

BBVA Microfinance Foundation

BBVAMF is a microfinance group of reference in Latin America, operating through eight microfinance institutions. Its sustainable and responsible management and its strong emphasis on technological innovation have borne fruit, with solid growth and its proven commitment to serving vulnerable people in society.

1,712,801

Total clients

917,186

Credit clients

314,931

New credit clients

1_ According to each country's official poverty line (distinguishing between rural and urban environments). Source: Each country's national information

centres. Clients whose per capita net income (i.e. profit obtained from their micro-enterprise) divided by the number of members in the family unit (per capita)

is no more than 3 times the poverty line of their corresponding country and type of environment (rural/urban).

2_ Clients with primary education at best, as a proportion of all credit clients.

Total Credit
Clients as of
Dec 31, 2015

83%

Vulnerable¹

61%

Women

47%

Primary
education²

30%

Rural
environment

20%

Under 30 years old

New Credit
Clients 2015

30%

Rural
environment

32%

Under 30 years old

43%

Primary
education²

58%

Women

87%

Vulnerable¹

BBVA Microfinance Foundation

BBVA Microfinance Foundation (BBVAMF) has developed a simple and pragmatic approach, applying outcome-focused social performance measurement to analyze the impact of its microfinance activities.

The impact assessment team's purpose is to align BBVAMF's operations with its mission of supporting the end-client's sustainable social development through productive activities. The findings are presented in a yearly report and include both social and economic information as a basis to better understand the client dynamics of the institutions the group supports and ultimately provide a better service. Further work is required to develop these indicators and broaden their scope, given the many layers of complexity involved in monitoring each individual client. However, BBVAMF has been able to draw conclusions from the economic and social performance of its client base over time which suggests that its activity is having a positive social impact.

A note on information constraints

The information provided is based on quarterly reporting of BBVAMF's underlying microfinance institutions (the BBVAMF Group or BBVAMFG) and has been collated rigorously, after undergoing detailed checks for accuracy and consistency with external sources. The data has been carefully investigated and corrected for measurement problems, the criteria used in each country have been aligned, verified, and finally, the outputs have been validated by both local teams and the BBVAMF impact assessment team to guarantee that the data is thorough and paints a true picture. However, based on the quality of information received and the differing data collection processes involved, BBVAMF acknowledges that accessing accurate information for each individual client at different points in time is a challenge. In general, heterogeneous databases and processes as well as legal realities have in some cases limited the data available for analysis. The BBVAMF impact assessment team has taken steps in the data gathering process to mitigate possible reporting biases and data gaps and ensure the analysis is as robustly accurate as possible. Further details on specific data limitations can be found in the Information Limitations section.

Overview

In 2012, BBVAMF established the impact assessment team, aimed at measuring on a regular basis the degree of success in meeting its social mission through a system of quantitative and qualitative social metrics. With credit clients in particular, BBVAMF has been able to gather a wide range of segmentation characteristics (e.g. environment, education, age, etc.) over time as well as reporting the status of their micro-enterprises (sales, net income, assets and equity)¹. The impact assessment team has defined processes for obtaining and analyzing information periodically and historically to ensure the harmonization, integrity and consistency with external sources of the data received from its various microfinance institutions (MFIs). It is a dynamic process, ensuring a robust, clear and reliable database. BBVAMF currently manages over 25 indicators for each MFI, from both the client characterization perspective as well as the key figures relating to the impact of BBVAMFG's activity.

BBVAMF manages a detailed and high quality client database with historical data which is updated on a quarterly basis.

The information, social objectives and analysis of those indicators are in the process of being incorporated into the policies, procedures and systems of the organization. Information is prepared periodically, which each MFI's board or executive committee then assesses. In the future, specific KPIs and targets will be established for strategic decision making and will ultimately be integrated into day-to-day business activities.

Three main objectives have been identified:

1. Verify the targeting of low-income populations with limited or no access to financing (See *Consistently Targeting Low-income Clients*)
2. Evaluate the support given to clients' financial lifecycle, in particular, with regards to the development of their productive activities (See *Signaling Micro-entrepreneurs' Progress*)
3. Measure and promote sustainable progress, of both the client's and BBVAMFG's activities, through long-term and stable relationships (See *Supporting Client Growth*)

BBVAMFG has committed to targeting poor and vulnerable populations, with 83% of its client base qualified as vulnerable².

The resulting analyses of the impact assessment team's effort in 2015 show that the BBVAMF Group has committed to targeting poor and vulnerable populations, with 83% of its client base qualified as vulnerable². Furthermore, the data shows a correlation between client continuity and an upward move from poverty segments into higher income brackets. While access to financial services alone is not enough to unlock the full potential development impact, access to such services shows that some development potential has been realized. 32% of clients classified as poor are able to overcome poverty after 2 years with BBVAMFG, and over half of remaining clients are able to do so in 4 years³. Since BBVAMF assesses the poverty level by dividing the available income between family members, this positive result has an exponential effect in communities. Client micro-entrepreneurs are also closely tied to their communities, as most are active in retail trading, services or agribusinesses, with steady annual growth rates and low but climbing balance sheet ratios.

1_There are exceptions for some MFIs. Where information is not available, this has been stated.

2_Clients whose per capita net income (i.e. profit obtained from their micro-enterprise) divided by the number of members in the family unit (per capita) is no more than 3 times the poverty line of their corresponding country and type of environment (rural/urban).

3_Clients whose per capita net income was initially below the national poverty line but have, over time, surpassed this threshold.

Committed to creating
an impact

BBVAMF Group offers a range of credit, saving, micro-insurance and transaction products; however, the bulk of the analysis has been carried out on clients owning (at least) credit products given the availability of detailed information about them. Also, it should be noted that as of December 31, 2015, BBVAMF was serving 1.7 million clients⁴ (917,186 credit clients), the majority of whom are in Colombia with 785,535 clients⁴ (356,377 credit clients), followed by Peru with 435,879 clients⁴ (213,152 credit clients) and Dominican Republic with 361,722 clients⁴ (217,992 credit clients). Thus, it is these MFIs that will drive most of the customer trends.

83% of our clients
earn on average
USD 3.5 per
day from their
micro-enterprises’
per capita profits.

4_Total net clients as of December 31, 2015.

5_The terms “profit” and “net income” from a micro-entrepreneur’s business are used interchangeably.

6_Estimated according to poverty and extreme poverty lines assessed by each country’s statistics institutes or other national statistics centres. We consider a client to be poor (or extremely poor) if his/her business profit (net income) divided by the number of members in the family unit is lower than the poverty and extreme poverty lines of his/her country; differentiating between urban and rural environments. Moreover, we say that a client is classified as economically vulnerable (or vulnerable) if his/her per capita business profit is no more than 3 times the poverty line of his/her country and type of environment. The “Others” group covers those clients whose per capita business profit passes this threshold.

7_Throughout, vulnerable clients comprise those clients classified as extremely poor, poor or vulnerable.

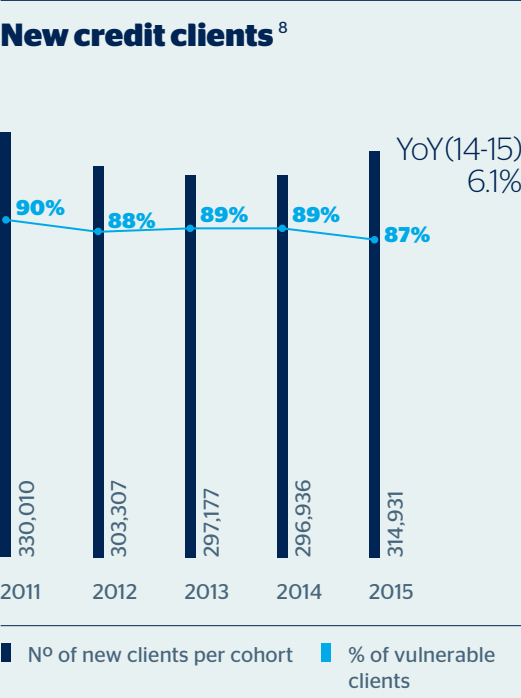
Consistently targeting
low-income clients

Committed to targeting
vulnerable clients

35% of clients are
classified as poor
or extremely poor.

One of the principal findings of the data is that, in line with its mission, BBVAMF Group has consistently targeted low-income clients. BBVAMFG focuses on economic vulnerability as determined by each country’s national poverty lines to capture new clients, i.e. clients whose net income per capita (profit⁵ obtained from micro-enterprises per family member) is less than 3 times the poverty line determined by their national official bodies⁶. Put differently, among our vulnerable clients, each family member receives an average of USD 3.5 per day (USD 3.8 per day in 2014) from their micro-enterprise’s profits. Of those vulnerable clients⁷, 35% are classified as poor or extremely poor, earning on average USD 1.8 per day. Historically, vulnerable clients represent an average 89% (2011-2014) of the clients that join BBVAMFG yearly, a trend which continued in 2015, with vulnerability (for new clients) standing at 87%. Taken together, 83% of all current BBVAMFG clients as of December 31, 2015 were qualified as vulnerable (85% in 2014).

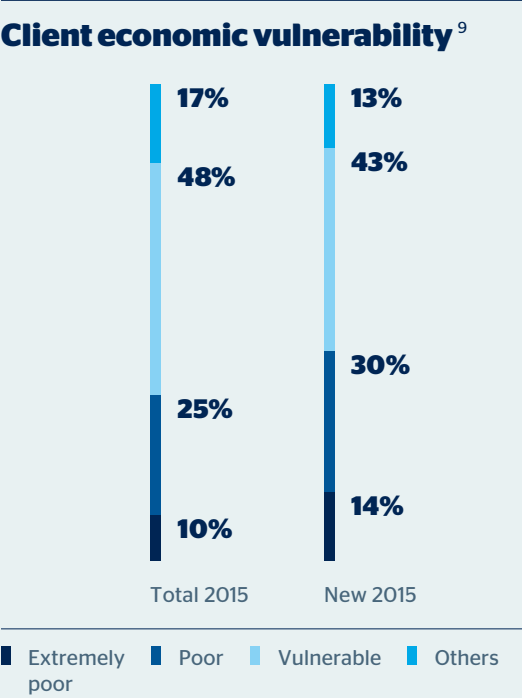
In a mature and competitive market, BBVAMF Group institutions succeeded in enrolling over 314,000 new clients in 2015 and retained the focus on low-income entrepreneurs; 87% of these are vulnerable⁶.



Source: BBVAMFG institutions. BBVAMF calculations.

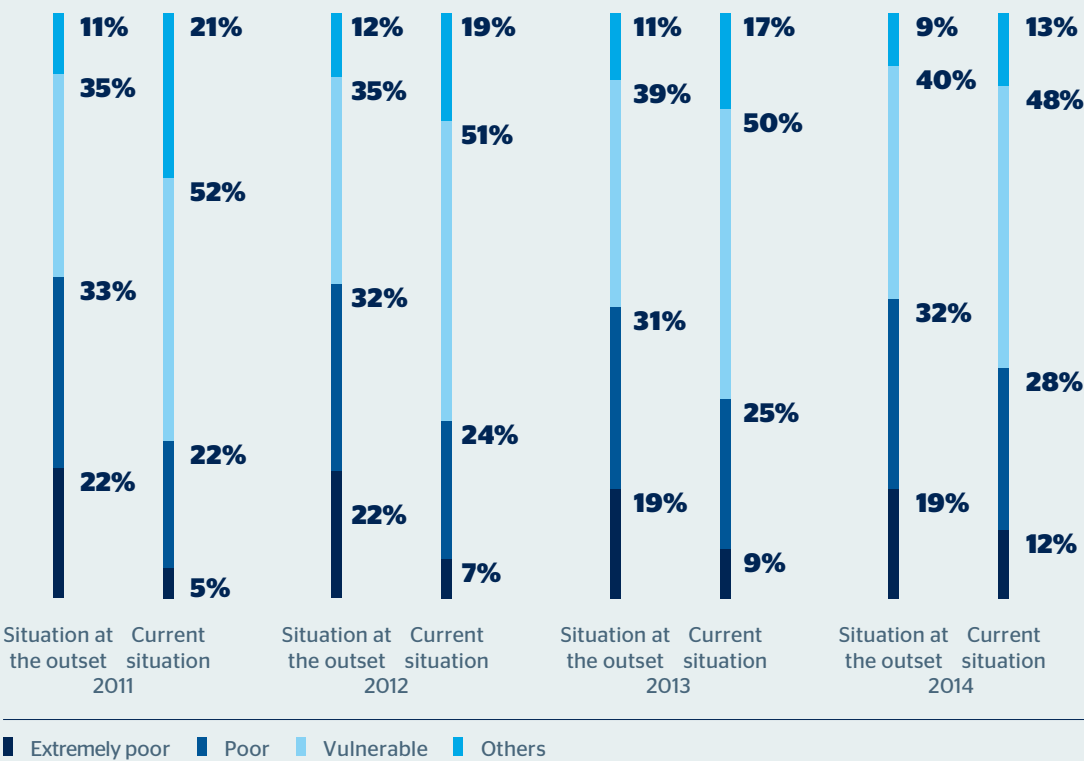
8_Takes into account clients that joined during the year (new clients).

9_According to each country’s official poverty line (distinguishing between rural and urban environments). Source: Each country’s national information centres.



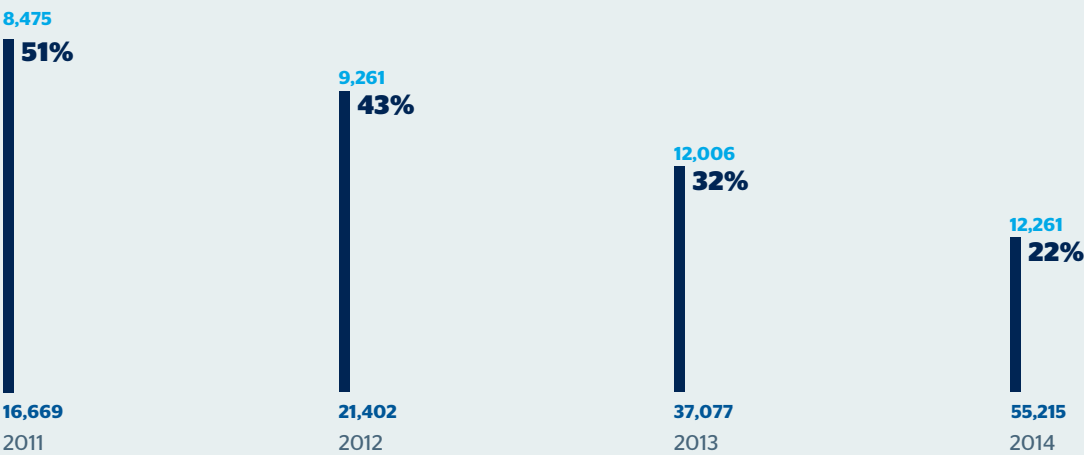
Source: BBVAMFG institutions. BBVAMF calculations.

Client economic vulnerability (by cohort)^{10,11}



Source: BBVAMFG institutions. BBVAMF calculations.

Clients overcoming poverty (by cohort)¹¹



■ % of existing clients classified as poor at the outset whose net income as of Dec. 31 exceeds the poverty line
■ N° existing clients classified as poor at the outset and whose net income exceeds the poverty line

Source: BBVAMFG institutions. BBVAMF calculations.

10_Shows the situation at the outset and the current situation as of December 31, 2015 of clients in each cohort still current as of December 31, 2015.

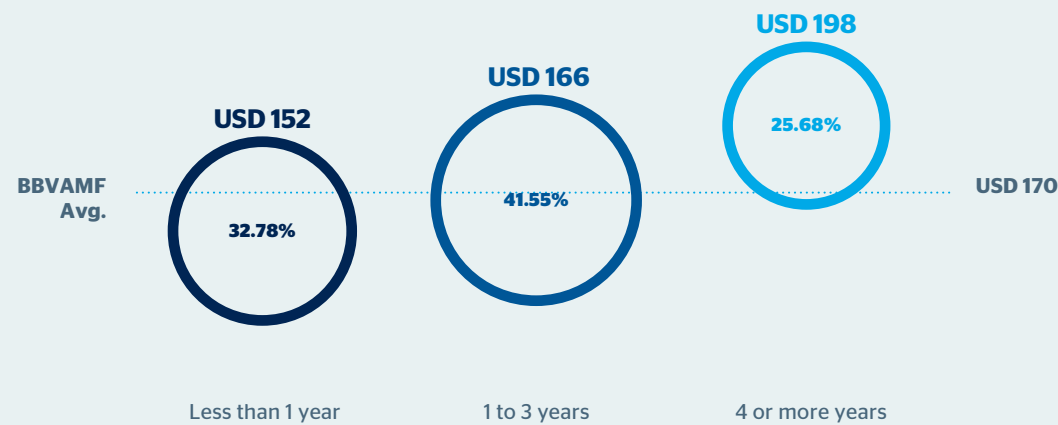
11_Clients participating in the sample are current clients whose data has been updated in the last 12 months.

After 2 years, at least 32% of clients classified as poor or extremely poor at the beginning are generating net income above the poverty line of their respective countries.

To go one step further, clients who joined in a specific cohort and are classified at the outset as poor or extremely poor are those that over time rise up the economic ladder and become vulnerable instead of poor. For example, 55% of the 2011 cohort that continued with BBVAMFG as of December 31, 2015 was classified as extremely poor or poor at the outset and only 27% remained as of December 31, 2015. That is, 51% of all the total clients classified as poor or extremely poor have escaped poverty, or 8,475 people (for the 2011 cohort only).

As clients continue with BBVAMFG, their per capita average monthly net income increases over time. Hence, the length of the banking relationship appears to affect client poverty. Indeed, clients that have stayed longer with BBVAMF evidence higher average net income (USD 198 after 4 or more years with the entity) than those who recently joined (USD 152 if less than 1 year with the entity), with an average income of USD 170 (USD 179 in 2014). Overall, monthly income levels are low for the majority of BBVAMF's clients: USD 26 for 10% of the client base ("extremely poor"), USD 65 for 25% of the client base ("poor") and USD 143 for 48% of the client base ("vulnerable").

Average per capita micro-entrepreneurial monthly net income, by client seniority¹²

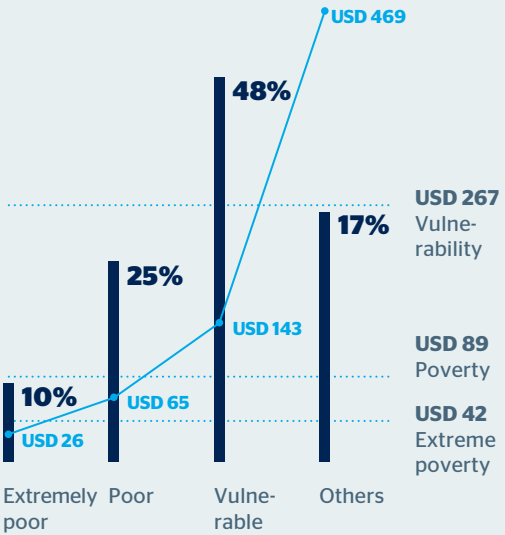


Circle represents the % of total clients

Source: BBVAMFG institutions. BBVAMF calculations.

12_Data for the current portfolio as of December 31, 2015.

Average per capita micro-entrepreneurial monthly net income, by client vulnerability^{15,16}



■ % clients ■ Micro-enterprise net income per capita

Source: Each country's national information centres. BBVAMFG institutions. BBVAMF calculations.

13_ Includes clients that joined BBVAMFG since 2011 and have remained.

14_ Number of clients in each cohort still with BBVAMFG as of December 31, 2015 who were in the poor or extremely poor segment at the beginning of their relationship with the MFI and have moved to a higher segment. Weighted average for each MFI based on poor and extremely poor clients at the outset.

15_ Data for the current portfolio as of December 31, 2015.

16_ Poverty lines are for the urban environment and are obtained by calculating the weighted average of the local poverty line by the number of clients in each country.

There seems to be a direct relationship between the length of client banking relationship and poverty levels (i.e. the longer the client remains with BBVAMFG, the higher the monthly p.c. net income).

The commitment to consistently targeting vulnerable clients has resulted in over 42,000 clients no longer being classified as poor¹³. On average, 32% of the clients that join BBVAMF are able to overcome poverty within 2 years while 51% are able to do so in 4 years¹⁴. As the client base expands, the impact is expected to increase.

Every entity in the BBVAMF Group seeks to be the first banking relationship of many low-income clients in order to put basic financial services within their reach. In Peru, 45% of Financiera Confianza's credit clients have entered the financial system for the first time through this institution. BBVAMF is in the process of gathering information from local credit bureaus to better assess clients' activity in the financial system and monitor their level of fidelity to the institutions within the BBVAMF Group, to what degree they have solid banking commitments and their level of indebtedness.

With the concentration of clients spread between those classified as poor and extremely poor (35% in 2015 and 46% in 2014) and vulnerable (48% in 2015 and 46% in 2014), further research with more comprehensive data, both quantitative and qualitative, could provide a better understanding of what is driving these trends and how MFIs can implement changes to better meet client needs. BBVAMF has sought to define client characteristics as a first step to conducting a poverty analysis.

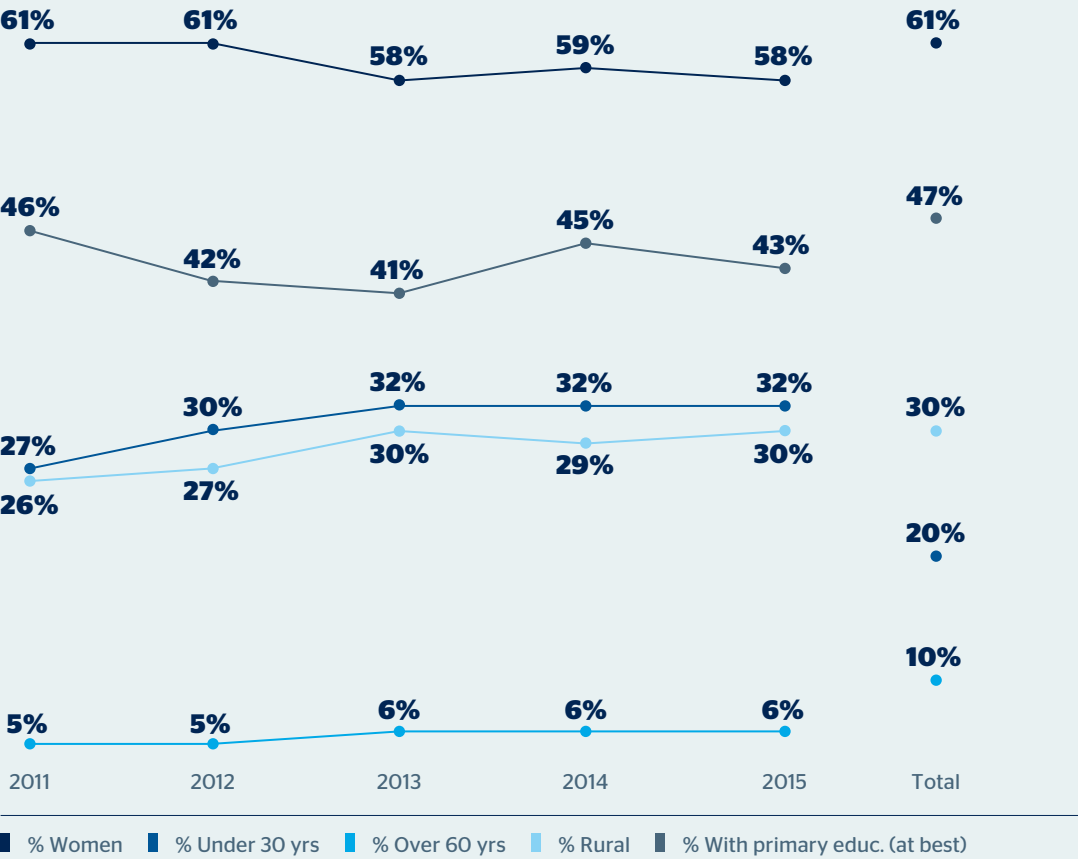
Serving multiple client segments

BBVAMFG casts a wide net in terms of its clients' gender, education, age and environment (rural vs. urban) and has started to monitor this diversity in recognition of the opportunity it provides to better address the needs of specific client groups. BBVAMFG's total client base continues to be composed mostly of women (61%), adults that have received primary education at best (47%), and clients in rural areas (30%). 20% of all BBVAMFG's clients are under 30 years

old (32% of new clients). Interestingly, this diversity has not changed significantly over time, suggesting some correlation between vulnerability and client characteristics.

BBVAMF continues to examine poverty movement trends for sub-samples of clients to identify differences and extract further conclusions. More analysis is required to assess differences in client characteristics and provide an understanding of client populations at various stages of development and poverty over time.

Profile of new credit clients¹⁷



Source: BBVAMFG institutions. BBVAMF calculations.

17_ Takes into account clients that joined during the year (new clients).

Signaling micro-entrepreneurs’ progress¹⁸

To better understand the impact of BBVAMF, it has further monitored the financial performance of those micro-entrepreneurs who remain over time with the institution in the hope of understanding the financial dynamics behind their micro-enterprises. BBVAMFG has gathered data on over 660,000 clients that currently remain and provide information about their results.

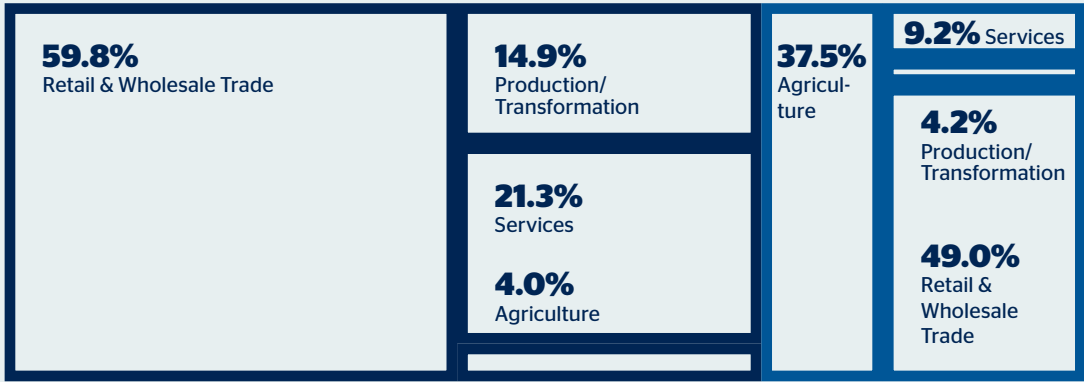
BBVAMFG’s micro-entrepreneurs are mostly in urban areas (70% of all clients) and rooted in trade (57% of the total portfolio) selling tangible products (e.g. food & drinks, crafts, toys, textiles, etc.). In rural areas, agriculture (crop and livestock production, and related activities) is the second most frequent economic activity among clients. Further understanding of sector specialization – and of how micro-entrepreneurs continue and/or develop in their sector – will be key in grasping the financial needs (i.e. cash flow requirements) of these micro-enterprises.

Economic activity¹⁹

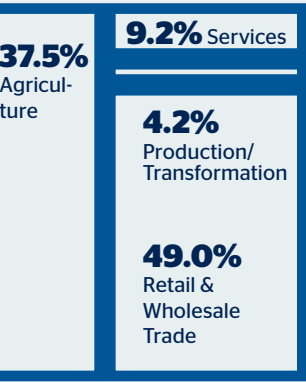
Total



70% urban



30% rural



18_Thorough checks have been undertaken to ensure the data provided by the MFIs is robust. However, further research needs to be conducted on how balance sheet items are valued.

19_Data for the current portfolio as of December 31, 2015.

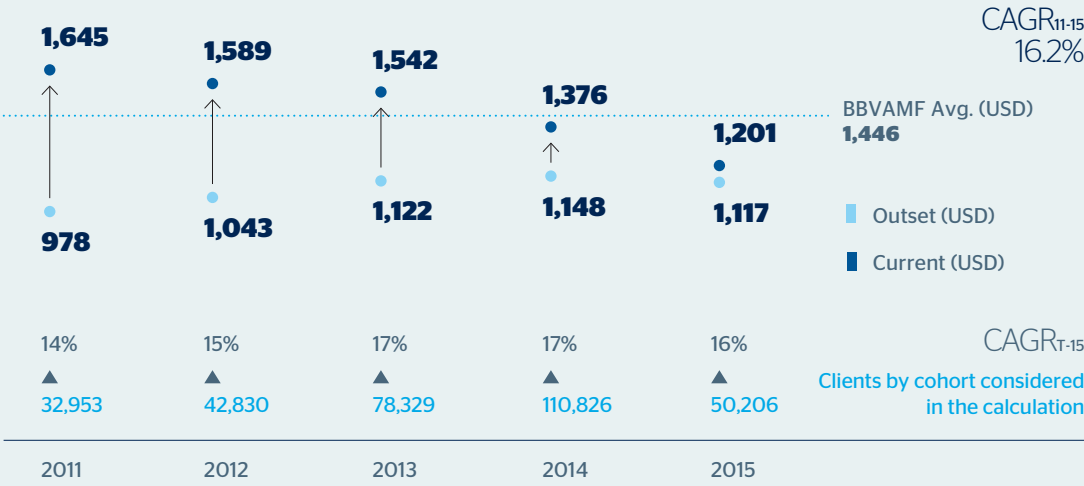
Source: BBVAMFG Institutions. BBVAMF calculations.

Micro-entrepreneurs’ businesses reveal steady growth

Micro-entrepreneurs’ businesses have shown steady growth over time, both in terms of P&L and balance sheet ratios, with an average annual growth rate (CAGR₁₁₋₁₅)²⁰ of 29% for assets, 16% for sales and 16% for profits.

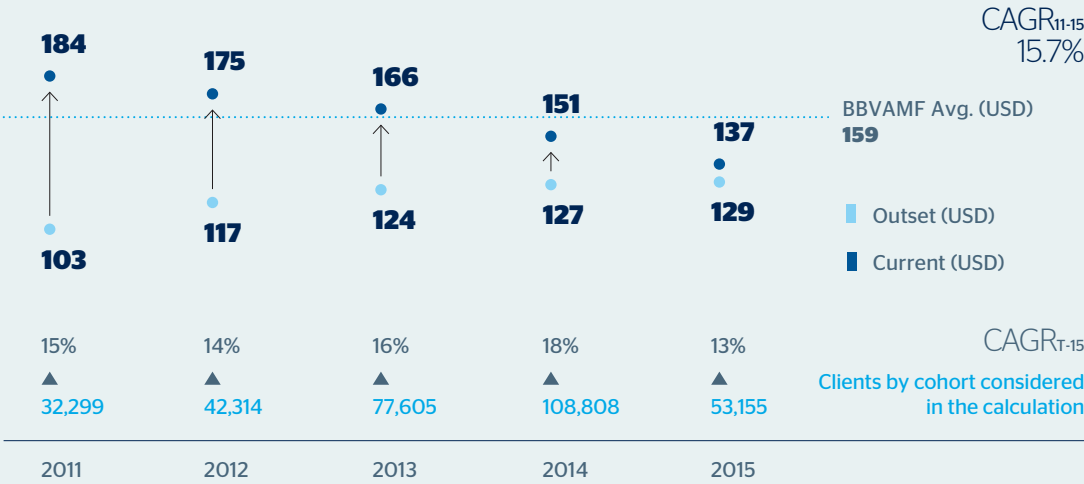
Overall, these are small businesses with low average assets (USD 6,075), sales (USD 1,446) and profits (USD 159) in 2015. These averages vary by sector, reflecting higher asset ranges for manufacturing and agriculture related business vs. services/retail related businesses.

Micro-enterprise average monthly sales (by cohort, USD)²¹



Source: BBVAMFG institutions. BBVAMF calculations.

Micro-enterprise average monthly net income (by cohort, USD)²¹

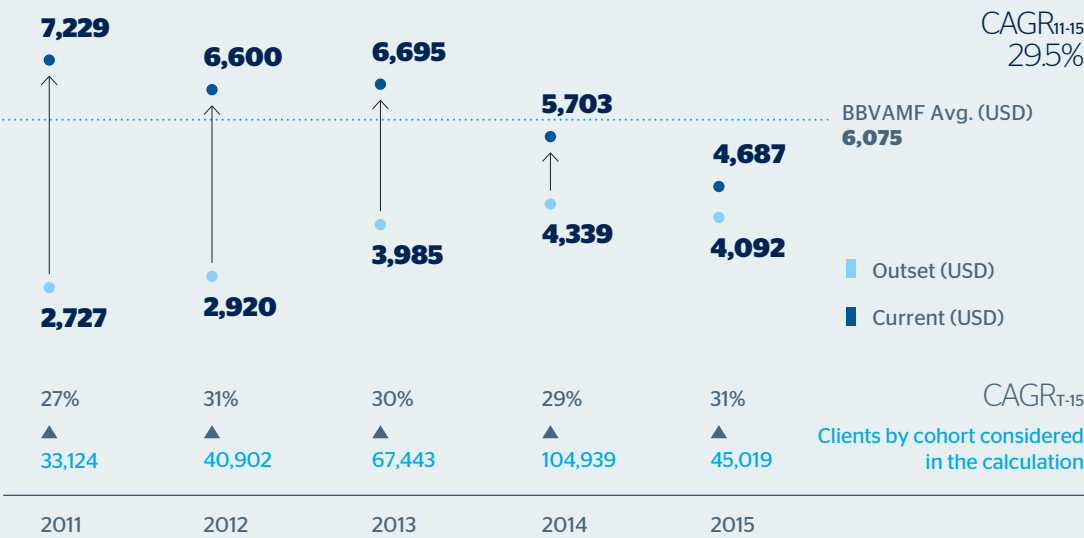


Source: BBVAMFG institutions. BBVAMF calculations.

20_Compound annual growth rate (CAGR).

21_Data about clients current as of December 31, 2015, whose data has been updated in the last 12 months (which restricts the sample to about 300,000 clients in these figures). The situation at the outset is shown (data in their cohort year) and the situation to the end of December 2015. The situation at the outset is when the first loan is granted.

Micro-enterprise average assets (by cohort, USD) ²¹



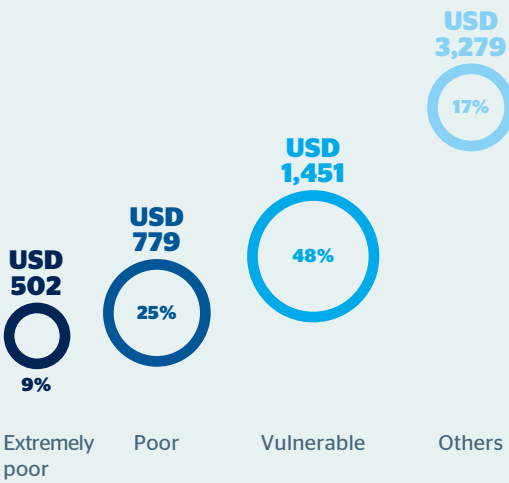
Source: BBVAMFG institutions. BBVAMF calculations.

Evidence shows that the longer the client remains with the MFI, the higher the growth of balance sheet ratios. For example, for clients that joined in 2011, average assets have nearly quadrupled from USD 2,727 at the outset to USD 7,229 in 2015, with compound average yearly growth rates standing at 27% (CAGR₁₁₋₁₅). The asset growth rates are relatively similar for all client cohorts: 31% for those joining in 2012, 30% for 2013 and 29% for 2014. The growth trends are similar for sales and profits.

21_Data about clients current as of December 31, 2015, whose data has been updated in the last 12 months (which restricts the sample to about 300,000 clients in these figures). The situation at the outset is shown (data in their cohort year) and the situation at the end of December 2015. The situation at the outset is when the first loan is granted.

Moreover, assets grow at a higher rate than sales and profit (CAGR₁₁₋₁₅ of 29% for assets vs. 16% for sales and 16% for profits) thus suggesting asset accumulation. Over time, clients' profits have grown at a similar rate to their sales, indicating continued sound management of their businesses. Micro-enterprises thus reflect strong growth potential. In terms of distribution, almost 50% of BBVAMF's clients are achieving average monthly sales of USD 1,451, thus confirming that their businesses are relatively small.

Average monthly sales by vulnerability ²²



Circle represents % of total clients by vulnerability

Source: BBVAMFG institutions. BBVAMF calculations.

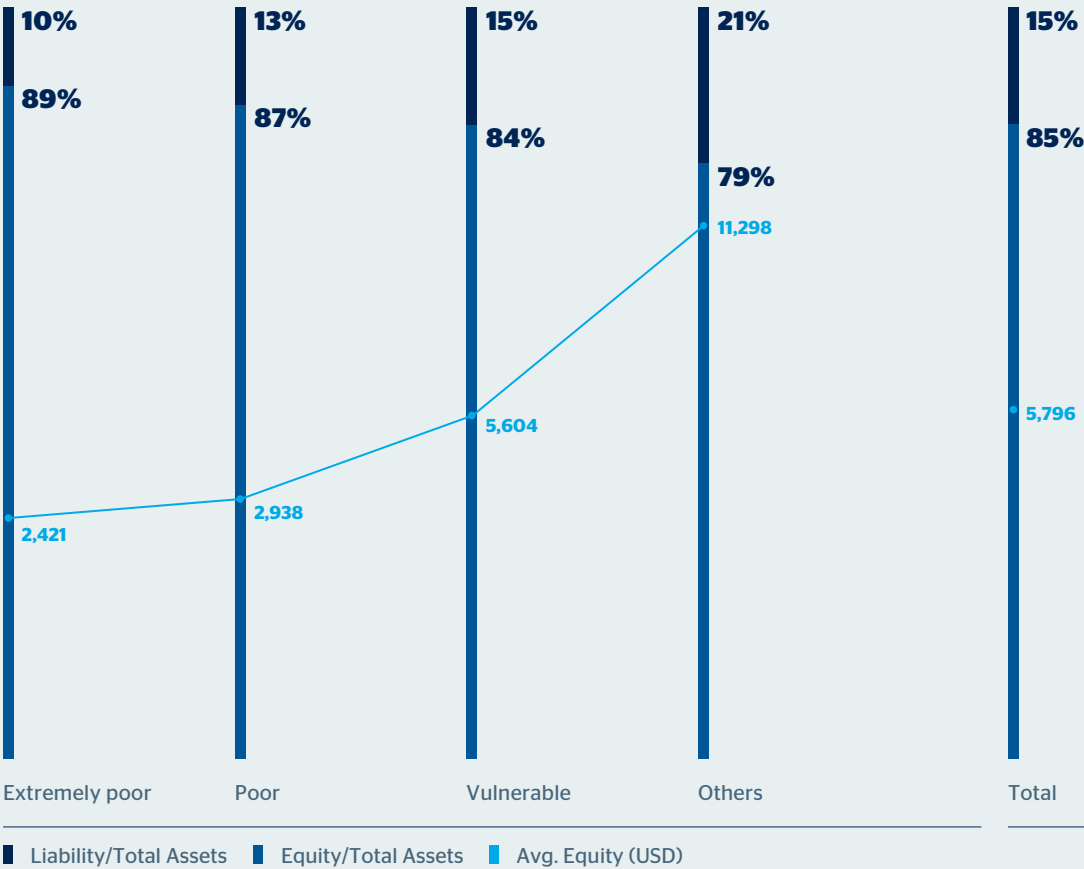
It is our understanding that micro-entrepreneurs' business growth would account for some of the "out of poverty movement" on the part of some of BBVAMFG's current clients. However, these are small enterprises in early stages of development in poorly developed capital markets, which makes it difficult to borrow the funds needed to establish new businesses and take advantage of new investment opportunities.

22_Data for the current portfolio as of December 31, 2015.

Microfinance: the only source of debt funding?

We estimate that a certain degree of the positive correlation between microcredit and growth by the micro-enterprise is a result of the fact that this is one of the few institutional sources of funding for micro-enterprises, or even the only one. In the case of BBVAMFG clients we can confirm this hypothesis since we know that their main source of funding is equity (presumably friends and family), amounting to 85% of total assets. With limited access to unsecured debt, the poorer the client, the less access he/she has to debt funding, with debt representing only 10% of the assets of extremely poor clients and 21% of the assets of the other (non-vulnerable) clients. Interestingly, after providing loans to clients, the average disbursement-to-assets ratio remains relatively stable across poverty segments – between 23% and 24% of total assets. With little capital availability, BBVAMFG institutions endeavor to address the funding gap that other financial institutions are not covering.

Assets, liabilities and equity by vulnerability ^{23,24}



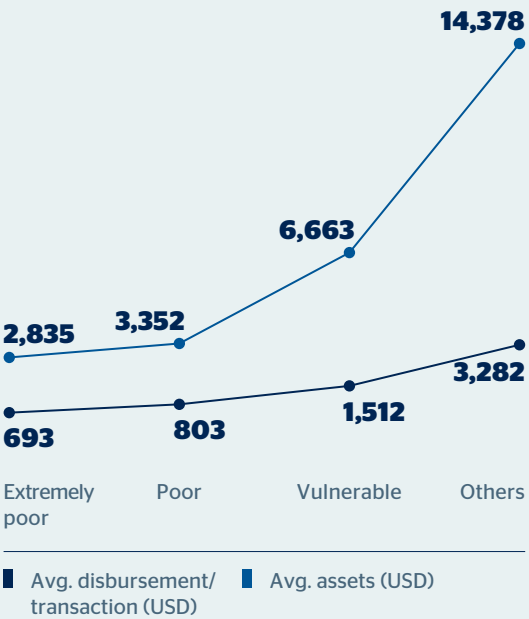
Source: BBVAMFG institutions. BBVAMF calculations.

With equity representing 85% of micro-entrepreneurs' assets, BBVAMFG intends to address a major debt-funding gap.

23_Declared assets and liabilities for credit risk evaluation purposes (i.e. not including the loan principal granted).

24_Data for the current portfolio, as of December 31, 2015.

Average assets and disbursement by vulnerability ²⁶



Source: BBVAMFG institutions. BBVAMF calculations.

Very often, vulnerable clients being served by BBVAMFG are entrepreneurs who do not make a clear distinction between their home and their company, and in some cases the funding received may be used indistinctively. Given that BBVAMF Group's purpose is to finance its clients' productive activities, further research must be undertaken on the way in which micro-entrepreneurs are using these funds and their profits, in order to better understand their real cash cycle and investment needs.

Impact on employment

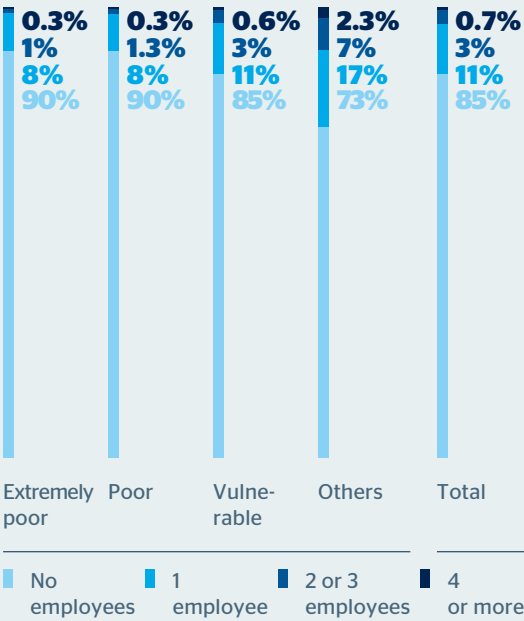
The BBVAMF Group's efforts are having a demonstrable indirect social impact: its clients provide employment to 214,817²⁵ people. As the micro-entrepreneurs' businesses grow, they employ more people and as such, data reflects an increase in the employment rate of 8% on average (8% in 2014) after 2 years of their banking relationship.

However, only 15% of BBVAMF Group's total client base has one or more employees and the more vulnerable the client, the fewer jobs are created. Supporting the growth or creation of employment amongst clients will be one of the key areas in which to achieve increased impact.

25_Figure based on 55% of total clients as of December 31, 2015, since this information is not available for Bancamía (Colombia). Extrapolating to include Colombia, BBVAMFG's clients are generating 214,817 additional jobs.

26_Data for the current portfolio, as of December 31, 2015.

Micro-enterprises' employee breakdown^{27,28}



Source: BBVAMFG institutions. BBVAMF calculations.

55% of BBVAMFG's clients generated 119,214 additional jobs.

27_Data for the current portfolio as of December 31, 2015.

28_Information available for Banco Adopem, Financiera Confianza, Emprende, Fondo Esperanza, Microserfin, Contigo and Microfinanzas PR.

29_Micro-enterprises in each cohort still in BBVAMFG's portfolio as of December 31, 2015 that have increased their employee base. Cumulative figure. Information available for Banco Adopem, Emprende, Microserfin and Microfinanzas PR.

Job creation (by cohort)²⁹

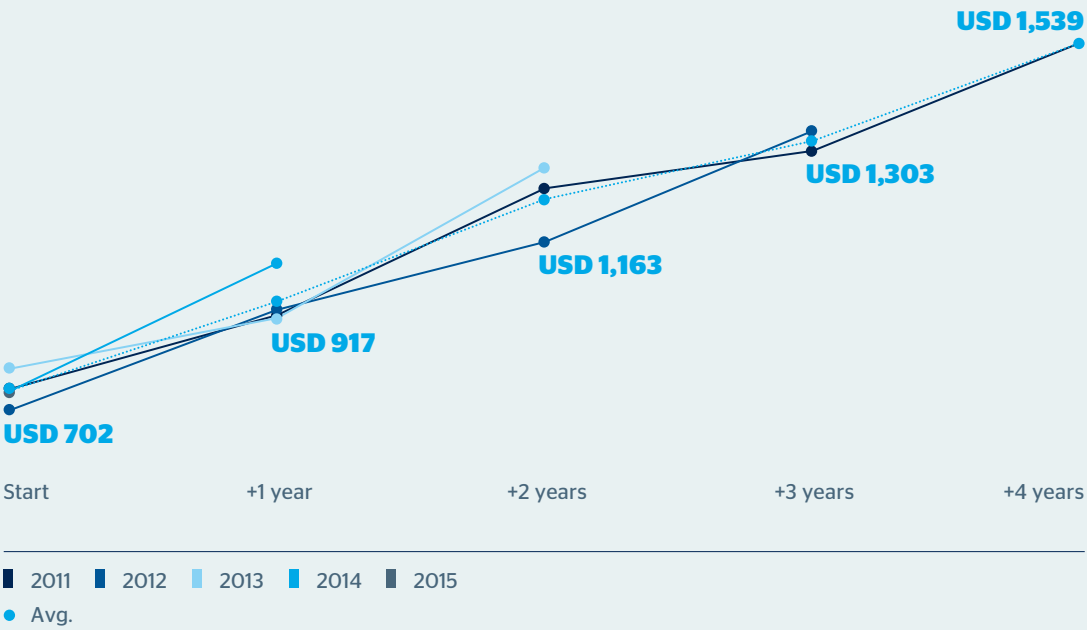


Source: BBVAMFG institutions. BBVAMF calculations.

Supporting client growth

Credit, combined with the effort and skills of micro-entrepreneurs, can create the conditions necessary for the development of income-generating activities. Furthermore, and of greater importance, the access to permanent credit (vs. scarce public money earmarked for specific poverty eradication problems) could bring about a lasting solution. For clients that remain with BBVAMFG, indeed, we observe that the average credit disbursed increases over time (CAGR₊₄ 22%), as does the average saving product (CAGR₊₄ 23%)³⁰.

Average disbursement per transaction (by cohort)³¹



Source: BBVAMFG institutions. BBVAMF calculations.

30_CAGR of average disbursement or average savings (average of all cohorts).

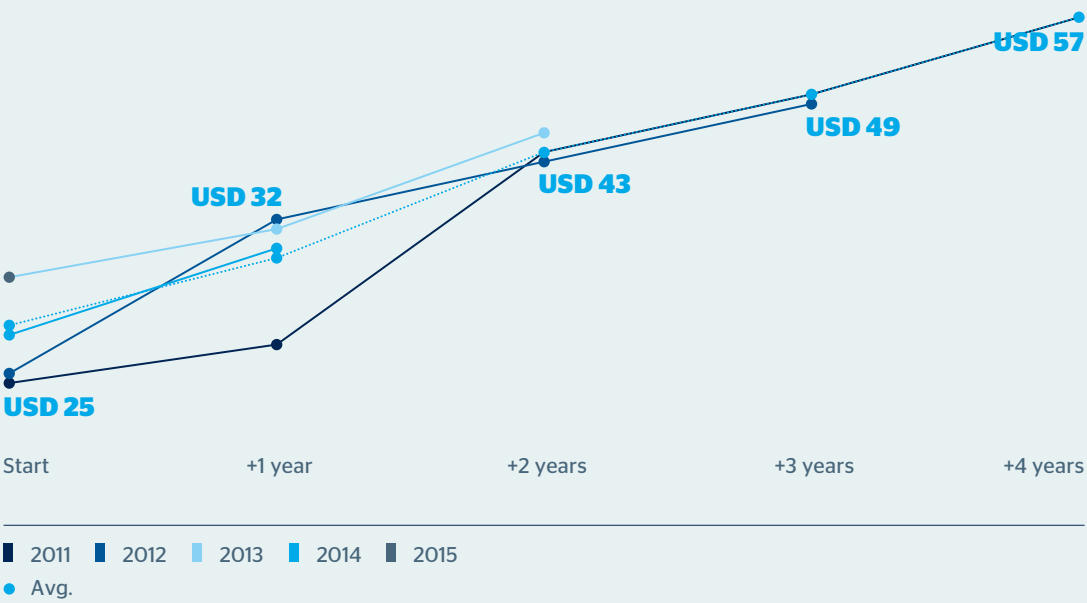
31_Average disbursement, calculated as the total disbursement made in a year divided by the number of transactions by each client participating in the disbursement in said year.

32_Average saving, calculated for all clients with a balance of USD 1 or more (in local currency equivalent) on all dates. Includes overnight and term deposits.

33_Savings for credit-and-savings clients current in each cohort.

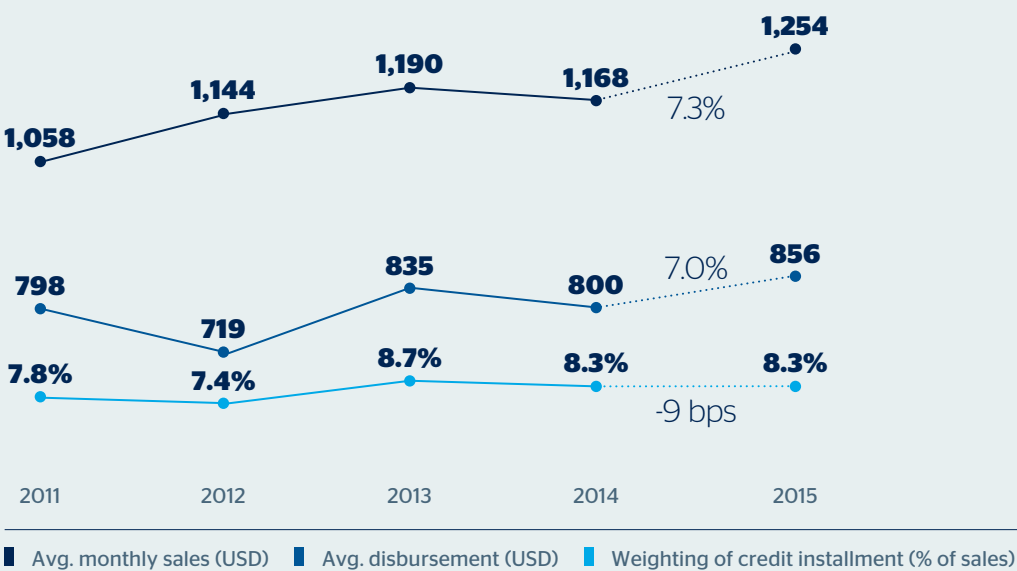
34_Information available for Bancamía, Banco Adopem and Financiera Confianza (the only MFIs that provide savings products).

Average client savings (by cohort)^{32,33,34}



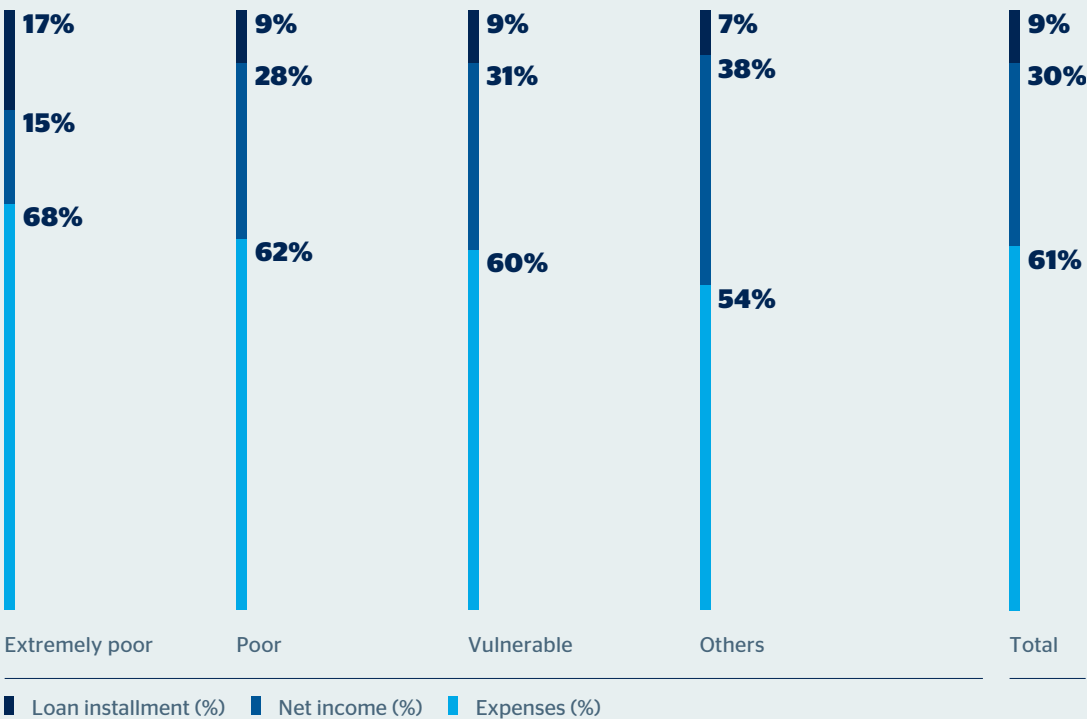
Source: BBVAMFG institutions. BBVAMF calculations.

Sales, disbursement & weight of credit installment for new clients^{35,36,37}



Source: BBVAMFG institutions. BBVAMF calculations.

Debt servicing, expenses & margins (as % of sales)³⁸



Source: BBVAMFG institutions. BBVAMF calculations.

35_Data on clients that joined during the year (new clients).

36_Average disbursement, calculated as the average first disbursement for new clients each year.

37_Weight of the installment calculated as a ratio average (principal plus interest divided by sales) for each client.

38_Debt servicing is also referred to as loan installment. Calculated using data from clients that report their spending, i.e. 88% of the total client portfolio as of December 31, 2015.

For new clients, while average credit disbursements amounts³⁹ have posted a 7% YoY increase (from USD 800 in 2014 to USD 856 in 2015), installment payments over average monthly sales have remained relatively stable at approx. 8% (8.3% in 2014 and 2015). When observing the total client base, the loan installment represents only 9% of average monthly sales and this ratio does not vary greatly between client segments, with the exception of extremely poor clients whose loan installment represents 17% of their average sales (or 51% of their gross margin).

Thus one can assume the more vulnerable the household, the more sensitive the client becomes to income changes and therefore more sensitive to credit disbursement cash flows.

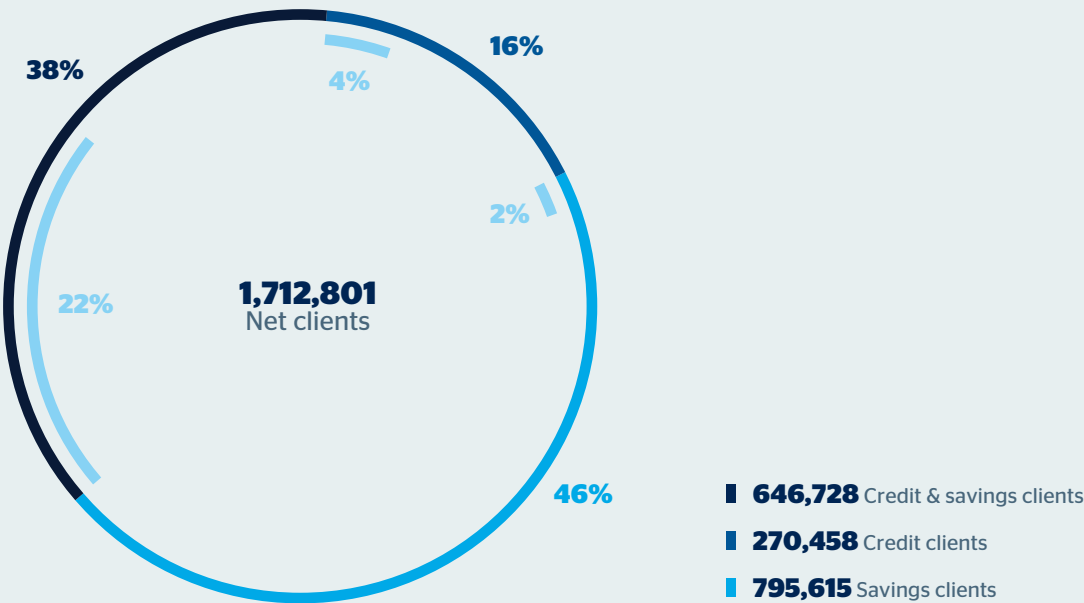
Other sources of household income should be taken into account for further insight. Pilot studies for Microserfin (Panama) suggest that net income resulting from the micro-enterprise only represents half of the household's income. If BBVAMF Group institutions could establish in more detail all their clients' income sources, measurements of poverty and vulnerability, and also their alleviation, would be more accurate. BBVAMF has proposed that this information be gathered in the near future and has identified it as an important area for improvement.

Addressing different client needs

Combining a client's funding needs with a wider range of products is essential to support the low-income household in its economic progress. The BBVAMF Group currently provides different types of credit, savings and insurance products, as well as other products (money orders, remittances, other). The product mix offered is well balanced, although clients predominantly take out loans, with 54% of total clients signed up for (at least) credit products (38% of clients have both credit and savings products). Also, most credit clients have shown interest in diversifying their needs, with 29% holding insurance products (in addition to credit and/or saving products).

39_Average loan disbursement each year.

Clients by type of product⁴⁰



% of total clients with non-mandatory insurance products within each product segment

Source: BBVAMFG institutions. BBVAMF calculations.

Increasing product diversity is in the interest of both the client (to better address a variety of funding needs) and the MFI (the richer the relationship the more loyal a client becomes and the better understanding it can develop of client needs). Pilot studies with Bancamía (Colombia) have revealed that client retention is indeed higher for those clients that also hold savings products: after one year, credit client attrition is 27% for those that only have credit products but 9% for those that have credit and savings products⁴¹. These percentages increase to 49% (credit clients) vs. 14% (credit and savings clients) if we look at client attrition after 18 months. As microfinance clients become more sophisticated, diversifying the product mix will be key in order to gain a competitive advantage. In terms of impact, it may contribute to a more stable long-term relationship.

40_Relationship by type of product, for all institutions. Only Banco Adopem, Bancamía, Financiera Confianza and Fondo Esperanza sell insurance products. Banco Adopem, Bancamía, and Financiera Confianza also market savings products. Financiera Confianza does not collect information as to whether its savings-only clients have insurance products.

41_June 2015 data.

Increased product diversity is in the interest of both the end-client and the MFI.

The need to look beyond financial services

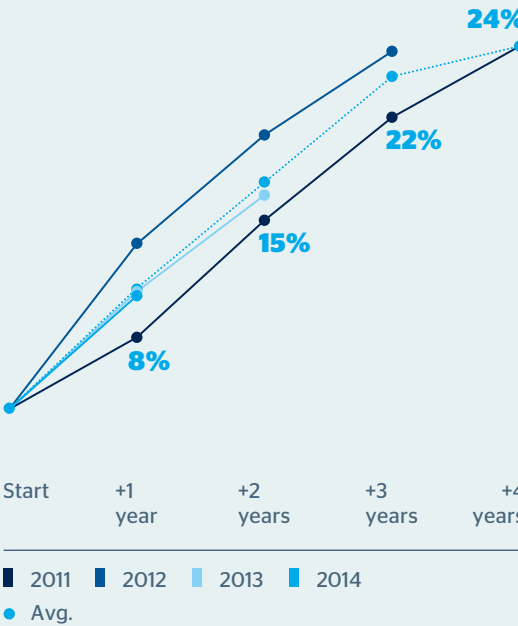
Finally, looking at impact beyond financial services has revealed that the longer the client maintains a banking relationship, the greater the interest in both extending its scope and improving their standard of living: 15% of clients increase their health cover after 2 years with the BBVAMF Group. Education and housing improvements are more modest: 6% of clients improve their living conditions after 2 years and only 3% improve their education after 2 years.

42_Percentage of clients current in each cohort that have signed on to health insurance programs, or changed from public to mixed or private health insurance, or changed from mixed to private health insurance compared to the original situation. Information available for Banco Adopem and Microfinanzas PR.

43_Percentage of clients current in each cohort that have improved their education compared to the original situation. Information available for Bancamía.

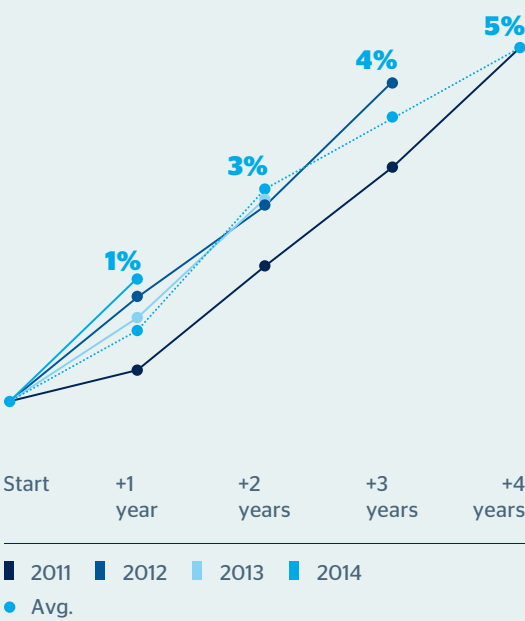
44_Percentage of clients current in each cohort that have improved their housing conditions (i.e. own a new house, improved their current house or added rooms) compared to the original situation. Information available for Bancamía, Financiera Confianza, Banco Adopem, and Microserfin.

Client improvement in healthcare (by cohort)⁴²



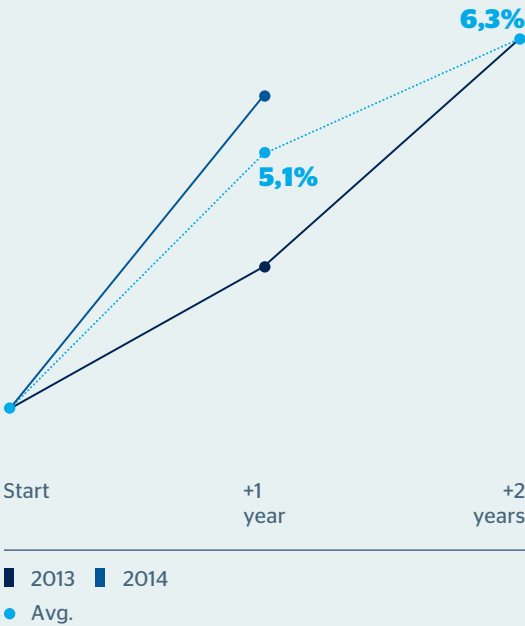
Source: BBVAMFG institutions. BBVAMF calculations.

Client improvement in education (by cohort)⁴³



Source: BBVAMFG institutions. BBVAMF calculations.

Client improvement in housing (by cohort)⁴⁴



Source: BBVAMFG institutions. BBVAMF calculations.

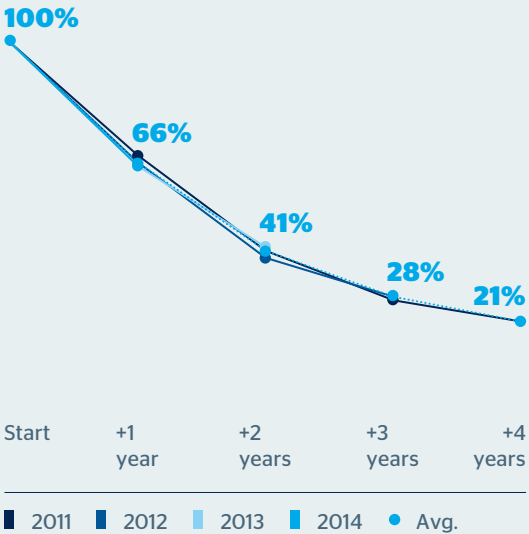
BBVAMF continues to improve strategic areas for medium-term sustainability

In reviewing client trends and characteristics, the data has revealed a number of challenges and opportunities that must be considered: (1) the need to work towards improving retention rates to ensure scalable impact, (2) understanding client savings’ dynamics and (3) the need to view a client within an environment.

Client retention remains a strong focus

In order to extend the impact of BBVAMFG’s activity, considerable efforts are being made to maintain a long-term relationship with the target clientele. Churn rates are monitored on a regular basis. After a year, on average 66% of clients are continuing to bank with the BBVAMFG’s institutions, and after two years just under half are still with them. This momentum, visible in all cohorts, highlights the need to focus on improving client retention levels, in particular during the initial phases of the relationship.

Client retention ⁴⁵
(by cohort)



Source: BBVAMFG institutions. BBVAMF calculations.

BBVAMF intends to identify more precisely the profile of clients that leave the institution in order to understand their behavior and offer a better service.

With increased competition making markets and more dynamic and giving clients more momentum, but also exposing them to products and situations which are not necessarily aligned with their interests and development, BBVAMFG remains committed to maintaining long-term productive relationships with the clients it serves. Identifying those clients with whom it can build these relationships, finding out their needs, and knowing how to satisfy all of them, will enable BBVAMFG to achieve the sustainable social impact for which it strives.

For all these reasons, BBVAMF views as high-priority the development of statistical models based on its clients’ attributes (such as age, gender, income, assets, etc.) that will enable it to identify those who are more likely to make economic and social progress and who help it to understand why they initiate and terminate their banking relationships, in order to offer them a better service and thus improve the current client retention ratios.

Savings matter...

Some of the institutions in the BBVAMF Group have quite recently started to offer savings solutions and available data is being collected and continuously analyzed. Information on savings clients is sometimes limited, hence the ability to draw conclusions is challenging although crucial in order to support client development. Understanding saving patterns is work in progress and has been classified as a core strategic development area.

Impact in its global context

Without a comprehensive understanding of the major challenges facing clients, policies of poverty alleviation can become disconnected from reality. BBVAMF continues to develop indicators and criteria to calibrate the social environment in which clients live and operate (e.g. propensity to natural disasters, geographical remoteness, crime and delinquency, etc.) and the economic indicators that surround them (e.g. growth potential of particular sectors, comparing client concentration with country poverty maps, etc.). These may provide a more informed understanding of poverty behaviors by client populations at various stages of development that are often unrelated to access to financial services.

Indeed the results are encouraging and BBVAMFG has consistently demonstrated its ability to support low-income clients, with 32% of poor clients moving to a higher economic segment after 2 years. However, the results also uncover a significant need to further engage with them in the long-term, in particular to concentrate efforts on improving current client retention rates. BBVAMF recognizes it must continue to segment client bases, examine and diversify the product offering and services of local operations, and focus on increasing impact in terms of both scale and depth. With these findings comes an opportunity to identify and prioritize areas of strategic importance to increase the effectiveness of *Productive Responsible Microfinance*.

45_Percentage of clients in each cohort still current as of December 31, 2015.

Summary	BBVAMF	Bancamía	Fin. Conf	Adopem	F. Esperanza	Emprende	Microserfin	Microfinanzas PR	Contigo
Financial data									
Gross portfolio (USD)	997,355,916	350,969,068	447,075,072	111,779,893	51,023,708	10,937,056	23,441,244	1,924,276	205,599
Total disbursed in 2015 (USD)	1,220,139,233	322,501,711	578,380,102	133,861,505	151,339,484	12,046,655	19,476,000	2,246,296	287,480
Nº transactions in 2015	1,071,923	296,511	291,945	210,405	245,752	12,169	13,993	961	187
Avg disbursement in 2015 (USD)	1,138	1,088	1,981	636	616	990	1,392	2,337	1,537
Deposits & other (USD)	429,419,040	105,542,176	272,876,591	51,000,274					
Operational data									
Nº Employees	7,910	3,583	2,168	1,238	514	159	224	20	4
Nº Offices	509	200	153	70	52	21	11	1	1
Clients who receive financial education	378,562	164,334	50,907	16,051	143,467		2,700		1,103

Our clients	BBVAMF	Bancamía	Fin. Conf	Adopem	F. Esperanza	Emprende	Microserfin	Microfinanzas PR	Contigo
Number of net clients	1,712,801	785,535	435,879	361,722	102,141	10,568	15,674	1,112	170
Number of credit clients	917,186	356,377	213,152	217,992	102,141	10,568	15,674	1,112	170
% credit clients/ total clients of BBVAMF Group		38.9%	23.2%	23.8%	11.1%	1.2%	1.7%	0.1%	0.02%
Degree of vulnerability									
Extremely poor	9.9%	9.0%	6.3%	6.5%	32.1%	1.1%	3.7%	9.0%	0.8%
Poor	25.1%	23.2%	26.6%	29.5%	20.4%	5.8%	14.9%	13.0%	6.4%
Vulnerable	48.0%	43.8%	53.0%	53.9%	34.6%	50.1%	53.2%	42.0%	40.8%
Total vulnerable clients	83.0%	76.0%	86.0%	89.9%	87.1%	57.0%	71.8%	64.0%	48.0%
Other	17.0%	24.0%	14.0%	10.1%	12.9%	43.0%	28.2%	36.0%	52.0%
Detail									
Environment - % rural clients	29.9%	37.6%	23.4%	37.2%		34.0%	38.6%		
Gender - % female clients	60.6%	56.1%	51.1%	67.9%	83.8%	60.4%	43.1%	44.8%	67.3%
Education - % Primary (at best)	46.8%	56.9%	17.1%	51.9%	43.0%	55.7%	32.3%	3.5%	26.2%
By age									
Under 30 yrs	19.7%	12.5%	25.8%	28.5%	15.7%	10.8%	11.4%	12.5%	7.1%
Between 30 and 60 yrs	70.2%	74.5%	66.3%	64.8%	73.5%	70.0%	77.5%	76.7%	71.2%
Over 60 yrs	10.1%	13.0%	7.9%	6.7%	10.8%	19.1%	11.2%	10.8%	21.8%
Monthly per capital enterprise income (USD)	170	168	165	160	143	322	323	2,268	267
By seniority									
Less than 1 yr	152	150	141	152	125	304	311	2,058	232
1 to 3 yrs	166	159	166	155	162	319	294	2,403	269
4 or more yrs	198	197	207	175	122	439	381	2,763	311
By economic vulnerability									
Extremely poor	26	14	35	33	32	45	49	169	15
Poor	65	49	74	75	72	76	102	479	54
Vulnerable	143	114	146	166	155	178	231	1,195	123
Others	469	440	469	457	495	527	650	4,703	411
Average disbursement (USD)									
By economic vulnerability									
Extremely poor	693	624	1,824	396	469	626	994	1,670	
Poor	803	865	1,282	503	539	614	1,083	1,539	1,044
Vulnerable	1,512	1,326	2,792	774	636	836	1,466	1,944	1,414
Others	3,282	2,178	8,707	1,240	737	1,433	2,184	3,060	1,701
Average saving (USD)									
Total clients	67	16	374	52					
Credit clients	27	16	364	41					
Increase in average saving (cohorts 2013-2015 CAGR)	26.4%	4.6%	11.7%	33.4%					

Our client's businesses	BBVAMF	Bancamía	Fin. Conf	Adopem	F. Esperanza	Emprende	Microserfin	Microfinanzas PR	Contigo
Economic activity									
Agriculture	14.0%	20.6%	19.7%	3.7%		18.4%	27.5%	0.4%	
Retail & wholesale trade	56.6%	46.7%	48.0%	78.5%	66.5%	50.4%	28.5%	35.1%	79.6%
Production/ Transformation	11.7%	14.8%	10.0%	0.3%	26.2%	19.3%	25.3%	12.8%	8.6%
Services	17.7%	17.9%	22.4%	17.5%	7.2%	11.9%	18.7%	51.7%	11.7%
Employment generated (nº people)	119,214		38,705	45,481	17,831	8,267	7,149	1,753	28
% Clients reporting employee information	55%		84%	92%	100%	93%	98%	100%	99%
Nº of employees hired (extrapolated to 100% of clients)	214,817		46,053	49,231	17,831	8,909	7,263	1,753	28
Monthly sales (USD)	1,512		2,013	1,308	834	1,807	1,886	4,819	4,556
By economic vulnerability									
Extremely poor	502	558	539	519	366	594	883	1,154	647
Poor	779	754	736	870	594	676	1,236	1,748	1,407
Vulnerable	1,451	1,211	1,882	1,423	1,017	1,164	1,808	3,426	3,000
Others	3,279	2,841	5,880	2,419	1,868	2,441	2,524	9,030	4,016
Assets (USD)									
By economic vulnerability									
Extremely poor	2,835	1,979	7,282	2,579	598	3,529	11,156	26,390	
Poor	3,352	2,781	5,130	3,008	888	2,308	10,665	24,735	23,363
Vulnerable	6,663	5,188	10,673	5,047	1,438	3,972	12,723	33,686	12,383
Others	14,378	10,414	31,778	8,039	2,376	8,179	16,950	31,149	12,429
Net income and expenses (as % of sales)									
% Expenses	60.6%	63.4%	61.9%	61.4%	46.6%	48.5%	55.4%	22.9%	76.3%
% Net income	30.1%	29.2%	25.9%	33.5%	30.6%	45.0%	38.4%	71.2%	15.9%
% Loan installment	9.4%	7.4%	12.2%	5.1%	23.0%	6.5%	6.3%	6.0%	7.9%
Capital structure									
Equity/ Assets	84.5%	79.9%	86.3%			90.9%	89.2%	73.6%	92.7%
Liabilities/ Assets	15.4%	19.9%	13.7%			9.1%	10.8%	26.4%	7.3%

Our client's development	BBVAMF	Bancamía	Fin. Conf	Adopem	F. Esperanza	Emprende	Microserfin	Microfinanzas PR	Contigo
Client retention									
First year	66.0%	79.4%	56.9%	73.3%	56.9%	62.5%	69.8%	69.7%	
Second year	40.9%	46.9%	31.2%	55.5%	31.2%	36.9%	41.0%	39.5%	
Third year	27.7%	30.1%	19.6%	42.3%	19.6%	24.9%	29.4%	25.5%	
Fourth year	20.6%	21.5%	13.7%	33.5%	13.7%	17.3%	22.9%	17.0%	
Clients by type of product									
Credit, savings and insurance	41.5%	79.7%	20.0%	24.8%					
Credit and savings	29.0%	8.2%	37.6%	71.9%					
Credit and insurance	7.3%	10.7%	12.4%	0.1%	2.6%				
Credit only	22.2%	1.5%	30.0%	3.2%	97.4%	100.0%	100.0%	100.0%	100.0%
Improve their access to health after two years	14.9%			14.95%				9.79%	
Improve their access to housing after two years	6.3%	6.0%	2.2%	6.9%			6.1%		
Improve their education after two years	2.5%	2.6%							
Creating jobs after two years	8.3%			8.3%		6.8%	5.8%	13.4%	
Monthly sales growth (CAGR)	16.2%	16.9%	16.0%	20.2%	10.6%	9.2%	7.5%	8.3%	
Asset growth (CAGR)	29.5%	30.7%	33.7%	30.5%	7.3%	12.1%	15.3%	62.2%	
Montly net income growth (CAGR)	15.7%	15.0%	10.0%	24.3%	17.6%	11.6%	3.6%	11.0%	
Clients overcoming poverty after two years	32.5%	33.1%	24.4%	35.2%	36.3%		14.4%		

Urban poverty lines (USD equivalent, monthly)	BBVAMF	Bancamía	Fin. Conf	Adopem	F. Esperanza	Emprende	Microserfin	Microfinanzas PR	Contigo
Rural									
Extremely poor	35.2	26.4	40.2	44.7	43.3	43.3	58.8		
Poor	62.5	45.5	66.3	92.3	64.8	64.8	105.2		
Urban									
Extremely poor	41.9	32.5	49.6	46.7	56.2	56.2	69.5	320.4	32.1
Poor	89.1	76.0	96.3	103.7	93.5	93.5	141.5	640.8	64.8

Information limitations	Comments
Lack of hard data. Not all clients are able to provide information on all indicators that have been requested.	<ul style="list-style-type: none">• Where a gap in information exists, this client information has not been included and the client is therefore not included in the sample analysis.• In the calculation of financial indicators for micro-entrepreneurs (i.e. sales, profits, assets, equity), data was not always available.
Positive bias. Clients’ tendency to present a more favorable view of their micro-enterprise’s performance.	<ul style="list-style-type: none">• BBVAMF’s methodology works on the premise that the data is gathered by an agent with an informed understanding of the client’s circumstances and who will therefore only report data that he/she believes is most reasonable.
Differences in criteria. Indicators are based on the faithful interpretation of the criteria determined by each MFI and its agents.	<ul style="list-style-type: none">• Assets and sales indicators are based on the in-depth understanding of the criteria on the part of each MFI and its agents.
Process limitations. Typically the data is gathered once a client acquires a new product or renews their loan and enters the core banking system. Some indicators however, are separate from the traditional data collection process and as such less reliable.	<ul style="list-style-type: none">• Where we have found the data to be less robust, it has not been presented.
Heterogeneous databases. Not all MFIs are tracking the same set of information about their clients, or maintain it to the same standard.	<ul style="list-style-type: none">• Only applies to a few indicators (e.g. environment and product ownership) for which information has not been disclosed or a specific criteria has not been adopted.• Specifically, some MFIs assign environment (rural/urban) based on the office with which the client has a banking relationship. The office is assigned to a municipality/region that is defined as rural/urban based on local government criteria.

Comments on
selected indicators

Indicator	Comments
Economic sectors	<p>Based on the United Nations International Standard Industrial Classification of All Economic Activities (version 4)⁴⁶.</p> <ul style="list-style-type: none">• 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.• Commerce: Wholesale and retail trade, 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.
Client net income or profits	<p>Net income or profit obtained from the micro-entrepreneur’s business. Used to classify the client in a specific vulnerability segment (extremely poor, poor, etc.) based on national poverty lines.</p>
Client retention	<p>Of each cohort, the number of clients that remain with BBVAMFG (i.e. continue to have a banking relationship with one of its MFIs). It is therefore calculated as the difference between the clients at the outset and those that remain.</p>
CAGR	<p>Compound annual growth rate, normally from 2011 to 2015.</p>
YoY	<p>Year on year growth rate.</p>

46_ <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=27&Lg=1>

National poverty lines

Country	Source	Poverty line	Rural (LOC)	Urban (LOC)
Colombia	National Statistics Institute - (DANE) ⁴⁷	2015		
		Extreme Poverty Poverty	83,056 143,256	102,216 239,205
	DANE	2014		
		Extreme Poverty Poverty	78,332 137,612	96,548 229,855
	DANE	2013		
		Extreme Poverty Poverty	77,947 136,192	95,884 227,367
	DANE	2012		
		Extreme Poverty Poverty	77,720 133,522	95,351 223,151
	DANE	2011		
		Extreme Poverty Poverty	74,855 128,593	91,650 215,216
Peru	National Statistics & IT Institute (INEI) (2014) ⁴⁸	2015		
		Extreme Poverty Poverty	137 226	169 328
	INEI	2014		
		Extreme Poverty Poverty	137 226	169 328
	INEI	2013		
		Extreme Poverty Poverty	132 218	163 316
	INEI	2012		
		Extreme Poverty Poverty	128 212	159 308
	INEI	2011		
		Extreme Poverty Poverty	121 203	151 296
Dominican Republic	Ministry for the Economy, Planning & Development (Mar.) ⁴⁹	2015		
		Extreme Poverty Poverty	2,025 4,179	2,114 4,694
	Ministry for the Economy, Planning & Development (Mar.)	2014		
		Extreme Poverty Poverty	2,012 4,153	2,100 4,664
	Ministry for the Economy, Planning & Development (Sep.)	2013		
		Extreme Poverty Poverty	1,985 4,096	2,071 4,600

47_ <http://www.dane.gov.co/index.php/estadisticas-sociales/pobreza>

48_ https://www.inei.gob.pe/media/cifras_de_pobreza/informetecnico_pobreza2014.pdf

49_ <http://economia.gob.do/mepyd/wp-content/uploads/archivos/uaaes/boletines/boletin-pobreza-septiembre-2015.pdf>

Country	Source	Poverty line	Rural (LOC)	Urban (LOC)
	Ministry for the Economy, Planning & Development (Sep.)	2012		
		Extreme Poverty Poverty	1,888 3,896	1,970 4,375
	Ministry for the Economy, Planning & Development (Sep.) ⁵⁰	2011		
		Extreme Poverty Poverty	1,840 3,797	1,920 4,264
	Ministry for Social Development ⁵¹	2015		
		Extreme Poverty Poverty	30,611 45,844	39,725 66,084
Chile	(same as 2013)	2014		
		Extreme Poverty Poverty	30,611 45,844	39,725 66,084
	Ministry for Social Development	2013		
		Extreme Poverty Poverty	30,611 45,844	39,725 66,084
	(same as 2011)	2012		
		Extreme Poverty Poverty	27,436 42,324	35,605 61,366
Panama	Ministry for Social Development	2011		
		Extreme Poverty Poverty	27,436 42,324	35,605 61,366
	Ministry of Finance and the Economy (same as 2014) ⁵²	2015		
		Extreme Poverty Poverty	59 105	69 142
	Ministry of Finance and the Economy (Mar.)	2014		
		Extreme Poverty Poverty	59 105	69 142

50_ <https://economia.gob.do/mepyd/wp-content/uploads/archivos/uaaes/topicos-coyuntura/topico-de-coyuntura-6.pdf>

51_ Traditional methodology. http://observatorio.ministeriodesarrollo.social.gob.cl/documentos/Casen2013_Situacion_Pobreza_Chile.pdf

52_ <http://www.mef.go.pa/es/informes/Paginas/Pobreza-e-indigencia.aspx>

Table 10. Poverty lines and extreme poverty lines in Latin America and the Caribbean

Country	Source	Poverty line	Rural (LOC)	Urban (LOC)
Puerto Rico	U.S. Census Bureau (same as 2014) ⁵³	2015		
		Extreme Poverty ⁵⁴		330
		Poverty ⁵⁵		661
	U.S. Census Bureau	2014		
		Extreme Poverty		330
		Poverty		661
	U.S. Census Bureau	2013		
		Extreme Poverty		315
		Poverty		631
	U.S. Census Bureau	2012		
		Extreme Poverty		311
		Poverty		622
	U.S. Census Bureau	2011		
		Extreme Poverty		305
		Poverty		611
Argentina ⁵⁶	Economic Commission for Latin America and the Caribbean (CEPAL) (urban only, available since 2012, updated in line with inflation) ⁵⁷	2015		
		Extreme Poverty		416
		Poverty		841
	(same as 2012, updated in line with inflation)	2014		
		Extreme Poverty		351
		Poverty		709
	(same as 2012, updated in line with inflation)	2013		
		Extreme Poverty		271
		Poverty		548
	CEPAL (urban only)	2012		
		Extreme Poverty		227
		Poverty		458
	CEPAL (urban only)	2011		
		Extreme Poverty		206
		Poverty		416

53_ <http://www.census.gov/hhes/www/poverty/data/threshld/>

54_ Corresponds to 50% of the poverty line (applicable to all years)

55_ Poverty line of a household composed of 2 people.

56_ Given the non-availability of poverty lines since 2013, the data has been updated with the annual inflation rates published by the World Bank

57_ <http://interwp.cepal.org/sisgen/ConsultaIntegrada.asp?idIndicador=2190&idioma=e>

Household distribution

Country	Source	Average number of people per household
Colombia	DANE	Where not provided by clients, an average of 3.9 people in each household has been assumed.
Dominican Republic	NA	Provided by clients.
Peru	INEI (2013)	Where not provided by clients, an average of 3.7 people in each household has been assumed.
Chile	NA	Provided by clients.
Puerto Rico	NA	Provided by clients.
Panama	NA	Provided by clients.
Argentina	NA	Provided by clients.

Exchange rates

All (historical) data from MFIs is incorporated in local currency and the exchange rate current as of December 31, 2015 is applied so that exchange rate fluctuations do not have an impact on the conclusions.

Country	Exchange rate	Source
Colombia	COP/ USD	0.000318 BBVA Bank, mid-market rate on December 31, 2015.
Dominican Republic	DOP/ USD	0.293513 BBVA Bank, mid-market rate on December 31, 2015.
Peru	PEN/ USD	0.022096 BBVA Bank, mid-market rate on December 31, 2015.
Chile	CLP/ USD	0.001414 BBVA Bank, mid-market rate on December 31, 2015.
Puerto Rico	USD	1.000000 BBVA Bank, mid-market rate on December 31, 2015.
Panama	PAB/ USD	1.000000 BBVA Bank, mid-market rate on December 31, 2015.
Argentina	ARS/ USD	0.077067 BBVA Bank, mid-market rate on December 31, 2015.