income –in poverty and in conditions of scarcity– may come to take short-term, low-risk decisions in order to get over this situation. Consumption to meet basic needs reduces the possibility of investing in other alternatives that could be more efficient.

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:

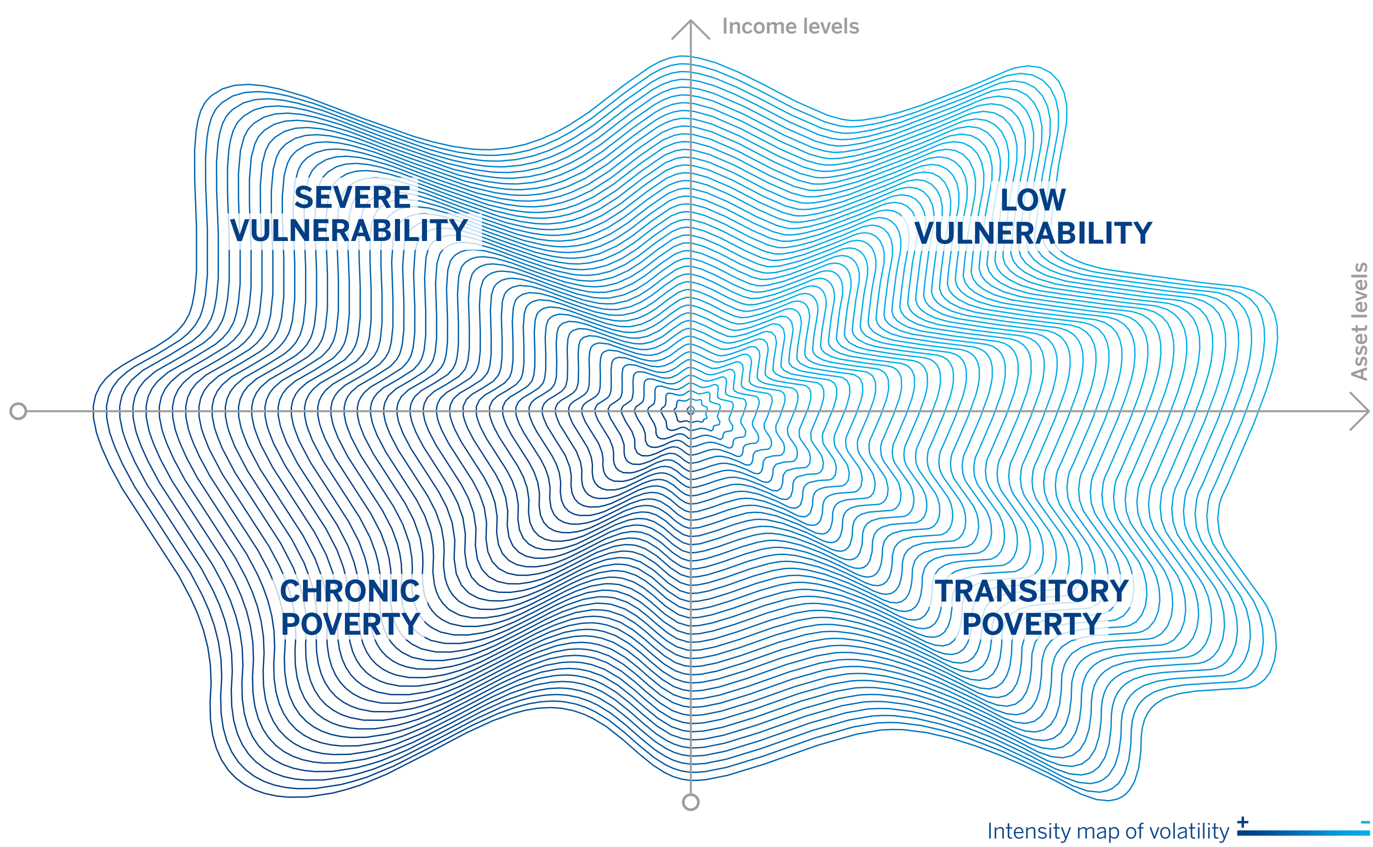
- Volatile: Clients who cross the poverty line at least twice.
- Fall into poverty: Non-poor clients at the outset whose income falls below the PL (and does not increase again).
- Remain non-poor: Clients who remain non-poor throughout the 5 disbursements.

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 208,319[12] people. On average, 10% of clients create at least one new job after three years of banking with the microfinance institutions.

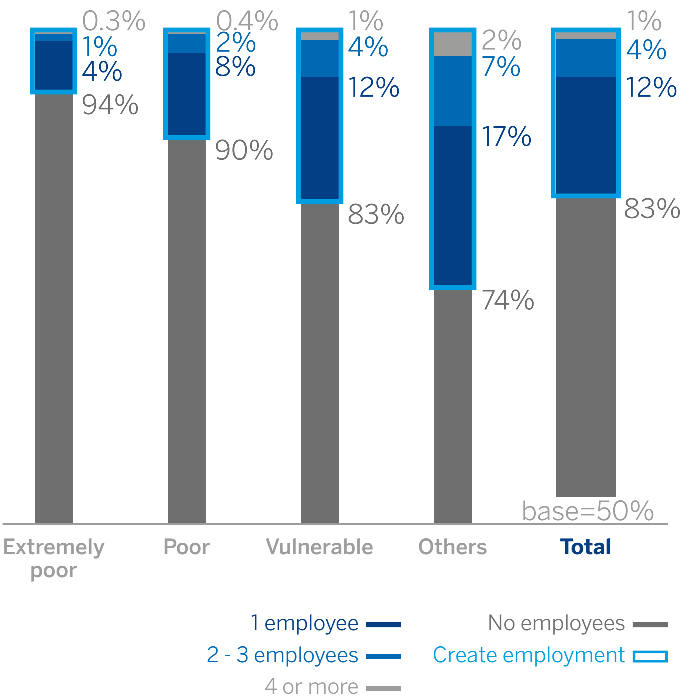
It is also relevant here to point out that, after two years banking with their institutions, on average, 6% of clients improve their housing conditions and 2.2% their educational level, which has a positive impact on future generations.

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

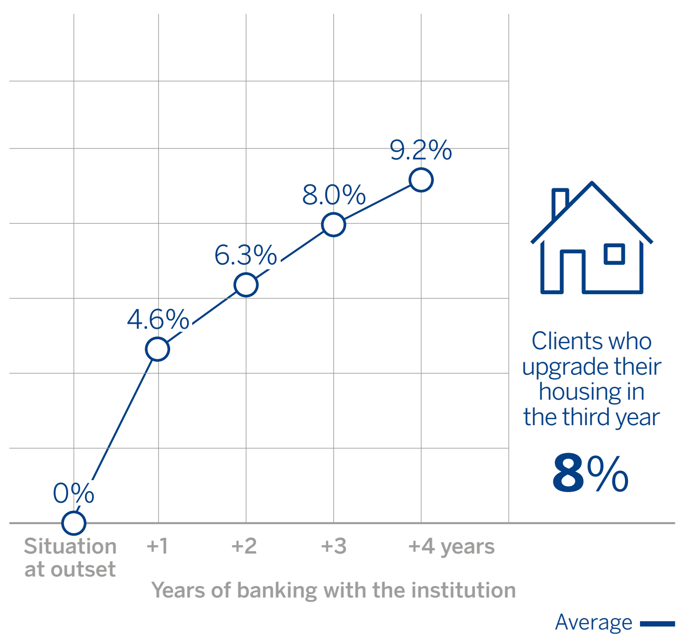
(29) Considers the number of employees in current clients' business at 12.31.2018.
(30) Proportion of current clients at 12.31.2018 who have upgraded their housing situation (bought their own home), have made home improvements (eg.put in a bathroom, installed electricity), or have increased the number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

(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.

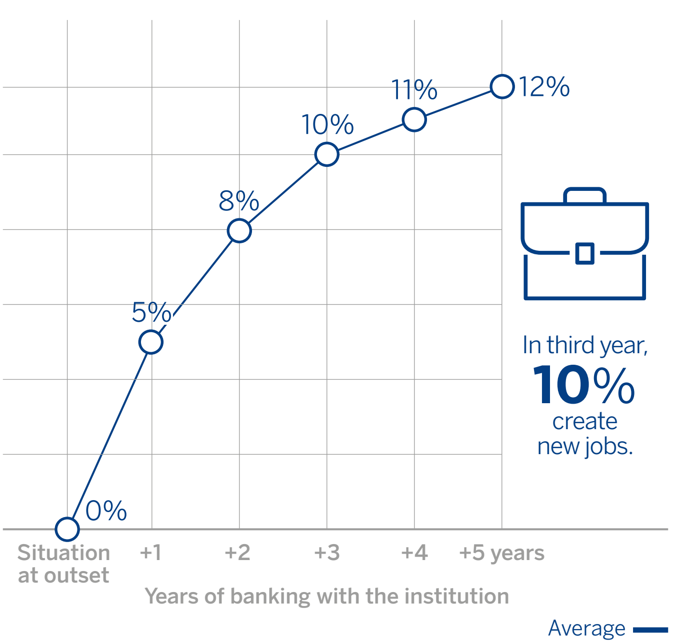
29 EMPLOYEE BREAKDOWN
Clients according to nº of employees in their business



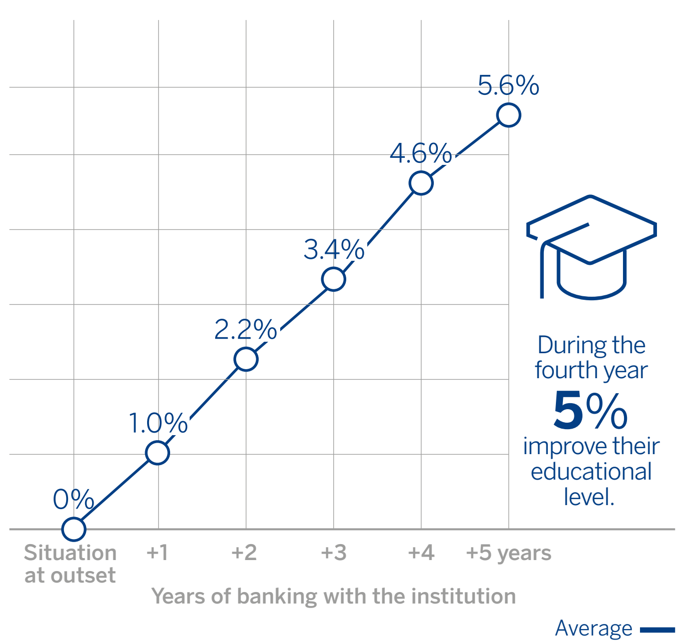
30 HOUSING UPGRADE
Credit clients who improve, by years spent banking with the institution (%)



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 correspondents[13] –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.

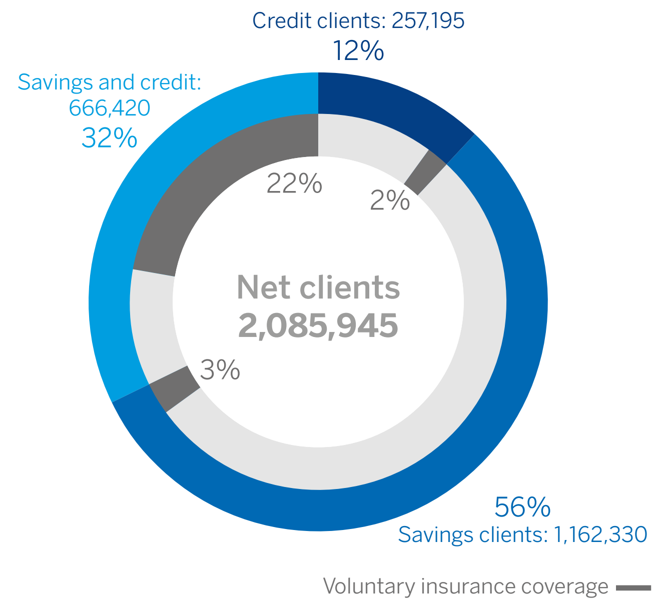
(33) Clients current at 12.31.2018.

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.

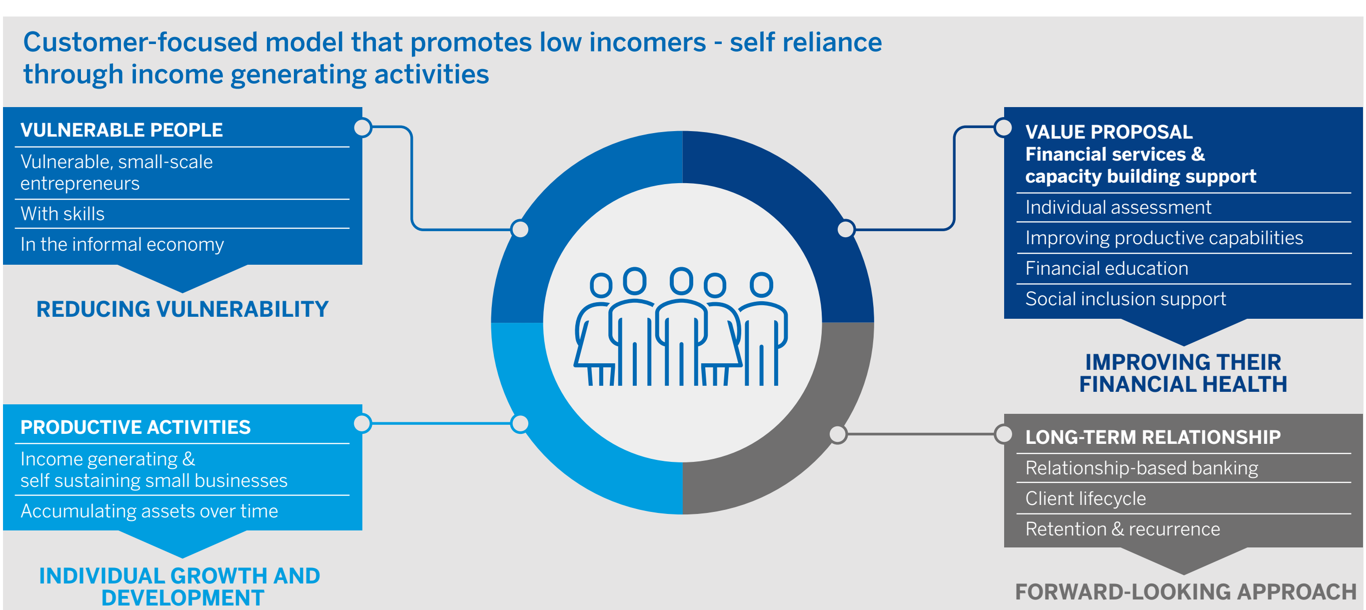
32% of clients served in the BBVAMF Group have credit and savings products and 22% have three types of product (credit, savings and insurance). Where clients only have one product, on the whole this is savings (88%). For this reason, much effort is being made to create specialist products to support:

- 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.

RELATIONSHIP WITH CLIENTS WHO HAVE A VOLUNTARY INSURANCE POLICY

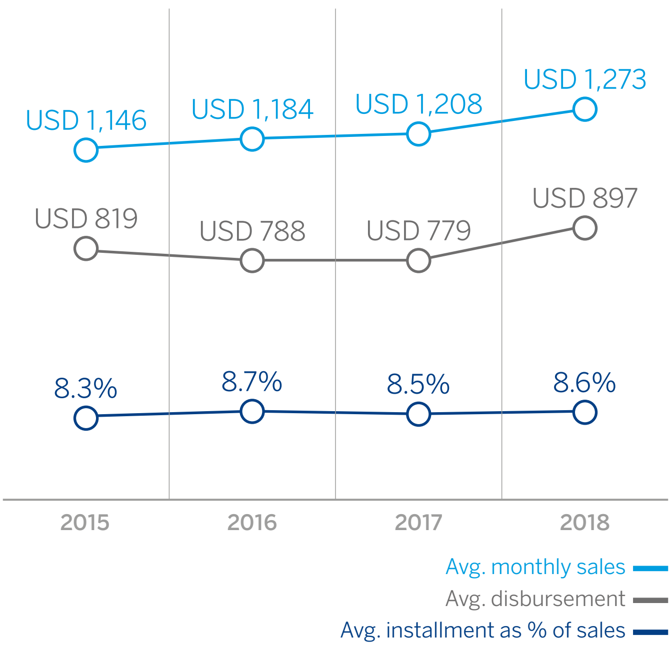
The Group's financial offering is completed with voluntary insurance products to provide cover in the event of unexpected difficulties. Insurance gives more stability to businesses, mitigates the risks associated with investments and prevents the need to resort to savings or to selling productive assets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

(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).
(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

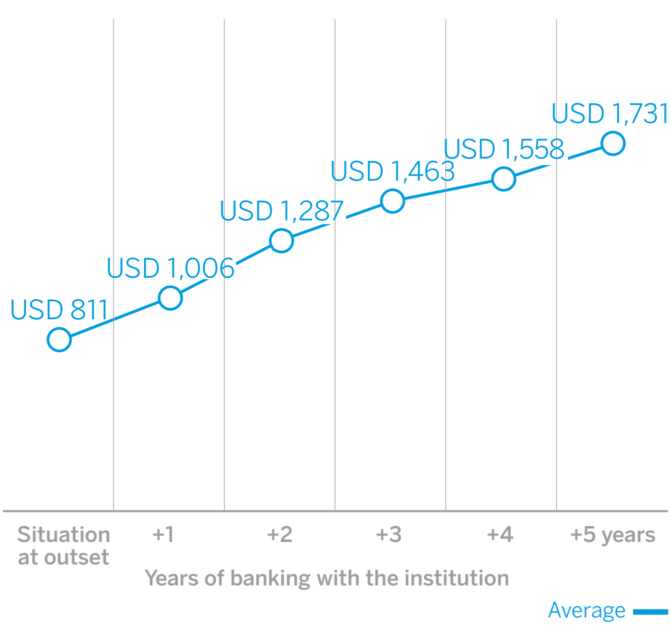
Clients with performing credit after x years

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

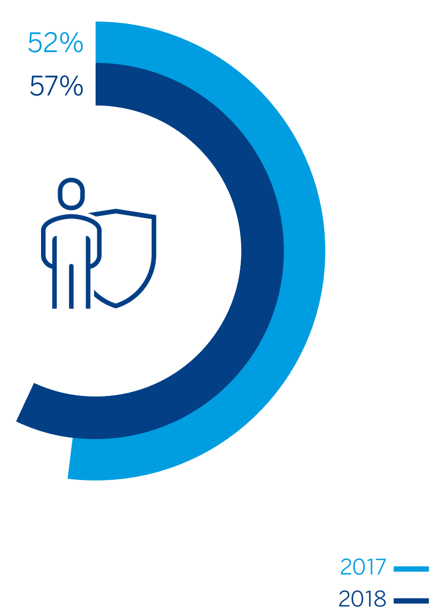
Clients with a 2nd, 3rd... credit

	1st credit	2nd credit	3rd credit	4th credit	5th credit	6th 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



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:

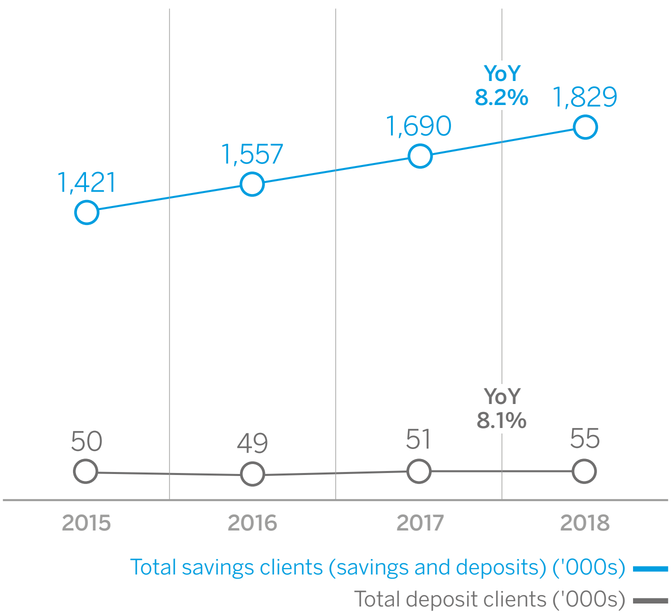
- **Programmed savingings plan and specialized products.** Client commits to saving a specific amount on a regular basis. As an incentive, if they comply with the savings calendar, their interest rate improves. This group is classified as core savings clients.
- **Term deposits.** Targeting clients who 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

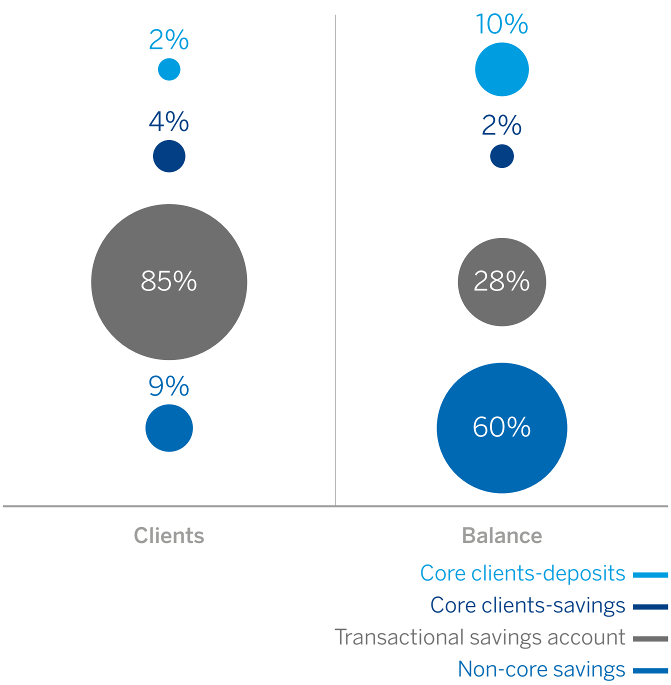
Clients with any savings product on each data collection date



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	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	

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.

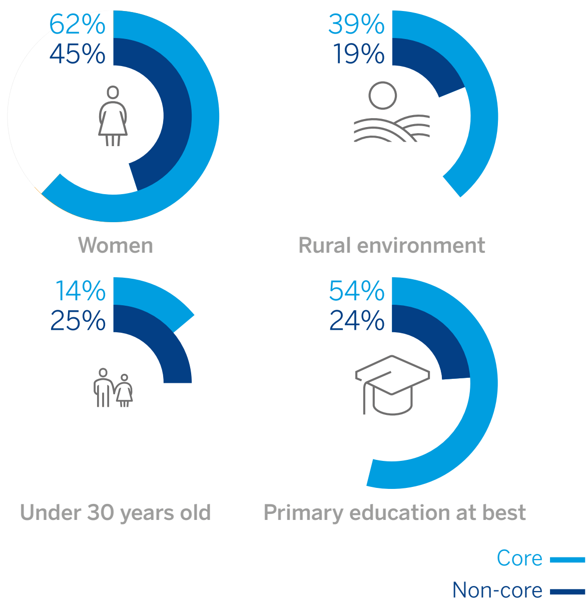
Technology and mobile payments will have a positive impact on transaction frequencies and our clients' savings habits over the next few years. Digital payments are developing rapidly and becoming increasingly more frequent. Cost reduction and access to formal saving will make it easier for more vulnerable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

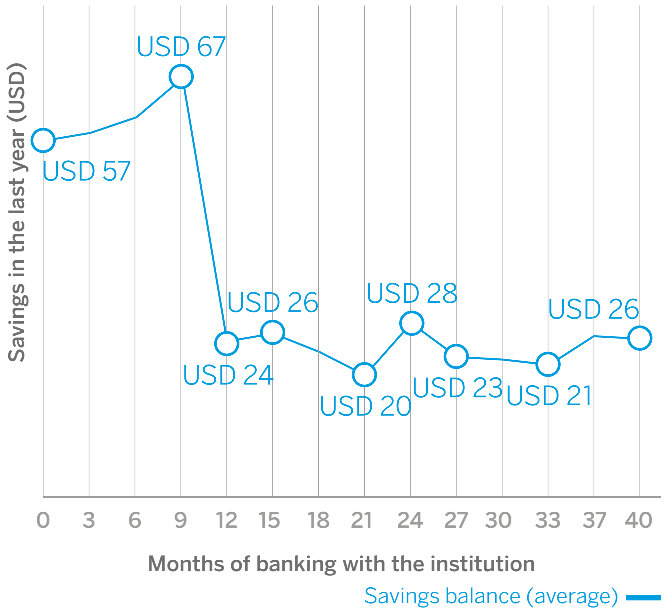
(42) Clients with financial certificates (deposits) current at 12.31.2018 who have had a credit with the institution at some point. Median saving by seniority. The median accumulated saving is shown.

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

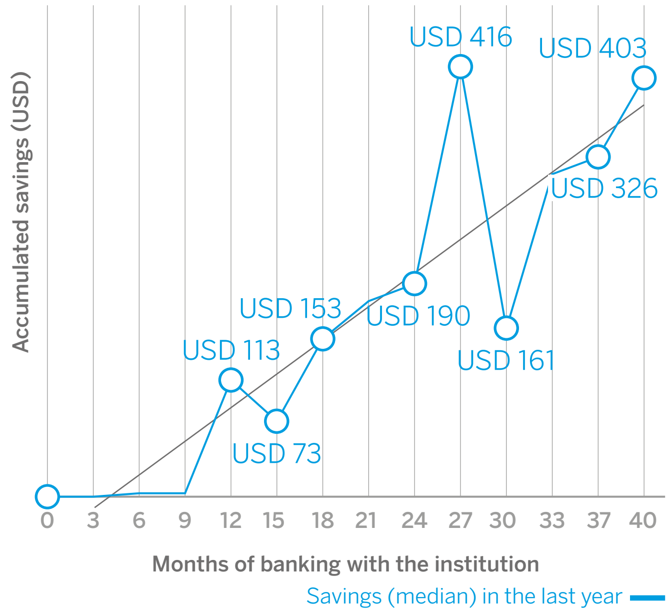


It is critically important both to finance productive activities and to facilitate safe savings mechanisms that enable entrepreneurs to move ahead in managing their financial resources.

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:

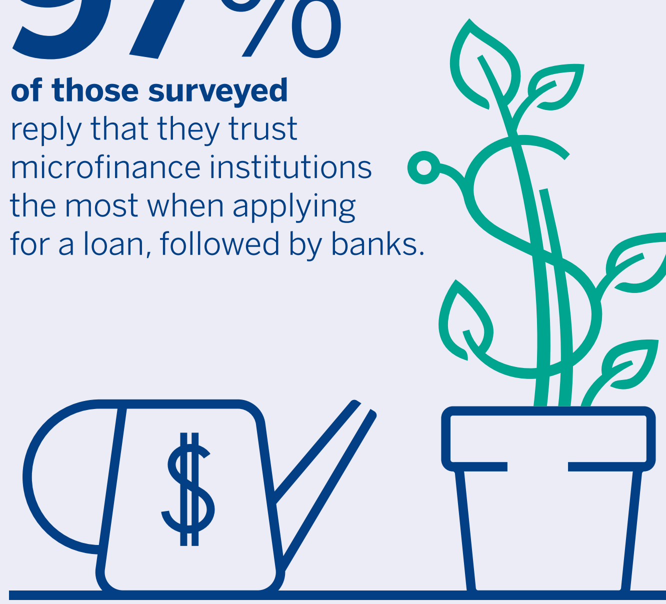
- **1,157 clients** interviewed in the metropolitan regions of Bogotá and Santo Domingo
- **40 questions** about financial health

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

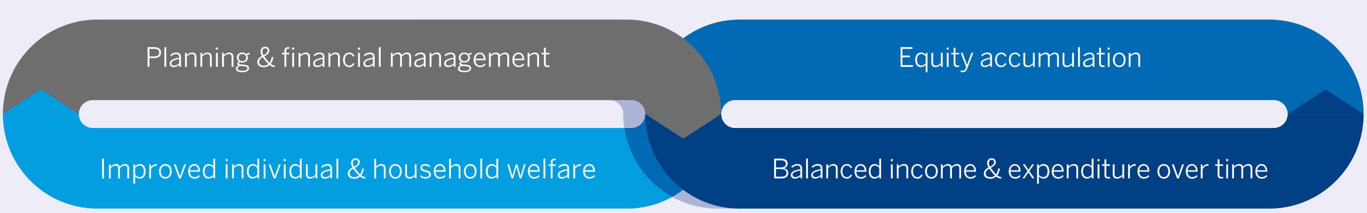
Bill & Melinda Gates foundation | CFSI Center for Financial Services Innovation | ipa Innovations for Poverty Action

97%

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



GOOD FINANCIAL MANAGEMENT GENERATES IMPACT



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

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.

They are interested in saving

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

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 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.

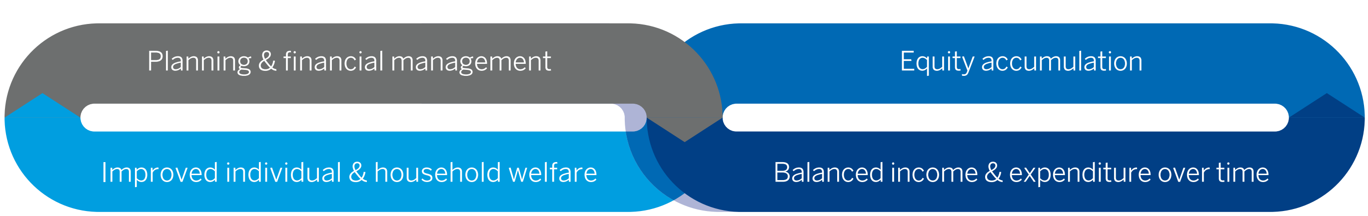
Financial health, depending on an individual's income levels and wealth, means managing money so that:

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

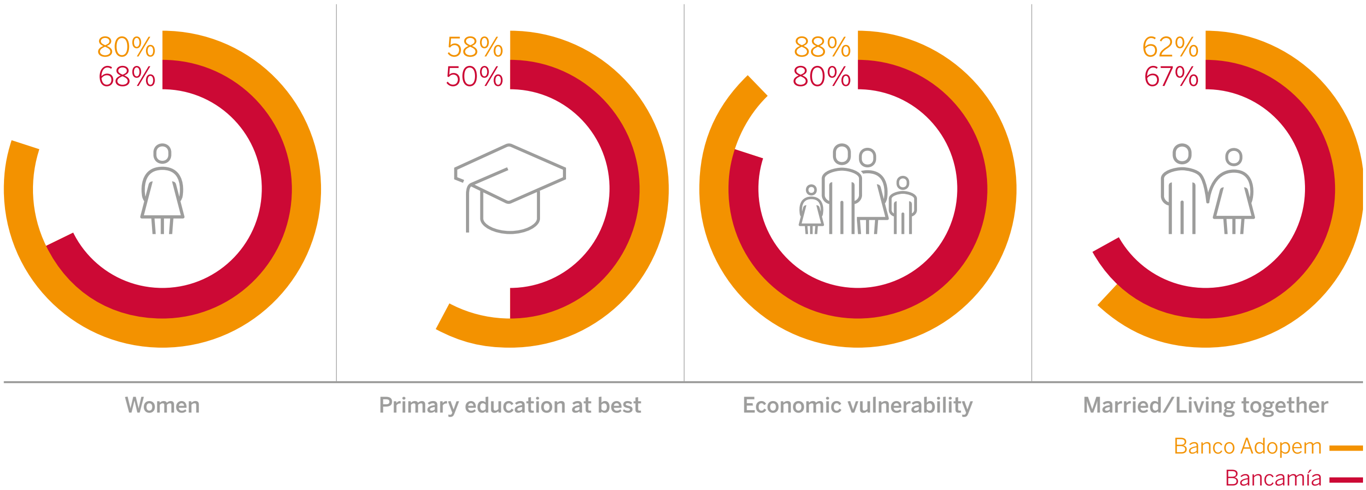
Financial health is a key element in household development, especially for our entrepreneurs. Indeed, the financial inclusion community is increasingly in favor of viewing financial health indicators as an interim outcome, since it is more likely to be affected by access to and use of financial products 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 conclusions[1] 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 attributes[1]

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.

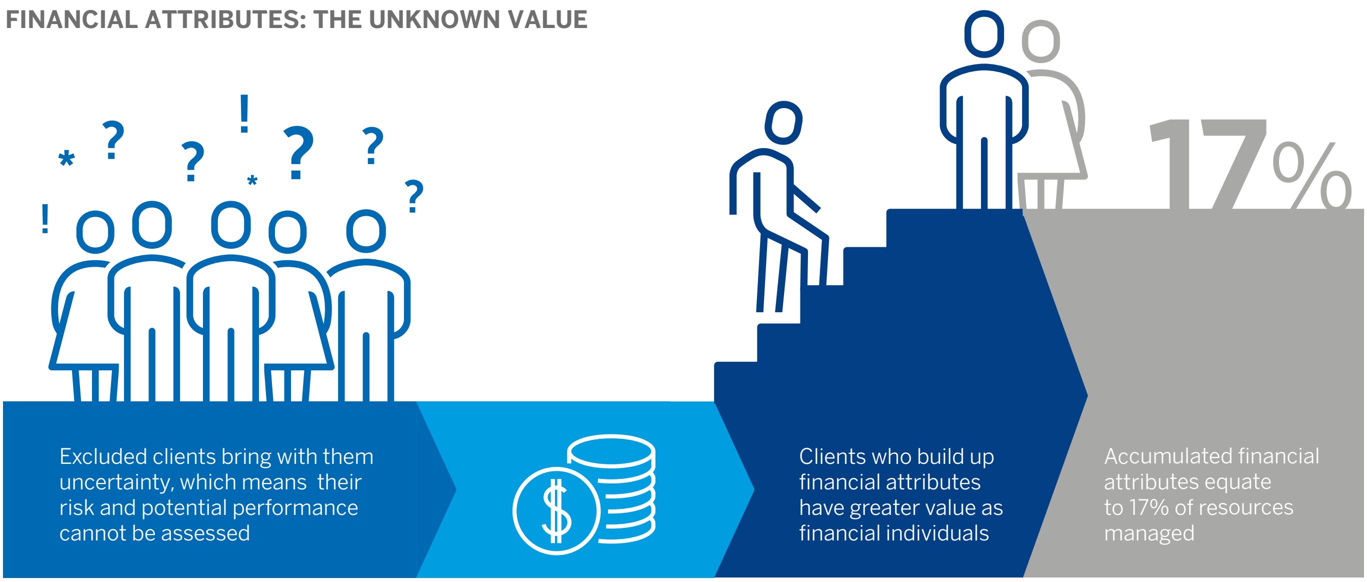
To make an analogy, it is similar to measuring how students build up their knowledge and skillset as they progress with their academic careers and as their curricular activities become more sophisticated during their university years.

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

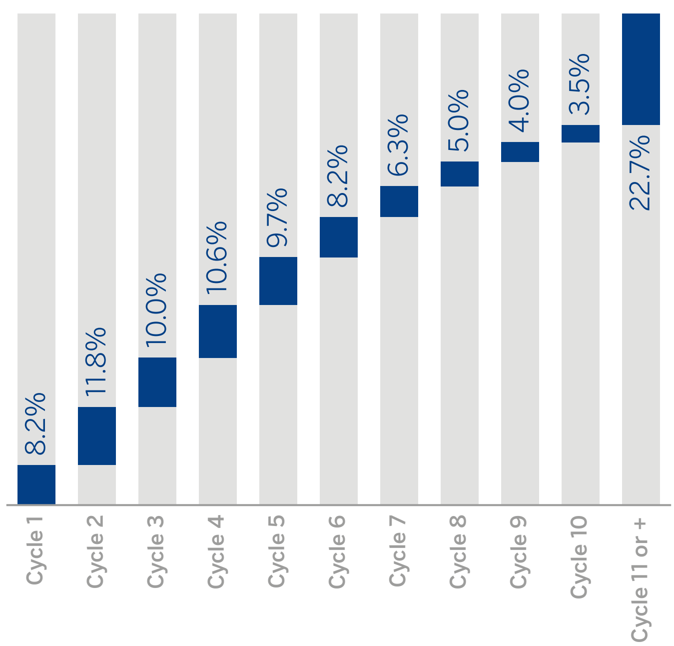
Our opening premise is that the intangible attributes measurement represents a proxy for the "financial abilities value" that Aggregate clients build up incrementally at each iteration. To that end, we need to know the number of interactions that they have already had within the financial system as a 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.

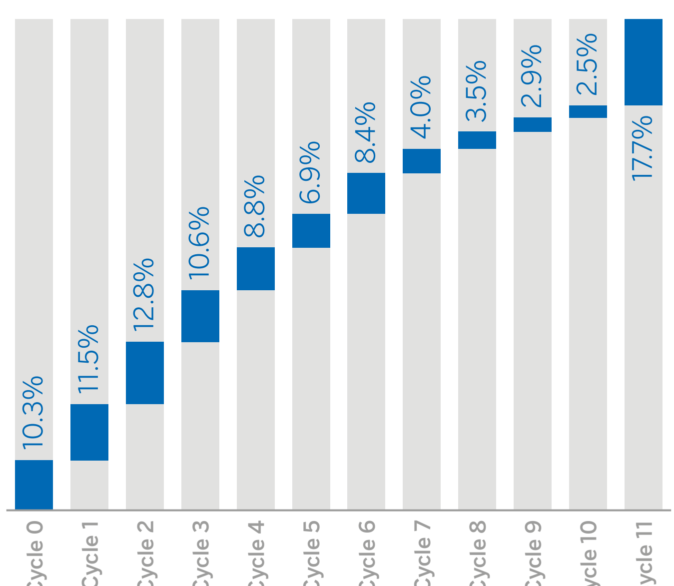
A higher number of attributes are built in the first iteration, while the marginal construction of attributes at each additional iteration decreases until it reaches a number of interactions where no further attributes are aggregated. By the end, clients have converged with the attributes of "mature"[2] segments in the financial system. We defined this threshold as the cycle during which clients' average returns[3] 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 (%)

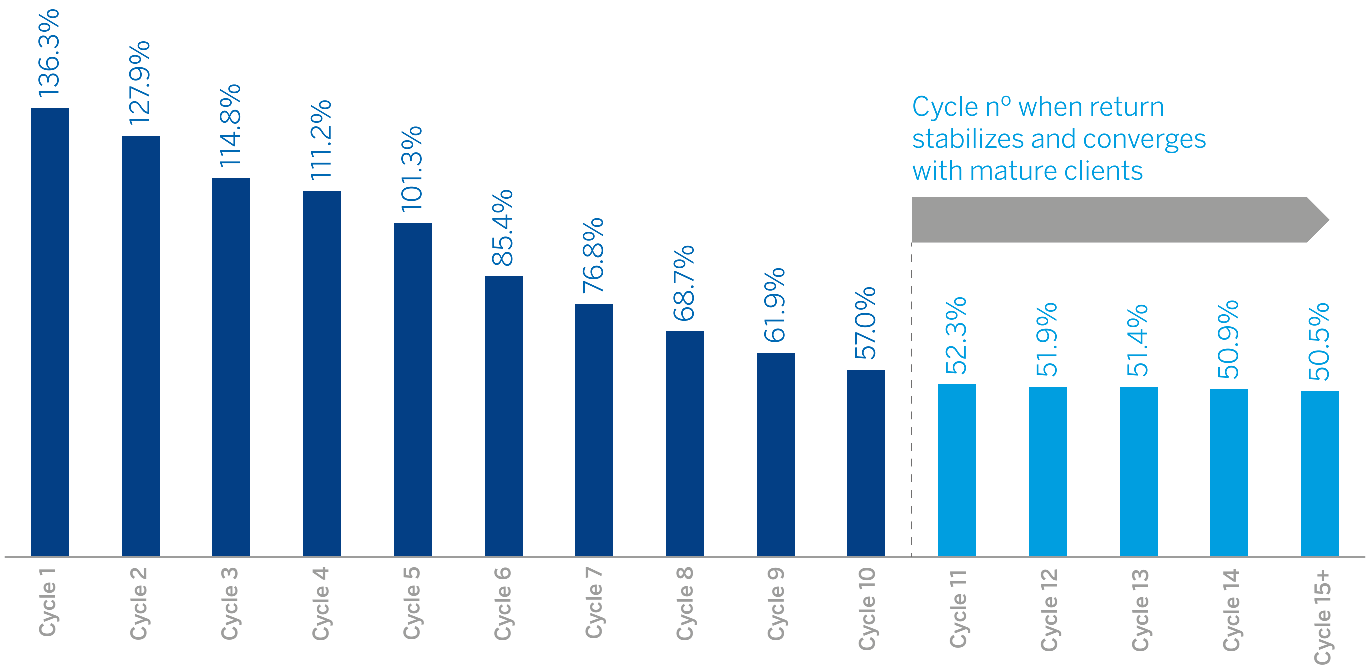


CLIENT CYCLE
Savings (%)

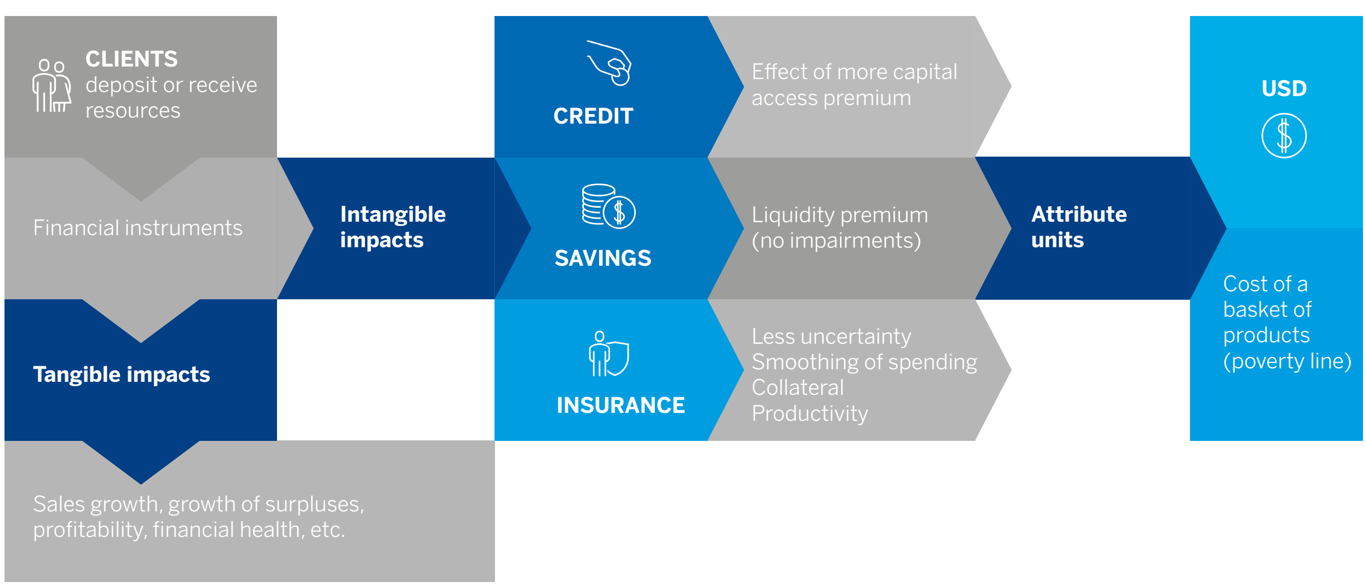


[2] Advanced clients who are no longer building up intangible financial attributes.
[3] Returns measured as clients' net surplus over their assets.
[4] Based on Giovanni Di Placido (2018). Measuring clients' intangible financial attributes. Cases in Colombia, Peru and the Dominican Republic" Working 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 cost[5] of borrowing, using the median cost in those markets where BBVAMF has its footprint[6], 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 capita[8].

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 assets[9]. 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

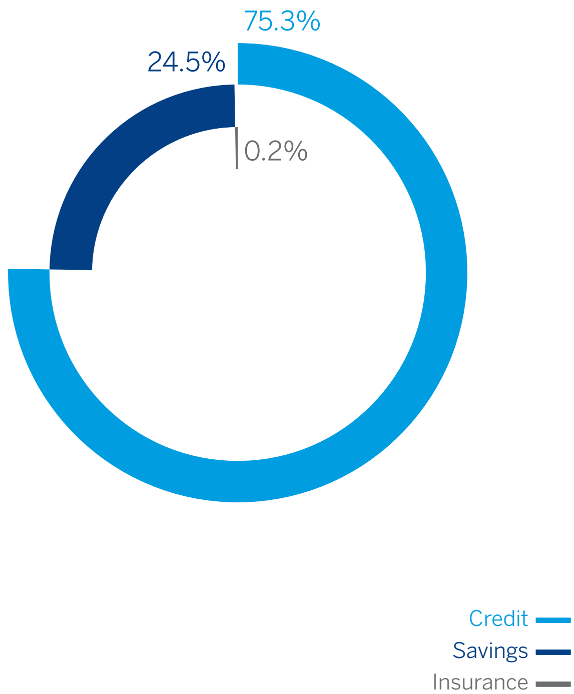
Insurance

TOTAL INTANGIBLE ATTRIBUTES

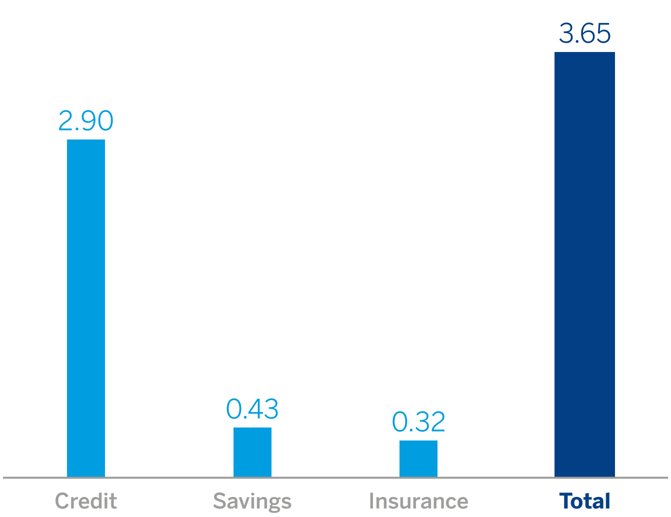
When the attributes generated by these three sources –credit, saving and insurance– are aggregated, **aggregate intangible attributes per capita are estimated at 3.65 attribute units, equivalent to USD 321 per client.** 75% of the total is generated by credit transactions, revealing that there is still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

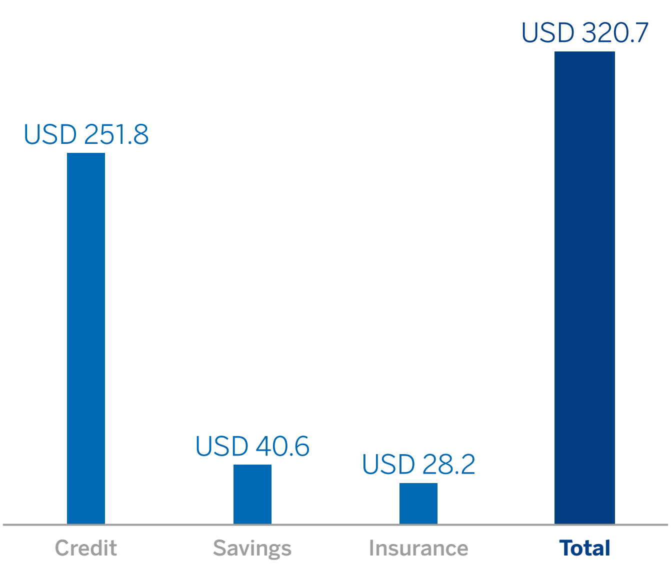
CONTRIBUTION OF ATTRIBUTES, BY PRODUCT
(%)



ATTRIBUTE UNITS GENERATED PER CAPITA



ATTRIBUTES GENERATED PER CAPITA
USD



Latam macroeconomic environment: our footprint

ECONOMY[1]

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.

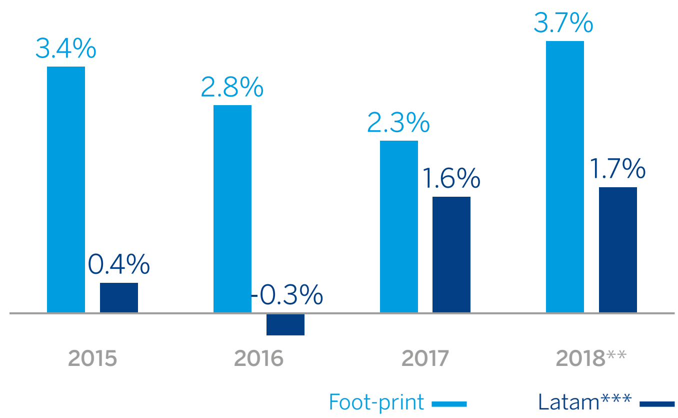
Against this backdrop, the economy of the region[2] expanded by an annual 1.7%, a similar rate to the year before, with a major contribution from investment, while the share of public consumption in growth contracted because of tighter fiscal policies in the area's most important economies.

In the footprint[3] 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%.

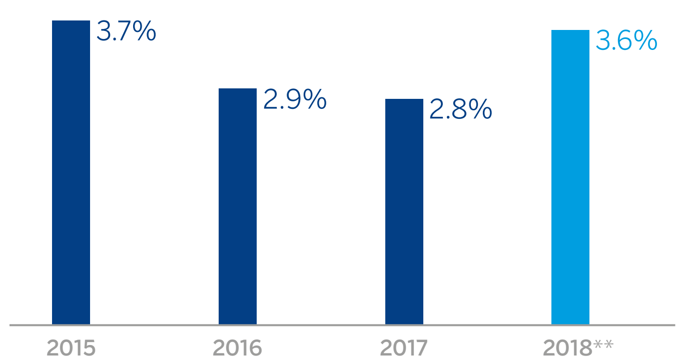
Slower momentum from international trade because of increasing trade tensions and their impact, both direct and indirect, on exports from the countries in the footprint were reflected in the smaller contribution to growth made by the external sector in 2018.

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.

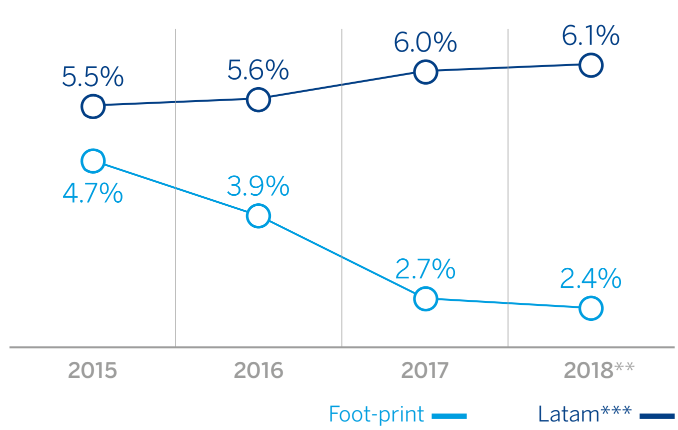
GDP*
Real variation (%)



CONSUMPTION*
Real variation (%)



INFLATION*
Real variation (%)



[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 Caribbean[5] 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.

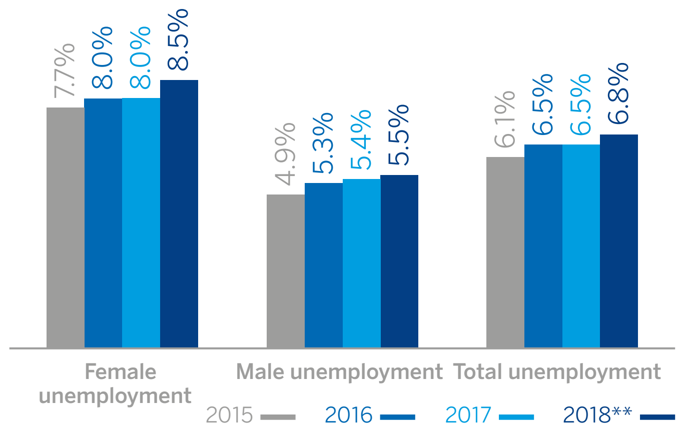
In this environment, monetary policy rates were raised in Chile and the Dominican Republic, as a result of there being less room for maneuver in the product gap, while the Colombian and Peru central banks reduced their monetary policy rates once inflation converged with their targets.

EMPLOYMENT, POVERTY AND WELFARE[6]

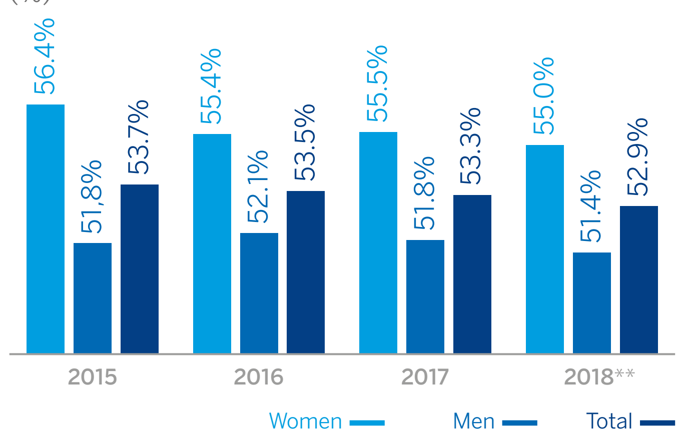
In Latin America as a whole the unemployment rate edged down from 8.1% in 2017 to 7.8% in 2018. However, in the footprint, despite greater economic expansion, this rate has nudged up by the same amount, 0.3 percentage points, to 6.8% in 2018. This is a product of the deterioration in the labor market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

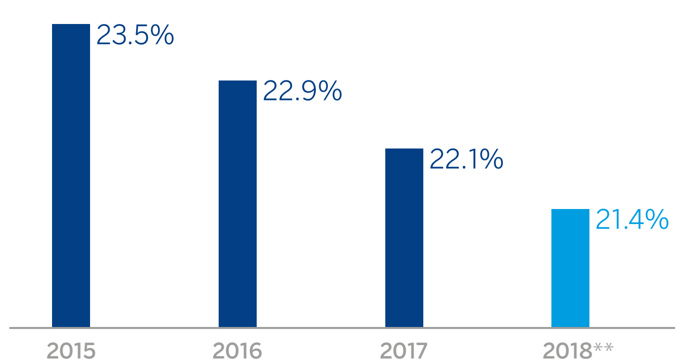
LABOR MARKET*
(%)



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 0.48[7]. 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 data[8], 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.

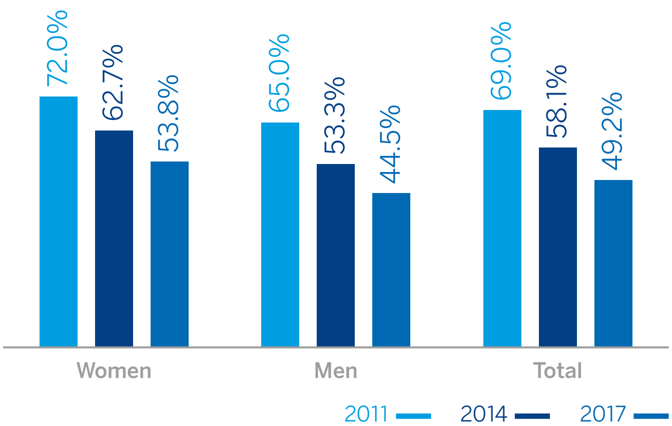
Lastly, the gender gap in financial inclusion is very clear. Men beat women by 10 percentage points, with inclusion among the latter standing at 46%. In other words, nearly 6 in every 10 adult women does not have a bank account.

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%.

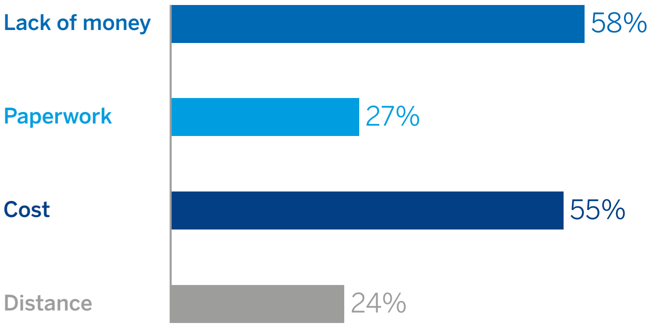
41% of adults have made some kind of saving in the last year, but only 11% have done so in a financial institution. 31% of the adults with the lowest incomes have managed to save some money in the last twelvemonth.

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.

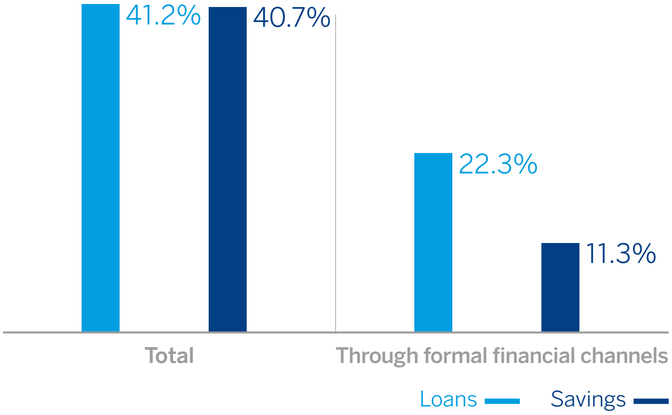
UNBANKED ADULTS*
Total over 15 years old (%)



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

Financial data	**BBVAMF Group**
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	
Nº of employees	8,022
Nº 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	
Below the poverty line	
Volatile	29.8%
Stable	16.2%
Escape poverty	54.0%
Above the poverty line	
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	COMMENTS
Lack of information on certain variables. There are certain variables for which some client information is not available.	Where there are gaps in a given client's data, that client's data has not been used and thus not included in the samples analyzed.
Positive bias. Clients' tendency to present a more favorable view of their micro-enterprise's performance.	BBVAMF methodology works on the premise that the data is gathered by an agent/loan officer with an informed understanding of the client's circumstances, who will therefore only report data he/she considers credible.
Process limitations. Information gathering is essentially from loan processes; normally data are collected when the client acquires a new product or renews their loan (information is stored in each MFI's core banking system).	There are limitations in the data capture process, such as the difficulty of valuing the business, input errors, incorrectly interpreting the variable, lack of time, etc. For group 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.
Heterogeneous databases and different criteria. Indicators are based on the faithful interpretation of each microfinance institution's (MFI) criteria and those of its agents/officers. In a very few cases, there are variables with definitions or nuances at a local level or variables that are only collected in certain countries.	• Assets and sales indicators, in particular, are based on the in-depth understanding of each MFI's criteria and that of its agents. Criteria applied to value assets, liabilities, etc. may differ slightly between institutions. • Social variables (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	The "environment" variable is defined by each institution as follows:	
	Bancamía	The client's business address (street, highway, etc.).
	Financiera Confianza	The client's address; in a given district all clients are classified as being in the same "environment", according to their classification by the National Statistics Institute (INEI-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.

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	COMMENTS
Income relative to the poverty line	This measures the percentage that monthly per capita net income represents relative to the poverty line. The calculation of the relative income is made against the poverty line when the disbursement is cashed out (using the PL for that year). Since it is a relative measurement, it can be compared over time (similar to the financial updating of currency units) as well as by different geographies or segments. Relative income takes a value of one when it is the same as the poverty line: Values under one indicate that the client is poor and values greater than one that the client is not in poverty.
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	COMMENTS
Vulnerability line (three times the poverty line)	The threshold of three multiples of the poverty line has been defined thus because clients with revenues over this limit are unlikely to fall into poverty. In other words, the threshold of three times the poverty line represents a level of economic security such that the likelihood of clients with higher incomes falling into poverty is less than 10%. This definition is in line with studies by the World Bank[1]. 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

INDICATOR	COMMENTS
Financial data performance and variation in the poverty segment	Data from those clients who were current at some point in the previous 12 months, and who have 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	COMMENTS
Analysis of business asset accumulation	PIn 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
	DANE	2014	Extreme poverty	79,837	98,407
			Poverty	139,792	233,530
	DANE	2013	Extreme poverty	77,947	95,884
			Poverty	136,192	227,367
Peru	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
	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
Dominican Republic	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
	MEPyD	2014	Extreme poverty	2,041	2,130
			Poverty	4,212	4,730
	MEPyD	2013	Extreme poverty	1,985	2,071
			Poverty	4,096	4,600
Panama	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
	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.gob.pe/media/MenuRecursivo/publicaciones_digitales/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 experts[5], 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 updated[7] 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 housing[8]. 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 Poverty 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 Ppbreza 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

	Household size	2011	2012	2013	2014	2015	2016	2017	2018
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