



Annual Report 2018



We believe in you

Annual Report 2018

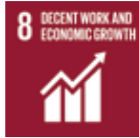
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Developing our business:

Microcredits and other financing with a social impact



116,789

microcredits granted

€772.8M

granted

€1.1M

*in other loans
with a social impact*

4,608

*Network of
CaixaBank branches through
which we conduct our business*

598

collaborating institutions

*Support from major
European institutions:*

FEI, BEI, CEB

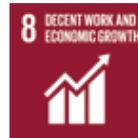


*MicroBank, a leader in microfinance
in Europe**

*Source: Microfinance in Europe: A survey report 2016-2017
European Microfinance Network (EMN), December 2018.



We contribute to economic growth and job creation



25,820

*jobs created
with the support of microcredits*

9,561

*new businesses launched
with the support of microcredits*

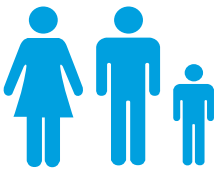
€1,718M

*contributed to the Spanish GDP
by financed companies*

66,000

*More than
jobs linked to companies that have
received funding from MicroBank*

MicroBank in 2018



We contribute
to **personal and
family development**



98,749

*families received
a family microcredit*

96% *were
able to meet the need
for which they requested
the microcredit*

68% *For
the microcredit
helped with making financial
decisions with greater confidence*

*Development of new facilities
with a focus on health and education*



We contribute
to **financial
inclusion**



€ 0.4M

*in microcredits for people exposed to high
social vulnerability*

€ 29.6M

*in microcredits aimed at customers that
have been supported by institutions*



 **MicroBank**



Letter from the Chairman of CaixaBank

Our finger on the pulse of society

CaixaBank's success story is firmly rooted in our way of banking, which is based on a set of corporate values that put our commitment to society first. Our dedication to service, trust, proximity and quality are distinctive features of our relationship with those around us and set us apart in a way that is unique in the financial sector. The century-old history and social roots of our institution vouch for us and encourage us to continue along this path and tackle the challenges that undoubtedly lie ahead.

Spain's economic recovery in recent years has put the country in a position to leave behind one of the most serious crises in decades. Growing levels of activity and a progressive reduction in unemployment have contributed to improving the well-being of families. However, we should not overlook that significant inequalities remain, which cloud this general outlook.

Without going into detail, unemployment, job insecurity, gender inequality and high poverty risk rates are ongoing challenges we cannot afford to overlook if we want to build a cohesive and fair society.

We must all be part of this change and join forces to turn this situation around. At CaixaBank, we are firmly committed to following a responsible model of banking and working towards fulfilling the United Nations' Sustainable Development Goals (SDGs) with particular emphasis on the eradication of poverty and reduction of inequalities. In the current economic environment, which is developing towards a slowdown in growth, the CaixaBank Group works hard every day to do its part in moving society ahead and contributing to bolstering production activity and job creation. We do not want anyone to be left behind. This is why we as an institution place emphasis on financial inclusion initiatives for people who may have greater difficulty in accessing traditional banking services.

We put our finger on the pulse of society and show that we are particularly sensitive as a socially responsible bank with our commitment to MicroBank, a European leader in granting microcredits to families and entrepreneurs, which is now widening its scope to become the best bank in finance with a social impact. We are very excited to see how a bank that has been able to build a successful model by supporting vulnerable groups through microcredits is now actively creating new products that contribute to generating a positive impact on society.

The achievements of MicroBank are an integral part of the success of the entire CaixaBank Group and strengthen our commitment to continuing our work of promoting the values that have enabled us to gain and keep the trust of all those walking alongside us on this path towards a better future.

Jordi Gual Solé
Chairman of CaixaBank





A letter from the CEO of CaixaBank

What is expected from us

CaixaBank is the leading retail bank in Spain with 15.6 million customers, the largest commercial network on the peninsula and more than 5,000 branches and is at the cutting edge of innovation with the largest digital customer base in Spain (6.1 million).

However, the extraordinary strength demonstrated by these figures would be diminished if they were not underpinned by the set of values CaixaBank has promoted throughout its century-long history and which are at the heart of everything it does. Along with the pillars of quality, trust and social commitment, the institution places priority on its firm commitment to a socially responsible model of banking pursuant to the Sustainable Development Goals (SDG) issued by the United Nations.

MicroBank works towards the same goal and, thanks to the ongoing support of the CaixaBank Group, promotes this social value, which is highly appreciated by our customers and provides an effective contribution to the development of society as a whole. This is why MicroBank plays a decisive role in the Group's Socially Responsible Banking Plan, which entrusts it with the task of promoting financial inclusion, providing

access to credit to all segments of society, in particular to the most vulnerable groups, and strengthening its commitment to the socio-economic development of the region. This involves giving back to society part of its contribution through what is expected from us based on our identifying traits.

As has become tradition since its foundation in 2007, in the past year MicroBank has once again demonstrated its capacity for growth. The institution closed out 2018 with an active portfolio balance of €1,558 million, a 6% increase on the previous year, and has granted 98,794 microcredits to families to cover specific needs, along with 18,040 loans for entrepreneurs for the purpose of launching, expanding or consolidating a business.

This track record shows that, with its indisputable social commitment, MicroBank is a fundamental element of the Group's corporate social responsibility. The fact that such a large number of people place their trust in MicroBank encourages us to continue working in the years to come in order to deliver a service that best meets society's demands and needs.

The 2019-2021 Strategic Plan will give the institution a fresh boost to tackle the challenges it faces, including its ambitious goal to continue providing access to financing for groups and projects that generate a positive social impact.

CaixaBank will always remain by its side to ensure it is successful in everything it sets out to do.

Gonzalo Gortázar Rotaeché
CEO of CaixaBank



Letter from the Chairman of MicroBank

Another step forward

MicroBank was launched in 2007, at the outset of the crisis in the financial system that soon led to the most serious global recession in recent decades. These were difficult times for all as, in the wake of this adverse global outlook, families and entrepreneurs faced obstacles in accessing the credit they needed to carry out their projects or meet specific needs. At the time, there was a clearer than ever need for a social bank able to meet the needs of groups that may see themselves excluded from the financial system due to their level of income or inability to provide guarantees. Breaking the mould of traditional banking, MicroBank stepped forward with a commitment to financial inclusion, providing access to credit for these groups of people with limited income by granting them microcredits.

It immediately found acceptance in society and the growing demand showed the importance of the fact that there was an institution acting counter-cyclically by granting unsecured loans to the most vulnerable households. The bank's activity grew steadily, which allowed it to strengthen its solvency by reinvesting the profit it obtained into its project.

In the years that followed the crisis, the credit offer within the financial system normalised and once again covered segments that previously had been catered for to a lesser extent, which led MicroBank to progressively refocus its microfinance activity on customer segments and businesses that may still have difficulty in accessing credit.

The many decisions adopted to maintain our supplementary and different role to that of other banks have further strengthened the bank's social profile and helped consolidate its position as a leader in sustainable social banking. After 11 years, in which we have proven the robustness of our business model, the unconditional support of our sole shareholder, CaixaBank, and the European institutions' ongoing firm commitment to our project encourage us to go even further.

The 2019-2021 Strategic Plan charts the new course we want to take as an institution on the basis of our desire to contribute to the progress and well-being of society as included in the United Nations' sustainable development agenda by providing funding to groups and projects generating a positive and measurable social impact. This is why, in addition to granting microcredits, which are the cornerstone of our business, we also plan to position ourselves as one of the leading institutions in banking with a social impact, developing a high-value offering of new products that meet the financing needs of groups that have been outside our area of focus so far and that work for the progress of society.

I am convinced that our acquired experience and the passion and work of our entire team will help us tackle this new challenge of aspiring to position ourselves as a Spanish leader in the area of financing with an impact.

Antonio Vila Bertrán
Chairman of MicroBank

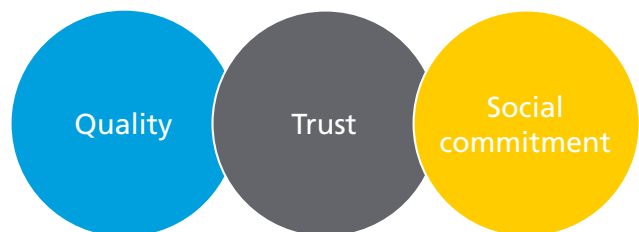


1. MicroBank's commitment

As part of its commitment to financial inclusion, which CaixaBank has always maintained towards society, it founded MicroBank in 2007 in order to channel the microcredit business it had handled until then and, in doing so, bolster this socio-economic work with the rigour and sustainability inherent to a banking institution.

MicroBank is an expression of the desire to serve the different segments of the population whose financial needs are not sufficiently met through a new social banking model that provides access to credit by means of high-quality financial services.

MicroBank's actions are governed by the corporate values of the CaixaBank Group:





MicroBank's goals

1

Job creation

Launch or expansion of businesses by granting microcredits to entrepreneurs and microenterprises.



2

Promoting production activity

Granting financial assistance to self-employed persons, microenterprises and social enterprises as a means of boosting the economy by promoting the launch and consolidation of businesses and contributing to generating a positive impact on society.



3

Personal and family development

Meeting the financial needs of persons with moderate income through microcredits and helping them overcome temporary difficulties.



4

Financial inclusion

Access to banking services for new customers through CaixaBank's extensive commercial network along with equal access to credit.



5

Generation of social and environmental impact

Grant of financial support for projects generating a positive and measurable social impact.





2. MicroBank's teamwork with CaixaBank, European institutions and collaborating institutions

The support of its sole shareholder, CaixaBank, the involvement of the main European financial institutions and the high level of capitalisation, along with a wide distribution network, are the essential strengths enabling MicroBank to achieve its goals, which focus on meeting needs that are not sufficiently covered by the traditional credit system.

MicroBank's goals revolve around meeting needs that are not sufficiently covered by the traditional credit system.

Through the business model developed by MicroBank, we have been able to combine the creation of social value with generating the resources needed for this project to continue growing at the pace required by current demand. The institution is currently the only bank in Spain that is mainly dedicated to microcredits and other financing with a social impact.

Through its activity and its business model, MicroBank works towards achieving the United Nations' (UN) Sustainable Development Goals (SDGs), placing emphasis on the following goals:

 **SUSTAINABLE DEVELOPMENT GOALS**



Support of the European institutions

MicroBank is supported by some of the main European institutions promoting entrepreneurship and microenterprises.

European Investment Fund (EIF)

Since 2008, MicroBank and the EIF have been working closely together to promote funding for launching, consolidating or expanding entrepreneurial or business projects. The two institutions first began working together through the Competitiveness and Innovation Framework Programme (CIP).

COSME II Programme

In 2014, MicroBank became the first financial institution in the European Union to become a member of the EU programme for the Competitiveness of Small and Medium-Sized Enterprises (COSME) launched by the European Commission and managed by the EIF. The programme provides MicroBank with guarantees to cover part of the risk it undertakes when granting microcredits to entrepreneurs and businesses.

In 2017, MicroBank renewed its guarantee agreement with the EIF through the COSME II Programme in order to maintain coverage of the risk inherent to microcredits for businesses until the end of 2019.

Erasmus Master

The Erasmus+ Master agreement, signed with the EIF in 2015, remained in force throughout 2018. This initiative aims to provide access to Erasmus Master studies by means of a product specially designed with this purpose in mind, which particularly favours university students with limited resources.

EaSI Programme

In July 2018, MicroBank signed a new collaboration agreement with the EIF within the framework of the EaSI Programme (Employment and Social Innovation). It is a highly significant initiative for the bank since the coverage for losses incurred due to insolvency, which is granted over the three years the agreement is in force, will enable the launch and consolidation of one of the new lines of action included in the institution's new strategic plan: financing companies and enterprises involved in the social economy sector.





Alessandro Tappi, Director General of Investment at the EIF and Antonio Vila, Chairman of MicroBank.

Council of Europe Development Bank (CEB)

The CEB has supported MicroBank's business since its foundation. In 2018, MicroBank and the CEB renewed their relationship with a new drawdown of €50 million aimed at offering funding to microenterprises and self-employed persons in order to help them set up businesses or expand and improve their existing activities.

The funds received from the CEB enable MicroBank to grant new microcredits and contribute to its ability to continue to offer highly competitive conditions adapted to its customers' needs.

European Investment Bank (EIB)

In 2013, MicroBank became the first European bank to receive funding from the EIB for the purpose of granting microcredits. Since then, it has taken out three loans with the EU bank, for an amount of €190 million, aiming to promote access to long-term funding and job creation, in particular for young people.



Impact of MicroBank's collaboration with the EIF (2008-2018)

Amount

€1,466_M

Microcredits

130,715

Average amount

€11,215



Impact of the financing of the CEB loan on MicroBank's business

Amount

€460.7_M

Microcredits

57,652

Average amount

€7,992



Impact of the financing of the EIB loan on MicroBank's business

Amount

€217.8_M

Microcredits

19,934

Average amount

€10,926



The relationship between CaixaBank and MicroBank

As the sole shareholder of MicroBank, CaixaBank has supported the social bank since its inception in 2007 in two ways:

- By providing it with the funding needed to grow its lending business.
- By marketing its products through the more than 4,600 branches in CaixaBank's commercial network, putting the entire range of options at the customers' disposal with the highest possible levels of service quality and proximity.

The relationship between CaixaBank and MicroBank is governed by an agency agreement by virtue of which CaixaBank provides MicroBank with comprehensive support and marketing services.



Caixabank's retail branch network

4,608



The role played by the collaborating institutions

Another essential element of MicroBank's strategic goals are the **598 institutions** that have signed a collaboration agreement with the bank in order to promote self-employment through microcredits, in particular among the groups that have the greatest difficulty in accessing credit and need assistance. These institutions act as a link between potential customers and MicroBank.



Types of institutions that collaborate with MicroBank

302

town/city councils

76

public authorities (except councils)

150

non-profit organisations

37

universities and business schools

33

chambers of commerce

598

institutions

New kinds of collaborating institution were included in 2019. They contribute to providing access to funding to social economy companies thanks to the launch of the EaSI Programme.



Services provided by the collaborating institutions



Assessment

They provide knowledge about customers applying for a microcredit, which contributes to better transaction assessment



Support

They offer advisory and technical support services to entrepreneurs, which the latter need to draw up their business plans and conduct prior assessments regarding the feasibility and coherence thereof.



Universalisation

They contribute to expanding the distribution network for MicroBank's products and services, above all among the groups with the greatest difficulty in accessing funding.





3. Products and services adapted to the customers' needs

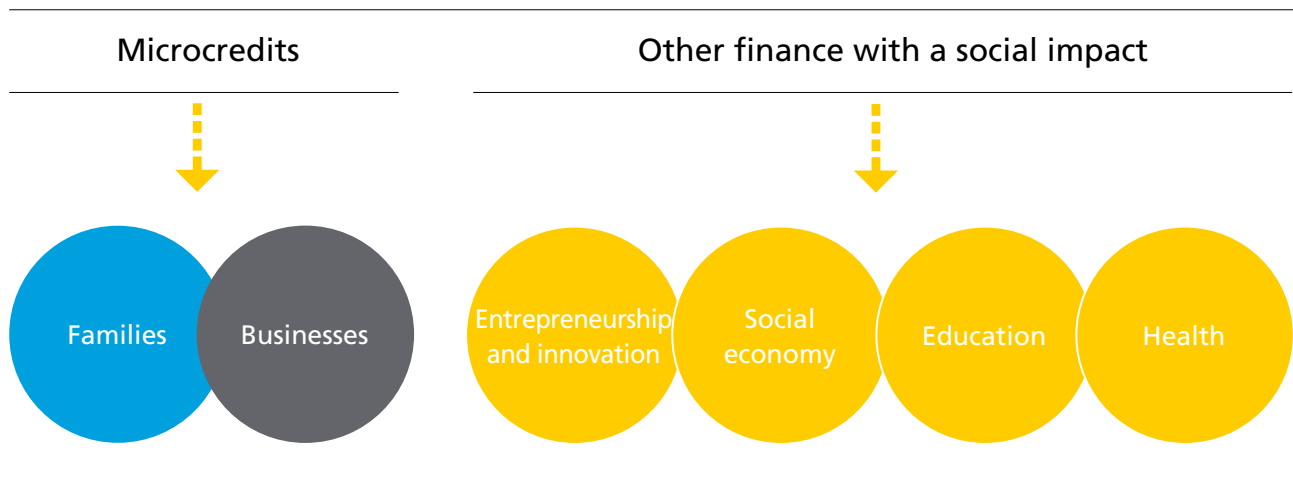
Adapting its financial products to the real needs of its customers is a priority goal for MicroBank. CaixaBank's commercial network and the collaborating institutions notify MicroBank of the customers' needs that they have identified.

The process of launching a new product involves, on the one hand, the development thereof by MicroBank's team and, on the other hand, the approval by CaixaBank's Product Committee, which analyses its features and associated risks along with its appropriateness for the audience at which it is aimed.

Two new products were launched in 2018: The EaSI Social Enterprise Loan and the loan for postgraduate studies, which was offered thanks to the agreement with the "la Caixa" Banking Foundation. In addition, the development stage for a further two products was launched.



Main financing offer



Adapting its financial products to the real needs of its customers is a priority goal for MicroBank.

Microcredits

Loans of up to €25,000, without collateral, aimed at people who, due to their economic and social circumstances, may have difficulty in accessing funding from traditional banks. Their purpose is to promote production activity, job creation and personal and family microcredits.

Business Microcredits

Aimed at:

Entrepreneurs and microenterprises with fewer than 10 employees and an annual turnover of less than MM€2 that need funding to launch, consolidate or expand their business or meet working capital needs.

Main features:

- This is a fixed-rate loan with personal guarantee.
- It is granted based on trust in the applicant and the business plan, without any collateral.
- Maximum repayment term: 6 years, with an optional grace period of 6 months.

This funding is possible thanks to the guarantee provided by the European programme for the Competitiveness of Small and Medium-Sized Enterprises (COSME) and the European Fund for Strategic Investments (EFSI) set up under the Investment Plan for Europe. The EFSI aims to assist with the following: supporting funding, making productive investments in the European Union and ensuring increased access to funding.



Business Microcredits in 2018

18,040

transactions
for a total amount of

€ 239,529,107

Average amount:

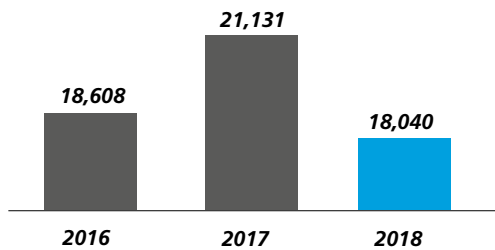
€ 13,278

Expected impact:

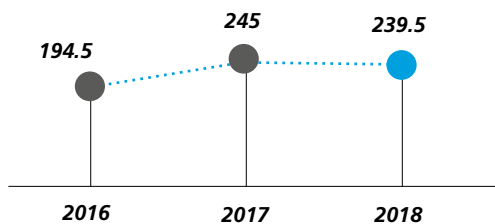
- JOB CREATION (DIRECT, INDIRECT AND INDUCED)
- IMPROVEMENT OF ENTREPRENEURS' JOB AND ECONOMIC SITUATION

Total Business Microcredits

Transactions



Millions of euros



Business Microcredits - Institutions Agreement

We have developed specific products as part of the Business Microcredit facility in order to meet specific needs, one of which is the Business Microcredit - Institutions Agreement.

Aimed at:

Entrepreneurs who may have difficulty in accessing the traditional lending system and who, prior to being granted the microcredit, have received advice from one of MicroBank's 598 collaborating institutions.

Main features:

- No provision of guarantees, unless the applicant is a legal person, in which case a guarantee from the partners is required.
- This requires that a business plan is submitted along with a feasibility report issued by the collaborating institution advising the customer.
- No arrangement, study or early repayment fees.
- Discounted interest rate.

incorpora
de "la Caixa"

"Incorpora" self-employment programme

Due to its particular importance and social impact, we should point out the collaboration with the "Incorpora" programme by the "la Caixa" foundation within the framework of the Business Microcredits - Institutions Agreement category, which in 2018 provided access to credit for an amount of MM€6.7 with about 400 loans granted to promote job market inclusion through self-employment for people at risk of social exclusion.



Family Microcredit

Aimed at:

Aimed at people with limited income for the purpose of funding personal and family development projects along with needs arising due to unforeseen circumstances.

Main features:

- Fixed-rate personal loan.
- Granted without any collateral.
- Maximum repayment term: 6 years, with a grace period of up to 12 months.

The scope of the Family Microcredit's target audience was reduced in 2018. Until July of that year transactions from applicants with a maximum annual income of up to €18,000 for each borrower (up to a total limit of €36,000 if there were two or more borrowers) were accepted. Since then, the maximum amount for the joint income of all applicants to €17,200/year* has been reduced.

In doing so, the bank intends to focus its activity on groups that, even in this new scenario of economic recovery, could have major difficulty in accessing credit, taking on the impact that this kind of decisions can have on growth, the portfolio's risk profile and profit generation.

*NB: In order to determine income levels, the poverty threshold of the Spanish National Statistics Institute (INE) for a family with two children along with the Public Multi-Purpose Income Indicator (IPREM) has been considered.



Family Microcredits in 2018

98,749

transactions
for a total amount of

€ **533.3M**

Average amount:

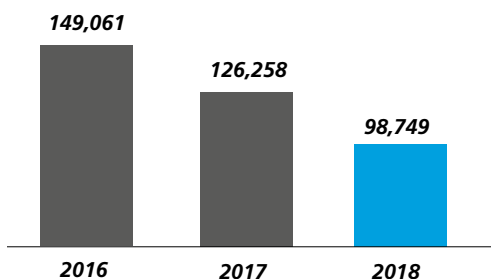
€ **5,400**

Expected impact:

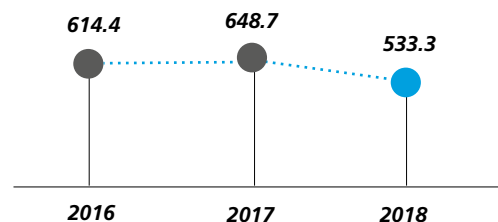
- FINANCIAL/CREDIT INCLUSION
- REDUCING THE IMPACT OF UNFORESEEN CIRCUMSTANCES
- FINANCIAL EDUCATION

Total Family Microcredits

Transactions



Millions of euros



Confianza Microcredit

We have developed specific products as part of the Family Microcredit facility in order to meet specific needs, one of which is the Confianza Microcredit.

Aimed at:

Socially excluded people taking part in the Confianza Project.

Main features:

- Maximum amount: €2,000.
- Maximum repayment term: 2 years.



Confianza Project

In 2016, MicroBank signed a collaboration agreement with the Asociación Proyecto Confianza in order to make a contribution to the social and financial inclusion of people in vulnerable circumstances.

In the financial year 2018, almost 200 loans for an overall amount of about €447,000 were granted to people in extremely vulnerable circumstances who had previously received support through group dynamics aimed at fostering the self-esteem and dignity of the members.



Other finance with a social impact

Products and services that contribute to generating a positive and measurable social impact on society, aimed at sectors related to entrepreneurship and innovation, social economy, education and health. The purpose is to make a contribution to maximising social impact in these sectors.

Within this facility, we have developed specific products to meet specific needs in different areas.

INNOVATION

Innovation Loan

Aimed at:

Entrepreneurs and microenterprises.

Main features:

- **Amount:** up to €50,000.
- **Purpose:** Launching or expanding innovating business projects.
- **Maximum repayment term:** 7 years, with a grace period of up to 24 months.
- This requires that a business plan is submitted along with a feasibility report issued by a collaborating institution.



Innovation Loan in 2018

117

transactions
for a total amount of

€ 4,973,770

Average amount:

€ 42,511



SOCIAL ECONOMY

EaSI Social Enterprise Loan**Aimed at:**

Social institutions and enterprises striving to have a positive and measurable social impact through economically and environmentally sustainable business activity.

Main features:

- **Amount:** Up to €150,000 in general terms, although transactions for a maximum amount of €500,000 may be financed.
- **Purpose:** Funding of investments made by social enterprises. Social enterprises are deemed to mean enterprises specialised in job market integration and those performing their business in sectors such as promoting personal autonomy, care for people with disabilities and those needing assistance; the fight against poverty and social exclusion; interculturality and social cohesion; social action projects and cultural initiatives with a social impact.
- **Maximum repayment term:** Up to 10 years, with an optional grace period of up to 12 months.

**EaSI Social Enterprise Loan in 2018***

*The product was launched in October.

10

*transactions
for a total amount of*

€1,092,243

Average amount:

€109,224





EDUCATION

Erasmus + Master's Loan

Aimed at:

Students resident in Spain wishing to attend a master's degree in another Member State or associated country of the European Union and students resident in another Member State or associated country wishing to attend a master's degree in Spain.

Main features:

- **Amount:** Up to €12,000 for master's degree programmes shorter than one year and €18,000 for master's degree programmes lasting one year.
- **Purpose:** Tuition fees and expenses associated with staying in the country (travel, living expenses, etc.).
- **Repayment term:** 6 years in the case of master's degree programmes shorter than one year, with the possibility of requesting an additional grace period of a total of one year at any time. Payments do not begin until one year after studies have been completed.



Erasmus + Master's Loan in 2018

65

*transactions
for a total amount of*

€ **778,886**

Average amount:

€ **11,983**

EDUCATION**Loans for postgraduate studies at European universities - "la Caixa" Banking Foundation****Aimed at:**

Candidates for the "la Caixa" Scholarship Programme who were not awarded a scholarship.

Main features:

- **Amount:** up to €150,000.
- **Purpose:** Tuition fees and the relevant living expenses.
- **Repayment term:** up to 10 years.
- The "la Caixa" Banking Foundation will subsidise the interest of the loan received by the student during the grace period, which lasts from the time the transaction is arranged until one year after the funded studies are completed, for a maximum of 42 months.

A first group of 10 students has already benefited from this agreement and we expect that the number of benefiting students will rise over time.

HEALTH**Young Health Loans****Aimed at:**

Young people requiring temporary assistance in specialised educational centres (special education centres, therapeutic and educational schools).

Main features:

- **Amount:** up to €25,000.
- **Purpose:** Treatment costs.
- **Repayment term:** up to 6 years.

Accounts

As part of its commitment to financial inclusion, MicroBank provides its customers with the following accounts, which are tailored to their needs.

MicroBank Basic Account

- ✓ Aimed at people with income below the interprofessional minimum wage.
- ✓ No fees and basic services are provided free of charge.

MicroBank Savings Book

- ✓ Aimed at microcredit holders who do not meet the requirements for a basic savings account, non-profit institutions and persons wishing to open a deposit with MicroBank.

Green Account

- ✓ An account with a commitment to the environment which offers financial advantages.
- ✓ If the requirements are met, the customer is able to collaborate in the WWF's (World Wide Fund for Nature) reforestation programme and with other institutions in the environmental sector through different agreements.

**Impact of the accounts**

276 *MicroBank green accounts working with the WWF to protect the environment and for sustainable development*

€10,000 *paid to the reforestation programme of the WWF*

Services

MicroBank Visa Electron Card

- ✓ A debit card aimed at MicroBank customers.
- ✓ With cash available from CaixaBank's ATM.
- ✓ Payments can be made from the customer's savings account.

CaixaBankNow

- ✓ The on-line electronic banking service by CaixaBank, available 24 hours a day throughout the whole year.
- ✓ Allows MicroBank product customers to carry out banking transactions.
- ✓ Accessible through any channel.
- ✓ Uses the CaixaProtect® fraud prevention system to prevent any undesired problems and to carry out purchases more securely.

Investment products

MicroBank is committed to socially and ecologically responsible investments and therefore promotes the marketing of two socially responsible investment funds through CaixaBank: MicroBank Ethical Fund and MicroBank Ecological Fund.



MicroBank Ethical Fund

- ✓ A mixed ethical and charitable fund combining the search for profitability with criteria associated with social responsibility.
- ✓ It is characterised by the fact that it combines traditional financial investment criteria with socially responsible criteria.
- ✓ It includes a charitable component with the MicroBank Ethical Fund giving 25% of the management fee to non-profit organisations, while the "la Caixa" Foundation contributes an equivalent amount to an international cooperation project.

€ **63.8** M
volume

MicroBank Ecological Fund

- ✓ An international variable-income fund investing in a selection of ecologically responsible funds in sectors such as renewable energy, ecological food, recycling, water treatment and others.
- ✓ This is the first fund in Spain to combine the search for profitability with protecting the environment.
- ✓ It is managed by CaixaBank Asset Management, CaixaBank's fund manager and the third-largest fund manager in Spain, which relies on a large team of professionals working to find the best options in terms of profitability at all times.

€ **13.7** M
volume



Monte de Piedad in 2018

Monte de Piedad

MicroBank has been managing "la Caixa's" Monte de Piedad at the request of CaixaBank since 2010 in order to increase the impact of its business and boost the quality of service offered to customers.

Monte de Piedad grants loans secured with jewellery for personal use by people who, due to their employment, financial or family circumstances, may have difficulty in accessing credit. To obtain a loan, customers must visit one of the four branches (located in Barcelona, Madrid, Seville and Tenerife) where the jewellery is instantly appraised and the maximum loan amount is calculated and paid out instantly.

The jewellery can be redeemed at any time or upon maturity (one year) after the loan has been repaid. Successive renewals of one year may also be requested. Almost 94% of guarantees are redeemed or the loan is renewed.

Any guarantees that are not redeemed or renewed are put up for auction after the customer has been notified. It should be pointed out that Monte de Piedad's auction business is a non-profit activity. The surplus from the auction is paid back to the customer after the loan has been paid off. A total of 19 on-line auctions were held in 2018.

Launch of new services

New services were launched in 2018 in order to improve the value provided to Monte de Piedad customers, appraisal, custody and sale of jewellery. These services allow for making better use of existing capacities in the four centres, which contributes to diversifying the offer and the sustainability of the business.

16,613

loans granted

36,514

current loans

€1,040

average loan amount

2,304

new customers

Expected impact:

- FINANCIAL INCLUSION
- MEETING ONE-OFF OR RECURRENT FINANCIAL NEEDS

Customers

MicroBank had a total of 383,049 customers at the end of 2018.

Customer Support Department

MicroBank is committed to providing its customers with precise, accurate and understandable information about transactions, fees and procedures in order to channel complaints and resolve any incidents.

The institution has signed CaixaBank's Customer Protection Regulation.



COMPLAINTS RECEIVED THROUGH THE CUSTOMER SUPPORT DEPARTMENT AND THE BANK OF SPAIN IN 2018

41 *complaints received*

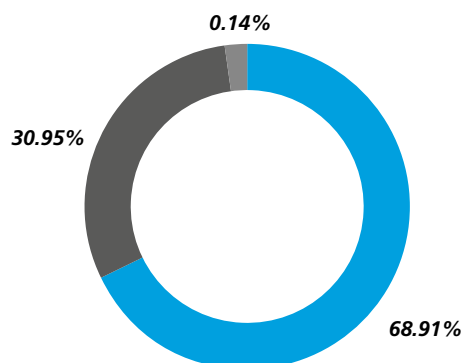
- 19 SETTLED IN FAVOUR OF THE CUSTOMER
- 16 SETTLED IN FAVOUR OF THE INSTITUTION
- 5 NOT ADMITTED
- 1 PENDING SETTLEMENT

Customer satisfaction

Excellence is one of MicroBank's fundamental values. This is why customer satisfaction lies at the heart of our professional activities.

MicroBank conducts half-yearly customer satisfaction surveys with both families and entrepreneurs.

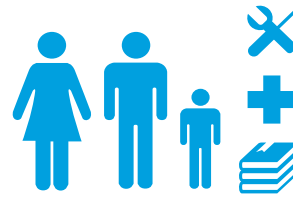
MicroBank's customer categories



- **Families**
- **Entrepreneurs and microenterprises**
- **Social Enterprises***

*MicroBank's products aimed at social enterprises were launched in October 2018.





Family profile

AVERAGE APPLICANT AGE

46 years

GENDER

50% men | **50%** women

ORIGIN

70% Spanish

EDUCATION

88% without higher education

PURPOSE OF THE MICROCREDIT

53% used for family, health, education, cultural and transport needs

42% used for basic household expenses*

* This includes payments for various bills, renovations or repairs and purchases of furniture and household appliances.



Entrepreneur profile

AVERAGE APPLICANT AGE

41 years

GENDER

63% men | **37%** women

EDUCATION

72% without higher education

ECONOMIC SECTOR

51% of supported businesses operate in the professional service sector



★★★★
CUSTOMER SATISFACTION
Entrepreneurs

CUSTOMERS SATISFIED OR VERY SATISFIED WITH MICROBANK'S SERVICES

92.2%

AVERAGE SCORE

8.78

HIGHEST-RATED ASPECTS OF THE SERVICE

- No. 1 TREATMENT AND SERVICE RECEIVED FROM STAFF
- No. 2 TURNAROUND TIMES



★★★★
CUSTOMER SATISFACTION
Families

CUSTOMERS SATISFIED OR VERY SATISFIED WITH MICROBANK'S SERVICES

94.6%

AVERAGE SCORE

9.01

HIGHEST-RATED ASPECTS OF THE SERVICE

- No. 1 TREATMENT AND SERVICE RECEIVED FROM STAFF
- No. 2 SIMPLE PROCEDURES



4. MicroBank's key strategies

New future targets included in the 2019-2021 Strategic Plan

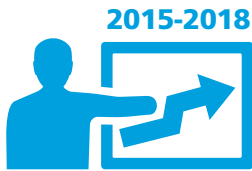
2015-2018 Strategic Plan

The strategy for 2015-2018 was based on maintaining MicroBank's supplementary role to traditional banks and to fulfil the mandate given by its Board of Directors and its shareholder, CaixaBank, to hold a leading position in

microfinance as best as possible. Six goals to boost the institution's growth and sustainability were set out in the strategic plan for this period.

In 2018, MicroBank took stock of the achievements attained during the term of the previous plan and also set goals for the future.

In recent years, MicroBank has achieved the best results in its history. It is now embarking on a new period in which, making use of the favourable economic outlook, the bank's strategy focusses on strengthening its social profile and continuing to set its business apart from that of other banks.



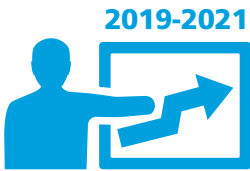
Strategic lines	Achievements	Targets
<p>1</p> <p><i>Differentiated value proposition</i></p>	<ul style="list-style-type: none"> ✓ Development of new products such as the EaSI Loan and the Study Loan ✓ Adjusting conditions to make difference from other products 	<ul style="list-style-type: none"> ✓ Developing new products and services with the ability to generate a positive social impact
<p>2</p> <p><i>Promoting the social component</i></p>	<ul style="list-style-type: none"> ✓ Boosting the microcredit facility through collaborating institutions by +179% in 2018 compared to 2015 ✓ Launch of 258 financial education workshops 	<ul style="list-style-type: none"> ✓ Continuing to provide value to groups that, even today, may still have major difficulty in accessing credit
<p>3</p> <p><i>Communication of the "social bank" element</i></p>	<ul style="list-style-type: none"> ✓ Publication of annual impact studies since 2014 ✓ Communication through real testimonies 	<ul style="list-style-type: none"> ✓ Measuring and highlighting the social impact of the activities performed
<p>4</p> <p><i>Proactive risk management</i></p>	<ul style="list-style-type: none"> ✓ Implementation of pro-active tools ✓ Improvement of risk level monitoring 	<ul style="list-style-type: none"> ✓ Improvement of the business management quality based on information about operational risk
<p>5</p> <p><i>Development and information</i></p>	<ul style="list-style-type: none"> ✓ Benchmark study to find the newest practices in the sector ✓ SROI estimate (social return on investment) 	<ul style="list-style-type: none"> ✓ Developing new products and services. Digitalisation
<p>6</p> <p><i>High internal control standards</i></p>	<ul style="list-style-type: none"> ✓ Adopting best control practices ✓ Training and awareness raising for the team 	<ul style="list-style-type: none"> ✓ Strengthening organisational and management capabilities, adapting them to regulatory compliance requirements

2019-2021 Strategic Plan

The aim of the new 2019-2021 Strategic Plan is to contribute to the progress and well-being of society by providing funding to groups and projects that generate a positive social impact. As was the case with the previous plan, this one is structured around six strategic lines.

Among the projects to be carried out under the new strategic plan, the development of a **system for measuring social impact** based on the theory of change should be pointed out, which will allow MicroBank to develop and reach the set up targets.





Strategic lines



- ✓ Transition from leadership in Microcredits to leadership in Banking with a Social Impact

1

Development and validation of the extended value proposition

2

Repositioning of the bank with respect to its stakeholder groups



- ✓ Strengthening our organisational and management capabilities

3

Organisational integration/ coordination with CaixaBank

4

Improvement of the quality and accessibility of management information

5

Adapting the risk functions to the new requirements



- ✓ Maintaining focus on the traditional business

6

Optimising the Microfinance business



5. Corporate governance

Board of Directors

MicroBank's Board of Directors holds extensive authority, the only limits being those of the duties assigned to it by the law or the institution's articles of association.

MicroBank is governed, managed and represented by its Board of Directors pursuant to the instructions issued by its sole shareholder, CaixaBank. The Board approves the bank's strategic plan, which is submitted for the consideration of the shareholder, and conducts in-depth monitoring of its business, controlling developments in terms of equity, finances, profit and the risks inherent to its operations.

For MicroBank, good governance and transparency are essential to protecting the interests and earning the trust of all stakeholder groups. In line with CaixaBank's 2015-2018 Strategic Plan, one of MicroBank's priorities is to become a benchmark in good governance.

This is why MicroBank has an Audit and Risk Committee and an Appointment and Remuneration Committee, which report to the Board of Directors.

Board of Directors

Chairman



Antonio Vila Bertrán

Executive
22/10/2014*

Directors



Raphaël Alomar

Independent
09/11/2011**



Christian Eugène de Noose

Independent
19/04/2012***



Juan Carlos Gallego González

Proprietary
28/06/2018



Richard Fowler Pelly

Independent
30/03/2015



Carles Alfred Gasòliba Böhm

Independent
30/03/2015



Ana Rocío Sáenz de Miera Cárdenas

Independent
28/06/2018

Secretary



Montserrat Pérez Simeón

21/06/2018

* Antonio Vila Bertrán was appointed Chairman of the Board of Directors effective as of 01/11/2014.

** Office renewed on 18/01/2018.

*** Office renewed on 05/04/2018.

Audit and Risk Committee

Chairman

Richard Fowler Pelly

Independent 31/03/2016*

Members

Raphaël Alomar

Independent 31/03/2016**

Carles Alfred Gasòliba Böhm

Independent 31/03/2016**

Appointment and Remuneration Committee

Chairman

Carles Alfred Gasòliba Böhm

Independent 01/07/2017*

Members

Christian Eugène de Noose

Independent 31/03/2016**

Richard Fowler Pelly

Independent 15/12/2017

* Appointed Chairman of the Committee on 21 June 2018. Reappointed with effect from 16 March 2018.

** Reappointed with effect from 16 March 2018.

* Appointed Chairman of the Committee on 21 June 2018.

** Reappointed with effect from 5 April 2018.

Management Team

The Management Team aims to achieve the targets set by the Board of Directors in order to ensure that MicroBank is sustainable in the long term.

Management Team

Chairman

Antonio Vila Bertrán

General Manager

Alberto López Martínez

Managers

Montserrat Badia Campos

Susana Fons Lete

Francesc Xavier Gómez Naches

Hugo Martínez Pérez

Ángel Soto Martín

Roman Weissmann Bermann

Ethics, transparency and responsibility

All the members of MicroBank's staff have an obligation to act in good faith and with integrity and common sense.

MicroBank's code of ethics and Principles of Conduct and the Anti-Corruption Conduct Policy set out the values, principles and rules that must be observed both in the institution's internal professional relations and in external relations with customers, shareholders, suppliers and the community at large, in all areas where MicroBank is active.

MicroBank's Code of Ethics and Principles of Conduct

- ✓ Sets out the ethical values and principles that govern the actions of all employees, executives and members of the management body.
- ✓ Stipulates that the institution's commercial policy revolves around funding projects aimed at boosting production activity and job creation along with projects aimed at fostering personal and family development and promoting financial inclusion.
- ✓ MicroBank is a member of the Spanish Association for the **Self-Regulation of Commercial Communication** (Autocontrol) and it is committed to creating commercial communications in a responsible manner and respecting the rights of consumers.

Participation in the United Nations' Global Compact

- ✓ MicroBank has been a member of the United Nations' Global Compact over the last nine years.
- ✓ The Global Compact is an international initiative aiming to achieve a voluntary commitment to social responsibility by institutions through the implementation of 10 basic principles related to human, labour and environmental rights and the fight against corruption.
- ✓ The institution includes a mandatory clause for its suppliers, whereby they state they know and observe the 10 principles of the United Nations' Global Compact.



Anti-corruption Policy

- ✓ As a signatory of the United Nations' Global Compact, MicroBank is committed to working against all forms of corruption, including extortion and bribery (principle number 10 of the Compact).
- ✓ In 2017, the institution acceded to CaixaBank's Anti-Corruption Policy, which specifies which conduct is forbidden, both if carried out directly or indirectly through a middleman.

Corporate policies on compliance

- ✓ Throughout 2018, MicroBank has acceded to the updates and revisions made to the different policies on compliance approved by CaixaBank, which include the Internal Governance Policy, the General Conflict of Interest Policy, the Criminal Prevention Policy and the Product Governance Policy.
- ✓ Overseeing compliance with policies lies within the remit of CaixaBank's Regulatory Compliance Area and is carried out by MicroBank's Control Area. For such purpose, recurrent

control initiatives regarding procedures carried out at MicroBank are conducted on an ongoing basis and regular and mandatory training for all staff in relation with the Code of Ethics and the different policies is provided.

Environmental policy

- ✓ Sets out MicroBank's commitment to protecting the environment, observing the laws in this respect and adopting procedures to reduce the environmental impact of its activities.
- ✓ Promotes the funding of projects contributing to improved energy efficiency and achieving better environmental sustainability in the long term.

Commitment to corporate social responsibility

- This was expressed in 2018 through MicroBank's accession to the CaixaBank Group's Corporate Social Responsibility Policy and Human Rights Policy.

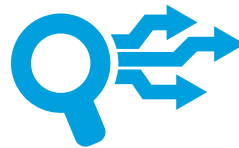


COMPLAINTS AND QUESTION BOX

MICROBANK HAS A WHISTLEBLOWING BOX ACCESSIBLE TO ALL THE INSTITUTION'S STAFF AND EXECUTIVES. UP TO NOW, NO REPORT HAS BEEN RECEIVED.

Risk Management

In accordance with the standards and best practices issued by the Basel Committee on Banking Supervision, MicroBank's risk management policy is based on a set of calculation tools and techniques for the purpose of measuring, monitoring and managing risk.



Categorisation of the risks arising from MicroBank's business

Risks related to financial activity

CREDIT RISK

LIQUIDITY RISK

INTEREST RATE RISK

Risks related to business continuity

OPERATIONAL RISK

COMPLIANCE RISK

REPUTATIONAL RISK

Pursuant to the CaixaBank Group's guidelines, MicroBank has an internal control model structured around three lines of defence. This is why the institution has a risk management function, a compliance function and an internal audit function. Moreover, it has a Risk Management Area and a Control Area, which respectively act as points of contact for CaixaBank's Risk and Compliance departments.

In particular, MicroBank's Risk Management Area conducts an in-depth control of both quality in transaction admission and the development of the risk quality of microcredits granted along with the subsequent level of non-performance. In doing so, MicroBank's Management is provided with a comprehensive overview of each customer's situation along with aggregate information at the production line and management unit level.

In addition, the Control Area handles coordination between MicroBank and its shareholder and agent, CaixaBank, in all initiatives related to regulatory aspects with an impact on the institution.

MicroBank grants 100% of its microcredits on the basis of the personal guarantee provided by the applicants, without requesting or accepting any kind of collateral. Since the institution deals with customers with little or no credit history, the traditional risk analysis tools must be supplemented with other types of techniques enabling it to conduct an in-depth analysis of the feasibility of each proposed project. This approach allows MicroBank to achieve its corporate purpose of promoting credit inclusion.



Management ratios

	2016	2017	2018
<i>NPL ratio</i>	2.69%	3.68%	4.11%
<i>Accumulated write-off percentage vs. granted and past due capital</i>	4.29%	4.27%	4.78%
<i>Impaired asset coverage</i>	238.40%	185.72%	142.34%



6. Social impact of the business

The business conducted by MicroBank mainly through the grant of microcredits has a positive impact on society. To assess this impact, microcredit impact studies have been conducted over the last nine years.

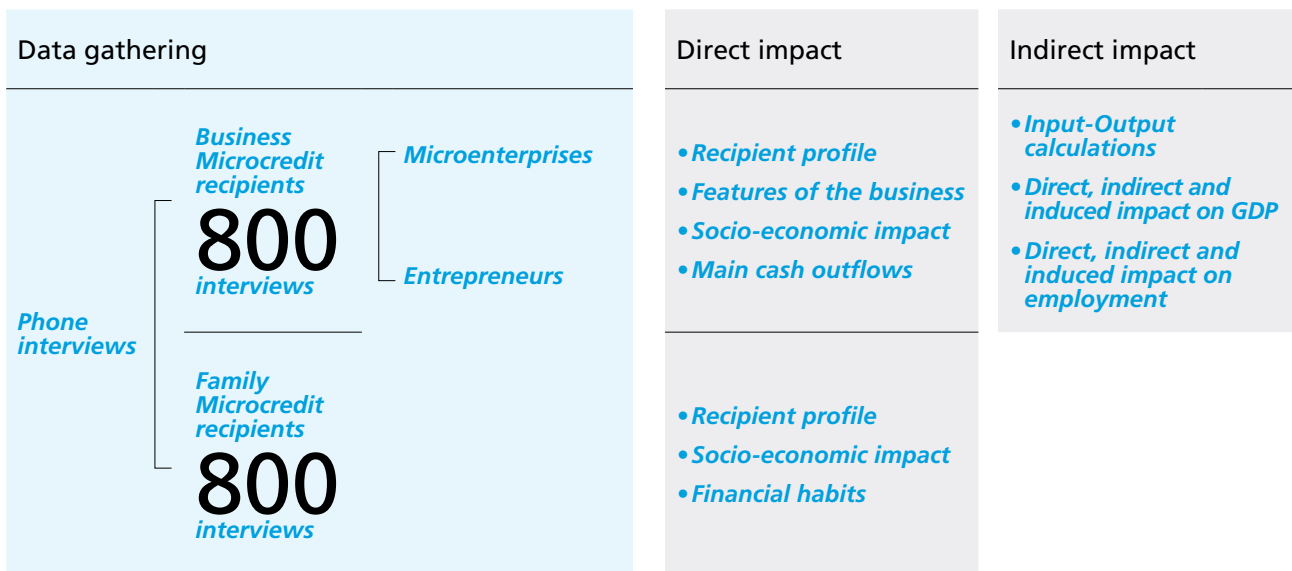
In addition, on the occasion of MicroBank's 10-year anniversary, a specific study to highlight the results achieved during this time was conducted.

In 2018, **KPMG Asesores S.L.** advised MicroBank on the calculations and widened the scope of this study which, for the first time, included indirect impact pursuant to the methodology set out below.





Impact measurement method



The bases and the sources used in the calculations are described and cited in Annex III.

Impact of Business Microcredits

The grant of microcredits aimed at launching or expanding business projects has a direct impact on improving the employment and economic circumstances of the people and companies that apply for them and, at the same time, contribute to job creation.

In 2018, in order to assess the impact of these financial products on society, MicroBank conducted its ninth consecutive yearly study on the features of the businesses launched or expanded, their functioning and their impact on job creation. The study covered two new aspects with respect to the previous editions:

- A distinction was made between entrepreneurs and microenterprises in order to obtain more detailed information about the impact of products by customer type.
- The indirect and induced impact of the activities of the businesses supported by MicroBank was estimated for the first time.

Contribution to economic development and job creation

Microcredits are a key instrument in promoting entrepreneurship and creating microenterprises.



Contribution to economic development and job creation

In 2018,

18,040

Business Microcredits were granted to:

71%

entrepreneurs

29%

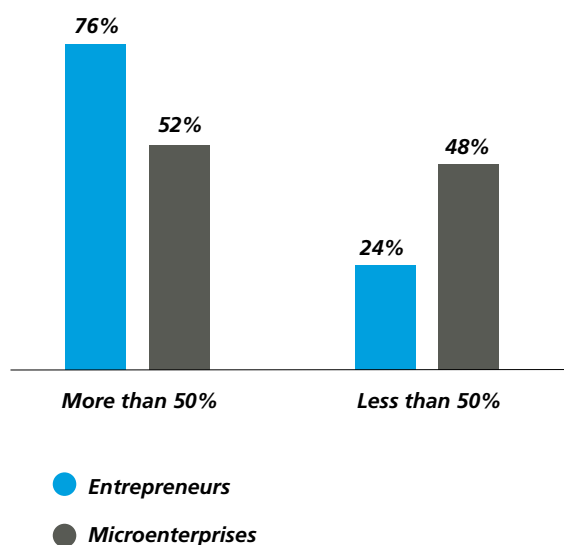
microenterprises

52% of microcredits granted in 2018 were used to launch new businesses, compared to

40% in the previous year.

In 2018, Business Microcredits accounted for more than 50% of the initial investment for 75% of entrepreneurs. In the case of microenterprises, this percentage dropped to 52%. These figures show the vital importance of microcredits for the launch or strengthening of these initiatives.

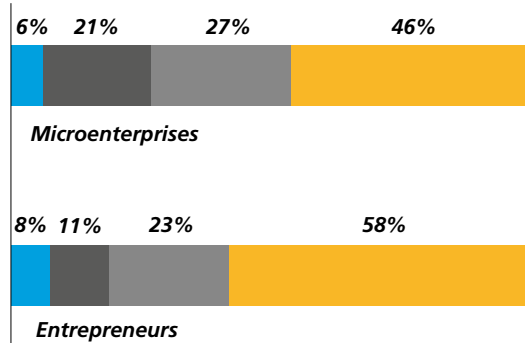
For which percentage of the total investment/ expansion does the microcredit account?



The great importance of microcredits for these businesses is evidenced by the fact that 46% of the microenterprises surveyed stated they could not have launched or expanded their business without the microcredit. Another 33% stated they could have launched it; however, only with great difficulty or at a smaller scale.

The same fact was stated by entrepreneurs who launched new initiatives or expanded their business: 58% of them stated they could not have launched their business without being granted the microcredit and 31% said they could have done so but only with great difficulty or at a smaller scale.

Do you think that you could have launched/expanded your business without the microcredit?



- Yes, but on a smaller scale (if starting up)/ Yes, but to a lesser extent (if expanding)
- Yes, but later
- Yes, but with great difficulty
- I don't think so

52% of microcredits granted in 2018 were used to launch new businesses, compared to 40% in the previous year. This fact is evidence of the bank's social approach and once again shows its supplementary role to that of other banks, since it provides access to credit to groups and projects that face greater difficulty in relation to purposes such as the launch of new businesses.

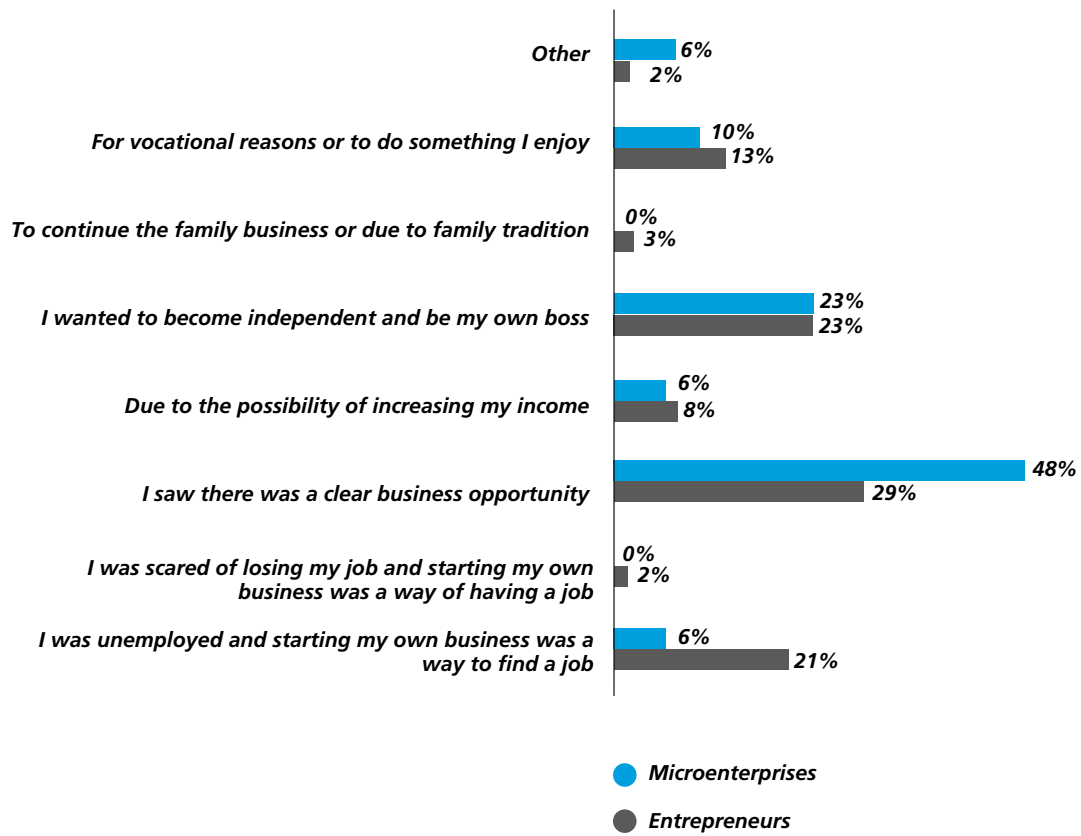
The reasons for starting their own business cited by the respondents varied between entrepreneurs and microenterprises. In the case of microenterprises, about half stated they saw a clear business opportunity, whereas this percentage dropped to 29% in the case of entrepreneurs. The second reason for both groups was the need to gain independence and become their own boss. In third place in the case of microenterprises was their own will while entrepreneurs stated they started a business out of necessity.





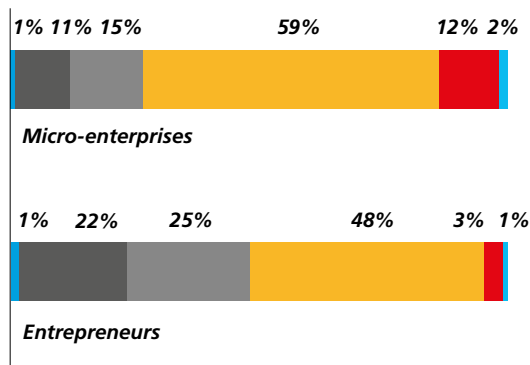
“For 21% of entrepreneurs who were unemployed, starting their own business was a way to have a job”

What was your main reason for starting a business?



Regarding the supported business sectors, the results varied between entrepreneurs and microenterprises, although in both cases the largest sector were professional services, which includes very diverse businesses such as beauty parlours and hair salons, delivery companies, advertising agencies and law firms.

Business sectors supported by MicroBank



- **Primary sector (agriculture, livestock, etc.)**
- **Hotel and catering sector**
- **Retail trade**
- **Professional services**
- **Businesses related to new technologies**
- **Others**

Microcredits also contributed to the strengthening of companies as stated by 40% of entrepreneurs and 55% of microenterprises. Only 1% of respondents stated their business was weakened as a result of being granted the microcredit.

“44% of respondents stated the microcredit contributed to strengthening their business”

In terms of the performance of the businesses, 76% of entrepreneurs and 79% of microenterprises that received a microcredit were performing well or very well. Only 1.7% thought their business was performing badly. Another fact granting insight into the performance of the businesses was that 92% of them generated enough income to repay the loan instalments from the outset. This aspect had an impact on the repayment term of the loan, which was shown by the fact that the instalments were adapted to the customers' repayment capacity. The main reason cited by the 6% of businesses finding it difficult to repay the loan were insufficient sales or demand, followed by the occurrence of unforeseen circumstances.

The respondents also expressed optimism with a view to the future, with 70% of them stating they thought their business would grow in the coming years.



Microcredits promote employment

While the main contribution of microcredits to the job market comes in the shape of self-employment, 45% of participating microenterprises were able to hire more workers within 12 months of being granted the microcredit.

Businesses launched or expanded after being granted a microcredit directly created an average of 1.43* jobs. Bearing in mind that 18,040 microcredits were granted to entrepreneurs and microenterprises in 2018, it can be said that microcredits directly contributed to the creation of 25,820 jobs during this period.

Moreover, on average, each company had 2.96 employees including the recipient taking part in the survey, which means that more than 50,000 people worked at companies supported with microcredits. Of these people, 31% were women and 29% were employees under the age of 35.

Regarding job quality, it should be pointed out that 45% were permanent salaried workers and that 47% of respondents improved their job situation after applying for the loan.



Microcredits promote employment

45%

of microenterprises surveyed were able to hire more workers within 12 months of being granted the microcredit

The companies that were granted a microcredit directly created an average of

1.43*

jobs

Microcredits directly contributed to the creation of

25,820

jobs

Each company that received a microcredit had an average of

2.96

employees

*The exact ratio was 1.4313, which was calculated based on the data obtained from the interviews conducted with the recipients.

Impact on the entrepreneurs' economic situation and family income

The figures in the report show that the average monthly income of the entrepreneurs' households was no higher than €2,000 in 57% of cases. In addition, for 75% at least one person depended on this income, which shows the great responsibility borne by the entrepreneur in many cases.

17% of recipients were unemployed when they applied for the microcredit. In the case of entrepreneurs, this percentage rose to 21%, of which more than half did not receive any kind of benefits.

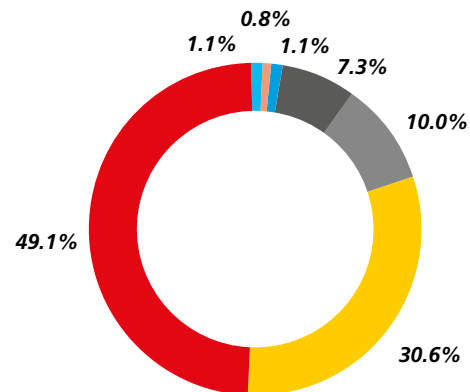


Impact on the entrepreneurs' economic situation and family income

Being granted the microcredit had a positive impact on the recipients' ability to save

73% of recipients felt more able and better prepared to face the future

What was your employment situation before being granted the microcredit?



- I had never worked in Spain
- I was unemployed with benefits
- I was unemployed without benefits
- I was working as an employee
- I was self-employed
- I was working occasionally
- No answer

The findings of the survey show that the fact of being able to obtain a microcredit enables people to improve their quality of life. In 53% of cases, the recipients increased their disposable income, 52% improved their quality of life thanks to the microcredit and 73% felt more able and better prepared to face the future.

55% of customers stated they were not able to make ends meet, or managed to do so but with difficulty. However, 53% of respondents stated that being granted the microcredit had a positive impact on their ability to save. There were various reasons for this, which included increased income from the business and greater awareness among customers of the need to save in order to manage unforeseen payments.

Indirect impact of microcredits

In addition to the direct impact addressed above, through ancillary activities they need in order to run (mainly purchases from suppliers and payment of taxes), the businesses supported by MicroBank's microcredits generate cash flows with a multiplier effect on the economy, which leads to economic effects on many other sectors.

At the methodological level, the indirect contribution to employment was estimated using an input-output analysis*, in which, based on the *inputs* (spending on suppliers of goods and services, money spent by the businesses' employees and major taxes) can be calculated the number of indirect or induced jobs associated with the activities performed by the different businesses.

Indirect or induced employment provided by the businesses that received funding from MicroBank in 2018 was estimated at 13,017 jobs, meaning that a total of 66,357 jobs in Spain were linked to the activities of businesses funded by MicroBank.

Respondents stated that, on average, the microcredit accounted for 59% of the initial investment, meaning that it may be considered that 39,151 jobs were directly linked to MicroBank's business of granting microcredits.



Indirect impact of microcredits

Indirect and induced employment provided by businesses that received funding was estimated at

13,017

jobs

66,357

jobs in Spain were linked to the activities of the businesses funded by MicroBank

The businesses supported by MicroBank made a contribution to the GDP of

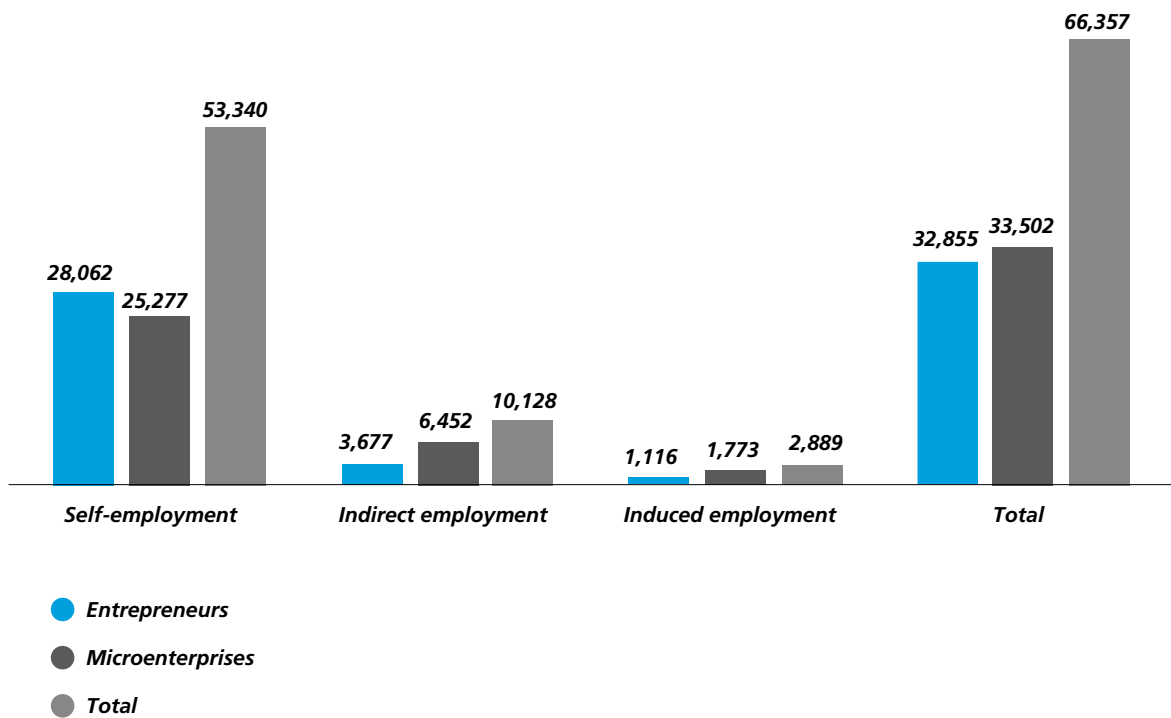
€1,718 M



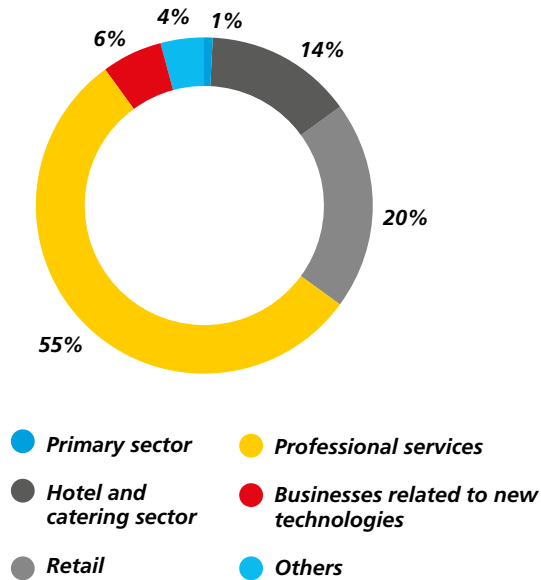
*More information about the methodology can be found in Annex III.



Jobs linked to the businesses funded by MicroBank (millions of euros)



Job distribution by sector

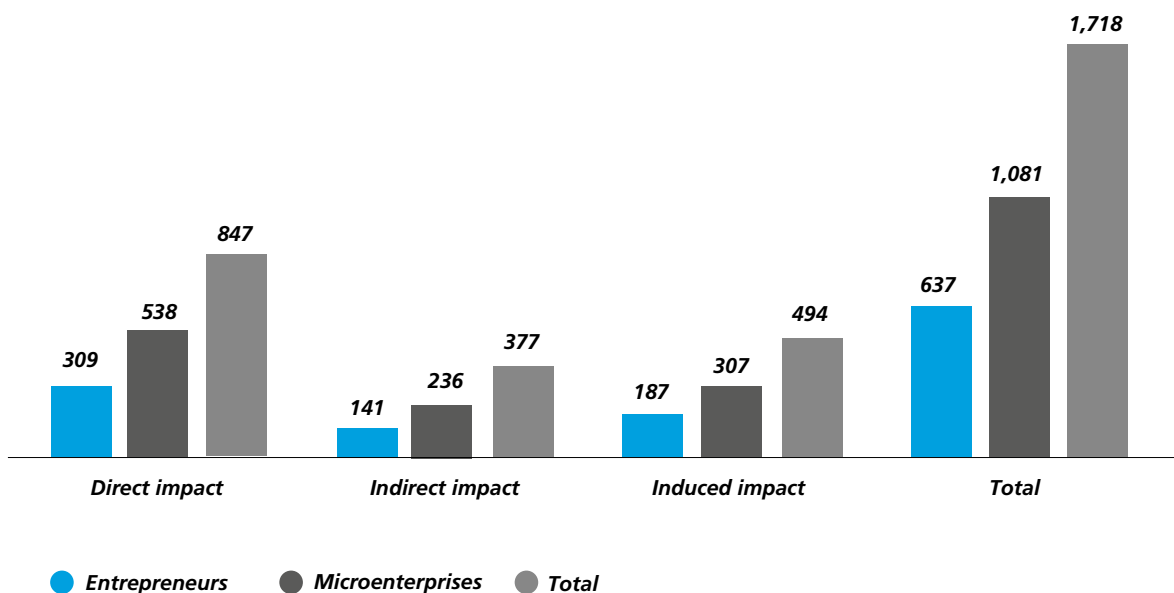


This method also allows for calculating job creation by sector. As can be seen from the diagram below, most jobs linked to the activity of businesses funded were in the professional service sector, followed by the commerce and hospitality and catering sectors

Moreover, by using the applied methodology it was feasible to calculate the impact of these businesses on Spain's GDP (gross domestic product). In 2018, the businesses supported by MicroBank contributed €1.718 billion to the GDP – 847 million directly and 871 million indirectly and induced.

Therefore, considering that 59% of this impact is directly linked to the grant of microcredits, **MicroBank's business** accounted for a GDP contribution of €1.014 billion.

GDP impact of the businesses supported by MicroBank (millions of euros)



Impact of Family Microcredits

Despite the gradual improvement of the general economic climate benefiting wide segments of the population, a portion of Spanish families are unable to benefit from this improvement and do not have sufficient means to pay for unforeseen expenses or carry out one-off projects.

Family microcredits play an important role in relation to equal opportunities as they provide funding to people with limited means who must meet once-off needs. In addition, they promote the financial inclusion of these people.

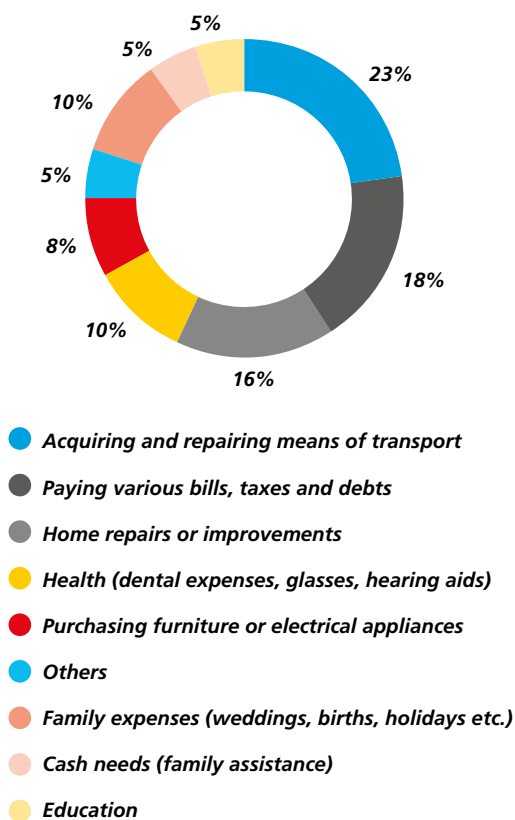
98,749

families have taken out a Family Microcredit

The main reasons for using a family microcredit in 2018 were to pay bills or debt, renovations or repairs in the household and purchasing means of transport, which is in line with the findings from the previous year. However, there was an increase in microcredits used for health-related issues and purchases of furniture.

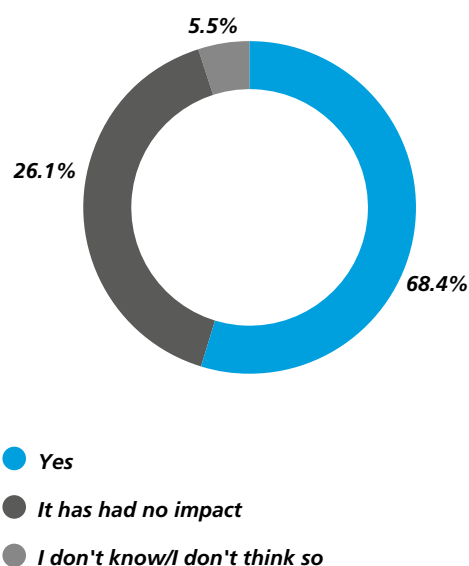


Purpose for which the microcredit granted was used



Most respondents were satisfied with the microcredit. 96% were able to meet their needs and 87% deemed the amount granted to be sufficient. Moreover, being granted the microcredit had a positive impact on the lives of the recipients, with 50% stating it contributed to improving their quality of life and 68% stating it helped them make decisions with greater confidence.

Would you say that you are able to make decisions with greater confidence thanks to the microcredit?

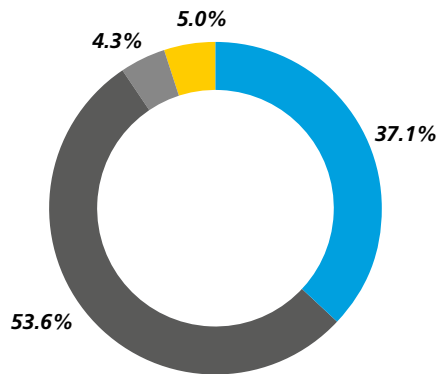


In general terms, it was found that the respondents had a generally positive attitude towards taking out another microcredit if needed and were in a good position to repay the instalments should they apply for another credit.

58% of customers stated they were not able to make ends meet, or managed to do so but with difficulty and 40% stated their income did not allow them to pay an unexpected expense of about €600 in a week. 28% of the latter would ask to borrow money from relatives and friends in order to pay the expense.

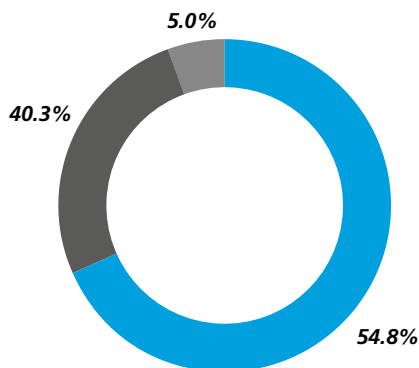
In terms of financial habits, 80% of customers took on the habit of keeping a record of their income and expenses. Moreover, 50% of respondents also stated that the need to apply for the microcredit motivated them to save up for possible unforeseen events, although only 18% of families were able to save more than €250 per month.

Ability to make ends meet

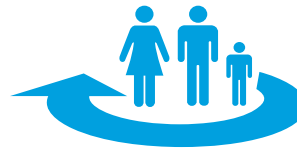


- Comfortably
- With difficulty
- I'm not making ends meet
- I don't know/I don't think so

Ability to pay an unexpected expense without assistance



- Yes
- No
- I don't know/I don't think so



Impact of Family Microcredits

96% of people who received a microcredit were able to meet their needs

For **50%** it contributed to improving their quality of life

For **68%** the microcredit helped them make decisions with greater confidence





7. Economic-financial information

A sustainable social bank

MicroBank's financial situation has developed in a satisfactory manner in the financial year 2018. Profit after tax was €31 million (compared to €42 million in 2017); however, it should be borne in mind that the bank's adaptation to the new Bank of Spain Circular 04/2017 (IFRS9) resulted in a release of insolvency provisions which had an impact of €17 million directly recorded as an increase in reserves.

The year was closed with an active portfolio balance of €1,558 million, 6% more than in 2017, with a high volume of loans granted to families, at about 99,000 microcredits for an amount of €533 million, which allowed the institution to achieve a balance of €1,078 million (6% more than in the previous financial year). In terms of credits for entrepreneurs, a little over 18,000 were granted, a similar figure to the previous year, for a total of €240 million and a final portfolio balance of €480 million (which means an increase of 7% with respect to 2017).

The year was closed out with own funds of €333 million, of which 90 million were capital and 212 million reserves, with net profit of €31 million. This amount of own funds accounted for 22% of total assets and is significantly higher than the regulatory capital amount estimated pursuant to the advanced approaches for calculating the required own funds, which was €102 million in December 2018.

The behaviour of credits granted throughout the year remained within predicted parameters bearing in mind the impact on both portfolio growth and the risk profile of the decision to limit scope of the bank's business by decreasing the maximum limit of the applicants' gross income in order to gain access to family microcredits. At year-end, impaired assets were at €64 million, which translates into an NPL ratio of 4.11%. The write-off ratio (the percentage of debt transferred to write-off risks out of the accumulated amount of credit already matured or repaid since the commencement of business, excluding refinancing) was 4.78% before applying the EIF's coverage and 3.4% after applying the amounts recovered through the guarantees arranged with this institution in the different agreements. These figures show the current portfolio's risk quality remains within the prudential range deemed acceptable.

The adaptation to the new credit risk hedging requirements, which result from the entry into force of IFRS9 at the start of this financial year, was carried out in coordination with CaixaBank by including the institution in the internal model for calculating provisions developed by the latter, also taking into account the profile of MicroBank's portfolio. In doing so, consistent criteria and transparency at the Group level for an issue as sensitive as this one were assumed.

The net amount of insolvency costs recorded in 2018 was €60 million (€69 million for insolvency costs minus €9 million income from the agreements with the EIF, allocated in the year). The provision fund for insolvencies held €91 million, about 50% of which were provisions for impaired assets. This overall provision volume results in an impaired asset coverage ratio of 142% which, when adjusted with the balance of the provision account for expected income from compensation for allocations to transactions covered by the EIF, would be 129%.

The high volume of own funds, the availability of a marketing network with more than 4,600 branches, the important organisational support from the Group and the ongoing availability of funding are some of the most important competitive advantages provided by our sole shareholder, CaixaBank.

Once again this year the close commercial relationship the bank continues to have with both the Council of Europe Development Bank (with which it has undertaken another drawdown of €50 million this year in order to provide funding to entrepreneurs and microenterprises) and the European Investment Bank and, particularly, the significant support received through the different agreements signed with the European Investment Fund should be emphasized. All of them contribute to consolidating the sustainability of MicroBank's current and future business and it is expected that they will also be able to collaborate on the development and launch of other credit facilities with a high social impact.

MicroBank's financial situation has developed in a satisfactory manner in the financial year 2018.

Balance statement*	2018	2017	2016	2015
Total assets	1,512,371	1,423,119	1,157,106	862,530
Customer loans (gross)	1,558,087	1,464,651	1,178,805	873,353
Customers' funds	43,047	50,610	38,172	40,941
Credit institutions' funds	1,091,325	1,042,458	829,646	575,252
Equity	333,073	285,387	243,334	209,475

*In thousands of euros.

Profit and loss account*	2018	2017	2016	2015
Interest margin	125,665	114,177	91,628	70,894
Gross margin	143,721	134,530	109,625	93,443
Operating profit or loss	43,863	60,048	48,407	42,066
Pre-tax profit or loss (from ordinary business)	43,863	60,048	48,407	42,066
Net profit or loss (from ordinary business)	30,696	42,034	33,878	29,443

*In thousands of euros.

Resources	2018	2017	2016	2015
Staff	25	23	21	16
CaixaBank Group staff	29,441	36,972	32,403	32,242
CaixaBank Group branches	4,608	5,379	5,027	5,211

Management ratios	2018	2017	2016	2015
ROE	9.76%	15.91%	14.97%	15.26%
ROA	2.05%	3.19%	3.35%	3.82%
Bis Ratio (Core Tier I)	22.27%	20.32%	21.39%	24.59%

Credit portfolio (31/12/2018)	Number	Outstanding amount*
Family Microcredit	253,612	1,077,956
Business Microcredit	58,457	478,719
Other credits with impact	10	1,412
Total MicroBank	312,079	1,558,087

*In thousands of euros.

Liability and service agreements (31/12/2018)	Number	Outstanding amount*
MicroBank Basic Account	8,497	18,290
MicroBank Savings Account	19,916	24,757
Total MicroBank	28,413	43,047
Cards	19,445	–

*In thousands of euros.





8. Annexes

Annex I: Materiality and dialogue with stakeholders

MicroBank is firmly convinced that one of the greatest values it can contribute to its stakeholders is to gain their trust and provide them with the information they wish to obtain. To do so, it establishes channels allowing for simple communication while understanding their needs and expectations.

MicroBank has a range of processes for dialogue with its stakeholders at its disposal, along with processes for analysing its environment which, through indirect sources, enable it to identify the important issues for both its direct stakeholders and the sector in general terms.

Moreover, this year it has conducted a materiality study for the first time in order to identify the key aspects to be considered from the standpoint of their importance both for the organisation and for stakeholders. These aspects include both those that reflect the bank's significant economic, environmental and social impact and those that have a material influence on the analyses and decisions of stakeholders.

The method it uses is based on the Global Reporting Initiative (GRI) standard methodology, specifically GRI 101. In order to verify compliance with the completeness principle of the GRI and that there are no omissions in the material issues identified by MicroBank, a process enabling to identify what is important for the company and its stakeholders has been designed.

Stakeholders

CaixaBank

Available channels

-
- ✓ Regular meetings
 - ✓ Email

Customers

-
- ✓ Website
 - ✓ Email
 - ✓ CaixaBank branches
 - ✓ Annual Report

European Institutions

-
- ✓ Regular meetings
 - ✓ Email

Collaborating institutions

-
- ✓ Email
 - ✓ Regular meetings
 - ✓ Website

Staff

-
- ✓ Intranet
 - ✓ Email
 - ✓ Query channel

Society

-
- ✓ Website
 - ✓ Annual Report
-





Analysis of the issues that are important to stakeholders based on external sources and material issues of companies performing activities similar to those of MicroBank

Prioritisation and validation of the issues identified according to their importance for the business and the stakeholders through:

External importance:

- Analysis of the press from the last year
- Benchmark
- Surveys

Internal importance and validation:

- Strategic plan
- Previous annual report
- Internal meetings

After the material issues for MicroBank have been determined, definitions case set for:

- Related GRI standards
- Related SDGs and Principles of the Global Compact

This analysis resulted in the following list:

Material issues	Topics included	Associated SDGs	Principles of the Global Compact
<i>Ethics, transparency and responsibility</i>	<ul style="list-style-type: none"> ✓ Code of ethics and principles of conduct ✓ Measures for preventing corruption ✓ Participation in the Global Compact 	SDG 16 Peace, justice and strong institutions	1, 2, 3, 4, 5, 6, 10
<i>Financial inclusion</i>	<ul style="list-style-type: none"> ✓ Access to high-quality financial products and services provided in a responsible and sustainable manner 	SDG 1 No poverty SDG 8 Decent work and economic growth SDG 10 Reduced inequalities SDG 12 Responsible consumption and production	1, 6
<i>Promotion of production activity and job creation</i>	<ul style="list-style-type: none"> ✓ Business microcredits ✓ Promotion of self-employment through the collaborating institutions ✓ Impact on the socio-economic development of the region and customer profile (metrics) 	SDG 8 Decent work and economic growth SDG 5 Gender equality	3
<i>Personal and family development</i>	<ul style="list-style-type: none"> ✓ Family Microcredits ✓ Impact on the socio-economic development of the region and customer profile (metrics) ✓ Ancillary financial service for the most disadvantaged or deprived private households: Monte de Piedad 	SDG 1 No poverty SDG 3 Good health and well-being SDG 4 Quality education SDG 10 Reduced inequalities SDG 12 Responsible consumption and production	1, 2
<i>Innovative products and services</i>	<ul style="list-style-type: none"> ✓ Products with a twofold impact: economic and/or environmental and/or social ✓ Development of products and services to meet the needs of new customers 	SDG 9 Industry, innovation and infrastructure	7, 8, 9
<i>Marketing</i>	<ul style="list-style-type: none"> ✓ Support from CaixaBank's branches in the marketing of MicroBank's products and services 	SDG 17 Partnerships for the goals	3
<i>Generation of social and environmental impact</i>	<ul style="list-style-type: none"> ✓ Launch of the EaSI Loan aimed at social enterprises 	SDG 8 Decent work and economic growth SDG 10 Reduced inequalities	

Annex II: GRI content index

GRI Standard	Disclosure	Page	Principles of the Global Compact	SDG	
GRI 101: Foundation 2016					
GRI 102: General Disclosures					
GRI 102: General Disclosures 2016	Organisational profile				
	102-1	Name of the organisation	10		
	102-2	Activities, brands, products and services	20-30		
	102-3	Location of headquarters	Aduana, 18. (28013) Madrid		
	102-4	Location of operations	17		
	102-5	Ownership and legal form	12		
	102-6	Markets served	17		
	102-7	Scale of the organisation	4, 60		
	102-8	Information on employees and other workers	60	6	5, 8
	102-9	Supply chain	12-18		
	102-10	Significant changes to the organisation and its supply chain	There were no significant changes to the organisation in 2018		
	102-11	Precautionary principle or approach	35, 41, 42		
	102-12	External initiatives	41		
	102-13	Membership of associations	Member of the European Microfinance Network and the Spanish Banking Association		
	Strategy				
102-14	Statement from senior decision-maker	7-9			
Ethics and integrity					
102-16	Values, principles, standards and norms of behaviour	10, 40	1, 10		

GRI Standard	Disclosure	Page	Principles of the Global Compact	SDG
GRI 102: General Disclosures 2016 (Cont.)	Governance			
	102-18 Governance structure	38-40		
	Stakeholder engagement			
	102-40 List of stakeholder groups	63		
	102-41 Collective bargaining agreements	MicroBank employees are covered by the collective bargaining agreement applicable thereto	3	8
	102-42 Identifying and selecting stakeholders	62, 63		
	102-43 Approach to stakeholder engagement	62-64		
	102-44 Key topics and concerns raised	65		
	Reporting practice			
	102-45 Entities included in the consolidated financial statements	38		
	102-46 Defining report content and topic boundaries	65		
	102-47 List of material topics	65		
	102-48 Restatements of information	It is the first report drawn up in accordance with the GRI standards		
	102-49 Changes in reporting	It is the first report drawn up in accordance with the GRI standards		
	102-50 Reporting period	2018		
	102-51 Date of most recent report	2017		
	102-52 Reporting cycle	Annual		
102-53 Contact point for questions regarding the report	Usual customer support channels available on the corporate website			

GRI Standard	Disclosure	Page	Principles of the Global Compact	SDG
GRI 102: General Disclosures 2016 (Cont.)	102-54 Claims of reporting in accordance with the GRI Standards	This report has been drawn up in accordance with the Core option of the GRI standards		
	102-55 GRI content index	66		
	102-56 External reassurance	The information has not been verified by an independent third party		
Material topics				
Ethics, transparency and responsibility			1, 2, 3, 4, 5, 6, 10	
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	65		
	103-2 The management approach and its components	40		
	103-3 Evaluation of the management approach	40		
Financial inclusion			1, 6	1, 5, 8, 10
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	65		
	103-2 The management approach and its components	11, 21-31		
	103-3 Evaluation of the management approach	5, 24, 29-31		
Promotion of production activity and job creation			3	5, 8, 9
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	65		
	103-2 The management approach and its components	11, 21-23, 26-27		
	103-3 Evaluation of the management approach	4, 46-54		

GRI Standard	Disclosure	Page	Principles of the Global Compact	SDG
GRI 203: Indirect economic impacts 2016	203-1 Infrastructure investments and services supported	4, 22, 26, 27		
	203-2 Significant indirect economic impacts	52-54		
Personal and family development			1, 2	1, 3, 4, 10
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	65		
	103-2 The management approach and its components	11, 24-29		
	103-3 Evaluation of the management approach	5, 55-57		
Innovative products and services			7, 8, 9	
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	65		
	103-2 The management approach and its components	20		
	103-3 Evaluation of the management approach	21-30		
Marketing			3	17
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	65		
	103-2 The management approach and its components	17		
	103-3 Evaluation of the management approach	17		

Annex III: Methodological breakdown of the impact calculation

Input-Out analysis Methodology

This part of the study aims to provide a summarised explanation of the construction of the mathematical model and the baseline information used therein, in addition to providing a series of explanations regarding the implications of using this kind of analysis.

This work was carried out on behalf of MicroBank. The baseline data and information used herein were obtained through phone interviews conducted with a random sample of 592 entrepreneurs and 208 microenterprises, i.e. a total of 800 businesses.

Methodology – Input-Output Framework

The Input-Output framework is a statistical accounting tool used to show all production and distribution operations taking place in an economy in a certain period of time. It enables the flows of the different intersectoral transactions to be observed in a given economy for a reference year.

The purpose of the Input-Output framework is to provide a systematic and in-depth description of the economy, its components and its relationships with other economies. Using the framework, an economy can be analysed as a whole but also in detail.

The constructed model on which this tool is based, and which is standardised in general methodology in the closed Leontief system, is defined as this basic equation in matrix form:

Using this model we can observe a series of effects on the production of the system linked to the final, external, demand thereof. These effects are broken down into direct or initial, indirect, induced and total effects, with the latter being the sum of all the aforementioned effects. The inverse Leontief matrix shows the effect of the successive rounds of economic transactions taking place in the different sectors when demand is increased in one or several of them.

From the instrument developed, and based on the features of the model, we can establish a series of predictions and proportionalities allowing us to assess the sectorial impacts or effects of the businesses to which MicroBank has granted a microcredit on the Spanish economy as a whole.

These effects can be divided into the following:

- **Direct effect**, which refers to purchases made from direct suppliers and the jobs directly created by the businesses to which a microcredit was granted, along with the economic aspects related to their activity.
- **Indirect effect**, which is the drag along effect exercised on the second line of suppliers by boosting their spending on intermediary products in other sectors and contributing to their job creation.
- **Induced effect**, which refers to the effect on other sectors which, following the increased demand, increase their orders from their respective suppliers.

$$X = AX + DF$$

X is the matrix of productions in the different homogenous activity branches

A is the matrix of coefficients by production (each average consumption divided by the production of the branch)

DF is the system's vector of final demand

This model is defined as an equation based on the inverse Leontief matrix:

$$X = (I-A)^{-1}DF$$

Application of the method to the case being studied

In order to calculate the direct, indirect and reduced impact of the activities performed by the businesses to which MicroBank has granted a microcredit (hereinafter referred to as “businesses”) on the Spanish economy, we have used the Input-Output framework matrices drawn up by the Spanish National Statistics Institute (INE). These tables are public and have been drawn up in accordance with the methodology set out by the European Commission.

The symmetric domestic production at basic prices table was used for the calculations made in this work, since the aim of the calculations is to find the direct impact of the businesses’ activity on the Spanish economy. This table sets out the intersectoral relationships taking place in an economy for a reference year. The sectors included therein roughly correspond to the sectors designated by the National Classification of Economic Activities (CNAE). The table also provides information on production in each of these sectors.

Data on employment by sector from the INE have also been obtained. Using this data the number of jobs generated by each of the sectors of the communities being studied has been calculated. With these sector, production and employment data proportionality rules to find out the direct, indirect and induced employment generated depending on a given production can be established.

The Input-Output method also allows to find out the contribution made by the businesses to the Spanish economy in terms of GDP.

The inputs used were supplier expenses, tax expenses and salary expenses. The former two figures were obtained from surveys in which enquiries about annual supplier and tax spending were made. In the case of salaries, conservative data and the interprofessional minimum wage* have been used.

Using the interviews the inputs by company sector can be calculated. In the case of supplier expenses, after the total expenses by sector have been obtained the information from the Input-Output tables has been used to estimate the distribution thereof over the different sectors in the symmetric table and by applying the methods explained above, the direct, indirect and induced effects was calculated. The tax expenses were directly allocated to the Public Authority sector.

Payment of salaries generates direct employment but also generates indirect and induced employment due to the money spent by the people who receive a salary. In order to calculate this spending and find out in which sectors it occurs, data from the Spanish National Statistics Institute (INE)** whose analyses show the typical spending structure of a Spanish consumer have been used. Deducting savings, distributing this spending among the different sectors in the symmetric table of domestic production at basic prices and proceeding similarly as with the supplier expenses, the indirect and induced impact in terms of the impact on the GDP and employment can be calculated.

*Published in the Spanish Official State Gazette of 30 December 2017.

**Family budget survey 2018.



Access the online version at
https://www.microbank.com/Informe_Anual_2018_en.PDF

Published by: MicroBank

Design, layout and print: www.cegeglobal.com

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