

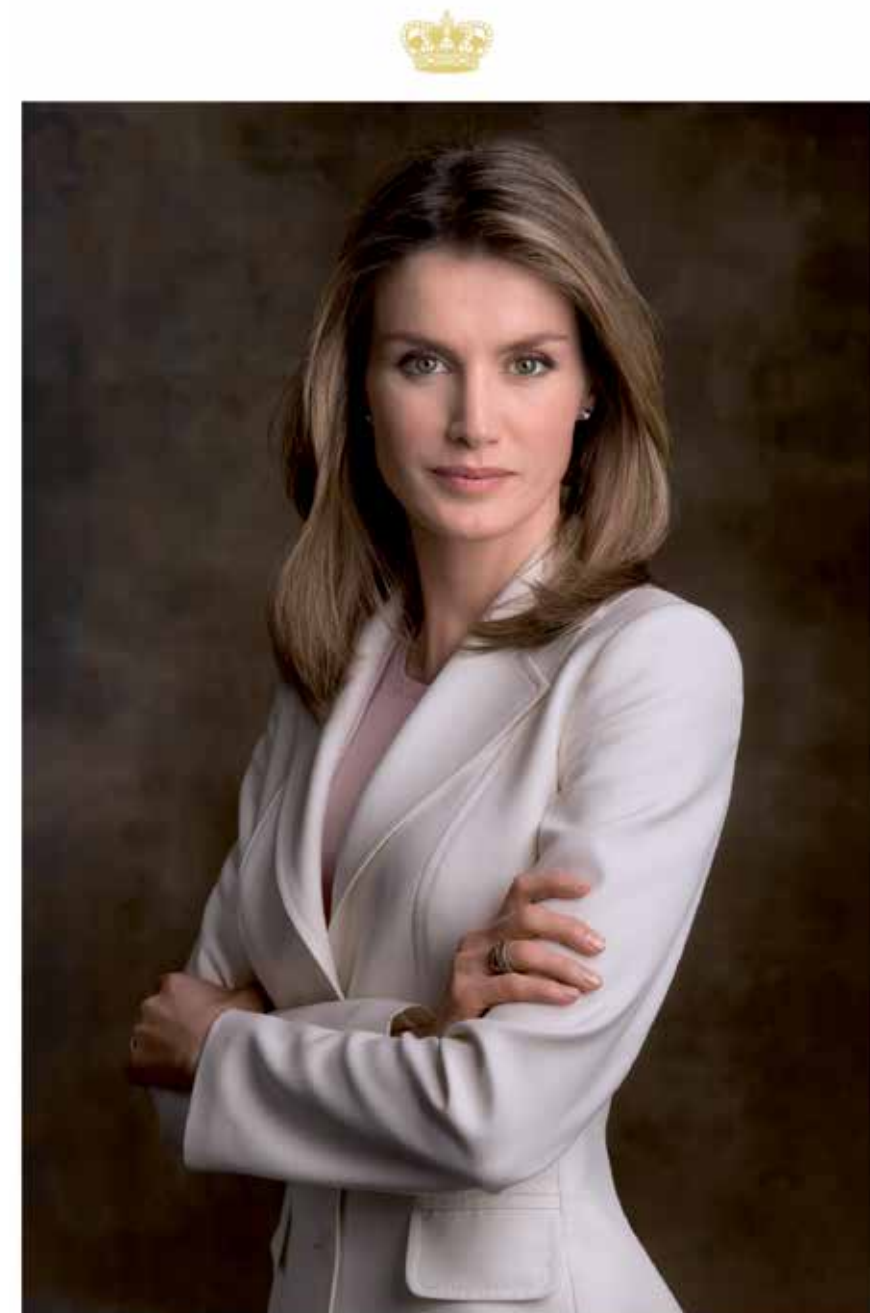
Measuring what really matters

Social Performance
Report 2016

Measuring what really matters

To the BBVA Microfinance Foundation on its 10th Anniversary, marking a decade of working to change things for the better, and of improving the lives of so many people. With all good wishes,

Letizia R
January 2017



Para la Fundación Microfinanzas BBVA en su
10º aniversario, por una década de trabajo contribuyendo,
de verdad, a que las cosas cambien, a que la vida de
tantas personas mejore. Con todo afecto,
Letizia R ENERO
2017

Honorary President of the Events Commemorating the 10th Anniversary
of the BBVA Microfinance Foundation



Letter from the President
of the BBVA Group
Francisco González

I would sincerely like to thank Her Majesty Queen Letizia for accepting the Honorary Chair of the events commemorating the 10th Anniversary of the BBVA Microfinance Foundation, as well as for her invaluable support of this institution.

In 2007 BBVA took the decision to set up the BBVA Microfinance Foundation. Ten years later, the Foundation is well established as a philanthropic institution of the first order, supporting hundreds of thousands of families in Latin America and creating opportunities for development and better standards of living.

Despite the progress in society in recent decades, there is still much to do: a major part of the population faces highly challenging living conditions. Financial inclusion for the most disadvantaged sectors of developing countries is one of the tasks that is still pending. Although there have been improvements, about 2 billion adults throughout the world still do not have access to financial services.

Microfinance arose as a response to this unsatisfied demand on the part of financially excluded people. Nevertheless, and despite the individual successes of a remarkable number of institutions, after over thirty years of activity, the impact on a global scale is still relative. Financial democratization has not spread as much as we would wish, leaving millions of poor people still excluded from the financial system.

According to the World Bank, 77% of people who escape poverty do so thanks to their own personal efforts and enterprise, and financial exclusion is the main obstacle they face. The lack of access to financial services limits development opportunities and puts difficulties in the way of social inclusion for the most vulnerable. The BBVA Microfinance Foundation was set up in 2007 as a major plank in BBVA's corporate social responsibility policy framework and has involved putting all the knowhow of a bank with more than a century and a half of experience at the service of the most vulnerable segments of the population, where it carries out its work on a philanthropic basis.

The Foundation is managed independently as a non-profit institution specializing in promoting economic and social development that is sustainable and inclusive for the least advantaged, using Responsible Productive Finance, a methodology that offers small entrepreneurs who are economically vulnerable a complete range of financial products and services. They also receive training and advice to assist them with their productive activities and to help them to better their conditions over time.

Ten years later, the Foundation is well established as a philanthropic institution of the first order, supporting hundreds of thousands of families in Latin America and creating opportunities for development and better standards of living.

The Foundation brings a forward-looking vision to bear on the microfinance sector. A vision that is driven by the BBVA Group, which decided to approach microfinance with its own model, based on the virtuous combination of the know-how contributed by four main players. Firstly BBVA, as the founder of the Foundation. Secondly, the BBVA Microfinance Foundation itself, that has shaped a group of microfinance institutions that are contributing to transform the microfinance sector. Thirdly, the institutions that are part of the Foundation, bringing their local knowledge, experience and commitment. And finally, the clients, a very diverse set of entrepreneurs who are a source of continuous learning for the Foundation.

Ten years after it was set up, the BBVA Microfinance Foundation has become a philanthropic institution with one of the greatest social impacts in Latin America, the first operator with proprietary methodology in the region, and has 1.8 million clients. Since its creation in 2007, the Foundation has originated loans worth more than USD 8.2 billion to entrepreneurs with very limited resources.

I would like to highlight some of the special projects carried out by the Foundation, such as those rolled out in the area of human capital, corporate governance, the regulatory environment, the empowerment of women and measuring impact. The United Nations has recognized on a number of occasions the contribution to the Sustainable Development Goals (SDGs) made by the activities of the Foundation, and chose it in 2015 to be a member of the SDG Fund’s private-sector Advisory Group, granting it consultative status in 2016 with the United Nations Economic and Social Council, ECOSOC.

BBVA Microfinance Foundation has major challenges ahead of it: among others, to increase its scale and scope, improve its value proposal to maximise its clients’ progress, optimize the possibilities provided by the digital revolution and reinforce its understanding of, and contact with, its clients.

To tackle these challenges, the Foundation has the best teams. A group of highly valued people who right from the outset have worked with unwavering commitment to their mission, convinced that contributing to alleviate poverty in the world is an extraordinary way to put the opportunities of this new era within reach of all.

To all of them, thank you for making it possible.

Francisco González
President of the BBVA Group



Social Performance Report 2016

BBVA Microfinance Foundation
13

Bancamía
Colombia
151

Financiera Confianza
Peru
213

Banco Adopem
Dominican Republic
273

Fondo Esperanza
Chile
331

Emprende
Chile
373

Microserfin
Panama
419

BBVA Microfinance Foundation

Social Performance
Report 2016



**Measuring
what really
matters**

“Love not what you are,
but what you may become”.

Don Quixote
Miguel de Cervantes

Table of contents

BBVA Microfinance Foundation Introduction 16 Board of trustees and management team 20 Partners 22	2016 Social performance results BBVAMF Group Committed to serving low-income clients 28 Signaling microentrepreneurs' progress 37 Being part of the client journey 52 Empowering women The status of women in Latin America 66 Women as a key factor in development 77 Staying with women throughout their lives 91 Women in the rural environment 94 Aggregate data and notes on methodology 104	Innovation in our DNA 114 Sector development Initiatives 130 Strategic partnerships 133 Institutional activity 134 Outstanding acknowledgements 136 Aligned with the United Nations' SDGs 138 Macroeconomic context Latin America 144
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Ten years working towards sustainable and inclusive economic and social development for vulnerable people

This year the BBVA Microfinance Foundation is celebrating its 10th anniversary. In 2007, BBVA set up BBVAMF, an institution that has supported more than five million vulnerable people in Latin America, creating opportunities for development and better standards of living.

Our purpose

The financial sector plays a key role in development, both because of its support for economic growth, and because of its impact on disadvantaged segments of society, making their access to financial services possible.

Financial exclusion is an obstacle to development for the poorest and their communities. Financial policies that encourage appropriate incentives and help people with talent and entrepreneurial spirit to get access to financing are extraordinarily important. They provide stability, promoting growth, poverty reduction and a fairer distribution of resources and skills.

BBVA Microfinance Foundation (BBVAMF), a non-profit entity, came into being within the corporate social responsibility area of the Spanish bank Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), and has put all the knowhow of a bank with more than a century and a half of experience at the service of the most vulnerable.

BBVAMF is a legally incorporated entity with the purpose of promoting sustainable and inclusive economic and social development for disadvantaged people through Responsible Productive Finance. The aim is to accompany them over time with a methodology designed to raise their standard of living with products, financial services,

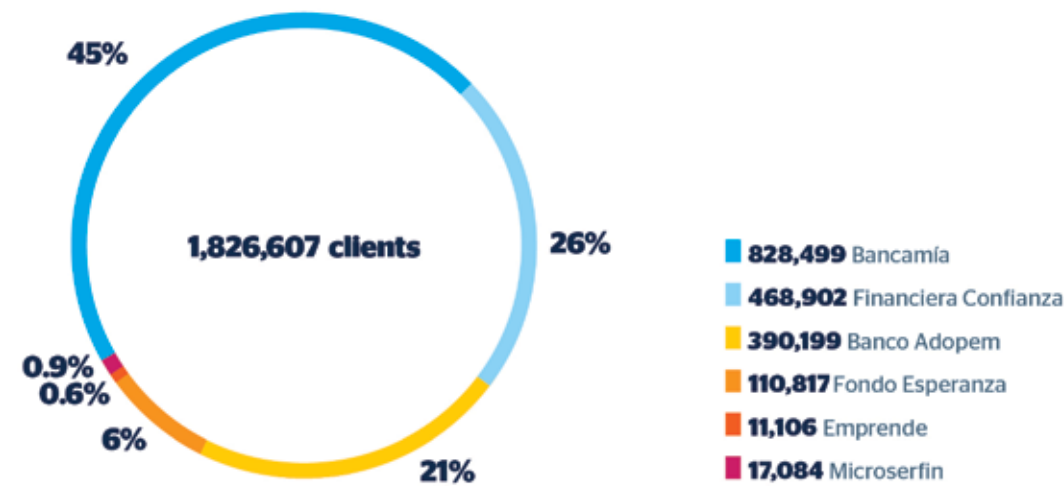
advice and training. These people are at the center of everything that BBVAMF does; the Foundation, driven by the BBVA, remains true to its mission to reduce poverty and inequality, bringing fresh ways of thinking to the microfinance sector.

BBVAMF focuses on two strategic activities: creating and managing a group of sustainable microfinance entities that are a reference point in Latin America; as a linked activity,

implementing projects that are the drivers for transformation in the sector and for eliminating the barriers to their expansion. Over this decade, BBVA Microfinance Foundation has signed off more than USD 8.2 billion in loans to vulnerable entrepreneurs (2007-2016), and has become a philanthropic institution with one of the greatest social impacts in Latin America, the first operator with proprietary methodology in the region, and one with 1.8 million clients.■

Significant scale

Total net clients as of December 31, 2016



Source: BBVAMFG institutions. BBVAMF calculations.

Currently serving 1.8 million clients with an estimated indirect impact on 7.3 million people.

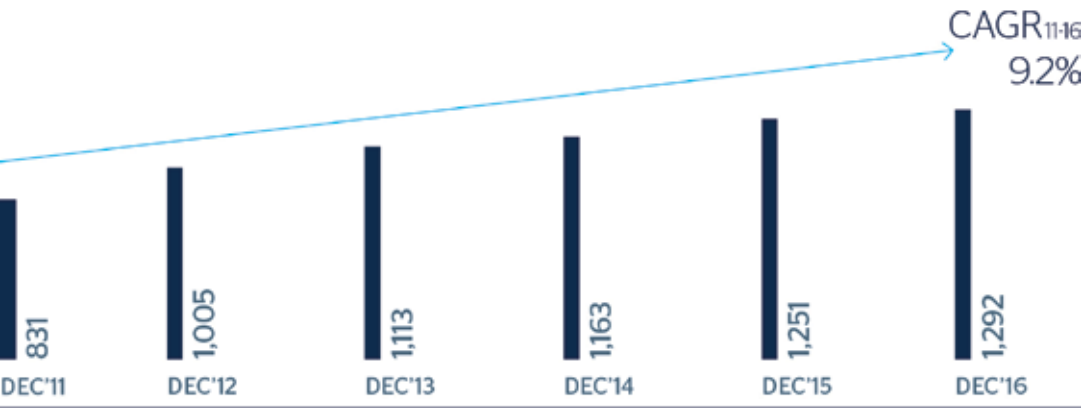
At the service of low-income entrepreneurs



As of 12.31.2016, 77% of credit clients were classified as *vulnerable*, that is, *per capita* net incomes from their enterprises were less than three times the poverty line in their respective country and environment (rural/urban).

Solid asset base

Aggregate total assets as of December 31 of each year (USD million)



Source: BBVAMFG institutions. BBVAMF calculations.

Solid asset base to support the growth of entities in the BBVAMF Group.

Extensive regional footprint



Creating value for the future

- 2007** BBVAMF established, with a donation of EUR 200 million from BBVA (Spain).
- 2008** Acquisition of majority stake and merger between Caja Rural NorPerú, Caja Rural del Sur and Edpyme Crear Tacna. Caja Nuestra Gente (Peru) incorporated. Acquisition of majority stake and merger of WWB Colombia and WWB Medellin. Incorporation of Bancamía (Colombia).
- 2009** Acquisition of majority stake and creation of Emprende (Chile).
- 2010** Acquisition of majority stake in Financiera Confianza (Peru). Acquisition of majority stake and creation of Microserfin (Panama).
- 2011** Acquisition of majority stake in Fondo Esperanza (Chile).
- 2012** Acquisition of majority stake in Banco Adopem (Dominican Republic).
- 2013** Merger of institutions in Peru and creation of a merged Financiera Confianza.

Board of trustees

Board of trustees

Claudio González-Vega Chairman	Nancy Barry Member
Tomás Alfaro Member	José Barreiro Member
María Begoña Susana Rodríguez Member	Javier M. Flores Non-voting Member
Gonzalo Gil Member	Paloma del Val Non-voting Member

Management team

Management team

Javier M. Flores Chief Executive Officer	Joaquín Ángel Cortés Internal Audit
Paloma del Val Legal Advisory and General Secretariat	Giovanni Di Placido Analysis & Research
João Costa Service Delivery Infrastructure	Alejandro Lorca Finance & Corporate Expansion
Miguel Ángel Ferrer Human Resources	Silvia Duro Compliance
María Oña Communication & External Relations	Rodrigo Peláez Impact Assessment & Strategic Development
Miguel Ángel Charria Risks & Business Development	

Partners

Founding NGOs



Corporación Mundial de la Mujer Colombia [Women’s World Corporation Colombia]
Non-profit institution set up in 1989 with the mission of improving the standards of living of those in a situation of vulnerability, particularly women, with programs and projects driving human and productive development.



Corporación Mundial de la Mujer Medellín [Women’s World Corporation, Medellín]
(Colombia)
NGO running since 1985 and focusing on the development and reinforcement of microentrepreneurs. It provides tools and services to train, consolidate and sustainably grow microenterprises and protect the families economically dependent on them.



ONG Adopem: Asociación Dominicana para el Desarrollo de la Mujer [Dominican Association for Women’s Development]
(Dominican Republic)
Created in 1982, this NGO has the mission of enhancing and building on entrepreneurial skills, together with the social and human development of its clients and their families. It provides training, assessment and research services in a number of areas, generating greater integration and participation in the development process as well as a positive impact on their business growth and living conditions.



ONG SEPAR: Servicios Educativos, Promoción y Apoyo Rural [Educational Services, Support and Rural Development] (Peru)
This non-profit civil association set up in 1987 promotes sustainable development in Peru, particularly in the country’s central region, through the execution of development programs and projects.



Hogar de Cristo [Home of Christ] (Chile)
Charitable institution founded in 1944 to help the poorest of the poor and the socially excluded, opening up their opportunities for a better life.

Multilaterals



International Finance Corporation [World Bank Group]
Set up in 1956, IFC is made up of 184 member countries and is the largest global development institution focused exclusively on the private sector in developing countries. As a member of the World Bank Group, the goals of the IFC are to end poverty and boost shared prosperity. Its vision is that people should have the opportunity to escape poverty and improve their standard of living. It uses its capital, expertise, and influence to create opportunities where these are most needed.

Social investment funds



Oikocredit
Oikocredit – originally called Ecumenical Development Cooperative Society – was founded in 1975 to provide religious institutions with an alternative investment channel focusing on disadvantaged people. Today it is an international cooperative based in the Netherlands that finances organizations that improve the standard of living of low-income people and communities sustainably. With a great deal of experience in microfinance, Oikocredit is currently also investing in agriculture and fair trade, as well as in renewable energy.



responsAbility
Based in Switzerland, responsAbility Investments AG is one of the world’s leading asset managers in the field of development investments. The company’s investment vehicles supply debt and equity financing to non-listed firms in emerging economies and developing countries. Through their activities, these firms help to meet the basic needs of broad sections of the population and to drive economic development – leading to greater prosperity in the long term.



INCOFIN
Headquartered in Belgium, Incofin Investment Management (Incofin IM) manages and advises funds that invest in microfinance institutions in developing countries. As a specialist in rural microfinancing, it attaches great importance to the social objective of the organizations which it supports, selecting only those institutions that have a positive impact on their clients’ and employees’ standards of living.

Measuring

With over 1.8 million clients, BBVAMF Group is committed to serving low-income entrepreneurs. Of the 900,000 plus people who have taken out a loan, 77% are *vulnerable*, and 60% are women. Their net incomes grow on average by 18% a year, their assets by 26% and the segment of clients classified as *poor* at the outset falls by 38% after two years. Furthermore, at the same time, some are creating new job positions and improving their housing conditions and education levels.



Total clients

1,826,607

Total credit clients

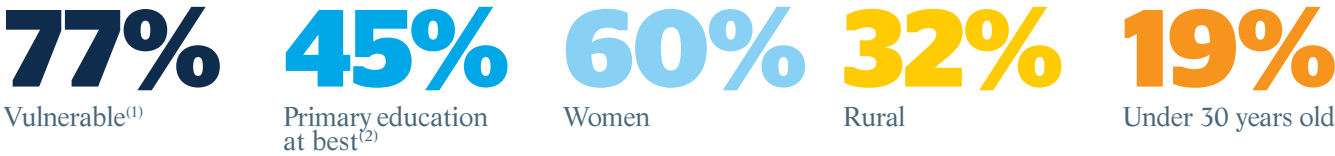
901,624

New credit clients

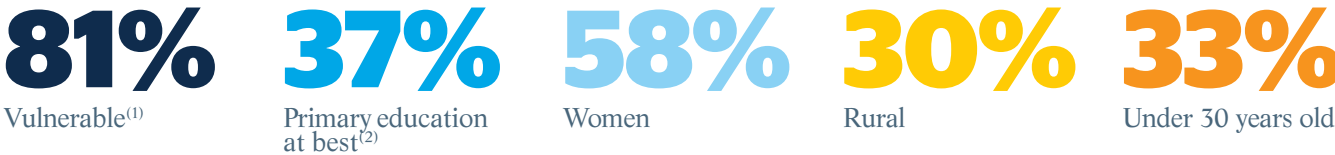
268,582

(1) According to the DANE poverty line (differentiating between rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three, are classified as *vulnerable*.
(2) Proportion of all credit clients who have completed primary education, at best.

Total credit clients as of Dec 31, 2016



New credit clients in 2016



Measuring the progress of microentrepreneurs

The provision of financial products and services to vulnerable people with productive activities is an efficient tool in the fight against poverty. BBVA Microfinance Foundation's vision was put into practice with Responsible Productive Finance, a methodology based on case-by-case knowledge of microentrepreneurs to support them in generating net incomes that can be sustained over time.

Microfinance has demonstrated that it is an effective tool for accessing and managing financial resources for low-income people. It encourages the development of microentrepreneurs' productive activities by giving them financing options, and thus helps to smooth financial flows through better income management, together with access to saving and insurance. This is indispensable for low-income families and communities to make progress. Drawing on its experience, BBVA Microfinance Foundation (BBVAMF) believes that it is very important to establish sustainable, long-term relationships with clients to reduce poverty, since this enables them to generate higher incomes and consolidate their wealth.

BBVA Microfinance Foundation's vision was put into practice with Responsible Productive Finance, a methodology based on providing a complete range of financial products and services to

microentrepreneurs, as well as training and advice to stimulate the development of their productive activities, mitigate risks and improve their families' standard of living sustainably. It means putting these economically vulnerable entrepreneurs at the center of microfinance activity, helping them to take decisions that optimize their resource management from an intertemporal perspective and that increase their likelihood of success in the long term.

BBVAMF supports and contributes to the development of these vulnerable entrepreneurs' skillset, so that they can make good progress, improving their current and future standard of living through their productive work and effort. All the merit of any success they may have in their endeavors, however small, is entirely the client's.

The ultimate goal is for these people's progress to be sustainable and as broad and wide-ranging as possible, having an

impact on the various dimensions of their economic and social development. But the aim is also that the development of this activity should be inclusive (in terms of reach), that it should have a positive impact on as many vulnerable people as possible (scale) and that this be achieved on a sustainable basis.

Within this framework, BBVAMF has made it a priority to develop an advanced system for measuring, analyzing and tracking the economic and social attributes of the people it serves and in 2012 created the Social Impact Assessment unit, in order to measure to what degree it was fulfilling its mission, and to drive a framework for social performance management that would become a benchmark in the sector.

BBVAMF currently has a system of quantitative and qualitative metrics that are designed to systematically and regularly analyze the changes clients are undergoing

The detailed and repeated measurement of microentrepreneurs' progress is an effective way of ensuring compliance with BBVAMF's mission and of enabling effective action.

in terms of their business development and social conditions throughout their relationship with the six institutions that make up the BBVA Microfinance Foundation Group ("BBVAMF Group" or "the Group").

The concept of social performance management is still relatively new in the microfinance sector; although a number of initiatives exist that seek to find an overall vision and a shared framework to integrate



it across regions and institutions. BBVAMF was a pioneer in this field and has defined a specialized, proprietary and practical model, based on measuring who its clients are and how they behave, what their businesses are like and how they progress over time in economic and social terms. These elements are covered in this chapter under the following three sections:

- **Committed to serving low-income clients**
Introduction to the approach used in BBVAMF to segment clients by their economic vulnerability and verification that clients served by the institutions are low-income entrepreneurs.
- **Observing microentrepreneurs' progress**
Close analysis of progress made by clients in their productive activities, giving the specific characteristics of each sector.
- **Staying with clients as they grow**
Arguments supporting the importance of nurturing long-term relationships with clients to further their development and generate more impact from the point of view of fulfilling the mission, and description of the principal products available to them.

The outcomes suggest that there is a positive relation between access to microfinance products and services offered by BBVA Microfinance Group institutions, and the progress made by clients in the long term. BBVAMF does not attribute the cause of these changes to itself, given that they are the result of a series of multiple factors; however, it does consider that measuring them in a detailed and systematic way is the most effective means of ensuring compliance with the mission and converting it into an actionable purpose.

1. Committed to serving low-income clients

BBVAMF's culture is focused on serving vulnerable clients and on measuring and monitoring their progress over the long term. To this end, clients are segmented by their *economic vulnerability*, comparing the *per capita* net incomes from their productive activities (profit obtained from their businesses divided by the number of members in the family unit) with the official poverty and extreme poverty lines in their country at the time, and differentiating between urban and rural environments. In this way, four client segments have been defined: *extremely poor*, *poor*, *vulnerable* (when their *per capita* net income is less than three times their country's poverty line) and *others* (considered *non-vulnerable*). This is the main criterion used to classify clients throughout the report.

1.1 Keeping the focus on vulnerable clients using specific targets

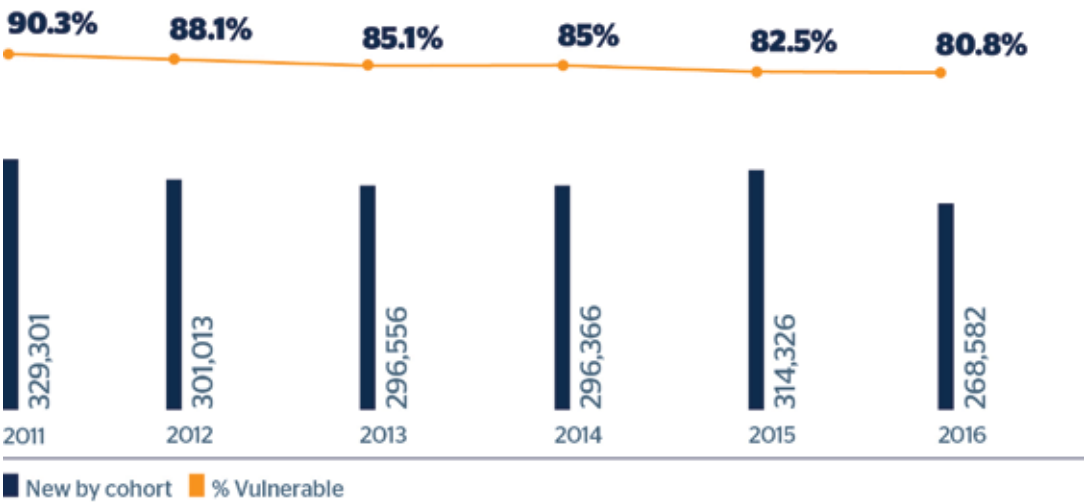
Staying close to the vulnerability profile of clients served by the Group's entities is critical in order to ensure alignment with the mission and a key element for managing the social performance of each institution.

Economic vulnerability

The trend of serving new vulnerable clients continued in 2016. With a social performance measurement system that is solid in terms of quality and volume of information, and with stable indicators, it has been possible to set targets for focusing attention on *vulnerable* clients as a guarantee of alignment with the mission.

To the end of December 2016, 77% of current clients were classified as *vulnerable*⁽¹⁾, and 80.8% of clients who joined the Group during 2016 were so at the outset⁽²⁾. To give an idea of the order of magnitude, among new *vulnerable* clients, each member of the family produced an average of USD 3.9 a day from the net income generated from their microenterprises. Of new clients, 35%

New credit clients (a)



Source: BBVAMFG institutions. BBVAMF calculations.

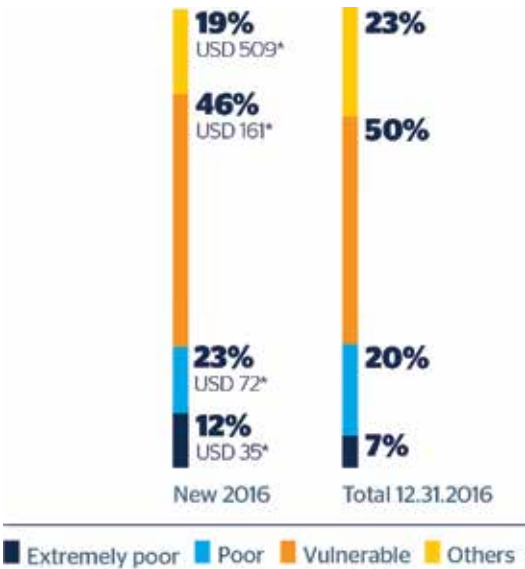
are classified as *poor* or *extremely poor* and live on an average of USD 1.9 a day.

Reduction of poverty segments

This system of classification and regular measurement makes it possible to record that the reduction in clients' *economic vulnerability* is directly related to the time they remain as clients in the Group. On average, clients in a given cohort who were initially classified as *poor* or *extremely poor* gradually generate bigger incomes over time, so their *per capita* net incomes break through the poverty lines and they are reclassified as *non-poor*. For example, among clients in the 2014 cohort who were still clients at the end of 2016, 45% were classified as *poor* or *extremely poor* at the outset of their banking relationship and as of the end of 2016 this same segment accounted for only 27%, a reduction of 40%.

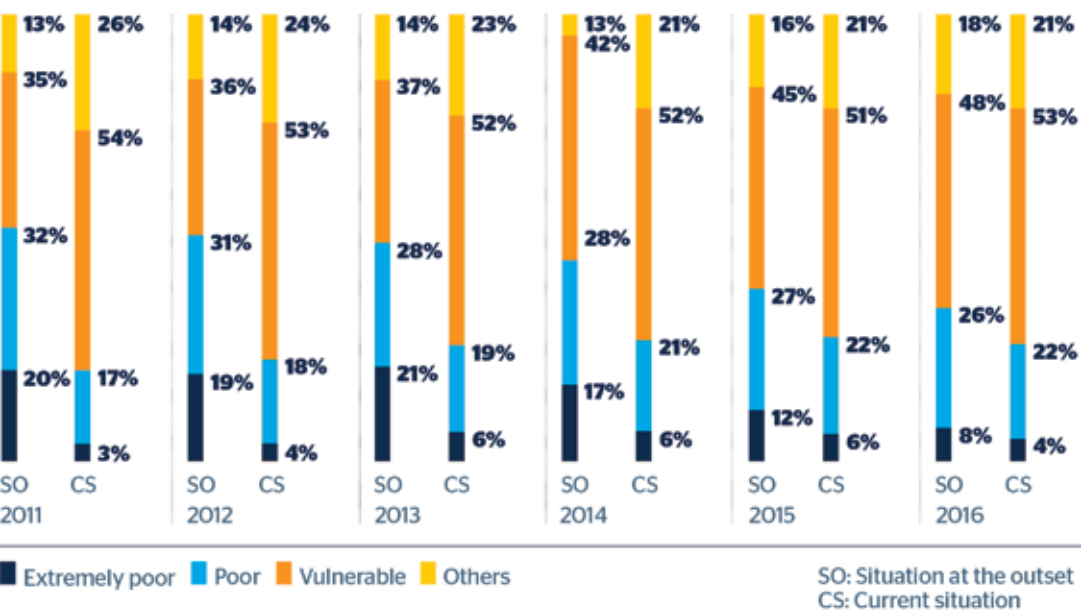
(a) New clients (without previous loans) signed up over the year.
(b) According to each country's official poverty lines (differentiating between rural and urban environments). Clients whose *per capita* net income (estimated as the business net income divided by the number of members in the household) is above the poverty line but below the threshold obtained by multiplying the poverty line by three are considered to be in the *vulnerable* segment.

Economic vulnerability (b)



* Monthly net income per capita.
Source: Each country's official body, BBVAMFG institutions, BBVAMF calculations.

Vulnerability segments, change (c)



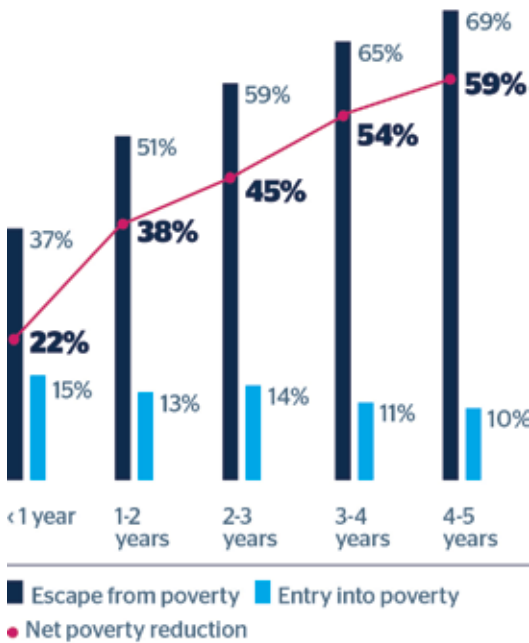
Source: BBVAMFG institutions. BBVAMF calculations.

Although there is also a set of clients whose net incomes fall and thus who may fall into, or back into, *poor* segments, this is a small proportion and a shrinking one. As a net effect the segment of clients classified as *poor* or *extremely poor* diminishes over time; on average this reduction is 22% after a year and 38% after two years with Group institutions (see graph d).

In absolute terms, in 2016 over 224,000 clients improved their *per capita* net incomes relative to their corresponding poverty lines (country and rural/urban environment), once these were updated by the official bodies or corrected for inflation⁽⁵⁾ and over 56,000 have escaped poverty (i.e. are not classified as *poor* or *extremely poor*).

Overall, the data show a positive correlation between clients continuing in the BBVAMF Group, and the increase in their net incomes over time. This reinforces

Reduction in poverty segment (d)



Source: BBVAMFG institutions. BBVAMF calculations.

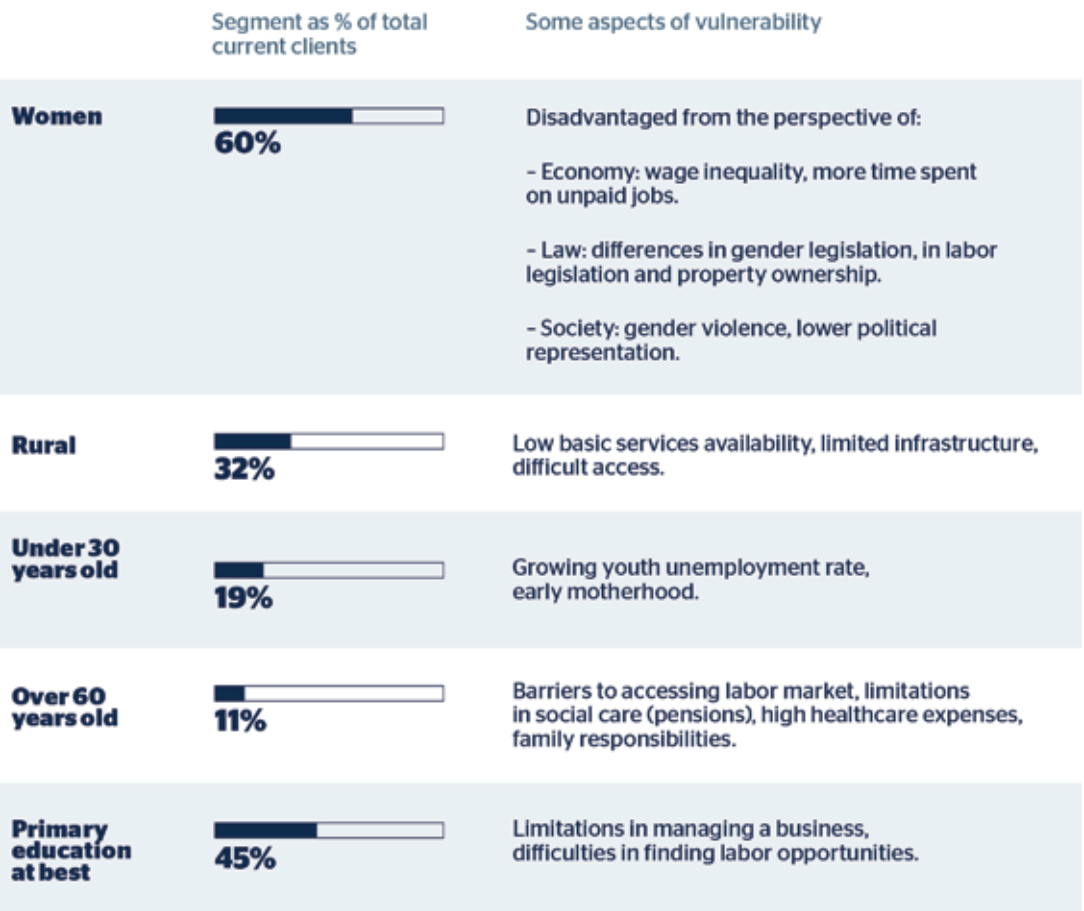
After two years, the client segment classified as *poor* at the outset shrinks by 38%.

the conviction that the financial channel plays an important role in improving clients' standards of living.

1.2 Looking beyond incomes: other vulnerable segments

As well as measuring and monitoring clients' *economic vulnerability*, other segments are tracked that, for their specifics on gender, environment in which people live, educational level and age, are considered of interest from the perspective of social performance measurement (see figure e).

Profiles of non-economic vulnerability (e)



(e) Clients current as of 12.31.2016.

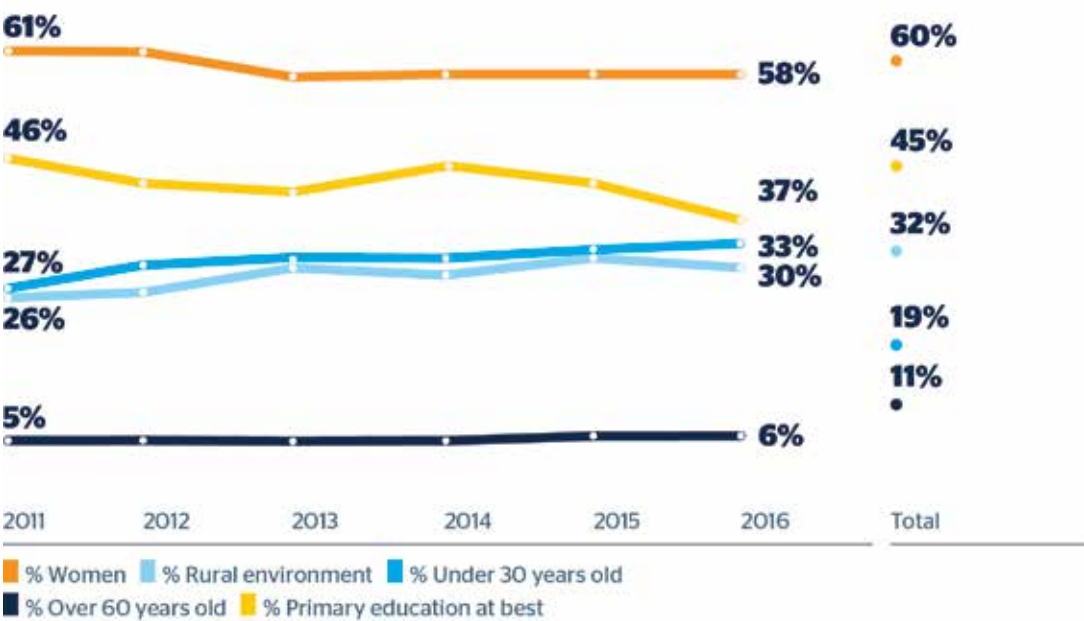


In recent years, the proportion that each of these segments represents in terms of client enrollment has remained stable, except in the segment of clients with little formal education (primary at best) which has fallen a little since 2014 (*see graph f*).

Turning to gender, 60% of all credit clients at the end of 2016 were women and 32% of these were classified as *poor*,

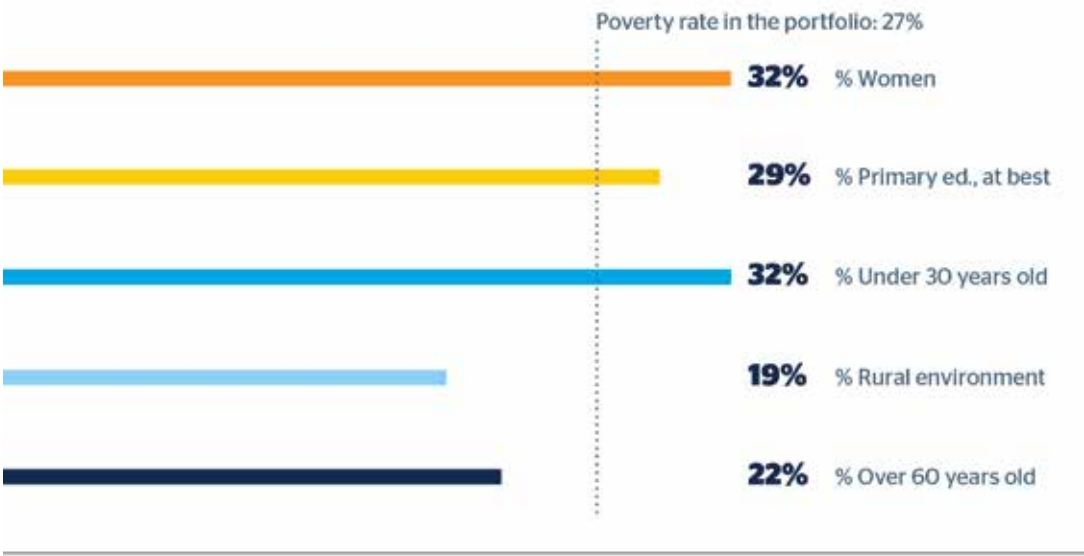
a proportion higher than 27%, which is the average for the entire client portfolio, as is the case with the under-thirties segment (*see graph g*). The *Women's empowerment* chapter, later on in this report, presents a vision of the situation of women in Latin America, conducting an in-depth analysis of the profiles and progress of female clients of BBVAMF Group institutions.

Profile of new & existing clients (f)



Source: BBVAMFG institutions. BBVAMF calculations.

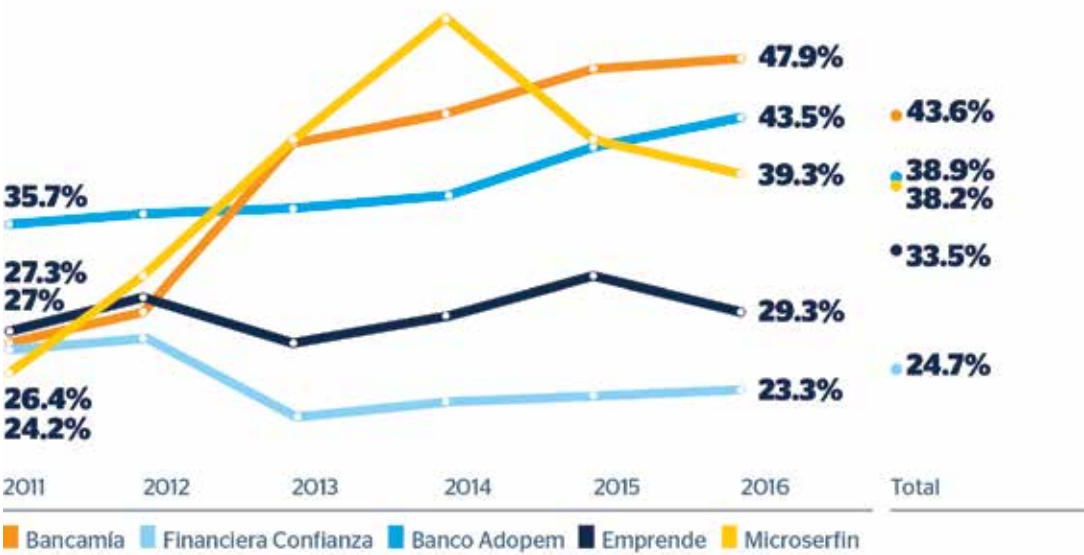
Poverty by segment (g)



Source: BBVAMFG institutions. BBVAMF calculations.

(f) New client (no previous credits) acquisitions over the year. Total represents the entire portfolio current as of 12.31.2016.
(g) Clients current as of 12.31.2016.

New and current credit clients in the rural environment (h)



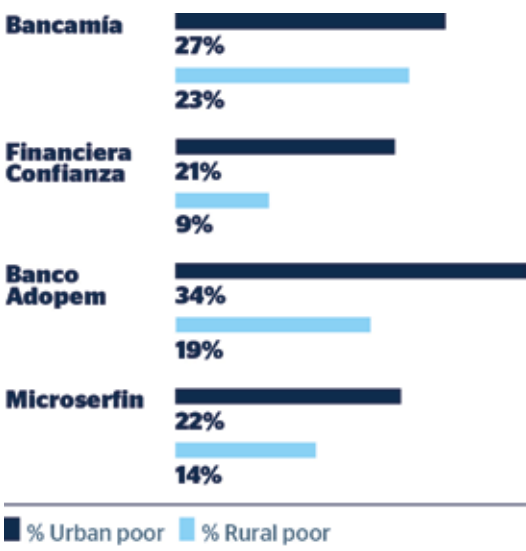
Source: BBVAMFG institutions. BBVAMF calculations.

On the question of environment, the poverty rate is still considerably higher in rural areas in relative terms. According to the latest CEPAL figures (2015), in Latin America and the Caribbean 23.8% of the urban population was living in households in a situation of poverty, and this proportion rose to 46.2% in the rural environment^(h). However, when the relative size of the client segment classified as *poor* in the Group was analyzed, it was seen to be larger in urban than in rural areas, (see graph i), which is characteristic of the microfinance sector.

In terms of clients' educational levels, the environment in which they live is the key factor. Rural clients have significantly lower levels of education than those residing in towns: 64% of *extremely poor* and *poor* clients in the rural environment have primary education at best, whereas in urban surroundings this ratio is 42%.

(h) New client (no previous credits) acquisitions over the year. Total represents the entire portfolio current as of 12.31.2016. Emprende does not have an individual indicator for client environments, so it is not possible to establish the poverty of clients in the rural environment. Fondo Esperanza has no rural clients.
(i) Clients current as of 12.31.2016.

Poverty by environment (i)



Source: BBVAMFG institutions. BBVAMF calculations.

These proportions are lower for new *extremely poor* and *poor* clients served in 2016, who have slightly higher education levels (59% and 36% in rural and urban environments, respectively). Meanwhile, in the case of new *non-poor* clients the difference is greater: the percentage of clients with primary education at best is double in the rural environment (52% vs. 26%).

The *Special projects* sections in the country reports later on in the book describe some of the local programs specifically designed to serve some of these segments, such as Financiera Confianza's *Palabra de Mujer* [Woman's Word] product, Bancamía and Banco Adopem's agent banking, that help to reach the rural or *poor* populations more effectively.

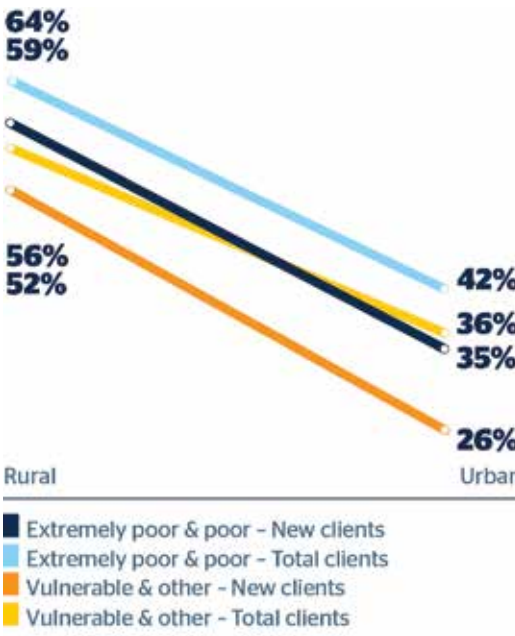
1.3 Making progress by integrating management into daily activities

Developing efficient and timely management of social performance is an effective route for guaranteeing mission alignment. Social impact and sustainability must be twin priorities and should form part of Group institutions' strategies. To do this, a shared language has to be created, based on objective data, which makes continuous tracking possible and which supports decision-making.

BBVAMF has gone a long way in this direction, succeeding in defining measurable targets on social performance indicators that are aligned with the mission, in coordination with the social impact assessment teams in the Group's institutions. In turn, the quarterly review by each institution's boards of directors and management committees of social performance reports has had the effect of creating a fluid, regular communication channel that strengthens the social performance perspective and also serves as an active management tool.

Integrating performance indicators into management has highlighted and strengthened the commitment to serve vulnerable clients and remain aligned with the mission.

Clients with primary education at best, by environment (j)



Source: BBVAMFG institutions except for Fondo Esperanza and Emprende. BBVAMF calculations.

(j) New clients represents clients joining during 2016 (no previous credits). Total represents the number of clients current as of 12.31.2016.



2. Signaling microentrepreneurs' development

Microentrepreneurs' economic and social development is linked to the intrinsic properties of the value chain in which they operate, subject to geography, sector and levels of *economic vulnerability*. The knowledge, skillset and investment required for a mobile store (*retail trade*) are different to those needed to breed cattle (*agriculture*). The following analysis explores in depth some of each sector's specific characteristics and how these relate to client development.

2.1 Digging deeper into sector specificities

In order to make it easier to analyze different *vulnerability* segments, throughout this section, clients have been grouped together as *poor* (clients classified as *extremely poor* and *poor*) and *non-poor* (clients classified as *vulnerable* and *others*).

Client profiles and margins in each sector

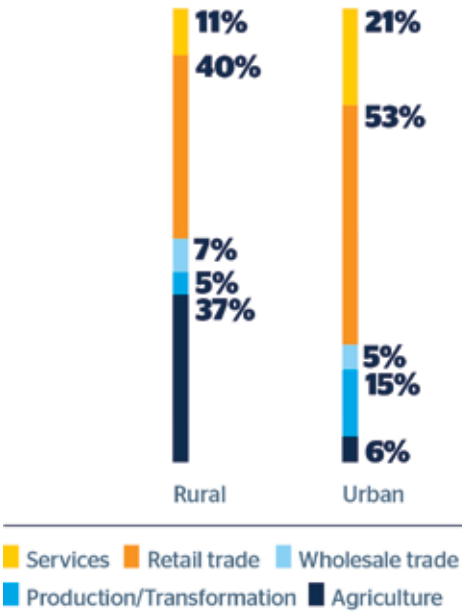
The distribution of microentrepreneurs by activity sector has not changed in the Group's institutions in the last few years; to the end of 2016, the breakdown was as follows:

- 55% of clients work in *trade* and manage businesses that offer tangible products such as grocery stores, clothes shops, retail sale of food and beverages, convenience stores, etc., for which high educational levels or technical skills are not necessarily required. Furthermore, *retail trade* (49% of total clients) is the sector that contains the highest volume of clients classified as *poor* (31% vs. 27% of all clients).
- Most clients working in *agriculture* are men (66%), and farmers are the highest percentage of clients with primary education at best (62% vs. 45% of all clients). In rural areas, *agriculture* (*coffee plantations, cereal*

crops and cattle-breeding) is the second most common economic activity among clients, and 86% of microentrepreneurs in *agriculture* live in rural areas.

- In the *service* sector, 67% of microentrepreneurs operate in urban areas and make up the lowest percentage of clients with primary education at best (34%), which suggests that training and skills development play a more important role here than in the other sectors. Indeed, the product offered is the direct result of the microentrepreneur's knowledge. For example, in a hairdresser's, the differential factor for good performance is to be a good hairdresser, for which skills development is the critical factor.

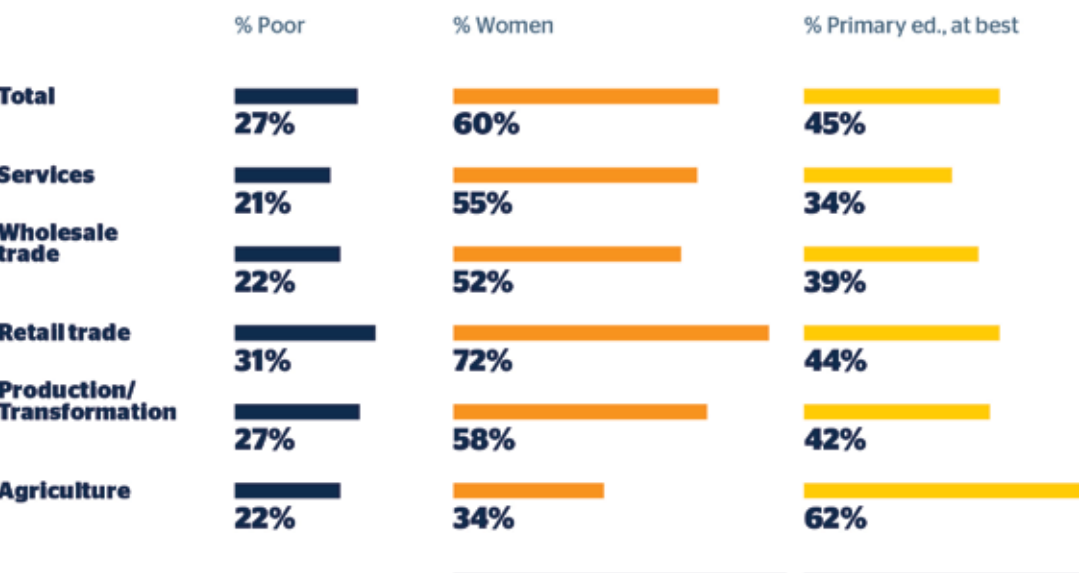
Economic activity by environment (k)



Source: BBVAMFG institutions. BBVAMF calculations.

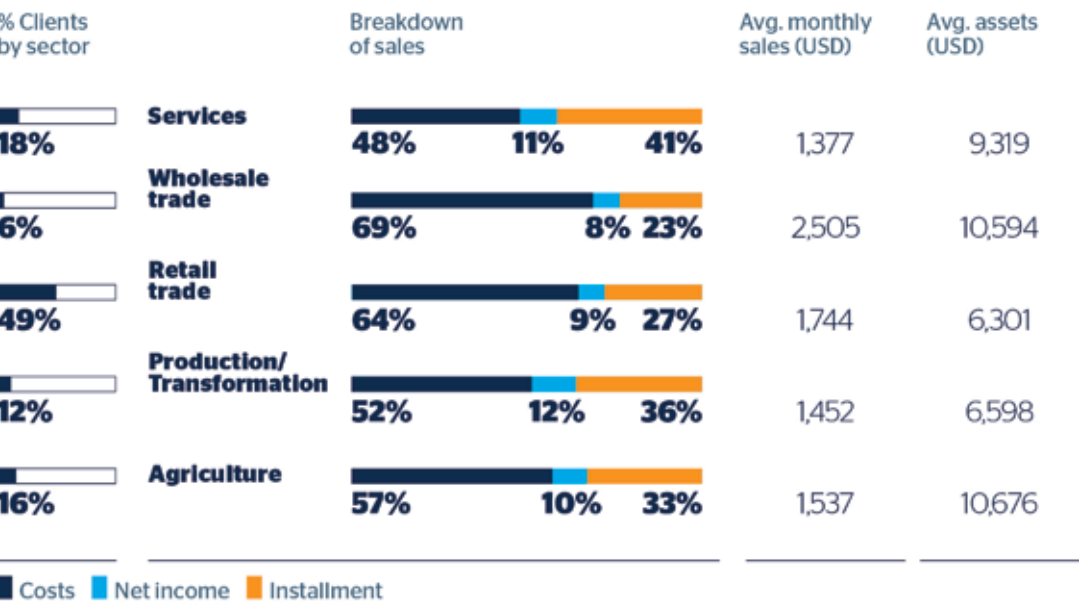
(k) Clients current as of 12.31.2016.

Clients classified as poor, by economic activity and profile (l)



Source: BBVAMFG institutions. BBVAMF calculations.

Average margins, sales and assets, by sector (m)



Source: BBVAMFG institutions. BBVAMF calculations.

(l & m) Clients current as of 12.31.2016.



On average clients in the *services* sector obtain higher margins, lower monthly sales and relatively high assets. On the other hand, those working in *trade* have lower margins, and in particular those involved in *retail trade* have the lowest asset levels.

A comparison of margins by *vulnerability* segments between clients classified as *poor* vs. the *non-poor*⁽⁵⁾, does not reveal significant differences in *trade*, although this is not the case in *production/transformation*, *services* and *agriculture*; especially in these two final sectors, where the *non-poor* get higher margins from their businesses, given that with economies of scale their average fixed costs are lower.

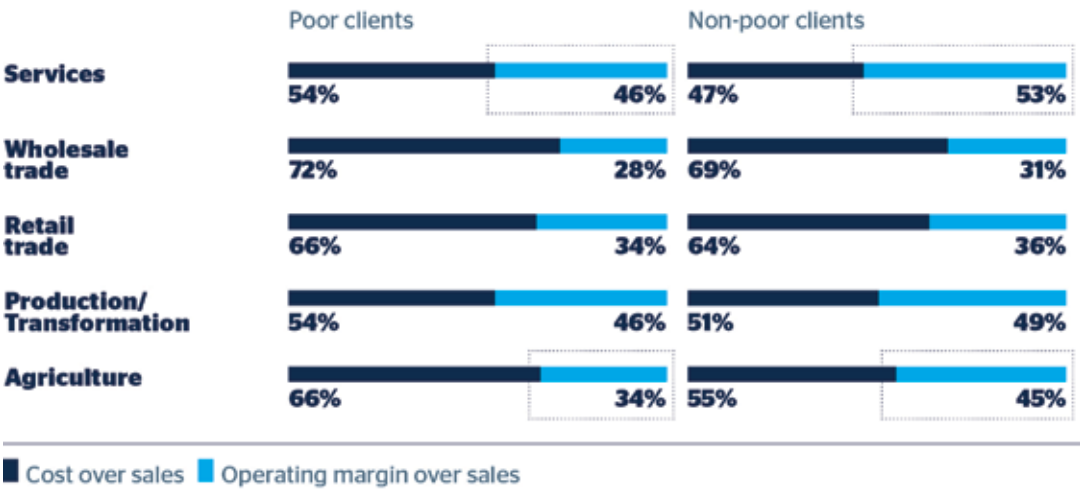
The greater weight of clients who work in *trade* within the portfolio as a whole, despite lower margins, is associated with their risk aversion. They prefer to develop their activities in sectors which offer them flexibility, so that they can change and operate with low fixed costs.

Sustained growth of microentrepreneurs

Microentrepreneurs' businesses report sustained growth over time in terms of sales, net incomes and assets in the case of all the cohorts analyzed. They post a compound annual growth rate (CAGR_{T-16}) of 26% in assets and 18% in sales and net incomes. On average businesses have monthly sales of USD 1,702, net incomes of USD 564 and assets of USD 7,622⁽⁶⁾. There is a trend to accumulate/reinvest assets, since these grow at a faster rate than sales and net incomes. These results show the generation of wealth and highlight the positive relation between the period during which they have access to financial services and their progress.

The growth of clients' businesses depends, on the one hand, on the sector in which they operate and, on the other, on the size or degree of their *vulnerability* at the outset. In terms of the size of level of *vulnerability*, both in assets, sales and net incomes, clients classified as *poor* show faster growth rates than the *non-poor*, although more volatile ones.

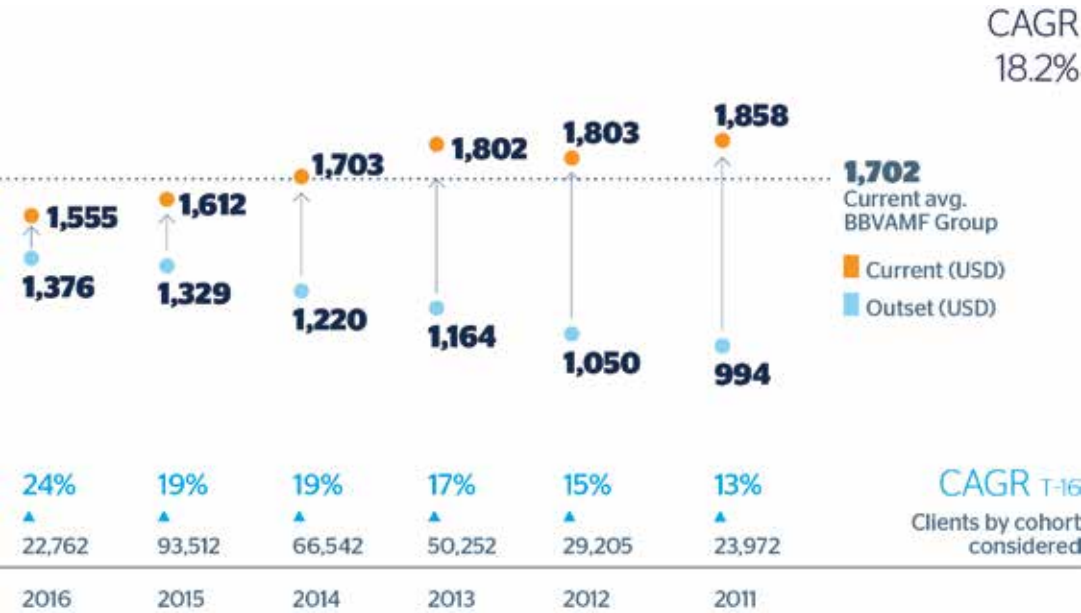
Margins by sector for poor and non-poor clients (n)



Source: BBVAMFG institutions. BBVAMF calculations.

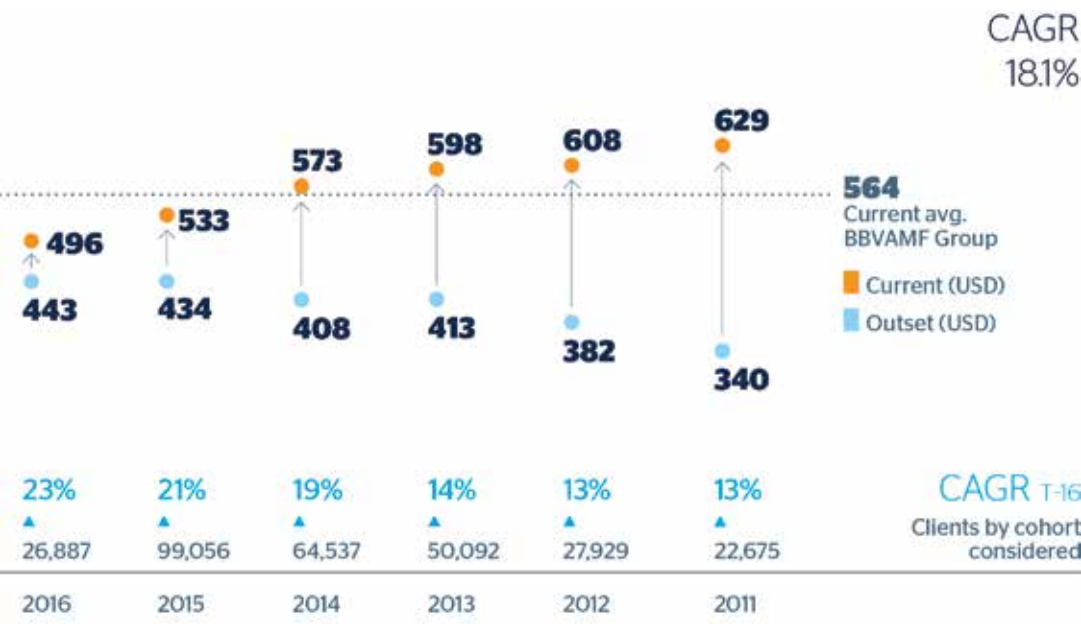
(n) Clients current as of 12.31.2016. In this case *poor* clients are those classified as *extremely poor* and *poor*; and *non-poor* are clients classified as *vulnerable* and *others*. This definition will be used throughout this section.

Average monthly business sales (by cohort) USD (o)



Source: BBVAMFG institutions. BBVAMF calculations.

Average monthly business net incomes (by cohort) USD (p)



Source: BBVAMFG institutions. BBVAMF calculations.

(o & p) Data on clients who were current as of 12.31.16, and who have made any disbursements in the previous 12 months (which restricts the sample to approximately 290,000 clients in these diagrams). Situation at the outset (data in their cohort year) and current situation (latest update) to 12.31.2016. CAGR: Compound Annual Growth Rate.

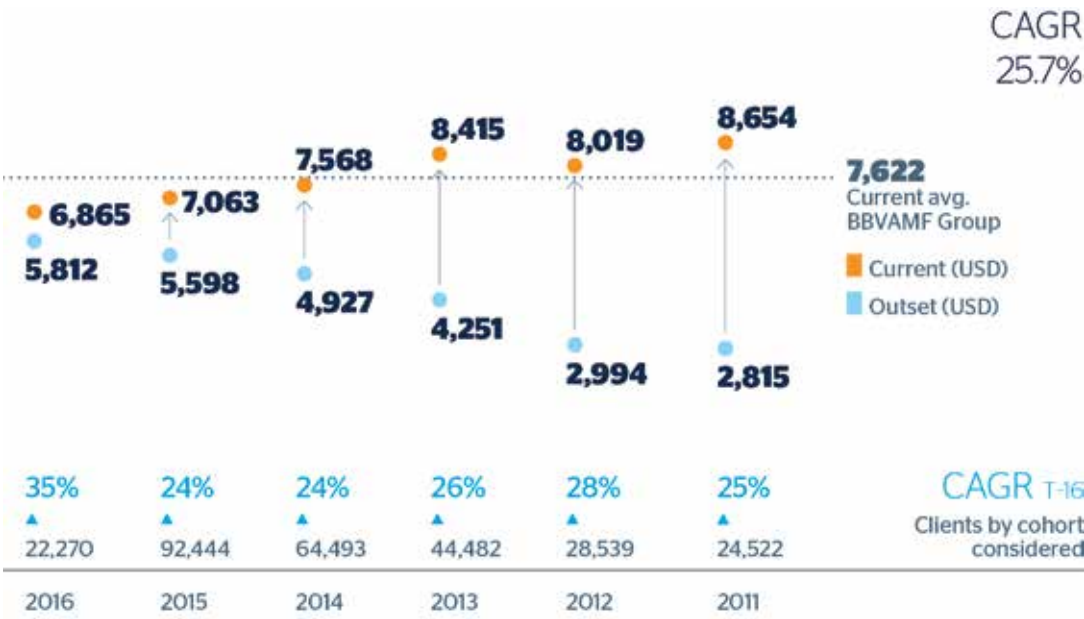
For example, in *services*, sales of clients classified as *poor* grow annually by 34% on average, whereas the *non-poor* grow by 15%; in the case of net incomes, by 40% compared to 9%, respectively (see graphs r and s).

Looking at assets, these differences in the growth rates between the *poor* and *non-poor* can also be found here, although the distances are shorter. *Non-poor* clients post higher growth rates in assets than in their sales and net incomes, and closer to those reported by *poor* clients for their assets (comparatively), even when starting at much higher asset levels. In terms of asset value, in *trade* and *production/transformation* the asset value for the *poor* is lower than the average, and growth rates are

higher. Note that a *poor* client in *agriculture* has an average asset value that is close to the average value for a client classified as *non-poor* in the *trade* sector. This sector (*agriculture*) requires a comparatively high investment (see graphs t and u).

The growth of clients' businesses depends, on the one hand, on the sector in which they operate and, on the other, on the size or degree of their *vulnerability* at the outset.

Average business assets (by cohort) USD (q)



(q) Data on clients who were current as of 12.31.16, and who have made any disbursements in the previous 12 months. Situation at the outset (data in their cohort year) and current situation (latest update) to 12.31.2016. CAGR: Compound Annual Growth Rate.

Source: BBVAMFG institutions. BBVAMF calculations.

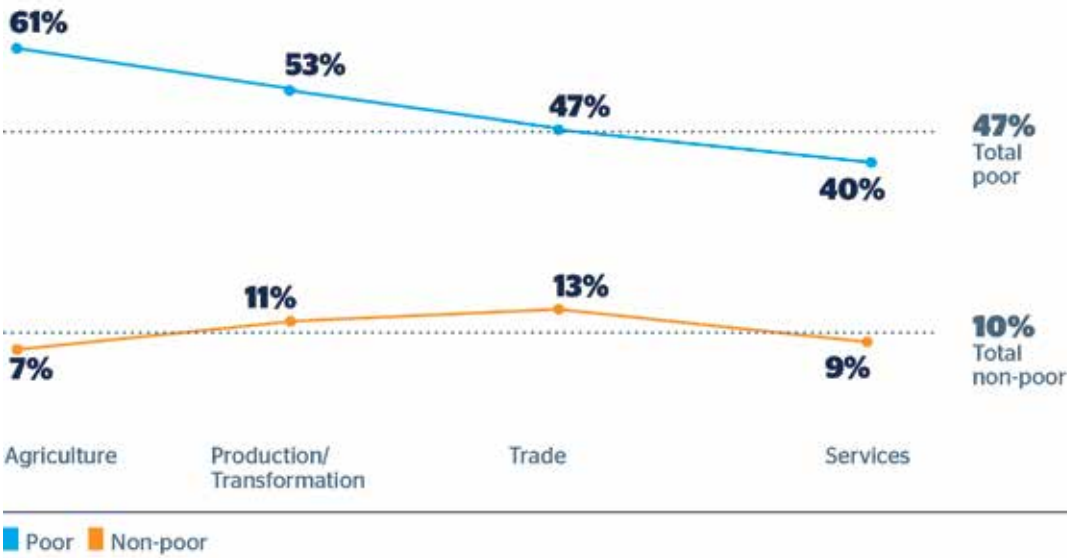


Average annual growth rates of business monthly sales
(2011-2016 cohorts) (r)



Source: BBVAMFG institutions. BBVAMF calculations.

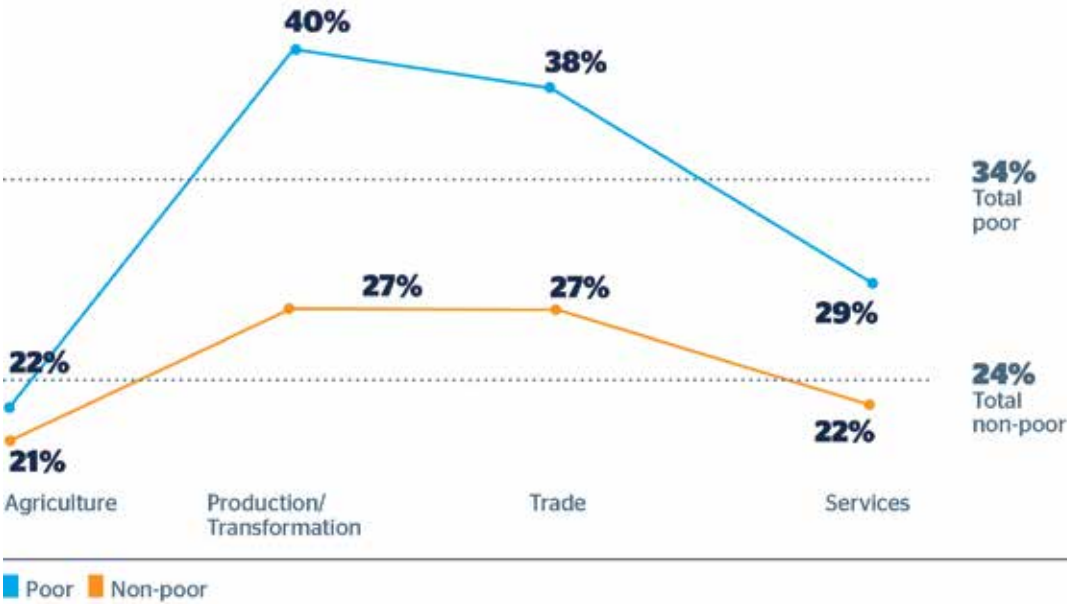
Average annual growth rates of business monthly net incomes
(2011-2016 cohorts) (s)



Source: BBVAMFG institutions. BBVAMF calculations.

(r & s) Growth rates are annual. Compound annual growth rates (CAGR) from the 2011-2016 cohorts were used and weighted by the number of clients in every cohort, for each sector.

Average asset growth rates by sector (2011-2016 cohorts) (t)



Source: BBVAMFG institutions. BBVAMF calculations.

Current average assets by sector (USD, 2011-2016 cohorts) (u)



Source: BBVAMFG institutions. BBVAMF calculations.

(t) Growth rates are annual. Compound annual growth rates (CAGR) from the 2011-2016 cohorts were used and weighted by the number of clients in every cohort, for each sector.
(u) Shows the current average value, i.e. the latest as of 12.31.2016 (bearing in mind that it has been updated in the previous 12 months) for each sector, for the 2011-2016 cohorts, weighted by the number of clients in each cohort.

Investment levels, margins and growth rates, by sector (v)

Margins	Margins are higher in <i>services</i> and lower for <i>trade</i> . Margins improve in the less <i>vulnerable</i> segments, particularly in <i>agriculture</i> and <i>services</i> , suggesting an improvement in management efficiency in these businesses.
Investment in assets	High level of average assets in <i>services</i> and especially in <i>agriculture</i> , reflection of the need for minimums of scale in these activities.
Growth rates	<i>Poor</i> clients show high growth rates, higher than those of <i>non-poor</i> clients in sales, net incomes and assets, although in assets the disparity is smaller. Clients in the <i>agriculture</i> and <i>services</i> sectors have comparatively low growth rates, in particular for assets. There is greater volatility (by cohort) in the growth rates of <i>poor</i> clients compared to <i>non-poor</i> clients, whatever the sector, although particularly in <i>agriculture</i> .

The performance of the different sectors by cohorts is broken down in table (v).

These factors, intrinsic to the performance of each sector, for different *vulnerability* levels, account for the concentration of BBVAMF Group clients in the *trade* and *services* sectors.

Financial structure of client businesses

BBVAMF Group clients’ assets continue to be for the most part their own capital: on average 84% of their assets is funded by equity. Liabilities account for no more than 10% of *extremely poor* clients’ assets and 19% of *non-vulnerable* clients’ assets (*others*). By sectors, *agriculture* and *trade* report

Clients in the *services* sector need to access bigger loans to make the investments they want, and a greater diversity of financial products.

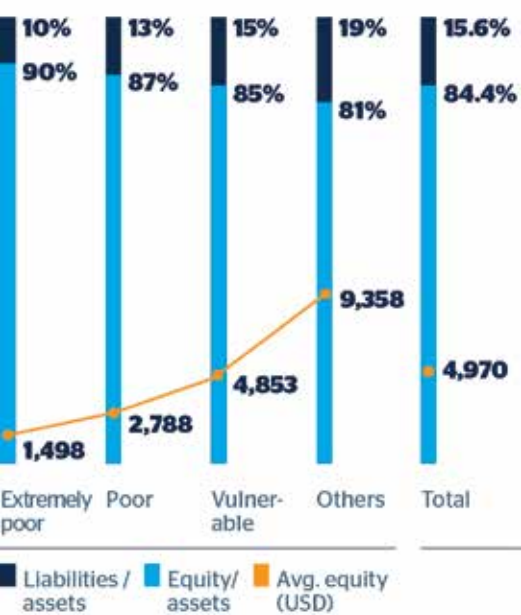
the smallest indebtedness ratio. In *agriculture* this is logical because of the business profile: lower margins and seasonal variations that explain volatile, less certain incomes. *Trade* is a segment requiring relatively small investments and less business knowhow. Essentially, for the latter sector, it depends on the capacity of daily transactions and these vary, so the conditions for taking out a loan are more unstable; this is reflected in the fact that this segment has the highest number, in relative terms, of *poor* clients.

Understanding the needs of each sector better

In order to offer microfinance services that are better adapted to clients’ needs, it is a useful exercise to identify some general trends so as to understand more fully clients’ characteristics and behavior in their activity sectors, in line with the analyses presented above.

Differential characteristics have been identified for the three sectors in which most of our clients operate, as shown in table (y).

Financial structure and equity, by vulnerability (w)



Source: BBVAMFG institutions. BBVAMF calculations.

Financial structure and equity, by sector (x)



Source: BBVAMFG institutions. BBVAMF calculations.

Sector specificities (y)

Dimensions	Agriculture	Retail trade	Services
Dependence on value chain	Clients positioned in different parts of the value chain, generally in production (not in manufacturing / product processing).	At the end of the value chain, with little control over the same.	No value chain. Highly dependent on micro-entrepreneur's skills and the business concept defined.
Investment	Average asset: USD 10,676; comparatively high investment.	Average asset: USD 6,301; comparatively low investment.	Average asset: USD 9,319; comparatively high investment.
Scalability	Technology and processes required to be scalable.	Volume sales required to be scalable.	Volume sales required to be scalable.
Skills needed	Requires technical know-how.	No managerial knowledge necessarily required.	Requires a tested skill.

(w & x) Assets and liabilities calculated at the time of assessing the credit risk (i.e. the credit is not included). Clients current as of 12.31.16.

Agriculture requires a connection, preferably one that is stable and regular, with the various players involved in the value chain (intermediaries, other producers, financiers, etc.), and a high degree of technical assistance. Although clients appear to be less vulnerable because of the aggregate sales and assets shown (which are higher) they are still vulnerable because of other key reasons: (a) their incomes from production are very volatile; (b) the investments required can be significant and have to be made at specific moments during the year; (c) their risks are multi-factor and may be difficult to estimate and mitigate, and (d) since they are mostly in remote locations and it is more difficult to reach them, it is difficult to access the most vulnerable farmers. The Group's microfinance institutions are aware of the needs of this sector and for this reason are using a

The *trade* sector concentrates most clients, because it has lower barriers to entry and it is feasible to operate with low fixed costs.

number of different tactics to adapt their service offering. For example, specialized assessment systems continue to be developed; loans and payment methods adapted to real production/delivery times are being offered; and insurance products to protect clients from adverse events are being designed.

Microentrepreneurs in other, more developed, sectors, such as *services* (with a smaller proportion of clients classified as *poor*, stable growth, high margins and high average asset levels) can be more sophisticated in financial terms. Due to the need for a greater investment in assets, they need to access not only higher levels of credit to make the investments they want, but also a more extensive liability product portfolio in order to manage their cash flows and save successfully. There is a gap in the access to financing that can be filled.

Turning to *trade*, most clients work here; it is an easier type of business to start up for vulnerable clients (apart from subsistence farming identified in *agriculture*), with a high percentage of clients classified as *poor* and *extremely poor* (31%) in *retail trade*. Particularly in the latter *trade* sector, clients enjoy high rates of growth, but low margins and asset levels. There may be good reasons

why many microentrepreneurs do not take the decision to grow their businesses, preferring instead to diversify their income-generating activities between several microenterprises, rather than creating a single business that would be more vulnerable to factors out of the microentrepreneur's control; or to invest their surpluses in feeding and educating their children, giving priority to their families' human capital rather than the scalability of their businesses. Perhaps for these reasons, the performance of financial products and services in this sector depends more on the type of environment in which they are operating than the needs of the businesses *per se*.

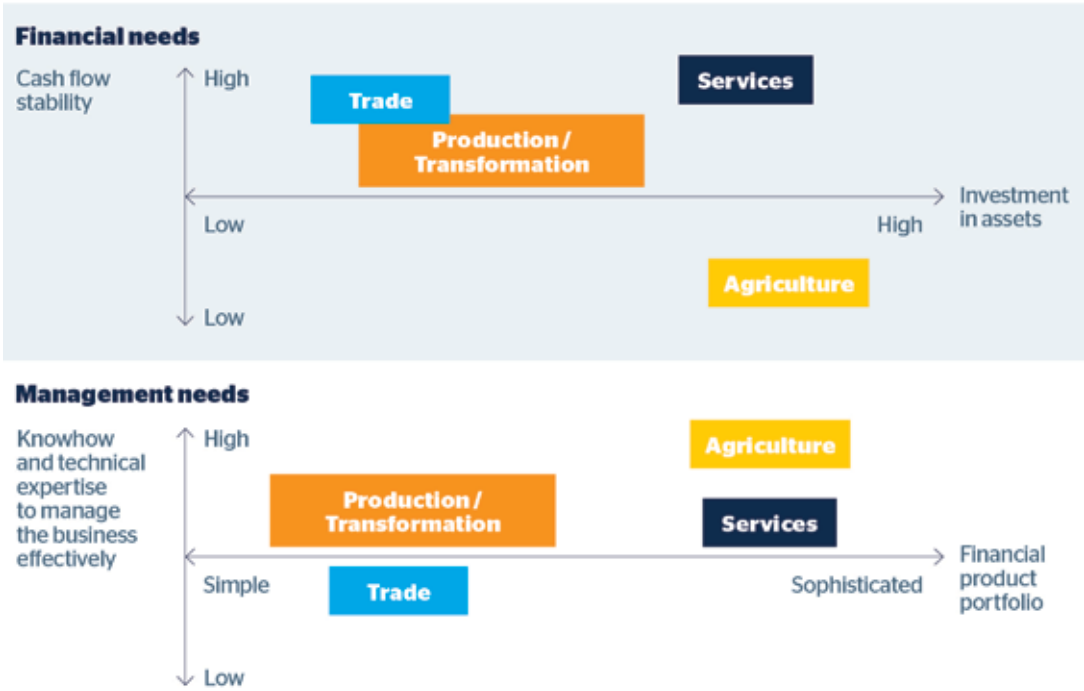
One of the features with the greatest influence on the behavior of entrepreneurs who are targeted by the BBVAMF Group is the instability of their income and their limited room for maneuver in the event of external shocks.

This leads to their preference for the short term over long term, and explains why they have a lower threshold of tolerance for the interim period before some operations come to maturity, leading them to operate in short-cycle sectors such as *trade*. Intuitively they manage higher margins –risk-adjusted – which means that they are over-represented in this sector.

There is also a clear correlation between the stage in the economic cycle and the degree of portfolio diversification. In periods of lower growth or recession, the demand for loans destined for *trade* increases relative to those for other sectors, compared to the concentration of such loans in other stages of the economic cycle.

The analysis carried out in BBVAMF has identified differential characteristics in each sector, in terms of financial needs and management requirements, illustrated in graph (z), below.

Differing financial and management needs, by sector (z)





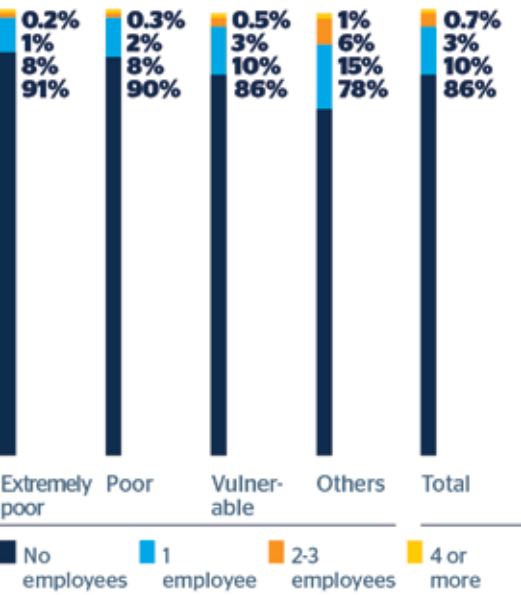
2.2 Impact on jobs

Self-employment is the most frequent form of employment among BBVAMF Group clients; 86% do not have any other employees in their microenterprise. Nevertheless, note how the capacity to generate employment rises as *vulnerability* levels fall: 10% of clients classified as *poor* have at least one employee, and in the case of *non-vulnerable* clients, this percentage rises to 22%. 901,624 credit clients generate jobs for another 182,790 people⁽⁷⁾, and an analysis of the different cohorts reveals that on average 7% of clients create at least one job position after two years with their institution.

2.3 Going beyond financial services

An analysis of the impact achieved beyond access to financial services, one that looks at the progress of their microenterprises, reveals that the longer the client's relationship with the institutions in the BBVAMF Group, the greater their interest in extending this relationship and in improving their standard of living in general. After two years, on average, 8.5% of clients have improved their housing conditions and nearly 5% have improved their educational attainments after four years. Improvements in housing conditions and education occur at a moderate rate, but the data show long-term stability.

Source of employment (aa)



(aa) Number of clients' business employees current as of 12.31.2016.
(bb) Increase in the number of business employees from the situation at the outset, for clients current as of 12.31.2016 from each cohort (2011 to 2015). Cumulative graph.

Job creation (by cohort) (bb)



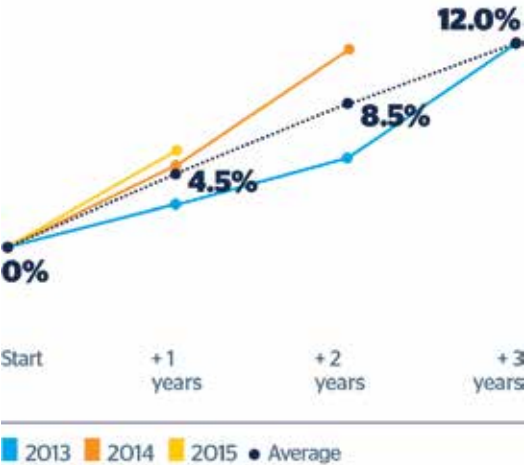
Source: Information available for all institutions apart from Bancamía. BBVAMF calculations.

Improvement in education level
(by cohort) (cc)



Source: Information available for Bancamía, Banco Adopem and Fondo Esperanza. BBVAMF calculations.

Improvement in housing
(by cohort) (dd)



Source: Information available for all institutions apart from Emprende. BBVAMF calculations.

3. Being part of the client journey

Access to responsible loans, combined with microentrepreneurs' hard work and skills, generate the right conditions for developing productive activities and contribute to reducing inequalities.

3.1 Reducing the economic gap

The data show that when clients renew loans with the Group's institutions, the economic gap between the various poverty segments shrinks. The performance of *per capita* net income relative to the poverty line⁽⁸⁾ shows how much clients' average *per capita* net income grows during their relationship with the institutions in real terms, depending on the credit cycle they have reached (first loan and successive ones)⁽⁹⁾. On average, clients who are in a situation of *extreme poverty* at the outset take three cycles to get over the poverty line, and

Average *per capita* net incomes of *extremely poor* clients make it over the poverty line after two or three credit cycles, and those of *poor* clients, after one.

those in *poverty* need just one. For clients under the poverty line, the first cycle is when they grow fastest, and then the speed tends to slacken. There is also a gradual growth in the *per capita* net income of clients who are *vulnerable* when they join, as they renew credits with Group institutions; in the sixth credit cycle they are nearly over the *vulnerability* line (their net incomes are reported at 2.9, so nearly three times the poverty line).

The growth in *per capita* net incomes relative to the poverty line is greater in the case of *poor* clients than those classified as *vulnerable*, and this pattern is true in all the institutions. In general, as clients consolidate their relationship with the entity, they achieve improvements in their *per capita* net incomes that enable them to rise above the poverty line.

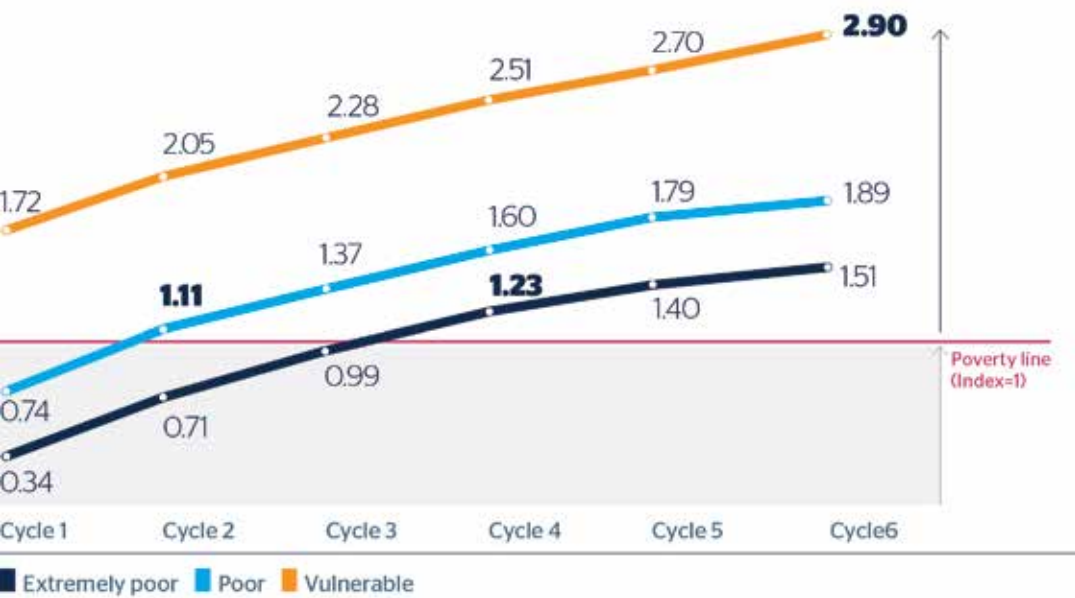
3.2 Keeping the focus on creating long term relationships

One of the main characteristics of the microfinance sector is the high dropout rate in this segment of clients, added to the fact that the rump of clients who leave the institution do not do so to go to another, but just exit the system. The evidence indicates that poverty causes negative frames of mind

that can lead to short-term attitudes when taking decisions and risk aversion, making formal commitments appear unmanageable. These states of mind are probably a limit on entrepreneurship, more efficient and effective behavior patterns, self-control and long-term planning. In many cases the stress of the relationship and the obligation taken on with a formal institution makes people prefer options that are more costly but informal and which, supposedly, give them greater flexibility.

These responses imply, on the one hand, that the industry operates at high costs to attract new clients, which impacts on the average size of loans and on the segment of clients served; they also stifle the positive impacts, which tend to grow the longer clients stay with the institutions.

Per capita net income relative to the poverty line (ee)



Source: BBVAMFG institutions. BBVAMF calculations.

(cc) Proportion of clients current as of 12.31.2016 from each cohort (2011 to 2015), whose situation improves from not having any schooling, to having primary, secondary, technical or tertiary education. (dd) Proportion of clients current as of 12.31.2016 from each cohort (2013 to 2015), whose situation improves to having their own home, or that has made sanitation improvements (bathroom, septic tank) to their home, upgraded its construction material, their fuel system or increased the number of rooms from the number first registered.

(ee) In the case of the sample of clients served between 2011 and 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of 1 when it is the same as the poverty line. It includes all institutions' individual credit portfolios. It therefore does not include Fondo Esperanza Banca Comunal clients, Banco Adopem Grupo Solidario clients, nor Financiera Confianza's Palabra de Mujer and Inclusión grupal cuotas clients.

So it is that, if the impact of the BBVAMF Group's activity is to expand, the client retention index is an extremely important indicator. After a year, on average 66% of clients continue their credit relationship with Group institutions and after two years a little less than half remain with them^(ff).

Although the fact that there are no significant variations between client cohorts is the reflection of a structural trend in the sector, it is still important to work on improving client retention rates, particularly during the initial phases of their relationship. With this in mind, the Group's institutions are implementing specific programs to build up longer term relationships.

In order to broaden the impact of BBVAMFG's activity, relationships with clients need to be long term.

As an additional measurement to that of client permanence after certain time frames, recurrence is a measurement of the willingness of clients, in different cycles, to renew their loans, whatever the term of these loans. This indicator shows that on average 53% of clients take out a second credit, and 31% sign up for a third. The average period between taking out successive credits (period between cycles) is falling.

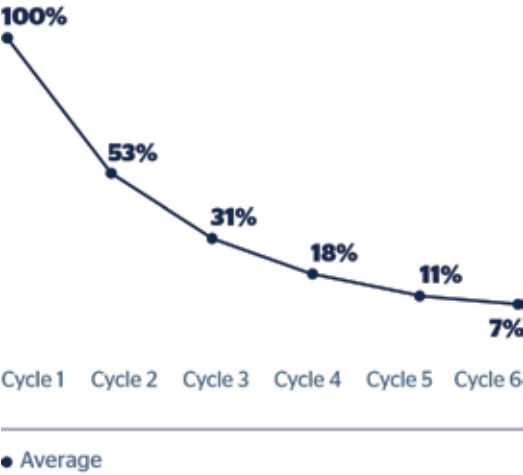
(ff) Percentage of clients in each cohort current on each date. Averages from 2011-2015 cohorts.
(gg) Clients served since 2011. Percentage of clients who, after a first loan, take out another. The distance between cycles is the time between disbursements of one credit and the next (the first does not have to be complete). All institutions' individual loan portfolios. It therefore does not include Fondo Esperanza Banca Comunal clients, Banco Adopem Grupo Solidario clients, nor Financiera Confianza's Palabra de Mujer and Inclusión grupal cuotas clients. The average distance between cycles is 367 days between cycle one and cycle two, 353 days between cycle two and cycle three, 308 days between cycle three and cycle four, 265 days between cycle four and cycle five and 221 days between cycle five and six.

Credit client retention
(by cohort) (ff)



Source: BBVAMFG institutions. BBVAMF calculations.

Credit client recurrence (gg)



Source: BBVAMFG institutions. BBVAMF calculations.



3.3 Serving clients' differing needs

The outcomes described above suggest that permanent access to credit may be a safe and effective solution to aid development and reduce poverty. The average disbursement of clients who remain with the BBVAMF Group increases over time (CAGR₄₄ 16%), starting from initial average loans of around USD 803.

Of the 268,582 clients who began their credit relationship with one of the BBVAMF Group institutions in 2016, their reported average monthly sales were USD 1,328, their average first loan was for USD 855, and the relative weight of the installment payment as a percentage of monthly sales was 8.3%, remaining at levels close to 8% since 2013 for new clients.

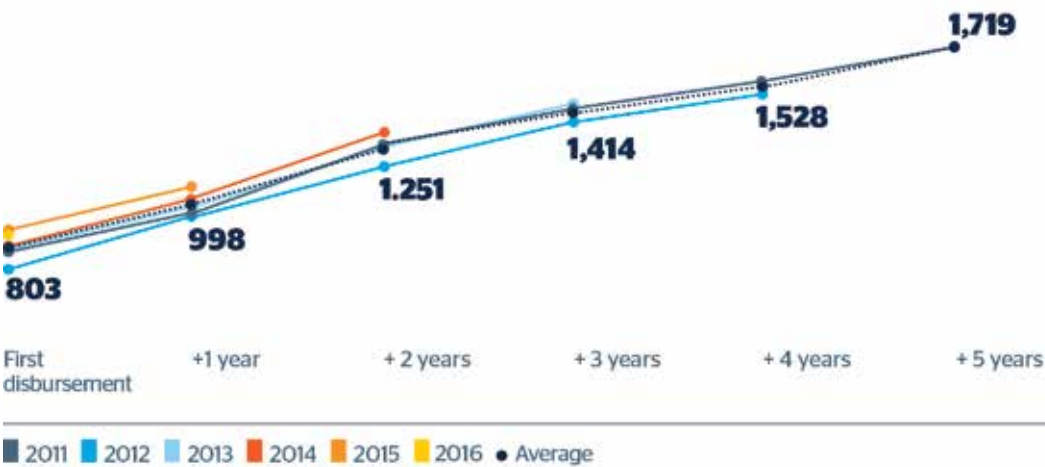
Over the total client base, the monthly credit installment payment accounts for 9% of average monthly sales. This percentage varies between different segments of

economic vulnerability: the greater the *vulnerability* (lower business scale), the greater the relative effort of paying the installment as a percentage of sales. For clients classified as *extremely poor*, the installment is as high as 20% of their average sales, while for the *non-vulnerable* it is only 8%.

The cost structure falls as clients' *vulnerability* lessens, with a big difference by *vulnerability* (going from 64% for *extremely poor* clients, to 55% in the case of the *non-vulnerable*), reflecting a potential for efficiency improvements. Thus, the more vulnerable the clients, the less efficient the cost structure of their microenterprises and so the greater their sensitivity to cash flows when paying their loan.

As well as credits, BBVAMF Group clients have access to other products. 49% of all clients have at least one credit product, and 35% have both credit and savings products. Furthermore, most clients have shown interest in diversifying their needs, and 49% also have insurance products.

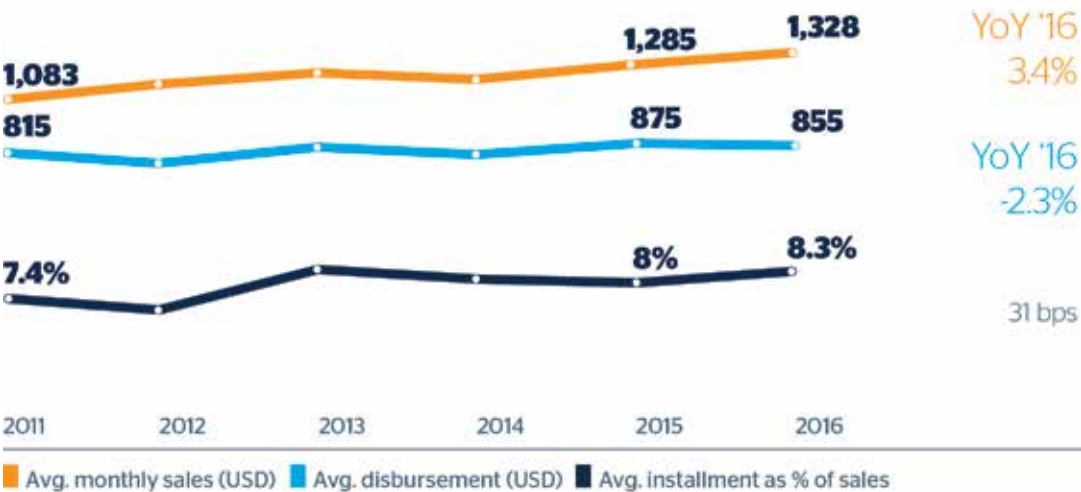
Average disbursement per transaction (by cohort) USD (hh)



Source: BBVAMFG institutions. BBVAMF calculations.

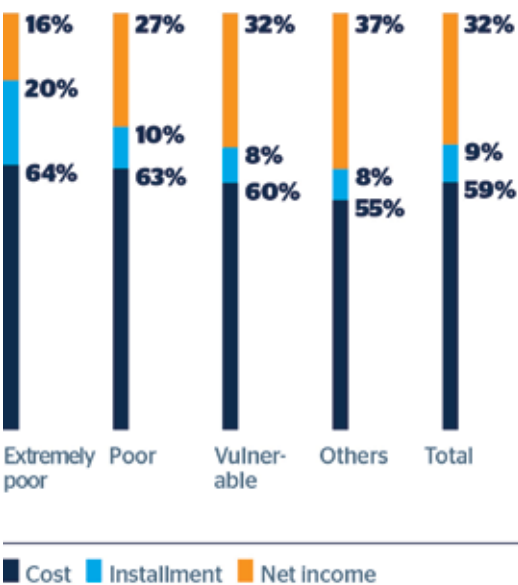
(hh) Performance of average disbursement by operation depending on the time since the client was signed up (seniority). Average of 2011-2016 cohorts.

Sales, disbursement USD & installment payment as % of sales, new clients (ii)



Source: BBVAMFG institutions. BBVAMF calculations.

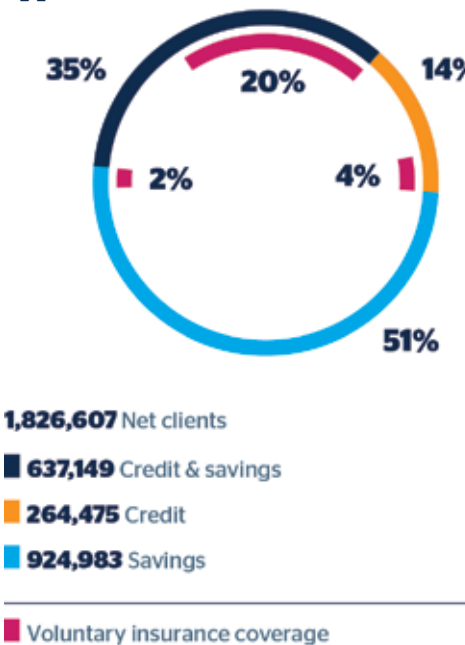
Installment payment, expenses & margins as % of sales (jj)



Source: BBVAMFG institutions. BBVAMF calculations.

(ii) New clients (no previous loans) signed up over the year.
• Average disbursement (USD), calculated as average of each year's new clients' first loans.
• Weight of the payment installment, calculated as the ratio average (payment installment as % of sales) for each year's new clients.
(jj) Calculated on the number of clients reporting expenditure; that is, 82% of current clients as of 12.31.2016.
(kk) Clients current as of 12.31.2016. Linkage of credit products for all institutions. All institutions, apart from Microserfin, offer voluntary insurance products. Bancamía, Financiera Confianza and Banco Adopem also offer savings products.

Number of clients by product type (kk)



Source: BBVAMFG institutions. BBVAMF calculations.

Increased product diversity is of benefit both to clients, who can better meet their different financial needs, and to financial institutions in the BBVAMF Group: the more wide-ranging the relationship, the greater the client retention, while greater impact can be achieved in terms of fulfilling BBVAMF's mission. As products become more sophisticated, the range will have to be diversified in order to achieve competitive advantages that, in terms of impact, will serve to create more stable relationships over the long term.

3.4 Voluntary microinsurance, a growth product

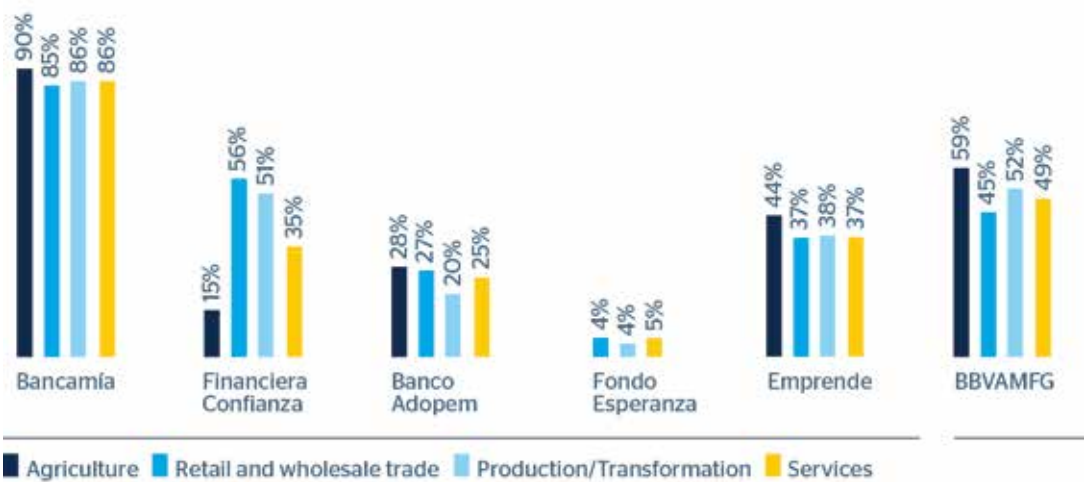
In aggregate, 49% of credit clients have a voluntary insurance active as of December 31, 2016, but the scenarios with this product differ greatly across the Group's institutions. This is due to the particularities of the value offerings and the needs of the

clients served in each market, and also to each institution's different stages of maturity and independence in placing and managing microinsurance products. The product enjoys high and growing penetration among clients and helps to serve the needs of microentrepreneurs more fully.

Despite these differences, there are some aggregate patterns in microinsurance purchasing, such as, for example, the greater propensity to purchase on the part of *agriculture* sector clients, compared to other sectors, and the greater uptake, too, from less *vulnerable* clients generally.

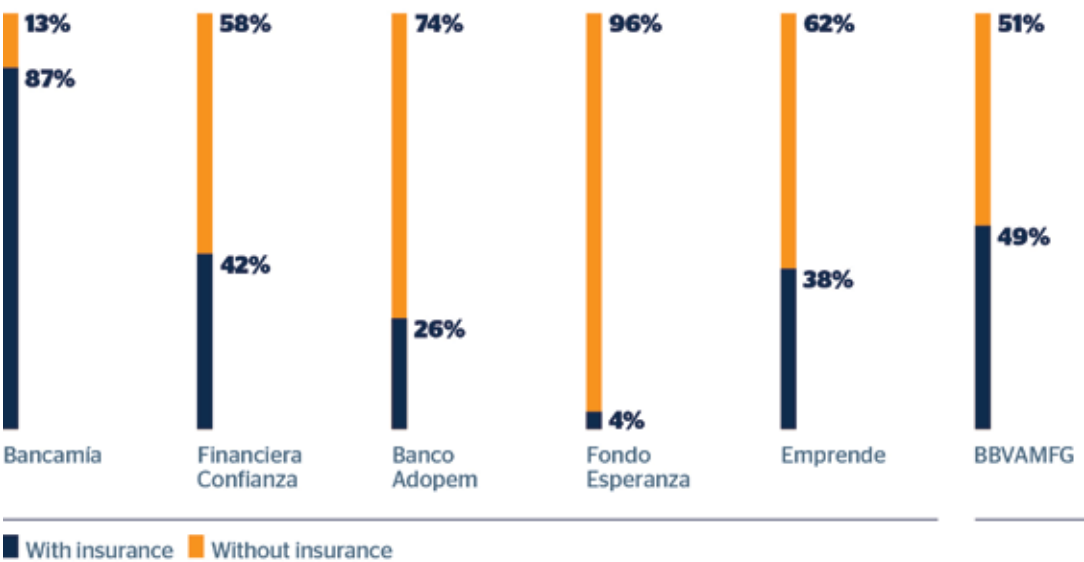
The voluntary insurance policies sold by Group institutions are mainly life insurance (both those with a capital payout and funeral services), (personal) accident, damages (protecting the assets of microenterprises among others) and debit card protection.

Credit clients with insurance, by sector (mm)



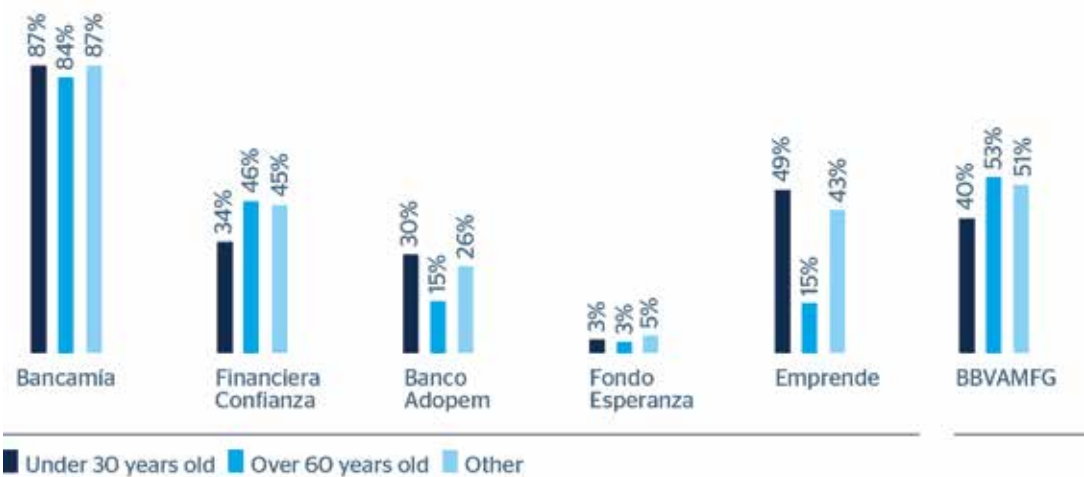
Source: Information available for all BBVAMFG institutions apart from Microserfin. BBVAMF calculations.

Credit clients with a micro-insurance policy (II)



Source: Information available for all BBVAMFG institutions apart from Microserfin. BBVAMF calculations.

Credit clients with insurance, by age (nn)

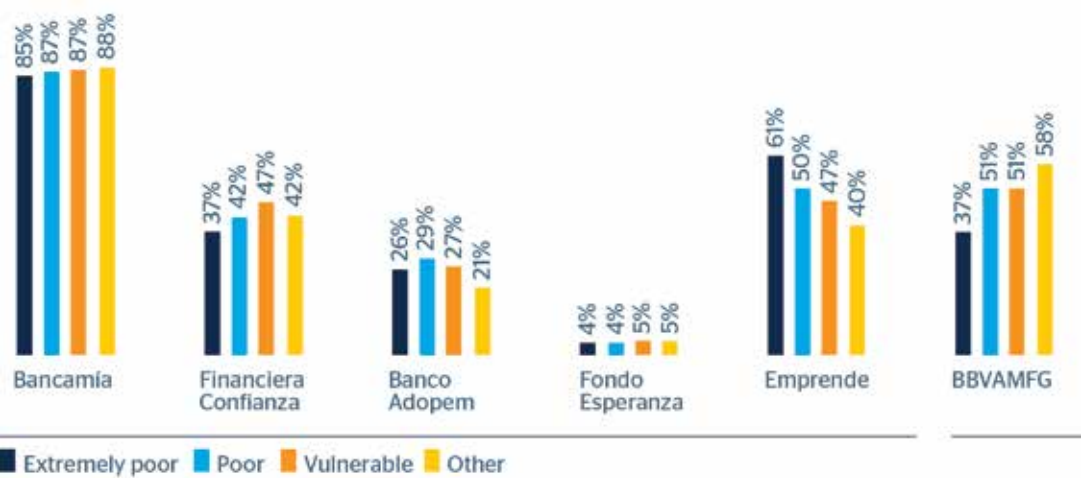


Source: Information available for all BBVAMFG institutions apart from Microserfin. BBVAMF calculations.

(II) Possession of voluntary insurance by credit clients current as of 12.31.2016.

(mm & nn)
Possession of voluntary insurance by credit clients current as of 12.31.2016.

Credit clients with insurance, by vulnerability (oo)



Source: Information available for all BBVAMFG institutions apart from Microserfin. BBVAMF calculations.

In view of the high penetration achieved with these products, the best practices in advice and marketing are being shared between one institution and the next. The chapter on Chile later on in the book contains a section titled *Microinsurance special project*, with an in-depth analysis of the Fondo Esperanza and Emprende case studies.

3.5 Client savings

Formal saving is an extremely powerful financial inclusion channel which enables more efficient use to be made of intertemporal client surpluses and which also serves as an instrument to protect them from future adverse situations. To the end of 2016, over 1.5 million BBVAMF Group clients had savings or deposit accounts. Of these, 41% had a current credit with the Group, while 22% only had savings products and have never had a loan with Group entities.

Turning to balances, as one would expect, term deposits have higher balances than savings accounts, and credit clients have lower balances than clients who only have savings.

(oo) Possession of voluntary insurance by credit clients current as of 12.31.2016. Vulnerability is determined by the latest (current) monitoring of the client (last data point available).

In general, balances are low in savings products, partly because low-income clients, instead of using financial institutions' formal services, often keep their savings in informal places, such as at home, to be looked after by friends or family, investing in cattle or goods, or joining a savings group. Informal saving vehicles are important for many vulnerable people's lives, even though these methods entail greater risk, since they do not enjoy the safeguards of formal mechanisms.

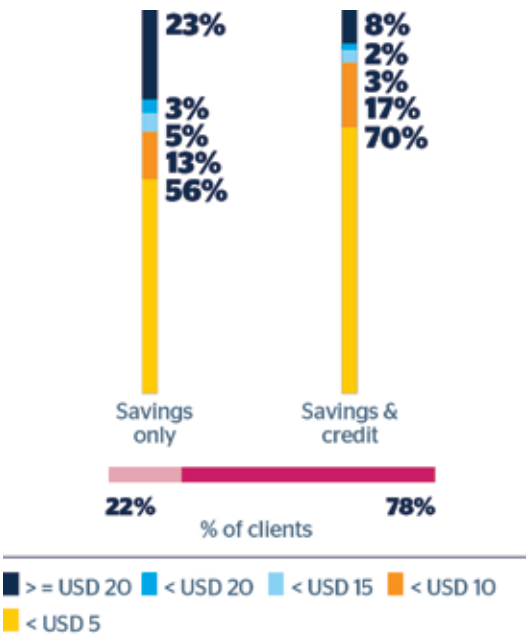
This preference is a response, in some cases, to the high transactional costs people face in gaining access to formal instruments, in terms of the average balance they have to pay in (costs of transfer to *cash in* channels) and/or high opportunity costs of closing their business in order to be able to visit their branch office. As soon as channels can be promoted that minimize these costs, these preferences will be reversed. Given that this restriction is acknowledged, Group institutions are working to extend areas of contact with

Clients by savings product type ('000) (pp)



Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

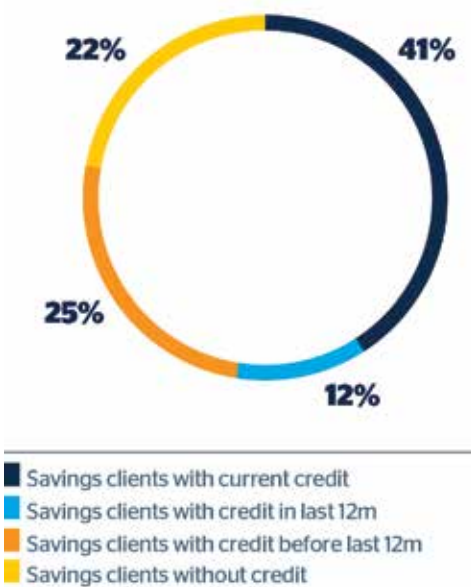
Clients with savings accounts Breakdown by balance USD (rr)



Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

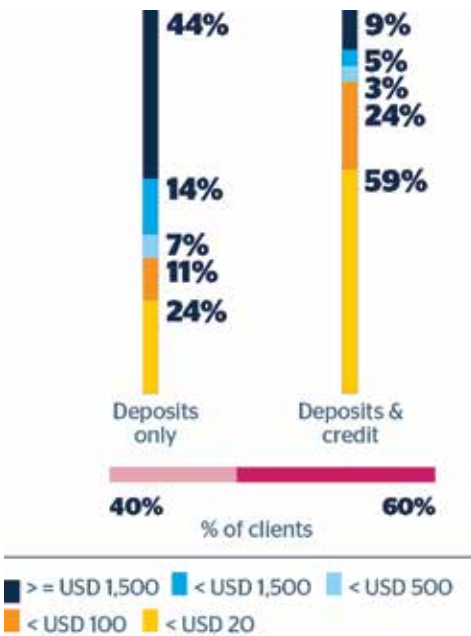
(pp) Clients with savings products (savings and deposit accounts) as of 31st December of each year.
(qq) Clients with savings products (savings and deposit accounts) as of 12.31.2016.
(rr) Breakdown of clients with savings accounts as of 12.31.2016, by balance on 12.31.2016, distinguishing between those who are savings clients only and those who have savings and credit (who have had some kind of loan with the institution).
(ss) Breakdown of clients with deposits as of 12.31.2016, by balance on 12.31.2016, distinguishing between those who are savings clients only and those who have savings and credit (who have had some kind of loan with the institution).

Linkage of savings clients (qq)



Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

Clients with deposits Breakdown by balance USD (ss)



Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

clients, getting closer to them through mobile offices and a network of banking agents (see chapter titled *Innovation in our DNA*).

Clients who only have savings are proportionately younger, have slightly more education, and there are less women compared to clients who have both savings and credit. Also, their household structure is less stable, with a high proportion of people who are single, separated or widowed.

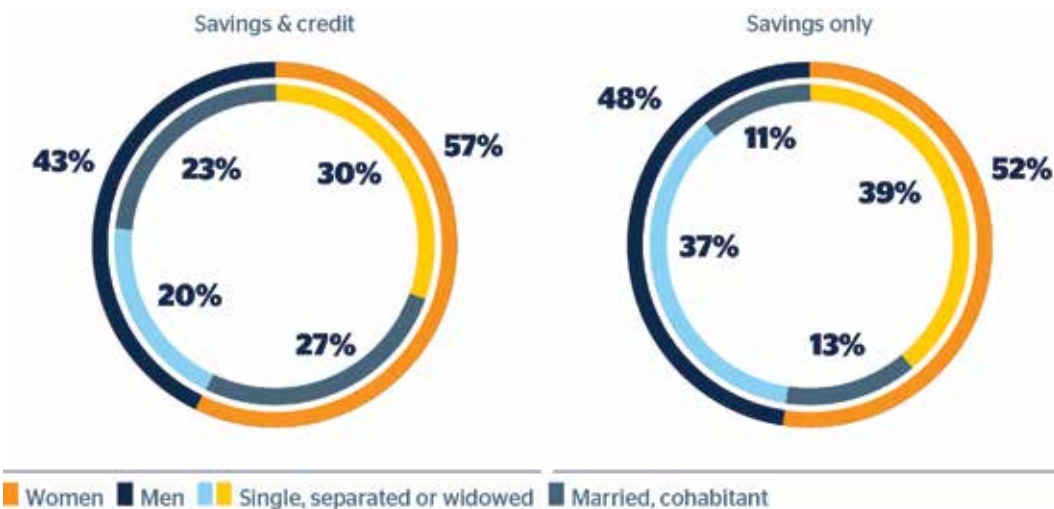
There is a niche that needs pursuing in the natural market of credit clients in order to guide them towards formal saving. 53% of savings clients have a current credit or have had one in the previous 12 months, which means that great potential exists to promote a culture of saving. Achieving success in the inclusive savings product offering is very important from the social performance perspective, as it generates positive impacts that include being able to absorb economic shocks, increase investments and improve the material quality of low-income people's lives. ■

Profile of savings clients (tt)



Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

Savings and credit clients and savings-only clients (uu)



Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

(tt & uu) Client profiles and households with savings products (savings/deposit accounts) as of 12.31.2016, distinguishing between those who only have savings and those who have savings and credit (some kind of loan with the institution as of 12.31.2016).



Conclusion

The results presented in this report demonstrate the positive relationship between access to the microfinance products and services offered by the BBVA Microfinance Group's institutions, and the progress that low-income entrepreneurs make over time; this verifies BBVAMF's alignment with its mission.

In terms of the development of its micro-enterprises, clients' businesses experience annual growth rates of 18% in their sales and net incomes, and 26% in their assets; this means that in four or five years they succeed in doubling their initial sales and tripling their assets.

This progress leads to many of them managing to rise up out of segments classified as *poor* or *extremely poor*. In general, after two years of a relationship with the BBVA-MF Group, client segments classified as *poor* or *extremely poor* at the outset of their credit relationship shrink by 38%, and by 54% after four years. On average, clients who start from a situation of *extreme poverty* need three credit cycles before their *per capita* net incomes rise up over the poverty line, while those starting in a situation of *poverty* only need one.

The characteristics intrinsic to the performance of each sector by different levels of *vulnerability* are factors that account for the concentration of BBVAMF Group clients in the *trade* and *services* sectors. For *vulnerable* clients in particular, insofar as it is possible to reduce the barriers to entry to other sectors, there is high potential for growth and wealth creation.

Clients' margins increase as their *economic vulnerability* falls, and their capacity to hire employees increases over time: 7% manage to create at least one job after two years, with the consequent positive impact in their communities.

Clients also experience improvements to their living standards in other dimensions: 8.5% make improvements to their housing after two years, and nearly 5% manage to raise their level of education after four.

Given the speed of change, the greater uncertainty and huge complexity of the external factors facing microfinance institutions in the future, the acquisition, accumulation and use in decision-making of diverse types of abilities will be key factors in serving vulnerable clients comprehensively, while still maintaining financial sustainability and

operational efficiency. This must be done by embracing diversity and promoting the capacity to coordinate teams across different locations with diverse skillsets.

The BBVA Microfinance Foundation stands out for its expertise in coordinating these diverse levels of knowledge:

- Global knowhow (methods of analysis, management practice, technology applications) inherited from its philanthropic founder, the BBVA Group, and then transferred to BBVAMF Group institutions by the BBVAMF team in Madrid.
- Valuable local knowledge (economic circuits, value chains, culture and environment) provided by the microfinance institutions making up the Group portfolio.
- Its individual clients' immense store of knowledge.

So it is that in 2016 significant progress has been made to integrate these components of social performance management by using new indicators that more closely reflect clients' realities and dynamics: continuous research that seeks to better understand the relationship between the products and

Clients' economic and social development, as seen in the results of this report, is a confirmation of BBVA Microfinance Foundation's alignment with its mission

services offered and clients' progress; management that puts the focus more clearly on the clients, including mission targets for signing up vulnerable clients, and more intensive regular tracking of social performance with Group institutions. These factors are critical to keep up the success in fulfilling the Group's mission.

In the face of the huge magnitude of poverty and the multiplicity of its causes, the social performance management being carried out by the BBVA Microfinance Foundation may seem like a drop in the ocean, but it is important, marking out a route to achieving a proper balance between the sustainability of the Group's MFIs and the value that they bring to society. ■

Notes (1) Includes those classified as *extremely poor*, *poor* and *vulnerable*. (2) This percentage has changed since 2015 as a result of a reclassification in Peru. Financiera Confianza (Peru) did not have the data on household member numbers for 2015 and earlier, so the national average was taken (3.7, INEI data). Collation of this data began in January 2016 and is being added, client by client. (3) Clients who renewed a credit in 2016 and/or updated financial information about their microenterprises, and whose latest *per capita* net income ratio against the poverty line (recorded point in time) improved from their situation prior to 2016, or improved with respect to their initial situation in the case of clients new in 2016. (4) CEPAL, *Inclusive Social Development: a new generation of policies for overcoming poverty* (2015). (5) *Poor* includes clients classified as *extremely poor* and *poor*; *non-poor* includes clients classified as *vulnerable* and *others*. (6) The 2015 report presented per capita net income; in 2016 the business net income is presented (without dividing by the number of people in the household). (7) Data provided by 57% of all clients as of 12.31.16 (not including Bancamía), who in turn employ 104,674 people. Assuming a proportionate number of Bancamía clients, an estimated total of 182,790 jobs were generated by all credit clients. (8) Net business income, divided by the number of household members relative to each country's poverty level and environment type when recording the data (generally, at each disbursement). For more details, see *Notes on methodology*. (9) In each client credit cycle there is a relation between their per capita net income and the poverty line that year, which can be expressed as a proportion. Values of less than one indicate a per capita net income under the poverty line; a value of more than one indicates that the client has per capita net income above their country's poverty line. (10) The outcomes are very similar to 2015; however, the Group's retention rate in previous years is not comparable because it is affected by the distribution of the number of clients that each institution contributes to the aggregate value.



A note on information constraints

The results in this report are based on quarterly reporting of the institutions in the BBVA Microfinance Foundation Group (BBVAMFG or the Group). They are based on information that has been collated by credit analysts from applications submitted for the Group's various financial products. In view of the importance in the business model of lending to clients with small productive units, most of the analysis has been conducted on credit clients (900,000 current clients and over 2.7 million in the historic database).

The variables and the criteria used in each country have been aligned to ensure that the data are homogeneous and can be compared. The inputs are collated by local credit analysts, often from the same community as the client, so the analysts themselves validate the accuracy of the information. Furthermore, the information goes through a detailed validation process by the local risk team; as such it is considered as reliable an information source as it is possible to be.

Once the data has been input into the core banking and data IT systems of each microfinance institution (MFI), an ETL (extract, transform and load) process is conducted every quarter; the BBVA Microfinance Foundation carries out in-depth checks for external and internal consistency and reliability, verifying and filtering any measurement imprecisions (outliers, for example) to guarantee that the data is of good quality, complete and accurate. Whenever possible, the data are also compared with other BBVAMF departments (risk, sales and finance).

The indicators (the outputs) are constructed using a single methodology and subjected to sensitivity checks to ensure their consistency. Results are validated every quarter with local MIDE teams and the MIDE team in BBVAMF makes improvements and reviews methods as necessary. The process is dynamic and aims to ensure a consistent, clear and reliable data source.

However, given that the databases are heterogeneous and different processes are involved in collating them, BBVAMF recognizes that it is a challenge to hold information that reflects each client's reality, and that it is difficult to keep a comprehensive database. Differing processes and legal realities have on occasion limited the data available for analysis. Steps have been taken to mitigate possible bias and data gaps to ensure that the analysis is as robustly accurate as possible. Specific details on data limitations can be found in the *Information Limitations* section.

Creating more opportunities for women and reducing inequality

Being a woman in Latin America still implies having to face significant inequality gaps with men. Despite the shortening of distances over the last few years in areas such as education and health, economic gaps remain, of poverty and access to the financial system. BBVAMF is fighting to make this distance shorter every day.

1. The status of women in Latin America

In the last 50 years, the situation of women in the world has improved greatly. They now account for around 40% of world employment, and the same numbers of girls go to school as boys. In relative terms, parity in secondary education has nearly been achieved and more women than men go on to higher education. All the health indicators have improved significantly, as has life expectancy, which has risen by between 20 and 25 years in most parts of the world in the last five decades, reaching a global average of nearly 74. This progress has also been visible in terms of rights and representation.

Nevertheless, there is a great deal left to do, particularly in the field of promoting economic opportunities, which is one of the arenas where the status of women differs most from that of men. As of today, only two of every four women of working age is included in the active population, whereas in

the case of men it is three out of every four. Women do two and a half times as much unpaid work as men.

On the whole, when they join the labor market, women still lag behind in terms of income and productivity. An example of this is the disproportionately high presence of women from low-income backgrounds in less productive activities, in self-employment and in the informal economy. Even in waged work in the formal sector, they tend to proliferate in lower-paid occupations and sectors. This creates a series of gaps which are reflected in the greater likelihood of women being poor or more vulnerable, as well as being excluded in some markets.

About 31.6% of the world population, that is, 2.27 billion people, are poor⁽¹⁾ and 766 million, ie. 10.7%, are extremely poor⁽²⁾. Of every 10 people in poverty, six are women⁽³⁾; in other words, 38% of women are in this situation, as compared to only 25% of men.

Although both men and women suffer poverty, the reality is that women have fewer resources with which to cope. They have fewer opportunities to work or start businesses and are over-represented in the worse-paid jobs, those in the informal economy and without any kind of occupational security. In the case of many developing countries, these economic determinants are exacerbated by factors of inequality in social and economic power, or discrimination on the basis of race, religion or class. So much so, that in some societies even their health care is more limited, or basic needs such as proper nutrition are sidelined.

In order to consider the causes of this situation in more depth, it is important to analyze the composition of households and their impact, particularly in developing countries; the limitations of the labor market; their higher participation in the informal sector and how this determines the characteristics of their enterprises; together with certain institutional factors that create conditions of exclusion, or in any event do not encourage the inclusion of women on equal terms.

1.1 The poverty rate in Latin America

Latin America is not immune to this dynamic, which affects women throughout the world. According to the global average for the poverty line, which is USD 3.18 day, 11.3% of the population is poor. If we use another measurement, the average of the region's poverty lines (USD 5.63/day), the poverty rate rises to 29.2% of the population, that is, 185 million people. Of these, about 78 million, 12.4% of the population, is in a situation of extreme poverty.

Around 95.1 million women and 89.4 million men in Latin America live in poverty. 51.6% of the poor are women.

In general terms, in Latin America there is not a huge difference in the aggregate poverty rates between men and women⁽⁴⁾. Around 95.1 million women and 89.4 million men live in situations of poverty. 51.6% of the poor are women, 1.1% more than their participation in the total population (women represent 50.5% of the total population).

In the region, 80% of the population lives in urban areas and as such, poverty levels are determined by what goes on in the cities. Of every 100 poor people, 67 live in urban zones and 33 in rural areas, meaning that the urban poverty rate is 22.7% of the population. If we look at the urban poverty rates by gender, we see that 22.1% of men are poor, whereas the rate for women is 23.3%. In rural areas, meanwhile, poverty among women stands at 44.1%, but among men it is 43.3%.

In other words, for every 100 urban dwellers, there are 11.7 women and 10.9 men in poverty, nearly 4.4 million more women than men in this situation; whereas in country areas there are 22.3 women and 20.9 men in a situation of poverty, around 1.7 million more women than men.

Even so, Latin America is one of the regions with the smallest disparity in the world between poverty among men and that of women. Around 70% of people in poverty live in southern Asia and sub-Saharan Africa, areas where the levels of female empowerment are lower, as shown by the wider poverty gaps.

The biggest gaps are in the 25 to 34 year group, where female poverty stands at 27.3%, whereas among men it is 21.8%. This can be verified in both urban and rural areas, with differences in the poverty rates between men and women of 5 and 7.2 percentage points (p.p.) respectively. The widest gap between genders coincides with the years when women are of child-bearing age.

What is important about these figures is that they reflect the restrictions women experience in the labor market, many of them associated with motherhood, which produces major differences in terms of access to economic opportunities and the attendant disparities in income and productivity between women and men at these ages.

This means that the indicator for women in poverty, between 20 and 59 years old, compared to poor men in the same age group, stands at 118.2, a rise of 4.7 points over the last five years. The results show that, although the overall percentages of poor men and women fell over the period analyzed, the rate of reduction was slower

among women of working age, which explains the indicator's sustained rise.

More important in the case of Latin America is the fact that 42% of women in poor households do not earn their own incomes. This proportion falls to 17.2% in richer households. On average, 29% of women, nearly one in three, whatever their economic situation, do not generate their own income. 14 years ago, this average ratio stood at 42%. Despite this slight increase in recent years, women are still very vulnerable; furthermore, there are a series of behavioral conditioning factors in society which explain a good part of the existing disparities.

If we strip out the non-contributory transfers received from the state, 36% of women have no income, whereas only 11% of men find themselves in this situation. Having one's own income does not guarantee full economic independence, given that, when incomes are meager, the dependence of other household members continues. In Latin America as a whole, around 24% of women with their own earnings do not make it to the poverty line on a *per capita* basis, in other words, they cannot escape poverty, which puts women in a manifestly dependent economic situation.

Women make up 40% of total employment but account for 60% of those who work fewer hours and part-time.

1.2 Development gaps between men and women

In this area, after Europe and North America, the region with the third narrowest gender gap is Latin America and the Caribbean. In the last few years the distance has shortened considerably. 96% of the gap in healthcare between women and men, and more than 95% of the education gap has been closed. Nevertheless, the differences between women and men in economic participation remain considerable⁽⁵⁾.

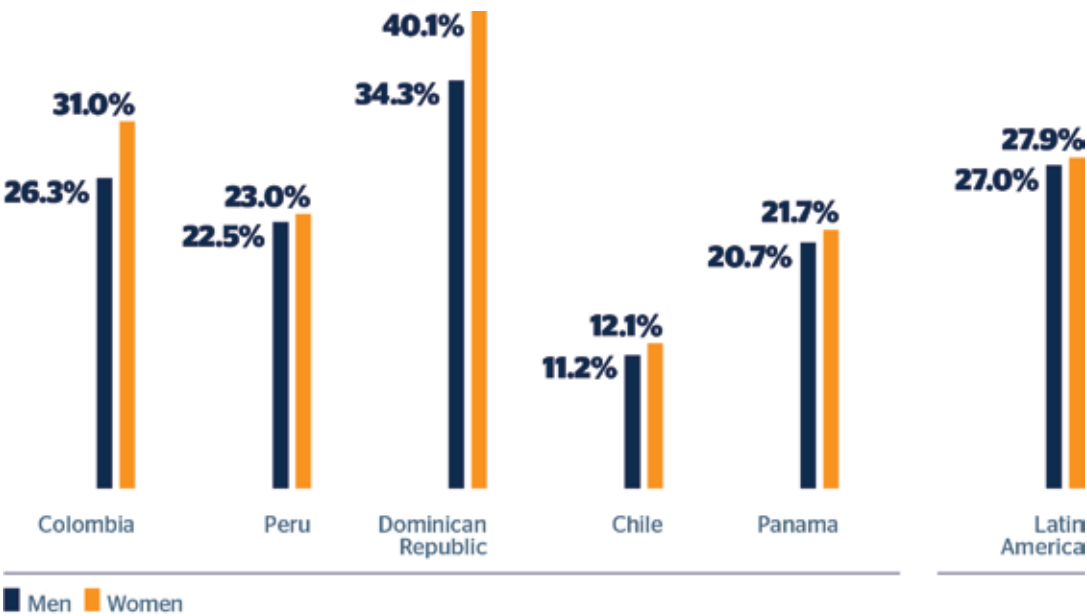
The gap in economic participation has only closed by 59%. The average wages of urban women between 20 and 49 years old on a steady wage, who work 35 hours or more a week, is 84% that of men in similar circumstances and the gap has only narrowed by 12% in the last 14 years⁽⁶⁾.

The biggest gaps are to be seen in the more highly educated workforce. Women who have been educated for 13 years or more receive only 74% of the salary received by men with the same amount of education. The gap has fallen by 9.3 p.p. in the last 14 years. This demonstrates how progress made by women in education and professional training has not brought their incomes in line with those of similarly educated men.

More than a quarter of the wage gap is due to the different jobs held down by men and women, while approximately 10% is due to the fact that women are more given to leave work to look after members of the family. Mothers earn approximately 7% less per child than women without children (looking after children leads to less time spent on one's working life and therefore lower income). To a large extent, these revenue gaps are accounted for by the imbalance in the proportion of unpaid work done by men and women, which limits the capacity of women to increase their formal and paid working hours.

In developing economies, women in employment spend nine hours and twenty minutes a day on paid and unpaid work, while men spend eight hours and seven minutes. As a result women, who make up 40% of total employment, account for 60% of those who work fewer hours and part-time. This is particularly important in low-income households and one-parent families, or in two-parent families where the woman is the head of the household.

Poverty rate in Latin America, by gender (a)



Source: Chile, Casen 2015; Colombia, Dane 2015; Panama, Peru, Dominican Republic & Latin America: Cepal 2014.

1.3 Importance of household composition

In Latin America there has been a major transformation in household composition. Two-parent households now only represent 40% of the whole. Households of this type, but with big families (which include other family members), represent 12% of the total. That is, households where men and women live together account for 52% of the whole⁽⁷⁾.

One of the structural elements in the change in vulnerability levels among women in the region is the make-up of households. In recent years, the number of one-parent households led by women, including extended families, rose by 17%. In about 90% of households where the head of the family is a woman there is no spouse. *Per capita* income in these homes fluctuates at between 80% and 95% of *per capita* income of those households where the head of the family unit is a man.

The weight of unpaid work conditions women’s access to the labor market, whether they are the heads of one-parent households or not. This factor also determines the preference for self-employed activities in the informal sector, the bulk of them in less productive sectors, mainly the service sector. 62% of women work in this sector.

One of the elements in women’s vulnerability is the composition of households. In recent years, one-parent households headed by women have increased by 17%.

This segregation by sector and occupation contributes much to gender inequality, both in terms of employment numbers and in their quality.

1.4 Labor market and the informal sector

One of the main sources of gender inequality is the difference between levels of inclusion in the labor market. The participation of women of working age in the labor market is 26 p.p. lower than that of men. The gaps between the labor participation rates of men and women rise to 40 p.p. in the case of the lowest-income segments. Thus, the poorest women have the greatest difficulty in entering the job market, which represents a key obstacle to their overcoming poverty⁽⁸⁾.

Most of this segment operates in the informal economy (47% of women’s employment is in the informal sector) and, furthermore, they spend most of their time on unpaid work (such as domestic tasks or caring for people). On average, women work 65 hours a week, spending 60% of this time on unpaid work, conditioning the type of paid job which they can access, since they can only spend 25 hours a week on average on this.

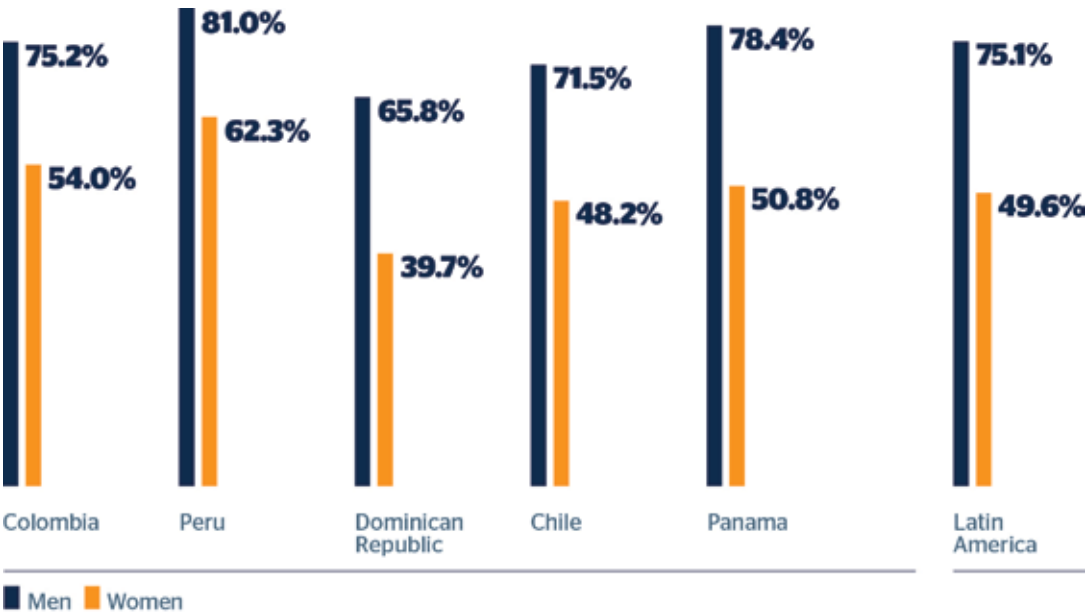
This pattern of greater dedication by women to looking after members of the household and to domestic tasks has a direct impact on decisions about employment and economic activity, limiting their options and restricting their employment possibilities to less productive segments, mainly the service sector. These limitations, which are mutually reinforcing, account for lower female productivity and the difficulties of overcoming this barrier. In addition, women’s access to the labor market in segments with less training and skills (low human capital) comes up against the restrictions implicit to the main sources of supply for these segments, generally in the construction and agricultural sectors.

In construction, there is low female participation, mainly for physical reasons, while in farming most women’s jobs are unpaid, leaving *services* as the most employable sector.

Latin America accounts for 37% of the entire world’s domestic work. 93% of those carrying out these domestic jobs in the region are women, representing 15% of all the jobs done by women. This explains why the gap in the segments with higher incomes falls, because women with higher incomes spend fewer hours on unpaid work. Most of this type of employment is part-time and under informal conditions.

On average, women work 65 hours a week, spending 60% of this time on unpaid work.

Labor participation rate, by gender (b)



Source: ILO based on information from national household surveys.

Productivity in Latin America and the Caribbean could increase by 25% if women's entrepreneurial capacity were promoted.



1.5 Women's entrepreneurship

In Latin America and the Caribbean, 17% of the adult population takes part in some kind of entrepreneurial endeavor, which makes it one of the regions with the highest rate of entrepreneurial activity in the world. However, most of the enterprises in the region are in self-employed activities, which try to surmount labor market restrictions or the lack of work openings; they are not based on opportunities for innovation. On average, 29% of the people with income in the region are self-employed or small employers⁽⁹⁾. This is evident in the fact that companies are smaller than those in other regions with similar levels of development, and that not even the bigger companies create as much employment as other regions.

Around 40% of women are self-employed and they are the main growth driver of this type of enterprise. The average income of self-employed workers in Latin America is only 75% that of waged workers. This, combined with the fact that on average an employer in the region earns 2.6 times more than a waged worker, and 3.4 times more than a self-employed worker, accounts for part of the gender gap in incomes, given that the participation of women as employers is half that of men.

Most of the enterprises in the region are in self-employed activities, trying to surmount labor market restrictions or the lack of work openings; they are not based on opportunities for innovation.

The association between education levels and self-employed jobs is also a clear one. Less than four years of basic schooling is very common among the self-employed. Women with this low level of schooling are 2.6 times more likely to be self-employed than other women with more schooling, which conditions the type of enterprise and their productivity.

The likelihood of women being self-employed falls as the number of hours worked a week rises. So, women working less than eight hours a week are 3.2 times more likely to be self-employed than women who work more hours. This is probably a sign of their needing more flexibility to be able to fit paid work in with their domestic responsibilities.

An analysis of enterprises linked to self-employment reveals that women invest 50% less capital than men and achieve 20% more income. Despite this higher productivity, the lower investment is connected to the greater financial restrictions faced by women who depend to a large degree on informal financing sources. Thus, it is essential to promote financial access in order to drive these channels for promoting entrepreneurship, whether to mitigate the restrictions facing women in the labor market, or to encourage growth in their participation as employers.

This has significant implications, given that productivity in Latin America and the Caribbean could increase by 25% if women's entrepreneurial capacity were promoted. They make up over 40% of the region's economically active population, but their contribution as entrepreneurs is only 15%.

1.6 Financial inclusion and gaps in access

43% of adult women throughout the world, about 1 billion people, do not have access to formal financial services, compared to 35% of men in this situation⁽¹⁰⁾. There is a significant difference in the ratios between female financial inclusion because they depend on multiple factors, in many cases being the product of discrimination on religious or cultural grounds, or legal restrictions preventing women from signing contracts in their own name, including opening a bank account, and having independent management of their own income.

The financial gap due to gender remains 9% in developing countries, although in some parts of the world it is much higher. The part of the world with the lowest financial inclusion for women is the Middle East, where 91% are not in the financial system, while the figure for men is 81%.

However, the region with the widest gap between men and women in terms of access to the financial system is Southern Asia, where there are 18 p.p. more men holding bank accounts than women. In Latin America, around 115 million adult women, 52%, are outside the financial system, making it the region with the lowest gender gap (4%), together with East Asia and the Pacific. The ratio of women's access to the financial system in high-income OECD countries is 94%, a distance of just 0.5 p.p. from the men.

In Latin America, around 115 million adult women, 52%, are outside the financial system.

Financial inclusion plays an important role, as our results show, in increasing women's economic independence, inasmuch as they increase their assets and are fully empowered. The simple fact of having a financial account is of great value to the most vulnerable women, representing a safe place where they can save their net income, incomes that in general they spend to the benefit of members of their household. This is particularly important when they receive direct transfers from social programs.

Around 9.5 million women in Latin America receive direct transfers in cash. The figures show that the positive impact on households of transfers received through a bank account are greater than transfers received in cash. The reasons are directly correlated with the nature of these segments, both male and female. Access to cash leads people to make decisions thinking only of the short term: self-control is required and it becomes difficult to take decisions with the future in mind. For example, having a bank account, particularly if it is linked to regular patterns of use, helps to reduce potential problems of self-control and third-party pressure.

37% of women in Latin America report having saved in the past year, but only 30% do so using a formal account in the financial system, while 35% of men who report having saved, 44% do so within the financial system. The rest use informal savings methods, particularly saving clubs or people outside the family. 22% of women's savings is used to start an activity or expand a current one, whereas men use 30% of their savings for that purpose: women instead use more of their savings on household-related expenditure.

30% of adult women in the region have requested some kind of loan in the last year, a 4 p.p. gap between men. 32% of these loans were applied for through the financial system, with the same reported difference, between loans requested by men.

Women's lower savings rate and fewer applications for loans to start or expand their enterprises show that, to a large degree, they are involved in self-employed activities, instead of a wage working for someone else. It also conditions their work to being in activities with lower productivity and less risk compared to men.

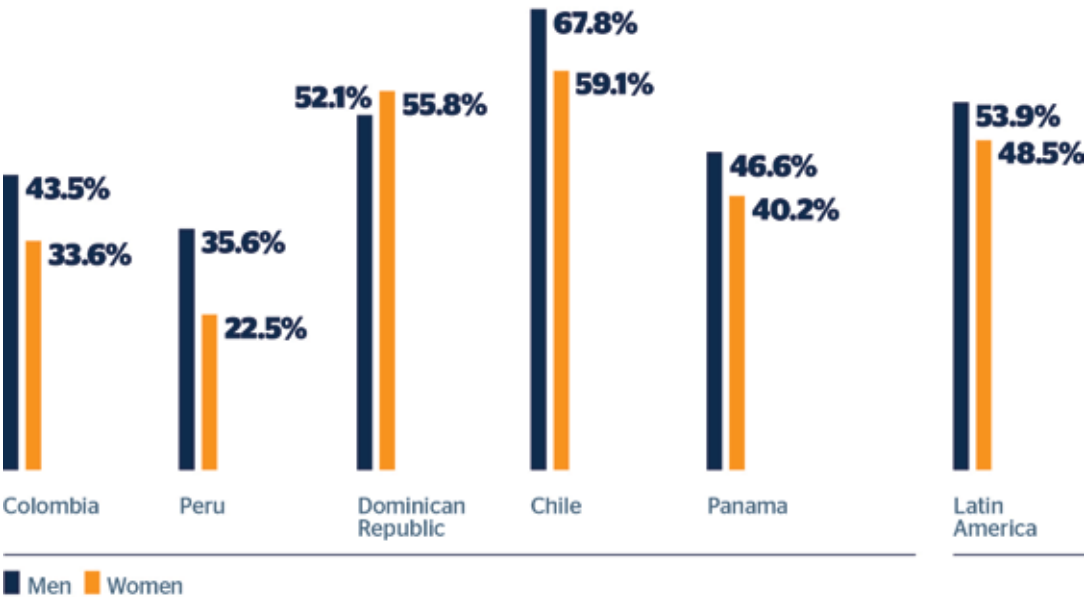
On the whole, women find it more difficult to provide collateral and may have a weaker credit history. These results suggest that women, as a general rule, may be suffering from a negative bias on the admission scoring used in credit risk software. These restrictions on the part of formal institutions are also manifest in informal sources of funding.

Lower access by women to financial products is one of the key factors behind their

Financial inclusion plays a major role in increasing women's economic independence inasmuch as it increases their assets and they can become fully empowered.

greater vulnerability to income shocks and their lower capacity to invest, save and plan for the future. Promoting financial inclusion for women is one of the areas which has the greatest impact on reducing the gender gap in several categories.

Financial inclusion (% of people over 15 years old with accounts in the financial system) (C)



Source: Global Findex Database 2014.



1.7 The importance of the state's role

Undoubtedly, one of the most unacceptable gender gaps is the one created by the state itself, both by the institutions and the legislative superstructure, which stunts equal opportunities, preventing women from choosing the best for themselves and their families. The gap in equality of opportunities deriving from the institutional and legal framework restricts their capacity to take economic decisions in a number of ways and, in many cases, is the main cause of the gaps mentioned earlier.

The dimensions that tend to account for the bias are the following: the legal capacity women (married or not) have to interact with public authorities and the private sector without sexual discrimination; women's capacity to own, administer, control and inherit goods; ownership rights of women in the conjugal residence; restrictions on women's work; incentives for maternity or paternity, and legislation against gender violence in all its forms.

When all these dimensions are analyzed, they reveal that Middle Eastern and sub-Saharan Africa countries have the most restrictions, basically linked to social conventions of a religious nature. Latin America as a whole has made progress towards greater equality. Caribbean countries lag in some ways and others, such as Chile, despite having advanced in gender equality, still treat couples as a partial community property, legally administered by the man, which has major implications from the perspective of empowerment⁽¹¹⁾. Other more general restrictions have to do with the limited or nil cover enjoyed by self-employed women during maternity, which explains the higher poverty levels associated with periods of fertility.

In recent years, however, the distances have been shortening, and reforms have been passed to increase women's economic opportunities, although there is a great deal

left to do. Where legal disparities based on gender prevail, women's opportunities are not equal and the gaps are endemic.

The most unacceptable gender gaps is the one created by the state itself, which stunts equal opportunities.

2. Women as a key factor in development

Since the BBVA Microfinance Foundation was set up, women have had a key role in all the countries in which it operates, whether because of the history of institutions in the group, (Women World Banking, in Bogota and Medellin, Asociación Dominicana para el Desarrollo de la Mujer [Dominican Association for Women's Development] and Fondo Esperanza), or because of the special opportunity that the portfolio of financial services for small entrepreneurs offers women and their families.

Experience has shown that economic development and poverty reduction are more likely to be achieved when an investment is made in women's economic empowerment and the gender gaps are narrowed. Women are particularly concerned with their families (their children's education, housing and health). These factors are the drivers for their effort, their struggle and their work, so supporting women also means supporting the next generation, making a future with better opportunities and higher standards of living a possibility.

A McKinsey report⁽¹²⁾ revealed that if all countries reduced the current gender gap in the labor environment, down to the level of the most equal country in their particular region, it would add USD 12 trillion to GDP by 2025. This increase would be possible

if investment were made on reducing gender gaps at work and in other arenas, particularly access to education, family planning, motherhood, financial and digital inclusion, as well as support for unpaid caregiving.

In order to make meaningful progress in gender equality, important changes need to be made in the workplace (both through social policy and private initiative), in society, politics and legislation. For example, promoting formal employment, encouraging gender-neutral standards, laws and regulations that preclude discrimination, increasing representation in public institutions and collective representation, as well as ensuring that legislation and business practices enable access to property, training, IT and financial resources. It is critical that support systems be set up that make it possible to share equally the number of hours of unpaid work spent principally on looking after the family and the household. The economic value of this unpaid work is estimated to be as much as USD 10 trillion (13% of the world's entire GDP).

From the business perspective, BBVAMF wants to position itself as the driver of change, to achieve economic and social development, backing gender equality and getting financial access for women, meeting their families' needs and those of their enterprises with its products, as well as with additional services providing financial education and generating networks of contacts.

Over the course of this past year, BBVAMF has taken part in the United Nations Secretary General's high-level panel on women's empowerment and has been acknowledged as a case study by this same panel⁽¹³⁾. The Foundation is also a member of the private sector advisory group to the United Nations 13' Sustainable Development Goals Fund, which identifies gender equality as one of its 17 goals.

BBVAMF also attended a number of events about gender equality and women's empowerment in 2016:

- *International Women's Day* organized by the United States Chamber of Commerce in conjunction with United Nations, where it took part in the working group on *The future of financial inclusion* with Citi Foundation, Action Global Investments, JP Morgan Chase and S&P Global. New York, March 2016⁽¹⁴⁾.
- Latin American Regional Consultation of the Secretary General's high-level panel on Women's economic empowerment. Participation in the financial inclusion and digital group. Costa Rica, July 2016⁽¹⁵⁾.

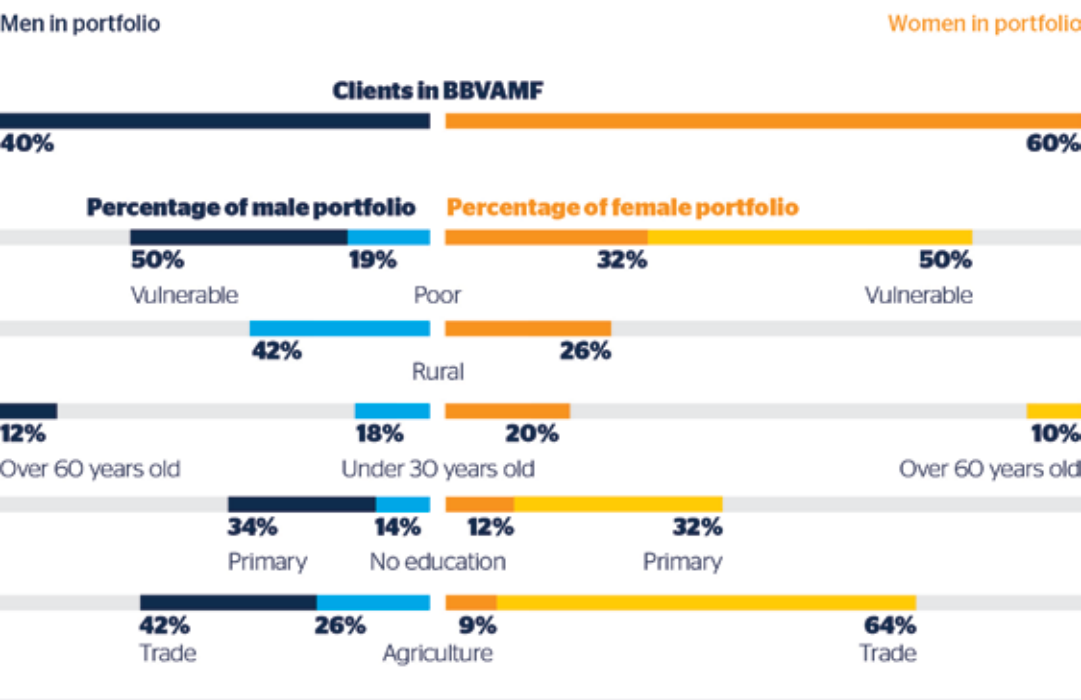
Societies across the world are aware, more than ever before, of the contribution that economic and social policies will make, together with private-sector initiatives, in creating a more sustainable and equal society, as seen from the gender perspective.

2.1 Women we serve by providing credit

The institutions forming BBVAMF use Responsible Productive Finance to serve the most disadvantaged segments, with emphasis on financing programs led by women. They strive to be a catalyst for change in society, reducing gaps, generating opportunities and having an impact on a large number of people so as to achieve progress throughout society as a whole.

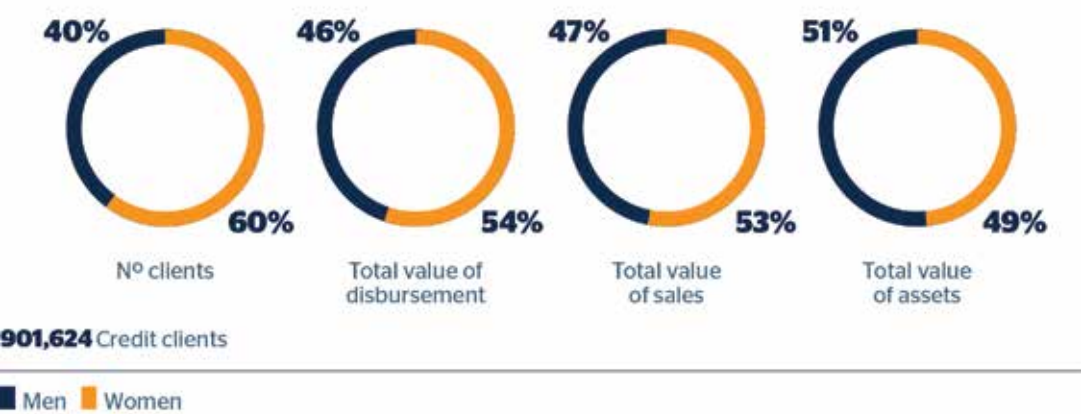
Women account for 60% of group clients overall, and as much as 83% in Fondo Esperanza and 67% in Banco Adopem. They are concentrated in urban surroundings and the most popular sector is *trade*. Taken as a whole, over half our women clients (56%) have secondary education or higher. Although most clients are women, they only account for 54% of the total amount disbursed to the end of 2016⁽¹⁶⁾. Looking at women's business turnover, their sales account for 53% of the aggregate for all clients¹⁷, and for 49% of all client assets⁽¹⁸⁾.

Client features by gender (d)



Source: BBVAMFG institutions. BBVAMF calculations.

Proportion by gender and economic magnitudes (e)



901,624 Credit clients

Men Women

Source: BBVAMFG institutions. BBVAMF calculations.

(d) Percentage of clients by gender and institution. Percentage of client profile by gender. Client current as of 12.31.2016.
(e) Considers clients current as of 12.31.2016 to calculate assets and sales. Credit value is the average value of disbursements in 2016.

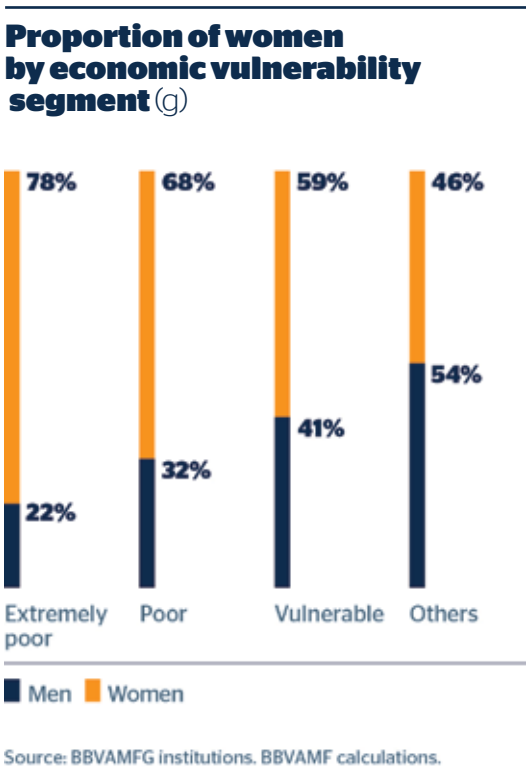
This difference in the business magnitudes becomes more apparent in average terms. 49% of the asset referred to, in the hands of women, represents average assets of USD 9,621 for men and USD 6,509 for women, 32% less. This difference corroborates the lower investments made by women in their micro-enterprises.

These proportions reflect the greater vulnerability of the women served by BBVAMF compared to men. Specifically, of clients served and classified as *poor* or *extremely poor*, seven out of 10 are women. Men are concentrated in less vulnerable segments, making up 54% of clients classified as *others* and *non-vulnerable*.

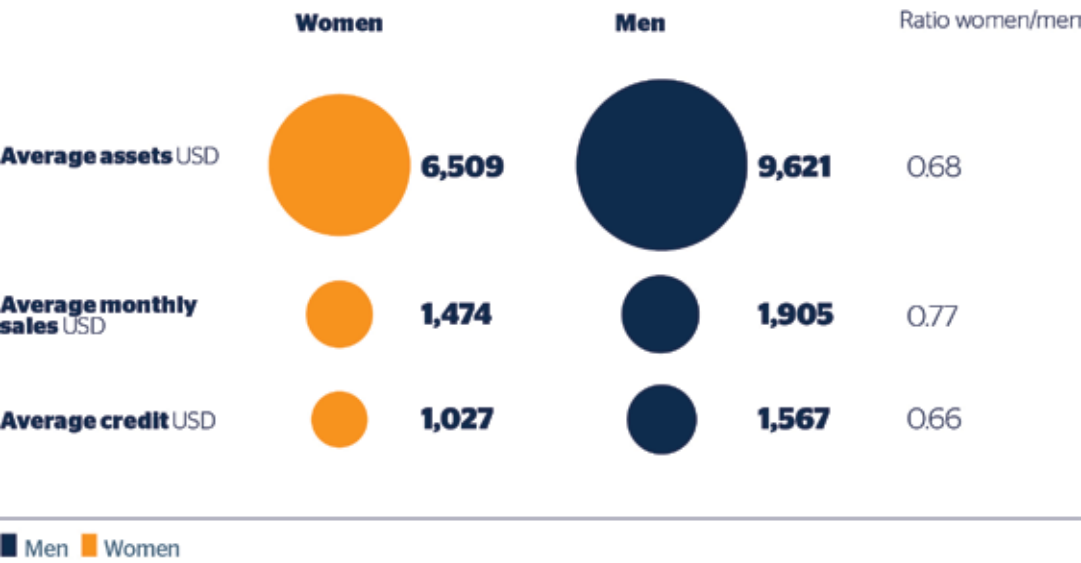
As well as greater economic vulnerability, other dimensions have been identified that can also reveal client vulnerability:

- Access to education, as a basic foundation for social mobility and for improving one's economic situation⁽¹⁹⁾.

(f) Portfolio data as of 12.31.2016. Average values are calculated on the current portfolio, except for the average credit, which is averaged out by the number of transactions carried out during the year. Female/male gap takes values between zero and one (one being parity). It is the ratio of the indicator for women against the indicator for men.
(g) Client data as of 12.31.2016. According to each country's official poverty line (differentiating between the rural and urban environments). Taking the *per capita* net income (estimated from the business surplus divided by the number of occupants in the household), *vulnerable segment* is taken to be that formed of clients whose per capita net income is over the poverty line, but below the threshold obtained by multiplying the figure given for said line by three.



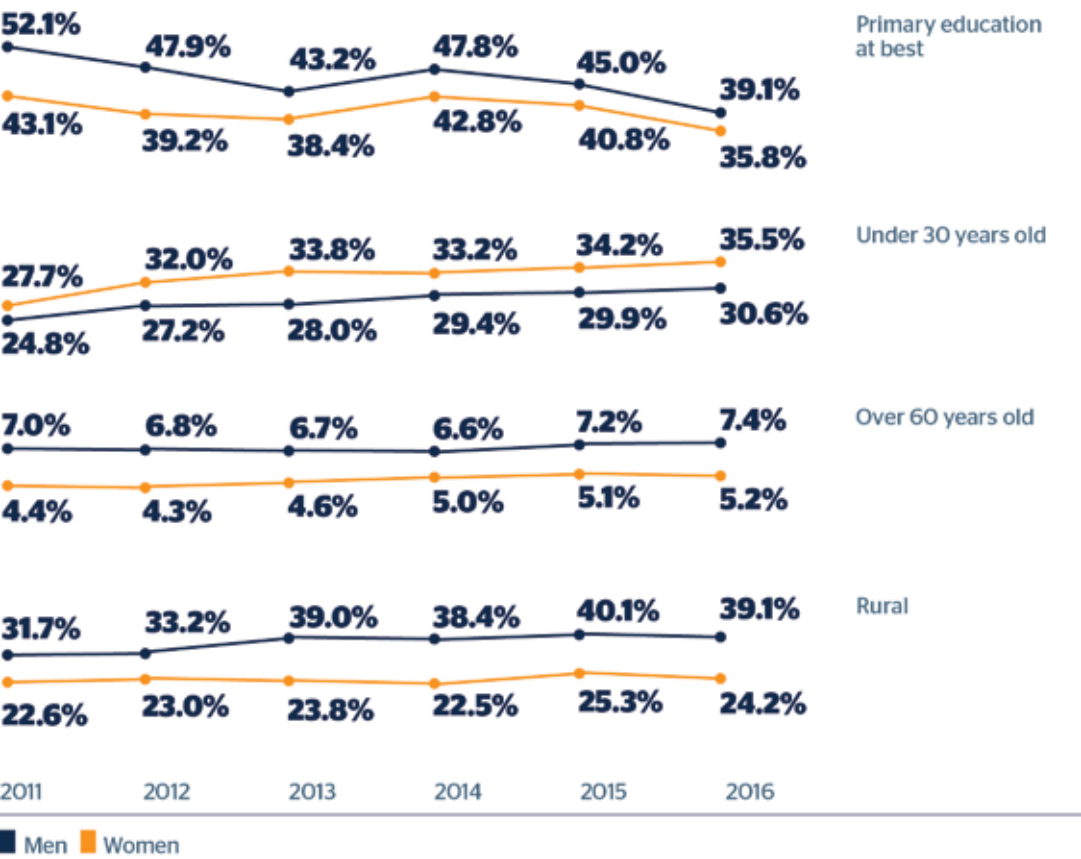
Economic magnitudes and women/men ratio (f)



- Age, particularly that of:
 - Young people, who encounter additional obstacles to finding a job: the difficulty of combining it with their studies or of overcoming hurdles of a social nature, such as those intrinsic to becoming parents at a young age⁽²⁰⁾.
 - Those over 60, who tend to opt for setting up their own businesses because they lack links to the labor system, with pensions that are insufficient to cover their needs and household costs.
- The environment where the business operates, which conditions both the type of activity and access to basic services (health and education) and financial services.

Women are particularly concerned with their families, which drive their efforts, their struggle and their work, so supporting women also means supporting the next generation, making a future with better opportunities and higher standards of living a possibility.

New client profiles by cohort and gender, change (h)



(h) New client (no previous loans) acquisition over the year.

Women account for 60% of Group clients overall, and as much as 83% in Fondo Esperanza and 67% in Banco Adopem. They are concentrated in urban surroundings and the most popular sector is *trade*. 56% have secondary education or higher.

Participation of clients under 30 and over 60 years old has risen among the new clients signed up by Group entities, and educational attainment has been higher in the more recent cohorts, due perhaps to progress in educational policies. Nevertheless, when divided by gender, there is no significant differential trend. The environment of clients served for a year shows how the institutions have made a special effort to penetrate rural areas, although this effort is having more impact on the proportion of men than of women.

2.2 Education as a development factor

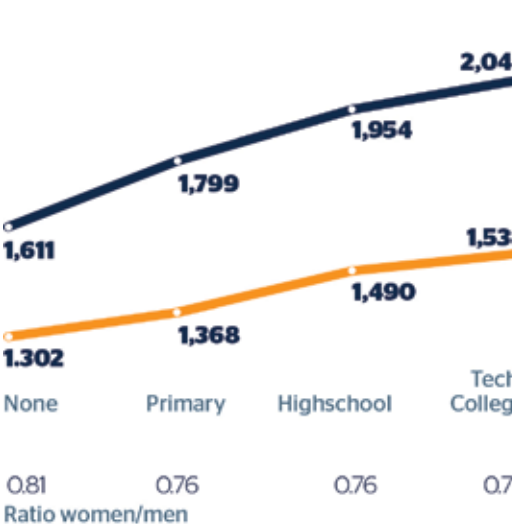
Education is an efficient mechanism for improving the situation of vulnerability and access to resources. An analysis of the level of educational attainment of BBVAMF Group clients reveals a positive relationship between the former and the sales generated by their businesses.

As their educational levels improve, the sales figures of clients of both genders rise; however, among clients with higher educational attainment, the differences between men and women are greater: women's income is 25% less than that of men with the same education (tertiary or technical studies).

As their educational levels improve, the sales figures of clients of both genders rise. Women's income is 25% less than that of men with the same education.

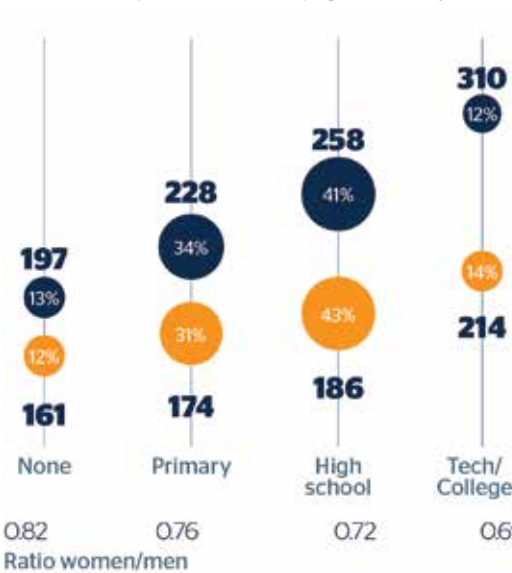
Looking at the *per capita* net income (surplus generated by the business for each household member), the positive relationship between education and wealth generation continues, although the gap between genders is even wider at higher educational levels, rising to 31%. This suggests that female entrepreneurs have households with more members to support, with the average of 3.31 dependents per woman with an education to tertiary or technical level, compared to 3.02 for men at the same educational level. This is another confirmation of how household structure conditions women more and is key in their development.

Avg. monthly sales by educational level attained USD (i)



Source: BBVAMFG institutions. BBVAMF calculations.

Avg. per capita net income by educational level attained USD (and portfolio % by gender) (j)



Source: BBVAMFG institutions. BBVAMF calculations.



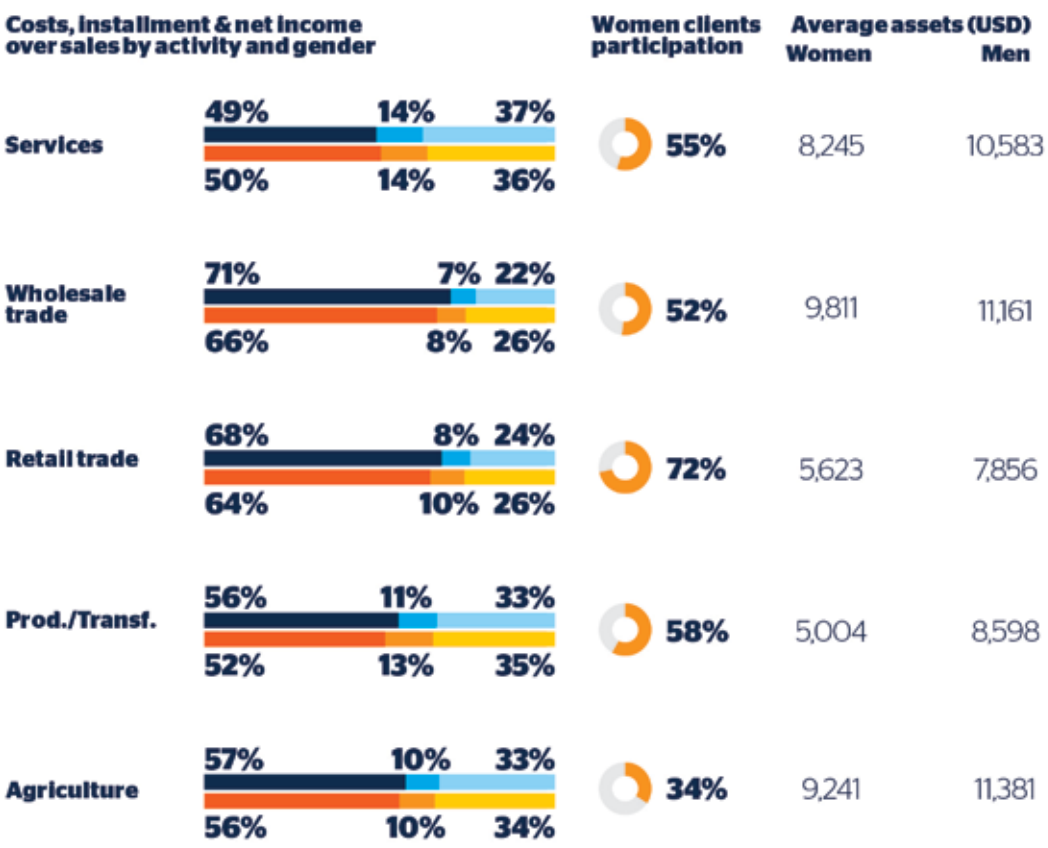
(i) Client data as of 12.31.2016. Female/male gap: women's average sales, by educational attainment, compared to average sales by men with the same level of education.
(j) Client data as of 12.31.2016. Female/male gap: women's average net incomes, by educational attainment, compared to average sales with the same level of education.

2.3 Women and their businesses

As mentioned above, there are differences between levels of assets, sales, average credits, etc. Some of these inequalities are due to the fact that the sectors in which men and women conduct their businesses are not the same. Clients whom we serve tend to become entrepreneurs out of necessity, because they have fewer options in the labor market, rather than in response to a business opportunity. Women have a higher participation in businesses with lower assets

Women have a higher participation in those businesses with lower assets which therefore need a smaller investment at the outset, as well as fewer technical and/or physical requirements.

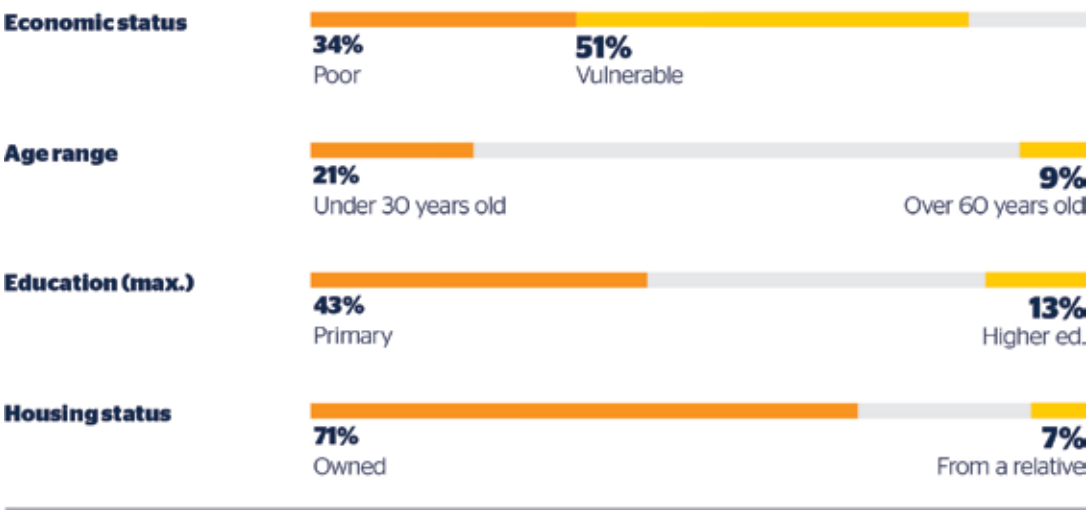
Sales margins, and assets by gender (k)



(k) Costs, payment installment and net income against sales for clients current as of 12.31.2016. Participation of women, ratio of women clients to all sector clients, current as of 12.31.2016.

Source: BBVAMFG institutions. BBVAMF calculations.

Profile of women clients working in retail trade (l)



Source: BBVAMFG institutions. BBVAMF calculations.

which therefore need a smaller investment at the outset, as well as fewer technical and/or physical requirements.

So, most of the women served work in *retail trade* (little initial investment and/or asset requirement and higher rotation of the latter). This sector, in which 72% of women who bank with Group entities work, reports a low level of net income over sales (it is less productive) in comparison with other sectors such as *services* or *agriculture*. The latter is where the highest proportion of men work (only 34% of participants are women) and concentrates a high level of assets.

Of clients working in *retail trade*, enterprises led by women accumulate fewer assets

(there is a 28% gap) than men's, although on average women are more efficient, with a net income over sales ratio 2% above that of the men. As pointed out in the section on women's situation, women are more productive, so that in the remaining sectors (except for *services*) they also report higher percentages of net income over sales.

The vulnerability level of women in *retail trade* is higher than in other sectors, with 34% of Group clients classified as *poor* or *extremely poor*, compared to 25% in the *services* sector and 32% on average in the entire portfolio of women. These women are relatively younger and with slightly lower education levels. Nearly three out of every four women working in *trade* owns her home.

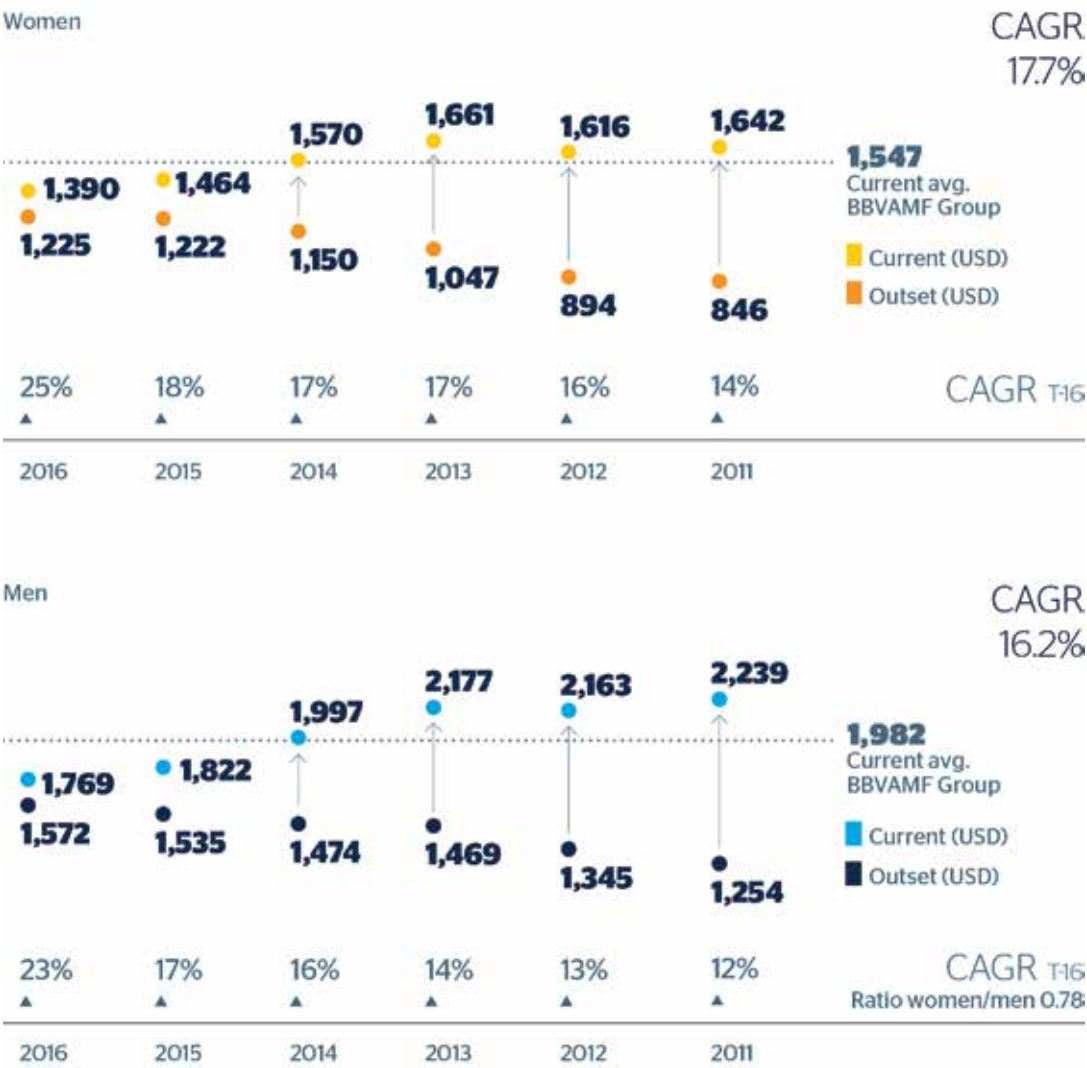
(l) Data for clients current as of 12.31.2016.

2.4 Business performance

Taken together, for the whole client portfolio, the performance of basic business variables (average monthly sales, average monthly net income and average assets) is positive, both for men and for women, although it shows some differentiation.

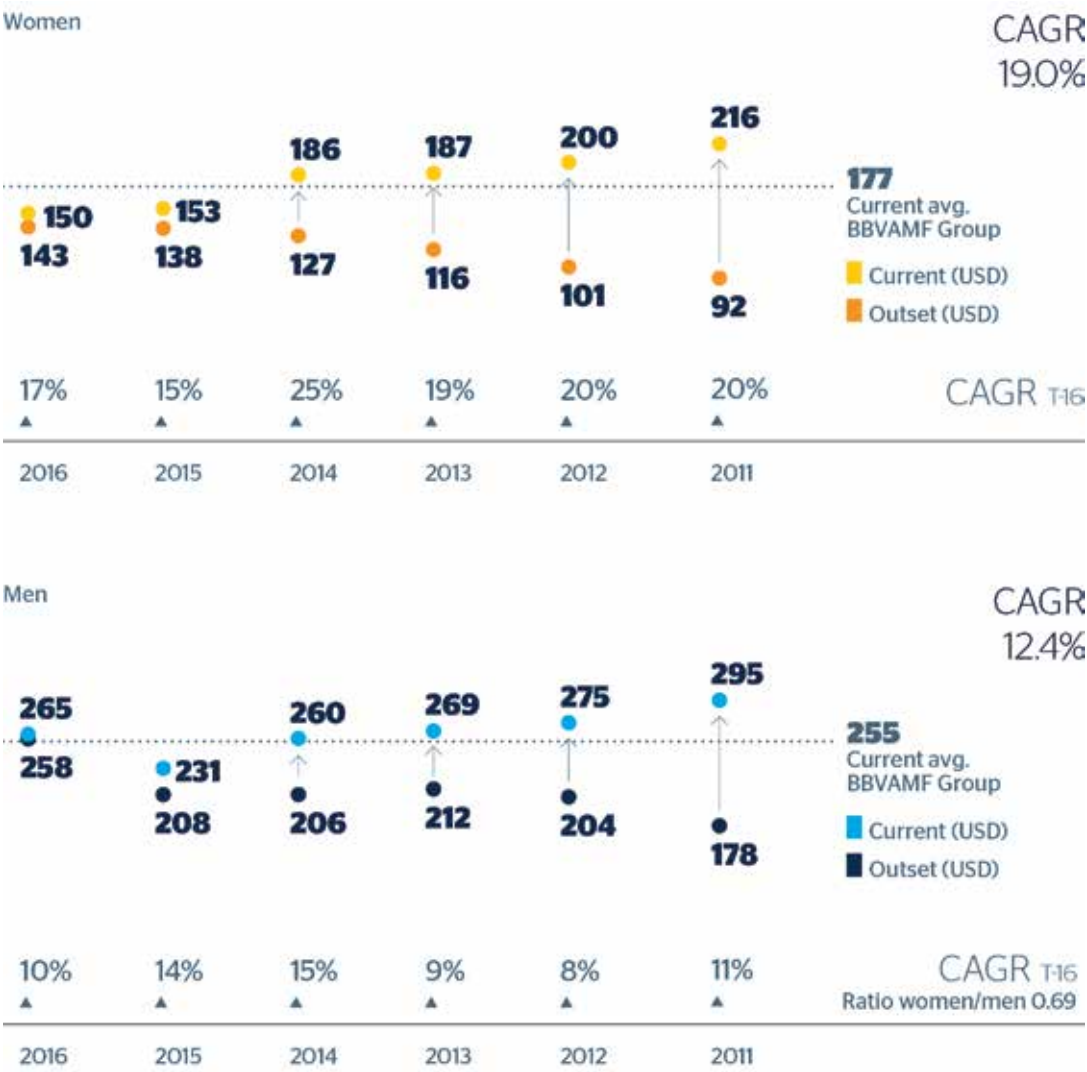
Average monthly sales performance is very solid, with compound annual growth rates of 17.7%, in the case of women's enterprises, and of 16.2%, slightly less, in those run by men. However, the starting point for sales is lower in the case of women and on average there is a gap of 0.78 (women's average sales/men's average sales).

Average monthly sales (by cohort) USD (m)



(m) Data on sales performance of clients current as of 12.31.2016, and who have received a disbursement in the previous 12 months. Their situation at the outset is shown (data in their cohort year) and the current situation (at the last update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Average monthly net incomes (by cohort) USD (n)

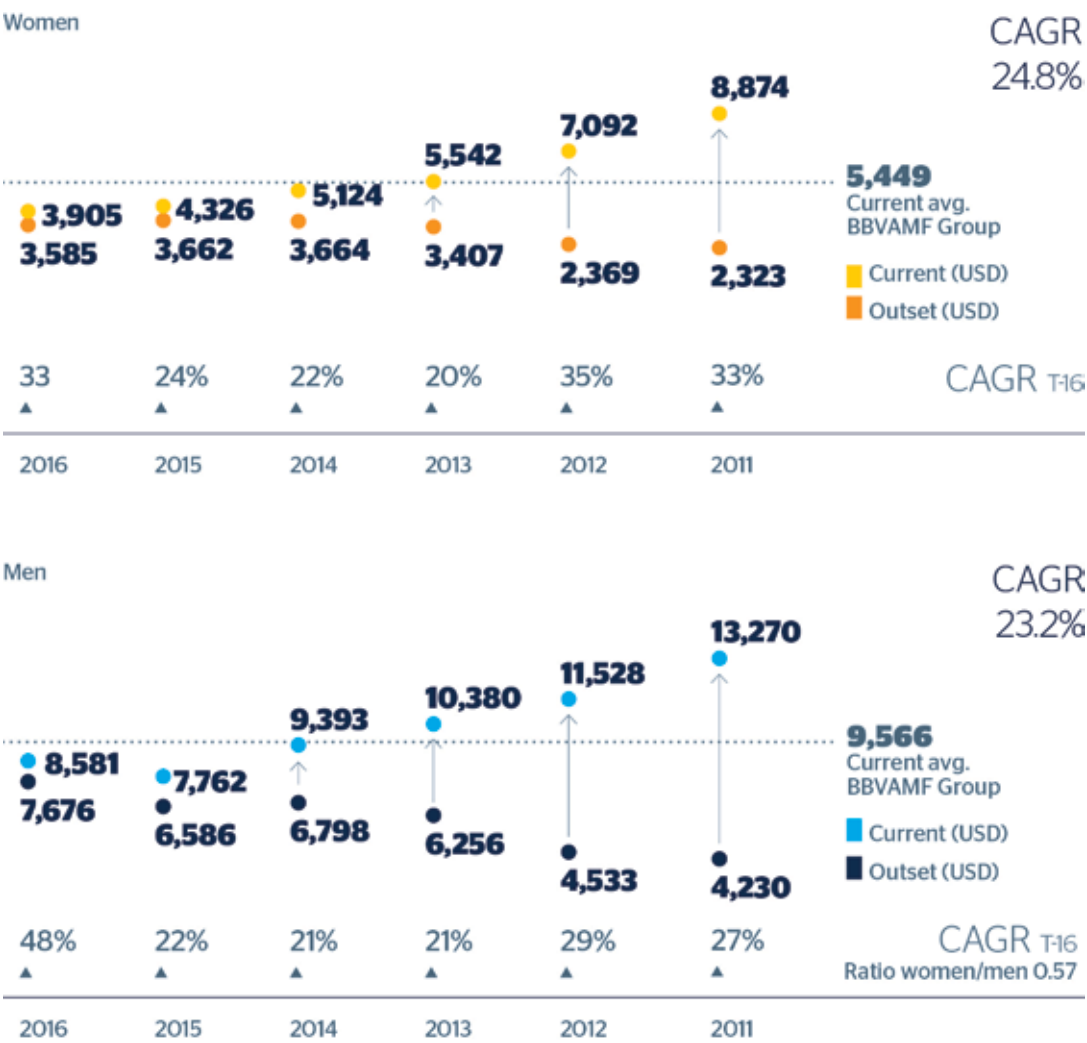


(n) Data on net income performance of clients current as of 12.31.2016, who have received a disbursement in the previous 12 months. Their situation at the outset is shown (data in their cohort year) and the current situation (at the last update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Turning to the performance of average monthly net income, women's compound annual growth rate is 19%, 6.6% higher than the men. Even though women's initial net income is 31% less than that of men, the faster net income growth in businesses led by women is shortening the gap between them and the men.

In terms of assets, growth rates are higher here, although the differences between men and women are also higher. Women's average initial business assets are nearly half those of men (a ratio of 0.57). The growth rate for men's assets is faster in the short term (*seen in the 2016 cohort*), expanding much faster than assets in the hands

Average assets (by cohort) USD (o)



Source: BBVAMFG institutions. BBVAMF calculations.

(o) Data on average asset performance of clients current as of 12.31.2016, who have received a disbursement in the previous 12 months. Their situation at the outset is shown (data in their cohort year) and the current situation (at the last update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

of women in the first few months, but it soon levels off and, by the end, growth rates are lower than those of women. Thus women's compound annual growth rate is 24.8%, against that of men, which is 23.2%, thus narrowing the gender gap over the long term. Women entrepreneurs invest less in their enterprises, but their greater stability and risk aversion reduces the gap in the longer term.

Men's businesses increase their employee numbers more frequently than women's. On the strength of this, a possible interpretation is that men re-invest more in business growth than women.

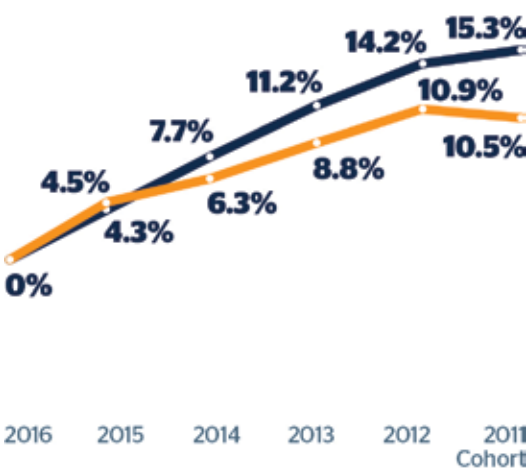
We can see how our female clients make their businesses grow, although these do not become as large as businesses led by men. With respect to *per capita* net

Faster growth of net incomes in businesses led by women is narrowing the gender gap with men.

income performance (the sum generated by the business per household member) women achieve a level of growth in their net incomes that enables them to overcome *extreme poverty* after three loans and cross the poverty line from *poor* to *vulnerable* after just one.

Women clients' average net incomes grow steadily in every cycle and at all levels of vulnerability, with the fastest growth in the first cycles, which thus show a steeper curve.

Job creation, by gender (% of the cohort) (p)



Source: BBVAMFG institutions. BBVAMF calculations.

(p) Measures the increase in the number of business employees against the situation at the outset, for clients current as of 12.31.2016 by each cohort. Shows averages from the 2011-2016 cohorts. Data aggregated from all institutions, except Bancamía. Fondo Esperanza' information covers 2013-2016, Financiera Confianza covers 2014-2016.

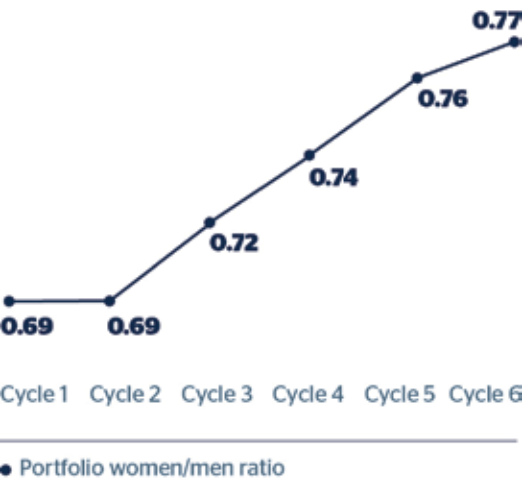
(q) For the sample of clients served between 2011 and 2016, classified according to the situation at the outset on the first disbursement. Shows the change in *per capita* net income in each disbursement cycle, relative to each country's official poverty line (by rural/urban environment and year of disbursement). The relative *per capita* net income takes the value of one when it is equal to the poverty line.

Women's per capita net income relative to the poverty line (q)



Source: BBVAMFG institutions. BBVAMF calculations.

Women/men ratio relative income performance by each disbursement cycle (r)



(r) For the sample of clients served between 2011 and 2016, showing the ratio of women's *per capita* net income relative to that of men for each cycle. *Individual portfolio* is the entire BBVAMF portfolio except for the Fondo Esperanza portfolio, Financiera Confianza's *Palabra de Mujer* and Banco Adopem's *Crédito Solidario*, which make up the group portfolio.

(s) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written-off are not classified as having escaped poverty.

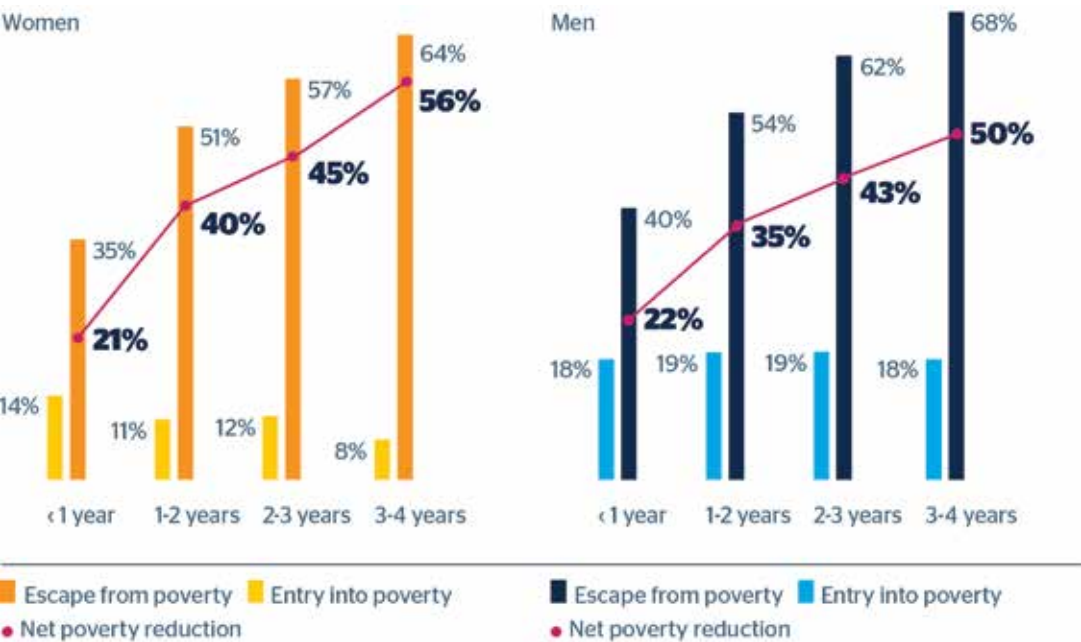
- Escape from poverty: clients classified as poor at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as poor at the outset.
- Entry into poverty: clients classified as non-poor at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as poor at the outset.
- Net reduction: escape from poverty, less entry into poverty.

As time passes and there are new disbursements, women's *per capita* net incomes come closer to those of men, moving from an initial gap of 0.69 to 0.77 over five credits; in other words women's *per capita* net incomes after five cycles are on average 33% lower than those of men. Financial services appear to be helping to reduce the economic gaps between men and women in the medium and long term. The first cycles show the greatest growth, both for men and for women, but the reduction in the gap is lower.

Climbing up over the poverty line

There is a somewhat larger reduction in the client segment classified as *poor* at the outset for women as a whole. After two years with the institution, the reduction is 40%, compared to 35% for men.

Reduction of the poverty segment (s)



Source: BBVAMFG institutions. BBVAMF calculations.

After two years the number of women in the poverty segment falls by 40%. Of clients who overcame poverty in 2016, 69% are women.

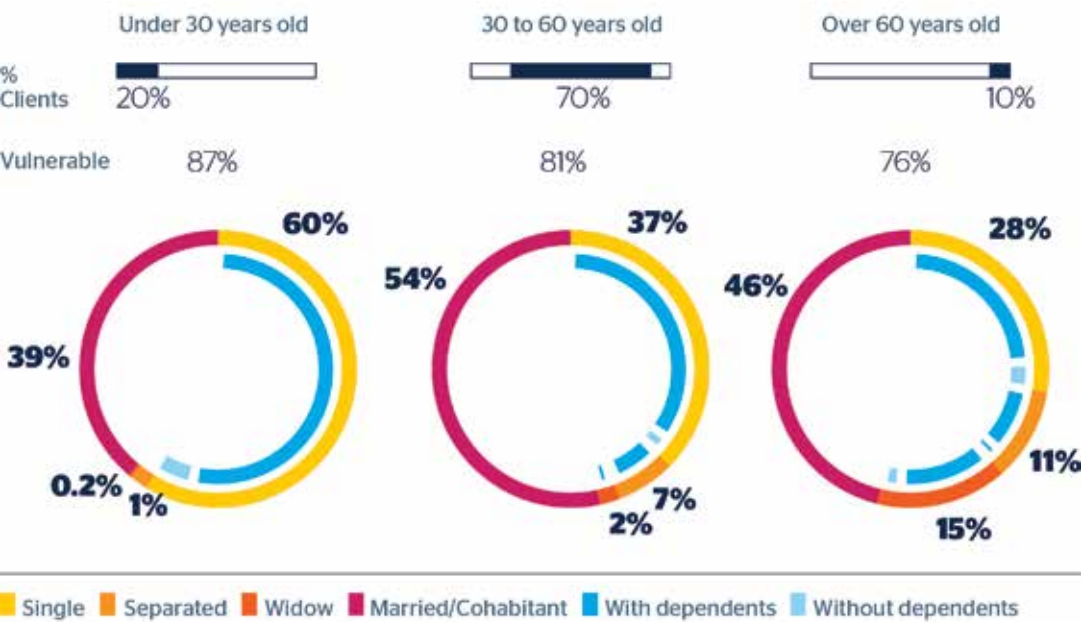
The reduction over time in the client segment classified as *poor* is similar for men and women. However, the percentage of entrepreneurs who were not *poor* at the outset, but whose situation has worsened over time (those who fall into poverty) is much higher for men. The percentage of men classified as *poor* at the outset, who climb out of poverty is also higher, which suggests greater income volatility among men than among women. Of the 56,427 clients who climbed over the poverty line in 2016, 69% (38,962) are women.

3. Staying with women throughout their lives

According to poverty figures⁽²¹⁾ by ages, childhood is the most critical period, and in Latin America 42% of children are poor. This affects boys and girls equally; it is not until puberty that the economic inequalities between genders begin to appear. For this reason, the decision to have children and the structure of households are relevant factors in economic capacity.

Furthermore, the fact of having domestic responsibilities is even more of a determining factor in monetary capacity if the parent is very young and the family mono-parental. The household structure of our female clients is analyzed below, by age, civil status and the number of members in the family unit.

Our clients' household structure (t)



Source: BBVAMFG institutions. BBVAMF calculations.

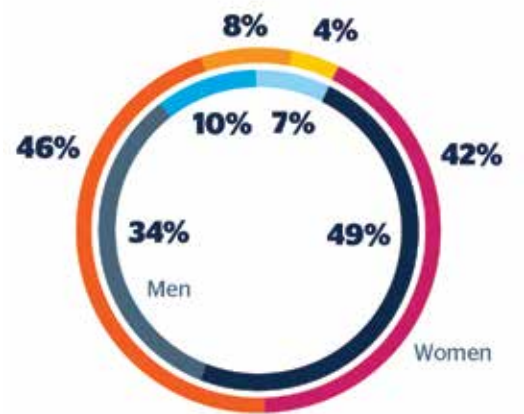
(t) Percentages for the female portfolio as of 12.31.2016. "Single/separated/widow with family dependents" covers those women clients whose household contains more than one person; "without family dependents" covers the rest.

If one studies the Group’s women clients by age, we see different family structures over the different life stages. In the group of the youngest clients, six out of 10 are single, and five of these six have dependents. In the adult phase, most of the women (54%) live with, or are married to, someone, and 46% are heads of their household, whether because they are single, separated or widows. The increase in the proportion of widows and separated women leads to a situation in which, in the group of women over 60, once again they are more frequently supporting the family on their own (54% of women). Furthermore, we see how one-parent families with dependents are more common than those without dependents, so a connection between this factor and entrepreneurship is established.

Half of households in the female portfolio are administered solely by the client, and 46% are women on their own with dependents. This represents major challenges when defining products and services to meet their needs and promote their business growth and improved welfare. Although to a lesser degree, the percentage of male clients who manage their household on their own (41% of them) is also significant.

The fact of taking on family responsibilities also conditions the level of education reached by women and, as such, affects their future development, both their own and that of their family.

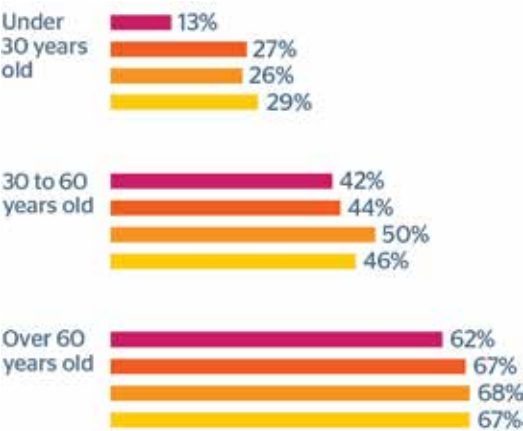
Clients by civil status, household structure & gender (u)



- Married/Cohabitant + dependent
- Single/separated/widow + dependent
- Married/ Cohabitant + without dependent
- Single/separated/widow + without dependent

Source: BVAMFG institutions. Calculations: BBVAMF.

Women clients with primary education at best (v)



- Single/separated/widow + without dependent
- Single/separated/widow + dependent
- Married/ Cohabitant + without dependent
- Married/ Cohabitant + dependent

Source: BBVAMFG institutions. BBVAMF calculations.



There are two important features in the client portfolio: greater access to education among the younger generations, and the correlation between their household composition and their educational and training decisions. Excluding the first feature as exogenous, two conclusions can be drawn from an analysis of household characteristics: women who live in union stop studying earlier, perhaps because of greater dependence on the couple. The second conclusion concerns people with family dependents; having domestic responsibilities seems to push women into leaving their studies in order to earn their own income. This is more noticeable in younger generations (under 30 years old). Among women over 60, education levels are so low that there are hardly any differences.

Lower educational levels among the over 60s, together with insufficient pension systems (those countries with lower state support systems have more entrepreneurs among their older population) and heavy family duties push men and women to start a business and to continue working after they are 60 years old. Lower educational levels also condition their activities, and they work more in *agriculture* and activities with lower training requirements.

Economic inequalities between genders appear at childbearing years. For this reason, the decision to have children and the structure of households are both relevant factors of economic capacity.

4. Women in the rural environment

According to the FAO, women who live in rural environments are responsible for more than half the production of food and perform a crucial role in food security and in conserving biodiversity. Despite this, worldwide, they only possess 30% of the land, take out 10% of the loans and receive 5% of the technical assistance.

Women in the rural environment not only live in the reality described at length in this chapter, but their surroundings condition their likelihood of getting good quality jobs. The roles of women in rural areas are more rigidly defined than in town, so they have been more restricted to domestic tasks (they spend more time on unpaid work than those in the urban environment), unqualified jobs and those requiring less physical effort. These rural women make up 43% of the agricultural workforce in developing countries. However, only a minority has their own land and/or performs a job with decision-making power in organizations or local government⁽²²⁾.

The barriers that women outside the major urban centers have to overcome are many: economic and financial obstacles to education, particularly in remote areas; legislative hurdles (guaranteeing equal rights to property); little access to sexual and reproductive health services (lack of access to medicines and basic products, no family planning measures); and no way to improve their skills because of the lack of access to agricultural extension services, technology, vocational training and financial loans.

26% of our women clients live in the country and they are younger than those in the urban environment, since their reduced access to education, greater unemployment and more youth pregnancies in these areas create the conditions for women to become entrepreneurs sooner in order to support themselves. As has been noted above,

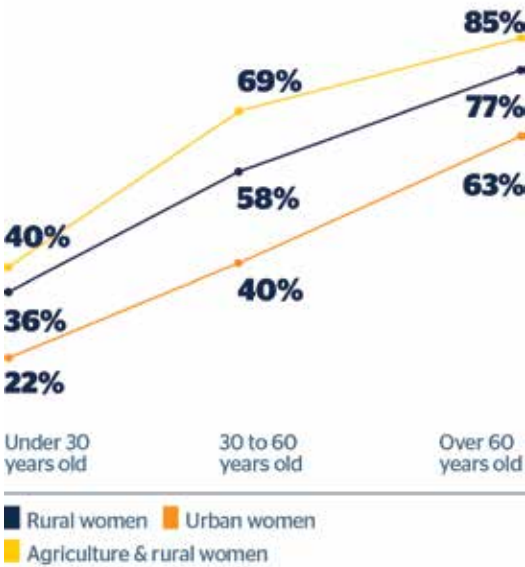
one of the factors behind entrepreneurship in rural areas is the lower level of education than in urban centers.

Low levels of education condition access to good quality jobs and technical training, so becoming an entrepreneur may be the only way of making a living. Women (and men) with less training are to be found in the *agricultural sector*.

In BBVAMF, rural clients make up 32% of the whole portfolio, of whom 49% are women; however, women account for 46% of all the credit and take out loans that on average are 29% smaller than men's.

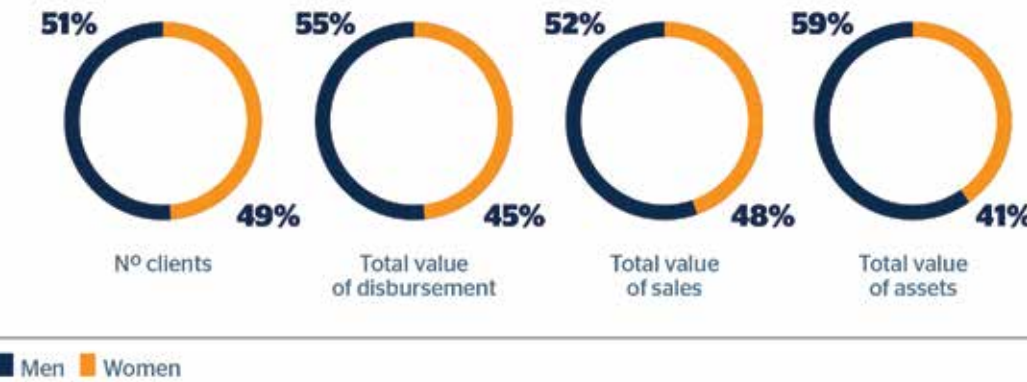
The number of women clients in rural areas is much lower (49%) proportionately than in the urban environment (66%); this shows that it is more difficult to be a female entrepreneur and sign up for a loan in the rural environment. However, the differences between men and women in rural areas are less pronounced than in the cities, with higher female/male ratios for all economic magnitudes.

Women with primary education at best (w)



Source: BBVAMFG institutions. BBVAMF calculations.

Clients in the rural environment. Representation & key economic attributes by gender (x)



Source: BBVAMFG institutions. BBVAMF calculations.

(w) Proportion of clients compared to all women clients current as of 31.12.16, by environment, age and education.
(x) Considers clients current as of 12.31.2016 in the rural environment, for the calculation of assets and sales. *Value of the credit* is the average value of disbursements to clients in the rural environment in 2016.

Economic differences between men and women in rural areas are smaller than in the urban environment.

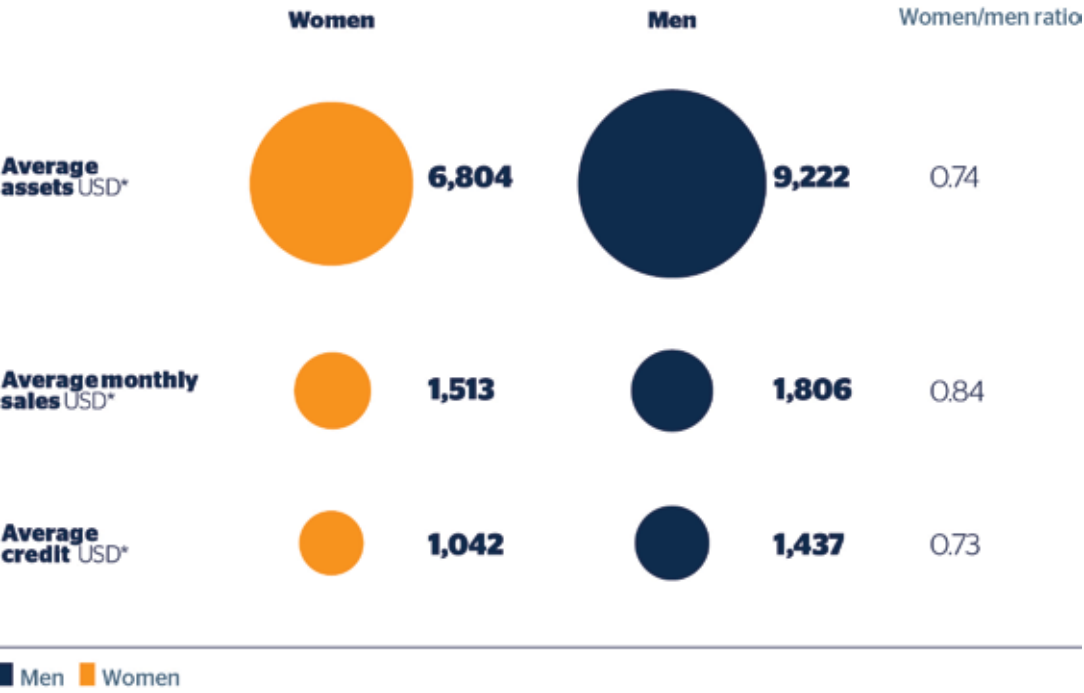
Although in economic terms the inequalities are lower, it is in the rural environment where we see the biggest differences between activities carried out by men and women. Lack of access to land title and to productive resources leads women to focus on sectors other than *farming*, principally *trade*. Men in the rural environment, meanwhile, work mainly in *farming* activities

(except in the Dominican Republic where the *farming* sector is a small one).

In all the regions where BBVAMF has a footprint, in the rural environment more men farm than women. Women have the highest representation in the *agricultural* sector in Bancamía and Microserfin. In those cases where women work in this sector, it tends to be in support activities or as employees, so farming enterprises run by women, according to the figures, are unusual.

In the rural environment, after two years with the bank the segment of rural women clients classified as *poor* or *extremely poor* falls by 36%.

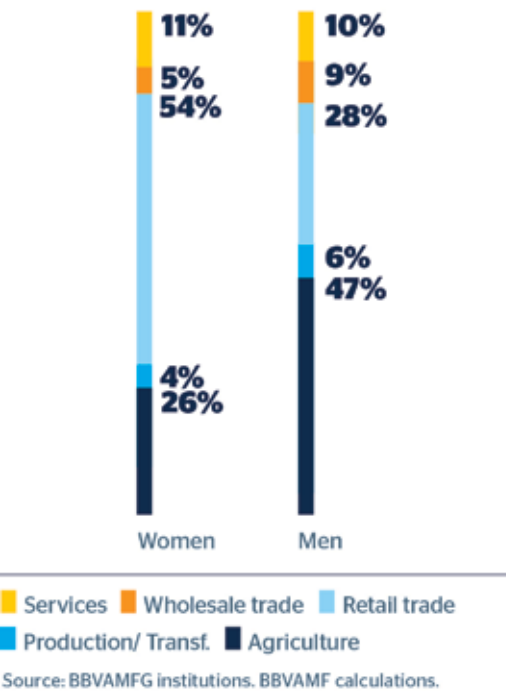
Clients in the rural environment. Economic magnitudes and women/men ratio (y)



*The size of the circle represents the size of the indicator
Source: BBVAMFG institutions. BBVAMF calculations.

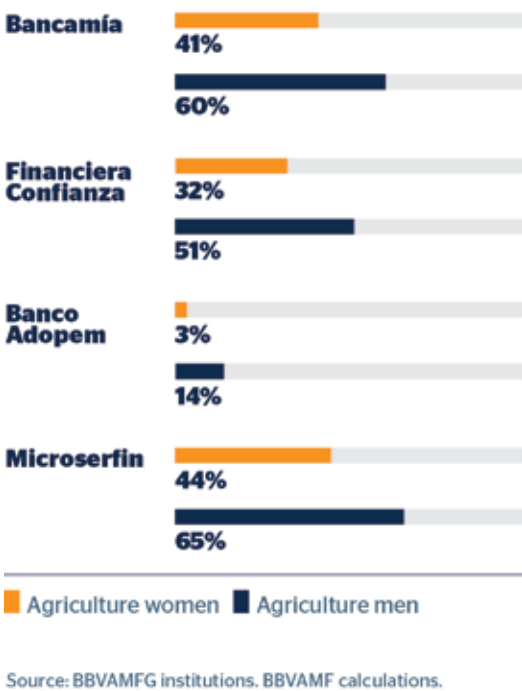
(y) Considers clients current as of 12.31.2016 in the rural environment, for the calculation of assets and sales. *Average credit* is the average value of disbursements to clients in the rural environment in 2016.

Clients in the rural environment and their activity sectors (z)



(z) Activity sectors reported in the latest update or disbursement of clients in rural environments current as of 12.31.2016.
(aa) Percentage of rural women and men working in agricultural activities who are our institutions' clients, current as of 12.31.2016.
(bb) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written-off are not classified as having escaped poverty.
• Escape from poverty: clients classified as *poor* at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as *poor* at the outset.
• Entry into poverty: clients classified as *non-poor* at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as *poor* at the outset.
• Net reduction: escape from poverty, less entry into poverty.

Clients in the rural environment. Percentage of women involved in farming activities (aa)



Rural clients. Reduction in poverty segment (bb)



Rural women are responsible for more than half of all food production. Despite this, worldwide, they only possess 30% of the land, take out 10% of the loans and receive 5% of the technical assistance.

Women in the rural environment in Bancamía

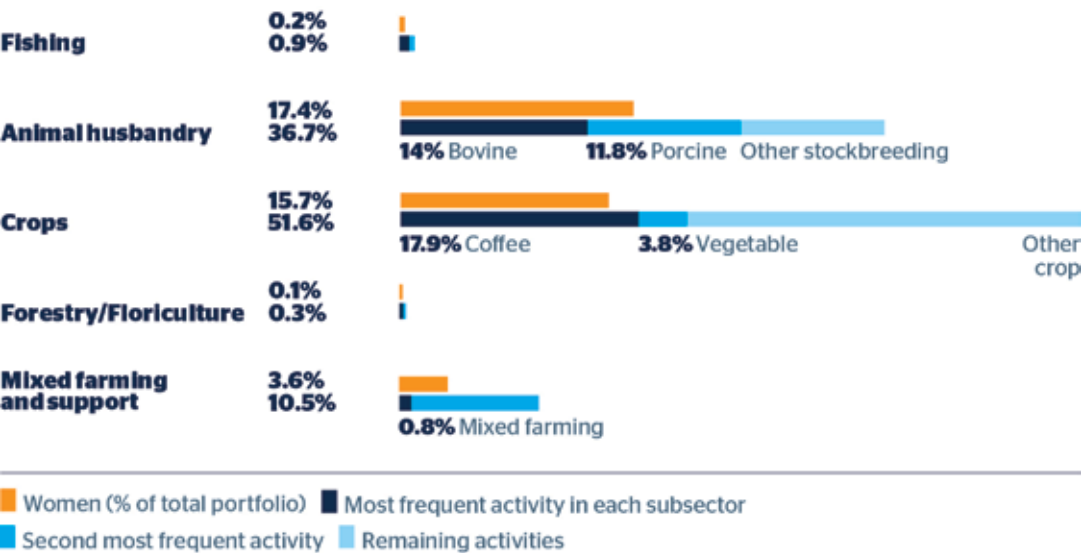
Bancamía is one of the entities with the best performance in the rural environment. Its product specialization and sales network enable it to serve over 140,000 clients in rural areas (44% of its credit clients).

In rural areas there is a major concentration of activities inherent to the *agricultural* sector: one in every two clients works in an associated activity. Practically half of this rural population is made up of women (46%), and of these, 41% have an agricultural business. As the FAO points out, women’s dedication to farming activities is critical for poverty eradication and food security.

Bancamía’s rural clients mainly work in *agriculture*, particularly coffee growing, an activity with high net margins.

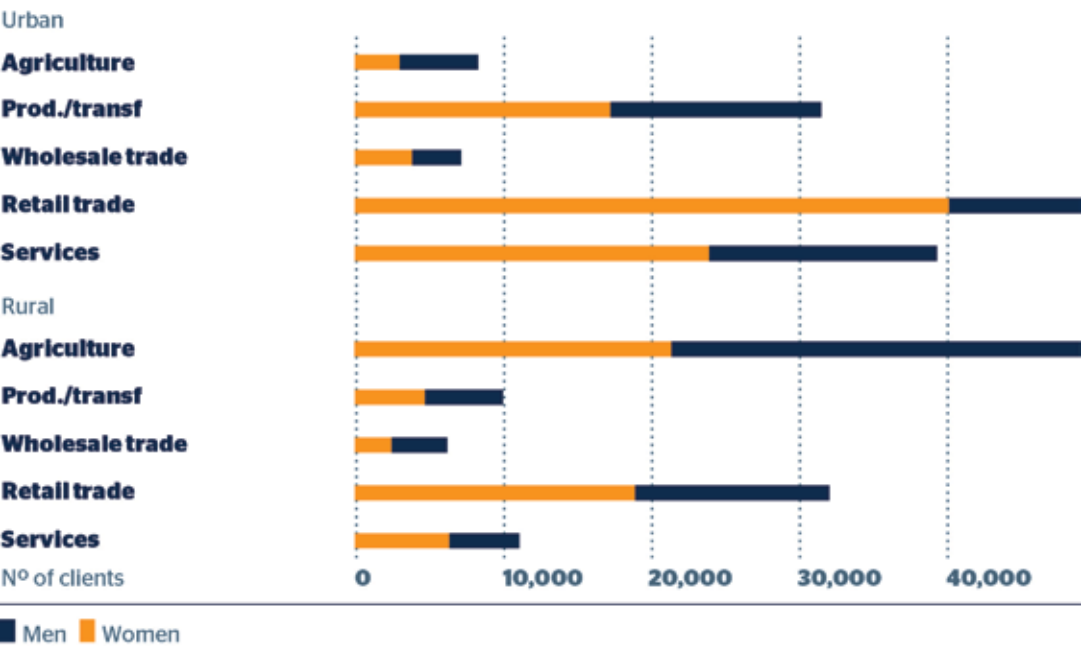
Within the *agricultural* sector in the countryside, men and women specialize in different activities. Bancamía’s rural agriculture portfolio contains five main types of activity: crops (35% of clients in this group grow coffee), stockbreeding (of which 38% raise cattle and 32% breed pigs), mixed and support activities, forestry and woodland activities and fishing.

Bancamía. Agriculture in the rural environment segments (dd)



Source: Bancamía. BBVAMF calculations.

Bancamía. Distribution by activity and by environment (cc)



Source: Bancamía. BBVAMF calculations.

(cc) Data on current clients reported as of 12.31.2016.
(dd) Data on current clients reported as of 12.31.2016.



Although in general terms women’s presence in *agriculture* is a minority one, there is a series of activities in which women play a key part. Bancamía’s female credit clients in the *agricultural* sector in the rural environment mainly work growing crops and in stockbreeding (9% of them in mixed operations), whereas the number of women in forestry, fishing, and agricultural support is residual. The most frequent activity among rural women involved in *agriculture* is coffee growing (17%). In stockbreeding they are mainly concentrated in pig breeding (16% of the female portfolio); cattle breeding (14%) and rearing poultry (11% of rural woman in *agriculture*).

Crop-based activities bring in larger net incomes than stockbreeding. Rice growing

(insignificant, less than 1% of the portfolio) and coffee growing (18% of all farming clients) generate the highest net incomes (167% higher than the average weighted net income for all farming activities in the rural environment; and where net incomes in businesses run by women are 4% lower than those managed by men).

Cattle breeding, a sub-division of stockbreeding, generates lower net incomes than agricultural activities as a whole, and women’s net incomes are 6% below that of men. Net incomes from pig breeding are slightly lower than in cattle breeding, and the gap between men and women widens; women’s net incomes are 24% lower than those of men.

Conclusion

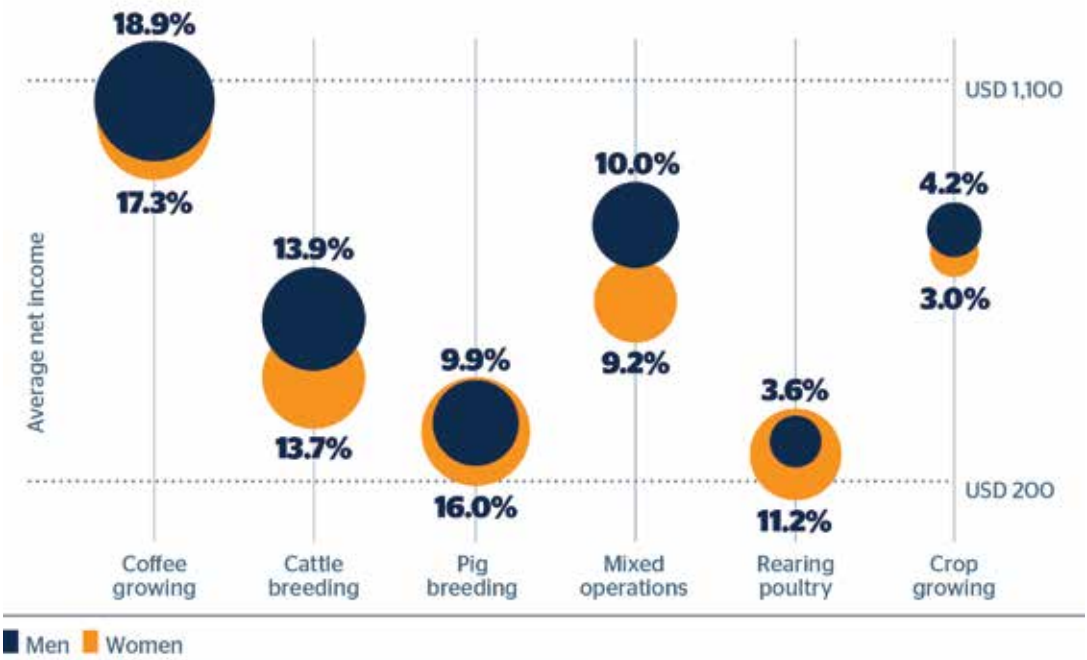
Serving the vulnerable population means primarily serving women. Their businesses require lower investments (32% lower assets), but report greater efficiencies and growth rates than men’s businesses. Female clients of the Group’s institutions are, to a high degree, women on their own with families to support (45%) and they do this working mainly in *retail trade*, including in rural areas (where farming enterprises are on the whole led by men). These enterprises not only improve women’s situation of vulnerability, but also narrow the economic gap with men. 68% of the clients who pushed up over the poverty line in 2016 were women.

In their clearly defined mission to generate opportunities for less advantaged people,

BBVAMF supports women as they develop their enterprises, providing financial services (*see Palabra de mujer [Woman’s Word]*), financial education for their empowerment (*see Escuela de Emprendimiento [School for Entrepreneurs]*) and creating networks, staying with them over the different stages of their lives. The outcomes of these activities are economic progress and improved living standards for our women clients, their families and communities, reducing the differences between men and women.

Meanwhile, as part of its institutional function, BBVAMF is working to raise women’s visibility and to support international institutions that are pushing to achieve the 2030 Sustainable Development Goals. ■

Bancamía. Average net business income from principal activities (proportion of clients engaged in each activity) (ee)



(ee) Data on current Bancamía agricultural clients reported as of 12.31.2016.

*Each circle represents the proportion of agricultural clients by gender. Source: Bancamía, BBVAMF calculations.

Notes (1) PovcalNet: Poverty measurement developed by the World Bank’s Research Group. A poverty line of USD 3.1 in purchasing power parity is used for all regions. Data to 2013. (2) Idem with a poverty line of USD 1.9 in purchasing power parity for all regions. (3) UN Women. (4) Remaining data in this section are from CEPALSTAT, BBVAMF calculations. (5) *The Global Gender Gap Report* WEF. (6) Calculations using ILO data. (7) Cepal: *Changes in family structures in Latin America*. (8) ILO: *Women at work. Trends 2016*. (9) Constructed from World Bank and CAF data. (10) All data in this section are from Global Findex, with 2014 data from World Bank. (11) *Women, Business and the Law 2016*, World Bank. (12) McKinsey, *The power of parity*, 2015 (13) http://www.womenseconomicempowerment.org/assets/reports/country/Responsible%20Productive%20Finance_BBVA.pdf. (14) <https://www.uschamberfoundation.org/event/international-womens-day-forum-2016>. (15) <http://mfbbva.org/en/naciones-unidas-invita-a-la-fundacion-microfinanzas-bbva-al-panel-de-alto-nivel-sobre-empoderamiento-economico-de-la-mujer-en-america-latina/> (16) Credit measured as the average disbursement made in 2016. (17) Total value of sales as the sum of the last average monthly sales figure, clients current as of 12.31.2016. (18) Total value of assets as the sum of the latest value for total business assets recorded by clients current as of 12.31.2016. (19) Between 2000 and 2014, the gross rate of tertiary education fees has risen from 22.3% to 44.5% (in the case of women, from 24.1% to 50.2% and of men, from 10.6% to 38.9%). CEPAL, data obtained from the preparatory meeting for the IberoAmerican Business Forum. (20) The adolescent fertility rate (births per 1,000 women between 15 and 19 years old) is 81.1 in Panama, 51.9 in Chile, 96.2 in Dominican Republic, 67 in Peru and 85 in Colombia. *The Global Gender Gap Report 2015*, World Economic Forum. (21) Stands at 42% in Latin America. Cepal 2015. (22) UN Women.



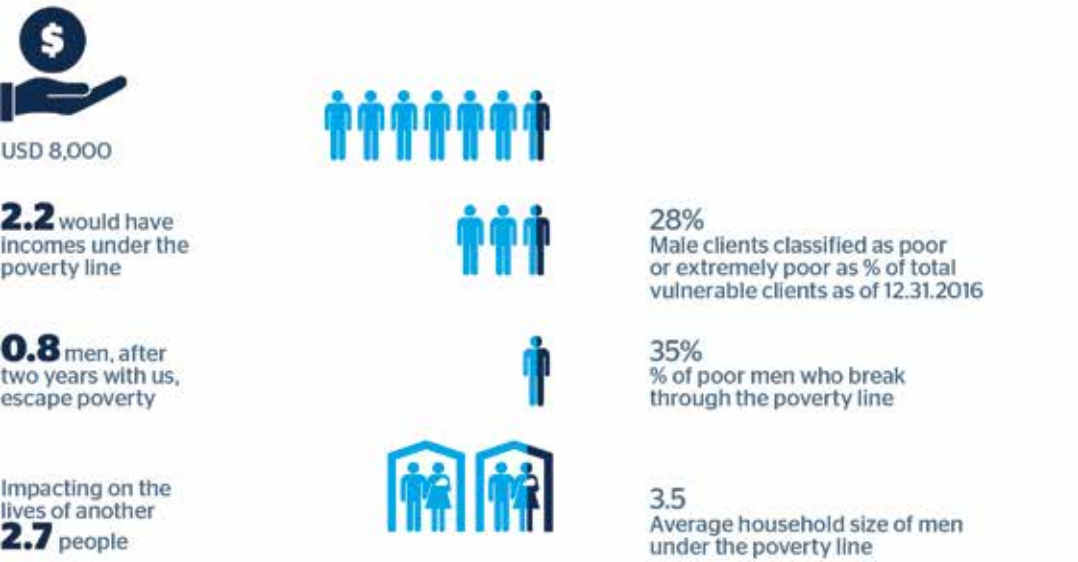
The impact of financing vulnerable woman and men

BBVAMF has a clearly defined mission to generate opportunities and reduce inequalities. Financing aimed at women contributes to eliminating barriers and imbalances, generating positive and sustained impacts for families and driving integrated economic and social development.

Women



Men



BBVAMF

Aggregate data

As of December 31, 2016

	COP /USD	PEN/USD	DOP/USD	CLP /USD	CLP /USD	PAB/USD	
Exchange rate as of December 31, 2016	0.0003331	0.2985252	0.0215848	0.0014989	0.0014989	1.0000000	
Activity summary	BBVAMFG	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Financial data							
Gross loan portfolio (USD)	1,082,485,050	380,562,145	467,940,439	128,577,386	64,668,275	15,213,664	25,523,141
Amount disbursed in 2016 (USD)	1,300,373,669	325,768,413	593,969,100	146,935,016	196,807,915	15,555,474	21,337,742
Number of disbursements in 2016	1,062,325	256,520	301,111	208,368	270,150	11,690	14,486
Average disbursement in 2016 (USD)	1,224	1,270	1,973	705	729	1,331	1,473
Deposits & others (USD)	562,159,033	183,675,808	322,437,594	56,045,631			
Operating data							
Nº of employees	8,038	3,542	2,137	1,393	560	163	243
Nº of offices	507	199	149	74	53	21	11
People receiving financial education	353,868	160,382	54,549	28,801	110,136		
Our clients	BBVAMFG	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Net number of clients	1,826,607	828,499	468,902	390,199	110,817	11,106	17,084
Number of credit clients	901,624	325,712	212,134	224,771	110,817	11,106	17,084
As a % of all BBVAMF Group credit clients		36.1%	23.5%	24.9%	12.3%	1.2%	1.9%
Number of savings clients	1,562,132	785,472	395,975	380,685			
As a % of all BBVAMF Group savings clients		50.3%	25.3%	24.4%			
Vulnerability level of credit clients (% clients)							
Extremely poor	7.1%	6.0%	2.9%	4.3%	30.3%	1.1%	3.9%
Poor	19.6%	19.2%	15.4%	24.1%	20.0%	5.6%	14.9%
Vulnerable	49.7%	45.8%	51.1%	59.0%	36.3%	51.6%	51.9%
Total vulnerable	76.4%	71.0%	69.5%	87.4%	86.6%	58.3%	70.7%
Others	23.6%	29.0%	30.5%	12.6%	13.4%	41.7%	29.3%
Other credit client segments (% clients)							
Rural	32.4%	43.6%	24.7%	38.9%		33.5%	38.2%
Women	60.2%	55.3%	50.5%	66.9%	82.8%	58.2%	42.1%
With primary education, at best	44.8%	56.3%	16.8%	50.1%	41.1%	50.5%	31.1%
By age (credit clients)							
Under 30 years old	19.7%	20.3%	41.5%	44.2%	28.0%	21.0%	21.5%
Between 30 & 60 years old	70.2%	65.1%	50.4%	49.3%	60.8%	59.5%	67.3%
Over 60 years old	10.1%	14.6%	8.2%	6.5%	11.2%	19.5%	11.2%
Monthly net income p.c. of new credit clients USD	193	190	231	161	146	370	327
Extremely poor	35	23	42	33	39	53	47
Poor	72	52	79	75	86	91	103
Vulnerable	161	121	171	165	184	218	235
Others	509	488	512	441	589	619	656
Average disbursement of new credit clients USD	855	1,021	1,298	441	301	1,229	983
Average monthly sales of new credit clients USD	1,328	1,609	1,385	1,234	826	2,187	1,554
Avg. ratio of installment as % of credit client sales	8.3%	6.4%	9.8%	3.8%	14.8%	6.8%	5.6%
Segments of savings clients (% clients)							
Rural	37.3%		20.9%	37.9%			
Woman	57.2%	55.4%	46.2%	67.1%			
With primary education, at best	47.6%	57.7%	28.3%	26.0%			
By age (savings clients)							
Under 30 years old	19.0%	10.4%	22.7%	26.0%			
Between 30 & 60 years old	70.3%	74.6%	68.6%	67.3%			
Over 60 years old	10.7%	15.0%	8.7%	6.7%			
Year-on-year growth of savings clients (YoY 2016)	10.0%	5.8%	21.4%	2.0%			

Their bussinesses

	BBVAMFG	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Economic activity (% credit clients)							
Agriculture	15.8%	25.2%	20.6%	4.1%		17.9%	30.5%
Production / transformation	11.7%	14.9%	10.1%	0.2%	25.8%	18.6%	24.7%
Trade	55.0%	41.6%	46.1%	79.6%	65.7%	50.9%	26.5%
Services	17.6%	18.3%	23.2%	16.1%	8.5%	12.6%	18.2%
N° of employees hired by clients	104,674		35,807	44,729	13,936	3,325	6,877
% of clients reporting they have employees	57%		81%	92%	100%	96%	99%
N° employees hired (extrapolating to 100% of clients)	182,790		44,073	48,731	13,957	3,481	6,965
Average monthly sales USD							
	1,658	1,730	2,097	1,399	991	2,152	1,876
Agriculture	1,537	1,719	1,179	1,415		1,909	1,405
Production / transformation	1,452	1,453	1,890	1,647	880	1,833	1,706
Trade	1,826	1,980	2,909	1,418	1,018	2,266	2,626
Services	1,377	1,404	1,390	1,300	1,125	2,511	1,806
Average assets USD							
	7,812	7,520	14,717	5,300	1,489	7,969	15,121
Agriculture	10,676	8,540	13,550	7,766		11,954	31,434
Production / transformation	6,598	6,373	14,407	6,878	1,126	6,535	5,759
Trade	6,766	6,523	14,290	5,176	1,442	6,371	7,045
Services	9,319	9,314	16,745	5,267	2,946	10,871	12,230
Net income, installment & costs as percentage of sales							
% Costs	59.4%	61.4%	60.2%	61.2%	45.6%	48.7%	54.8%
% Net income	31.4%	31.1%	27.1%	33.8%	30.6%	44.4%	38.8%
% Installment	9.3%	7.5%	12.7%	4.9%	23.8%	6.9%	6.4%
Financial structure							
Equity/assets	84.5%	80.3%	85.4%	89.2%		89.5%	90.0%
Liabilities/assets	15.6%	19.7%	14.6%	10.8%		10.5%	10.0%

Their development

	BBVAMFG	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Average retention of credit clients							
First year	65.9%	78.4%	57.0%	73.5%	44.0%	63.3%	70.4%
Second year	41.2%	47.1%	32.2%	55.7%	30.7%	35.9%	41.8%
Third year	28.7%	32.8%	20.5%	43.4%	25.2%	23.5%	30.9%
Fourth year	21.3%	23.5%	14.2%	34.2%	21.5%	17.2%	23.5%
Average recurrence of credit clients							
Cycle 2	53.2%	47.3%	55.8%	66.8%	75.0%	56.2%	50.5%
Cycle 3	30.6%	24.4%	34.1%	44.9%	60.0%	34.5%	31.2%
Cycle 4	18.3%	13.6%	21.9%	28.8%	51.5%	23.1%	19.0%
Cycle 5	11.2%	7.9%	14.8%	16.6%	42.8%	16.6%	10.2%
Cycle 6	7.1%	4.7%	10.7%	7.5%	40.9%	11.4%	4.3%
Client linkage by product type							
Credit, savings and insurance	20.5%	29.7%	14.5%	15.4%			
Credit and savings	14.4%	4.4%	15.2%	39.7%			
Credit and insurance	3.6%	4.3%	4.5%	0.0%	4.3%	38.3%	
Credit only	10.9%	0.9%	11.1%	2.4%	95.7%	61.7%	
Improve their housing conditions after two years (% credit clients)	8.5%	9.6%	9.2%	6.6%	11.6%		9.5%
Improve their educational level after two years (% credit clients)	2.4%	2.3%		2.9%	3.8%		
Create employment after two years	7.4%		2.4%	8.4%	4.3%	5.1%	6.4%
Performance of 2011 to 2016 cohorts							
Increase in sales (Avg. CAGR)	18.2%	19.1%	14.2%	19.0%	42.9%	10.4%	7.9%
Increase in assets (Avg. CAGR)	25.7%	28.6%	29.0%	22.2%	27.3%	10.3%	11.6%
Business income increase (Avg. CAGR)	18.1%	19.4%	10.6%	18.9%	53.6%	19.7%	4.3%
Net poverty reduction after three years	44.8%	41.9%	30.2%	52.5%	53.5%	20.0%	27.7%

Poverty line in 2016 (USD)

	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Rural						
Extremely poor	29.3	44.1	44.5	51.7	51.7	59.8
Poor	50.5	72.2	91.7	77.4	77.4	107.1
Urban						
Extremely poor	36.0	54.6	46.4	67.1	67.1	70.7
Poor	84.3	104.9	103.0	111.6	111.6	144.1

Information limitations

Information limitations	Comments
Lack of information on certain variables. There are certain variables for which information on some clients is not available.	<ul style="list-style-type: none">Where there are data gaps, client’s data has not been used and thus is not included in the samples analyzed.When calculating financial outcome indicators (sales, net incomes, assets, equity), data was not always available.
Positive bias. Clients’ tendency to present a more favorable view of their microenterprise.	<ul style="list-style-type: none">BBVAMF methodology works on the premise that the data is gathered by a loan officer/agent with an informed understanding of the client’s circumstances, who will therefore only report data he/she considers reasonable.
Differences in criteria. Indicators are based on the faithful interpretation of each micro-finance institution’s (MFI) criteria and those of its agents/officers.	<ul style="list-style-type: none">Assets and sales indicators, in particular, are based on the in-depth understanding of each MFI’s criteria and that of its agents.
Process limitations. Typically the data is gathered once a client acquires a new product or renews their loan, entering the core banking system. Some indicators, however, are separate from the traditional data collection process and as such are less reliable.	<ul style="list-style-type: none">When we have found the data to be less robust, it has not been presented.
Heterogeneous databases. Not all MFIs track 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. type of environment), where information has not been disclosed or a specific criterion has been used (which has been disclosed in each case).Specifically, some MFIs designate environment (rural/urban) based on the branch with which the client has a banking relationship. The branch is assigned to a municipality/region that is defined as rural/urban based on local government criteria.

Comments on the variables and indicators chosen

Indicator	Comments
Economic vulnerability	Classification of clients by their <i>per capita</i> (p.c.) net income (monthly business income minus monthly business expenses) / (number of people in the household), against the poverty and extreme poverty lines by environment (rural/urban) published by each country’s official body (<i>see National poverty lines section</i>). Clients are classified as <i>extremely poor</i> (when their p.c. business net income is below the national extreme poverty line), <i>poor</i> (when the p.c. net income is below the national poverty line and above the extreme poverty line), <i>vulnerable</i> (if the p.c. net income generated by the business is less than three times the poverty line and above the poverty line) and <i>others</i> (p.c. net incomes more than three times the national poverty line).
Economic sectors	Based on the United Nations International Standard Industrial Classification of all economic activities (version 4) ⁽¹⁾ . <ul style="list-style-type: none"><i>Agriculture</i>: agriculture, forestry, fishing, mining and quarrying.<i>Production / transformation</i>: manufacturing; electricity, gas, steam, air conditioning supply; water supply, sewerage; waste management, remediation activities; and construction.<i>Trade</i>: wholesale and retail trade, repair of motor vehicles and motorcycles.<i>Services</i>: 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.
New credit clients	New clients are defined as those who have not previously had a loan with any BBVAMF Group institution.
Financial statement data (P&L and Balance Sheet)	Indicators with information on sales, assets, disbursements, net incomes, etc. for current clients, taking the values provided based on their latest disbursement, whatever the date it occurred. The exception to this methodology are the performance charts (e.g. growth of average monthly sales), which require the information to be updated in the prior 12 months, that is, which requires the disbursement to have taken place in the previous 12 months (except in the case of Fondo Esperanza, <i>see Performance and Reduction in the poverty segment</i> below).

Performance	To prepare sales, net income and asset performance indicators, BBVAMF used data on clients, current at December 31, 2016, who have had a second or subsequent disbursement in the last 12 months and, as such, who have updated their economic data. In exceptional cases, where the information was updated after the disbursement, this information is used for the calculation (i.e. the latest available data is used). Fondo Esperanza is an exception because of the nature of its processes, in which the client’s economic information is only updated in the fourth/fifth cycle/ disbursement, with the result that the client sample is made up of clients who have had two disbursements (at the outset and at the end, when their financial data was updated) without the stipulation that this had to have happened in the preceding 12 months. The aggregate data for BBVAMFG is calculated by requiring there to have been an update in the previous 12 months, except in the case of Fondo Esperanza.
Reduction of the poverty segment	Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Those clients whose loans have been taken off their MFI balance sheets for non-payment (who have been written-off) are excluded.
Payment installment	The installment has been calculated as a monthly figure (where it had another frequency) and, where the client has more than one loan, all their installments to the institution are added together.
Client retention	The number of clients in each cohort that stays with BBVAMFG (that is, who continue to have a banking relationship with one of its MFIs) after a defined period (yearly in most cases). This is calculated as the difference between the clients at the outset and those remaining at the end of the period.
Recurrence	Proportion of clients who take out successive loans, so, for example, recurrence in cycle 2 are those clients who, having taken out a first loan, take out a second. It is calculated with cohorts from 2011 onwards; to see whether clients have renewed a subsequent loan or not, a minimum time is required for the renewal, depending on the average terms of the institution’s transactions. Since the average term is generally about a year, in order to qualify as recurrent in the second cycle, the cohort must have passed a minimum term of 12 months, to qualify for the next cycle, the time passed must be 24 months, etc. The differences in the terms between the methodology for individual loans and for group lending mean that these transactions cannot be aggregated by cycles or disbursements, so they are presented separately and flagged up in each case.
Net income relative to the poverty line	Measures the ratio that <i>per capita</i> net income represents relative to the poverty and extreme poverty lines for the environment in question (rural/urban) at the moment when the data is collected (i.e. relative to the poverty line that year). Relative <i>per capita</i> net income is calculated taking the poverty line current at the time of the disbursement and, since the measurement is relative, it can be compared over time (in the same way as the financial update of monetary units) as well as comparing between different geographies or segments. The result of (1- relative p.c. net income), represents the distance from the poverty line; for example, if the average net income has the value of 0.82, it is 0.18 below the poverty line.
CAGR	Compound Annual Growth Rate.
YoY	Year-on-year growth rate.

National poverty lines

The official extreme poverty and poverty lines, by rural and urban environments, as published by each country’s statistics institute, are used. Where these figures have not been updated, the latest available is taken and updated with that country’s annual Consumer Price Index (CPI).

In the case of Chile, the Social Development Ministry changed its method for estimating the poverty line in 2013. Nevertheless,

to preserve standardization with the measurements of the other countries, BBVAMF uses the traditional methodology of poverty measurement in which the extreme poverty line is based on a minimum calorie intake and the poverty line on a basic basket of goods and foodstuffs. In the event of the Ministry for Social Development not publishing updates, the latest poverty line available (2013) will be updated using each year’s CPI.

Country	Source		Poverty level	Rural (LOC)	Urban (LOC)
Colombia	2015 lines updated with December CPI (5.75%) ⁽²⁾	2016	Extreme poverty Poverty	87,832 151,493	108,093 252,959
	National Statistics Department (DANE) ⁽³⁾	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	2015 lines updated with December CPI (3.34%) ⁽⁴⁾	2016	Extreme poverty Poverty	148 242	184 353
	National Statistics & IT Institute (INEI) (2014) ⁽⁵⁾	2015	Extreme poverty Poverty	143 234	177 340
	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

Country	Source		Poverty level	Rural (LOC)	Urban (LOC)
Dominican Republic	2015 lines updated with December CPI (1.7%) ⁽⁶⁾	2016	Extreme poverty Poverty	2,060 4,250	2,150 4,774
	Ministry for the Economy, Planning & Development (MEPyD), March ⁽⁷⁾	2015	Extreme poverty Poverty	2,025 4,179	2,114 4,694
	MEPyD (Mar.)	2014	Extreme poverty Poverty	2,012 4,153	2,100 4,664
	MEPyD (Sep.)	2013	Extreme poverty Poverty	1,985 4,096	2,071 4,600
	MEPyD (Sep.)	2012	Extreme poverty Poverty	1,888 3,896	1,970 4,375
	MEPyD (Sep.)	2011	Extreme poverty Poverty	1,840 3,797	1,920 4,264
Chile	2015 lines updated with December CPI (2.7%) ⁽⁸⁾	2016	Extreme poverty Poverty	34,495 51,660	44,765 74,468
	2013 lines updated with December CPI (4.4%) ⁽⁸⁾	2015	Extreme poverty Poverty	33,588 50,302	43,588 72,510
	2013 lines updated with December CPI (5.1%) ⁽⁸⁾	2014	Extreme poverty Poverty	32,172 48,182	41,751 69,454
	Ministry for Social Development (MSD) ⁽⁹⁾	2013	Extreme poverty Poverty	30,611 45,844	39,725 66,084
	MSD (re-uses 2011 figures)	2012	Extreme poverty Poverty	27,436 42,324	35,605 61,366
	MSD	2011	Extreme poverty Poverty	27,436 42,324	35,605 61,366
Panama	2015 lines updated with December CPI (1.5%) ⁽¹⁰⁾	2016	Extreme poverty Poverty	60 107	71 144
	2014 lines updated with December CPI (0.3%) ⁽¹⁰⁾	2015	Extreme poverty Poverty	59 106	70 142
	Ministry of Finance & the Economy (MFE) (Mar.) ⁽¹¹⁾	2014	Extreme poverty Poverty	59 105	69 142
	MFE (Mar.)	2013	Extreme poverty Poverty	56 102	66 137
	MFE (Mar.)	2012	Extreme poverty Poverty	53 98	63 131
	MFE (Mar.)	2011	Extreme poverty Poverty	49 92	59 125

Exchange rates

All the (historical) data from MFIs is incorporated in local currency and the exchange rate current as of December 31, 2016 is applied so that exchange rate fluctuations do not have an impact on the conclusions.

Country	Exchange rate		Source
Colombia	COP / USD	0.000333	BBVA Bank, mid-market rate on December 31, 2016
Peru	PEN/ USD	0.298525	BBVA Bank, mid-market rate on December 31, 2016
Dominican Republic	DOP/ USD	0.021585	BBVA Bank, mid-market rate on December 31, 2016
Chile	CLP/ USD	0.001499	BBVA Bank, mid-market rate on December 31, 2016
Panama	PAB/ USD	1.000000	BBVA Bank, mid-market rate on December 31, 2016

Notes (1) <https://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=27&Top=2&Lg=1> (2) <https://www.dane.gov.co/index.php/en/statistics-by-topic-1/prices-and-costs/indice-de-precios-al-consumidor-ipc> (3) <https://www.dane.gov.co/index.php/estadisticas-por-tema/pobreza-y-condiciones-de-vida/pobreza-y-desigualdad/pobreza-monetaria-ano-movil-julio-2014-junio-2015> (4) <https://www.inei.gob.pe/biblioteca-virtual/boletines/informe-de-precios/12/> (5) https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1347/index.html (6) http://www.bancentral.gov.do/estadisticas_economicas/precios/cvipc/cipc.php (7) <http://economia.gob.do/mepyd/wp-content/uploads/archivos/uaaes/boletines/boletin-pobreza-septiembre-2015.pdf> (8) http://www.ine.cl/canales/chile_estadistico/estadisticas_precios/ipc/base_2013/ (9) Traditional methodology, http://observatorio.ministeriodesarrollosocial.gob.cl/documentos/Casen2013_Situacion_Pobreza_Chile.pdf (10) https://www.contraloria.gob.pa/inec/Avance/Avance.aspx?ID_CATEGORIA=2&ID_CIFRAS=10 (11) <http://www.mef.gob.pa/es/informes/Documents/Pobreza%20e%20Indigencia%20-%20Marzo%202014.pd>

Innovation in our DNA

In recent years the wave of technological change in financial services has improved financial inclusion, quality and sustainability. BBVAMF wants to be part of this process, particularly in the technological arena, to put the opportunities of this new era within reach of everyone.

In the last 30 years, microfinance has made possible the largest wave of financial inclusion in history, essentially in developing countries. It was in the fifties when financial inclusion began to take root in these countries, focusing above all on credit offered by public institutions. From the eighties onwards, major progress was made towards achieving sustainable models, with greater cover. After this, in the nineties, the term *microcredit* began to be replaced by *microfinance*, going from a single product offering to one with a range of products and services.

This progress was achieved using a branch office model, in other words, involving direct personal relationships with the client, which built up a system based on trust. This is essential when targeting low-income segments but implies a high expenditure to revenue ratio: labor costs account for nearly half of total operating costs.

The model has now come up against its limitations: low efficiency because of the high costs deriving from the average size of transactions in this sector; transaction costs for clients, especially those in rural areas, and the unavoidable infrastructure outlay needed in order to serve these areas.

As a result the most vulnerable clients and those living in the remotest spots have not been included. Today, 2 billion people, 38% of adults in the world, do not have access to formal financial services; most of these are in rural areas and on the whole are located in developing countries. Demographic density and *per capita* income have been the main factors that have had a repercussion on financial inclusion.

The limitations of a static model have conditioned the rate of progress in financial inclusion, but perhaps it has been the best model available to deal with the obstacles

the sector has faced in serving the financial needs of people in a situation of poverty. They have particular circumstances, a structure of preferences that conditions their long-term performance and high volatility, both in their activities and in their incomes. Along with these elements, there is the cost that institutions must assume to access information about their clients' activities and performance, the implicit uncertainty in the absence of guarantees and/or collateral, and the higher costs of serving more vulnerable groups who are geographically dispersed. All this has given rise to high transaction and delivery costs.

Another dimension implicit in the model, and no less important, is voluntary exclusion, as well as many people who remain in the system once they have accessed it, but who have faced high transactional costs to receive services. In other words, if it costs someone who wants to make a savings deposit a quarter of the amount they are saving to get to the branch office, even without counting the opportunity cost of not being engaged in their occupation during that time, they will prefer to use informal sources.

No less important are the technology limitations which the microfinance industry has faced in this period, particularly

significant in these segments. The progress in the rest of the financial system was designed for other segments, while the development of solutions adapted to this segment ran up against major shortfalls, both in attributes and in costs, with the result that innovations lacked the scale needed for the enormous task of inclusion.

Traditional banking's mobility solutions, cash machines, cards and online banking were all designed for clients who were already included or who had other characteristics. The vast majority of operators did not have access to an appropriate core banking system that provided them with an information management system to promote the take-up of more inclusive models, which would overcome branch office restrictions and encourage alternative channels for contacting with the most remote excluded segments.

These, in turn, faced major barriers to entry in using technology. The main and virtually sole channel giving the poorest people technological access is the cell phone. The average cost of a cell phone was equivalent to a year and a half's income in these segments, and lines were limited, being available to people with access to the financial system, ie. who had credit cards. Less than 5% of the population had access to this technology in the mid-nineties.

All these elements contribute to explaining why access to financial service has been rationed in the last 30 years, on average, to 60% of adults in the world. For these 3 billion people and their family dependents, operating on a daily basis with cash makes it difficult to save or think about the future and it inhibits social mobility, perpetuating the precarious conditions at the outset and making them more vulnerable.

Less than 5% of the population had access to this technology in the mid-nineties. The average cost of a cell phone is equivalent to a year and a half's income among the most vulnerable segments.

1. Technology in financial inclusion

However, in recent years this situation has been reversing, thanks to a series of innovations in financial services, which have improved financial inclusion in terms of access, quality and sustainability. At the heart of these innovations is the wave of technological changes that, particularly in the last few years, has made it possible to adopt innovative, less expensive business models to provide financial services, making it viable to reach the poorest and most remote segments.

We are in the midst of the biggest revolution in information, communications and democratization of access to technology in the history of humanity. For example, more than 40% of the world's population has access to the internet, and nearly seven of every 10 homes, of the 20% poorest, have a cell phone. For many people, the current expansion in access to digital technology broadens the options available to them and makes a series of activities easier to consider doing.

We have entered a new era, marked by the democratization of technology and a change in consumer behavior, which requires a complete transformation of the financial system if it is to adapt to the new competitive panorama that is unfolding, with new players entering the sector.

FinTech is an industry that uses technology to make the financial system and the delivery of its services more efficient. Many of these companies have sprung up in response to the changes in how people and companies save their money, make payments, invest, apply for loans and buy insurance products. Nowadays, millions of people throughout the world carry out a broad range of financial transactions using other channels, without having to go to a bank branch, which encourages a new model of interaction.

Access to these technologies opens up opportunities that formerly were out of reach for the poorest and most disadvantaged sectors. Technology is for everyone, and the fact that they live in remote areas or have low resources should not create a barrier to digital inclusion, but rather an opportunity to move forward and be creative about how to integrate these segments. Putting effective tools into the hands of people in situations of poverty, tools that help them to develop, is the real power and potential of technology.

One of technology's most important gifts is the greater mobility it brings. This, without a doubt, is a key component of progress in financial inclusion. Clients are no longer received in offices; the bank goes in search of them, creating the appropriate channels of interaction. This minimizes the transaction costs incurred by people accessing a financial service and makes the model more efficient. Both are important catalysts for inclusion.

New financial inclusion centers on implementing branch-less banking models centered on technology. These models reduce the cost of making a transaction by using digital and mobile technologies and leveraging the presence of existing retailers. They close the gaps in branches' infrastructure to make clients' convenience a reality and offer more affordable services.

New financial inclusion centers on implementing branch-less banking models based around technology, that make it viable to reach the poorest and most remote segments.



Furthermore, one of the most important dimensions of technology is the availability of information. Financial services are, in essence, an information business. The problem of lack and/or asymmetry of information lies at the heart of financial exclusion. Some of the most important contributions of new technologies are: the increased quantity and quality of information available when looking for new clients, the strengthening of relationships with existing clients and risk management. Other impact areas affect a wide range of existing products and business models, where digital data enriches decisions or helps to automate processes.

Another dimension that is not so frequently mentioned, but no less important, is the speed of response in different interactions with this type of client. Scarcity and precarious conditions are a permanent reality for them; as such they need shorter response times with solutions that enable them to seize opportunities and cope with unexpected events.

2. Responsible Productive Finance

Responsible Productive Finance, practiced by BBVAMF, can therefore deploy technological solutions that satisfy the purpose of reaching greater numbers of vulnerable people, bearing in mind twin dimensions: scale and reach, and sustainability (efficient and effective), to strengthen the interface with clients.

Our institutional mission of promoting our clients' economic and social development means that our entities must have a business model that is centered on clients and meets their financial needs. We work with a relational banking model that requires, on the one hand, our presence along the length and breadth of the countries where we operate in order to reach our clients; it also requires our institutions to be close and

This model focuses not only on financial accessibility, which is important *per se*, but also on staying close to the client. We make the journey with clients.

stay with clients throughout their life cycle, in the knowledge, as our own experience has shown us, that this accompaniment is a factor that influences their development.

It is clear, from the size of the loans we originate, that our relational model is very intensive in terms of people and client contact, something which is fairly costly and it is precisely for that reason that innovation in all its aspects, whether in technology or in improving or creating new process or in supplying new products, acquires vital importance if we are to ensure that our institutions can achieve critical mass, signing up many more clients, and sustainability, in order to operate with lower marginal costs.

Our Responsible Productive Finance model also involves a significant challenge that consists of contributing technology solutions that enable us to retain the spirit of the model, providing financial products and services to clients who are developing a productive activity, which enables them to generate surpluses and raise their incomes on a permanent basis.

This model focuses not only on financial accessibility, which is important *per se*, but also on staying close to the client. We make the journey with clients as they develop their financial and business culture, which has been shown to be a necessary adjunct to their natural skills, and which ensures a high success rate.

The technological and innovation solutions that we develop are not designed to substitute personal relationships, but to reinforce them, making them better and more efficient. Managing information and their data leads to discovering and efficiently identifying clients' capacities to develop productive activities, whether for self-employment or in small enterprises with scope to grow.

In BBVAMF we are aware of this reality and of the challenges imposed by our model, so, leveraging the opportunities opened up by technology, we have worked on five dimensions: core banking, the distribution model, digital channels, innovation in risk models and products. These are the factors that we believe have the greatest impact on inclusion, on whether people stay in the financial system and on efficiency.

3. Core banking system

Our core banking system is the centerpiece housing all the institution's business information. We decided to install a solution designed to handle the processes specific to microfinance, that needed to be particularly powerful in risk tool configuration and that also had a technology infrastructure that would make the time-to-market fast enough to satisfy all kinds of channel.

It is a customer-centric platform that manages clients by profile and characteristics. New product configuration is quick and flexible, which ensures that we can look after different types of clients appropriately. This flexibility, associated with the other strategic essential (appropriate management of business processes) has enabled us to establish the groundwork for *humanizing the client experience*.

This solution means that its package of functionalities can be installed in any type of technology architecture such as, for example, Oracle's solution in our

The core banking system makes new product configuration quick and flexible, which ensures that we can look after different types of clients appropriately.

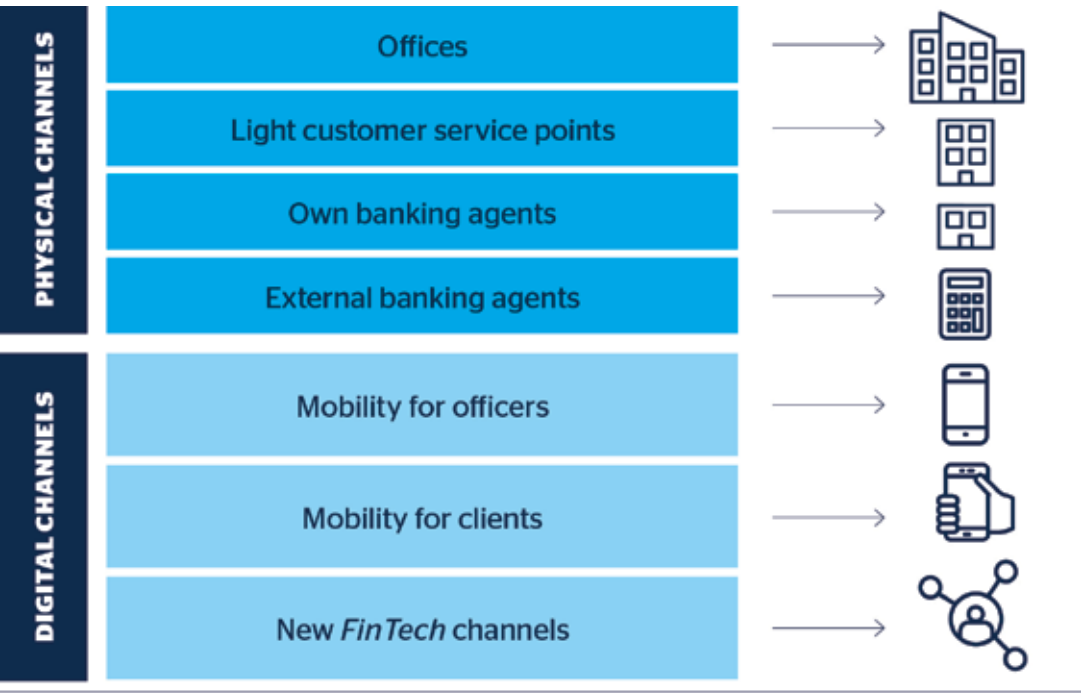
bigger institutions and SQL in the smaller institutions, without losing any functionality. We maintain the synergy of a Group-wide platform but match the infrastructure expense to the size of the institution. What is more, its SOA architecture means that channels can be developed quickly and the solution installed in the cloud. All these mobility solutions are connected to this banking core system, making them more efficient, and enabling these types of operations to be monitored in real time.

4. Distribution models

In order to reach more people more effectively, BBVAMF Group's distribution model has changed from a traditional branch office model to a multi-channel one, with additional channels (both physical and virtual) that support commercial dynamics. These complementary channels bring our institutions' products and services closer to our clients, with lower transactional costs, both for clients and for the institution.

Light offices and banking agents are the key components of this approach. The former enable us to reach rural or remote areas where microfinance has not yet arrived, with light customer service points, staffed by just a few officers, mainly located in rural areas where a traditional office would be unviable because of the low volume of clients they could serve.

Distribution channels



Their function is principally commercial; they provide information to clients and make assessments for loans. For monetary operations they rely on the banking agent network.

This model was created in order to reach far-off areas, where there are many vulnerable clients. In this way we increase the capillarity of our institutions, with lower investment costs and more agile roll-outs.

Banking agents, meanwhile, mean that the client has to travel as little as possible to carry out transactions with our institutions. Close to the client, they are existing commercial premises that are open to the public, located mainly in rural areas and those close to large conurbations, where our clients can conduct basic transactions, as though they were in one of our branch offices.

Unlike other proposals already available on the market, our model of external agents is based on proprietary technology, developed for mobile devices, that allows agents to provide the main banking operations: balance queries, loan installment payments, deposits and withdrawals from savings accounts. These are all completely aligned with our core banking system, which represents a saving in the transactional cost for the entity; but much more importantly, it guarantees a saving for the client in both time and money because of the greater closeness, convenience and flexibility.

Clients no longer have to shut their business to travel to the branch office (two or three hours, there and back), with the attendant loss of business and the transport cost (*see Banking agents special project in Colombia and the Dominican Republic*).

Moreover, to make operations in this channel much more straightforward, we use biometric fingerprint authentication systems, which has reduced identity verification times and, with them, transaction times. The use of biometric authentication has a positive influence on client behavior, triggering greater commitment on their part and better credit performance.

5. Digital channels

The distribution model aims to minimize the branch office channel, currently the main form of contact with clients. It is true that most new branch offices are being opened with a light office concept, more suited to the needs of our institutions. Although we understand that branches must continue to exist as our reference for physical centers, other, more efficient and effective ways of reaching clients exist.

To achieve this, we must provide a mobility solution for our network associates that enables them to operate from any point on their daily routes, without having to visit the branch, to develop a strong network of own banking agents and to provide our clients with a solution that makes it easy for them to interact digitally with our institutions' services.

Thus, within the strategy defined for developing digital channels, we identified three distinct work streams: the loan officer's mobility, the mobility of our banking agents and the mobility of clients (mobile banking). Our model of relationship banking, intensive in terms of client contact, relies heavily on our sales officers, given the proximity and links they generate with each of our clients on their initial visits, follow-up visits, etc. In essence, the officer is the public face of our institution.

Hence the need to make the daily tasks of each officer simpler, more efficient and more effective since these are the key tools in providing a better service to our clients.

This idea was the inspiration behind the *Sistemática Comercial* [Sales System] program, which organizes our officers' daily workload, creating a general activity template with standardization of sales processes, protocols and work procedures.

Thanks to the mobility program, loan officers' mobile devices have functionalities that make their work much more efficient and at the same time enable them to operate from the clients' own place of work or indeed anywhere.

The main functionalities in our mobile application are: managing the daily appointment diary, accessing complete information on every client, geo-referencing clients to optimize their visiting routes, being able to sign up clients and submit credit applications, approving some loans on the spot during the visit, being able to take money for loan installment payments in the field and to print out the receipts for the client with a mobile printer. This solution also allows officers to complete the sales process *in situ*, even enabling them to print out contracts. All this is a more efficient use of the loan officer's time, improves response times to applications and, in short, provides a better service to the client.

This application works on a tablet or cellphone and contains the principal operating functionalities of core banking. This solution can be used for working online and offline; in the latter case, it sends data automatically to the core banking system when it identifies that there is an active data channel; it also complements each institution's banking agent network, facilitating client operations (*see Mobile banking special project, in Colombia*).

This same solution, with minor security additions, serves to create a proprietary banking agent network in places where no other networks exist. It will be possible to approve the transaction in the client's

Mobile banking seeks to provide a low-cost transactional medium, support client digitization and minimize the transfer risk of cash.

presence and disburse the sum immediately, whether in a savings account or in cash, in any of our branches or banking agents.

Client mobility, or mobile banking, is already operative in two of our institutions, enabling our clients to manage their savings, their loans and to carry out transactions, monetary and others, in real time from their cellphones (whether these are smartphones or not and whether they carry data or not). It is supported by physical channels (banking agents) to manage cash-in/cash-out.

Mobile banking is linked to the client's savings account and seeks to (i) offer clients a low-cost transactional medium, particularly those whose geographical location makes it difficult for them to access banking services; (ii) promote the active use of savings accounts; and finally, (iii) support client digitization by keeping the money within the mobile banking system, minimizing the transfer risk.

The channel is gradually being used more as clients familiarize themselves with the technology and trust increases. As of today, the channel is mainly used for non-monetary transactions, particularly queries about movements, balances and debt obligations; in monetary transactions, the predominant operation is topping up the balance on the cellphone.

However, the idea is to make this channel a real mobility tool for the client. Unlike other technology solutions, which depend solely

on us for implementation, this alternative is highly conditioned by external factors, such as the obstacles our clients face in accessing communications, the difficulty in setting up straightforward digital economic flows between users of different institutions, and the lack of digital culture among end users.

Although the lack of digital culture can be addressed gradually with clients, communications and electronic clearing have to be resolved by governmental regulators, allowing the most vulnerable to have affordable access to communications – probably along the lines of *México Conectado* [Connected Mexico], and also to be able to carry out transactions with other users without the complexity of current clearing systems, rather like the process being rolled out in Peru with the BIM system (with the public company Pagos Digitales Peruanos S.A.).

Despite all these obstacles, we think that this is a digital solution that not only serves clients' need to operate with banking products, but that helps them in other aspects of their daily lives, such as purchasing non-banking services, financial education, local information of interest (market prices, weather forecasts, etc.). It does this by giving them a direct communication channel with their officer, a social network for their community and a tool for recording and monitoring their daily cash flow. The offering contains all these elements, making it possible to strengthen this channel, which is essential if progress is to be made towards greater use of cashless operations.

6. Innovation in risk models

Traditional methods of assessment in microfinance are based around *in situ* assessment of each client in their workplace, with face-to-face visits and one-to-one interviews. These determine whether clients have *intent to pay*, that is, whether they will be prompt payers or not; and also

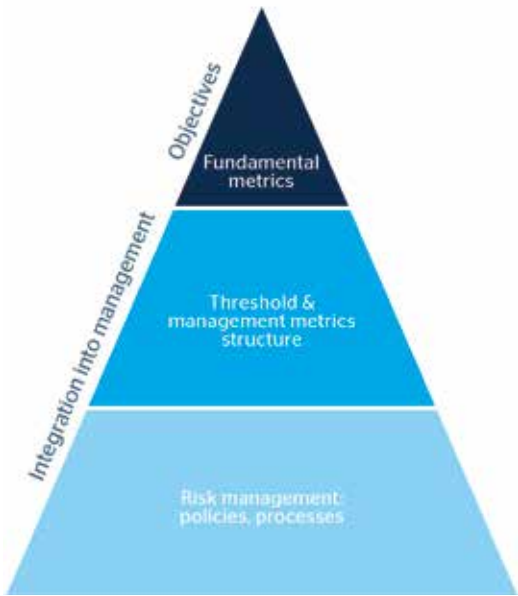


their *ability to pay*, or, depending on the economic health of their business, how much they can pay a month.

It is important to stress at this point that in BBVAMF we only work with people or micro-enterprises with a productive activity, and, furthermore, that we are only obliged to originate a loan in those cases where our clients' businesses or projects are viable and, as such, will have the opportunity to generate more net income for them.

In view of this, our risk model in BBVAMF aims to provide our sales officers with more objective information, that enables them to take better decisions and, at the same time, to try to give the client a faster response. The components of innovation in the risk model area are divided into: general risk appetite, scoring models, reference margins, collection scoring, real-time monitoring and non-traditional information models.

General risk appetite framework



6.1 The general risk appetite framework

This allows risk appetite methodology to be incorporated into BBVAMF institutions' strategic planning processes, as well as providing one of the best practices that exist in the international market, helping to ensure stability over time in risk outcomes and thus to support the institutions' sustainability. BBVAMF's risk governance model stands out for the close involvement of its organs of governance, both in setting the risk strategy and in monitoring and continuous supervision of how it is being implemented.

6.2 Scoring models

These help to reduce the subjectivity of our decisions. In BBVAMF we have been working for several years on scoring models that enable us to use historical information about our own clients' profiles to infer each of their risk levels automatically from the first contact. This risk measurement helps all the officers in our institutions to respond on the most straightforward transactions (those with less risk) using a much faster procedure; they can then leave the more complex ones to people with more experience. Under no circumstances do we use scoring models as a tool for exclusion.

From the methodological perspective, availing ourselves of this information from the first contact means that proprietary scoring models can be designed that are adapted to the different client segments we serve; and from the technology perspective, their integration into the banking core means that they can automatically offer the loan officer the necessary support to complete their final decision.

It is logical to assume that in a credit assessment, receiving an application from a new client about whom we know very little in terms of their payment behavior is not the same as receiving one from someone who has grown with us and has complied impeccably with their commitments.

Scoring Models

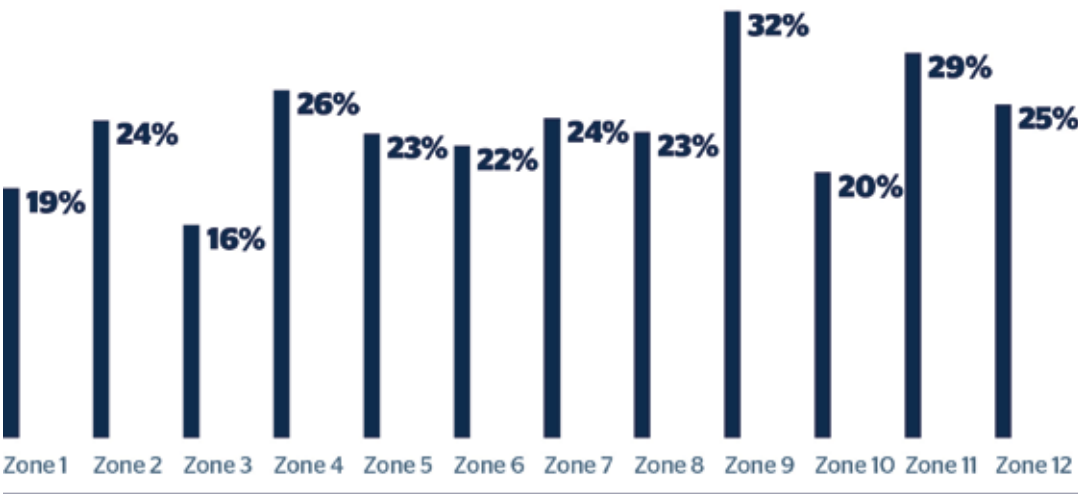
TYPE OF SCORING	Back office	Supports pre-assessment
	Admission	One-to-one evaluation
	Behavioral	Pro-active evaluation
	Collections	To make the collection process more efficient

To acknowledge that fact, we have designed different scoring models for each segment; in the first case greater weight is assigned to the client's profile information: their age, experience in their activity, civil status, composition of their family unit, etc.; in the second, the information about payment behavior is more highly weighted, becoming the officer's key reference.

6.3 Reference margins

This enables analysis to be standardized and to reduce the subjectivity of our decisions. One of the assessment phases of the risk inherent to an operation in microfinance is the quantitative assessment estimating ability to pay, in which the methodology for collating economic data is highly subjective; this can result in two different officers obtaining variations in the quantification of the client's income and expenses after they have conducted the same analysis.

Activity margins in clothing sales



Developing this methodology enabled us to prove that every economic activity has a similar business margin, but that at the same time this differs depending on the client's geographic location. With these outcomes we expect to obtain more objective financial analyses, that accurately reflect our clients' situation, standardizing their business margins by their activity and geographical location, and incorporating this standardization into the credit assessment process.

6.4 Collection scoring

This provides more efficiency in collection processes. Using historical databases on our clients' payment behavior, profile data, economic characteristics and the different collection arrangements we have in place, we succeed in predicting their payment probabilities.

Traditional recovery models focus on resolving who should manage collections and what that management should consist of. Thanks to our collection scoring, we have included a third question: from whom should I collect first? At the same time we have enhanced the decision-making process about who is the best person to collect from each client.

With these payment probabilities for each client, every month the collection officers carry out this task, which is more efficient from the perspective of our institutions, and which from the client's point of view is better adapted to their particular needs. In many cases they succeed in anticipating debt restructuring options for clients who may be just starting to show problems with their business.

6.5 Real-time monitoring

This makes it possible to see portfolio performance in real time. Most of our decisions are taken every day on a local basis in our offices. This requires a major effort on the part of our institutions, to try

BBVAMF's risk model aims to provide our sales officers with more objective information so that they can make better-informed decisions and at the same time try to give the client a swifter response.

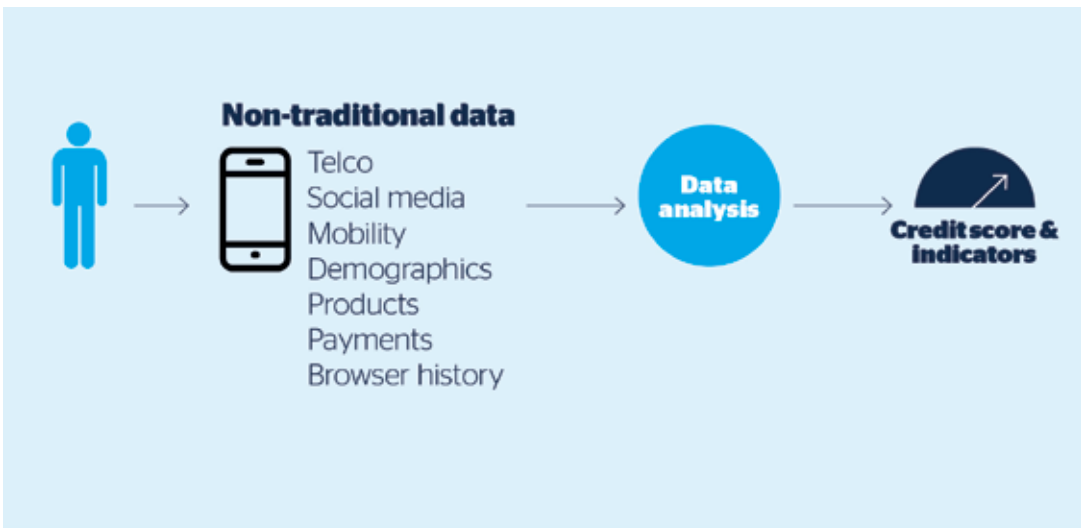
to reduce the subjectivity of their analysis and standardize their criteria and policies.

Nevertheless, in such a wide network, reaching so many and such diverse places, we need to monitor closely to determine the quality of the assessments made by our officers so that we are really originating loans responsibly and, in conclusion, not jeopardizing the sustainability of our institutions.

At BBVAMF we have designed a new methodology using information acquired by our officers on their visits to predict each client's risk level; with this data, branch office managers have at their disposal information in real time about the quality of new actions at a number of levels: each client; each officer portfolio; and each office. This will allow them to see in good time likely misalignments from the target client profile that we are accepting or, for example, which officers need more assistance or training.

In addition to all these innovations in our risk models, we have made progress in designing assessment methods that incorporate non-traditional information to estimate a client's payment behavior; information about payment of public services, geo-referencing of the client's home and workplace, historic log of cell phone usage patterns.

Real-time monitoring



These are just some of the new proposals for improving client assessment, all of them focusing more on people who have never had a loan in the financial sector.

7. Products and services

Our business model implies a greater understanding of clients and their needs; based on this experience, a range of products and services is being developed to meet each segment's expectations.

7.1 Flexible payments

One of the projects underpinning this personalized management in credit products is the *Flexible payments* project, the purpose of which is to adapt the payment system to service a loan depending on the cash flow of clients in the agricultural segment. This product has given access to new clients who otherwise would not have been able to fulfill regular payments, but which are viable under this payment scheme adjusted to the revenue creation cycles of this particular sector.

Furthermore, we have developed other products and services that contribute to the progress and enterprise of our clients and to improving their standard of living and those of their families. Among the most representative is the education loan, the home improvement loan and the microfranchising loan.

7.2 Education and housing loans

The education loan is a product that makes it easier for the most disadvantaged students to access financial services and enables them to start, continue and finish technical and tertiary studies. Through agreements with several educational institutions, we offer financing to cover tuition, books, transport, study materials and other equipment they need for their studies. With these loans we are promoting education in the countries where our institutions have a footprint and, most importantly, in facilitating education we are ensuring a future in which our clients' children will have more opportunities for personal, economic and social development.

Another very important aspect in the development of our clients is the loan scheme for home improvements. We have designed products so that our lower-income clients in particular can afford this, supporting them in the process of identifying improvements with an *Asistencia Técnica Constructiva* [Constructive Technical Assistance] program that identifies how to build and/or upgrade their homes appropriately and in line with what they can afford. The specific needs in each case are identified and a program of gradual improvements and viable solutions drawn up, advising the client on the construction/refurbishment stages their home will undergo, and with the commitment that the work will be completed. The aim of this product is to improve the living standards of our clients and their families, increasing their business productivity, since this helps to make the space where they carry out their productive activities more suitable (*see the Casafin special project in Panama*).

7.3 Microfranchises

Another product that has a major impact on our clients is micro-franchising. We are continuing to make progress with this business model, which is mainly targeted at women (female heads of household), and is a recognized strategy for developing

A range of products and services that meet the expectations of each segment is being developed such as, for example, the education loan, the home improvement loan and the microfranchising loan, among others.

entrepreneurial ability, enabling income levels in the most disadvantaged groups of the population to be increased. It is based on a template for sustainable and affordable business models, has a proven distribution model, and one where the product being sold is of interest to the community (*see the Microfranchises special project in the Dominican Republic*).

By applying this model we facilitate financing for distributors and sellers, as well as other products and services that support their development and progress. Thanks to the financing they receive, they buy the inventory, and we therefore guarantee the continuity and sustainability of their entrepreneurial activity. A large part of this model's success is down to the fact that it gives people extensive skills while guiding those with little or no business experience to manage and administer their micro-enterprises, making it easier for them to perform these productive activities.

The specific characteristics of our target client type, people who in the main are economically and socially vulnerable, have led us to abandon the single-product model (credit) prevalent in the sector. Offering a range of financial products and services that enable our clients to meet their different needs is fundamental, and part of our reason for existing. Our savings and insurance products are particularly important here.

7.4 Microinsurance

Microinsurance offers clients the opportunity to protect their wealth. Insurance has a direct impact on the vulnerability of our clients, enabling them to manage more efficiently those risks that are beyond their control and that could have catastrophic consequences on everything they have built up for themselves and their families. Insurance, very developed in other segments of the population, has only a small foothold and, in some cases, has yet to arrive. On this journey, in BBVAMF we

have faced a number of difficulties: the need to establish strategic partnerships with insurance firms and brokers who understand the specific characteristics of our clients and find the way to give them a tailored response; the need to find a premium and assured sum that matches what our clients can pay; and finally, the low level of awareness or understanding of insurance on the part of our clients' officers (*see the Microinsurance special project in Chile*).

In this scenario a tool has been developed that is installed in officers' mobile devices and which supports them in the sales procedure in the field, offering them all the resources they need to teach themselves. The tool identifies which offering should be made to each client based on an identification of their specific needs, and provides officers with a number of sales resources (videos, images, sales pitches, responses to objections, etc.), that helps them explain the product to the client more convincingly.

Indexed agricultural insurance policies have been developed for farming entrepreneurs who face a number of challenges, among which the most difficult to resolve is the managing the risks specific to this type of activity. Traditional agricultural insurance has lots of disadvantages that limit its success among these clients, the most important of these being the high cost and the time it takes to assess the loss and pay compensation, because the loss adjuster has to go personally to the affected area.

Indexed insurance policies calculate the ratio of the insurers' expected losses based on an objective and measurable external index, so that by using this index the client can be recompensed swiftly, obviating the need for the loss adjuster's visit. We are currently testing in one of the institutions how this type of insurance works, trying, basically, to make it affordable for our clients.

Insurance has a direct impact on our clients' vulnerability, enabling them to manage those risks that are beyond their control and that could have catastrophic consequences for themselves and their families.

7.5 Promoting savings

The liability product offering enables us to encourage a culture of formal saving among our clients. Encouraging saving by our clients means helping them to achieve their projects and long-term goals. In order for this culture of saving to have a real effect on these aims, it has to be recurrent and disciplined; these requirements are the main challenges to overcome (*see the Savings for All special project in Peru*).

To support our clients in this arduous task, we are testing a platform for two-way interaction between the client and the institution via sms; we send personalized messages that adapt to each client with the frequency and content appropriate to the client's replies and interests. Behind this is a very powerful algorithm that uses Big Data technology; through its recurring interaction it accompanies the client, reinforcing the importance of saving, resolving operating queries and other related services. ■

Sector development

BBVA Microfinance Foundation is following a steady course implementing initiatives that drive the transformation of the microfinance sector and the elimination of the obstacles to its expansion.

Over the decade we can point to the work of disseminating good corporate governance practice, the promotion of better regulatory environments, training of human capital and the drive in social impact measuring systems. The microfinance sector has also been assisted in its growth by the strategic partnerships we are developing, together with the institutional activity and recognition received over this period.

1. Initiatives

Corporate governance

BBVA Microfinance Foundation (BBVAMF) is convinced that a good institutional corporate governance system leads to clear organizational structure, with well-defined lines of responsibility that are transparent and coherent, and effective procedures for managing, monitoring and communicating risk.

Corporate governance develops the internal checks and balances of institutions and, as such, is essential to generate transparency and trust among investors and attract

capital flows. It also contributes to efficient management and takes the demands of different stakeholders into account, helping to build up the reputation and integrity of the microfinance institution, promoting clients' trust.

BBVAMF, which is committed to developing the sector and aware that good corporate governance constitutes one of the greatest challenges facing the microfinance sector in Latin America and the Caribbean, defined a *Universal Corporate Governance Code for Microfinance Institutions*, a benchmark document for the sector that lays out the principles and standards that all microfinance institution's good governance code should contain, in line with internationally accepted standards and good practice.

So that it could be adopted and applied in practice, BBVAMF worked with the Inter-American Development Bank to draw up *Guidelines for the adoption of good governance principles in microfinance institutions*. The guide has an attached *Passport*, a self-diagnosis survey with a list of the essential questions that can help any microfinance

entity identify areas for improvement in its own good governance.

BBVAMF has organized nine good governance training workshops, open to the rest of the sector, for board members of microfinance institutions. Up to 2015, BBVAMF trained over 400 board members and senior management of over 230 microfinance institutions in Colombia, Peru, Dominican Republic and Costa Rica. SBS, the Peruvian banking and insurance supervisory body's training center, Asomif, Peru's Microfinance Association, Fepcmac, Peru's Municipal Savings & Loan Federation, Redcamif, the Central American and Caribbean Microfinance Network, Redcom, the Costa Rican Network of Organizations for the Micro-enterprise, Abancord, the Dominican Republic's Association of Savings Banks and Credit Corporations, Banca de las Oportunidades and Bancoldex have all been key partners in achieving success in these workshops.

In December 2015, BBVAMF approved its new *Corporate Governance Code* for all the institutions in the BBVAMF Group, a scorecard to interpret the values and principles of governance shared by all. This is a framework for strengthening its commitment to generating inclusive social impact, long-term sustainability and the creation of value and good name, which differentiates the Group and improves its performance.

The Code has been recognized as one of the *10 best transparency and good governance initiatives 2015-2016* selected by *Compromiso Empresarial*, journal of the Fundación Compromiso y Transparencia [Commitment & Transparency Foundation], for the design of a governance model in line with the highest international standards, that can be adapted to all countries' own legislation through regulations and internal norms. BBVAMF Group's Corporate Governance is a document of reference in the sector and for groups operating across different jurisdictions.

Promoting better regulatory environments

Making financial inclusion a driver of inclusive and sustainable economic and social development in disadvantaged segments of the population requires a responsible regulatory framework. BBVAMF publishes *Progreso Microfinance: Corporate Governance, Inclusion and Development*, a quarterly digital newsletter about legal news in the microfinance sector, that collates the most important legislative and regulatory developments in the sector and new developments in corporate governance, worldwide. This publication reports on the trends influencing change in the regulatory framework, in order to support better informed decisions and debate.

Progreso Microfinance includes the most important microfinance news in the legal arena, provides direct links to the documents cited in the publication, as well as expert commentary, opinion articles and interviews. It is targeted at the main players in the microfinance world: governments, regulators, supervisors, multilateral institutions, universities with a microfinance specialty, rating agencies, the media, foundations and non-profit financial entities, financial associations and institutions.

It reports on two aspects that may enable the sector to expand efficiently. Firstly, on each country's key legislation and the main trends in regulation; and secondly, disseminating corporate good governance principles, in order to create awareness about their importance for the sector's sustainability.

Human capital

In 2009, BBVAMF joined forces with the Inter-American Development Bank to create a *Microfinance Specialist Training Program* (the Program), for the purpose of up-skilling loan officers in microfinance and thus mitigating the lack of specialized professionals in the sector, which represents an obstacle for expansion.

The *Corporate Governance Code*, one of the ten best transparency and good governance initiatives for the governance model.

The *Microfinance Specialist Training Program* was developed in conjunction with the National Distance Learning University of Spain (UNED) and universities and prestigious tertiary education centers in Latin America (Universidad del Pacífico, Universidad Javeriana, Instituto de Estudios Bancarios, Universidad Latina and Autoridad de la Micro, Pequeña y Mediana Empresa-Ampyme), that train students from an economic, entrepreneurial and social perspective in a broad understanding of the microfinance sector, specializing in and adapted to the very low income population profile that they will be serving.

The Program had two training modules, online and face-to-face, and participants were awarded a dual certificate from both universities - their national university and Spain's UNED. The program ran from 2009 to the end of 2013 and trained 1,669 microfinance specialists in all across the 48 courses in Peru, Colombia, Chile, Argentina and Panama.

Microfinance Campus

In BBVAMF, training is strategic leverage that influences the sector, the institutions, those working with us and clients, through the learning and knowledge they need to promote sustainable and inclusive economic and social development. To bring this to life, in 2015 BBVAMF set up the *Microfinance Campus*. This is a company program to guarantee a training offering that increases associates' knowhow, skills and abilities to improve their qualification, professional growth and enhanced performance, centered on our clients' development.

With this in mind, a global and digital LMS (*Learning Management System*) platform was rolled out, with easy multi-device access for the Group's 8,000 plus associates, middle managers and senior staff, which integrates innovative training solutions and places a value on internal knowhow and good practices honed during the Group institutions' years of experience in the microfinance sector.

The catalogue contains more than 3,000 teaching hours and cross-disciplinary contents developed with new teaching methodologies, supported by the use of digital technologies. Since the *Microfinance Campus* was launched, it has imparted over 750,000 hours of tuition in subjects such as client development, risk, sustainability, project management, corporate governance, information systems and induction for new sales officers.

The drive for social measurement

BBVAMF developed its social measuring system for the purpose of assessing the social performance of its actions, and to see the impact on the lives of people we are serving and accompanying. It has been published in the annual report since 2012 and has become *best practice* within the sector. It was acknowledged as such in the report *Business and the UN. Working together towards the SDGs: A Framework for Action*, University of Harvard Kennedy School, commissioned by the UN's SDG-F.

BBVAMF has presented its social measurement system in several specialist sector forums around the world (Madrid, Santiago de Chile, Washington, Brussels, Morocco, Bogotá and Luxembourg, among others). What is more, BBVAMF's social measurement system is published as a case study in the report *Guidelines on Outcomes Management for Investors* report. This publication by the European Microfinance Platform (e-MFP) and the Social Performance Task Force (SPTF) sets guidelines for integrating social measurement into the activity of inclusive financial investors.

2. Strategic partnerships

As part of its collaborative effort, BBVAMF has made agreements with other organizations that drive and multiply its impact, contributing to develop and consolidate the microfinance sector. Partnerships have been put in place to encourage microfinance activity with institutions that include:

Inter-American Development Bank

A memorandum of understanding (MOU) was signed in October 2007 between the Inter-American Development Bank and BBVAMF to work together on activities to improve access to microfinance services in Latin America. The agreement is to partner on programs that drive the microfinance industry as a whole and provide support to microfinance institutions that make it easier for these to expand.

World Bank - IFC

An MOU was signed between the IFC and BBVAMF in May 2008 outlining their strategic microfinance cooperation in Latin America. In November 2016 BBVAMF signed its commitment with the World Bank to the *Universal Financial Access 2020* program, supporting the World Bank in its aim to achieve universal access to financial services by 2020 and has committed to working towards making accounts available to over 2.3 million clients.

State aid from Spain

The partnership with the Department of State for International Cooperation & Ibero-America was signed in September 2014 to join forces in developing actions in the area of microfinance and financial inclusion. This cooperation was reiterated in June 2015 with the signing of a partnership agreement with *Marca España* [Brand Spain].

United Nations Organization

BBVAMF institutions have worked over the course of these last 10 years with United Nations. Bancamía's agreement with UNEP in Colombia and Microserfin's work in

Panama with UNHCR and the WHO are notable examples.

Since April 2015, the United Nations' Sustainable Development Fund (SDG Fund) chose BBVAMF as one of the 13 institutions around the world chosen as founder members of its Private Sector Advisory Group, which provides strategic support to the UN so that, in coordination with the private sector, better results in sustainable development can be achieved. The UN SDG Fund has renewed BBVAMF's membership of this advisory group for 2017-2019.

The partnership with UN Women was formalized in February 2015 with an agreement to promote the development and inclusion of low-income women entrepreneurs in Latin America and the Caribbean. Since 2016 BBVAMF has been involved in the UN Secretary-General's *High-Level Panel on Women's Economic Empowerment*, which has highlighted BBVAMF's experience as a financial inclusion case study.

In July 2016 the United Nations Economic and Social Council (ECOSOC) awarded the BBVA Microfinance Foundation consultative status. BBVAMF may be consulted by the United Nations to provide guidance and recommend actions that contribute to sustainable development.

As a result of its contribution to the SDGs, the United Nations SDG Fund selected BBVAMF as one of the 13 global founding institutions of the *Private Sector Advisory Group*, which gives the UN strategic support

3. Institutional activity in 2016

March	April	May	June	July	September	November	December
<p>March 2nd SPTF Social Investor Working Group Meeting <i>Responsible Finance 2016</i>. United States, New York.</p> <p>March 8th International Women's Day Forum 2016. Organized by the U.S. Chamber of Commerce Foundation. Corporate Citizenship Center & United Nations Office for Partnerships. United States, New York.</p> <p>March 30th Working session with the Queen of Spain. The President of BBVA presented the 2015 Social Performance Report to H.M. the Queen Letizia. Spain, Madrid.</p>	<p>April 4th Visit by Rebeca Grynspan, of the General Ibero-American Secretariat (SEGIB), and former United Nations Under-Secretary General, to the HQ of the BBVA Microfinance Foundation, where she gave a lecture. Spain, Madrid.</p>	<p>May 11th IV Sustainable Finance Forum. Organized by the Business Council for Sustainable Development Turkey (BCSD Turkey), the United Nations Environmental Program (UNEP - FI) and the UN Global Compact in Turkey. Turkey, Istanbul.</p> <p>May 16th Private sector advisory group to the United Nations' SDG Fund. United States, New York.</p> <p>May 18th The BBVAMF 2015 Social Performance Report is presented at the Institute of International Finance. United States, Washington.</p>	<p>June 1st 2016 SPTF Annual Meeting. Case Study Discussions: <i>Measuring and Reporting Client Outcomes</i>. Morocco, Marrakech.</p> <p>June 15th & 16th European Development Days (EDD). Belgium, Brussels.</p> <p>– Presentation of the BBVAMF 2015 Social Performance Report at the EDD.</p> <p>– Claudio González-Vega, President of the Board of Trustees of the BBVA Microfinance Foundation at the High Level Panel <i>Digital technologies' contribution to the Sustainable Development Goals</i>.</p>	<p>July 14th UN High Level Panel on <i>Women's Economic Empowerment</i> – 2016 Latin America Regional Consultation. Costa Rica, San José.</p>	<p>September 13th United Nations Workshop on Sustainable <i>Development Goals</i>. Organized in conjunction with the United Nations SDG Fund. United States, Houston.</p> <p>September 20th <i>Impact evaluation in social interventions</i>. Organized by the Business Observatory against Poverty. Spain, Madrid.</p> <p>September 21st Media launch of the 2015 Social Performance Report, chapter on Colombia, at the Colombian HQ of BBVA. Colombia, Bogotá.</p> <p>September 22nd 71st United Nations General Assembly High Level Panel on <i>Women's Economic Empowerment</i> event, with Secretary-General Ban Ki-moon. United States, New York.</p>	<p>November 11th – Private sector advisory group to the United Nations' SDG Fund. – Presentation of the UN report: SDGs and the <i>private sector report</i>. United States, New York.</p> <p>November 17th Visit by the President of BBVA to Banco de las Microfinanzas - Bancamía, S.A. clients Colombia, Soacha.</p>	<p>December 6th <i>Taking Action: One year on from COP21 and the launch of the SDGs</i> conference, organized by CSR Europe. Belgium, Brussels.</p> <p>December 12th Presentation of UN Report <i>SDGs and the private sector</i>. Spain, Madrid.</p>



Photo 1 The President of BBVA, Francisco González, and the CEO of BBVAMF, Javier M. Flores, presenting the Social Performance Report to H.M. the Queen of Spain.



Photo 2 Visit and lecture by Rebeca Grynspan, of the SEGIB, to the HQ of the BBVA Microfinance Foundation, with Claudio González-Vega, President of the Board of Trustees of the BBVAMF.



Photo 3 The BBVAMF 2015 Social Performance Report being presented at the Institute of International Finance.



Photo 4 Claudio González-Vega, President of the Board of Trustees of the BBVA Microfinance Foundation taking part in the High Level Panel *Digital technologies' contribution to the Sustainable Development Goals* during the European Development Days.



Photo 5 Javier M. Flores speaking at the SDGF Report Launch ©David Ito-7615.



Photo 6 The President of BBVA, Francisco González, and the CEO of BBVAMF, Javier M. Flores, with children at the playschool owned by BBVAMFG client Norma Ordoñez, during one of his visits to Bancamía clients in Soacha.

4. Outstanding acknowledgments

BBVA Microfinance Foundation

- The United Nations Economic and Social Council (ECOSOC) awarded the BBVA Microfinance Foundation (BBVAMF) *consultative status* (2016).
- The methodology of BBVAMF and its group of microfinance institutions, Responsible Productive Finance, was showcased as a case study in the report *Universality and SDGs: a business perspective*, published by the United Nations' Sustainable Development Goals (SDG) Fund.
- *The Corporate Governance Code* was recognized as one of the *10 best transparency and good governance initiatives in 2015-2016* by the Fundación Compromiso y Transparencia [Commitment & Transparency Foundation] (2016).
- BBVAMF's social measurement system was recognized as best practice in the report *Business and the UN. Working together towards the SDGs: A Framework for Action*. University of Harvard Kennedy School, commissioned by the UN's SDG-F (2015).
- The UN's Sustainable Development Goals Fund chose BBVAMF, for its contribution to SDGs, as a member of its *Private Sector Advisory Group* (2015).
- United Nations *Social Investment Pioneer Award* (2012).

Bancamía (Colombia)

- *Ethics Code among the 10 Best in the World*, Smart Campaign (2012).
- *Best in Risk Quality and highest number of microcredit beneficiaries*, Colombia's Securities Commission National Fund Award (2010).
- *Transparency Certificate, Five Diamonds*, Mix Market (2010).

Financiera Confianza (Peru)

- Award for the most innovative institution, for its *Ahorro para Todos [Savings for All]* program, Citi Microfinance Award (2015).
- *Nº1 Peruvian institution in reaching micro-enterprises* in the overall classification, *Microfinance Americas: the 100 best in 2014* ranking, Mix Market, BID-FOMIN.
- Chosen one of *The 300 Best companies in Peru and Latin America in 2013* by the magazine *América Economía*.
- *Best Microfinance Institution in Latin America and the Caribbean 2011* in the *Microfinance Americas: the 100 best in 2011* ranking, Mix Market, BID-FOMIN.

Banco Adopem (Dominican Republic)

- *Award for Excellence in Leadership 2016*, Women's World Banking (WWB).
- *Argentarium 2016 Award* as the best financial institution in the Dominican Republic, for its work in financial education and banking inclusion in 2015.
- Smart Campaign 2015 certification.
- Only institution in the microfinance sector with the top financial and social rating: ALFA MAS (a+) with Stable trend, MicroRate (2015).
- Four and a half star (4.5) with stable outlook social rating, with social outcome and social commitment in the *Excellent* range, MicroRate (2015).
- *Five Diamond transparency certification*, Mix Market (2013).
- Citi Award for the *Most innovative microfinance institution of the year* (2013).
- *Recognition for Leadership 2013*, Women's World Banking (WWB).
- *Best Microfinance institution in Latin America and the Caribbean, 2012*, Mix Market, BID-FOMIN.
- *Best Microfinance institution in Latin America and the Caribbean, 2010*, Mix Market, BID-FOMIN.
- *Institution with best reach, 2009*, Mix Market, BID-FOMIN.

Fondo Esperanza (Chile)

- *Financial Education 2016 Award* for *Contribution to Financial Inclusion*, given by the Banking & Finance Authority (SBIF) and the University of Chile, for its *Segmentos Excluidos [Excluded Segments]* program.
- *Five Diamonds transparency certification*, for quality and reliability of financial information, Mix Market (2008).

Emprende (Chile)

- *Five Diamonds transparency certification*, for quality and reliability of financial information, Mix Market.

Microserfin (Panama)

- *APC award for satisfaction, updating and compliance*, Asociación Panameña de Crédito [Panamanian Credit Association] (2015).
- *Five Diamonds transparency certification*, for quality and reliability of financial information, Mix Market (2014).
- *APC award for updating*, Asociación Panameña de Crédito (2014).
- Only Panamanian company in the overall ranking *Microfinance in the Americas: the 100 best in 2014* (Mix Market, BID-FOMIN) for the third consecutive year.
- *APC award for satisfaction, updating and compliance*, Asociación Panameña de Crédito (2013).■

Aligned with United Nations' SDGs

The 2030 Agenda for Sustainable Development sets financial inclusion as a key goal for the member countries of the United Nations, and, to date, over 60 governments across the world have set financial inclusion as a formal goal. BBVA Microfinance Foundation (BBVAMF), using Responsible Productive Finance is a bold commitment to reduce poverty.

The Sustainable Development Goals (SDGs) are an ambitious plan of action for people, the planet and prosperity that define sustainable development priorities worldwide for 2030. They are universal, applicable to all nations and people, and a call to action to governments, civil society and the private sector, to put an end to poverty and promote a decent life with opportunities for all. They are wide-ranging, with 17 goals and 169 targets, including putting an end to poverty and hunger, guaranteeing sustainable production and consumption and promoting inclusive, peaceful societies.

These goals have an overarching connection with one another. For example, progress on reducing poverty cannot be achieved without improving food security and reducing inequality. One goal leads to another, thus contributing to improving the whole. Companies can make a positive contribution to a large number of sustainable development goals.

Financial inclusion and microfinance play a key role in reducing poverty and in ensuring economic and social development. The 2030 Development Agenda acknowledges this role, including access to financial services, in several of its SDGs. The agenda indicates how important it is to ensure access to financial services for everyone, emphasizing in particular the importance of access for women, who have lower rates of financial inclusion.

BBVAMF is committed to creating measurable impact and is aligned with the SDGs, in particular with the challenge of ending poverty, the goal with which we most identify.

Impact of BBVAMFG's activity and its overlap with SDGs (a)

	Goal	Impact
1	NO POVERTY 	End poverty in all its forms everywhere. Direct
2	ZERO HUNGER 	End hunger, achieve food security and improved nutrition and promote sustainable agriculture. Indirect
3	GOOD HEALTH AND WELL-BEING 	Ensure healthy lives and promote well-being for all at all ages. Indirect
4	QUALITY EDUCATION 	Ensure inclusive and quality education for all and promote lifelong learning. Direct
5	GENDER EQUALITY 	Achieve gender equality and empower all women and girls. Direct
8	DECENT WORK AND ECONOMIC GROWTH 	Promote inclusive and sustainable economic growth, employment and decent work for all. Direct
10	REDUCED INEQUALITIES 	Reduce inequality within and among countries. Indirect
17	PARTNERSHIPS FOR THE GOALS 	Revitalize the global partnership for sustainable development. Direct

(a) United Nations' Sustainable Development Goals. The numbering of the goals is the United Nations' own. <http://www.un.org/sustainabledevelopment/es/globalpartnerships/>

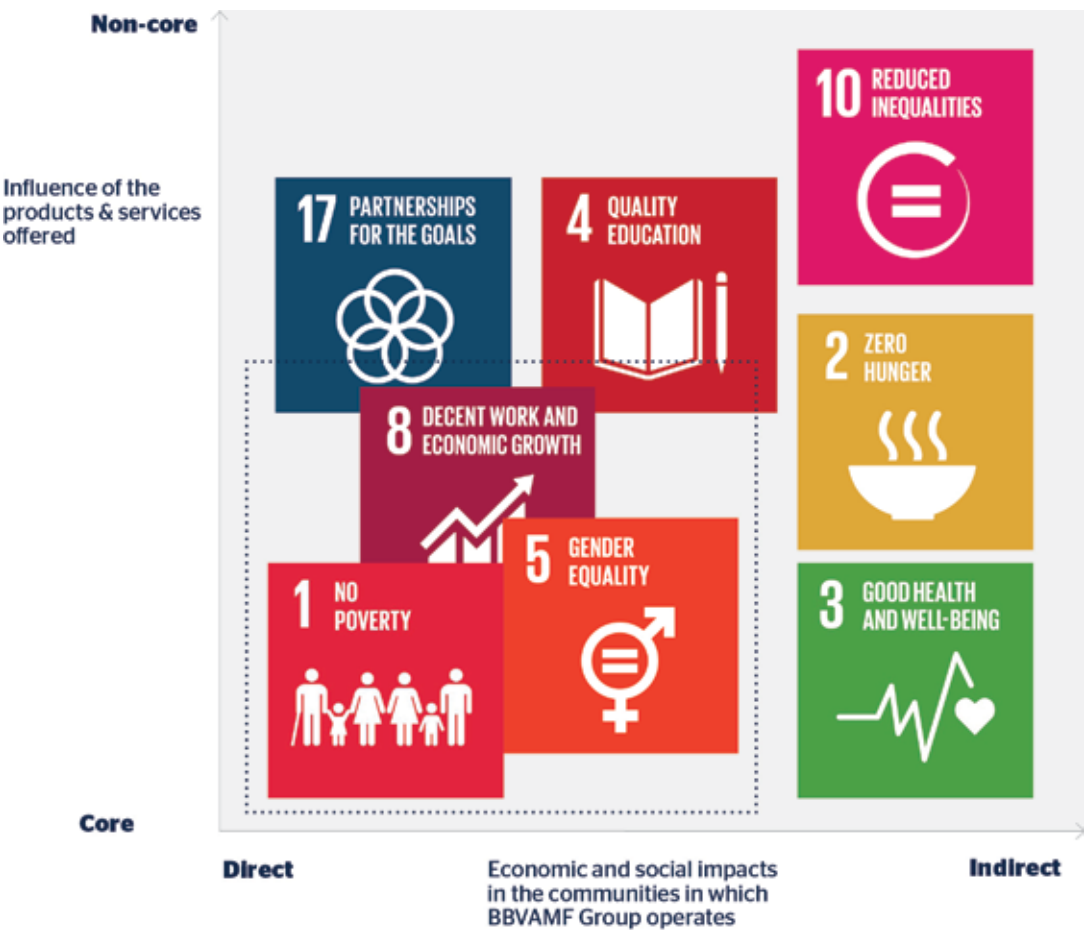
SDGs and BBVAMF

Since it was set up, the BBVA Microfinance Foundation Group (BBVAMFG), with its mission to promote economic and social development through Responsible Productive Finance, has been entirely in alignment with the SDGs⁽¹⁾. In general terms, BBVAMF Group's activity has an impact, to differing degrees, on eight SDGs; on five of them directly, and indirectly on a further three.

SDGs Map

BBVAMF Group's activity works towards SDGs on two levels: the impact (direct/indirect) and the influence the Group has (core vs. non-core), that is, its capacity to improve and extend that impact.

SDGs in the area of BBVAMFG's activity (b)



Source: BBVAMF.

SDGs as they relate to BBVAMFG indicators

BBVAMFG's activity serves specific goals, following its strategic lines of action and aligned with its mission.

Direct contribution to society of BBVAMFG's core activity (c)

1 Serving vulnerable /low-income clients

c. 600,000 vulnerable clients.

27% of clients classified as *poor*; 60% are women, 19% are young people under 30 and 11% are over 60 years old⁽²⁾.



The BBVAMF Group has a client base of 1.8 million, of whom 901,624 are credit clients. Of these, 77% were *vulnerable* as of 12.31.2016. 81% of new clients in 2016 are *vulnerable* and live on an average of USD 3.9 person/day. BBVAMFG's purpose is to continue serving the disadvantaged and on average, over the last five years, 85% of clients were *vulnerable* when they signed up with their institution.

2 Staying with them as they develop

Their net incomes grow by 18% yearly .

Extremely poor clients escape poverty after two or three cycles and *poor* clients after one⁽³⁾.



Client sales, net incomes and assets grow at sustained rates of 18%, 18% and 26% a year respectively (CAGR)⁽⁴⁾. On average, the segment of clients classified as *poor* at the outset falls by 38%⁽⁵⁾ after two years with Group institutions.

3 Influencing their training

353,868 potential clients receive training.

2.4% have raised their educational level after two years⁽⁶⁾.



Indirect contribution to society of BBVAMFG's core activity

4 With an impact on their local community

182,790 jobs created.

Bearing in mind that only 14% of clients have one or more employees⁽⁷⁾.



Driving their communities' economy, by supporting small local companies. For example, 8.5% make home improvements after two years⁽⁸⁾.

Other Group activities with an influence on several SDGs (d)



Governance

Quarterly publication of the digital magazine *Progreso*, with the most important news on legislation and regulations affecting the microfinance sector, and new developments in international corporate governance, to support the sector’s sustainable development.

- Compilation of the corporate governance code, creating a single model for management and relationship processes across Group institutions, in order to reinforce our commitment to generating inclusive social impact, long-term sustainability, value creation and reputation.
- Participation in training workshops, events and work sessions to promote corporate governance in microfinance institutions (outside the Group).

Stakeholders/Partnerships

- Partnerships with multilateral and bilateral bodies (such as the United Nations Organization, the World Bank, Inter-American Development Bank, CAF – Development Bank of Latin America and Spain’s Department of State for International Cooperation and Ibero-America).
- Partnerships with non-profit organizations (particularly local NGOs).
- Collaboration with universities through institutional activity, spreading the word on SDGs and sharing case studies with different players.
- For more detail, see *Sector Development chapter, Strategic Partnerships section*.

Source: BBVAMFG institutions. BBVAMF calculations.

The social and economic goals defined by BBVAMF were already aligned with the SDGs before the latter were formalized and it is part of our *raison d’être*.

With the creation of the new 2030 Agenda for Sustainable Development, BBVAMF was invited to be a member of the United Nations Sustainable Development Goals Fund – Private Sector Advisory Group, together with another 13 private sector organizations worldwide. BBVAMF has participated with the United Nations in compiling two reports on work the private sector has done towards achieving the new goals. BBVAMF Group’s good practice examples have been cited in both reports, presented at the UN HQ in 2015 and 2016, where they appear as examples of responsible productive finance.

Conclusion

The BBVAMF Group serves the needs of microentrepreneurs, creating economic and social value sustainably, for them and for the communities where they operate. The Group has a footprint in five Latin American countries and serves over 1.8 million people, of whom 901,624 are credit clients. Of these, 77% are *vulnerable*, with average incomes of less than USD 4.2 a day. The Group also stays with its clients as they develop, monitoring the rise of the businesses in the medium term and the improvement in other indirect socioeconomic variables, such as housing and education.

BBVAMF Group’s work shows that tackling development challenges with humility, but with rigor, leads to an improved diagnosis of the problems and the design of better solutions. SDGs provide an excellent roadmap to align the Group’s activity with that of other actors because, if we are to meet these goals and leave the planet in a better state for future generations, we need the cooperation of governments, civil society, the private sector and citizens in equal measure.■



Notes (1) Conclusions consistent with earlier reports: *El Sector Privado ante los ODSs. Guía práctica para la Acción* [The private sector and SDGs. Practical Guide for Action] (pub. Pacto Mundial, Red Española), and the *SDG Industry Matrix - Financial Services* (pub. UN, KPMG). (2) *Per capita* household net income is estimated by dividing business net income by the number of household members. Poverty lines are set by each country’s official bodies (differentiating between rural and urban environments). *Vulnerable* clients are those whose *per capita* net income is below the threshold obtained by multiplying the poverty line by three. (3) Clients served between 2011 and 12.31.2016, classified by their economic *vulnerability* at the outset on the first disbursement. (4) Compound annual growth rate. Data on clients current as of 12.31.2016, and who have received a disbursement in the previous 12 months. The compound annual growth rate (CAGR) is calculated for cohorts 2011-2016, from the situation at the outset (data for their cohort year) and the current situation (latest update) as of 12.31.2016. (5) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not included in the exit from poverty figures. (6) Proportion of clients current as of 12.31.2016, from each cohort (2011-2015) who have increased their educational level. Available for Bancamia, Banco Adopem and Fondo Esperanza. (7) Data for clients current as of 12.31.2016, extrapolated to include the total portfolio. (8) Proportion of clients current as of 12.31.16 for each cohort (2011-2015), who have improved their housing (become homeowners), made home improvements (eg. sanitation, fuel), or increased the number of rooms. Available for all institutions apart from Emprende.

Unequal growth

The slowdown of activity in Latin America resulted in negative growth of 1.4% in 2016, together with an uptick in inflation. The economic recession has also been conducive to unemployment, with 5 million people newly unemployed. The number of poor people hit 175 million, meanwhile 45 million adults have accessed the financial system for the first time.

The world economy in 2016 was characterized by financial turbulence, political surprises and shaky growth in many parts of the world; nevertheless, overall, growth continued, at a rate of 3%. Developing economies grew by 3.8% and advanced economies by 1.6%⁽¹⁾.

Against this backdrop of moderate recovery, trade has been weak, posting its lowest rate of growth since 2009, at 2%, the second lowest in the last 20 years. The drop in the price of raw materials hit bottom at the beginning of the year and since then recovered part of the reverse suffered in 2015, but has not returned to pre-correction levels.

Better relative performance in the price of raw materials, together with a relaxing in

world financial conditions has been reflected in a recovery of inward capital flows to emerging economies. Net financial flows received by Latin America in 2016, although lower than the previous year, started pushing back in the first quarter, enabling the current account deficit to be covered and an improvement in the aggregate level of international reserves in the region. This environment has allowed national currencies, in particular those of raw material exporters, to appreciate with respect to the minimums of recent years.

The region is still very heterogeneous in terms of growth. Activity in Latin America as a whole shrank to the end of 2016 by 1.4%⁽²⁾, but growth was only negative in seven countries, whereas in 25 activity

has increased. Nevertheless, the size of the countries in recession, most of them in Mercosur, has resulted in a fall of 4.2% in their overall GDP, representing 57% of the region's total GDP⁽³⁾. This is in spite of the remaining countries, taken as a whole, posting 2.3% growth. In BBVA Microfinance Foundation's footprint (Colombia, Chile, Peru, Panama and the Dominican Republic) growth has averaged at 3.2%.

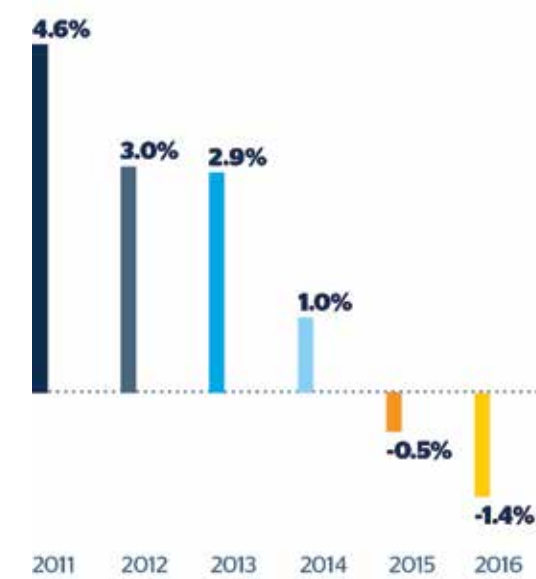
The 2.2% drop in domestic demand has been the main reason for the aggregate contraction in the Latin American economy. Private consumption fell by 1.1%, public consumption by 1.2% and investment by 7.3%. Nevertheless, this performance is explained by the countries in South America that have suffered a 3.1% contraction in domestic demand, driven by the Mercosur countries.

The fall in construction, the production in the industrial sector, together with the shortfall in services, particularly in trade, have been the principal supply-side factors accounting for the behavior of the economy in 2016, taken with lower investment in machinery and equipment.

Despite the fall in activity, there has been a sharp uptick in the region's inflation, conditioned by the performance of Argentina and Venezuela, both of whose countries' economic activities are contracting

GDP has grown in 25 countries in the region; however, the GDP of the seven countries in recession, representing 57% of total GDP in the region, has dropped by 4.2%.

Real GDP growth



Source: IMF. BBVAMF Research estimates.

sharply. The former is in the process of an economic correction and of bringing its pricing statistics back to normal; the latter is immersed in hyperinflation. If we exclude these two countries, the region's inflation comes in at 5.8%⁽³⁾.

Most countries are experiencing improvement in inflation terms, particularly those that export raw materials, after the brusque depreciation of their currencies in 2015, on top of major weather events that year. This improvement mostly took place in the second half of the year, enabling central banks of the major economies to begin a round of lowering their monetary policy rates.

Labor market

Economic performance in the region had an impact on deteriorating unemployment creation, in both quantity and quality. The unemployment rate rose by 1.7%, to 8.3%⁽⁴⁾, that is, around 5.1 million newly unemployed, bringing the total by the end of the year to approximately 25 million. Furthermore, the lower quality of employment can be seen in an average drop of real wages.

These results have been strongly influenced by the results in Brazil, which posted an unemployment rate of close to 11.5%, a rise of 3.2 percentage points (p.p.), conditioning the average rate for South America, which spiked from 8.2% in 2015 to 10.7% in 2016, given that Brazil accounts for about 40% of the economically active population of Latin America. In general terms, however, the rate of unemployment rose in 68% of those countries in the region that reported information⁽⁵⁾.

The slowdown in economic activity was reflected in a 60 b.p. (base point) fall in the employment rate, which slipped from 57.3% in 2015, to 56.7% in 2016, with the rate of labour force participation holding steady at 61.6%. These averages are the sign of a series of combinations: countries where there has been a reduction in the rate of employment and, at the same time, an increase in the rate of participation; others, in which there have been reductions in the employment rate that were not offset by the drop in the participation rate; countries in which there has been an increase in the employment rate, but in which this has been offset by a greater proportional rise in the participation rate; others, in which there have been significant increases in the employment rates, which offset the increase in the participation rate and, to a lesser degree, by a greater reduction in the participation rate than the reduction in the employment rate.

There has been a drop in the region of around 4.5 p.p. in manufacturing industry employ-

In the BBVAMF footprint, the unemployment rate was 6.4% in 2016, a rise of 20 b.p. against the final figure for 2015.

ment, of 1.3 p.p. in agriculture and 2.4 p.p. in financial services and services to companies; these have been offset by improvements in construction, trade, transport and other services. In general terms, there has been a shake-up in the composition of employment, moving to “lower quality” employment, associated in some cases with working in the informal economy.

In BBVAMF’s footprint, the unemployment rate posted at 6.4% in 2016, an increase of 20 b.p. from the end of 2015. Unemployment has risen in all countries apart from the Dominican Republic⁽⁶⁾. The average participation rate in these countries was 62.8%, an increase of 50 b.p., while the employment rate has risen by 30 b.p., closing the year at 58.8%.

Poverty and inequality

The worst performance of the region’s economy in recent years⁽⁷⁾ has reversed the improvements achieved over the last five years in terms of the numbers living in poverty; during this time there has been a rise in income and, as a result, an improvement in most countries, where the poverty gap has narrowed and its intensity diminished.

This reversal has seen increases of 1 and 0.6 p.p. in the poverty and extreme poverty rates, which stand now at 29.2% and 12.4%, respectively. This implies that around 175 million people are income-poor, of whom 75 million are in a situation of extreme poverty.

Increased poverty in Latin America is caused by the combination of growth and the distributive effect. Lower income growth is responsible, on average, for 90% of the total accumulated variation, with the distribution effect explaining the remaining 10%.

This has taken place in a context of a reduction in total labor revenue flowing into poor households, mainly due to the fall in income per employed worker, associated with an increase in unemployment and the re-shaping of employment into lower quality jobs, as part of the recession affecting the region.

Financial inclusion

The number of people in the region with a bank account in the financial system grew by 45 million between 2011 and 2014⁽⁸⁾. In 2011, 39% of the adult population used banking services, which in turn meant that 255 million adults did not. Three years later,

210 million adults, 49% of the total, still do not have an account. This is an 18% reduction in the total number of those excluded from the financial system.

Latin America has the highest rate of financial exclusion in the world after the Middle East and Sub-Saharan Africa; it has only 54% of the average inclusion rates for OECD countries. Nevertheless, in relative terms, it has the highest female participation rates for women in the financial system, after OECD countries, East Asia and the Pacific.

In rural areas, 46% of adults have an account in a financial institution, so the gap between them and those living in urban environments is 6%. This suggests that among those with bank accounts the geographical factor is not a major reason for differentiation⁽⁵⁾.

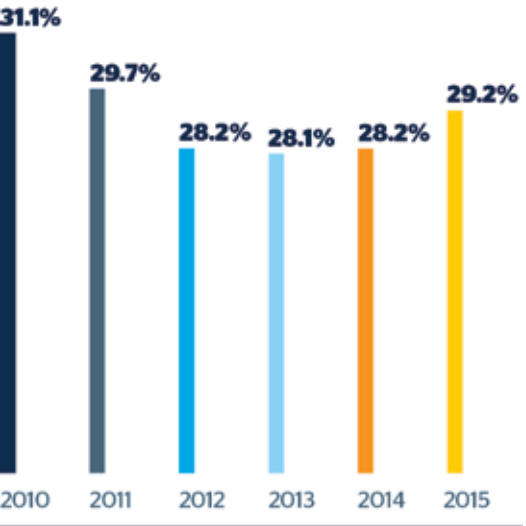
The main cause for differentiation in the region’s financial inclusion is income level. In Latin America, 58% of those in higher income brackets (60% of the higher percentiles) have access to the financial system, whereas this is true of only 41% of those in lower brackets (the 40% lowest), a participation gap of 17 p.p.

Level of schooling is another important factor. 56% of adults with secondary education or higher are financially included, while this is the case with only 43% of those with primary education or less, making the gap one of 13%.

Turning to products, 32% of adults applied for a loan in the past year, but only 11% did so from a formal financial institution, that is, only 34% of those needing financing.

We should point out here that Latin America is the region in emerging markets where the fewest people in relative terms have applied for a loan, but where formal institutions are most used.

Poverty (% total population)



Source: Cepal.

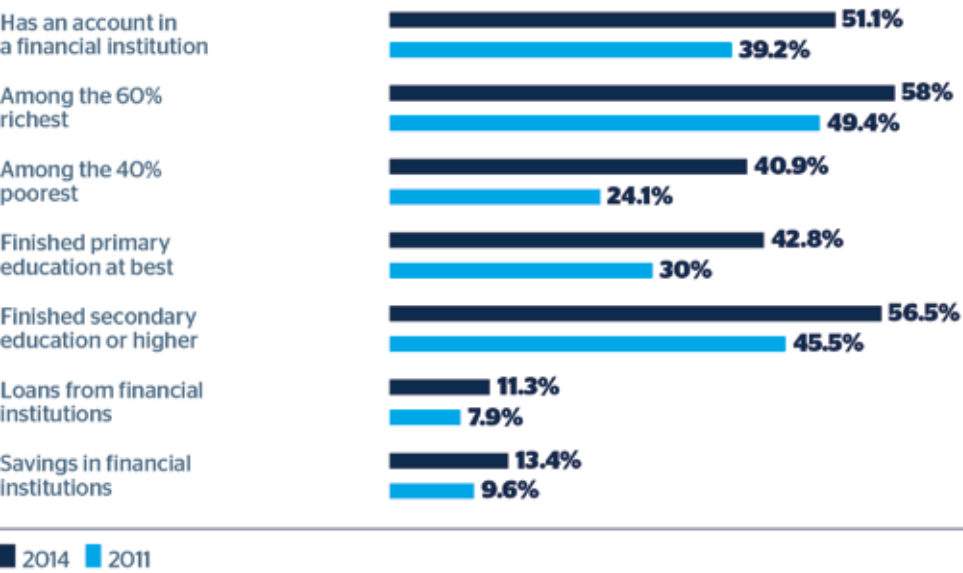
Latin America is the region in the world with the highest relative participation of women in the financial system.

Only 18% of those requesting a loan, that is, 6% of adults, did so to begin, expand or operate a productive activity; mostly the funds were used for medical expenses, followed by education. 40% of adults reported having made some kind of saving in the past year, but only 13% saved through a formal financial institution. After OECD

countries, East Asia and the Pacific, it is the region with the highest relative participation in using financial institutions to deposit savings, at 33%, a similar figure to that for loans.

The use of cash continues to be very extensive throughout the region. 50% receive their wages in cash, 38% receive it by bank transfer to their account and withdraw it all at once, while 96% pay for services and invoices in cash. In terms of use, 17% make no transactions throughout the month and only 22% of adults make more than three transactions a month, compared to more developed countries, where the percentage rises to 65%.■

Financial inclusion (% adults)



Source: Global Findex (Global Financial Inclusion), World Bank.

Notes (1) BBVAMF Research estimates. (2) In 2016 purchasing power parity. (3) BBVAMF Research. (4) ILO. (5) BVAMF Research. (6) Cepal, with estimates to 2015. (7) Global Findex (Global Financial Inclusion), World Bank. (8) Latest figure available published in April 2015.



Bancamía **Colombia**

Social Performance
Report 2016



**Measuring
what really
matters**

Table of contents

“Human beings do not come into the world perfectly formed, never to be changed, the day their mothers give them birth; life forces them to give birth to themselves over and over again”.

No One Writes to the Colonel
Gabriel García Márquez

Bancamía Description 154 Management team and board 159	Measuring 2016 Social performance results Our clients 162 Our clients' businesses 166 Our clients' development 168 What really matters Stories of achievement Astrid Orjuela 180 Ana Judith Martínez 184 Norma Viviana Ordóñez 188 Sandra Patricia Hernández 192	Special projects Mobile banking 194 Banking agents 198 Financial education 202 Macroeconomic context Colombia 208
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Supporting productive activities

Bancamía is the bank for low-income Colombians, whether they live in cities or in rural areas, offering them financial and non-financial services adapted to their needs. In a country like Colombia, immersed in a peace process, it is critically important to reinforce businesses in order to encourage growth and reduce inequality.

Banco de las Microfinanzas - Bancamía, S.A. is a well-known social bank specializing in microfinance that first opened its doors in 2008 with the aim of improving the standard of living of low-income families. It was the result of the merger of three non-profit institutions: Corporación Mundial de la Mujer Colombia, Corporación Mundial de la Mujer Medellín and the BBVA Microfinance Foundation. In 2010, the International Finance Corporation (IFC) joined the body of shareholders.

Bancamía mainly serves vulnerable entrepreneurs located in both urban and rural areas, who are financially excluded because of their economic conditions. It provides financial and non-financial products and services that are adapted to their needs, covering microloans, savings

accounts, sight or term deposit certificates, insurance and international wire transfers, channels and services, such as mobile banking and debit cards, as well as financial education.

The institution believes in the capacity and abilities of these people and recognizes their natural aspiration to make progress by generating productive activities. The clients whom the entity supports with loans are mainly involved in trade, services, production and farming.

The bank runs 199 branch offices, with a footprint in 29 of Colombia's 32 departments (91% of its departments), serving clients in 905 municipalities, which represent 80% of the nation's territory. It also has over 3,400 banking correspondents with its own, well-positioned network.



The 50 Most Valuable Brands in Colombia in 2016 report has again recognized Bancamía as one of the country's most valuable brands, ranking it at n° 16 in the services sector.

In 2016, the President of the World Bank, Jim Yong Kim, visited Bancamía during his trip to Colombia in support of the peace

process, where he chatted with some of the institution's entrepreneurs who have made progress thanks to its loans. The World Bank's view is that it is critical to strengthen businesses in order to encourage growth and reduce inequality, particularly in a country like Colombia, which is immersed in a peace process.

In September of the same year, Bancamía signed an agreement with the Colombian Reintegration Agency (part of the Ministry of Defense, in charge of rolling out the reintegration roadmap for demobilized combatants). In this way it will contribute to the efforts being made to enable demobilized people and their families to access financial services and training to help them re-join society.

The President of the BBVA, Francisco González, had a meeting in Bogota with



the Management Board and shareholders of the institution. He saw at close quarters the reality of a number of clients in their homes, which are also their enterprises, in Soacha, a significant region for the United Nations in that it has become a refuge for a large number of people who have been displaced by the conflict.

The institution has taken part in the *Macro-Round Reconciliation*, that finds resources for programs to rebuild and reconcile the country's social fabric, bringing together public and private institutions, international cooperation and regional peace initiatives.

The 50 Most Valuable Brands in Colombia in 2016 report has again recognized Bancamía as one of the country's most valuable brands, ranking it at nº 16 in the services sector in this year's awards. Bancamía has gone up two places since 2015 in this ranking, conducted by the branding consultancy Compass, supported

by Raddar. This classification analyzes Colombian brands by their approval rating, reputational classification, recognition levels, governance and sustainability, this last in the financial social and environmental dimensions.

Bancamía was also a finalist in the *Andesco Award for Enterprise Social Responsibility* in the category of *Best Social Performance*, which evaluates companies that are neither public services nor communications.

The institution believes that the best way of combating poverty and inequality is by sowing a future for families with lower incomes. Responsible Productive Finance becomes an effective tool for the social and economic development of the most disadvantaged communities, by providing them with products and services designed to generate revenues and net incomes through building up a business. This will also be the institution's goal in 2017.■

Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)

380,562,145

Amount disbursed in 2016 (USD)

325,768,413

Nº of disbursements in 2016

256,520

Average disbursement in 2016 (USD)

1,270

Deposits & others (USD)

183,675,808

Nº of employees

3,542

Nº of offices

199

People receiving financial education

160,382

Management team and board

Management Team

María Mercedes Gómez
Executive President

Margarita Correa
Executive Vice-President

Olga Lucía Calzada
Vice-President, Legal

Germán Reyes
General Auditor

Miguel Achury
Vice-President, Planning

Marcelino Romero
Vice-President, Finance

Oscar Romero
Vice-President, Risk

Edison Mejía
Vice-President, Client
Production Development

Juan Manuel Rincón
Vice-President,
Staff Development

Luis Enrique Collante
Vice-President,
IT & Resources

Germán Millán
Compliance

Board

Ignacio Rojas-Marcos
President

Edith María Hoyos
Vice-President

José Antonio Colomer
Member

Pedro Saiz
Member

Jaime Ospina
Member

Javier M. Flores
Member

Adriana Senior
Member

Measuring

Bancamía’s clients stand out in terms of development, with a sustained growth in sales, net incomes and assets of their microenterprises. This is reflected in that the segment of clients classified as *poor* shrinks by 27% in the first year of the relationship with the bank and by 32% in the second. Furthermore, the direct and positive correlation between staying with the institution and client improvements in education and quality of life, continue to be evident.



Total clients
828,499
Total credit clients
325,712
New credit clients
70,386

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

(2) Proportion of all credit clients who have completed primary education, at best.

Total credit clients as of Dec 31, 2016

71%	56%	55%	44%	11%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Rural	Under 30 years old

New credit clients 2016

74%	47%	52%	48%	20%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Rural	Under 30 years old

Our clients and our scale

Going beyond *economic vulnerability*, Bancamía focuses on serving clients with vulnerable profiles, such as people in rural environments, those with little education, and young people.

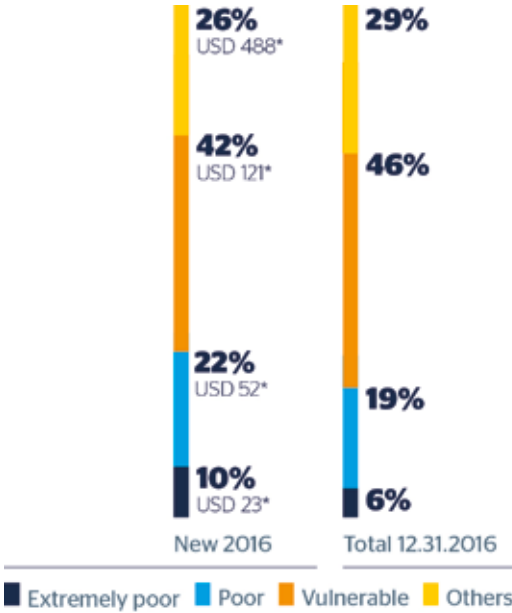


74% of new clients classified as *vulnerable* generate an average income of USD 2.9 per person/day from their microenterprises, while the 32% classified as *poor* generate USD 1.4 per person/day.

- Against a turbulent political and economic backdrop, and with the institution in the midst of its transition to the new core banking system, the rate of new client acquisition has gone down since last year, as has the *vulnerability* of these clients (74.4% in 2016 vs. 79% in 2015).

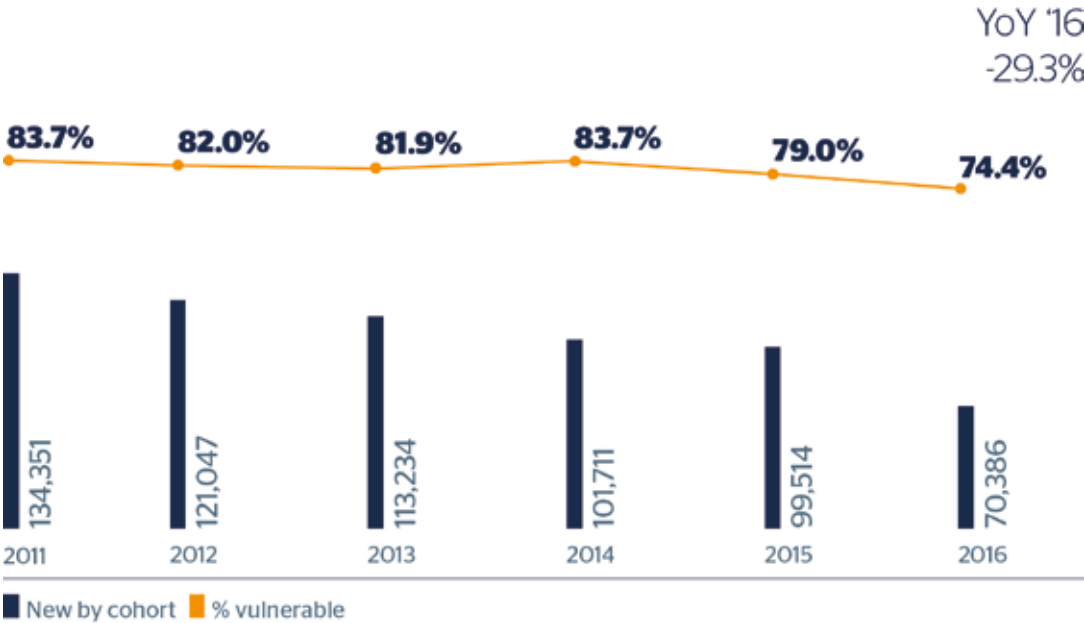
(1) According to the DANE poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty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

Clients’ economic vulnerability (1)



* Monthly net income per capita.
Source: Bancamia. BBVAMF calculations.

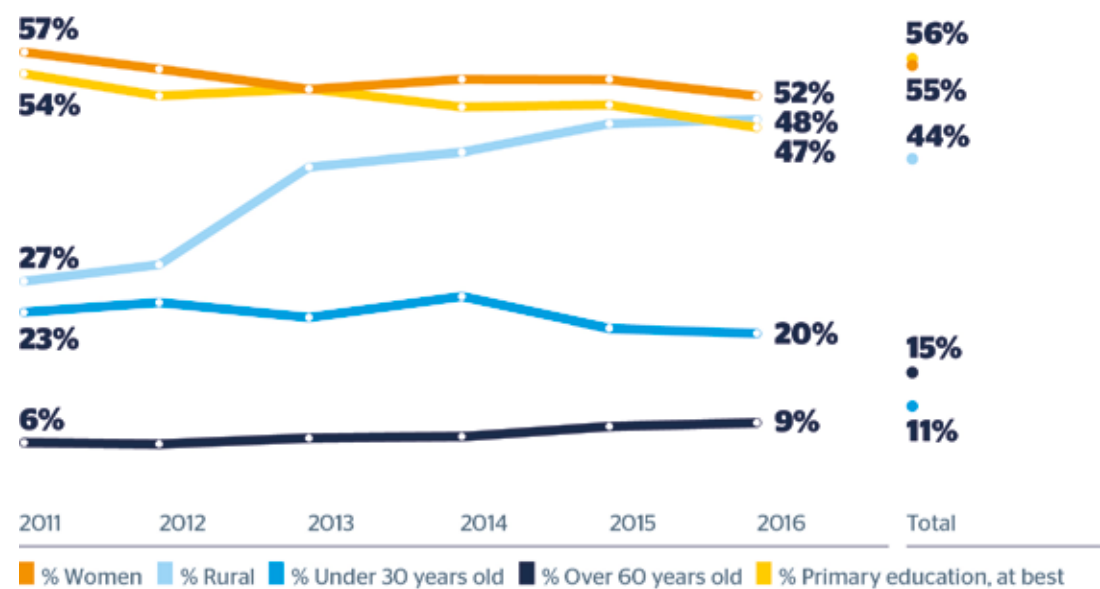
New credit clients (2)



(2) New clients (without previous loans) signed up over the year.

Source: Bancamia. BBVAMF calculations.

Profile of our credit clients (3)



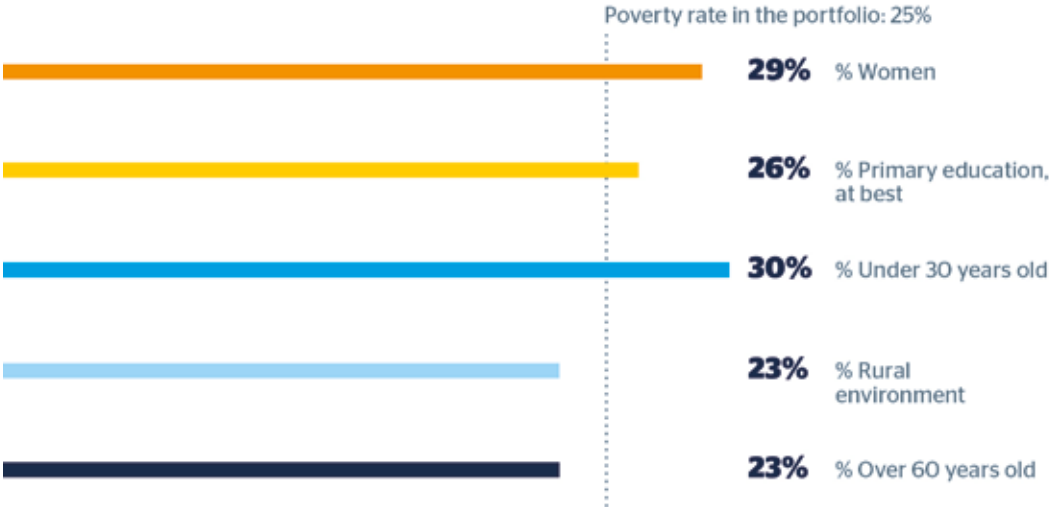
Source: Bancamía. BBVAMF calculations.

Young people, women and clients with primary education at best are the poorest segments (30%, 29% and 26% classified as *poor*, respectively).

- The profile of new clients has remained stable compared to 2015; there has been a marked increase over the years in the number of clients from the rural environment, where the poverty levels are higher.
- The average value of new clients' sales and first disbursement have both risen, while the weight of the credit installment over sales remains stable, confirming that there is a trend to sign up less economically *vulnerable* clients.

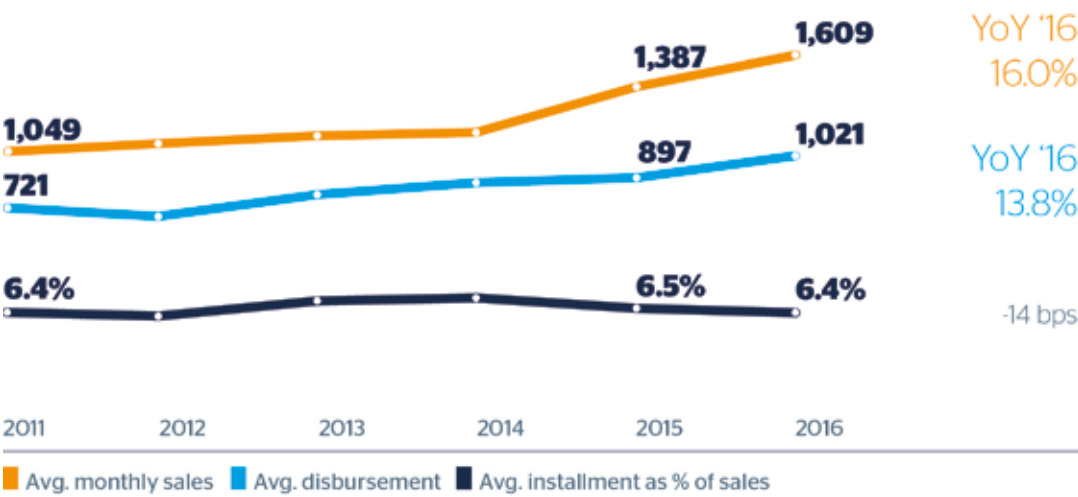
(3) New clients (without previous loans) signed up over the year. The total gives clients current as of 12.31.2016.

Poverty profile (4)



Source: Bancamía. BBVAMF calculations.

New clients' sales, disbursements USD & weight of installment (5)



(4) Clients current as of 12.31.2016.
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

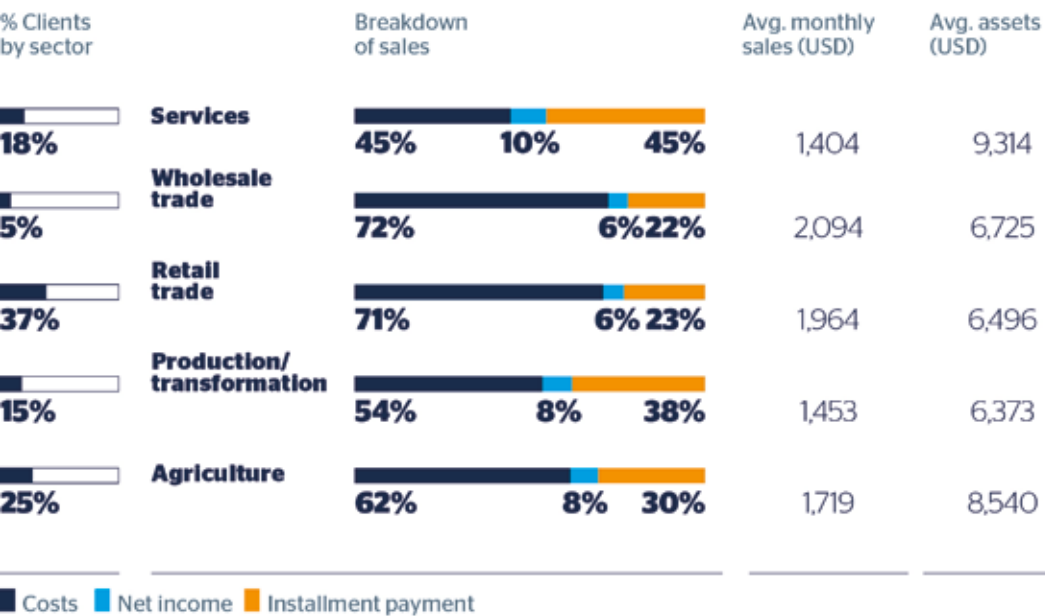
Source: Bancamía. BBVAMF calculations.

Our clients' businesses

Bancamía's vulnerable clients mainly work in *trade* and *farming*, which returns smaller margins than *services*.



Average margins, sales and assets, by sector (6)

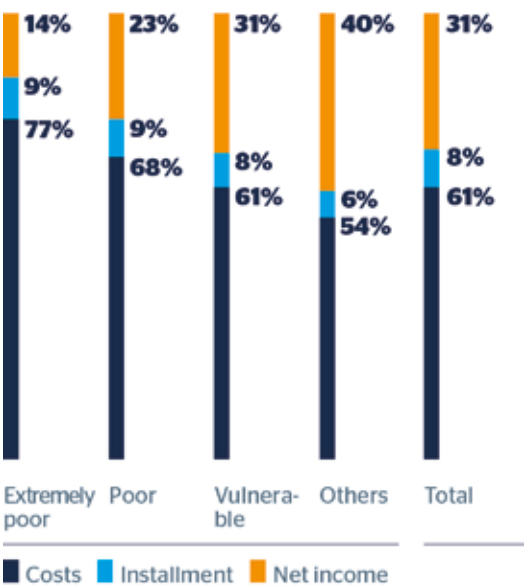


Source: Bancamía. BBVAMF calculations.

(6) Clients current as of 12.31.2016.

- *Trade*, in which most clients work, is the segment with the lowest margin (22-23%, after paying the loan installment) and, perhaps for that reason, clients need to have quick stock rotations to make profits (higher sales/assets ratio).
- The *services* sector has the highest margin (45% of net income over sales, after paying the installment) and the investment in assets is greater than that required for trade (USD 9,314 vs. approx. USD 6,500), which is a barrier to entry for clients with very low resources. It is worth noting that it is the sector with the highest level of educational attainment (clients with primary education at best account for 44%) as compared to the *farming* sector (74% of whom have primary education at best).
- The most vulnerable entrepreneurs - looking at factors beyond economic vulnerability - work in activities that have lower barriers to entry (in terms of training and investment); in Bancamía they are concentrated in *trade* and *agriculture*.
- *Extremely poor* clients have improved their margins considerably (10% in 2015 vs. 14% in 2016), perhaps because of the lower cost of certain raw materials and growth in the sectors where they work.
- The cost structure diminishes as clients' *vulnerability* lessens, showing major variations (from 77% for *extremely poor* to 54% for *non-vulnerable* clients), reflecting a potential for efficiency improvement.
- *Extremely poor*, *poor* and *vulnerable* clients spend nearly 8-9% of their sales on paying the credit installment, whereas this represents only 6% for the *non-vulnerable*.
- Client leveraging is higher for less *vulnerable* segments and, on average only 20% of assets are financed with liabilities. It is a challenge to promote financial inclusion, particularly for the most vulnerable segments: 39% of adults applied for a loan in the last year nationwide; of these, only 15% did so through a formal financial institution (see *Macroeconomic context*).

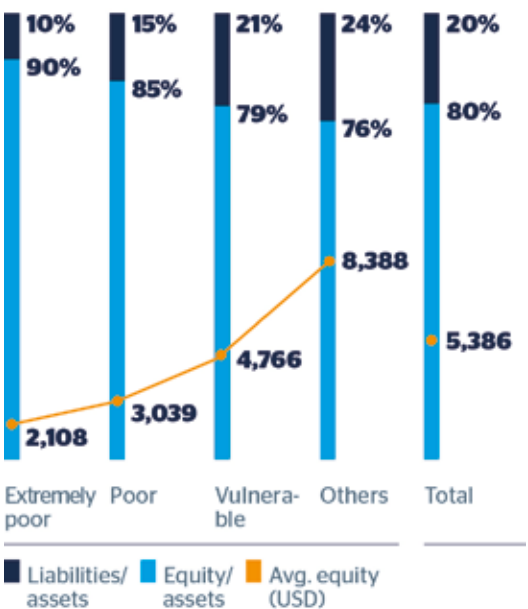
Expenses and margins as % of sales by vulnerability (7)



Source: Bancamía. BBVAMF calculations.

(7 & 8) Clients current as of 12.31.2016.

Assets, liabilities and equity by vulnerability (8)



Source: Bancamía. BBVAMF calculations.

Our clients' development

Bancamía supports its clients' businesses; whatever their degree of vulnerability, they achieve a sustained percentage growth in their *per capita* net income relative to the poverty line.



- Bancamía retains nearly 80% of its new clients after a year and 47% of them after two, in line with the Group's trend.
- Retention after three years has improved slightly (30% in 2015, vs.33% in 2016).
- Only 47% of Bancamía's clients take out a second loan with the institution; this coincides with the two-year retention rate (a reflection of average terms of more than one year). The flight rate of clients falls in subsequent cycles.

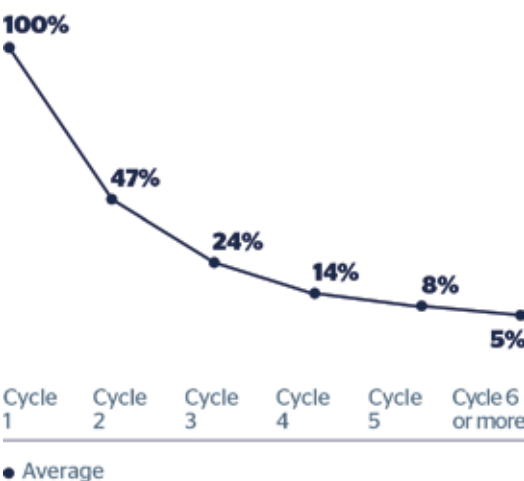
(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention (por cohorte)(9)



Source: Bancamía. BBVAMF calculations.

Credit client recurrence (10)

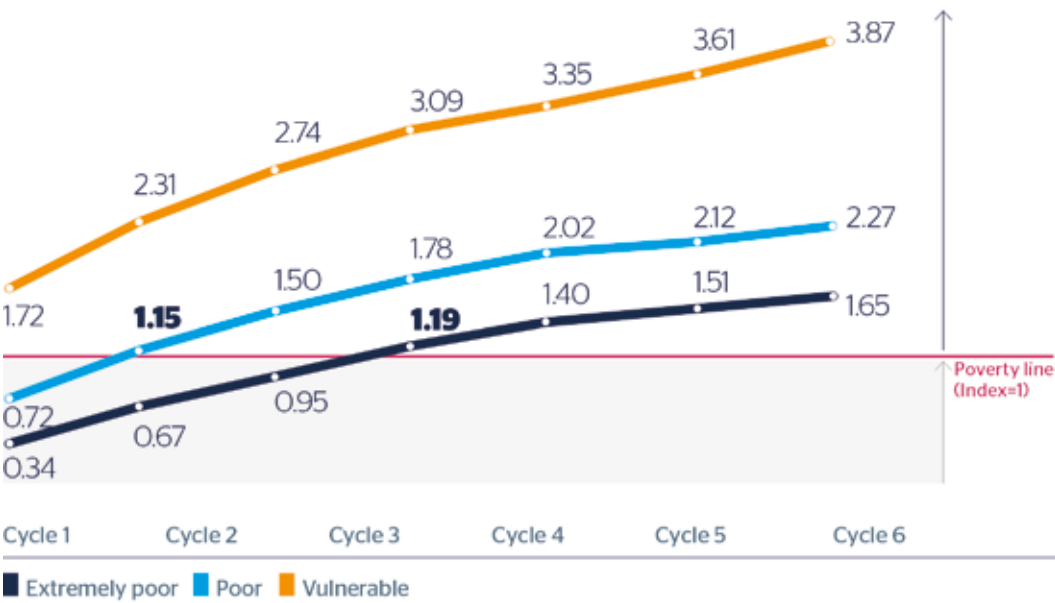


Source: Bancamía. BBVAMF calculations.

- Clients in all economic *vulnerability* segments make sustained progress; in the case of the *vulnerable*, they increase their *per capita* net incomes to more than three times the poverty line in the fourth cycle.
- Bancamía's client development stands out in terms of sustained growth in net incomes.
- The *poor* segment succeeds in breaking through the poverty line in a single cycle (average duration 408 days).

(10) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle one and two is 442 days, between cycle two and three is 418 days; between cycle three and four is 330 days, between cycle four and five is 272 days and between cycle five and six is 232 days.
(11) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of one when it is the same as the poverty line.

Per capita net income relative to poverty line (11)



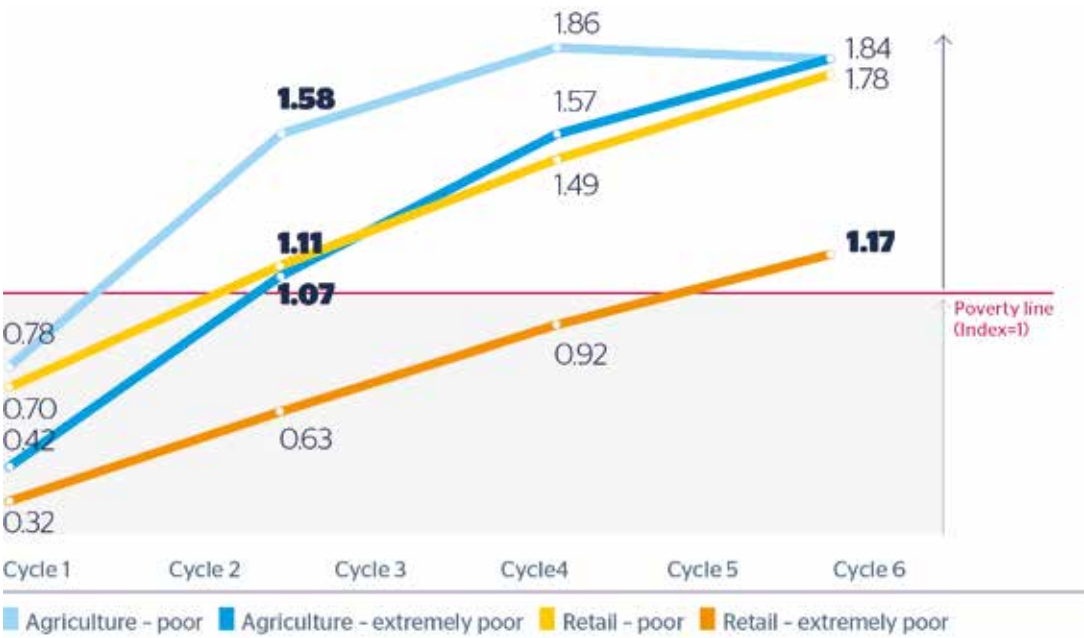
Source: Bancamía. BBVAMF calculations.

Clients working in agriculture increase their per capita net incomes (especially in the first cycle) faster than clients in retail trade.

- Agricultural clients classified as poor and extremely poor at the outset manage to overcome poverty after one cycle.
- Bancamía's farming business clients grow fast, which suggest that these activities are positive for development and beating poverty.

- In a context of macroeconomic growth and with inflation standing at 5.7% in 2016, the growth rates of Bancamía's clients' microenterprises are still positive, high and recurring. This highlights the positive correlation between staying with the institution and client progress. Growth rates taper over time, as is to be expected.
- Assets are being accumulated and reinvested, given that the former are growing faster than sales and net incomes. This suggests that improvements are being consolidated and equity created (see graphs 13, 14 and 15).

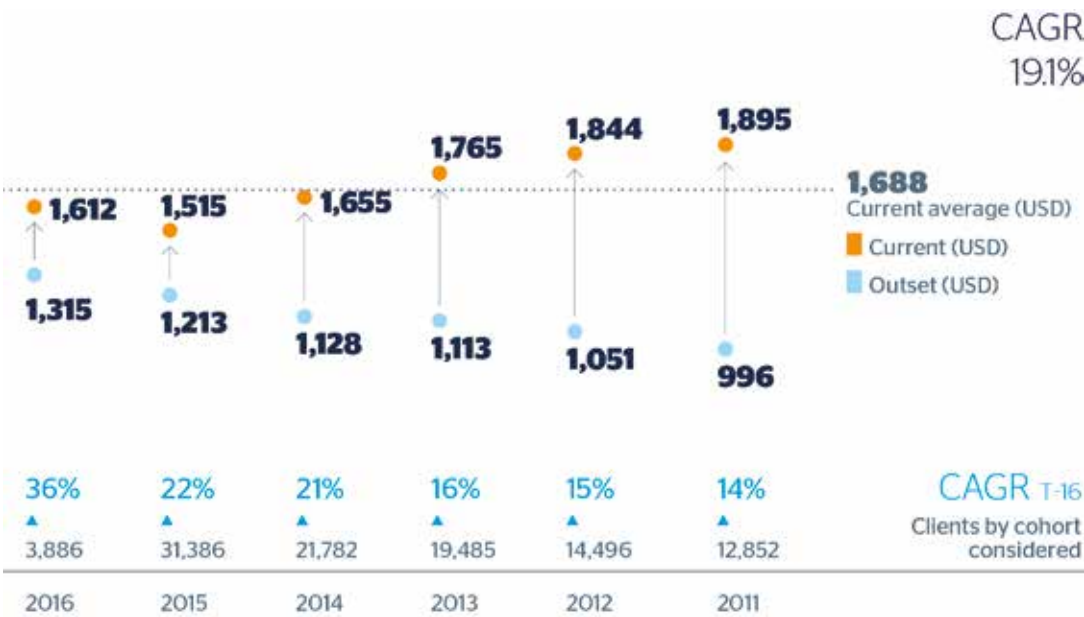
Per capita net income relative to poverty line by sector (agriculture vs. retail trade) (12)



Source: Bancamía. BBVAMF calculations.

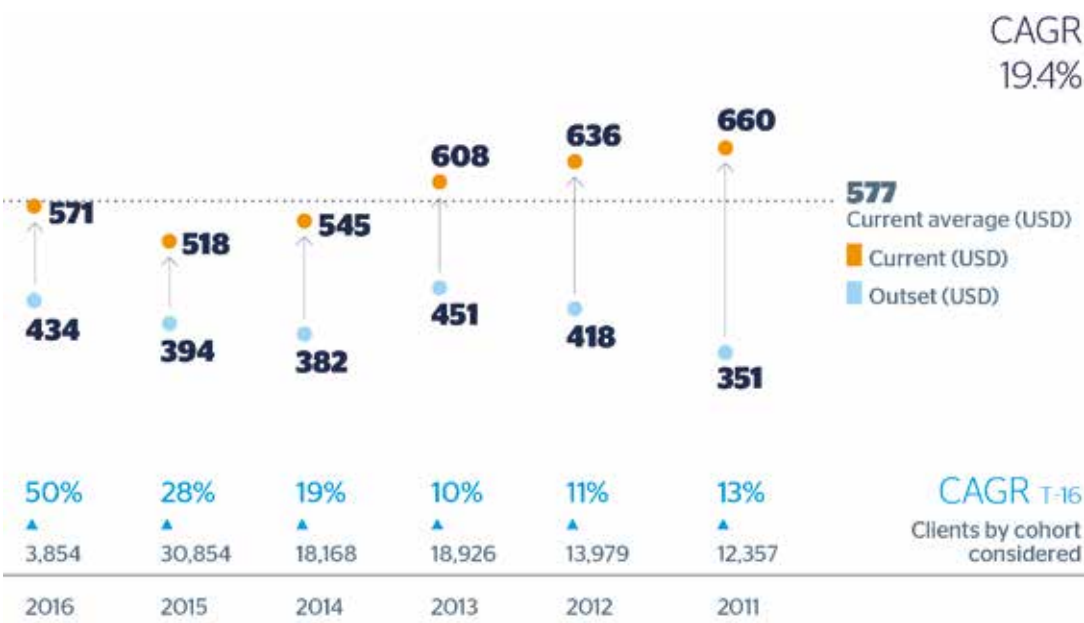
(12) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income per capita at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income per capita takes a value of 1 when it is the same as the poverty line.

Average monthly sales (by cohort) USD (13)



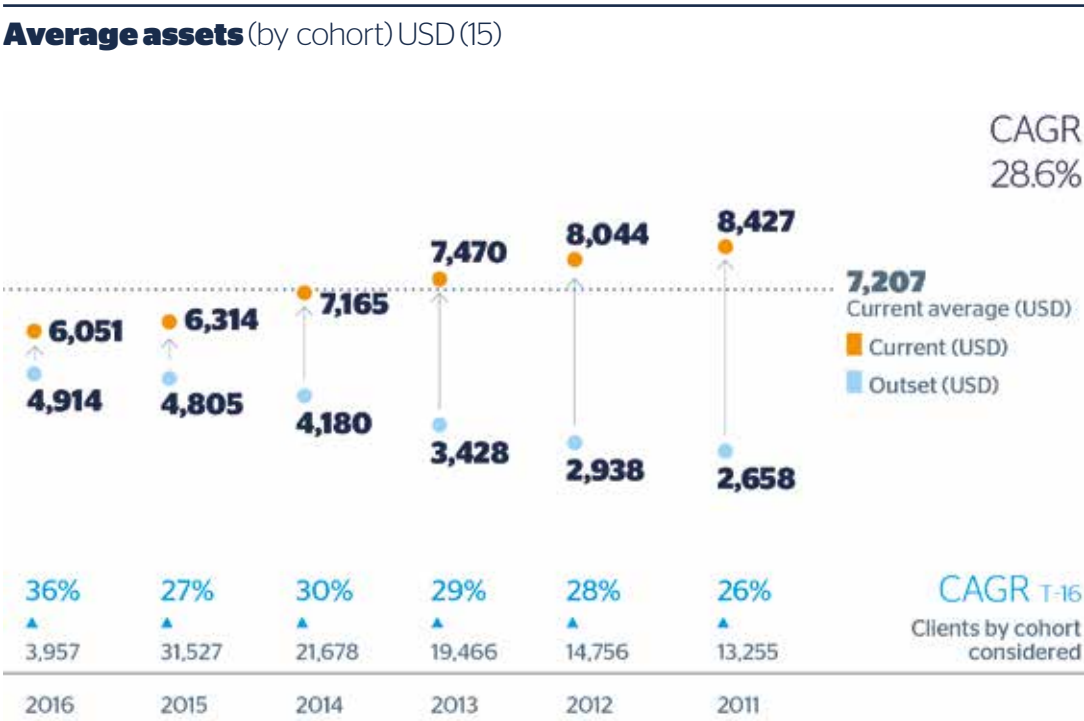
Source: Bancamía. BBVAMF calculations.

Average monthly net incomes (by cohort) USD (14)

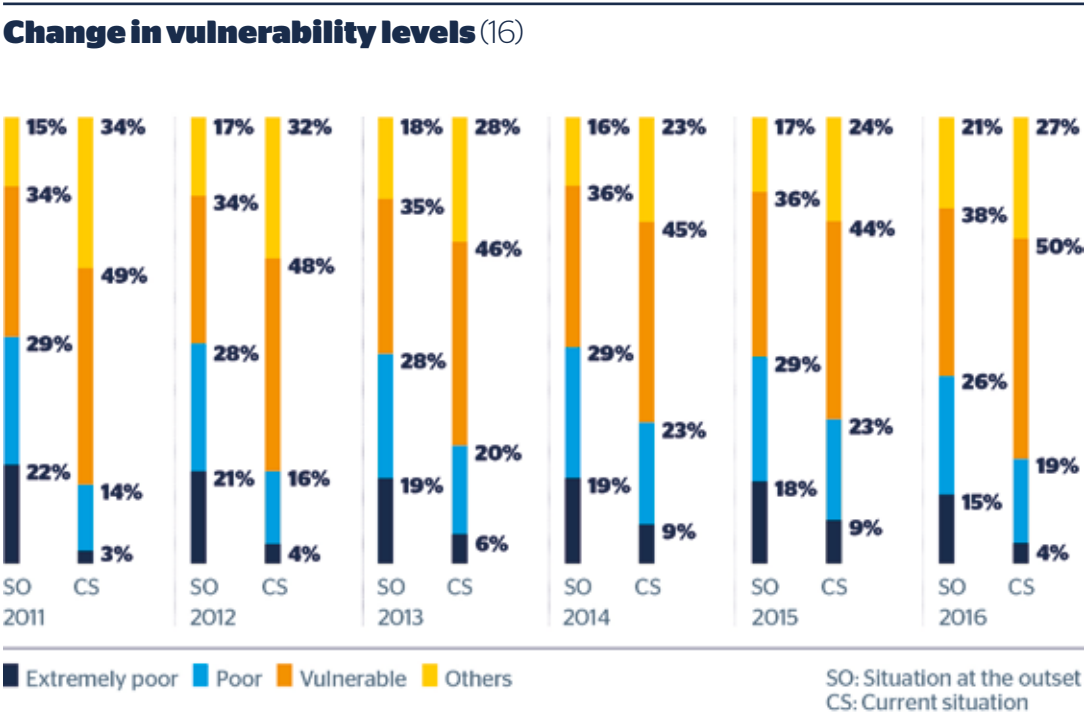


Source: Bancamía. BBVAMF calculations.

(13 & 14) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.



Source: Bancamía. BBVAMF calculations.

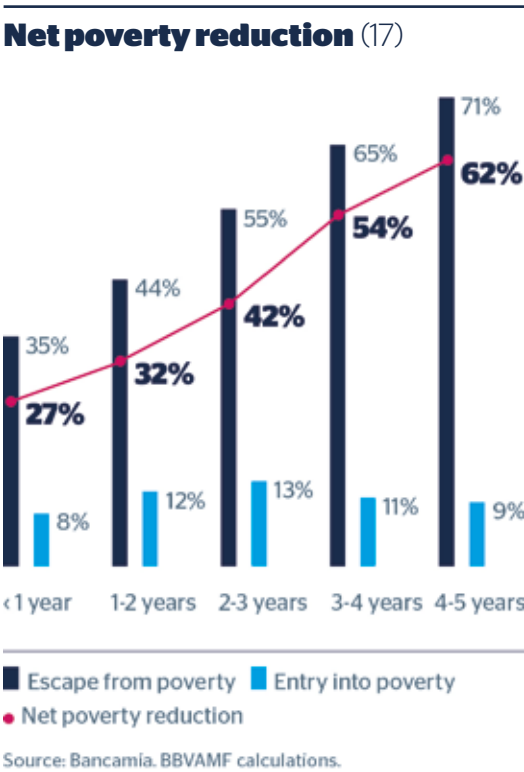


Source: Bancamía. BBVAMF calculations.

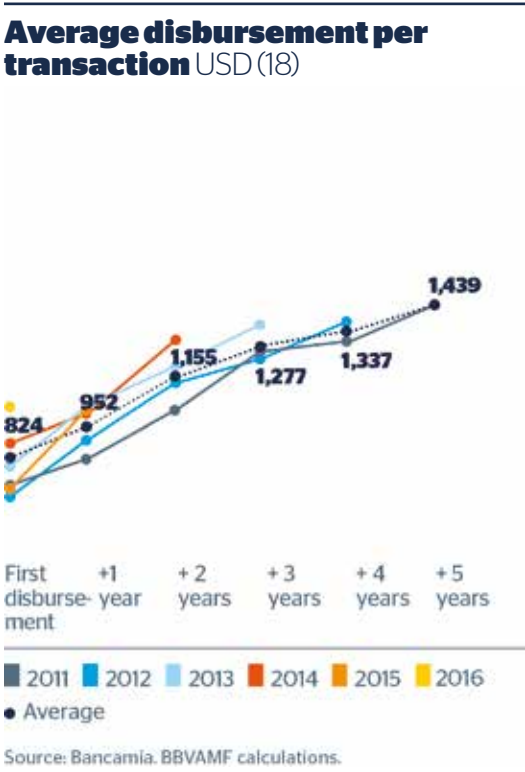
(15) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate. (16) Situation at the outset (SO) and the current situation (CS). • Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.

Over time, a higher proportion of clients initially classified as *poor* manages to overcome the poverty line: the *poor* segment falls by 27% during the first year with the institution and by 32% during the second. This improvement is sustained over time, and performance in 2016 is better than in 2015.

(17) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty. • Escape from poverty: clients classified as *poor* at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as *poor* at the outset. • Entry into poverty: clients classified as *non-poor* at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as *poor* at the outset. • Net reduction: escape from poverty, less entry into poverty. (18) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.



- At the same time, there is a percentage of clients whose *per capita* net incomes fall below the poverty line thereby increasing the *poor* segment, but it should be noted that this percentage remains stable over time at around 10%.
- Bancamía supports its clients' development, as the growth rates of their sales, net incomes and assets can bear witness. In 2016, of 159,246 clients who renewed a loan or updates their income data, 80,174 improved their *per capita* net incomes from their microenterprises by more than the rate of inflation, and 18,908 escaped the poverty segment.
- Over time, clients' credit capacity and the amount that Bancamía lends them, both increase. After two years on average, the sum they borrow has risen by about 40%.



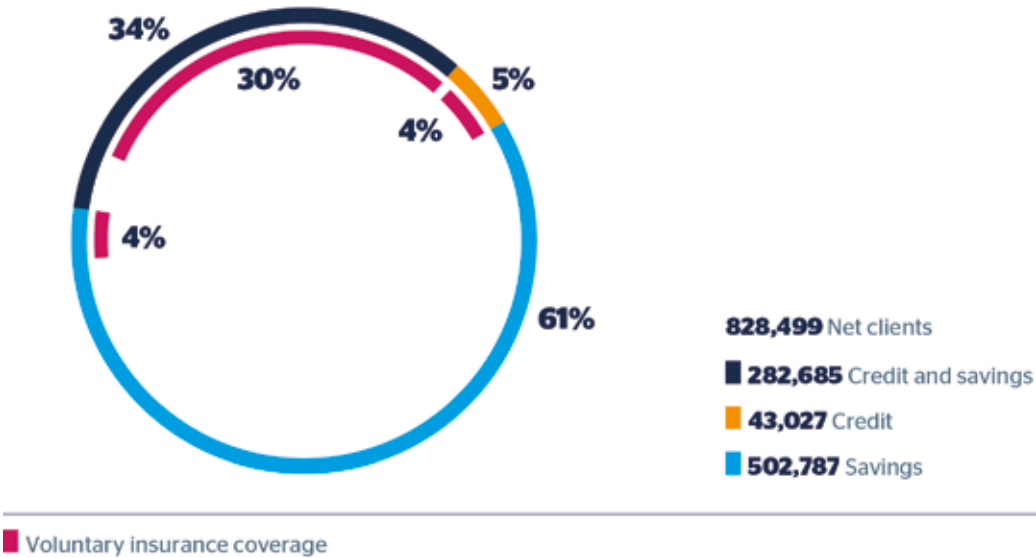
Our clients' development

- In Bancamía, clients with credit products have more linkage and in a high proportion of cases have additional products (savings, insurance). Specifically, nearly 90% of credit clients have a voluntary insurance policy. Savings clients have less linkage and only take out insurance in 3.7% of cases.
- After two years, 10% of clients improve their housing conditions. In terms of education, the outcomes are slower, and after three years 4% have improved their education levels.

There continues to be a positive relationship between partnering with Bancamía and improvements in both housing standards and educational attainment.



Client linkage by product type (19)



(19) Clients current as of 12.31.2016.

Source: Bancamía. BBVAMF calculations.

Client improvement in housing (by cohort) (20)



(20) Proportion of clients still current as of 12.31.2016 in each cohort who have made home improvements (e.g. bathroom, fuel) improved the construction materials and/or increased the number of rooms from when they registered at the outset. Averages of 2013-2015 cohorts are shown.
(21) Proportion of clients current as of 12.31.2016, from each cohort that has raised their educational attainment. Averages of 2011-2015 cohorts are shown.

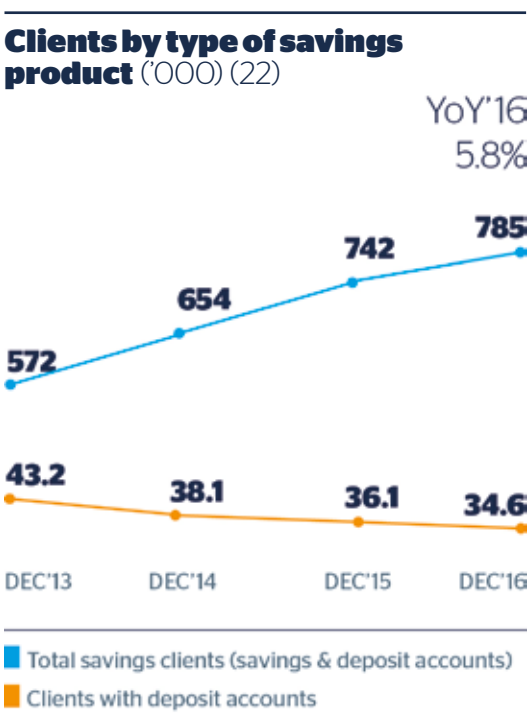
Source: Bancamía. BBVAMF calculations.

Client improvement in education (by cohort) (21)

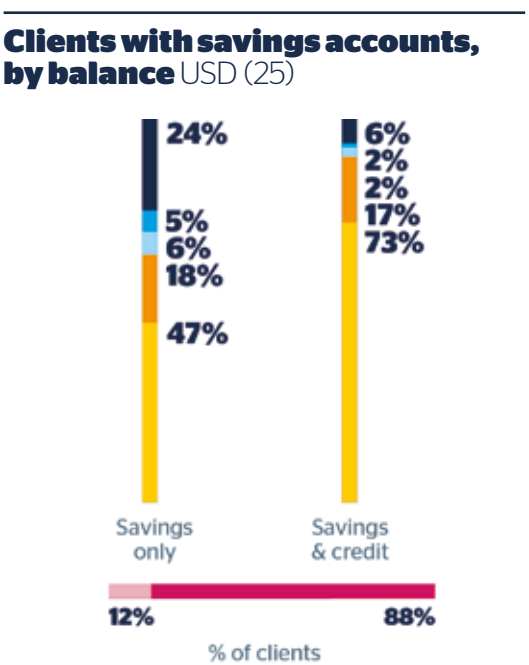


Source: Bancamía. BBVAMF calculations.

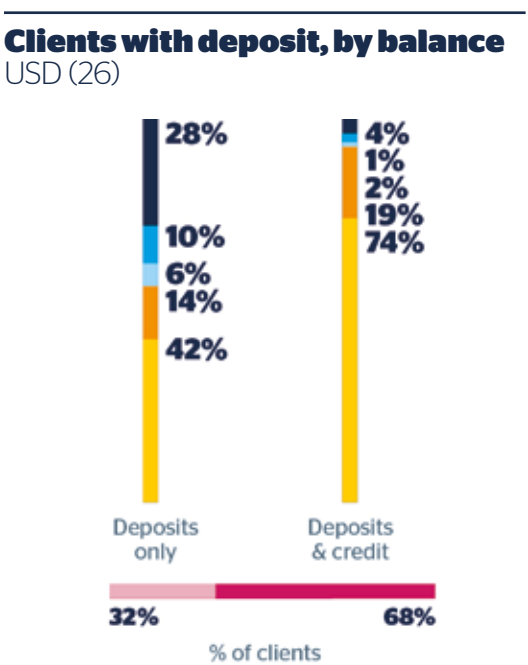
- Savings clients have grown by 5.8% in 2016. Deposit clients (who make up 4% of all savings clients) have dropped slightly, so growth has come from clients with savings accounts.
- Nearly half of savings clients (48%) have a current credit with Bancamía, or have had one in the last year.
- Savings clients have low transaction figures. Only 4% of them show more than three movements in the last three months, a pattern that has remained unchanged over time.
- Clients who only have savings products with the institution have higher balances, both for savings accounts and for deposits.



Source: Bancamía. BBVAMF calculations.



Source: Bancamía. BBVAMF calculations.



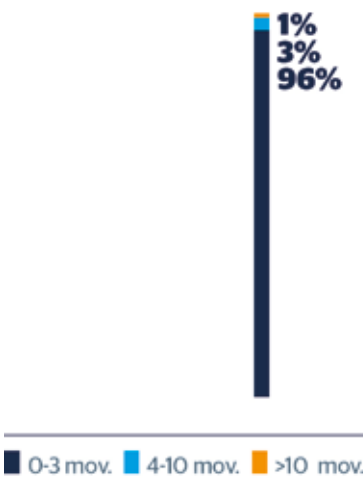
Source: Bancamía. BBVAMF calculations.

Linkage of savings clients (23)



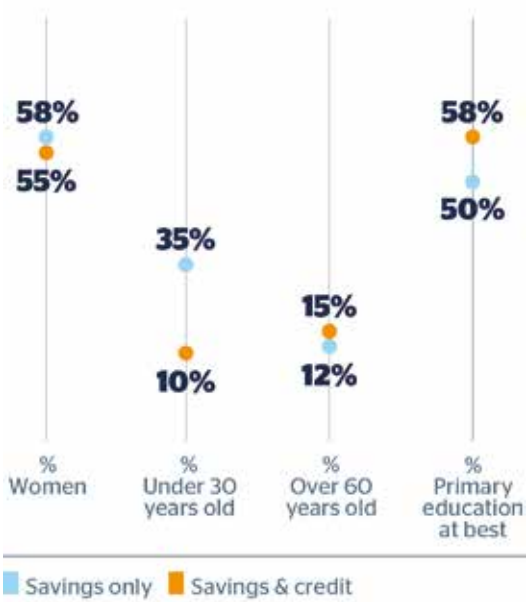
Source: Bancamía. BBVAMF calculations.

Client breakdown by bank movements/transaction figures (24)



Source: Bancamía. BBVAMF calculations.

Profile of savings clients (27)



Source: Bancamía. BBVAMF calculations.

(22) Clients with savings products (savings or deposit accounts) at the end of every year.
(23) Clients with savings products (savings or deposit accounts) as of 12.31.2016.
(24) Breakdown of clients with savings products (savings and deposit accounts) as of 12.31.2016, by nº of account movements in the previous 3 months, excluding administrative movements (interest payments, fees, etc.).

(25 & 26) Breakdown of clients with savings products (savings accounts/deposits) as of 12.31.2016, by balance held as of 12.31.2016, differentiating between those who are only savings clients and those who have savings and credits (who have had a loan with the entity).
(27) Breakdown of clients with savings products (savings/deposit accounts) at 12.31.2016, differentiating between those who are only savings clients and those who have savings and credit (who at 12.31.2016 had one loan or more with the entity).

- Most clients with savings accounts have been or still are credit clients (88%), but only 27% have balances higher than USD 5.
- The percentage of deposit clients who don't have credit products is somewhat higher (32%), in comparison with those with savings accounts without credit (12%), and most of them have high balances.
- Indeed, clients who have a loan in Bancamía have less saving capacity.
- Savings-only clients are younger and better educated. The proportion of women in this segment is 58%.

What really matters

Lives brimming over with hopes and drive. These stories are a sample of thousands of examples of effort that inspire Bancamía's work each and every day.

Astrid Orjuela's dream is to create a goat semen collection plant. Ana Judith Martínez decided to create her own business selling ice cream, fruit pulp and smoothies. Norma Viviana Ordóñez has taken 50 child victims of the Colombian conflict into her small home. And Sandra Patricia Hernández serves the small businesses of stall holders and store owners, living Bancamía's vision: to reach the most vulnerable clients.



The genetics of perseverance

Astrid Orjuela and her husband bought a farm. They were given a nanny goat which, together with another nanny and a billy, was the start of a milk-selling business. Bancamía's loans have helped her to expand her infrastructure. Now Astrid's dream is to set up a goat semen collection plant.



Scan the QR code and discover the story of Astrid



Astrid is an accountant by training. She didn't like the stress of life in the city and decided to make a complete change. 22 years ago she moved to Subachoque, a peaceful rural area, less than 2 hours from Bogotá. She and her husband live on a farm they bought, surrounded by nature. Knowing that they had enough land to allow it, some friends gave them a nanny goat as a pet. Although Astrid and her husband would never have guessed it at the time, that present was the origin of the Aprisco Villa La Esperanza goat farm.

That first nanny goat was lonely on her own, so they bought another, and then a billy goat. They learned how to milk them and started selling the milk. And like any business that is starting and growing, they

needed financing. They had to adapt the farm facilities in order to build suitable spaces for keeping the goats, for milking them, etc.

That is why Astrid became a Bancamía client. Ten years have gone by since her first loan, which has been followed by another three to buy livestock and build a barn. The business has grown steadily, as have Astrid's dreams of doing well. She needed more financing to buy technical equipment and modernize the premises so that they are prepared for the next challenge: for her farm to become a benchmark for the sector.

Bancamía's loans have helped her to expand her business and enabled her to provide the farm with good infrastructure. And the result

Today she has 62 goats producing 23 liters of milk a day, which Astrid sells to companies manufacturing cheeses and yogurt. She is happy to share her knowledge and opens the doors of her farm so that students and professionals can have free training and work practice.

has been surprising: they have succeeded in crossing French and American goats genetically, creating a new cross, and have already exported 27 of these animals to Peru.

Astrid sees the institution as being part of her success: "I like Bancamía. They don't just look at whether you have the financial collateral to pay them; they look at what plans you have to develop and expand, so that you grow. The support they have given us has meant peace of mind. One call to Bancamía and everything is under control: they back you up, they advise you, they design the entire payment plan around the client", she explains.

Today she has 62 goats which produce 23 liters of milk a day, which Astrid sells to firms

Name: Astrid Orjuela.
Age: 59.
Business: Aprisco Villa La Esperanza, goat husbandry and milk production farm.
Location: Subachoque (Cundinamarca, Colombia).
Employees: Works with her husband and takes on temporary staff when the farm needs it.
Total loan figure: four loans totaling USD 8,666 (COP 26,000).
Other products and services: Savings account.



Astrid looks after one of her 62 goats.

that produce cheese and yoghurt. She also wanted to share the skills she has acquired, and opens up their farm to medical and veterinary students and of similar courses so that they can have practical training.

Astrid and her family have raised their living standards and have plans for the future to continue growing. Now she has a new dream. And she is sure she is going to reach it. She wants to set up a high tech center in the middle of the Colombian countryside to collect goat semen. She is an active woman with drive, who puts everything she has into what she does. That is why she knows that sooner or later this center will see the light of day.

When she achieves it, she will set her sights on another enterprise. “I am going to need

Astrid and her family have raised their living standards and have plans for the future to continue growing. The goat semen collection plant and breeding center that she is dreaming of now is her next challenge.

Bancamía’s help, because they meet my needs efficiently, provide advice and work out the payment options”, she concludes.■



Astrid relaxes with her family during a break.



Astrid’s husband works on the goat breeding farm.

Fruit brings forth fruit: a house, a car and a job for her children

With four children and a low family income, Ana Judith Martínez started work selling fruit in Bogota's central food market. There she found that she had an innate talent as a saleswoman and decided to set up her own business selling ice cream, fruit pulp and smoothies.

Corabastos market is the biggest in Colombia. One of its fruit and vegetable stands is owned by Ana Judith, who has been selling these products retail and wholesale for 21 years. Apples, strawberries and grapes are interspersed with seasonal vegetables in a riot of color, carefully displayed in small boxes that she positions around the stand as she tells her story.

At 16 years old she had her first child and moved to Bogota, leaving Líbano (Tolima) behind, the town where she was born, to go with her husband in search of work. The beginnings were hard: the family kept growing and her husband's income was not enough to support them. That is why, when her fourth child was just 10 months

old, Ana Judith started selling fruit at the weekends in the main food market in Bogota. It was then that she discovered she had a natural gift as a saleswoman and decided that she wanted to have her own business selling fruit.

From the central food market she moved to Plaza de Mercado de las Flores, in Bogota's Patio Bonito neighborhood. She saved up for three years to buy a stand and became an independent entrepreneur. She fulfilled her dream and set up a business as her own boss selling ice cream, fruit pulp and smoothies.

One day a Bancamía advisor went to see her, offered her a first loan, and that is how

she entered the formal financial system: "Bancamía believed in me and gave me the opportunity to show that I was capable of paying off a loan", says Ana Judith, who

"I recommend to all women that they take that first step, and not be frightened. Bancamía gives you excellent advice and they are on your side, giving you the support you need to access the loans to invest".

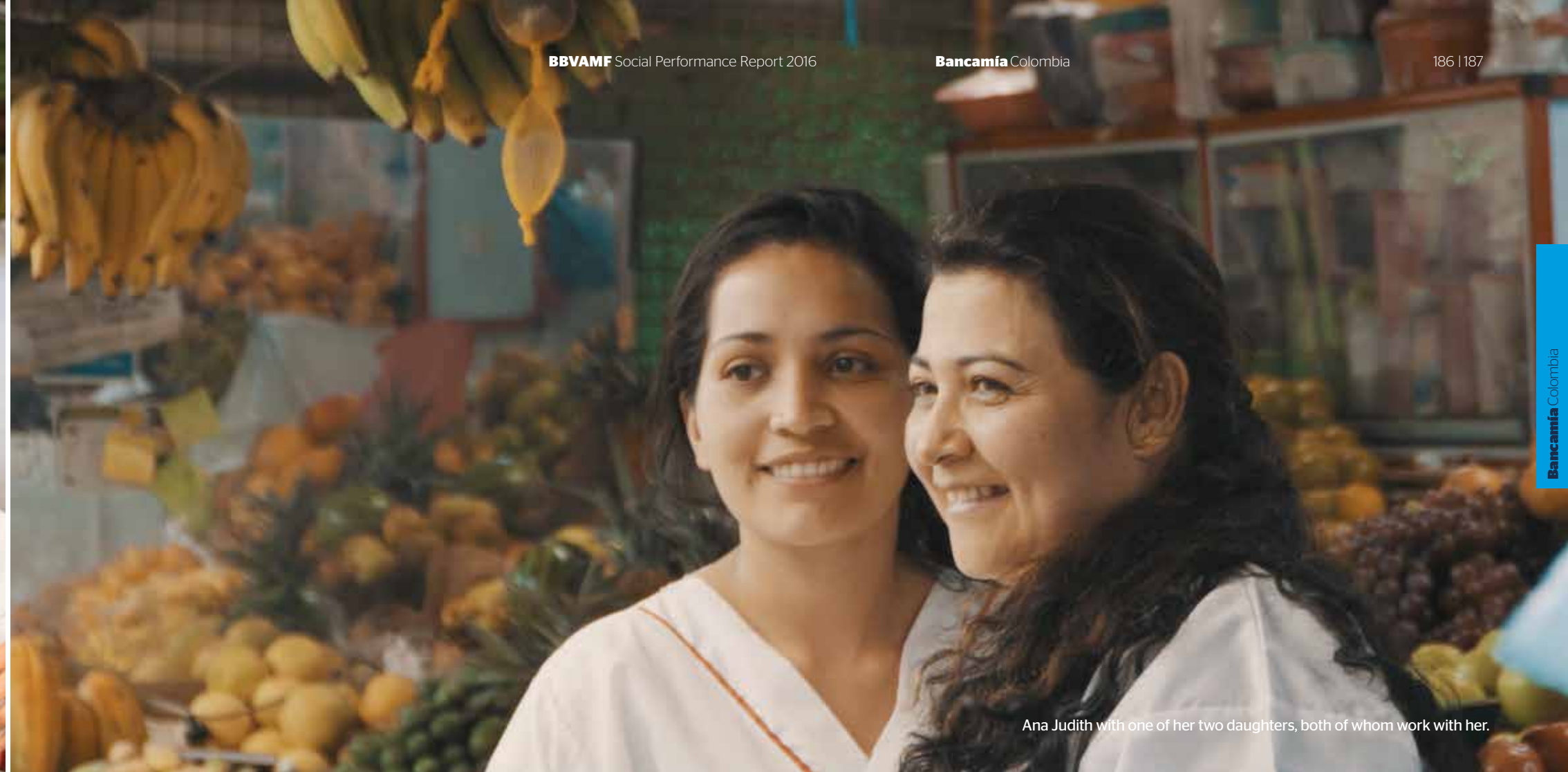
is sure that this was the moment her life changed. "I became independent, we started enlarging our business, we improved our capacity and we were able to take on several people", she explains. "We were so happy when Bancamía granted our first loan! I had never had that kind of money in my pocket and I soon found an opportunity to invest it in a business: I knew it was going to go well".

The business began to grow and she set herself the new challenge of getting a place to sell fruit, vegetables and pulses. She rented larger premises, with new shelves, fridges and display cabinets, and she kept on going back to Bancamía. Thanks to six productive loans she has bought merchandise and

Name: Ana Judith Martínez.
Age: 57.
Business: Fruit and vegetable stand in Las Flores market square.
Location: Bogota D.C. (Colombia).
Employees: Works with her family.
Total loan figure: Six, totaling USD 26,421 (COP 79,264,200).
Other products and services: Voluntary life insurance, certificate of deposit (CD) and savings account.

Scan the
QR code and
discover
the story
of Ana Judith





Ana Judith with one of her two daughters, both of whom work with her.

equipment: “Now everything is different: I can go for a stroll, I have my own home and two of my children work with me. The store has expanded, I sell a wider range of goods, all of them good quality”, this plucky entrepreneur tells us, who has built a future one step at a time, bringing up four children along the way.

She feels that Bancamía has enabled her to improve her life, and is grateful that they granted her financing without requiring a credit history. “Bancamía’s support for me, for my children and for my business has been exemplary, it has been a huge help. My standard of living has improved a lot. We started with Bancamía when I was 18 years old, and every day I have noted progress; now you can see that we have done really well”, she says, smiling proudly.

She wants to continue making improvements, to carry on carving out her dreams: she loves farming and is convinced that in the near future she could buy a farm. Until then, she will continue selling her produce in the market square because she wants her two younger daughters, who have given her two grandchildren, to be able to study: “I will be there to support them”, she states, firmly.

“I recommend to all women that they take that first step, and not be frightened. Bancamía gives you excellent advice and they are on your side, giving you the support you need to access the loans to invest, knowing what the loan is for. You can do it! I’m telling you from experience, you can do it...”, she exclaims.■



Ana Judith at her fresh fruit and vegetable stand in Las Flores market.

Not just a business, this is a refuge for homeless children



Norma Viviana Ordóñez started fostering child victims of the Colombian conflict in a small bedroom in her home. She started with 18 children and now she looks after around 50. This playschool is a refuge for these minors, who are learning to live a normal childhood. For many of them, a basic right that is difficult to obtain.

Norma lives in Soacha, a town 20 kms. from Bogotá, one of the most marginal areas in the country and one that has received the highest number of displaced victims of the Colombian conflict. 16 years ago she opened a playschool in her own home. She started with a small group of children and now she looks after around 50 infants, who are between two and five years old.

This playschool is a refuge for these tiny tots, many of whom are victims of the armed conflict in Colombia, members of one-parent families or orphans in the process of being adopted. They spend most of the day there: they have breakfast, lunch, they learn to read and to enjoy a normal

childhood. For many of these children, this is a basic right that is difficult to experience.

Poverty, an unsafe environment and violence are the scourges of this town, where the United Nations runs a large number of development projects. But Norma decided to challenge the lack of opportunities and to start up something that goes beyond a mere business. The microloans she has received from Bancamía have enabled her to employ five people in the playschool and to enlarge her house, which now has enough space for these children to feel at home.

Norma's two children view her as a role model and thanks to her have been able

Name: Norma Viviana Ordóñez.

Business: Playschool.

Location: Cazuca, Soacha region (Colombia).

Employees: Five.

Total loans: Four, totaling USD 7,545.

To highlight: Has succeeded in carving out a future for herself and her two children in a municipality with a high number of vulnerable people, with few work opportunities.



Norma and the teaching team, in front of the nursery school.



At Norma's nursery, around 50 children try to live a normal childhood.



Norma wants to take in older children, up to twelve years old, to guarantee they eat at least one meal a day. She wants as many children as possible to get away from hostile environments. And at her playschool she is achieving it.

to continue higher education. The elder, Brandon, combines his tertiary education in Sports Science with the sports clothing business he has set up, like his mother, with support from Bancamía. The younger, Dylan, is finishing high school. All three are living proof that Bancamía's work is for the long term, improving entrepreneurs' lives now and in the future for new generations.

Norma wants to consolidate her school and take in older children, up to twelve years old, to guarantee they get at least one meal a day. She wants as many children as possible to get away from hostile environments. At her playschool she is achieving it. That is what she told the President of BBVA, Francisco González, when he visited several

entrepreneurs on his trip to Colombia. She also told him about her other dream: to renovate the courtyard in the building and put a simple play area in it, so that the children can go out and play safely: "we can't let the children out to play on the streets of Soacha because it is dangerous and we are not going to take the risk, even if that means being cooped up all day. If they had that space it would be wonderful", Norma explained to Francisco González. ■

“Serving these clients has enriched me as a person: they are very humble, hardworking people”

Sandra Patricia Hernández’s professional life has been as successful professionally as it has been from a human perspective. Every morning she travels, on foot or by public transport, adapting her working day around the businesses of the clients she serves, stall keepers and store owners. Her job has enabled her to live Bancamía’s vision: reaching the most vulnerable clients.

Sandra has gradually taken on additional responsibilities and roles at Bancamía, as her experience has deepened. In 2005 she began to work in Corporación de la Mujer Colombia as an assistant bank cashier in the Suba Villa María office, where she stayed for six months before transferring to the recently opened Bosa La Libertad branch office. A period that holds happy memories for her because of her team of work colleagues.

In 2006, the institution supported her in a housing subsidy, enabling her to buy an apartment. “That moment was, and will always be, one of the most special of my life”, recalls Sandra. She knew that she could achieve her projects and goals if she carried on showing the same sense of responsibility, honesty and commitment to her work that

are natural to her. She went on to enroll in Business Administration at university, a degree that allowed her to grow and educate herself as a person, as well as standing her in good stead for promotion.

New opportunities

Her daughter Sandra Sofía was born in 2008 and is now eight years old, studying third grade. The support of her co-workers at Bancamía, who lived through that marvelous time with her, is something that Sandra will never forget. She went back to work and soon afterwards was appointed transactions cashier at the Tejar branch. “My aim was to be a microfinance executive; I applied for the job and did the tests for the position with the backing of my immediate boss, Javier Ramírez. This great

opportunity came up and I made a commitment to carry on working even harder, to be one of the best executives, because I knew that working hard and feeling that I belonged would bring me success in my new role”, comments Sandra on her career path at Bancamía.

She began her training for this new stage of her career in the Primero de Mayo office. The positive energy and determination she displayed in her job gave their fruit as solid professional results. After that, she filled a substitution in the Patio Bonito branch, with her boss giving her a positive performance review, which led to her being assigned a portfolio at that branch.

In less than a year Sandra was already a senior executive. “I think that hard work and loving your job lead you to be better every day and to the best outcomes. I love what I do, spending time with people to whom I can give advice, and being a part of helping them to grow in their businesses and to raise their standard of living. Being able to contribute to that is a great motivator for my professional performance and for me personally”, she explains.

In 2014, as a result of her commitment and professional performance in Bancamía, Sandra was chosen to represent her branch at the bank’s annual convention. In 2015 she was chosen *Best Executive of the Year*, an award that honors the best employees from a sales network of 100 professionals. “It was a marvelous experience, because the best executives of the country attend that convention and I felt very honored”, Sandra recalls with emotion, and she proudly displays the trophy in her office. That year her second son, Santiago, was born.

A very personal style of advice

She is currently working in the Patio Bonito branch, where she has been able to get to know other entrepreneurs in more depth. Many of them work in the Plaza de Corabastos market. “Serving these clients has enriched me as a person: they are very humble, hardworking people. This helps me to live Bancamía’s vision: to reach the most vulnerable clients”.



Sandra visits one of her customers at the Plaza de Corabastos market.

Judy Jackeline Salgado is one of those entrepreneurs. “When she heard about Bancamía she was selling coffee on the street. She took out her first loan, using it to rent premises inside the market square, where she set up a vegetable stall. With the help of loans, she diversified her merchandise and was able to buy a car”, Sandra tells Judy’s story, an example of how entrepreneurs can get ahead by their own efforts.

Sandra has adapted her working day to that of the entrepreneurs she advises, even though that means starting work in the small hours of the morning. Every morning she visits, on foot or by public transport, the small enterprises of the stall keepers and store owners she serves, before going to her office. “I took on this new challenge with determination and I am very happy in my new area”.

She sees herself in Bancamía in the future, committed to what she does. She will carry on seeking the chance to improve and carry out the projects in her life. Her priority is to do well by her children, the key driver in her life. “My family and I are grateful to Bancamía for being part of our lives and for helping me to achieve what I have today and what I am”.■

Mobile banking, a new channel set to grow exponentially

Mobile banking is a new transaction channel that brings services to wherever the client is, enabling them to manage their savings, their loans and to make monetary and non-monetary transactions free of charge. Transactions made through mobile banking now make up 9% of all transactions made using alternative channels, representing exponential growth since launch.

The pilot mobile banking program was launched in 2015 and extended in 2016. This new service represents a great opportunity for clients living in remote areas since they will no longer have to travel to their branches, with the resulting savings in time and money.

Mobile banking offers a number of functionalities to its users, among them:

- Checks/enquiries: loan installment payment due date, balance in the savings account, movements made on the account.
- Conducting transactions: transfers between Bancamía accounts, cell phone top-ups (Claro, Tigo, Movistar), paying the loan installment and purchases from participating merchants.

Bancamía offers added value by continuing to reach agreements with more merchants

(ie. additional stores and suppliers) to enable its clients to pay for their products and/or services using this channel. There is a mobile banking application for participating merchants through which they can receive and confirm payments made by the *BancaMóvil* application, at no cost.

Although mobile banking transactions accounted for only 9% of total transactions through alternative channels as of September 2016, the growth of this channel has been exponential since its launch.

At the moment clients are mainly using this channel for non-monetary transactions (98% of the total), with enquiries as to movements, balance and obligations being the most popular. Monetary transactions continue to be a challenge, according to the

Bancamía clients find this channel useful for checking their balance, movements and obligations, while its use for monetary transactions is starting gradually.

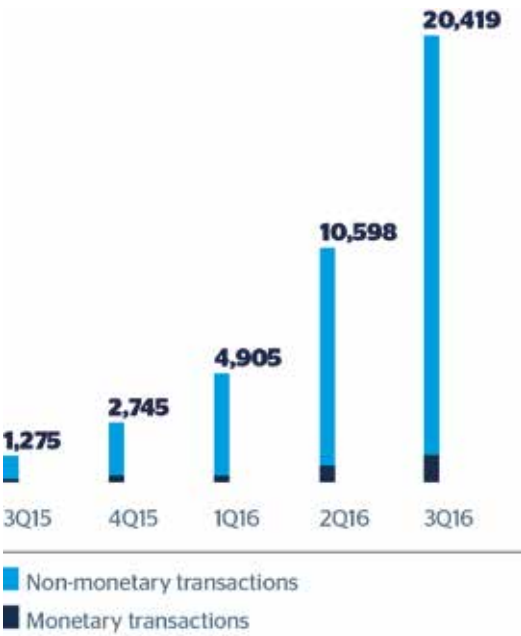
World Bank: in Colombia, only 2.4% of the low-income population has a mobile banking account⁽¹⁾. The predominant monetary transactions in Bancamía accounts are cell phone top-ups (4%) and transfers (2%). Its use for installment payments and purchases is still very limited.

A channel that brings technology to all Colombians

Bancamía will continue striving to create awareness about the advantages of mobile banking (according to the World Economic Forum, 86% of the population of Colombia uses cell phones, but only 52% uses the internet)⁽²⁾ and to add more participating merchants to the commercial circuit. This new channel seeks to break paradigms in terms of the technology used by the most vulnerable Colombians, because as of now they will have a bank available to them on their cell⁽³⁾.

The products used by clients who have so far adopted mobile banking have a similar distribution pattern to that of the total client portfolio, but these clients live in less rural areas and have higher levels of education.

Number of transactions made per quarter using mobile banking (a)



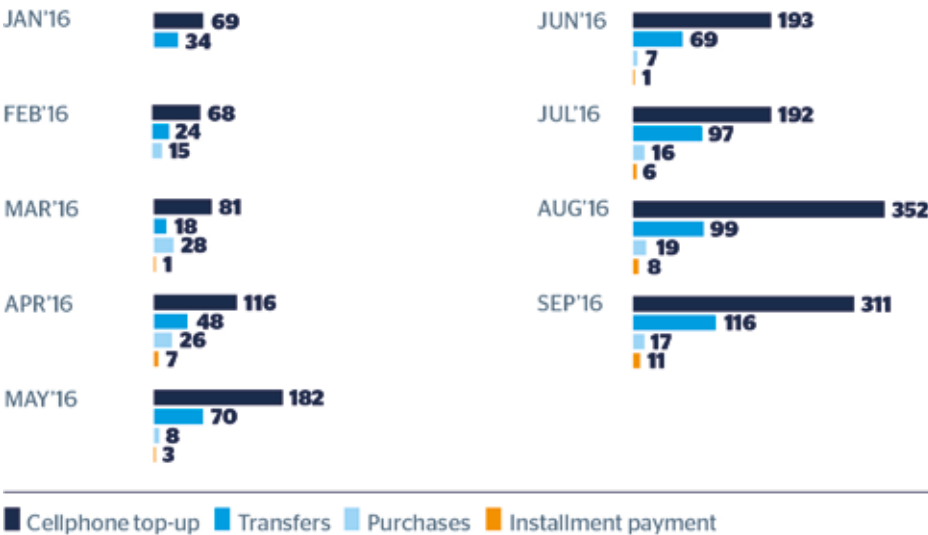
(a) Number of transactions made per quarter using mobile banking. Non-monetary transactions: enquiries about balance, movements and obligations, opening an account, closing an account, programming transactions. Monetary transactions: installment payments, purchase payments, transfers and cell top-ups. (b) Number of mobile banking transactions during the year accumulated to September 2016. Distribution by type of transaction.

Distribution by type of transaction (accum. 3Q 2016) (b)



Source: Data provided by Bancamía as of September 2016. BBVAMF analysis.

Monetary transactions 2016 (c)



Source: Data provided by Bancamía as of September 2016. BBVAMF analysis.

Mobile banking, client profile (d)



Source: Information provided by Bancamía. BBVAMF calculations.

Notes (1) World Bank databank, 2014 (2) The Global Gender Gap Report 2015, World Economic Forum (3) <https://www.bancamia.com.co/sala-de-prensa/detalle/bancamia-lanza-banca-movil-ac7>

(c) Monthly monetary transactions using mobile banking, by transaction type.
(d) Total portfolio as of 09.30.2016 vs. portfolio of clients who have used mobile banking in 2016.



Banking agents: proximity and service

Banking agents are places close to clients where transactions can be conducted in real time in the name of Bancamía. They are commercial establishments served by a person who saves time and money for the client by bringing the bank closer to them.

Bringing service to clients

Clients are right at the heart of the group's strategy, which is why programs designed to bring services closer to the client are fundamental. Their purpose is to reduce both costs and time for the clients, with a positive impact on their welfare and their relationship with their bank.

In 2016 Bancamía built further on its alternative channels policy, amongst them its partner and external agents, the *Linea-mía* call center, Mobile Banking, collection agreements and ATMs, as a strategy to achieve greater penetration, reach remote areas and provide financial access and greater closeness to clients who previously lacked these facilities.

By September 2016, 17% of transactions were being carried out using alternative channels, with agent banking the most popular of these, at 42% of these transactions. The partner agent channels were used 28% of the time.

(a) Percentage of transactions by channel, for all channels other than branches. Data to September 2016.

Transaction breakdown by alternative channel (a)



Source: Data provided by Bancamía. Collated by BBVAMF.

Banking agents

Banking agents are places close to clients where transactions can be conducted in real time in the name of Bancamía. They are commercial establishments open to the public managed by one person, with whom Bancamía signs a correspondent banking contract so that the individual can provide financial services in the bank's name.

Bancamía started developing its partner banking agent channel in 2012, called *Servimía*, in order to make it easier for people to become 'banked' and to extend the bank's geographic penetration. Today it has 58 partner agents, located in rural areas and on the outskirts of conurbations. Furthermore, it has developed an additional agent strategy, one of shared agents, a commercial alliance that enables clients to operate through using any of over 3,400 service points throughout the country.

Partner agents

Partner agents are clients chosen after analyzing their potential, distance (they must be two hours at the most from their supervisory branch) and their abilities, to form a long-term alliance, and with whom a service provider agreement for clients in the area is signed. Clients can conduct the most common banking operations: checking their balance, payment of loans, paying in deposits and making withdrawals from savings accounts. This is better for the client in terms of time and money, as well as bringing the low-income population into the banking system because of the service's greater proximity, convenience, and flexible opening hours.

Partner agents have a contract tailored to them, and operate like a branch of the institution itself; because of this, signing up each agent is a strategic decision that requires a number of procedures. On average⁽¹⁾, every partner banking agent carries out 14 transactions a day in the name of the bank, a high transaction frequency.

Transactions carried out through agents to the end of the third quarter 2016 grew at a year-on-year rate of 7.4%.

Correspondents make it easier for the client to keep up with their loan installment payments and to manage their savings accounts from very close to their home or business, thus reducing risk and time spent traveling to the bank branch.

Shared agents

Bancamía has also made available to the client a network of shared banking agents, in over 3,400 points throughout the country, through a commercial partnership that provides the physical and technological infrastructure so that the correspondent banking service can be rolled out on a massive scale. Of all the Bancamía transactions carried out using an alternative channel, 14% were through these correspondents.

Shared agents make it possible to have a bigger footprint and a single alliance gives access to a large number of service points, their main advantage being their low cost and high number of access points. However, they are not exclusive, and so may be used by other companies, with the result that the service has less linkage with Bancamía. As of September 2016, 33% of transactions carried out through agents came through one of these shared service points.

Number of quarterly transactions conducted through agents (b)



Source: Data provided by Bancamía. Collated by BBVAMF.

An analysis of transactions throughout the year reveals that clients mainly use this channel to make their loan installment payments and withdrawals from the savings accounts, which shows the importance of setting up these channels to bring the institution's products and services to the client.

Banking agents make it easier for the client to keep up with their loan installment payments and to manage their savings accounts from very close to their home or business, thus reducing risk and the travel time to the bank branch.

Clients, who are mainly rural, use the agents to make their loan installment payments.

(b) Number of quarterly transactions. Includes partner and shared agents.
(c) Breakdown of transactions carried out to September 2016, by type.

Breakdown of transactions by type (c)



Source: Data provided by Bancamía. Collated by BBVAMF.

Clients making transactions using agents, profile (d)



Source: Data provided by Bancamía. BBVAMF analysis.

Note how the most frequent transaction is the loan installment payment, given that the clients who most use agents are the ones with loans, whether this is their only product (84.54%) or combined with savings (11.05%).

These clients mainly operate in rural environments (73%) and their lower levels of educational attainment (60%) are not an obstacle to using the service, which shows the strategic importance of these channels for financial inclusion.

Using agents mean it is possible to get closer to clients, to save them time and money on transport and to improve the institution's efficiency.■

Bancamía has 58 partner agents in its own network. It also has a commercial alliances with shared agents enabling it to operate in over 3,400 service points throughout the country.

(d) Breakdown of clients by agents calculated from number of clients served between January and September 2016, by products held in Bancamía. Total portfolio, breakdown by product held, as of 09.30.16.

Notes (1) Average monthly transactions between January and September 2016, by number of partner banking agents (58).

Financial education, added value for the future

Given their vulnerability, Bancamía clients have limited access to education, so the support they are given by the institution through its financial education is of high added value for them. Financial assessments have been conducted, helping 113,403 clients, as have face-to-face financial education workshops in which 13,088 people have taken part, of whom 3,055 are clients.

One of Bancamía's key strategic objectives is to guide its clients' productive development if they need it, with financial and non-financial products and services, including financial education, with its *Echemos Números®* [Let's do the numbers] program. Available since March 2013, this program provides techniques and tools to beneficiaries so that they can manage their money better, take informed financial decisions on their own and achieve greater control over the risks to which they are exposed. Part of the program includes a range of different activities designed for clients, associates and the community. The bank has defined two strategies for managing financial education for its interest groups:

- Financial assessment
- Face-to-face workshops

These two financial education training strategies are organized by the bank's branch managers and Productive Development Executives (PDEs) who themselves receive

appropriate training, in which they are taught the methodology for adult education and they are supplied adult teaching tools and materials so that they can subsequently give the courses. Similarly, every associate in the sales network who joins the institution for the first time receives this training as part of their induction.

In conjunction with the Corporación Mundial de la Mujer Medellín [World Corporation for the Medellín Woman] and the Corporación Mundial de la Mujer Colombia [World Corporation for the Colombian Woman], founding NGOs and shareholders of the bank, the associates are tutored in how to introduce, update and reinforce the methodology for managing financial education efficiently, so that the associates can consolidate the knowledge they have already acquired and increase their skillset, which contributes to deepening their capabilities.

As the graph shows, the bank made a big push in training associates in 2014 and

Training the associates (a)



Data provided by Bancamía. Collated by BBVAMF.

2015. All employees who were in the sales network in 2014 received a major training drive so that they could provide financial education, thus creating a robust network of educators. In addition, every year new recruits to the sales network are trained (in the induction process); 1,387 people were trained in 2015 and 787 in 2016. This investment in training means that the bank has installed capacity to help large numbers of clients during the process of learning about and understanding their finances, offering complete solutions to their needs.

(a) Number of associates trained each year. Source: Data provided by Bancamía. Collated by BBVAMF.

The program provides techniques and tools to beneficiaries so that they can manage their money better, take informed financial decisions and achieve greater control over the risks. The program has gathered momentum since it started in 2013, which has enabled it to train over 126,000 people in 2016.

The outcome of this strategy, as shown below, is the high number of clients who received training, particularly since 2015.

Financial assessment

This is an exclusive individual strategy for bank clients, in which the productive development executives (PDEs) supply clear, timely and impartial information, at each contact visit. The information is on issues relating to handling their finances, so that they can take well-informed decisions to achieve sound financial outcomes and use the products and services they have with Bancamía effectively.

This activity has printed support material which lays out financial definitions in a way that is easy for the client to understand. Likewise, there are practical exercises that enable these concepts to be applied immediately on an everyday basis. The modules offered are:

- Saving
- Budgets
- Managing debt
- Credit rating agencies and client ombudsmen
- Risk and insurance

- Financial negotiations
- Mobile banking
- Debit card

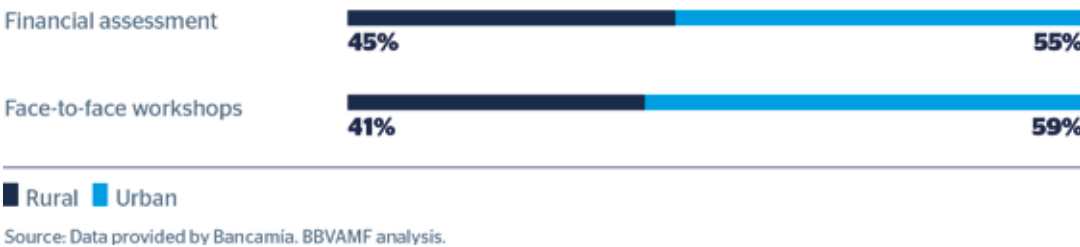
Issues are discussed at every contact visit as needed by the client at the time. Between January and September 2016, 123,039 financial assessment sessions were conducted, helping 113,403 clients.

Face-to-face workshops

The second financial education strategy consisted in carrying out face-to-face workshops for clients and the community. The training is held for groups and focuses mainly on the community, although clients frequently take part, and is given by each branch's Manager and PDEs. In 2016, 726 face-to-face workshops were held on financial education, helping 13,088 people in all, of whom 3,055 are clients.

There are two types of client training, which are given to clients in both the rural and urban environments.

Clients who have received training, by environment (b)



Educational attainment reached by clients receiving training (c)



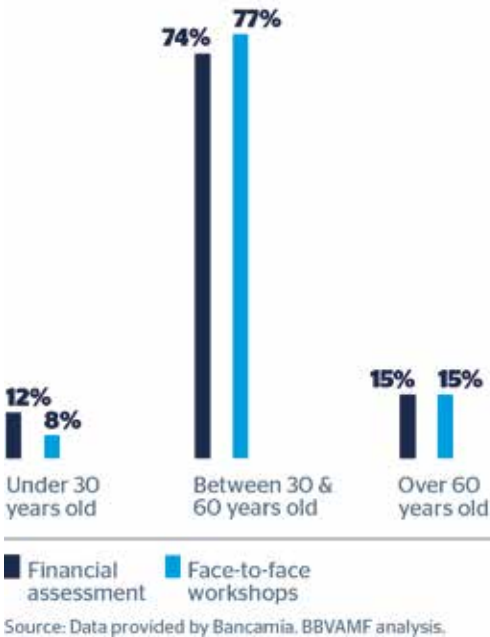
(b) Percentage of clients by environment that have received training in 2016 (up to September), specifying environment.
(c) Percentage of clients receiving training in 2016 (up to September) by education level, specifying education.

Bancamía clients, given their vulnerability, have limited access to education so the support they are given by the institution through its financial education is of high added value for them, since it enables them to assess their financial options and the potential for development. This has been the case for the clients who have received financial assessment, 57% of whom had primary education at best. In the case of the face-to-face workshops, as many as 60% of course recipients have only had primary education.

Clients who have attended face-to-face workshops have lower levels of education. This is probably due to the fact that the age structure is rather different. They are older, with only 8% being under 30, at which point educational levels start improving; 12% of the clients receiving financial assessment, on the other hand, are under 30 years old.

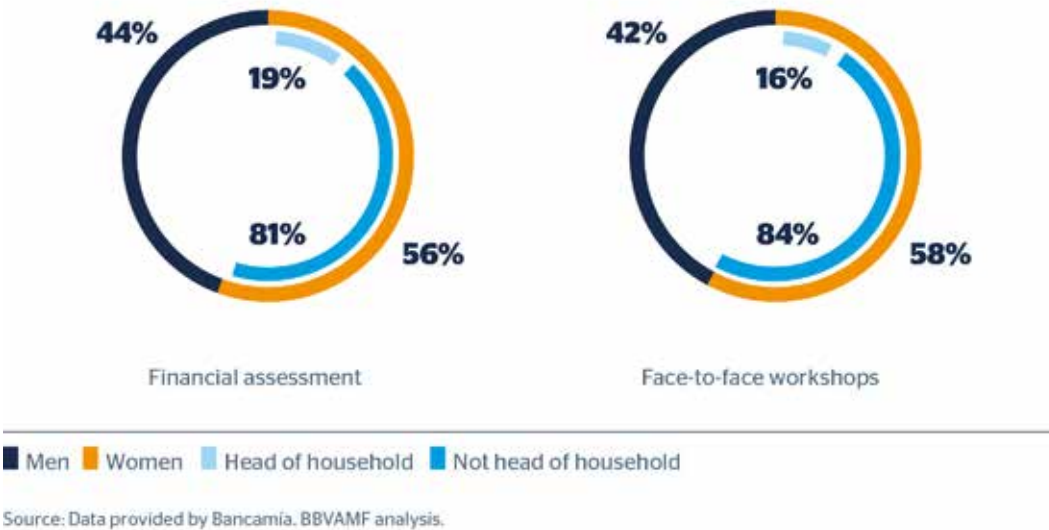
Most of the clients being trained are women, both those receiving financial assessment and those attending face-to-face workshops. The gender breakdown on the courses is similar, with just 2% more women attending the face-to-face workshops.

Age of clients receiving training (d)



(d) Percentage of clients by age receiving training in 2016 (up to September), specifying age.
(e) Percentage of clients by gender receiving training in 2016 (up to September), specifying gender

Clients receiving training in 2016, by gender (e)



In the case of the clients who have received financial assessment, 57% had primary education at best. In the case of the face-to-face workshops, as many as 60% of course recipients have only had primary education.

The number of clients receiving financial assessment has grown steadily every year, as well as the number of training activities.

The figure shows how the number of clients receiving financial training grew substantially in 2015, both in financial assessment (an increase of 48%) and in face-to-face workshops (46% growth). Bancamía is thus reinforcing its commitment to its clients' development through their financial inclusion and empowerment.

Beyond training clients: workshops in the community

Carrying out face-to-face workshops educates and trains clients and members of the community, giving them skills and promoting the development of abilities and attitudes which help to reinforce and/or change participants' financial behavior. Bancamía works continually to set up partnerships that enable it to reach the vulnerable population,

covering some of the needs it has identified around financial education issues and obtaining positive outcomes, as shown below.

Training in the community (h)

2013	9,173
2014	9,869
2015	8,285
Sept. 2016	10,033

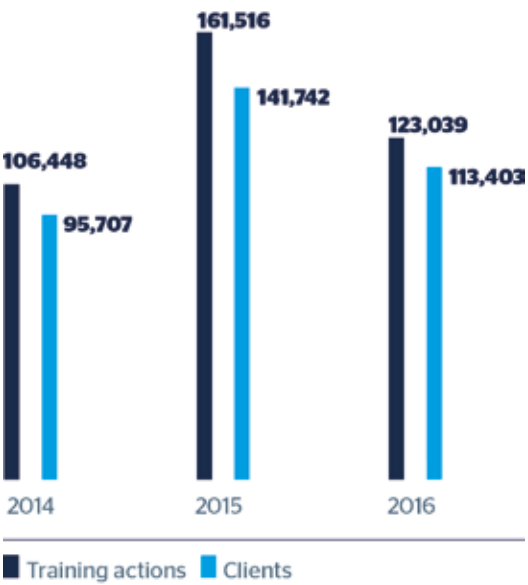
(h) Number of non-clients attending workshops to the end of September 2016.

■ Year ■ Nº of non-clients

Source: Data provided by Bancamía. Collated by BBVAMF.

In 2016, thanks to its partnership with the Bavaria Foundation and the Sustainable Development Foundation (FUNDES), Bancamía has been able to support storeowners' training journeys in their business empowerment program, including the personal finance model taught by Bancamía associates, that have reached over 1,300 storeowners across the country. This partnership also opens up access to the bank's products and services, offering them a special service and a lower interest rate for microcredit applications.■

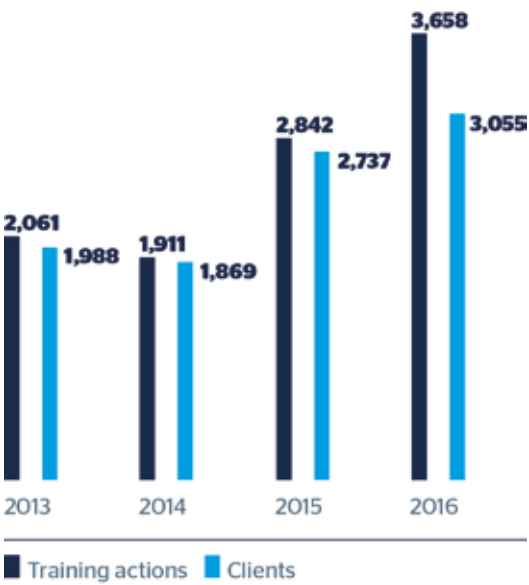
Training actions and financial assessment clients (f)



Source: Data provided by Bancamía. BBVAMF analysis.

(f & g) Data for 2016 to the end of September. Workshops training activities include the number of clients trained in workshops.

Training actions and face-to-face workshop clients (g)



Source: Data provided by Bancamía. BBVAMF analysis.



Lower rate of growth, but achievements in poverty and inclusion

Colombia continues to adjust its economic growth. In 2016 it grew by 2%; nevertheless, the occupation rate expanded by 40 basis points (b.p.), with the most hopeful indicator being the drop in poverty: after just five years, 4.5 million people are no longer poor. Access to the financial system has also improved by 8 percentage points.

The Colombian economy⁽¹⁾ continues the correction it started in 2014. It grew by only 1.9% in the first three quarters of the year, driven by manufacturing and construction, which expanded by 3.9% and 4%, respectively, while mining and agriculture contracted by 6% and 0.3%, respectively. We estimate that the Colombian economy will have maintained this weak trend for 2016 as a whole, and that the final figure will be 2%.

The momentum of GDP has been conditioned by the behavior of both internal and external demand. Sluggish revenue is reflected in less momentum from internal demand (1%), a 4.5% contraction in investment, while final consumption expanded by 2.1%, as a consequence of household (2.3%) and governmental sector (1.5%) performance.

Private consumption, which had increased at rates of over 4% in recent years, moderated swiftly, in line with falling household confidence and grew by only 1.2% in the third quarter; this slowdown was an outcome not only of lower spending in durable goods, but also in other goods classes.

The external sector added a percentage point (p.p.) to growth, a result of a 4% drop in total imports, while exports grew by 1.7%, despite lower growth on the part of trading partners, which can be seen in the poor performance of exports other than basic goods.

After peaking at 8.97% in July, inflation has corrected, closing the year at 5.4%. This is mainly explained by the slower rate of expansion in food prices and, to a lesser degree, moderation in the increase in price of

The slowdown in the Colombian economy after the oil shock continues to be gradual and orderly.

goods and services that had been impacted by the sharp nominal depreciation in 2015, as well as the impact on supply because of *El Niño*, which had a heavy repercussion on food prices.

Furthermore, the performance of demand has contributed to the slowdown in inflation, mainly in the final quarter. As inflation returns to expected limits, price indexing mechanisms will be more compatible with the target, and monetary policy can be less restrictive and in line with growth.

The central bank's monetary policy rate was raised seven times, peaking at two p.p. above where it closed at the end of 2015 (5.75%) and then began to correct downwards, by the end of the year, as inflation began to be contained. One of the factors affecting the correction to inflation has been the adjustment to the exchange rate, which has had a nominal appreciation of nearly 5%, after its sharp depreciation in 2015.

The drop in oil prices continued to affect the progress of fiscal sustainability. Since 2013, total petroleum revenues have fallen by 20%, equivalent to 3.3% of GDP, which ended up evaporating in 2016. Even with the reduction in public spending, Colombia will find it tough to comply with the Fiscal Rule without taking on structural tax reform. In 2016 the deficit stood at 4% of GDP, nearly double the structural deficit limit set in the fiscal regulations.

Labor market

Turning to the labor market⁽²⁾, the unemployment rate posted at 8.6%, participation was 65% and occupation was registered as 59.4%, increases of 40 and 30 b.p. respectively. The activities driving employment and that have kept the rate of unemployment stable are: the real estate sector, agriculture, trade, the restaurant sector and manufacturing industry. These sectors have also absorbed the increase in the participation rate, despite the weakness in growth.

The lowest rates of unemployment were recorded in Barranquilla, at 7.8%, and in Bucaramanga and Pasto, at 8.2%. The cities with the highest unemployment rates were Quibdó, at 17.1%, Armenia, at 14.3% and Cúcuta, at 13.9%.

Subemployment stands at 27.6%, but has dropped by 1.6 p.p from the year 2015.

Real GDP growth



Source: Central bank (Banco de la República).
BBVAMF Research estimates.

Subemployment includes work on the part of those who say they want to raise their incomes, the number of hours they work, or who want to have a job more in line with their professional qualifications. Self-employment accounted for 1.7% in the employment variation, while working for someone else contributed 10 b.p.

Of all those occupied, 30.5% had finished secondary school, 10.7% had gone through vocational and technical education, and 7.2% had a university education. Of those occupied who had completed their undergraduate and/or postgrad course, 44.2% were employed, and 27.2% were self-employed.

Of all those occupied with no educational attainments, the largest group were the self-employed, at 67.2%. Of all those occupied and who had completed professional technical or technology-related education, 60% were employed (as day workers or private employees).

The proportion of informal occupations was 48.4%. 42.7% of those occupied in the informal economy worked in trade, hotels and restaurants. The self-employed accounted for 61.7% of the informally occupied population. Most of those occupied informally worked in a permanent location, with a participation of 32.2%.

Poverty and inequality

The poverty rate⁽³⁾ in Colombia has dropped from 40.3% to 27.8% in just five years. In this period, 4.5 million people came out of poverty. That is, 900,000 a year, on average. In 2015, the latest figure available, around 178,000 people were lifted out of poverty, but there are still 13 million people in this situation.

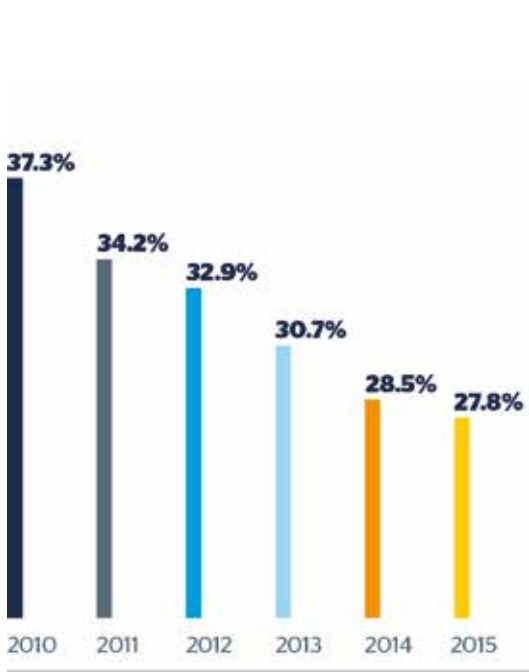
Economic growth has been the main factor behind the reduction in poverty, as well as the programs to indemnify victims and the displaced. Extreme poverty fell by 6.6 p.p. over this 5-year period, down from 14.5%

to 7.9% in 2015. This means that during this time, around 2.6 million people have escaped extreme poverty.

This drop in poverty in Colombia is explained by a combination of growth and distributive effects. Higher income growth accounted for 69% of the total accumulated reduction, with the distributive effect making up 31% of the total impact.

Nevertheless, inequality, although down over this period, has not made the same progress as general poverty, with the Gini coefficient only edging down from 0.553 in 2009 to 0.522 in 2015. This means that Colombia remains one of the most unequal countries in the region and in the BBVA Microfinance Foundation footprint.

Poverty (% total population)



Source: National Administrative Statistics Department (DANE).

Financial inclusion

In terms of access to the financial system⁽⁴⁾, measured by possession of an account, in Colombia 38% of adults have access to the financial system, a 8 percentage point improvement from the previous assessment. Around 20 million adults are excluded from the financial system, with 4.2 million adults having joined it in the last three years.

The main gap in financial inclusion is determined by schooling levels. 45,7% of adults with secondary education or higher are financially included, whereas among those with primary education or less, only 18.3% are included, a gap of 27 percentage points.

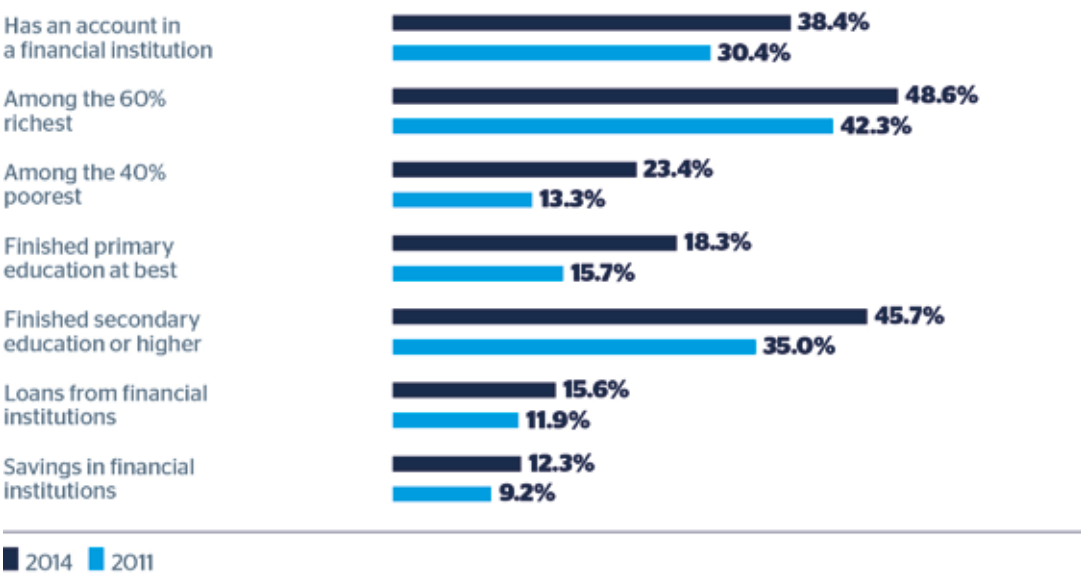
The financial inclusion gap by income is 25 percentage points. 48% of the segments of the higher income percentiles (the highest

60%) have access to the financial system, while among those with lower incomes (the lowest 40%), this is true of only 23%.

39% of adults applied for a loan in the last year, but only 15% did so through a formal financial institution, while the remaining 24% went to family members, friends and/or informal lenders. 44% said they had saved some money last year, but only 12% did so in formal financial institutions.

Cash continues to be the main transaction medium: 54% receive their wages in cash, and 99% pay services and bills this way too. In terms of usage, 24% do not make any transactions during the month, and only 16% of adults make more than three transactions a month, whereas in developed countries the figure is 58% of clients.■

Financial inclusion (% adults)



Source: World Bank Global Findex.

Notes (1) To the end of November 2016. (2) All information is from the National Administrative Statistics Department [Departamento Administrativo Nacional de Estadística], DANE. (3) Ministry of the Economy, Planning & Development (MEPYD), National Statistics Office [Oficina Nacional de Estadística], ONE. (4) Global financial inclusion.

Financiera Confianza **Peru**

Social Performance
Report 2016



**Measuring
what really
matters**

Table of contents

“When there was no going back, there was no point in wasting time asking yourself whether it would have been better if things hadn’t happened. It was better to get them going again in the right direction”.

The Dream of the Celt
Mario Vargas Llosa

Financiera Confianza Description 216 Management team and board 219	Measuring 2016 Social performance results Our clients 222 Our clients’ businesses 226 Our clients’ development 228 What really matters Stories of achievement María Quispe 240 Rafael Velasque 244 Karina Lizbeth Mallqui 248	Special projects <i>Palabra de Mujer</i> [Woman’s word] 250 <i>Ahorro para Todos</i> [Savings for all] 260 Macroeconomic context Peru 266
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Planting opportunities

Financiera Confianza is an institution that provides financial products to improve the incomes and standard of living of its approximately half a million clients, whom it guides through the various phases of productive activity, offering them financial education along the way.

Financiera Confianza, S.A.A. is the leading microfinance entity in Peru. Its mission is to build opportunities for low-income families, improving their incomes and standard of living through Responsible Productive Finance. It came about in 2013 from the merger of Caja Nuestra Gente and the former Financiera Confianza, two institutions with long microfinance track records in Peru. Caja Nuestra Gente was set up by the BBVA Microfinance Foundation in 2008 and itself was the result of a three-way merger between Caja Nor Perú, Caja Sur and Edpyme Crear Tacna.

It is the only microfinance institution with a footprint throughout the whole of Peru and the one with the biggest rural reach. It serves around half a million clients out of 149 branches, providing a range of financial

products and services to help them in the different phases of their productive activities and through their sustainable economic and social development.

The institution also provides financial education to entrepreneurs with its *Palabra de Mujer [Woman's word]* group loan and *Ahorro para Todos [Savings for all]*, an innovative program that was cited by the United Nations' Sustainable Development Goals Fund (SDG Fund) in its November 2016 report *Universality and the SDGs: A Business Perspective*.

This year, one of Financiera Confianza's clients, Nimio Yupán, was awarded one of the *Microenterprise Awards (Premic 2016)*. Nimio is a coffee grower in Villa Rica, one of Peru's best known coffee growing areas.

A decade ago, he changed from wood production to planting coffee, without knowing much about the crop. Today his label, Café Monreal, has won four *Silver Beans* in the National Quality Coffee Awards. Nimio has been a client of Financiera Confianza for several years. He used his first loan to expand the amount of land under production. Since then, Financiera Confianza has traveled with him along the way, and his efforts have been recognized with the second prize in the "production" category of the *Premic 2016*.

In 2016 the International Family Institute (IFI), based in Chimbote, honored Carlos Rojas, Director of the Chimbote branch of Financiera Confianza, S.A.A. as *Director of the Year*, for his contribution to the finance and economic development of the

Financiera Confianza is the only microfinance institution with a footprint throughout the whole of Peru and the one with the greatest reach in the countryside. It serves around half a million clients from its 149 branch offices.

Áncash region. The IFI awarded him the *International Golden Ribbon for Good Management Practice in Public and Private Management*. ■



Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)

467,940,439

Amount disbursed in 2016 (USD)

593,969,100

Nº of transactions in 2016

301,111

Average disbursement in 2016 (USD)

1,973

Deposits & others (USD)

322,437,594

Nº of employees

2,137

Nº of offices

149

People receiving financial education

54,549

Management team and board

Management team

Martín Naranjo
General Manager

Ana Cecilia Akamine
Deputy General Manager,
Finance

Martín Santa María
Deputy General Manager,
Sales

Sandra Jáuregui
Deputy General Manager,
Economic Research

Pilar Flores
Deputy General Manager,
Risks

Bárbara Castro
Deputy General Manager,
Legal Services

Luis Escalante
Deputy General Manager,
Human Resources

Jorge Palomino
Deputy General
Manager, Infrastructure &
IT Resources

Dante Cornejo
General Auditor

Board

Ramón Feijóo
President

Elizabeth Matilde Ventura
Vice-President

Ignacio Rojas-Marcos
Director

Mª Mercedes Gómez
Director

Javier M. Flores
Director

Elizabeth Nava
Director

Carlos Héctor Alayza
Director

Measuring

Financiera Confianza is sticking to its focus of serving low-income microentrepreneurs: 75.7% of these are classified as *vulnerable*. Moreover, 44% of clients classified as *poor* manage to overcome the poverty line in their second year with the institution. Assets have grown significantly, from an already high starting point, which indicates that microenterprises are reinvesting and entrepreneurs are consolidating their wealth.



Total clients

468,902

Total credit clients

212,134

New credit clients

82,554

(1) According to the INEI poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three are classified as *vulnerable*.

(2) Proportion of all credit clients who have completed primary education, at best

Total credit clients as of Dec 31, 2016



New credit clients 2016



Our clients and our scale

Financiera Confianza has remained stable in the last few years as far as acquiring vulnerable clients is concerned, with continuous growth in financing enterprises set up by young people under 30 years old.

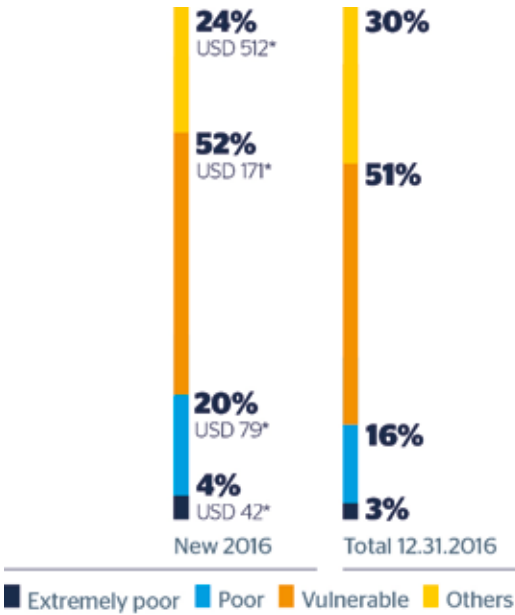


76% of new vulnerable clients served in 2016 live on USD 4.6 per person a day.
For 24% of new *poor* clients, that figure falls to USD 2.4.

- 2016 was another year of economic growth for Peru, and although the market suffers from low financial inclusion, there is a broad range of microfinance products and services. This competitive dynamic is reflected in Financiera Confianza's activity, which reported lower new client acquisition than in 2015. Despite these challenges in signing up new clients, the focus on *vulnerable* clients remained stable (75.7%).

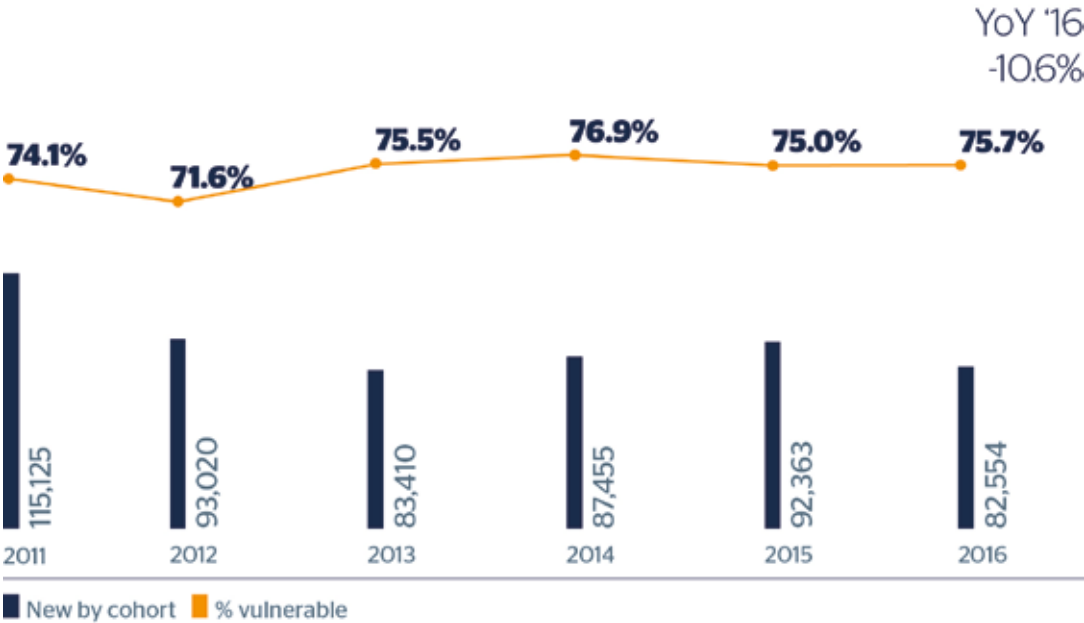
(1) According to the INEI poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty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

Clients' economic vulnerability (1)



*Monthly net income per capita.
Source: Financiera Confianza, BBVAMF calculations.

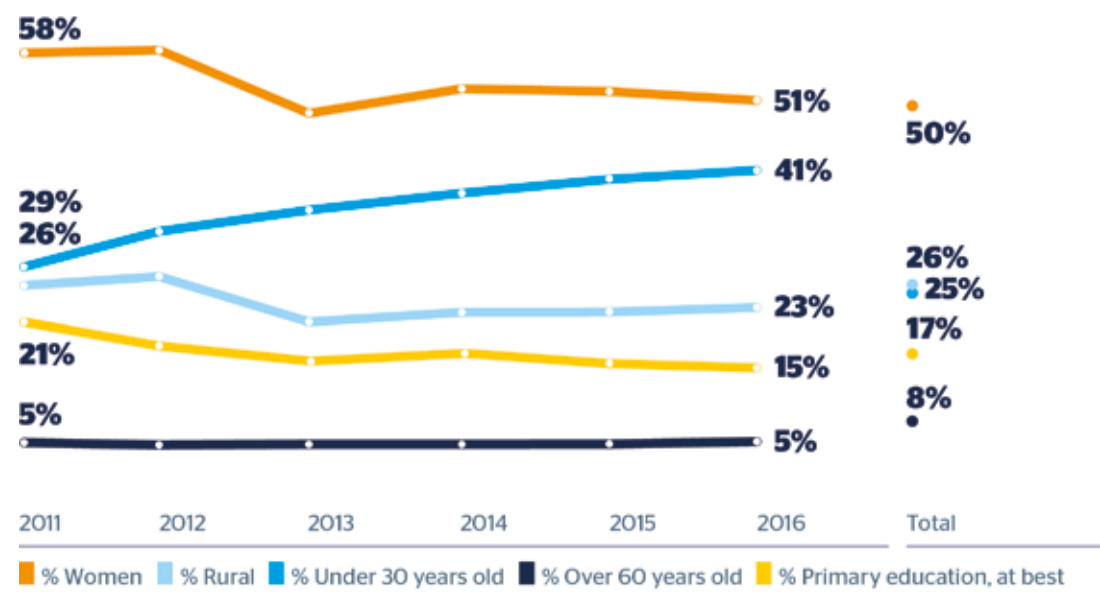
New credit clients (2)



(2) New clients (without previous loans) signed up over the year.

Source: Financiera Confianza, BBVAMF calculations.

Profile of our credit clients (3)



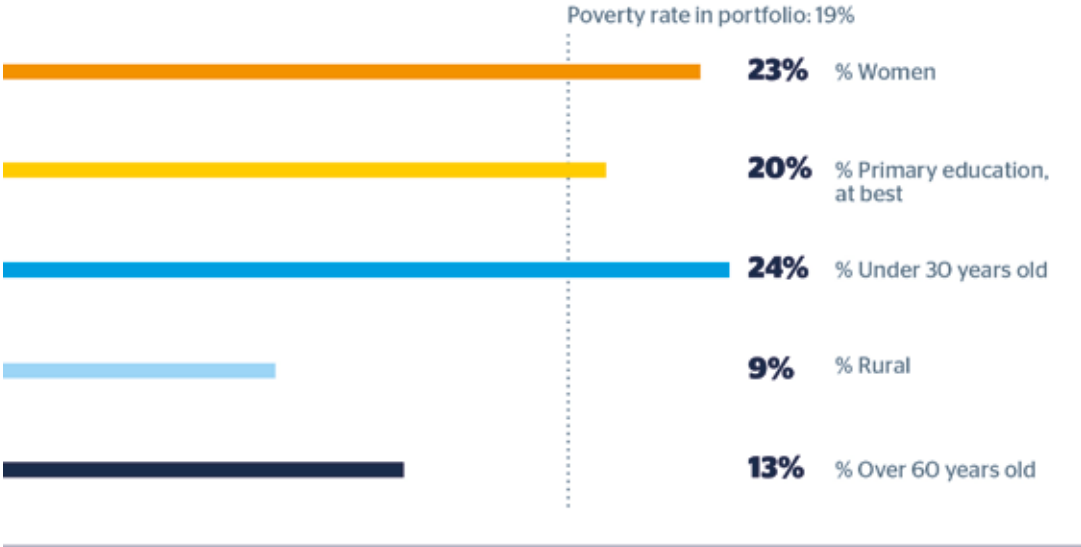
Source: Financiera Confianza, BBVAMF calculations.

In 2016 the primary focus was on serving women and young people under 30, segments with higher poverty rates than the average.

- Clients' educational levels are higher than in other Group entities: only 17% of clients have primary education at best (vs. 45% for the Group as a whole); this is consistent with the high participation of young people (better educated) and urban clients.
- Downward trend in average value of monthly sales and in new client disbursements, consistent with the greater emphasis on signing up *vulnerable* clients. The weight of the payment installment over sales has risen to 9.8% for new clients in 2016.

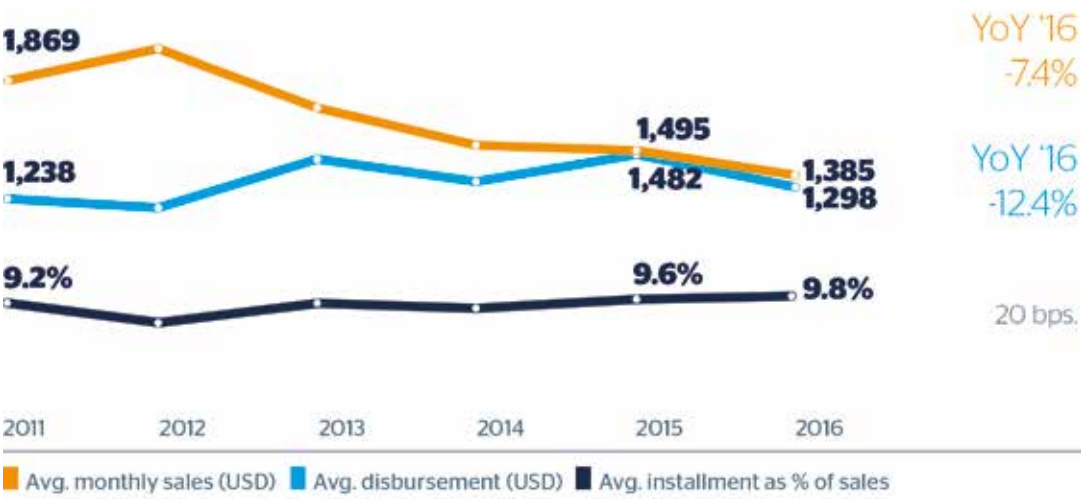
(3) New clients (without previous loans) signed up over the year. The total gives clients current as of 12.31.2016.

Poverty profile (4)



Source: Financiera Confianza, BBVAMF calculations.

New clients' sales, disbursements USD & weight of installment (5)



Source: Financiera Confianza, BBVAMF calculations.

(4) Clients current as of 12.31.2016
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

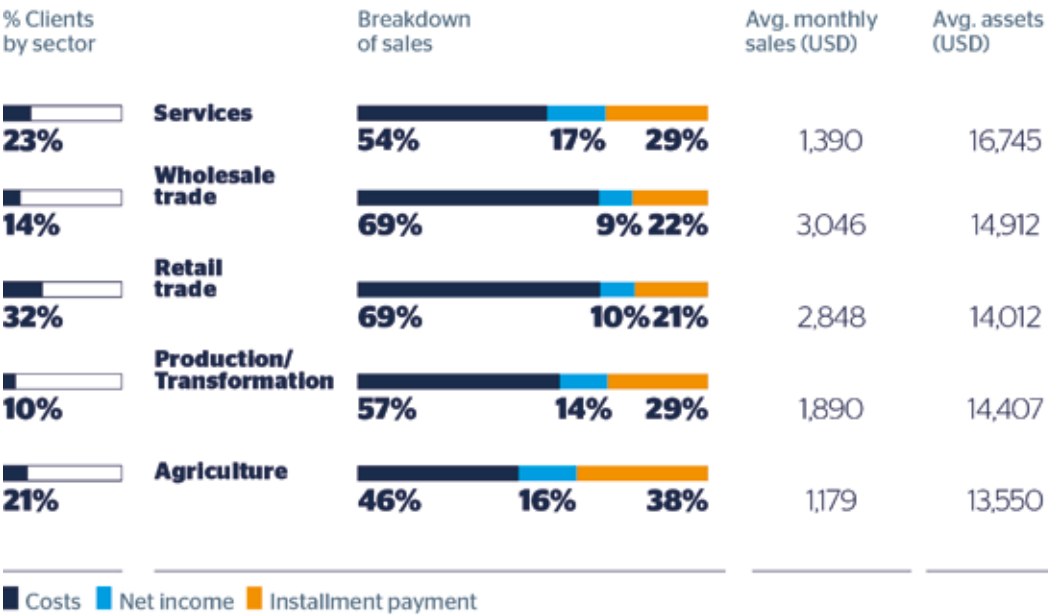
Our clients' businesses

44% of Financiera Confianza clients work in *agriculture* and *services*, segments with the highest operating margins.



- Clients served show high levels of diversification across activity sectors.
- The sector with the greatest representation is *retail trade*, with low margins (21% margin after paying the loan installment). *Trade* has faster asset rotation (sales over assets) than agriculture, where rotation is slow, but the latter has higher productivity (38% margin after paying the installment).
- Financiera Confianza's clients' microenterprises have high assets compared to other institutions and slightly lower margins, suggesting they may invest more in their assets.
- The *agriculture* sector has, compared with other sectors, a low level of assets, a sign that although it is composed of less *vulnerable* clients, it has on average a lower level of wealth.
- In Peru, 58% of the *poor* population works in *extractive industries* (agriculture, fisheries and mining) and 23% in the *services* and *trade* sectors (see *Macroeconomic context*). *Agriculture* is a labor opportunity for clients in rural areas, where there are few commercial activities, and the number of Financiera Confianza clients working in this activity rose in 2016.
- The cost structure shows enterprises with high levels of efficiency (even the smaller ones, with a cost structure of 62% over sales), although, since they take out loans that are relatively large compared to other institutions, the financial installments keeps margins (after the installment payment) to below 30%.
- Financiera Confianza clients do not display significant changes in leverage capacity as their *vulnerability* changes.

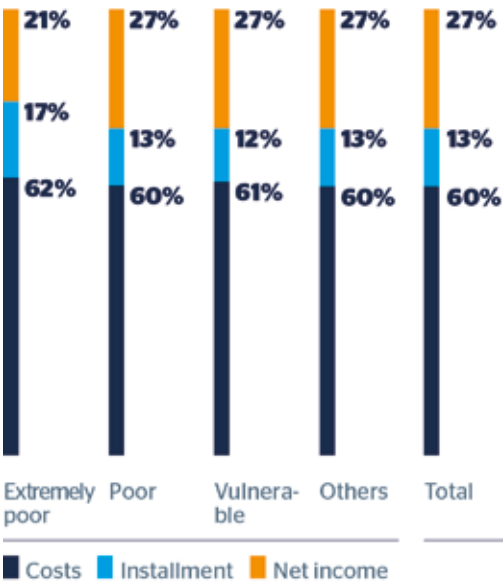
Average margins, sales and assets, by sector (6)



(6) Clients current as of 12.31.2016.

Source: Financiera Confianza, BBVAMF calculations.

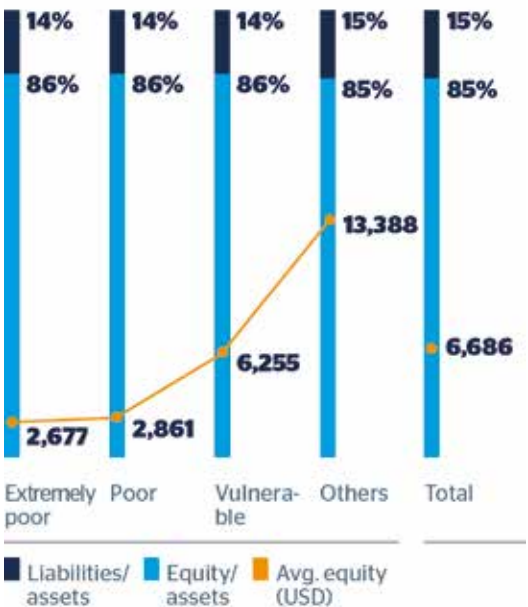
Expenses and margins as % of sales by vulnerability (7)



(7 & 8) Clients current as of 12.31.2016.

Source: Financiera Confianza, BBVAMF calculations.

Assets, liabilities and equity by vulnerability (8)



Source: Financiera Confianza, BBVAMF calculations.

Our clients' development

Assets have grown notably, from an already high baseline, indicating that microenterprises are reinvesting and entrepreneurs are consolidating their wealth.



Credit client retention (by cohort) (9)

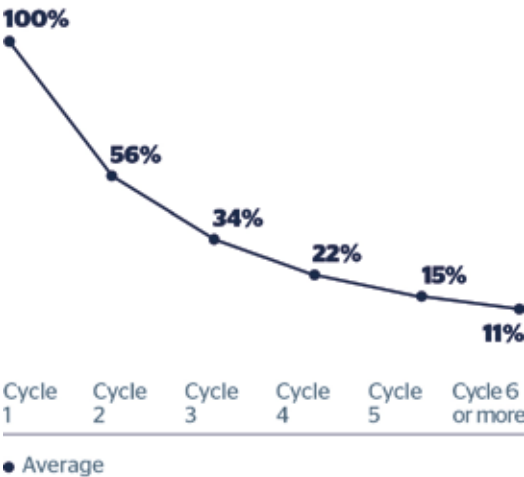


(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Source: Financiera Confianza, BBVAMF calculations.

- On average, Financiera Confianza holds on to 57% of its credit clients after a year and this ratio improved between the 2014 and 2015 cohorts. Given the performance of recent cohorts, average retention is estimated to rise in upcoming quarters.
- After their first loan, more than half of clients take out another (56%). Successive cycles show a positive trend in loan renewals, with a gradual reduction in the number of clients who do not take out another loan.

Credit client recurrence (10)



(10) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle one and two is 290 days, between cycle two and three is 274 days; between cycle three and four is 252 days, between cycle four and five is 230 days and between cycle five and six is 207 days. (11) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of one when it is the same as the poverty line.

Per capita net income relative to poverty line (11)

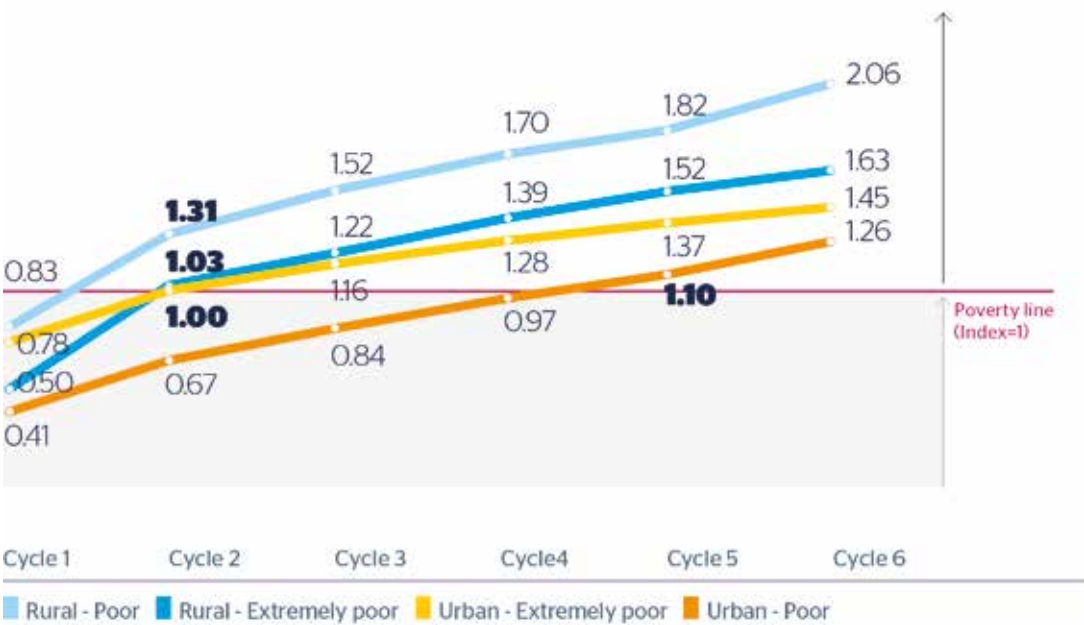


Source: Financiera Confianza, BBVAMF calculations.

- 11% of clients sign up for six loans or more.
- Clients' average *per capita* net income performs positively in each *vulnerability* bracket. For clients in *extreme poverty*, the biggest growth takes place in the first cycle, when they nearly reach the lower threshold of the *poor* category. In the third cycle they cross over the poverty line.
 - Clients classified as *poor* also show the most growth in the first cycle and, on average, only need one loan to rise above the poverty line.

- With the first loan, growth in *per capita* net incomes in the rural environment is more marked than in urban settings: rural clients in *extreme poverty* perform more strongly than *poor* urban clients.
- Note that the situation at the outset shows differences: initial *per capita* net incomes compared to the national poverty line are higher for rural clients.
- These results indicate the need to develop financial inclusion strategies in rural environments, since they bring about major growth and help clients overcome poverty.
- All the microentrepreneurs' economic variables show sustained positive growth over time and cohorts.
- Above 10% in the case of sales and net incomes, and 29% in the case of assets.
- Since 2013 there has been a gradual reduction in initial sales and net incomes, consistent with the entity's focus on *vulnerable* segments.
- Assets grow particularly strongly (see *graph 15*), from an already high base, indicating high levels of reinvestment in the microenterprise and in turn, wealth consolidation.
- Compared to last year, growth rates have slowed a little, although on average clients have more assets: USD 13,479 compared to USD 11,798 in 2015 (see *graph 15*). Thus, value and growth continue to be created in microenterprises.

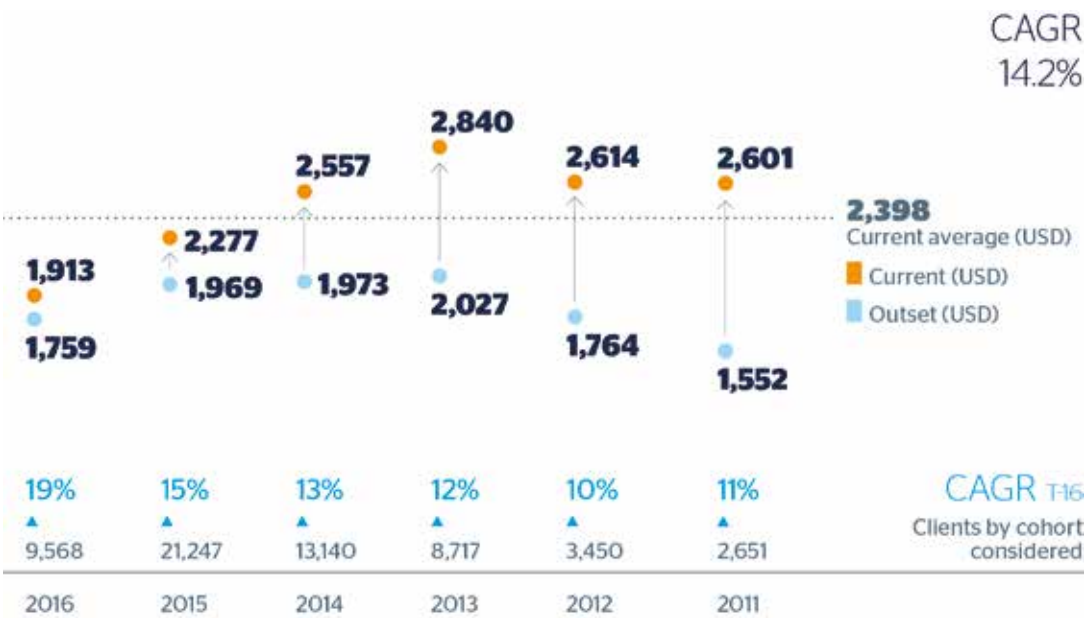
Per capita net income relative to poverty line by environment (12)



Source: Financiera Confianza, BBVAMF calculations.

(12) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of one when it is the same as the poverty line.

Average monthly sales (by cohort) USD (13)



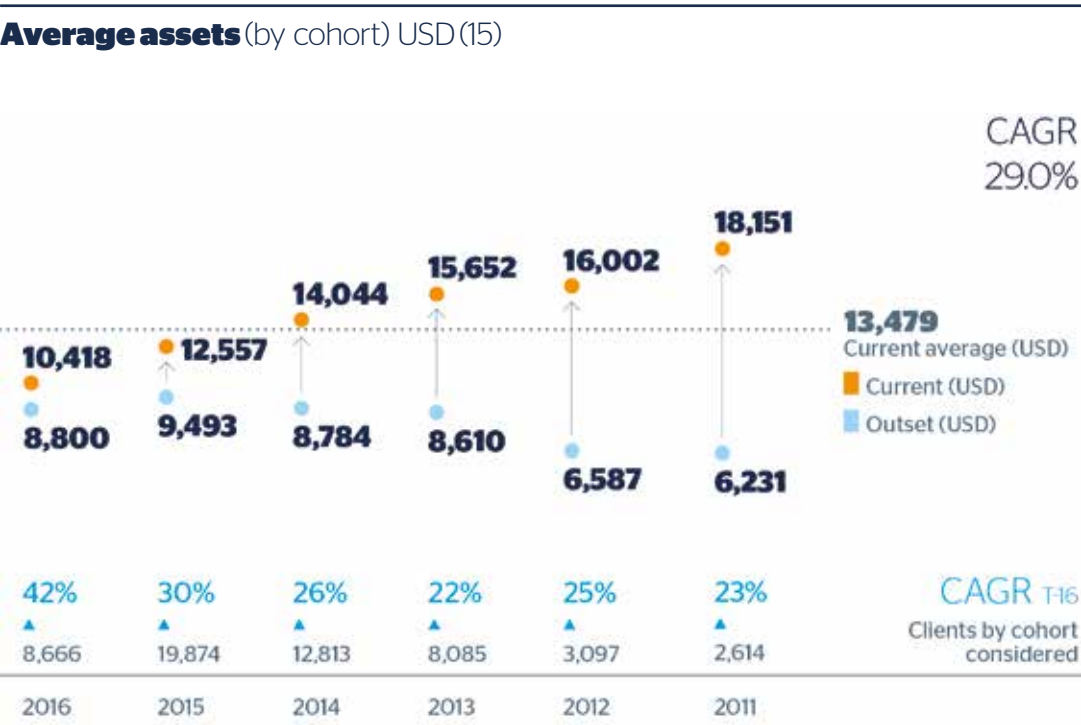
Source: Financiera Confianza, BBVAMF calculations.

Average monthly net income (by cohort) USD (14)



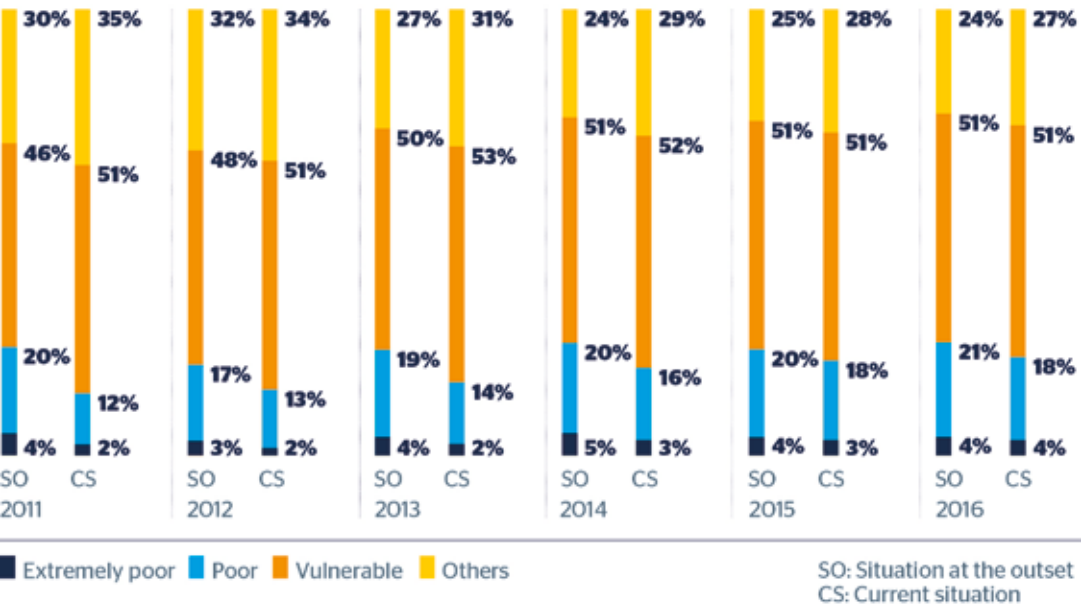
Source: Financiera Confianza, BBVAMF calculations.

(13 & 14) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.



Source: Financiera Confianza, BBVAMF calculations.

Change in vulnerability levels (16)



Source: Financiera Confianza, BBVAMF calculations.

(15) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.
(16) Situation at the outset (SO) and the current situation (CS). Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.

The trend seen in other Group entities is confirmed here:
the older the cohort, the greater the proportion of clients, poor at the outset, who succeed in breaking through the poverty line.

- During the second year of the banking relationship, 44% of clients classified as poor manage to overcome the poverty line and in subsequent years this percentage continues to rise.

(17) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.
• Escape from poverty: clients classified as *poor* at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as *poor* at the outset.
• Entry into poverty: clients classified as *non-poor* at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as *poor* at the outset.
• Net reduction: escape from poverty, less entry into poverty.
(18) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.

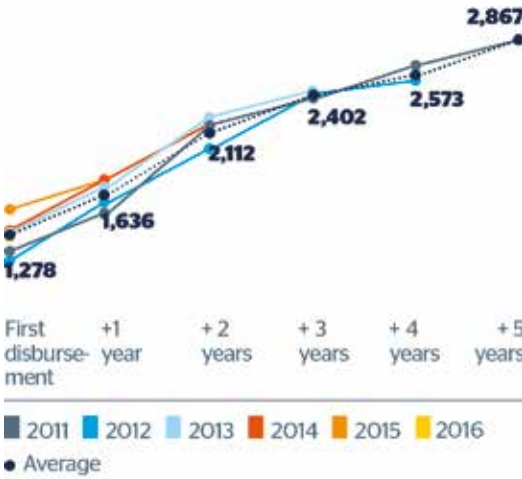
Net poverty reduction (17)



Source: Financiera Confianza, BBVAMF calculations.

- There is also a high percentage of clients who do not succeed in stabilizing their incomes and fall back into *poverty* segments: after two years on average, the poverty segment increases by 25% due to clients whose *per capita* net incomes take them below the poverty line. Nevertheless, this percentage stabilizes after more time has passed.
- As relationships with clients mature, they begin taking out loans for bigger sums. Disbursements grow steadily year on year, although in recent years the increase over the first credit has slowed, with 2015 showing a less steep curve than previous years.

Average disbursement per transaction (by cohort) (18)

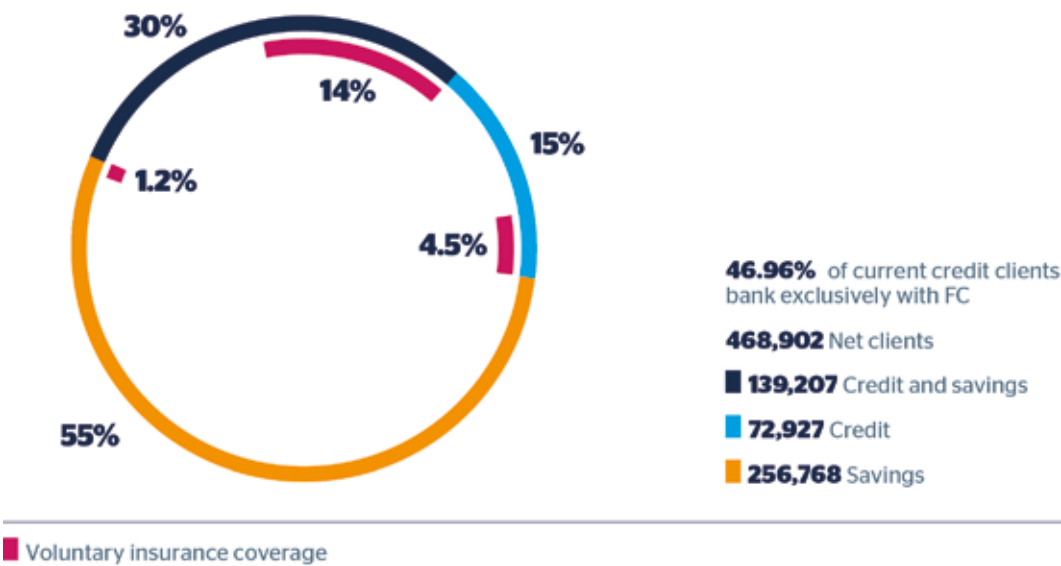


Source: Financiera Confianza, BBVAMF calculations.

Many of those with credit products also have savings and insurance products (14%), with this trend strengthening since 2015, when it was 10%.

- However, given the competitiveness of the sector and the extensive product offering, it is significant that 16% of clients have loans only (vs. 2% in Banco Adopem and 5% in Bancamía). Saving is still practiced by only a few: nationwide, 39% of the population said that they had saved during the previous year, but only 12% did so in formal institutions (see *Macroeconomic context*).
- Most Financiera Confianza clients have a microenterprise as a source of self-employment (altogether, 87% of clients have microenterprises without workers). As their situation becomes less *vulnerable*, companies begin to employ more workers. Thus, 19% of *non-vulnerable* clients have employees.

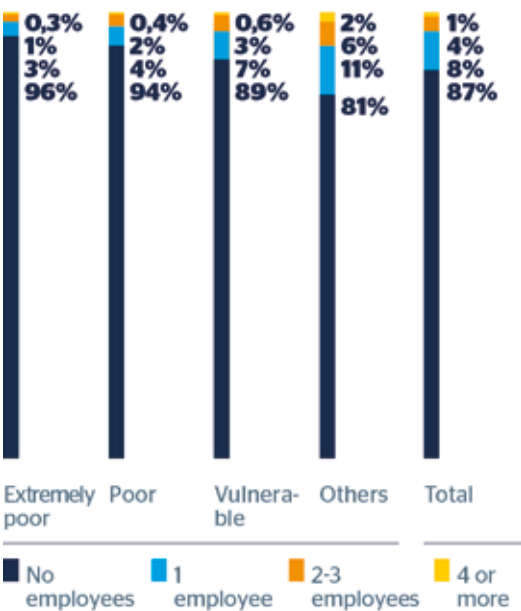
Client linkage by product type (19)



(19) Savings clients with a balance greater than PEN 1 or with account movements in the previous 9 months, are considered.

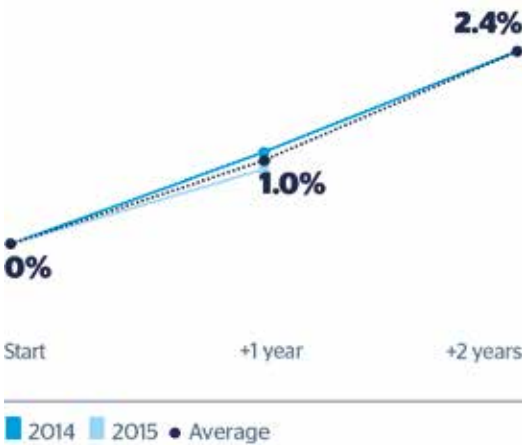
Source: Financiera Confianza, BBVAMF calculations.

Microenterprise employee breakdown (20)



Source: Financiera Confianza, BBVAMF calculations.

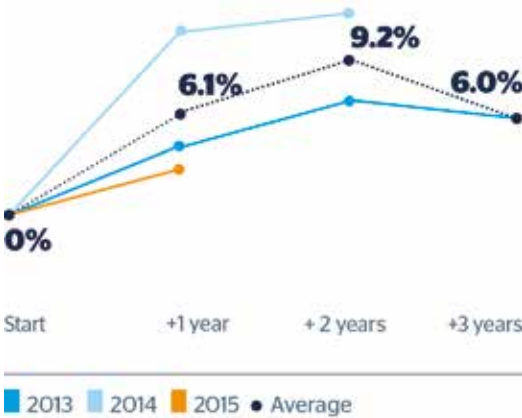
Job creation (by cohort) (21)



Source: Financiera Confianza, BBVAMF calculations.

- Due to information restrictions, only 2 years of employment data generated by Financiera Confianza clients is available; rates are expected to rise in the next few years.
- Financiera Confianza clients not only make improvements to their enterprises but also invest in raising their standard of living and that of their families. Thus, after two years with the institution, on average 9.2% of clients have improved their housing conditions.

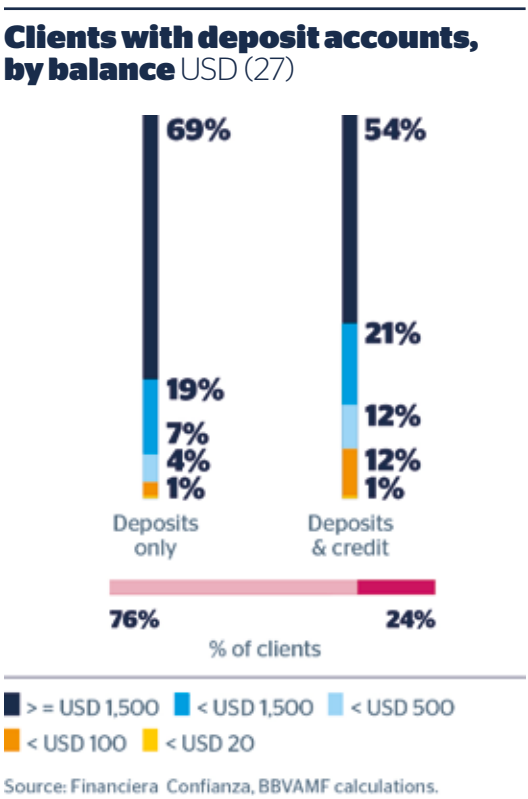
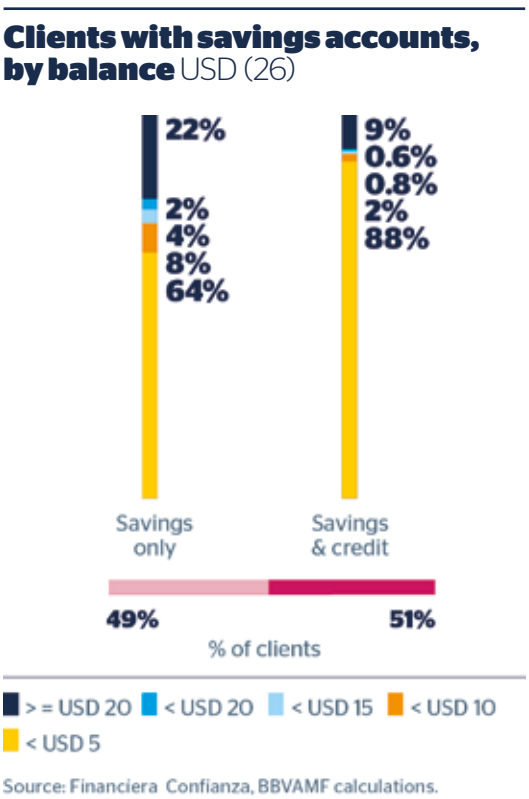
Client improvement in housing (by cohort) (22)



Source: Financiera Confianza, BBVAMF calculations.

(20) Number of employees in the enterprises of clients current as of 12.31.2016.
(21) Increase in the number of employees in the microenterprise compared to the situation at the outset, for clients current as of 12.31.2016, in each cohort. Averages from cohorts 2014 and 2015.
(22) Proportion of clients still current as of 12.31.2016 in each cohort (2013-2015) who have improved their housing conditions, from rented to owned, made home improvements (e.g. bathroom, water access, better construction materials) and/or increased the number of rooms since they registered at the outset. Average of 2013-2015 cohort.

- There is high growth in the number of savings clients in 2015 and 2016. Deposit clients account for 2% of the total and remain stable.
- 51% of clients with savings have had a loan, which is considerable given that clients who came to Financiera Confianza through a savings product (only) are less likely to take out a second product.
- Clients make few transactions in their savings products. Only 16% have more than three movements in their accounts in the last three months.
- Whatever the product type (savings accounts or deposits), the proportion of savings-only clients is high (49% and 76% respectively). They also have higher balances than those clients who also have a loan in Financiera Confianza.

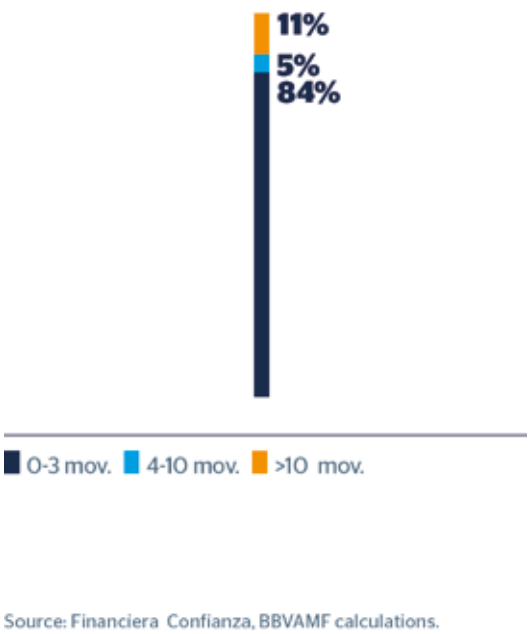


Linkage of savings clients (24)



(23) Clients with savings products (savings or deposit accounts) at the end of every year.
(24) Clients with savings products (savings or deposit accounts) as of 12.31.2016.
(25) Breakdown of clients with savings products (savings and deposit accounts) as of 12.31.2016, by n° of account movements in the previous 3 months, excluding administrative movements (interest payments, fees, etc.).

Client breakdown by bank movement/transaction figures (25)



Profile of savings clients (28)



(26 & 27) Breakdown of clients with savings products (savings accounts/deposits) as of 12.31.2016, by balance held as of 12.31.2016, differentiating between those who are only savings clients and those who have savings and credits (who have had a loan with the entity).
(28) Breakdown of clients with savings products (savings/deposit accounts) at 12.31.2016, differentiating between those who are only savings clients and those who have savings and credit (who at 12.31.2016 had one loan or more with the entity).

- When looking at product types, a high proportion of savings accounts clients (the majority of savings clients) have very low balances, less than USD 5, although clients with deposits have higher balances.
- Savings-only clients have similar profiles to those who also have loans, although they are more urban, younger and better educated.
- Savings & credit clients are the real focus for the institution, since they have enterprises (this is not a requirement for savings-only products) and as such show signs of greater vulnerability, together with lower balances.

What really matters

Thousands of stories with happy endings, stories that matter. Meet some of their main characters.

María Quispe no longer buries her savings in the yard of her house. She has learned that there are safer ways. Her dream is to buy a house so that she can rent it out. Rafael Velasque has bought himself a truck to transport his livestock for sale at farming fairs. His standard of living and that of his family has improved. Karina Lizbeth Mallqui solves her clients' problems, even if that means walking in the rain through the jungle.



Shining a light on buried dreams

The training that Financiera Confianza gave María Quispe has enabled her to understand the value of saving, and taken away the worry that she might be robbed again of the money she used to bury under the yard of her house. Now her dream is to buy a house with her savings in order to be able to rent it out.

María used to bury her savings carefully under the yard of her home. She hoarded in a plastic bag the 800 Sols it had cost her so much effort to save. One day, when she went to hide the 200 Sols she had earned from her job in the fields, sowing the land for other smallholder farmers, she discovered that all her savings had disappeared.

Up until then, the misgivings of her husband Felipe Champi, who does occasional laboring in the local cemetery and on building sites, had prevented María from going to Financiera Confianza to formalize her savings. But after the theft, they attended the financial institution's training course to learn more about what it could offer them. María told Felipe that if they had taken

their savings there earlier they would have been spared the thieves. By the end of the presentation, he agreed.

Since then, María is one of thousands of Peruvians in the *Ahorro para todos* [Savings for all] program, run by the BBVA Microfinance Foundation in Peru so that low-income people in the remotest communities in the country can learn about the importance of saving to solve their problems. Pilar Quispe promotes this innovative Financiera Confianza program, which has taken financial education to indigenous segments in their native language, Quechua.

For María, Pilar is the face of Financiera Confianza: "I didn't know where to keep my money; I thought about giving it to

someone in my family. Then Financiera Confianza gave us training, through Pilar, their employee. At the beginning I didn't get it. By the third session, I started to understand".

Until she learned about the advantages of saving with Financiera Confianza in the formal economy, María used to keep her money in a plastic bag buried under the yard of her house.

Name: María Quispe.
Age: 40.

Business: Works on the land as a day laborer, sowing potato, corn, quinoa, vegetables, beans and strawberries. Sometimes looks after houses.

Location: Rayampata (Cusco, Peru).

Products and services: Savings and financial education training.

To highlight: No education. Married, with three children of school age. Contributes to the family's income together with her husband, Felipe Champi, 42 years old, who did not finish primary school and has part-time jobs in the local cemetery and on building sites.

Scan the
QR code and
discover
the story
of María



María is one the thousands of Peruvians of *Ahorro para Todos* [Savings for all], a program run by the BBVA Microfinance Foundation in Peru so that low-income people in the remotest communities can learn about the importance of saving to solve their difficulties.

“I am happy with this bank: before I just hoarded my money at home, now I’ve stopped worrying about it, I didn’t feel safe thinking that perhaps someone was stealing money from my home”, explains María, in the Quechua language.

Now she wants to build a house in Challa-bamba made of solid materials on land that she owns, so that she can rent it out. She has already saved part of the money and little by little she will carry on adding the amounts she need to build her dream. She would also like to open a business in Ray-ampata so that she doesn’t have to leave her children alone while she is working.

She is so convinced that saving has changed her life that she is encouraging her sisters to follow her example. “They’ve made up their minds now to start saving”, she smiles, satisfied.■



María tells us how Financiera Confianza has made it possible for her to feed her whole family.



One of María and Felipe's three children..

500 Peruvian soles and a life

Wearing his *chullo* (the woolly Andean bobble hat) and at an altitude of 4,600 meters, Rafael Velasque is doing well with his farm, selling chickens and other livestock at farm fairs. Financiera Confianza's loans have enabled him to buy a truck, improve his farm and, most importantly, give his children a good education and standard of living.



Scan the
QR code and
discover
the story
of Rafael



Pisac is an Inca citadel, located on a high plateau surrounded by ravines. At an altitude of 4,600 meters, in the Valle Sagrado [Sacred Valley], it is a key attraction for many of the tourists who visit Peru. Rafael lives there, on the highest point of the mountains, in a simple wooden house with his wife, three children and his animals. Like nearly everyone in the Perca Community, he is a farmer and stockbreeder. Every day, on foot or horseback, Rafael walks the hills where his animals graze, keeping an eye too on the pigs, donkeys, guinea pigs and chickens that he rears and sells to maintain his family.

Rafael is a man who keeps to tradition, he wears a *chullo*, the typical hat with earflaps of the high plateaus knitted from alpaca wool,

and a near-permanent smile that transmits the happiness he feels about his life as it is now.

He tells us, speaking in the indigenous Peruvian Quechua language, how everything changed after his first PEN 500 loan (about USD 150) from Financiera Confianza. That money he was lent eight years ago was the start of an advancement that has enabled him to educate his three children and that has turned him into one of the best known residents on the mountain.

"I am making progress and thanks to that I am educating my children properly. I've been doing well up to now and getting ahead. My children have also raised their standard of living. I have made improvements to my farm, I have bought things,

I make investments and it has gone well", Rafael tells us, with gratitude, saying that since he has been a Financiera Confianza client, he and his family have lived better.

Over this time he has diversified his business and now sells his animals at fairs. Before, he used to guide them on horseback to the nearby villages or, when he could, sometimes renting a vehicle. But now everything has changed. Rafael has bought himself a truck with his most recent loan from the bank and transports his livestock much more comfortably. He even rents the truck out to his neighbors; that way he receives a little financial extra.

If anyone can testify to Rafael's work ethic, that person is Jessica Apaza. She is

In Quechua, the indigenous Peruvian language, Rafael explains how his life changed thanks to his first loan of 500 Peruvian soles, granted by Financiera Confianza.

the Financiera Confianza advisor who has handled his loans. She remembers that when she met him, Rafael had already saved up nearly half the cost of the truck he so wanted, but that he needed a loan to pay

Name: Rafael Velasque.
Age: 59.
Business: Farming and stockbreeding.
Location: Perca Community (Cuyo Grande 2, Cuzco, Peru).
Employees: None.
Total loans: Three, for a total of USD 6,606 (PEN 22,500).
To highlight: Educated up to high school. Married, with three children, two of whom are adult, with one of school age.

Rafael, wearing the traditional woolly Andean hat, with his wife.



Pisac, Rafael's village, 4,600 m above sea level, in Valle Sagrado.



The money he was lent eight years ago was the start of an improvement that has enabled him to educate his three children and that has turned him into one of the best known residents on the mountain.

for the rest. “We lent him the other half so that he could buy his pickup truck and get ahead. He is a very hardworking person, if the livestock doesn’t sell, he keeps chickens, he rings the changes depending on what works. For the Christmas market, he rears turkeys. He always pays right on time”, she says.

Rafael explains how he could not access the financial system, but that once he did, everything changed, which is why he encourages others to take this step: “I told my family about it, and other people, telling them to do as I did, to ask for a loan... with that you are going to do well, as I did. I recommended it to several people ... let’s hope they want to do it...” he smiles, watching over his animals as they graze on the mountains of Valle Sagrado.■

“Walking through the jungle in the rain is no trouble if the goal is to help”

Her commitment to promote financial inclusion among the most vulnerable, those living in remote rural areas, has brought Karina Lizbeth Mallqui a lot of physical challenges. But her greatest achievement is one of a state of mind; her determination to help her clients solve their problems, and the satisfaction of seeing the successful outcomes of her involvement.

Karina Lizbeth left home in 2013 in search of a future. Worried that she wouldn't be good enough, she faced her first professional challenge in the Pichanaqui (Selva Central) branch of Financiera Confianza, where she also had the opportunity to enroll at the institution's training school.

But since the very first day, Karina, who is now 27, has successfully overcome all the hurdles she has faced. “When I arrived at the agency I had a very warm welcome from the Director and my co-workers, as well as some challenges”, she recalls. The first challenge was getting a license to drive a moped, a necessary preliminary if she was to get to the rural areas where the vulnerable entrepreneurs she was serving lived. “I have lived through amazing experiences visiting clients by moped; I've fallen off a few times, but nothing worrying”, she says, smiling.

Experience gained

She remembers with affection an anecdote from her first job at Financiera Confianza, when she visited to assess a farming loan. A client asked for a loan to sow ginger. His land was on a hill that was so remote that she had to walk for three hours to get there. Karina still remembers how she was only able to walk the distance because the farmer warned her and lent her his wife's boots.

She also talks about how the support she received from the branch manager and her colleagues there was essential in helping her to learn the steps that have to be taken when assessing and granting a loan: “The training Financiera Confianza gave me was very good. It was an excellent school for me, with human values. They teach us to live the mission and vision in our jobs and, above all, they make us feel part of that mission in our everyday work”.

Another of the things this loan officer appreciates is how Financiera Confianza serves vulnerable entrepreneurs: “Rural clients don't have easy access to banking, they know little about the products and about the advice that is available to them when making their investments. It is one of the few institutions that looks after this type of people, because it has a footprint in areas where others don't. It is a function we carry out as part of financial inclusion”, says Karina about her day-to-day tasks.

In 2013 and 2014 Financiera Confianza supported coffee producers who lost their crops because of an outbreak of yellow rust, a mildew that attacks this plant. “It was a challenge to help clients one to one, talking to them and guiding them with the paperwork. I often gave up my lunch-break to give them a hand: my job is very intense”. Karina was happy to see that the results of her efforts were positive: the institution promoted the debt purchase of the affected farmers. “I feel proud of the work I did”, she recalls, getting a little choked up.

New challenge

In 2015 a programed office rotation saw her move to the Centenario branch in Huancayo, where she is currently working. This location has enabled her to see more of her family while, professionally, setting her a different challenge, with a bigger and more competitive client market. Karina handles a wide range and number of matters on a day to day basis. She is in charge of winning new clients, marketing products to those who have paid off their loans, analyzing renewals, as well as tracking payment installments and recoveries. She is also responsible for making sure that the client journey within the institution is helpful in expanding their businesses, allowing them to improve their standard of living.

Karina's work and effort were rewarded in 2015 when she won *Best Sales & Loan Officer in portfolio management, Center 1*.

In 2016 she was promoted to *Senior Sales & Loan Officer*, an opportunity to grow professionally which also gave her more responsibility over the 360° management of the portfolio she handles, which for her is a “very valuable asset”.

Karina has not forgotten the entrepreneurs or their stories of achievement. She still remembers Pablo Quinto, one of her first clients while she was training at Financiera Confianza, a banana salesman from Yuri-naki. Pablo needed a loan to buy a vehicle. When Karina went to visit him to validate the loan it began to rain, and the journey through the jungle until she reached the area where Pablo had his crops started getting more and more difficult. It was a case of an enterprise which demonstrated hard work and the will to grow, so the institution did everything in its power to finance the project: “We managed to get there, despite the difficulties with the weather and we financed the purchase of his vehicle. Now he is a loyal client of Financiera Confianza and doesn't bank anywhere else”, says Karina proudly. When she is on holiday she still goes to see him. “I will carry on working to support people's financial inclusion until they achieve it, as part of their growth path to improve their standard of living”, concludes this lady, with all the peace of mind that comes from having a clear conscience and awareness of a job well done.■



Karina visits an entrepreneur's business.

‘Palabra de Mujer’: more guidance for vulnerable women in Peru

Palabra de Mujer [Woman’s word] is a group credit product specially designed for women in vulnerable situations in rural areas. The product promotes inclusion and financial training for women who on their own would not be able to access a loan. On average, 28% of the clients who have become banked through Financiera Confianza since 2014 have done so through *Palabra de Mujer*.

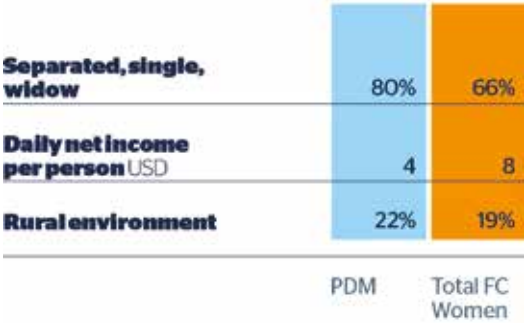
Palabra de Mujer (PDM) [Woman’s word] was launched in 2008, from the need to prioritize services to women in vulnerable situations by providing a productive credit to groups⁽¹⁾. Since September 2016, this product has been available in 33 branches throughout the country (of a total of 101), in 10 administrative regions in Peru and to 30,323 clients⁽²⁾ altogether (14% of the current portfolio). The product’s value proposal includes a training model for the members of the group about financial education matters, management of business and productive aspects, and the family.

Supporting entrepreneurial women

The product has been specially designed for women⁽³⁾ with low levels of educational

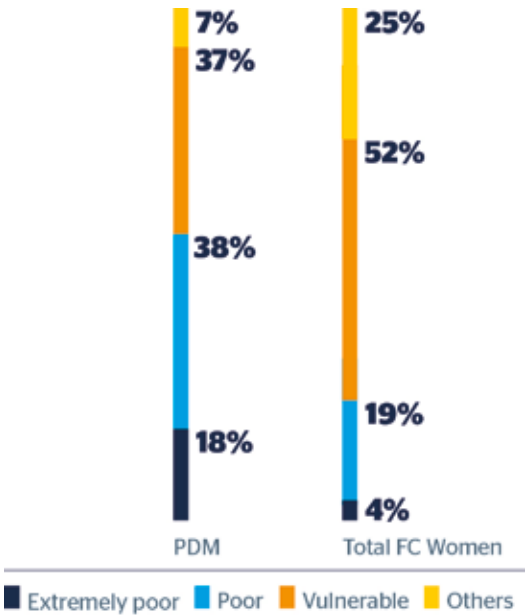
attainment. 24% of clients have primary education, at best, whereas the equivalent proportion among women clients as a whole is 17%⁽⁴⁾. 41% of them are under 30 (vs. 28% for all women clients) and most are single, separated or widowed (80% vs. 66% for all female Financiera Confianza (FC) clients. They are also the most vulnerable female clients, with 56% being classified as *poor* or *extremely poor* vs. 24% of total FC women clients. This is apparent in the poverty gap: the average net income for PDM women is further below the poverty line (29% vs. 66% for all FC women clients on average of the 100% needed to cover the cost of the basic shopping basket), and they need bigger increases in their incomes to get over the line. In order to achieve greater social impact, a significant component of this group loan is financial education.

Differential characteristics of PDM clients (a)



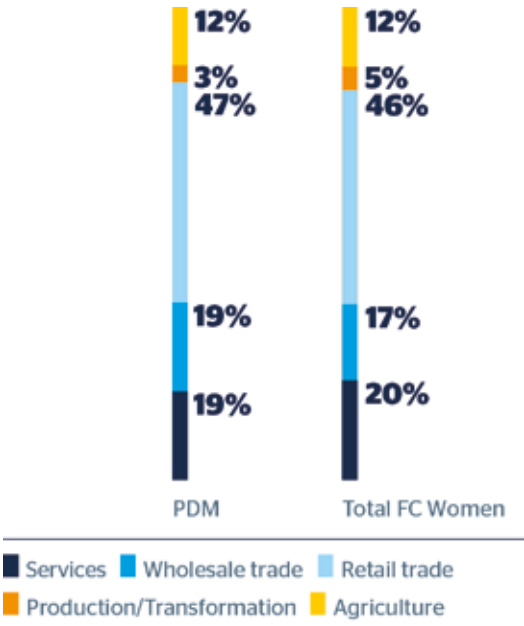
Source: Financiera Confianza, BBVAMF analysis.

Vulnerability by segment (b)



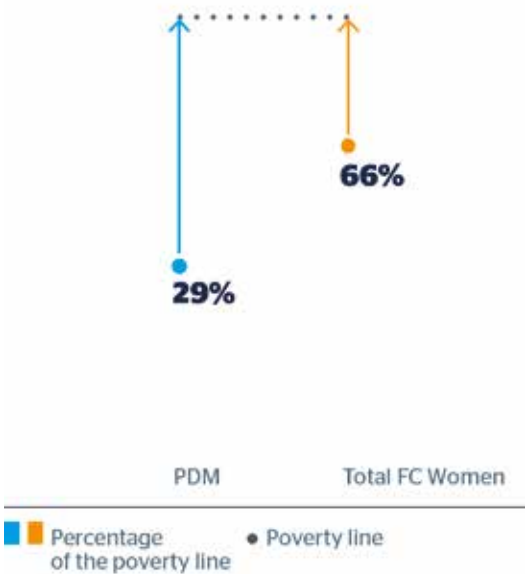
Source: Financiera Confianza, BBVAMF analysis.

Economic activity (c)



Source: Financiera Confianza, BBVAMF analysis.

Poverty gap (d)



Source: Financiera Confianza, BBVAMF analysis.

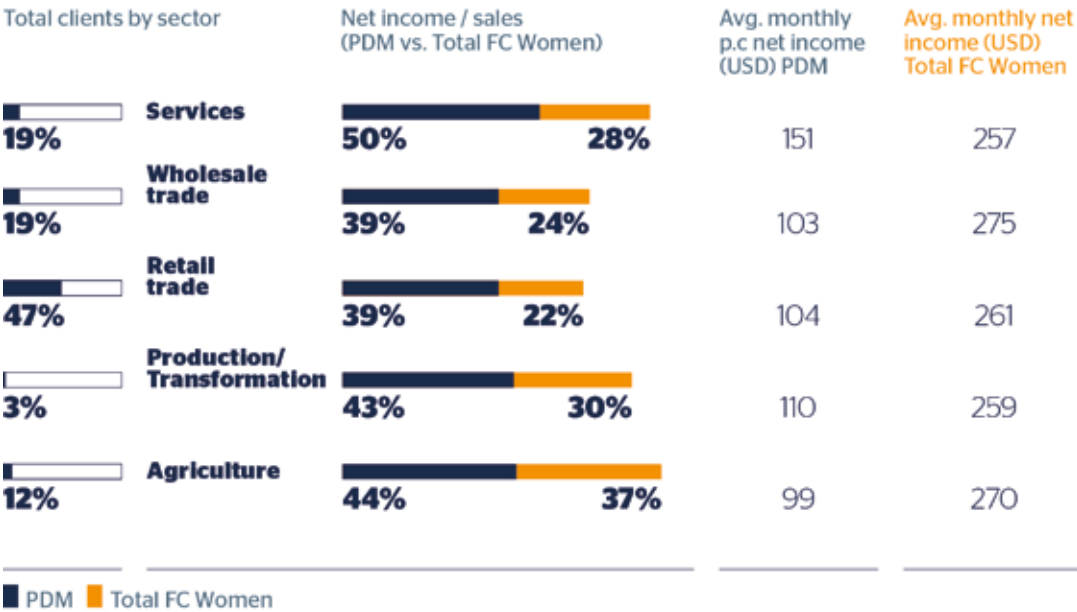
(a, b, c & d) Data on clients current as of 09.30.2016.
(b & d) According to the poverty line as set by INEI (differentiating between the rural and urban environments). Taking *per capita* net income (estimated as business surplus divided by the size of the household), the segment made up of clients whose *per capita* net income is over the poverty line, but under the threshold obtained by multiplying the poverty line by 3, is considered *vulnerable*.

For PDM, as with the entire Financiera Confianza portfolio, *trade* continues to be its microenterprises' main activity (66%) followed by *services* (19%). Our understanding is that this is because this type of business has lower barriers to entry (investment in assets, training required, etc.) and they can easily be combined with other jobs, such as household tasks. PDM clients initially have lower sales figures (USD 394 for PDM clients vs. USD 1,392 for FC women as a whole). PDM clients' business are generally very basic and, in many cases, subsistence. For example, a large number of clients keep animals in their home; this is used as a way of saving against any expenditure, such as their children's schooling. Therefore it is essential to get as much return as possible from the small investment, and PDM clients enjoy higher margins

(43%) than the portfolio as a whole (28%)^(e). The *service* sector is the most profitable segment, with a margin of nearly 50% over sales.

PDM clients, who only account for 14% of all active clients, represent 31% of those classified as *poor*. This product promotes financial inclusion, particularly for women who on their own would not be able to access credit.

Average margins and net income, by sector USD (e)



Source: Financiera Confianza, BBVAMF analysis.

(e) Data on clients current as of 09.30.2016.

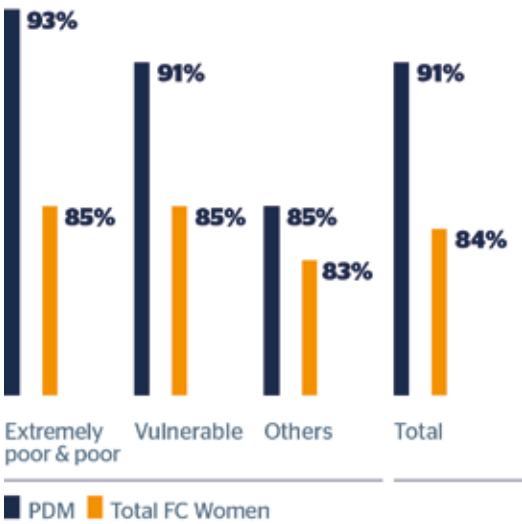
PDM clients and their relationship with Financiera Confianza

In general, women cannot access the formal financial system easily: 60% of PDM clients bank for the first time when they join Financiera Confianza vs. 42% of total clients. On average since 2014, 28% of the clients who have become banked through Financiera Confianza have done so through PDM.

An opportunity to access the financial system

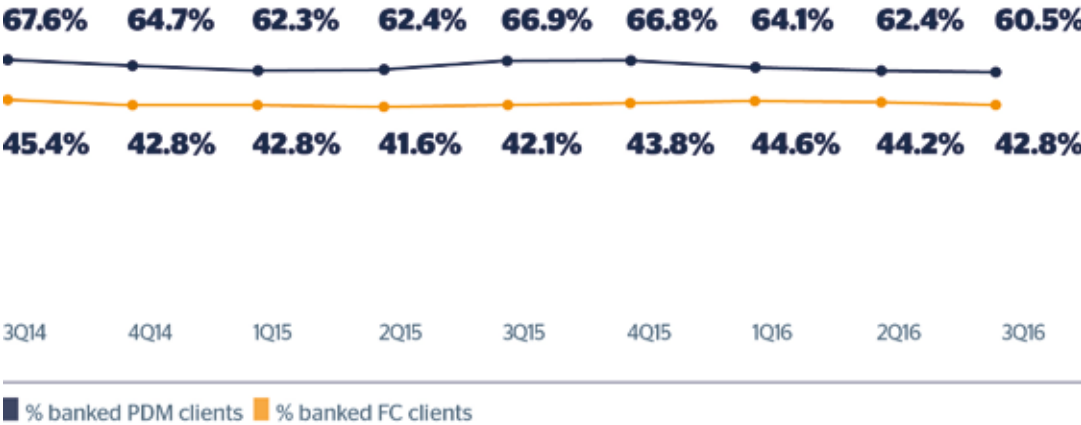
PDM encourages financial inclusion for women who on their own would not be able to access a loan. In comparison with the other female clients served by Financiera Confianza, equity accounts for 91% of their assets vs. 84% in the case of FC women clients as a whole. This difference is accentuated in poverty segments (equity accounts for 93% of PDM clients in *extreme poverty*, vs. 85% for all female clients). Furthermore, 58% have an exclusive relationship with Financiera Confianza vs. 46% for Financiera Confianza clients as a whole^(f).

% Equity/assets (f)



Source: Financiera Confianza, BBVAMF analysis.

Relationship with PDM clients (g)



Source: Financiera Confianza, BBVAMF analysis.

(f) Data on clients current as of 09.30.2016.
(g) Banked: the first time that a client enters the financial system.

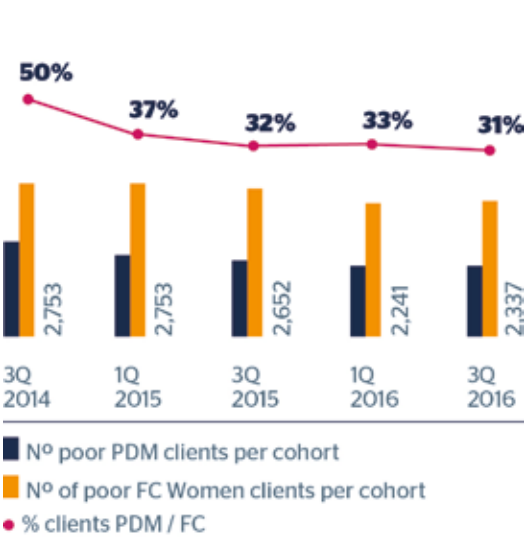
In fact, PDM clients, although they represent only 14% of the total clients, represent 31% of clients classified as poor.

The average loan of a PDM client is USD 345⁽⁷⁾, which is much lower than that of female FC clients as a whole (USD 1,546). This credit grows at an annual rate of 21%, rising from an average starting value of USD 204 to USD 531 after five years. At the outset of their relationship with Financiera Confianza, this sum is on average equivalent to 45% of their monthly sales (vs. 79% for all FC women clients). Nevertheless, clients renew this credit more frequently (see *Recurrence* graph below), this being one of the few products that is being renewed for more than six cycles.

Retention and recurrence

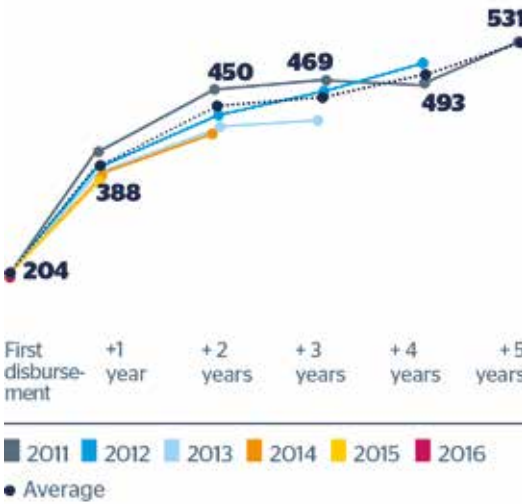
PDM clients are characterized by the fact that they stay with Financiera Confianza for six or more cycles, a pattern which this group lending product shares with Fondo Esperanza. On average, 49% of clients are still with the institution after a year, and 28% remain after two. These figures are similar to those for Fondo Esperanza (most of whose products are in the group lending category), where the retention average after two years is 29%⁽⁸⁾. While group lending includes people with the greatest level of vulnerability, its operating costs are high (PDM recurrence is always higher than the average for FC women) and it is more difficult to establish medium-term relationships.

New credit clients - classified as poor (by cohort) (h)



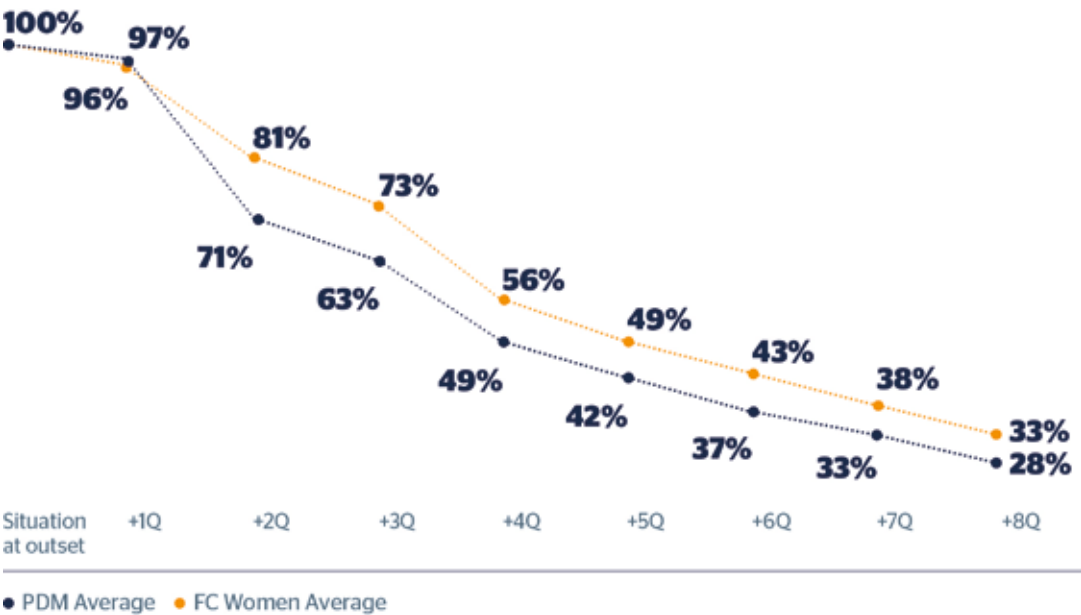
Source: Financiera Confianza, BBVAMF analysis.

Average disbursement (by cohort) USD (i)



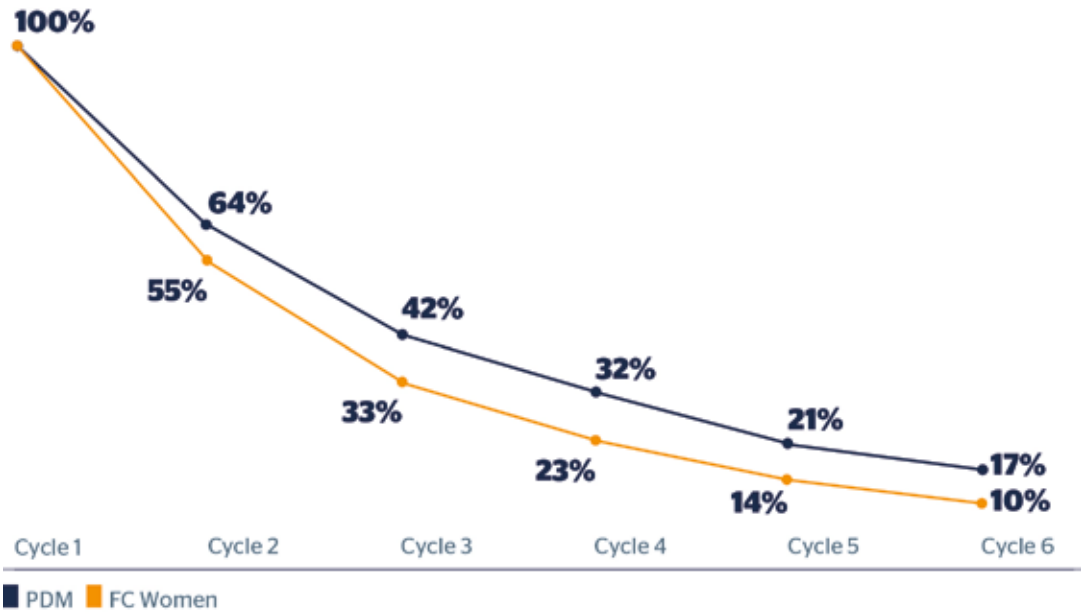
Source: Financiera Confianza, BBVAMF analysis.

Retention (PDM vs. FC Women) (j)



Source: Financiera Confianza, BBVAMF analysis.

Recurrence (PDM vs. FC Women) (k)



Source: Financiera Confianza, BBVAMF analysis.

(h) New clients (without previous loans) signed up over the year, classified as poor.
(i) Average disbursement calculated as the disbursement made over the course of a year, divided by the number of transactions made by each client participating in the disbursement that year. Average of 2011-2016 cohorts.

(j) Percentage of clients in each cohort still current at each anniversary. The average is for the cohorts 3Q2014-3Q2016 is shown (both for PDM and for FC women as a whole).
(k) Sample of clients served between 2011-3Q/2016 (flow). Per capita net income relative to the poverty line in the year of disbursement. Official INEI poverty lines in the rural and urban environments.

Financial education

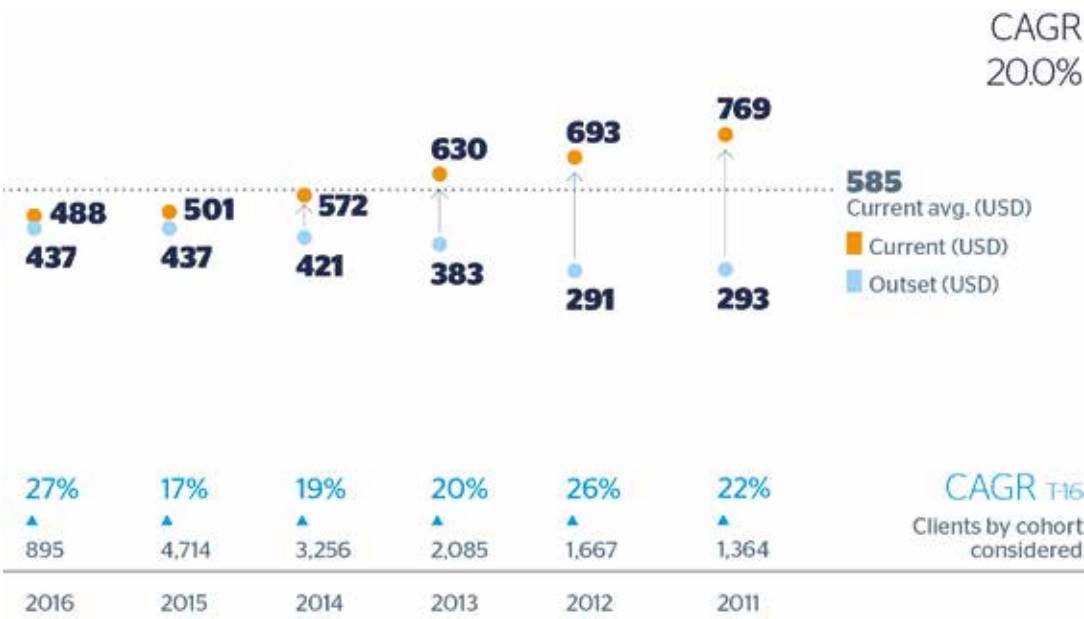
One of the differentiating factors of these loans is that the beneficiaries receive financial education from the loan officer at each monthly installment payment meeting; they are also given guidance to help their understanding of the financial system and promote saving in formal financial institutions.

Proven growth in sales and net incomes

With initial sales figures of close to USD 394 (1/3 of Financiera Confianza's average value, which is about USD 1,392), PDM clients' growth rates have been shown to be higher than those of FC women: 20% on aggregate, vs. 15% of all FC women. They are also remarkably consistent over time, with rates above 17% in all cohorts. After nearly five years, they manage to triple their sales figures (eg. in the 2011 cohort, sales rose from USD 293 to USD 769). Therefore, the principal challenge for these

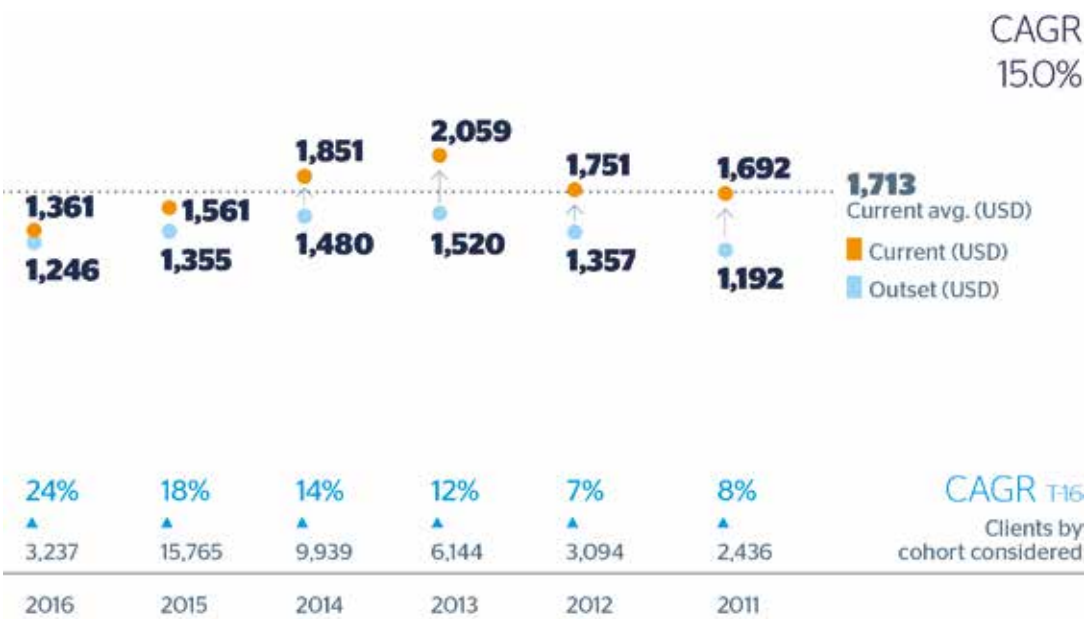
On average, PDM clients take out loans of USD 345, which is a third of the average Financiera Confianza loan taken out by women, but their performance is similar or better: those in *extreme poverty* surpass the poverty line after four loans, on average; those in *poverty* do so after two.

PDM - Average monthly sales USD (l)



Source: Financiera Confianza, BBVAMF analysis.

FC women - Average monthly sales USD (m)



Source: Financiera Confianza, BBVAMF analysis.

(l & m) Data on clients current as of 09.30.2016, and who have made any disbursements in the previous 12 months. Situation at the outset (data in their cohort year) and the current situation (latest update) as of 09.30.2016. CAGR: Compound Annual Growth Rate.



At the outset, PDM clients are slightly more vulnerable and their net income growth rates are slightly higher: 15% for PDM vs. 13% for FC women. Nevertheless, the positive trend of improvement in *per capita* net incomes remains: those in *extreme poverty* surpass the poverty line after four loans, on average; those in *poverty* do so after two. ■

CAGR
14.7%



Source: Financiera Conflanza, BBVAMF analysis.

Notes (1) The groups consist of at least seven and at most 25 members. (2) Data on clients active as of 09.30.2016. (3) Women make up 99.6% of active clients; there are only 109 men in PDM. (4) Data on clients active as of 09.30.2016. (5) Monthly *per capita* net income before paying the loan installment. (6) Exclusivity: client who has a banking relationship only with FC in the formal financial system (not including informal institutions such as cooperatives). Data on clients active as of 09.30.2016. (7) Shows the amount disbursed during 2016 (Jan-Sept) divided by the number of transactions in 2016. (8) As of September 2016.

‘Ahorro para Todos’: encouraging formal saving among the most vulnerable

Ahorro para Todos (APT) [*Savings for all*] is a group lending product with a significant financial education component, designed specifically to serve women in rural areas who want to improve their standard of living. From its beginnings, APT has offered its products to over 2,850 clients and trained more than 13,700 people in financial issues.

Ahorro para Todos (APT) [*Savings for all*], which began in March 2014 as a pilot, addresses the need to serve vulnerable clients in rural areas, using financial education and a savings product designed specifically for this segment, to help to improve the living conditions of less advantaged population groups.

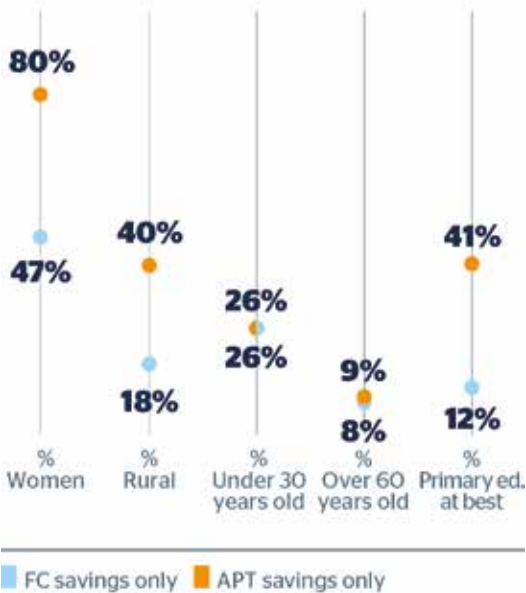
Since it was set up, APT has offered its products to over 2,850 clients⁽¹⁾ and has provided training on financial subjects to more than 13,700 people⁽²⁾ in 52 communities in the regions of Abancay (since March 2014), Pisac (since August de 2015), Andahuaylas (since February 2016) and Urcos (since March 2016); all these regions are in the High Andes. The project has been funded by the Interamerican Development Bank (IDB), Citi Foundation and AusAid

(Australian government overseas aid agency). The program’s success has meant that it could continue as part of Financiera Confianza’s commercial product portfolio.

A formal savings opportunity for vulnerable clients

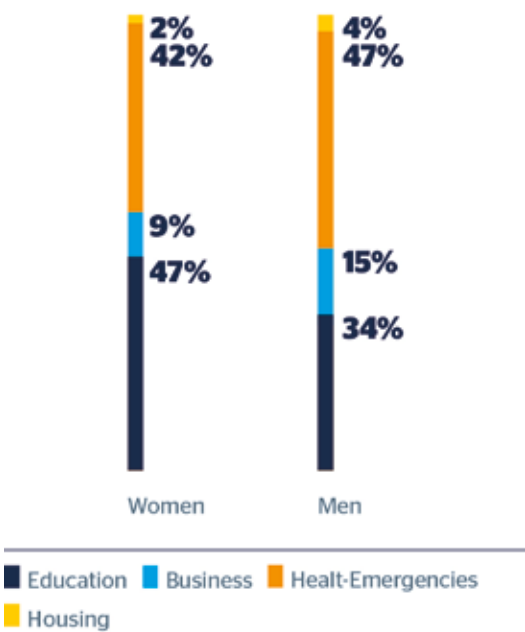
APT began as a program focusing on rural areas, for women who are heads of their household, and has expanded to all members of the household. At September 30, 2016, 80% of clients are women. Although only 40% are in rural areas, this is significantly higher compared to Financiera Confianza’s savings clients (18% of whom live in rural areas). In practice, most APT clients served perceive themselves as rural because of the barriers to entry they face. The loan officers travel

Savings clients profile (a)



Source: Financiera Confianza, BBVAMF analysis.

Savings target for APT clients (b)



Source: Financiera Confianza, BBVAMF analysis.

to outlying areas that officers from other institutions do not reach, serving clients who only speak Quechua, and who live in basic housing (often without electricity or mains water, etc.). Of these, 41% have primary education at best, against the 12% average for Financiera Confianza savings clients as a whole who only have this level of education. 35% work in *agriculture* and 28% in *trade*. In contrast with the overall profile for savings clients, APT focuses on the most vulnerable segments: women, rural locations and basic education.

Most APT clients save for education, mainly for their children, but also for themselves, and this applies particularly to the women, for 47% of whom education is the key goal (compared to 34% for men). The second

main reason is health and/or emergencies, which concerns more men than women (47% of men and 42% of women). Finally, men are somewhat more interested in saving for their home (4% *vs.* 2% of women) and their business (15% *vs.* 9% for women). (See graph b).

Saving effectively works as an insurance for vulnerable clients.

If we look at the changes in more detail, the number of APT clients has grown on average by 36% every quarter, and to the end of September 2016 the program had 2,520 clients⁽³⁾. Most APT clients have savings accounts and only 3% have fixed term deposits.

(a) Breakdown of clients with savings products (savings/deposit accounts), as of 09.30.2016.
(b) All APT clients served as of 09.30.2016 (including dormant clients and those with a balance of more than PEN 1.

APT clients with savings products (c)



Source: Financiera Confianza, BBVAMF analysis.

In response to the expressions of interest from clients, the portfolio has been completed with credit products adapted to this segment, such as *Palabra de Mujer* [Woman's word]. As a result, 14% of APT clients (342 clients) have an active loan. In fact, a strategy is being formulated to progress savings clients towards productive loans, without interrupting their learning process on developing a savings culture.

In general, for low-income clients, saving is a challenge. However, in the case of APT, 53% of clients who only have savings (which is 82% of all APT clients) have balances with over USD 5, a higher ratio than that of Financiera Confianza clients (64% of those with only savings).

APT clients save PEN 20 at a time, until they reach, on average, PEN 200 (USD 50-60) to meet an emergency or for higher expenses that have been planned for (eg. high school, Christmas presents, etc.). Thus, saving effectively acts as an insurance. APT has

(c y d) Clients with savings products (savings and deposit accounts) as of 09.30.2016.
(e) All APT clients served as of 09.30.2016 (including dormant clients and those with a balance of more than PEN 1).

Linkage of APT savings clients (d)



Source: Financiera Confianza, BBVAMF analysis.

Clients with savings accounts Breakdown by balance (e)



Source: Financiera Confianza, BBVAMF analysis.

been instrumental in helping 14% of clients to keep a balance of over PEN 100 (this balance, moreover, has been held at over PEN 100 for the entire month), winning them the right to free life insurance with cover of up to PEN 2,500 for burial costs in the event of accidental death⁽⁴⁾.

Financial education, the key component

APT is a product that has been specially designed for low-income clients in rural areas, who use informal finance arrangements. A training system has been put together that, after several trials and subsequent modifications, is adapted to their needs. The financial education methodology that has been rolled out reaches rural clients by attracting their attention with interactive modules to transfer specific skills. These involve concrete, tangible teaching tools that are student-friendly for this particular audience. For example, puppets and theatre games to transmit the savings culture through play. These tools enable abstract financial concepts to be explained using simple stories that, crucially, are told in their mother tongue of Quechua: how the financial system works, what regulation is, how risk is managed, etc.

The result has been so successful that this training is being used for other Financiera Confianza products, such as *Palabra de Mujer*. The methodology must be adapted to local cultural requirements and, if it is well designed, has a positive impact on people and achieves its purpose of transmitting essential information about the financial system and how to manage household assets.

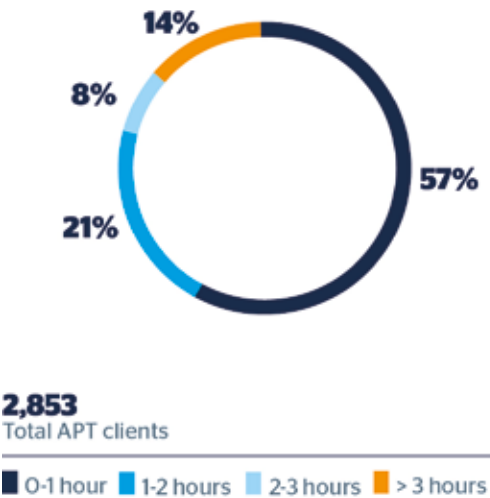
Financial education is the first barrier facing the client, but there are many more: of the people who received training in 2015, 22% acknowledge that they opened an account because of the security provided by the formal financial system. However, only 21% of clients trained through the program have subsequently opened a savings account.

(f) All APT clients served as of 09.30.2016.

A tested methodology for scalable financial education that can be replicated in all the agencies in the rural environment has been developed.

On many occasions, the client wants to make formal savings but decides not to open a savings account because the agents or branches are too far away. For those clients living in remote areas, the distance between beneficiaries and agents makes transactions time-consuming and expensive. 43% of clients take more than an hour to reach an agent.

Time needed by clients to reach the agency (f)



2,853
Total APT clients

Source: Financiera Confianza, BBVAMF analysis.

FC/APT footprint (g)



FC coverage in the department capitals
APT coverage in the department capitals

Source: Financiera Confianza, BBVAMF analysis.

This barrier is a constant risk to the program's expansion, so work is underway to get closer to clients, particularly those in rural areas where road infrastructure is still not good. On the other hand, distance sometimes plays an important role, since the fact that the money is not to hand means that it is only accessed when there is a real need.

The fact that a number of informal co-operatives in the areas where Financiera

The challenges for moving forward on saving by vulnerable clients are in improving education and promoting access to formal financial tools.

Confianza is operating have gone bankrupt has increased the feeling of uncertainty and lack of confidence among beneficiaries about financial institutions, as the number of people opening a savings account has fallen. On top of this is the fact that being a part of the financial system is a process of changing habits and attitudes, which generally take some time. That is why more effort needs to be made around training and creating awareness.

The challenge is to strike a balance between the security provided by the system, access to it, and the costs involved. Training activities to reinforce the role of regulatory bodies are being promoted, and that of the concept of money being safe when banked in savings accounts. The permanent presence of loan officers in the field to solve client issues, helps to generate more confidence in the formal financial system.

Financiera Confianza now has a tested methodology for scalable financial education that can be replicated in all its agencies in the rural environment, together with a sales methodology for getting closer to clients in the rural environment.■

Notes (1) As of 09.30.2016, refers only to savings clients. About 1% of all Financiera Confianza clients on that date. Refers to individual loans. Group loans are starting to be rolled out as well. (2) As of September 2016. (3) This includes those APT clients whose account balance is higher than PEN 1 and who made some kind of movement in the previous 270 days. (4) As of September 2016.



Continued economic growth and poverty reduction

The Peruvian economy grew by 3.8% in 2016, underpinned by the performance of its primary sectors. Unemployment rose despite the expansion of the occupation rate and over the last year 221,000 people have escaped poverty. Nevertheless, 21.7% of the population remains poor.

The Peruvian economy⁽¹⁾ expanded by 4.2% in the first three quarters, driven by exports, which grew by 9.6%, although internal demand only rose by 1.1%, and this was mainly thanks to private consumption, which jumped by 3.6%, while private investment remained on a negative track, falling by 6.2% because of the contraction in investment in the mining sector. By the end of the year, the economy will have grown by 3.8%. This expansion is explained by performance in the primary sector, which grew by 9.3%, whereas other sectors expanded by 2.4%.

Within the primary sector, the *metal mining* segment shot up by 20.9%, *electricity and water* grew by 7.5%, while *fisheries* fell by 12.2%, because of the lower catch of anchovy for industrial consumption, due to the early closing of the first fishing season. The reduction in processing of fish meal

and oil, consequence of the lower anchovy extraction, meant that manufacture of primary products contracted by 2.5% over the period. This, taken with the 2.2% drop in other manufacturing, has brought in a negative result, a contraction of 2.3% in the sector over the year. *Trade and services* have edged up by 2.3% and 4.1%, respectively, but construction also shrank, by 2.4%.

Domestic demand grew by 1.2%, while exports expanded by 8.4%, and imports fell by 2%, making the external sector the economic driver in 2016. Consumption was the main force in internal demand, growing at 3.4%, unlike investment, which shrank by 5.6%, product of a steep fall in mining investment of 50% (end of the investment cycle in copper projects), although investment in remaining sectors expanded by 2.5%. Good performance in the external sector was reflected in a reduced current

account deficit, falling from 4.8% at the end of 2015, to 3.4% in 2016. Meanwhile, fiscal performance was slightly down, from a fiscal deficit of 2.1% of GDP at the end of 2015, to 3% at the end of 2016.

Inflation reversed the effects of the previous year's *El Niño*, which had driven food inflation up to 5.5%; this fell in 2016 to 3.6%, allowing aggregate inflation to fall too, from 4.4% in 2015, to 3.3% in 2016. Even though inflation is above the upper limit of the target range, performance in 2016 has kept the reference interest rate at 4.3%.

Real GDP growth



Source: Peru central bank [Banco de Reserva del Peru].
BBVAMF Research estimate.

Labor market

Peru is one of the countries in the region where there has been a rise in the occupation rate, although this was offset by the even greater increase in the labor force participation rate, as a result of which there has been a spike in unemployment. After the Bahamas, Peru has the highest rate of participation in Latin America and the Caribbean, at 72.4%, and this has increased by 1.1 percentage points (p.p.) from a year earlier. The occupation rate is 69.3%, the highest in the region, and has risen by 90 base points (b.p.), so despite this improvement, the unemployment rate has also gone up, by 40 b.p., closing the year at 4.4%⁽²⁾.

The participation of waged employment in total urban employment continued to rise, from 54.4% to 54.9%. Even though Peru is also one of the countries with the highest proportion of informal employment in the region, with this accounting for 73% of all employment, informality has still fallen by 6.7 p.p. since 2007. Broken down by gender, informal employment has mainly fallen among women, dropping from 83.7% to 75.9%, a reduction of 7.8 p.p. Among men, informal employment fell by 5.9 p.p.

Urban employment continues to slow in an environment of weak private investment. The cooling of the labor market has been more pronounced in the cities in the interior, particularly in the north. Formal employment fell by 0.1%, the first reverse since early 2009. This is consistent with a context of tightening private investment. The contraction in urban employment was

The occupation rate has risen to 69.3%, the highest in the region.



greater in the interior. Thus, excluding Lima, urban employment fell by 0.3%, with a sharper reverse in the northern cities. Lima, on the other hand, which accounts for 70% of the country's urban employment, posted slightly positive rates.

Turning to the economically active population, 94% is in employment and the remaining 6% is actively looking for a job. Of the population in occupation, 61% is in suitable work, and 33% is underemployed; of the latter, 11% is underemployed in terms of hours, and 22% in terms of income. Suitable work has risen by 2.4% (28,400 people) in companies with 51 or more employees; whereas it has fallen by 1% (16,500 people) in companies of one to 10 workers. In companies employing between 11 and 50 people there has been no change.

50.1% of workers with suitable work are in companies with between one and 10 employees, 11.3% work in establishments employing between 11 and 50 workers, and 38.6% work in companies with 51 or more workers. Across the nation, 30% of employment is in the service sector, 28% in extractive industries (farming, fisheries and mining), 18% in commercial activities, 9% in manufacturing, 8% in transport and the remaining 6% in construction.

Poverty and inequality

Poverty⁽³⁾ has fallen continually over the last five years, with a reduction of 9 p.p.; in other words, about 2.85 million people escaped poverty, of whom 221,000 have done so in the last year, bringing the national poverty rate down to 21.7%.

In rural areas poverty is proving harder to tackle, posting at 45.1%, although this is an improvement of 84 p.b. since the last time it was measured, whereas in urban areas it is 14.5%, an improvement of 79 p.b. In the Sierra zone, poverty stands at 32.4%, in the Selva region it is 28.9% and on the coast it is 13.8%, with improvements of 1.4, of 1.5

In rural areas the poverty rate stands at 45.1%, whereas in urban areas it is 14.5%.

and of 0.5 p.p., respectively. Within these areas, the rural Sierra is the worst off, with 49% of its population in poverty, whereas the region with the least poverty is the urban coast, at 16%, and the metropolitan area of Lima, with a poverty rate of 10.9%. In the country as a whole, around 6.7 million people are suffering from poverty.

The poverty gap, understood as the shortfall that is lacking to cover the cost of the basic shopping basket, (or expressed as a percentage of the poverty line), was reported as 5.4%, which is a 3.5 p.p. reduction over the last few years, meaning that there is a gradual improvement in the living standards of the population living in poverty. The biggest reduction in the poverty gap was noted in the Sierra region, where it now stands at 9%, a 70 b.p. reduction, followed by the Costa, with 2.8%, a 30 b.p. fall, whereas in the Selva poverty has stayed at 7.7%.

Growth in income accounts for at least two thirds of the fall in poverty, as well as for the gap between the average income of the poor and the poverty line, whereas the redistributive effect accounts for the remaining 26%.

94% of the population in poverty works in the informal sector. 58% of people living in conditions of poverty work mostly in extractive activities (farming, fisheries and mining), 23% work in the service and trade sectors, 7% in manufacturing, 5% in construction and the rest in the transport sector, whereas the population that is not poor mainly works in the service sector.

Turning to the population that is 15 years old or older, by educational attainment, 51% has managed only to study primary education in part or not at all, while 41% has secondary education and the remaining 8% went to university. 32% of the non-poor have reached tertiary education, which is an indication of the gap that still has to be closed.

The incidence of poverty in the Quechua, Aymara and native Amazon populations is 50%. Extreme poverty affects 4.1% of the population. In the last five years this indicator has fallen by 3.6 p.p., that is, 982,000 people were lifted out of extreme poverty.

Poverty (% total population)



Source: National Statistics & IT Institute (INEI).

Financial inclusion

Peru⁽⁴⁾ has one of the lowest levels of financial inclusion in the region, as measured by having a bank account, in that only 29% of adults have access to the financial system, which is a 9 p.p. improvement from when last measured. According to this measurement, only 6.5 million adults are included, leaving around 16 million excluded from the financial system. In the last three years, 2.2 million people have been included in the financial system. In rural areas 23% of adults say they have an account in the financial system.

Schooling levels determine not only the poverty levels in Peru, but also the greater financial inclusion gap. 33% of adults with secondary education or more are financially included, compared to only 12% of those with primary education at best, revealing a gap of 21 p.p. 36% of higher income adults (the 60% richest) have access to the financial system, against only 18% in the lower income segments (the 40% poorest), bringing the gap to 18 p.p.

The main transaction medium is cash, with 60% of people receiving their wages this way; 99% of those paying for public services do so in cash, 92% of those paying school fees, and 98% of those receiving payment for farming products. In terms of products, 39% said that they had saved some money over the previous year, but only 12% had done so in formal financial institutions. 22% used the money to pay school fees, 10% as a saving for retirement and 12% to start, operate or expand a commercial venture.

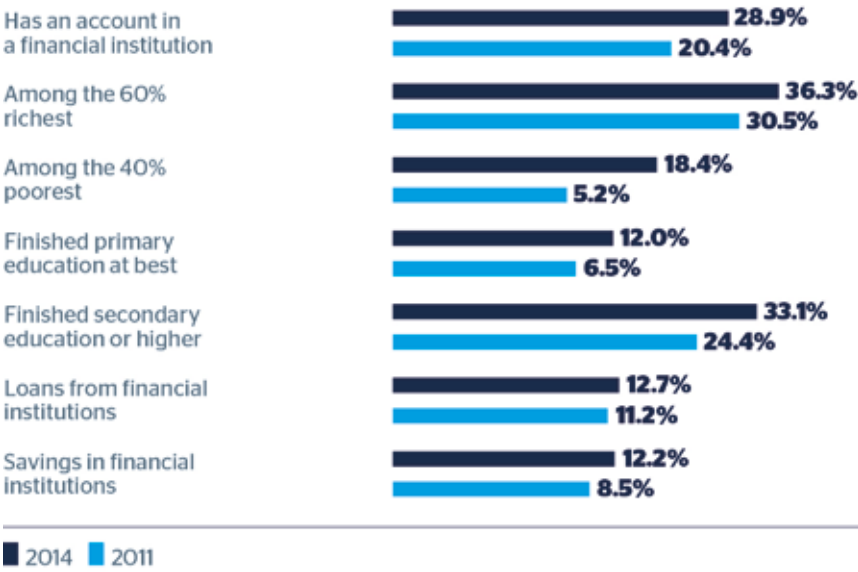
27% of adults applied for a loan in the last year, however only 11% went to a formal financial institution; 10% asked family members or friends and only 7% did so to operate, start or expand a commercial activity. When it comes to use, 86% of those with an account had a movement of some sort in their account last year. 54% had one or two movements a month in their accounts, whereas only 24% of adults carried out more than three transactions a month.

According to domestic sources - data from the financial services supervisory body, *Superintendencia de Bancos, Seguros y AFP*, when it comes to the usage of finan-

The most common medium for transactions is cash; 60% of people receive their wages this way.

cial services, in the last five years just over 1.65 million loan-paying clients joined the financial system, with the number of natural persons holding a credit topping the six million mark by December 2015. As a result, the percentage of the adult population with a loan jumped from 25% in the fourth quarter of 2010, to 31% in the fourth quarter of 2015. Over the same period, a little over 563,000 micro- and small entrepreneurs joined the financial system, and the number of MSMEs came to over two million by December 2015.■

Financial inclusion (% adults)



Source: World Bank Global Findex.

Notes (1) To the end of November 2016. (2) ILO. (3) National Statistics & IT Institute [Instituto Nacional de Estadística e Informática] (INEI). (4) World Bank Global Findex.

Banco Adopem **Dominican Republic**

Social Performance
Report 2016



**Measuring
what really
matters**

Table of contents

“Learning is not just a question of learning how to understand something, it is just as much a question of learning how to do something”.

American Utopia
Pedro Henríquez Ureña

Banco Adopem Description 276 Management team and board 281	Measuring 2016 Social performance results Our clients 284 Our clients' businesses 288 Our clients' development 290 What really matters Stories of achievement Diana Céspedes 302 Yanira Marmolejos 306 José Rafael Reyes 310	Special projects Microfranchises 312 Agent banking 318 Macroeconomic context Dominican Republic 324
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Committed to the vulnerable

Banco Adopem supports the development of disadvantaged people in the Dominican Republic through their insertion in the formal economic and financial system. More than 1,393 employees work to improve the standard of living of Dominicans throughout the country, with a network of 74 branches and 123 banking subagents.

Banco de Ahorro y Crédito Adopem, S.A. is a financial institution with the mission of promoting Responsible Productive Finance in the Dominican Republic. It is committed to society, to the most disadvantaged segments and small-scale businesses, creating and promoting programs and projects with significant socio-economic impact, through activities and fieldwork, focusing on sectors that are vulnerable and difficult to access.

Banco Adopem targets enterprises that promote its customers' development by supplying the products and services they need. It began operating in 2004 as a bank, although it has been originating loans for nearly three decades as an NGO. It has been a member of the BBVA Microfinance Foundation group since 2012.

The entrepreneurs it serves are mainly involved in the production and sale of foodstuffs, clothing and footwear, arts and crafts, carpentry and service provision of various kinds. Banco Adopem relies on the daily commitment of 1,393 employees dedicated to their clients improving their own standard of living and that of their families.

Thanks to its nationwide footprint, with 74 branches and 123 banking subagents, Banco Adopem contributes to the growth of micro, small and medium-sized entrepreneurs in the country's most vulnerable sectors.

Banco Adopem is synonymous with transparency, compliance, responsibility, customer service and institutional development. The support of national and international institutions

With a sharp focus on the disadvantaged, Banco Adopem is an institution that is particularly recognized for its care of *vulnerable* female entrepreneurs to whom it provides credit, financial education and advice.

with which it has forged strategic alliances has helped it to achieve its goals and targets.

In 2016, its *Rural Finance and Environment* program promoted care for the environment by involving entrepreneurs in low environmental impact activities and businesses. This initiative includes the *Promoting Green Loans as a Financial Inclusion Strategy in Rural Areas of the Dominican Republic* program, which encourages access to credit for entrepreneurs in the farming sector so that they improve environmental quality outcomes in their productive processes.

Banco Adopem and the Tropicalia Foundation signed an agreement to develop the social program *Miches means business!* that provides financing for sustainable tourism programs with a revolving fund provided by this body.





In 2010 Banco Adopem was chosen, for the second consecutive year, by the Inter-American Development Bank (IDB) as the *Bank of Excellence in Microfinance* in Latin America and the Caribbean.

The bank has continued to reinforce its commitment to education by extending its alliances with educational institutions

through the *EDUCA-T* Educational Loan, which enables disadvantaged students to get the financing they need to begin or continue their studies at different stages.

This year the bank has signed a contract with the hairstyling products company *Star Products* under which those female entrepreneurs banking with the institution who have beauty salons receive training in hairdressing techniques; furthermore, they are eligible for discounts on the products they need for their businesses.

Banco Adopem received the *2016 Argentinum Award* for its continued efforts in motivating, programming and driving new initiatives to address banking issues in the Dominican Republic and for protecting its customers.

The bank ranks N° 59 in the *80 Best Places to Work in 2016*, published by *Mercado* magazine that classifies Dominican companies that promote good working practices among their employees, highlighting the development, welfare and professional growth of staff working there. Banco Adopem ranks eighth in the category *Firms that best promote their Personnel* and ninth in *Companies that create most jobs*.

In 2016 Banco Adopem obtained a better long-term credit rating from Fitch Rating, at AA-(dom), Outlook Stable. The agency raised the bank's long- and short-term credit ratings to AA-(dom) from A+(dom), and to F1+(dom) from F1(dom), respectively.

It also retained its ALFA MAS (a+) classification from the International MicroRate Committee, in its 2015 assessment, that reaffirms

its excellent positioning in the microcredit sector. This is the highest rating that an institution in the Dominican Republic can obtain for applying good practice in its activities, thanks to its team of professionals specializing in serving low-income entrepreneurs.

In 2010 Banco Adopem was chosen for the second consecutive year by the Inter-American Development Bank (IDB) as the *Bank of Excellence in Microfinance* in Latin America and the Caribbean, emerging in the sector as a model institution, one that complies with international guidelines and regulations.■

Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)

128,577,386

Amount disbursed in 2016 (USD)

146,935,016

Nº of disbursements in 2016

208,368

Average disbursement in 2016 (USD)

705

Deposits & others (USD)

56,045,631

Nº of employees

1,393

Nº of offices

74

People receiving financial education

28,801

Management team and board

Management team

Mercedes Canalda
Executive President

Eva Carvajal
Executive & Business
Vice-President

Sonia Reyes
Vice-President, Finance
& Accounts

Fernando Pérez
Vice-President, Operations
& Administration

Juan Francisco Terrero
Vice-President, Technology
& Communications

Marlen Jiménez
General Office Manager

Neyda Iglesias
Human Resources Manager

Iván Moquete
Integrated Risk Manager

Hector Almánzar
Audit Manager

Quisqueya Domínguez
Legal Affairs Manager

Patricia Álvarez
Marketing Manager

José Hilario Acost
Credit & Branch Network
Manager

Cecilia Ramón
New Business Manager

Mariano Frontera
Products & Channels
Manager

Blanca Español
Credit Recoveries Manager

Niobe Rivera
Program Manager

Digna García
Administration Manager

María Estela Terrero
Insurance Administration
Manager

Olga Araujo
Finance & Treasury
Manager

Bernalda Perozo
General Accounts
Manager

Rafael Mateo
Infrastructure & IT Security
Manager

José Luis González
Development & Data base
Manager

Alexander Jiménez
Systems Manager

Board

José Antonio Colomer
President

Mercedes P. de Canalda
Vice-President

Luis Pellerano
Secretary

Manuel Ricardo Canalda
Treasurer

Engracia Franjul
Director

Javier M. Flores
Director

Ramón Feijóo
Director

Pedro Luis Saiz
Director

Measuring

With over 200,000 credit clients, Banco Adopem has one of the highest rates of clients classified as *vulnerable* in the Group, 87% of the total client base at the end of 2016. Clients' microenterprises focus principally on *trade* and are enjoying a steady positive long-term growth, reflected in a 37% reduction in the client segment classified as *poor* after two years with the institution.



Total clients
390,199

Total credit clients
224,771

New credit clients
58,861

(1) According to the Ministry of the Economy's poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three, are classified as *vulnerable*.

(2) Proportion of all credit clients who have completed primary education, at best.

Total credit clients as of Dec 31, 2016

87%	50%	67%	39%	27%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Rural	Under 30 years old

New credit clients 2016

90%	54%	61%	43%	44%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Rural	Under 30 years old

Our clients and our scale

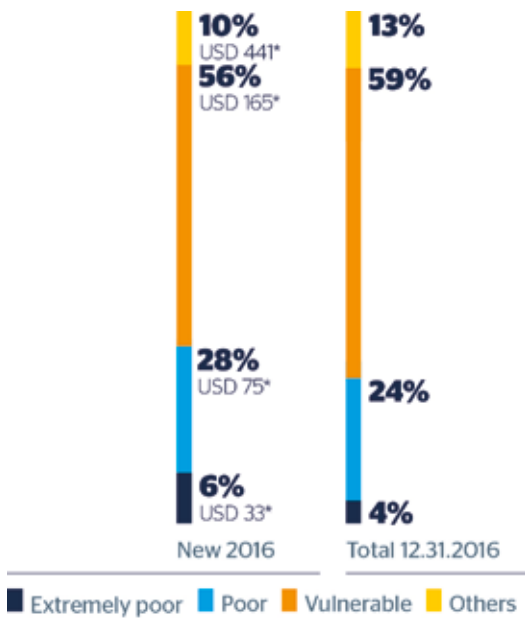
Banco Adopem partners with its vulnerable clients, especially women (67%), young people (27%) and clients with low levels of education (50%), in the growth of their enterprises.



90% of vulnerable families served in 2016 live on less than USD 4.3 per person/day. 31% classified as poor get by on less than USD 2.2 per person/day.

- Banco Adopem's new clients have some of the highest levels of *economic vulnerability* among the institutions in the group. The slight fall in *vulnerability* among new clients is in line with the fall in the country's poverty rate since 2013.
- Poverty levels of clients served in 2016 remain above the country's national poverty rates (34% of Banco Adopem clients vs. 32.3% nationally in 2015).

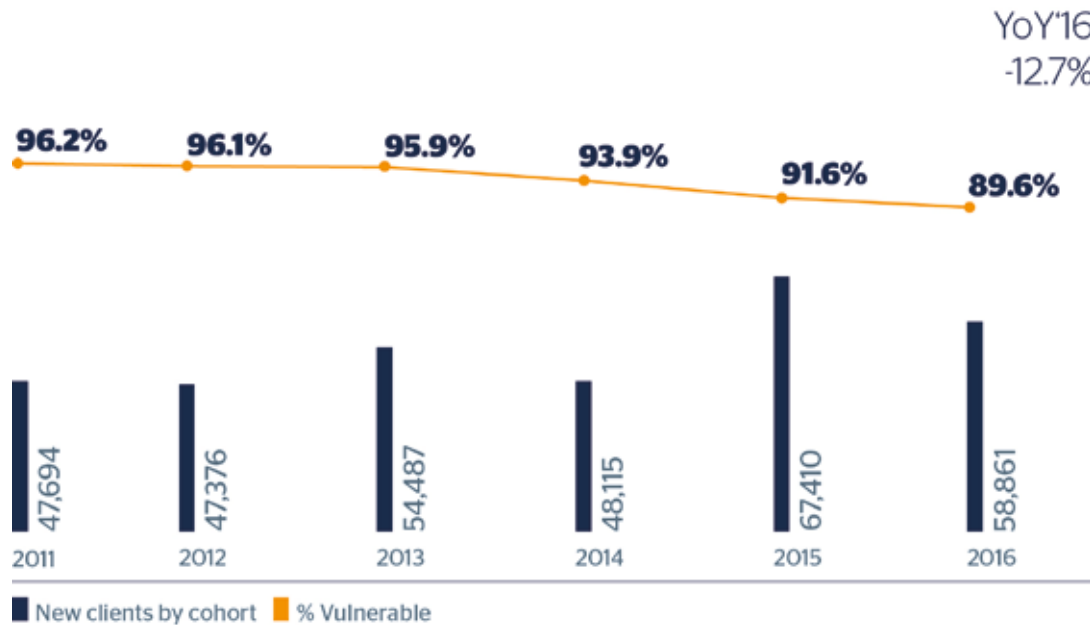
Clients' economic vulnerability (1)



* Monthly net income per capita.
Source: Banco Adopem. BBVAMF calculations.

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

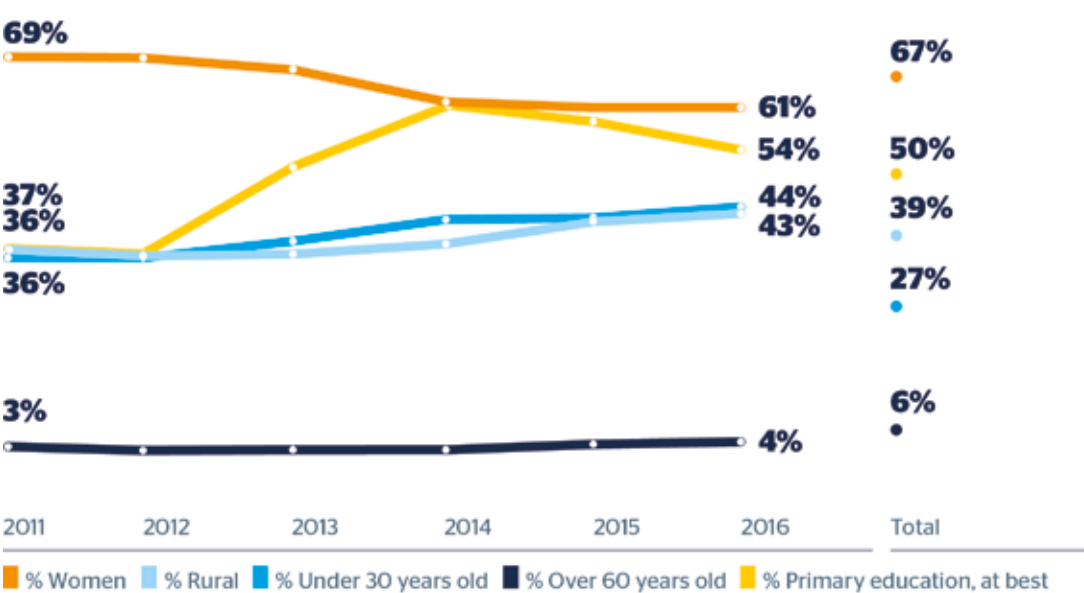
New credit clients (2)



Source: Banco Adopem. BBVAMF calculations.

(2) New clients (without previous loans) signed up over the year.

Profile of our credit clients (3)



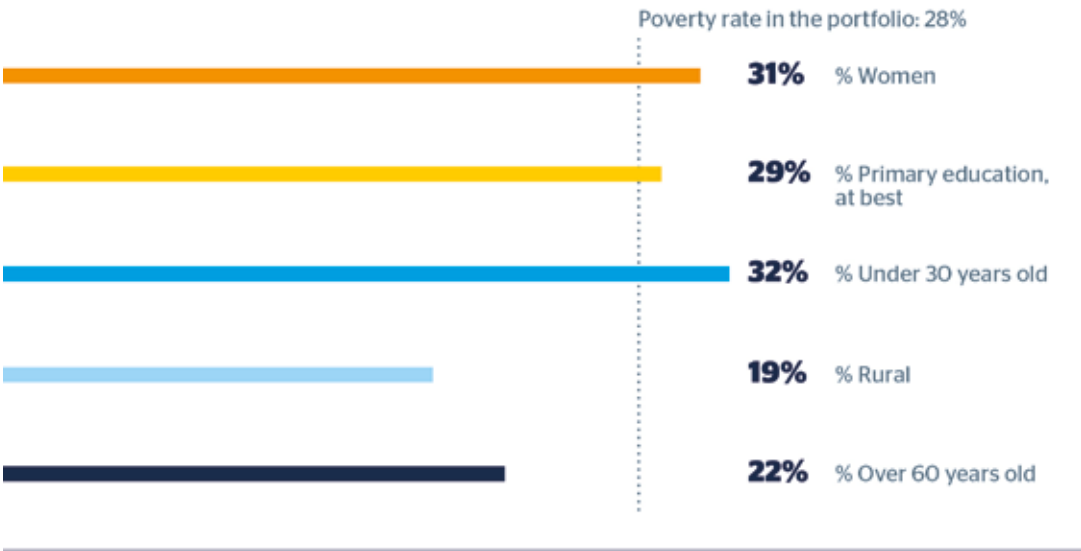
Source: Banco Adopem. BBVAMF calculations.

The client portfolio is mainly female and the proportion of women among new clients remains high (61%); in the portfolio as a whole there is a significant number of *poor* women (31% are classified as such).

- We should point to the high rate of young clients (under 30 years old) signing with the bank, and of those with primary education at best, among whom there is also a high proportion of *poor* clients (32% and 29% respectively).
- Entrepreneurs have benefited from the macroeconomic growth of the last three years, which has impacted on new clients' higher sales and disbursements.
- Sales have grown faster than disbursement, diluting the weight of the installment as a proportion of sales, one of the lowest in the Group.

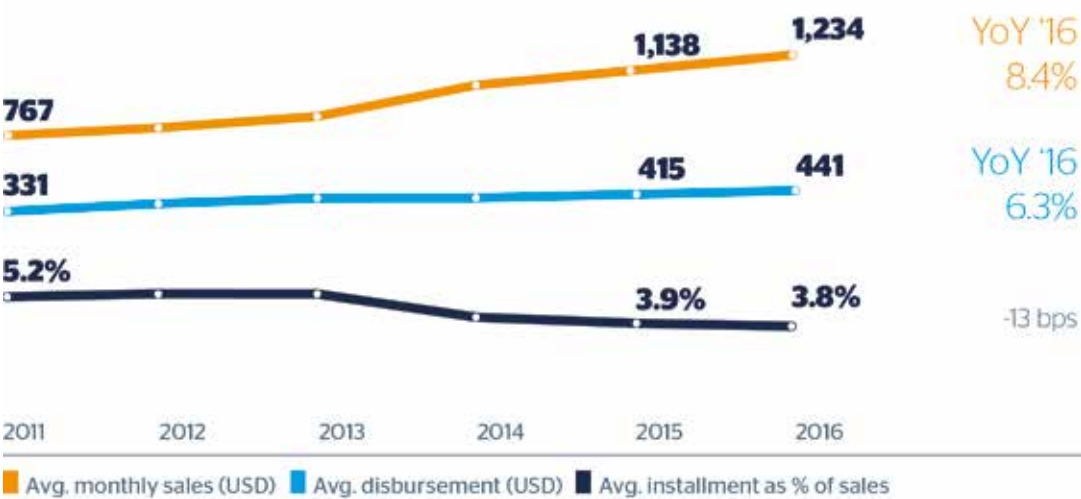
(3) New clients (without previous loans) signed up over the year. The total gives Clients current as of 12.31.2016.

Poverty profile (4)



Source: Banco Adopem. BBVAMF calculations.

New clients' sales, disbursements USD & weight of installment (5)



Source: Banco Adopem. BBVAMF calculations.

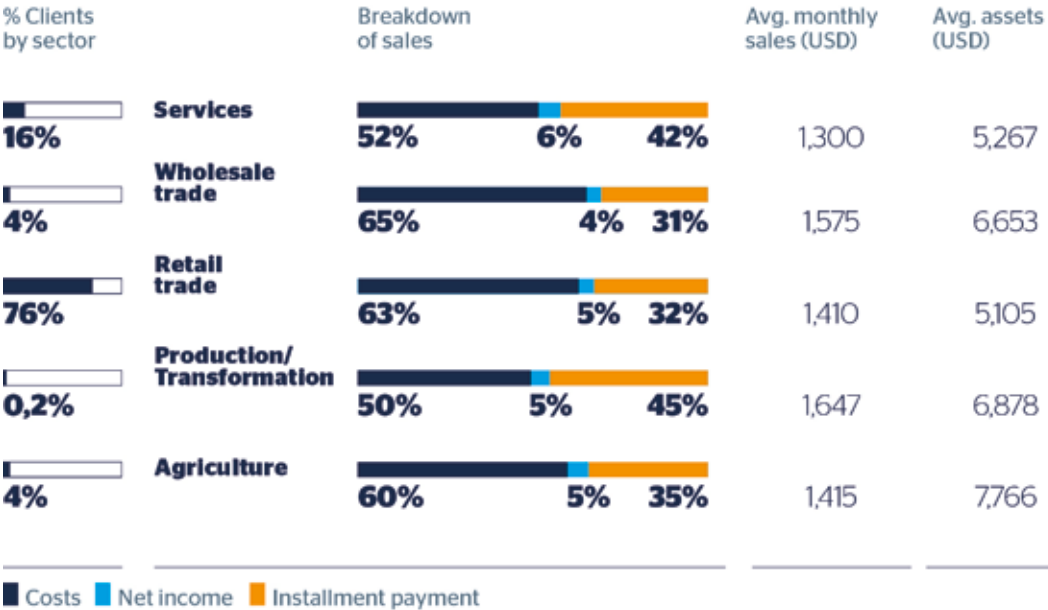
(4) Clients current as of 12.31.2016.
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

Our clients' businesses

Clients, most of whom are in the *retail trade* (76%), have high business margins (over 30%), even in the case of those clients classified as *extremely poor*.



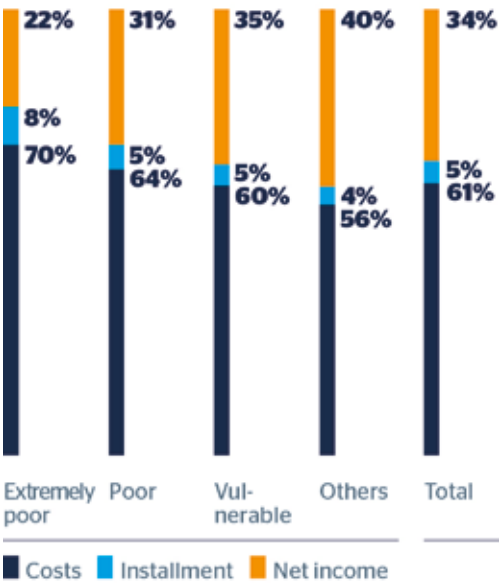
Average margins, sales and assets, by sector (6)



Source: Banco Adopem. BBVAMF calculations.

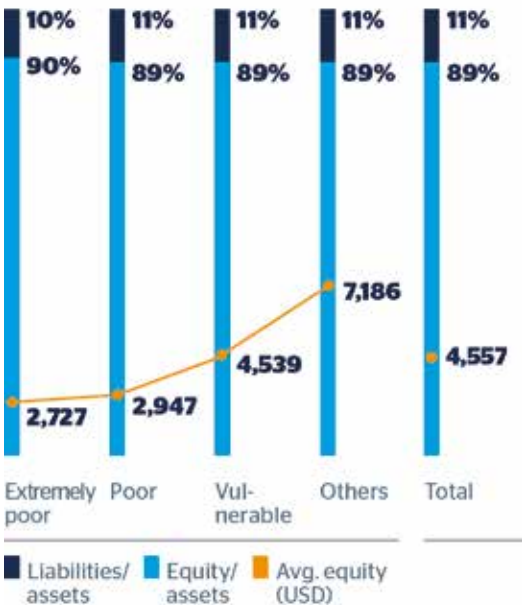
- Banco Adopem clients' micro-enterprises enjoy high margins (after paying their installment), of between 31% and 32% in trade, where 80% of current clients work, and of 45% in *production/transformation*.
- Over 160,000 clients work in *retail trade*, of whom 30% have net incomes below the poverty line. The institution also has a high proportion of rural clients, only 4% of whom work in *farming*.
- Clients are concentrated in activities which require lower investments in assets (*retail trade*, USD 5,105), and there is a high stock rotation of assets (sales/assets of 28% in *retail trade* vs. *farming*, with a rotation of 17%).
- Gross sales margin is 39% on average, which can support the higher costs of smaller microentrepreneurs. Non-vulnerable clients' economies of scale enables them to increase their efficiency and reduce costs in relative terms.
- The financial burden of the installment over sales diminishes as clients' vulnerability levels fall. On average, it represents 5%, which is a low percentage of sales.
- Leveraging is slightly lower for *extremely poor* clients and higher for *others*; on average, liabilities account for 11% of equity: 11.4% in the case of women and 9.7% for men, confirming that it is one of the few countries in the region where access to the financial system is higher for women (56%) than for men (52%) (see *Macroeconomic context*).

Expenses and margins as % of sales, by vulnerability (7)



Source: Banco Adopem. BBVAMF calculations.

Assets, liabilities and equity by vulnerability (8)



Source: Banco Adopem. BBVAMF calculations.

(6) Clients current as of 12.31.2016.

(7 & 8) Clients current as of 12.31.2016.

Our clients' development

Banco Adopem fosters long-term relationships with its clients, with relatively high long-term retention rates (56% of clients are still with the institution after two years), which enables the entity to be their partners as they develop and overcome poverty.



- On average 74% of credit clients are retained after a year, and this is very similar between cohorts, and over time.
- 67% of clients access a second loan, which is a good marker for recurrence and the best among Group institutions for individual loans.
- The growth of *per capita* net incomes relative to the poverty line is greater in the case of *poor* clients than those who are *vulnerable*. Clients on their second loan who started with a situation at the outset of poverty have a relative *per capita* net income that is 8% over the poverty line (see graph 11).
- The first cycles are critical in order to overcome the poverty line. More cycles are needed to get out of the *vulnerable* (three times the poverty line) bracket (see graph 11).

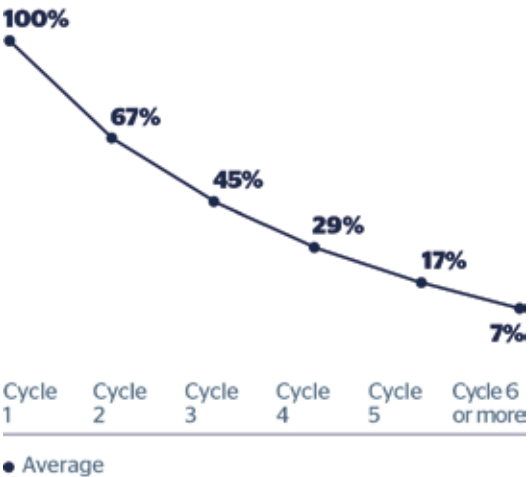
(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention
(by cohort) (9)



Source: Banco Adopem. BBVAMF calculations.

Credit client recurrence (10)



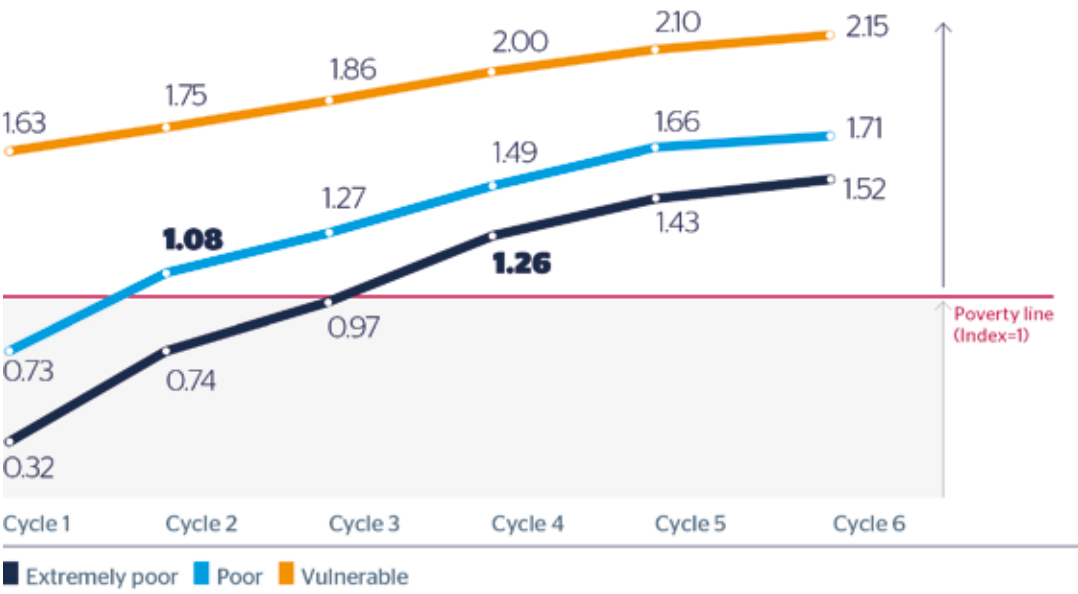
Source: Banco Adopem. BBVAMF calculations.

As clients take out new loans with the institution, they succeed in increasing their incomes, which on average enables them to get over the poverty line. Clients in *extreme poverty* need an average of three cycles; for those in *poverty*, two cycles are enough.

(10) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle one and two is 331 days, between cycle two and three is 356 days; between cycle three and four is 367 days, between cycle four and five is 365 days and between cycle five and six is 335 days.

(11) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of 1 when it is the same as the poverty line.

Per capita net income relative to poverty line (11)



Source: Banco Adopem. BBVAMF calculations.

- Men take fewer cycles than women to overcome the poverty line, and their *per capita* net income growth is higher.
- However, both men and women are progressing well and on average overcome the poverty line after one, two or three cycles.
- Clients who stay with Banco Adopem enjoy solid rates of growth in monthly sales and net incomes, as well as their average assets (the latter are higher than growth in sales and net incomes). It should be pointed out that since most of these businesses are in *trade*, growth rates of assets are expected to be lower than those of other enterprises.
- Although average growth rates have slowed slightly from 2015, average values (higher than 2015) indicate that wealth is being generated and that entrepreneurs are developing.
- The longer a client stays with the bank (earlier cohorts), the higher the proportion of clients, poor at the outset, that manages to get over the poverty line. An analysis over time shows that the segment of clients classified as *poor* falls by 37% in the second year, and by 52% in the third (see graph 17).
- These high rates are in line with the improvements that the national poverty rate has made in the last three years. The positive economic situation has enabled entrepreneurs to generate more surplus and a high proportion succeeds in overcoming the poverty line.

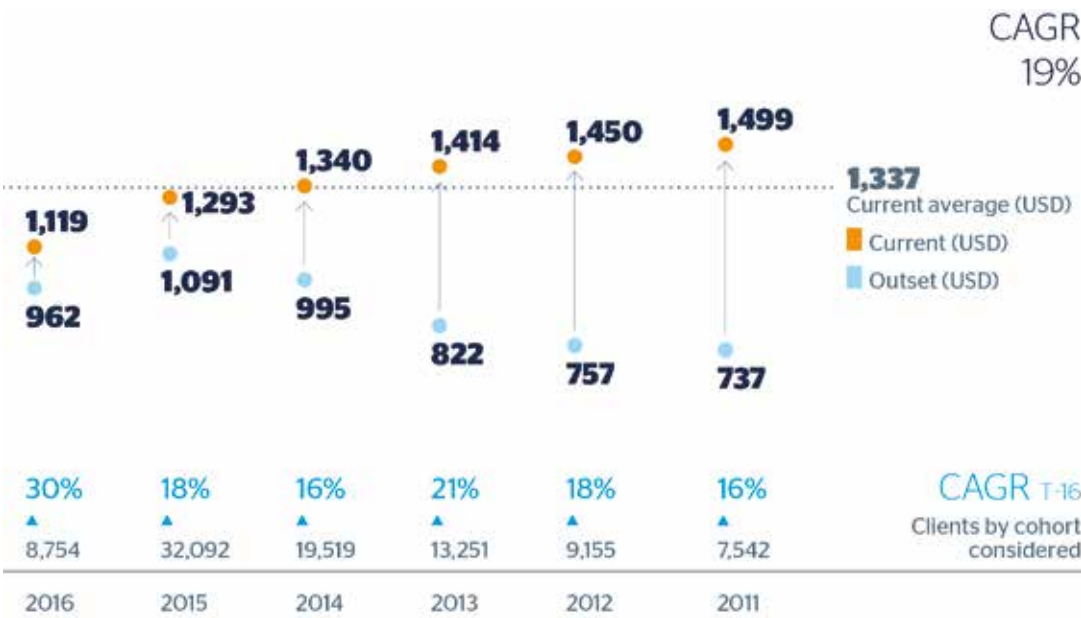
Per capita net income relative to poverty line by gender (12)



Source: Banco Adopem. BBVAMF calculations.

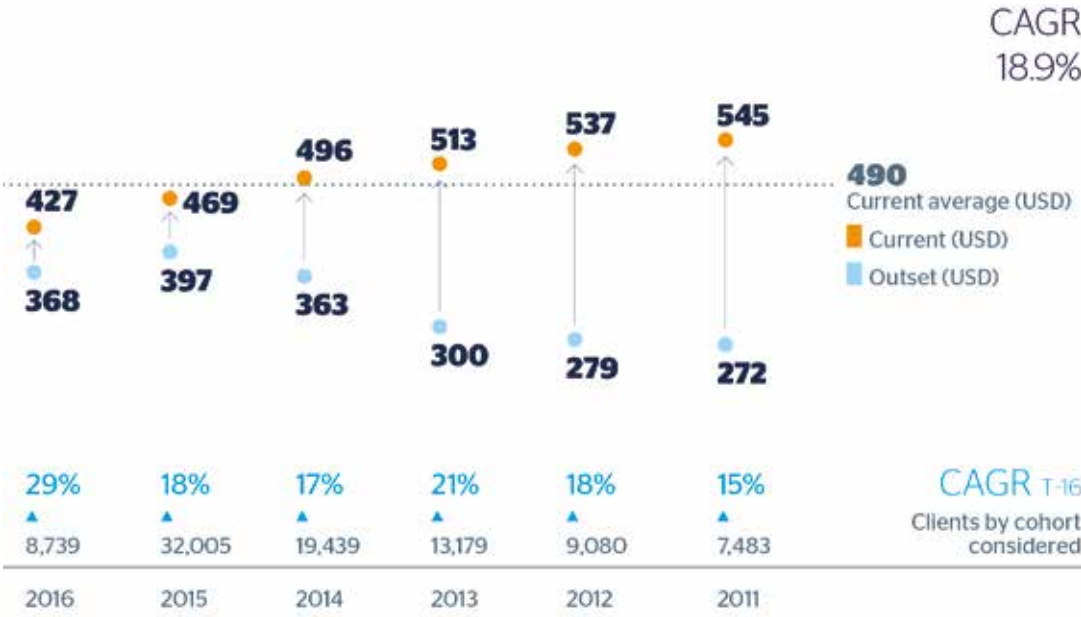
(12) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of 1 when it is the same as the poverty line.

Average monthly sales (by cohort) USD (13)



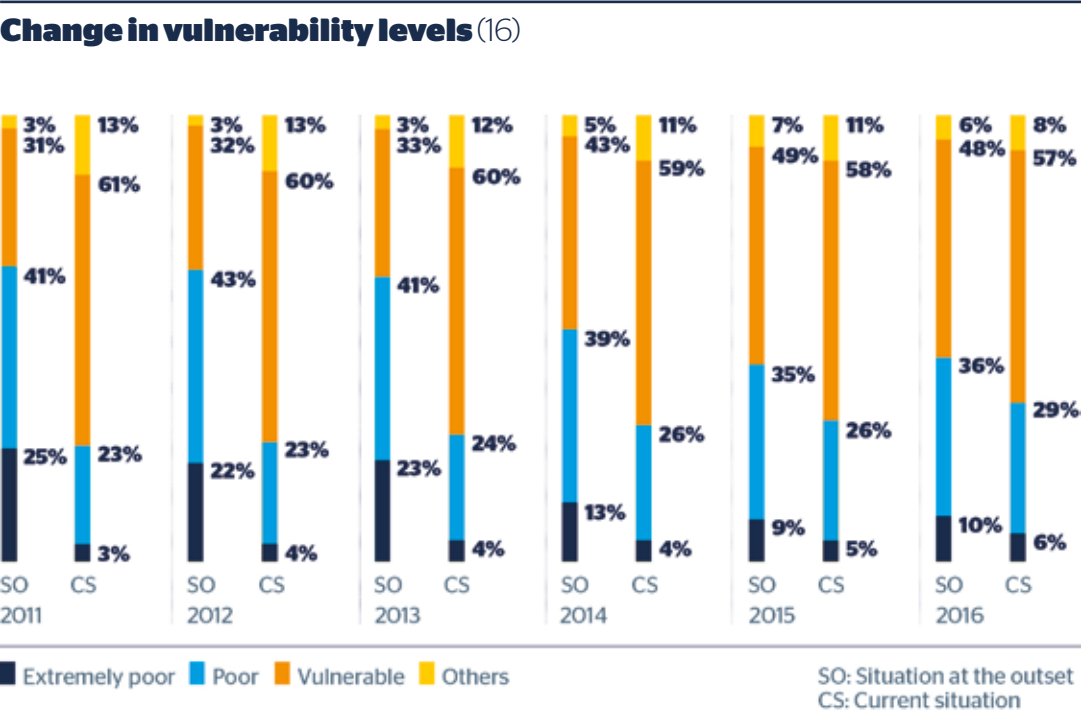
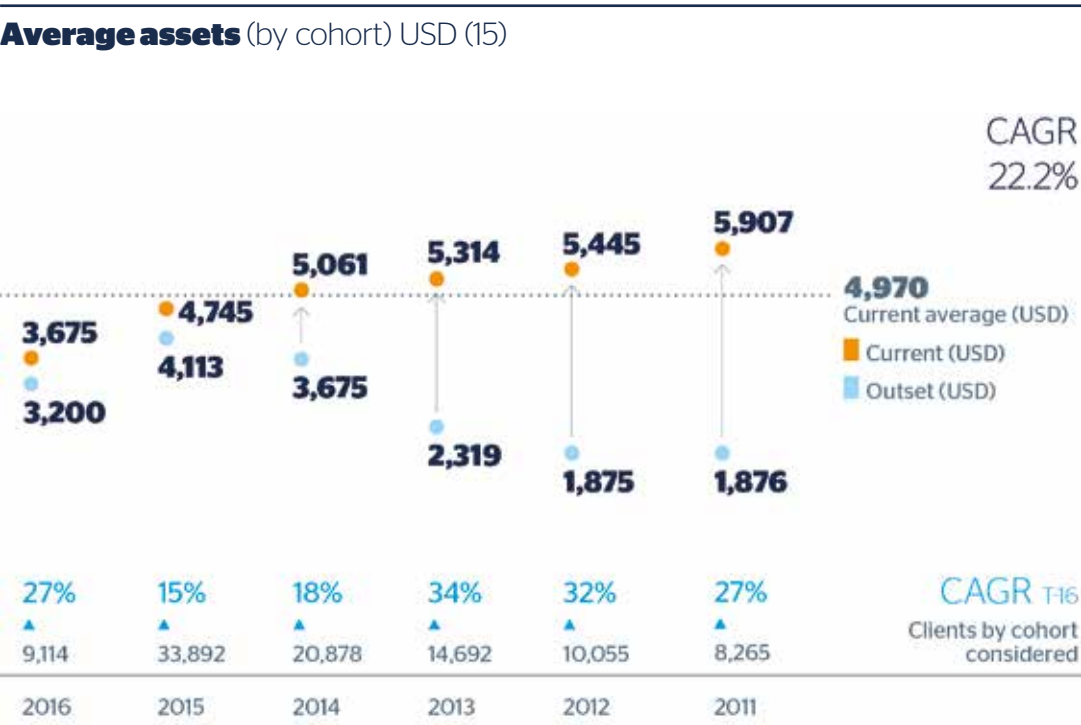
Source: Banco Adopem. BBVAMF calculations.

Average monthly net income (by cohort) USD (14)



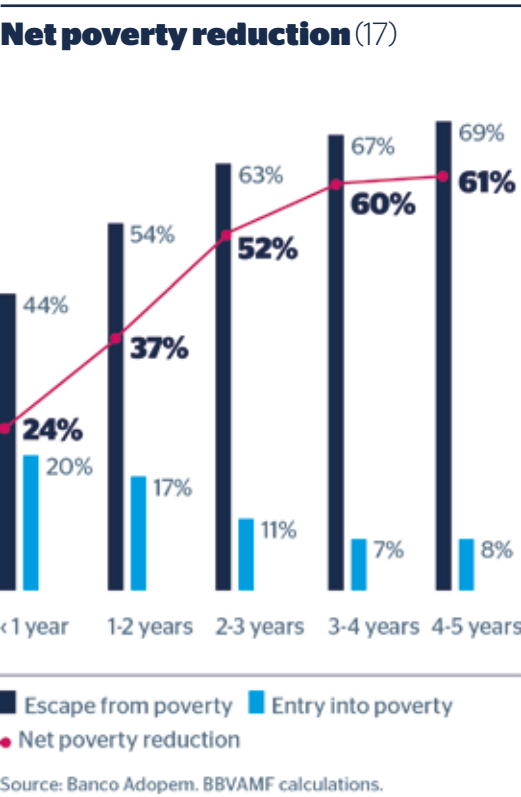
Source: Banco Adopem. BBVAMF calculations.

(13 & 14) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.



(15) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

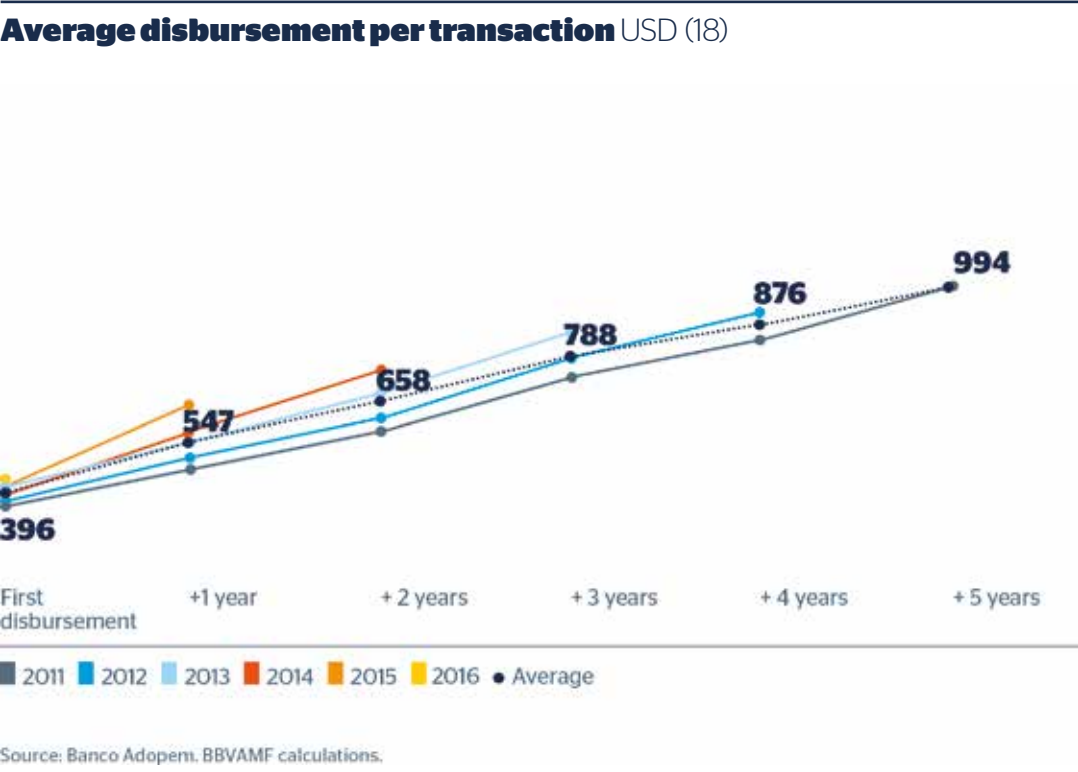
(16) Situation at the outset (SO) and the current situation (CS). Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.



(17) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.

- Escape from poverty: clients classified as *poor* at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as *poor* at the outset.
- Entry into poverty: clients classified as *non-poor* at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as *poor* at the outset.
- Net reduction: escape from poverty, less entry into poverty.

(18) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.



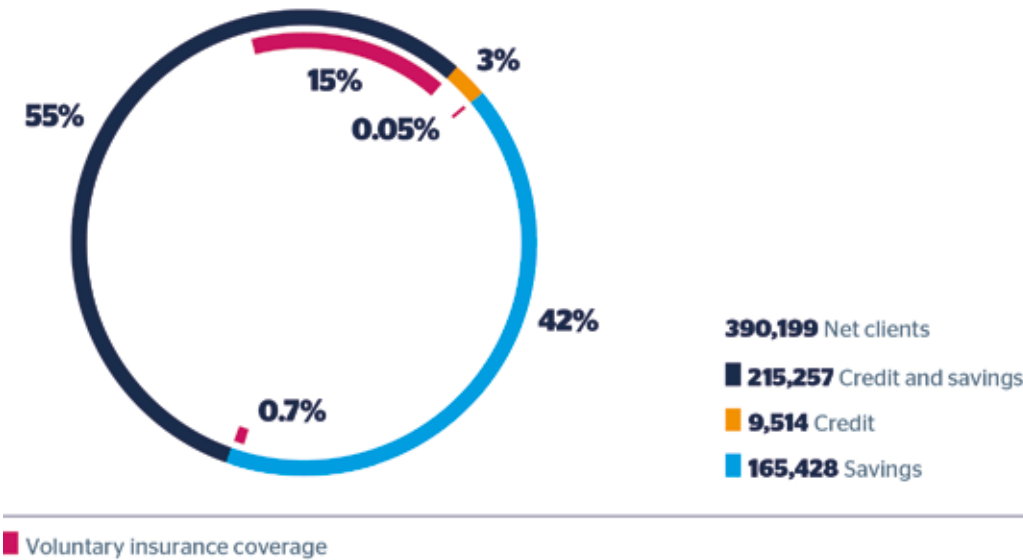
- Nevertheless, there is a group of clients that does not stabilize their incomes because of their vulnerability and fall back into *poverty*; on average 17% after 1-2 years, although this trend wanes over time. Building long-term relationships is key in order to support the progress of Banco Adopem clients (see graph 17).
- In 2016, of the 136,267 clients who renewed a loan or updated their income data, 75,472 expanded their *per capita* net incomes from their microenterprises above inflation, and 24,714 escaped from *poverty*.
- There is continued and steady growth in the average disbursement, at an annual rate of 20% (average 2011-2016 CAGR). Note the slight increase in the incline of the line in the final cohorts: this indicates faster entrepreneurial growth.

Some clients invest in their education, to improve their development. On average 7% of clients improve their education in a 5 year period.

- Most Banco Adopem clients have a loan and savings accounts (55%) and 15% have voluntarily taken out an insurance policy. Savings-only clients hardly ever add to their portfolio of products; only 0.7% also have an insurance product.
- After their first year banking with Banco Adopem, on average 5% of clients manage to take on at least one more employee, and 11% have done so after

- 4 years, which has a positive impact in their communities.
- 35% of jobs in the Dominican Republic are self-employed enterprises. In the case of Banco Adopem, 84% of its clients are in this category.
 - As vulnerability falls, the capacity to take on employees grows (27% of those in the *others* category have one or more employee).
 - After 3 years, 8% of clients succeed in improving their housing conditions, moving from a rented home to their own; which provides a greater sense of security and a better standard of living.
 - One of the main poverty gaps in the Dominican Republic is caused by disparities in schooling levels: 73% of adults with secondary education or higher are financially included vs. just 41% of those with primary education or less (see *Macroeconomic context*).

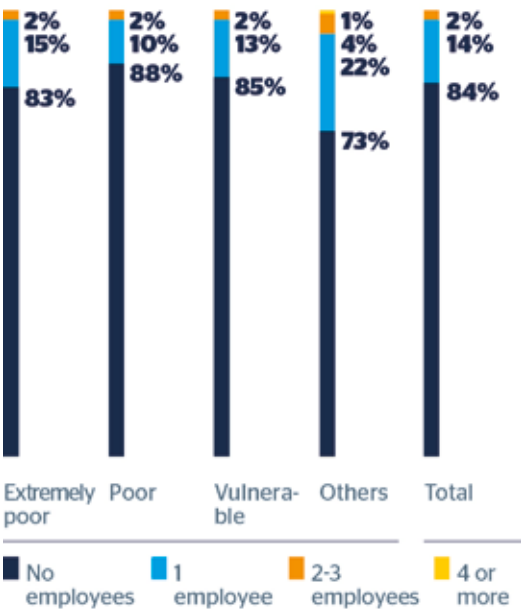
Client linkage by product type (19)



(19) Clients current as of 12.31.2016.

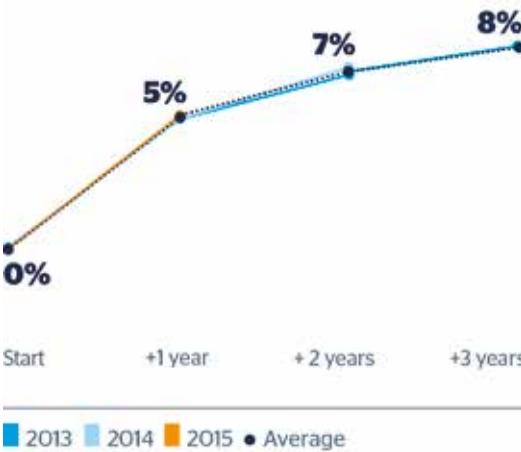
Source: Banco Adopem. BBVAMF calculations.

Microenterprise employee breakdown (20)



Source: Banco Adopem. BBVAMF calculations.

Client improvement in housing (22)



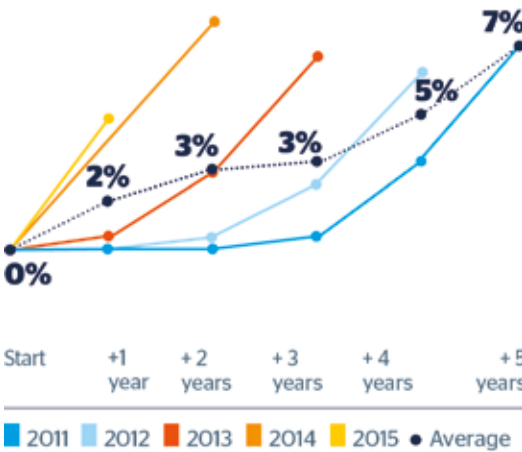
Source: Banco Adopem. BBVAMF calculations.

Job creation (21)



Source: Banco Adopem. BBVAMF calculations.

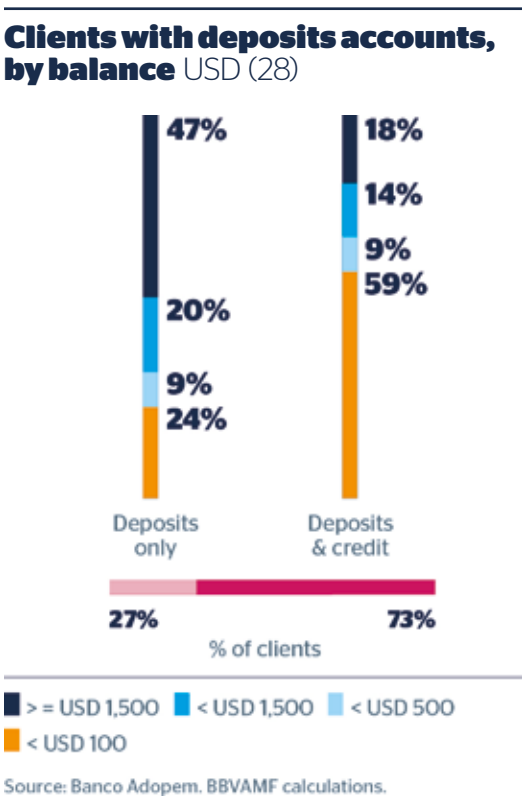
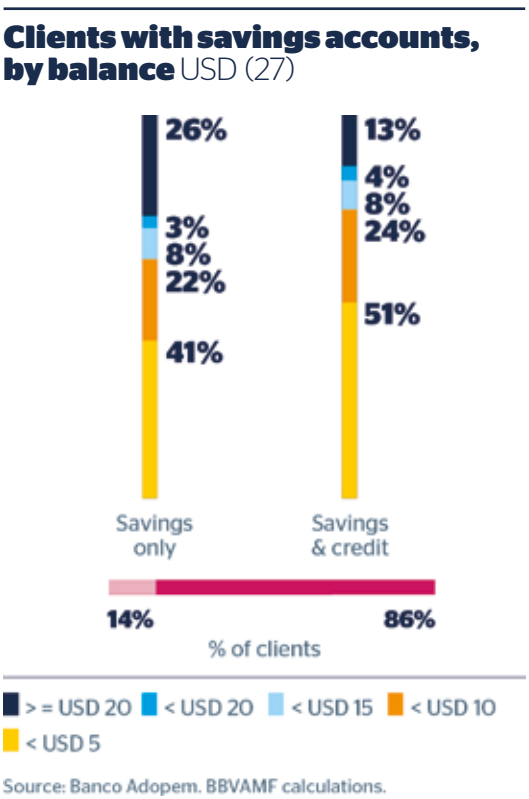
Client improvement in education (23)



Source: Banco Adopem. BBVAMF calculations.

(20) Number of employees in the enterprises of clients current as of 12.31.2016
(21) Increase in the number of employees in the microenterprise compared to the situation at the outset, for clients current as of 12.31.2016, in each cohort. Averages from cohorts between 2011 and 2015.
(22) Proportion of clients still current as of 12.31.2016 in each cohort who have improved their housing conditions, from rented to owned. Averages from cohorts 2013-2015 are shown.
(23) Proportion of clients current as of 12.31.2016, from each cohort that has improved their educational attainment. Averages from cohorts 2011-2015 are shown.

- The number of savings clients has increased by 6.6% in 2016, most of these being savings accounts, with deposits accounting for a small proportion (1.5%) and enjoying limited growth.
- 14% of savings clients have not previously had a loan with Banco Adopem. 28% are former credit clients and 57% have current loans.
- Transaction figures in the accounts are low: only 12% of clients have had more than three movements in the last three months; this behavior has remained unchanged over time.
- These results are in line with the national trend: only 14% of adults in the Dominican Republic conduct more than three transactions a month, and there is a marked preference for using cash (see *Macroeconomic context*).

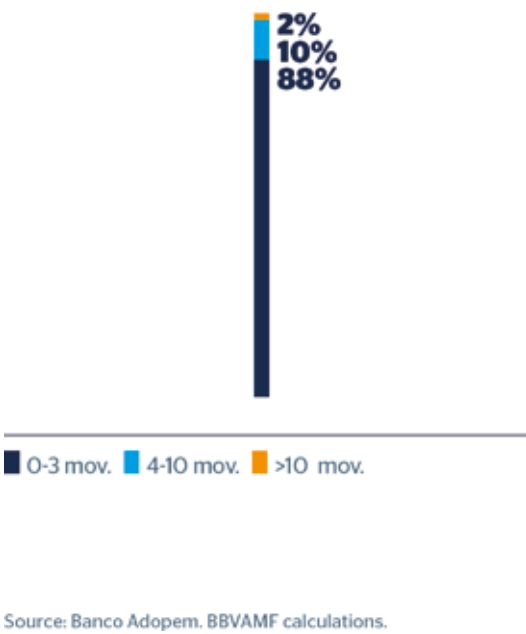


Linkage of savings clients (25)

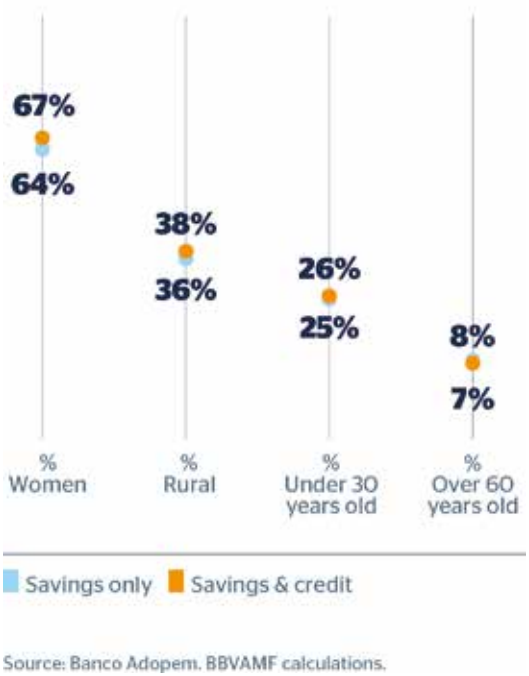


(24) Clients with savings products (savings or deposit accounts) at the end of every year.
(25) Clients with savings products (savings or deposit accounts) as of 12.31.2016.
(26) Breakdown of clients with savings products (savings and deposit accounts) as of 12.31.2016, by n° of account movements in the previous 3 months, excluding administrative movements (interest payments, fees, etc.).

Client breakdown by bank movements/ transaction figures (26)



Profile of savings clients (29)



(27 & 28) Breakdown of clients with savings products (savings accounts/ deposits) as of 12.31.2016, by balance held as of 12.31.2016, differentiating between those who are only savings clients and those who have savings and credits (who have had a loan with the entity).
(29) Breakdown of clients with savings products (savings/deposit accounts) at 12.31.2016, differentiating between those who are only savings clients and those who have savings and credit (who at 12.31.2016 have had a loan with the entity).

- Most clients have savings accounts and loans, with balances of under USD 5. Clients who only have savings accounts (and no loans, at least not with Banco Adopem) in 59% of cases have balances of more than USD 5. In other words, those without debts (and who have not had debts with the institution) have a slightly higher savings capacity.
- In the case of deposits, balances are higher, with a minimum of USD 20. Likewise, those who have, or have had, a loan with Banco Adopem show lower levels of savings. 59% of these have balances of under USD 100.
- Clients who only have savings are more urban; the proportion of women is 64%, a lower percentage than in loans.
- Savings and loan clients are the BBVAMF Group's target.

What really matters

Get to know some of the stories about people that illustrate the work done in 2016 at Banco Adopem.

Diana Céspedes fishes and grows *guineo*, the typical Dominican banana. Yanira Marmolejos began a hair products business with her husband; their nickname is *the King and Queen of gel*. José Rafael Reyes is an advisor with Banco Adopem, serving around 200 vulnerable entrepreneurs.



On board 'La Josefina', dreams can come true

Diana Céspedes starts working at dawn, fishing in the river with baskets she has made herself. Together with her husband and three other family members, she also grows *guineo*, the typical Dominican banana, on her eight hectares of land.



Dominican Republic is one of the world's largest exporters of organic bananas. Around 80% of its production is sold on the international market.

Diana Céspedes is one of thousands of entrepreneurs in this country who grows *guineo*, the typical Dominican banana, and exports her entire production from her eight hectares of land to the European Union. She is one of the leading women in her community. She is Chair of the women's association and one of five women in 'Los Tainos' Organic Banana Producers Cooperative (COOPPROBATA) which represents around 250 producers.

She works with her husband and the expansion of her business has enabled her to take on a further three family members,

with whom she harvests about 20 boxes of *guineo* every week, which she sells for around USD 10 each.

"They told me that Banco Adopem was the bank for poor people. I rang on their door

"I encourage other families to go to Banco Adopem, to become entrepreneurs like me, so that they have a better future and guarantee their children's education".

and they asked me what I needed. They came to my house, saw my plot of land and gave me a loan. I wanted the money to improve as a producer", she explains, as she winds her way through the banana trees.

Diana thinks of herself as a working woman, flexible and enthusiastic. Someone who is not weighed down by the difficulties of life and who makes an effort to get on with things. When she remembers how she started, she feels satisfied with everything she has achieved: two of her children are going to start studying at university and the little one is studying at school.

The agricultural training she has received has enabled her to manage her crops better. She has learned about good farming and

manufacturing practices, fertilization techniques, how to use machinery, as well as product transport and hygiene. This training has given added value to the financing she has received from the bank. "The good thing about Adopem was that they didn't just lend me the money. They also taught me how to use it to invest in my plot of land and in my home", she says, standing by her wooden house, painted in bright colors.

Diana's day starts at dawn. Three days a week, at six o'clock in the morning, she starts up the engine of *La Josefina*, her little boat, and crosses the river of Los Tramojos, the town in Azua where she lives. She casts her homemade fish baskets into the water and patiently waits to return home with the baskets filled with fish. Diana spends time

Name: Diana Céspedes.
Age: 43.
Business: Growing organic bananas and fishing.
Location: Los Tramojos, Azua (Dominican Republic).
Employees: Four, all family members.
Total sum of loans: Five loans totaling USD 4,513 (DOP 210,000).
Other products and services: Savings account. Has received training on good farming and manufacturing practices.
To highlight: Awarded the Prize for Best Quality in Banana Production 2015.

Scan the
QR code and
discover
the story
of Diana





Diana looking after the bananas on her eight hectare plot.

fishing so as to have a second source of income to be able to ensure her children's future. With the DOP 70,000 she received from her most recent Banco Adopem loan she was able to buy this boat.

"I encourage other families to go to Banco Adopem, to become entrepreneurs like me, so that they have a better future, guarantee their children's education, improve their standard of living, get ahead and have a prosperous family", she explains.

Diana is determined that her family will succeed in the long term. And she wants to do it the best way she knows how: farming and fishing. She will continue producing *guineo* and now she hopes to be able to export to Israel and to set up a small fishmonger's on the beach, next to the sand where *La Josefina* waits for her until dawn, when she will once again throw her fishing baskets into the river. ■

"They told me that Banco Adopem was the bank for poor people. I rang on their door and they told me what I needed to do. They came to my house, saw my plot of land and gave me a loan. I wanted the money to improve as a producer."



Diana goes fishing every morning in Los Tramojos river.



From sharing accommodation with others to being nicknamed 'the King and Queen of gel'

Having sold popcorn, sweet bean drinks, ice and clothes at different times, Yanira Marmolejos started selling underwear, taking out an individual loan in Banco Adopem so as to carry on expanding. After that, together with her husband, she opened a natural hair products business.

Yanira has been a saleswoman all her life. She has sold popcorn, sweet beans dessert, ice, domestic appliances and clothes. Her family is a model of achievement. She has gone from living in one room in an alley where 10 families shared a bathroom, to having her own home and being the owner of two successful businesses. Her story demonstrates that everything is possible in life if you don't give up on your determination to get ahead.

"I was living in Villa Juanas when I heard about Banco Adopem. I took out a loan with two other people, we were responsible for one another. After that I started selling underwear and I took out an individual loan with Adopem so that I could

carry on growing. They gave me a bigger loan so I was able to expand my business and I started selling beauty products", sums up Yanira.

That is how *Yafreisy Line* was born, a business that produces natural beauty and haircare products such as shampoo, treatments, masks and nail varnishes. They are innovative, plant-based products at competitive prices. Now they are so well known that in her neighborhood they have been nicknamed "the King and Queen of gel".

The walls of Yanira's business are covered in shelves with colorful bottles of conditioners and masks. The five employees in her business produce the products, bottle them

and take them to their customers' homes. They also sell on the wholesale market and take part in the Dominican Republic's beauty trade fairs.

En *Yafreisy Line* also has other items for hair, such as tiaras and hairbands. Yanira arranges each product carefully in small, different colored baskets that create the visual effect of a rainbow made up of bottles, jars and assorted products.

She and her husband are satisfied with the progress they have made. Not just because they have their own business, but also because they have created jobs for others. They haven't forgotten how tough their beginnings were. That is why they want

to hold out a friendly hand to others who, like them, do not have enough resources to become independent. They do it, they say, because they want to give back what Banco Adopem did for them when it granted them their first loan of DOP 2,500.

"You were the only ones who believed in us; with that money we could pursue our dreams until they came true. We invested in clothes which we sold on the street. With the profits I started selling popcorn, sugar-covered beans, ice, and other things... Yes, it was worth it", recalls this microentrepreneur with emotion.

Before signing up with Banco Adopem, Yanira lived in a rented house. Now she

Name: Yanira Marmolejos.
Age: 37.
Business: *Yafreisy Line*, production of natural beauty products.
Location: Santo Domingo East (Santo Domingo, Dominican Republic).
Employees: Five, of whom four are family members.
Total sum of loans: 10 loans totaling USD 14,432 (DOP 671,500).
Other products and services: Savings account.
Note: Has completed secondary education. Has two children, 15 and 13 years old, both in school. In 2014 she was a candidate for the *Citi Microentrepreneurs Awards* in the *Microenterprise of the Year Grand Award* category. She also contributes financially to a number of community activities. Her husband helps her in both businesses.

Scan the QR code and discover the story of Yanira





Yanira and her daughter posing proudly in their store.



Yanira's husband, standing to the right of an Adopem loan officer.



An employee prepares Yafreisy beauty treatments, face masks and nail polish.

owns her home, has her own business and can fit all this in with looking after her children. “I recommend that women take out loans, as I did, that they shouldn’t be afraid of being entrepreneurs. They should have their own business, because when you set yourself a goal, you reach it”, she says.

Her dream is to become one of the biggest producers and distributors of natural beauty products in the country. To achieve it, Yanira has two important qualities: she is an expert saleswoman and a fighter, who is determined to carry on bettering herself while helping others who are also starting out with nothing.■

“I recommend that women take out loans, as I did, that they shouldn’t be afraid of being entrepreneurs. They should have their own business, because when you set yourself a goal, you reach it”.

The satisfaction of feeling useful

Since he was a boy, José Rafael Reyes saw himself working in a bank. The opportunity of seeing from the inside how a bank works allowed him to discover his passion for the world of finance, the value of teamwork and the importance of personal growth. He fits his job in around his Economics studies, majoring in financial management, in Santo Domingo's Catholic University.

José Rafael is an honest, generous, empathetic and competitive young man. He enjoys challenges and is a natural dreamer. He has been a loan officer with Banco Adopem since 2011. He likes his job. In fact, since he was a boy, he has seen himself working in a bank. The opportunity of seeing from the inside how a bank works allowed him to discover his passion for the world of finance. He began as an officer for group loans. A year later he started as a microenterprise officer, a post he held for three years, and he is currently an officer for small companies. He fits his job in around his Economics studies, majoring in financial management, in Santo Domingo's Catholic University.

The distance he has covered means that he has always had his feet on the ground. "It is one of the things that keep me steady and focused on what I want for my life. I have achieved a lot of things that I would never have thought were possible when I was younger", he explains.

Working day

He starts his working day studying his customer portfolio, analyzing the indicators that need monitoring, and begins his daily round of calls to entrepreneurs managing loans and collections, always trying to make his day as productive as possible. José Rafael supports and advises around 200 vulnerable entrepreneurs. Most of them are small merchants who sell food, clothes and other items in markets.

"I work with all my co-workers in the branch (officers, cashiers, service staff, transactions, etc.) because the key to Banco Adopem's success is teamwork; that's how we achieve the goals we want to reach. Everyone in the branch does their bit to contribute to the results and that is why I try to have a pleasant working relationship with all my colleagues", explains José Rafael.

Once the administrative tasks are done, he starts driving to visit entrepreneurs in their

small businesses. Every entrepreneur has a story that is worth telling, of overcoming difficulties and effort. José Rafael remembers the one about Olga Lidia Araujo, who has been supporting her family since her husband became sick and how she has managed to do it thanks to her skill in drawing. José Rafael advised her on how to get the loan she needed to set up her small business decorating event venues.

In the afternoon, José Rafael returns to the office and runs through the day's events with his supervisor, discussing the work he has done and reporting on customers' news before planning together the strategies to follow.

He finds advising customers very satisfying inasmuch as he is helping them to start up their business or, in the case of existing businesses, to increase their margins. He also remembers Dayra Soto's story. "This customer needed help and advice, because she and her husband were unemployed. They made handbags but they didn't have enough capital to buy the machinery or raw materials to start the business. We gave them a loan and now they have orders for over 300 handbags a month, and the possibility of increasing their production", he relates, proud of having helped them get ahead.

Experience and training

He explains how the institution's own growth drives him on a daily basis. "I like working in Banco Adopem because I am sure that here I will go far, there are opportunities for growth that I want to make the most of and that is why I am giving the best of myself, to be able to meet the targets they set me. And not only that; the way the bank treats its employees creates an atmosphere that I find really satisfying."

In the five years that José Rafael has been with Banco Adopem he has broadened his professional experience, both in terms of knowing his customers and their needs, and in developing his own job. "The training



José Rafael visits one of his clients at their enterprise.

courses I have gone on in Banco Adopem have been the foundation of my skills development in microfinance. They have taught me methods for succeeding in the institution, as well as promoting my professional growth, because they prepare us to face challenges in the future and to be capable of leading our own teams."

He dreams of forming part of the team that takes the decisions and creates strategies so that the institution can continue the sustained and high-caliber growth it has enjoyed to date. As well as this, he wants to be a role model for other people so that they see that it is possible to do well if you stick to your plan and persevere until you achieve the goals you have set.

In the short term he hopes to build a house for himself, a comfortable place where his family has what they need to get by. He is anxiously waiting the birth of his firstborn girl, to whom he wants to give a good education. In the professional ambit, he wants to finish his university studies with a Master's in Business Administration, majoring in finance. ■

Microfranchises: encouraging turnkey microentrepreneurship

In 2016, the existing microfranchising model between Banco Adopem and Nestlé was formalized in order to extend access to stable and profitable business opportunities to more microentrepreneurs. Furthermore, the Nestlé product being sold, which is of high nutritional value, is sought after by the community where the client lives, thus generating a positive effect for the community as a whole.

Microfranchising is a well-known strategy for developing entrepreneurial capability and increasing income levels among disadvantaged population groups. It is based on a tested business model, which has been standardized and can easily be used “off the shelf”, based on establishing alliances that generate business opportunities. In the case of the Adopem-Nestlé microfranchising model, the parties complement one another, guiding and supporting people with little or no business experience so that they can become owners of predefined businesses, offering work opportunities to those without easy access to the job market. The program is based on a successful tried-and-tested

model that promotes financial inclusion among micro-distributors and partners, as well as healthy eating.

Microfranchising: designing an assisted development model
Plan Barrio is an innovative, highly social impact business strategy developed by Nestlé Dominicana, as part of its *Shared Value Creation* policy. It was implemented by the company in 2006 to develop sustainable businesses, offering training and nutritional information. During the *Plan Barrio* project, Nestlé identified financing gaps (working

capital, collections) and, as a result, the problems their micro-distributors were having in accessing financial products, together with the need to reinforce financial education. It is for that reason that in October 2012 the firm contacted Banco Adopem in search of viable solutions to solve the problems with the model’s financial management. So it was that Banco Adopem became a key ally, thanks to its credit experience and portfolio of financial products, its understanding of the microdistributor profile (target client for the institution) and of the environment in which they operate.

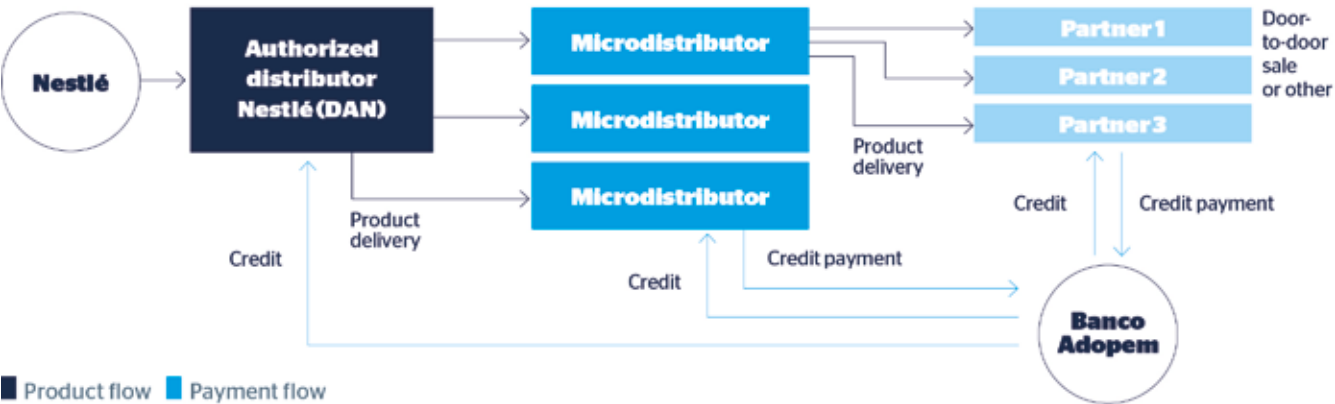
The resulting Adopem-Nestlé microfranchising model was trialed in a pilot between October 2012 and December 2013 in 13 Banco Adopem branches, for the purpose of validating Nestlé’s microdistribution operating and sales areas. The distribution channels were shown to be effective and the nutritional product portfolio enjoys healthy demand.

The program was made permanent in October 2014, defining its structure, process and geographic area covered. An agreement to scale up the model was signed with Banco Adopem, Nestlé and the Interamerican Development Bank (IDB), in order to extend access to stable and profitable entrepreneurial opportunities to more microentrepreneurs.

As of September 2016, there are 1,659 microfranchisees, of whom 159 are micro-distributors (MD), 1,500 are active partners and 275 (MD and partners) are Banco Adopem⁽¹⁾ clients.

A *Combo* hamper of Nestlé products is available through a two-layer distribution network: microdistributors (MD) who buy the Nestlé products, and partners, who buy products from the MD and make door-to-door sales and/or use other sales methods depending on the communities’ social interactions. Both parties can be Banco Adopem clients.

Description of the Adopem - Nestlé microfranchising model (a)



Nestlé's role <ul style="list-style-type: none">• Distribution: Ensuring an effective distribution chain, with no hold-ups. Defining the delivery route through authorized distributors.• Product: Defining a product basket adapted to the consumer's needs (the Combo), which requires building a close relationship with the micro-distributor (MD).• Marketing: Creating all the sales material necessary to sell the product.	Banco Adopem's role <ul style="list-style-type: none">• Financial: delivering the credit to:<ul style="list-style-type: none">– Microdistributors (MD) to buy the Combo product basket which is paid back monthly. The contract is signed with the MD, but credit can be delivered to the MD or the DAN.– Partner for sale of product door-to-door or by other method, with cash disbursement.
Adopem-Nestlé's joint Role <p>Educational: Training workshops for MDs and partners, eg. business management, promotional offers, cookery workshops, nutrition conferences, guidance and mentoring in business development.</p>	

Source: Banco Adopem, Nestlé, BBVAMF.

Microfranchising program footprint (b)



Communities with microfranchising programs in place

Source: Banco Adopem, Nestlé.

Nestlé has developed a solid relationship with the MD, testing and promoting new products, which has meant that the program has contributed to the promotion of nutritious products in areas where these had not been obtainable. This management style, all through the value chain, is an ingredient in a wider shared-value project that Nestlé is developing throughout the group to use resources more efficiently and to achieve greater impact in the community.

Banco Adopem finances these entrepreneurs' productive activities and makes all its products and services (remittances, savings accounts, microinsurance, mobile transactions and the possibility of forming part of its savings groups) available to its clients. Most of the credits are granted to the MD and a strategy is currently being defined to increase the number of partners so that the program has more geographical coverage and greater stability.

Furthermore, clients take part in a range of activities run jointly by Banco Adopem

and Nestlé, such as training days, cookery workshops, nutrition courses and community meetings; there is a *Madam Ambassador* program (a group selected from the program) to support other women microfranchisees.

Each territory has limits designated by numbers of homes and inhabitants, to ensure the micro-enterprise's viability. The program is nationwide, in areas that are established by Nestlé and can be served by a Banco Adopem branch.

The model was trialed in a pilot between October 2012 and December 2013. The distribution channels are effective and the nutritional product portfolio enjoys healthy demand.

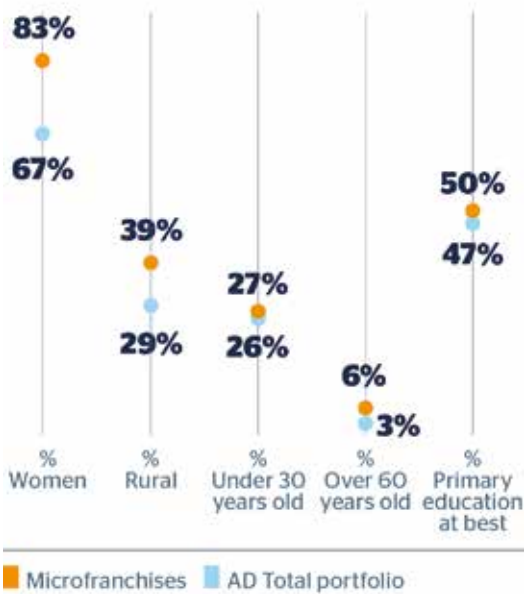
A stable model that supports Banco Adopem's target client

The *Microfranchising* program is aimed at women (mothers, 'female heads of household') who are Banco Adopem clients, selected by the institution and Nestlé for their sales skills and entrepreneurial potential: they are Banco Adopem's target 'client profile', with a slightly higher ratio of clients below the poverty line than Banco Adopem clients taken as a whole: 46% of microfranchising clients are classified as *poor* or *extremely poor* vs. 31% of total clients.

433 loans have been granted to 368 clients since 2012, for a total of USD 236,428⁽²⁾. Of all clients served, 275 are still current. The analysis has been carried out on these.

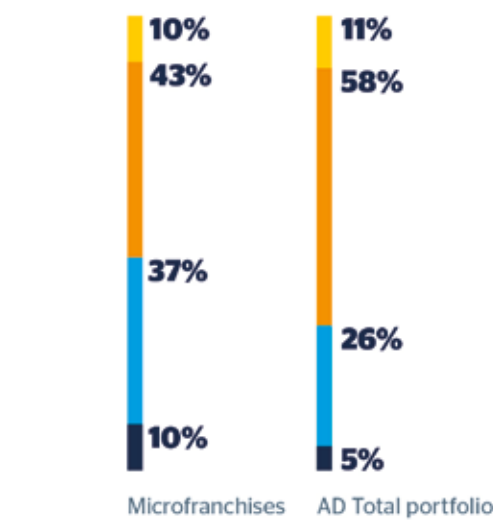
The program also provides training in a number of areas (nutrition, business, etc.) and the first surveys reveal that 100% feel that it has helped them to improve their standard of living, while over 85% state that they have improved their sales levels thanks to the training received.

Microfranchising client profile (c)



Source: Banco Adopem, Nestlé, BBVAMF analysis.

Economic vulnerability (d)



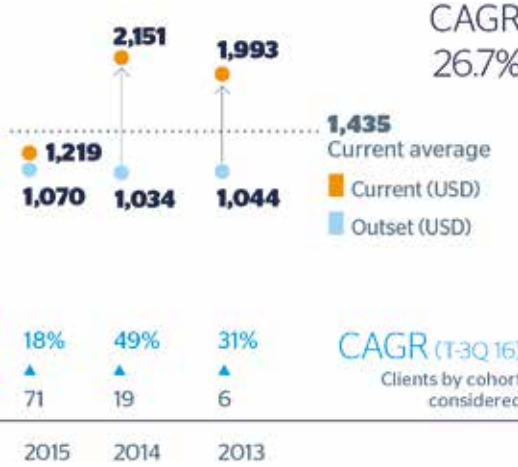
Source: Banco Adopem, Nestlé, BBVAMF analysis.

275 women raised their household income by 33%

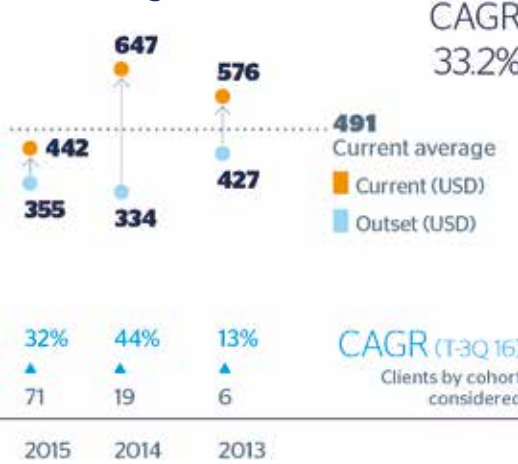
It was assumed that the program helps to generate stable business opportunities and sources of revenue for low income micro-entrepreneurs. This hypothesis has been confirmed: we see a faster or similar rate of growth in microfranchisees' sales as in clients as a whole, as well as improved margins: net incomes grow more quickly than sales, particularly in the case of microfranchising clients.

Microfranchising is viewed as a safe business model, given that it entails the back-up of a brand with a certain track record and know-how in product operations and marketing; this is shown in solid rates of growth in sales and margins. It also means that these enterprises are within the reach of people with neither experience in running businesses, nor the capital to start one from scratch. The risk of failure is also considerably lower, in comparison with recently created businesses, because the enterprise grows in line with a pre-existing structure, which has already been tested and already generates profits.

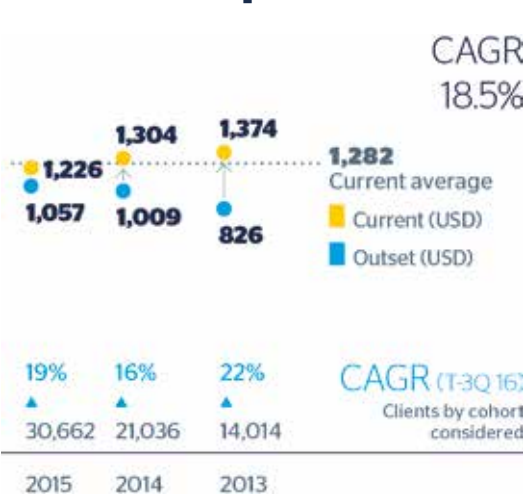
Growth in microfranchising sales (e)



Growth in microfranchising net incomes (g)



Growth in total portfolio sales (f)



Growth in total portfolio net incomes (h)



Microfranchising is viewed as a safe business model, given that it entails the back-up of a brand with a certain track record and know-how in product operations and marketing. This is shown in solid rates of growth in net incomes (33%) and sales (27%) in comparison with clients of the portfolio as a whole.

Looking beyond the numbers: training

The microfranchising concept goes hand in hand with training, given that all franchisees receive training about the product and in developing sales skills. The training model (carried out jointly by Nestlé and Banco Adopem) is adapted to the management of a retail enterprise selling products. Nestlé and Banco Adopem write a business plan that sets out guidelines on, for example, how, where and when to sell, who the competitors are, together with some management insights. So, clients have taken part in modules such as *Business Plan Development, Managing Money, Human Development, Sales Techniques, Coaching Techniques* and *Women entrepreneurs*.

Nestlé staff play an important role in explaining product characteristics, encouraging a proactive sales strategy (eg. special offers and promotions) and provide training in nutrition and access to technology (eg. smart phones). They also monitor the client in conjunction with Banco Adopem and provide additional training support down the line, if required.

Between 2012 and September 2016, 1,647 micro-franchisees⁽³⁾ altogether have received training. The training sessions are highly appreciated by the MD and partners, since over 85% of those interviewed stated that the training had improved their sales levels⁽⁴⁾.

Overall, the program has brought new opportunities to generate income to some microentrepreneurs who were excluded from the banking system, and 100% confirm that the program has helped them to improve their standard of living⁽⁵⁾. The program brings with it intangible social benefits, that the MD and partners value, such as, for example, the satisfaction of having succeeded in meeting the goals set, and of reaching tangible targets, the feeling of belonging and developing leadership skills. Being part of a microfranchising network transmits confidence and self-esteem, quite apart from the economic benefits.

To conclude, the purpose of microfranchising is to generate an additional source of income and local job opportunities. It starts with the advantage that generating return for the master franchisor (Nestlé) is not an important consideration in this case, although the sustainability of the microfranchising network is important in the medium term. ■

(e, f, g & h) Data on clients current as of 09.30.2016 and who have made any disbursement in the previous 12 months. Situation at the outset (data in their cohort year) and the current situation (latest update) as of 09.30.2016. CAGR: Compound Annual Growth Rate.

Source: Banco Adopem, BBVAMF analysis.

Notes (1) Banco Adopem clients current as of 09.30.2016 who have taken part in the microfranchising program at some point. (2) DOP 10,904,100 at the exchange rate on 09.30.2016 of DOP/USD 0.02168. (3) Of the total 1,880 franchisees (not only with Banco Adopem, but the whole program), 1,647 have taken part in at least one training session. (4) Business and enterprise consultancy, conducted by NGestión Consultoría for Banco Adopem, currently underway, to be completed in February 2017. Survey conducted on 70 partners, all women, in 2016. (5) Business and enterprise consultancy, conducted by NGestión Consultoría for Banco Adopem (see previous footnote).

Agent banking: an alternative channel that is secure and nearby

Banking agents act on behalf of the bank in drugstores, grocery stores and other retail outlets and are a key channel for increasing the institution's capillarity, reaching inaccessible and vulnerable clients, who prefer to handle their financial affairs through *contacts whom they know*. They account for 60% of transactions carried out through alternative channels. The agent is a person who links the population, which may be unbanked, with financial institutions, reducing informality and increasing financial inclusion.

In June 2014 the institution opened up a new service channel: agent banking [*sub-agentes bancarios* (SAB)], also known as *Adopem Express*⁽¹⁾. Since 2016 this alternative channel has been reinforced so as to offer greater security and geographical proximity to clients in remote areas.

What are banking agents?

They are physical or legal persons who act on behalf of the bank in commercial establishments, such as minimarts, grocery stores and drugstores, mainly in neighborhoods outside the city center and rural areas in the middle of the country. At the moment they can conduct a series of transactions, authorized by the Banking Authority, such as loan

installment payments, deposits, withdrawals and paying into savings accounts. The channel has a positive impact on those with low incomes who live in remote areas with no banking branches, since it increases security and reduces the cost of accessing financial services: it reduces the transport cost of reaching the bank branch and the time during which the business is closed while away at the bank.

Types of banking agents

There is a wide variety of types of banking agents, from stationer's to supermarkets, but they tend to be in drugstores, retail stores, general stores and grocery stores, big and small. Drugstores tend to become banking agents because their customers trust them.

The biggest businesses (with an average of eight employees and around 178 transactions a month) account for 25% of all agents; medium-sized banking agents account for 42% (with an average of three or four employees and 117 transactions a month), and small agents make up the remaining 33% (with an average of one or two employees and 119 transactions a month).

Banking agents not only have an operative role, but also promote the institution in their neighborhood. It is a channel that transmits security and convenience; as such, it encourages clients to manage their savings.

Banking agents also offer advantages from the institution's perspective:

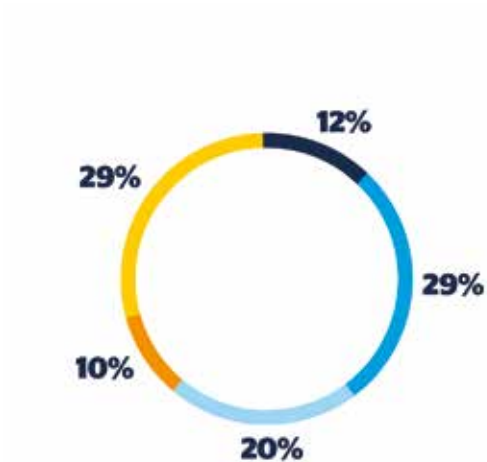
- The costs per transaction are lower than in-branch
- It frees up loan officers from some routine transactional tasks allowing them to focus more on their sales activity, which increases their productivity.

As of September 2016, these transactions were being carried out through 123 banking agents; together with the 73 branches they make up nearly 200 service points, providing coverage to every province in the country.

Functionalities of the banking agent

As of the close of the third quarter 2016, 141,471 monetary transactions were conducted through agent banking; 44% more than over the same period in 2015, representing 60% of transactions effected using alternative channels.

Type of agent banking (a)



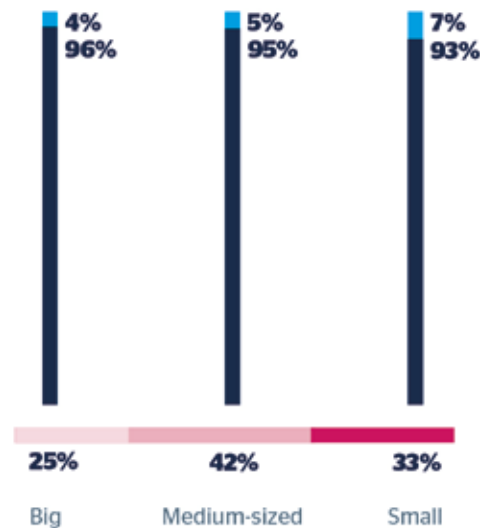
123
Total banking agents

General stores Drugstores Minimarts
Retail stores Other

Source: Banco Adopem, Nestlé, BBVAMF analysis.

(a) Data to September 2016.
(b) Number of transactions in September 2016. The cash withdrawal option is being developed: there are currently 11 service points offering this as a pilot scheme.

Transactions by size (b)



Loan payment Deposit
Breakdown of banking agents

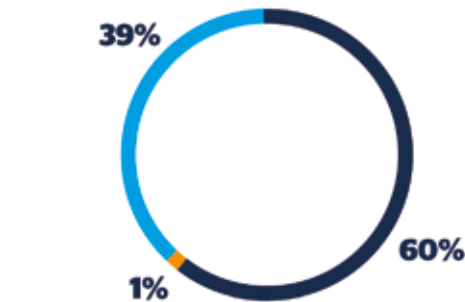
Source: Banco Adopem, Nestlé, BBVAMF analysis.

Types of transactions

When we analyze those clients operating through bank agents, the preference for credit transactions is clear: 94% of these transactions were to pay loan installments, with the remaining 6% to make deposits and withdrawals⁽²⁾. If we look year on year at 3Q2016 vs. 3Q2015, we note the same rate of growth in the number of transactions as in the number of clients (27%). However, there is also a gradual increase in the number of clients operating through the agents to manage their savings accounts, rising from 1% of clients who used these means in September 2014 (45 clients) to 5% in September 2016 (1,047).

Banco Adopem is working to create awareness among clients that they can carry out their transactions with agent banking, so the proportion of transactions using this channel is expected to double by this time next year.

Transactions by alternative channel type (c)



■ 141,427 Agent banking
■ 2,888 Mobile banking
■ 89,637 Call center

Source: Banco Adopem, Nestlé, BBVAMF analysis.

Evolution of clients and transactions (d)



■ Total transactions ■ Credit transactions
■ Savings transactions

Source: Banco Adopem, Nestlé, BBVAMF analysis.



■ Total clients ■ Credit clients
■ Savings clients

Source: Banco Adopem, Nestlé, BBVAMF analysis.

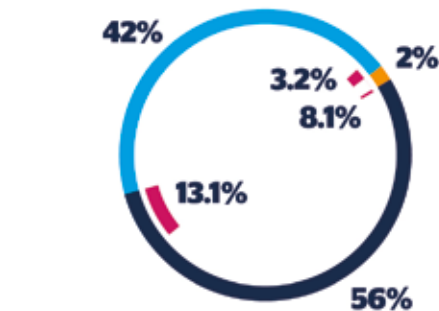
The role of the banking agent

Banking agents, all of whom are Banco Adopem clients, have become strategic partners. As well as their operative role, they also promote the institution in their neighborhood⁽³⁾. As of September 2016, they had referred 197 clients and encouraged the opening of 151 savings accounts. Given their importance, and in order to ensure service quality, every year Banco Adopem organizes meetings for all the banking agents to provide client service training and to create a forum for sharing experiences and case studies.

This is the only channel with capacity for deposits, loan installment payments and withdrawals, apart from the branches themselves. It is a channel that transmits security and convenience; as such, it encourages clients to manage their savings.

Every year Banco Adopem organizes meetings for all the banking agents to provide client service training and to create a forum for sharing experiences and case studies.

Transaction figures by linkage category (e)

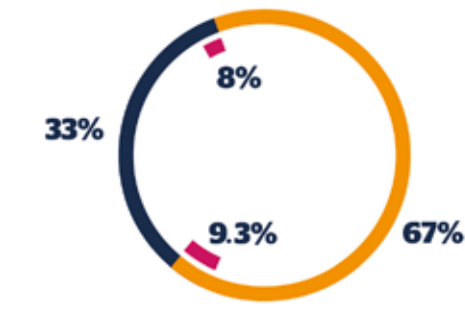


■ 9,035 Credit
■ 213,554 Credit & saving
■ 158,280 Saving

■ % clients operating through agents

Source: Banco Adopem, Nestlé, BBVAMF analysis.

Transaction figures by gender (f)



■ 125,946 Men
■ 254,422 Women

■ % clients operating through agents

(c) Accumulated transactions between January and September 2016; does not include:
• Transactions through bank branches or the loan officer, i.e. transactions made out in the field.
• Outbound calls from the call center, i.e. calls made by the call center regarding collections or for sales campaigns, surveys, etc.
(d) Number of transactions, distinguishing between credit and savings transactions. Number of clients by type of transaction.

(e & f) Clients current at 30.09.2016 classified by profiles, only considering transactions made in 2016.

Level of business, by client profile

The client group that does most business with the institution is the one that has linkage through credit and savings, with 13.1% of this client profile conducting transactions through bank agents; vs. only 8.1% of clients who are linked solely through credit. A mere 3.2% of savings-account only clients use banking agents.

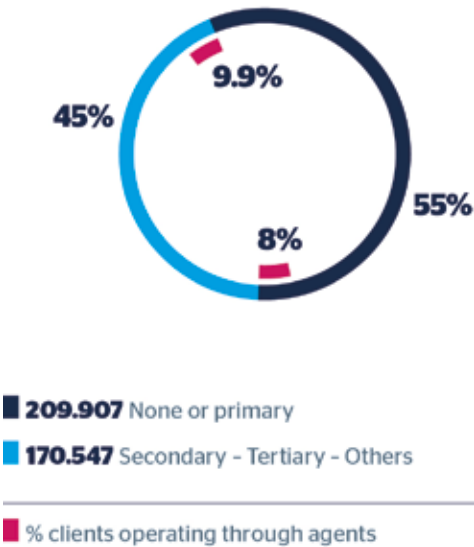
There are significant differences by environment and vulnerability:

- Environment: Clients in the urban environment have higher levels of business (10% urban vs. 6% of clients in the rural environment)

- Vulnerability: The greater the poverty level, the higher the transaction figures through banking agents: 14.7% of clients classified as *poor* and *extremely poor* carry out transactions through bank agents vs. 12.4% of clients classified as *vulnerable* and 11% of the *others*.

In the other profiles (gender, age and educational attainment), the differences are less acute. With very minor differences, women carry out more transactions, as well as clients under 60 years old and those with secondary education or higher.■

Transaction figures by education status (g)



Source: Banco Adopem, Nestlé, BBVAMF analysis.

Transaction figures by vulnerability (h)



Source: Banco Adopem, Nestlé, BBVAMF analysis.

(g & h) Clients current at 09.30.2016 classified by profiles, only considering transactions made in 2016. The client's *economic vulnerability* was classified using the update nearest to 09.30.2016 (the latest available).

(1) Equivalent to correspondent banking. (2) Transactions from January to September 2016. The option of making withdrawals is being piloted and represents less than 1% of transactions. (3) Banking agents receive a fee for handling deposits, withdrawals, installment payments and for referred clients.



The fastest growth rate in the region

The Dominican Republic has grown at an average rate of 7.0% over the last three years, making it one of the highest in the region, which has impacted on the labor market, with increased rates of employment, and a 16% rise in the number of people who are banked, although 36% of adults are still excluded. What is more, 32.3% of the population remains under the poverty line.

In the first nine months of 2016, the Dominican economy was strongly dynamic, driven by mining (22.3%), construction (12.2%), farming (10.6%), trade (6.7%), hospitality services in hotels, bars and restaurants (5.9%), transport (5.3%) and local manufacturing (5.3%). All these activities together made up approximately 80% of the Dominican economy's growth⁽¹⁾, which came in at 6.9%⁽²⁾ over this period. Over the year, the economy is estimated to have grown by 6.5%⁽³⁾.

GDP growth *per capita* was 5.2%, bringing average growth over three years to 5.8%, one of the highest in the region. This had an impact on the strong rally in household consumption which is estimated to come in at 4.3% to the end of 2016. Turning to expenditure, at the end of 2016, real growth of total consumption is estimated at

4.9%, 17% in the case of investment, 3% in exports, and 4.1% in imports.

The robust boost in investment is dependent on non-tradable sectors, specifically on road infrastructure and tourism, as well as the construction of schools and social housing. The economy has grown for the third consecutive year above its potential and is expected gradually to reach this potential, around 5%, in the next few years.

The Dominican economy is determined by three key factors. The first is the excellent performance of the tourism sector, which in 2016 continued to report highly dynamic revenues. The second is family remittances, which reported a record year. The third and final factor is the sustained downward trend in international prices of petroleum and its derivatives.

The first two factors offset the lower contribution made by exports, and have brought down the current account deficit in 2016, which will close the year at 1.7% of GDP, the lowest level since 2004. This improved performance in the external sector has made it possible to maintain the smooth convergence of the Dominican peso, in equilibrium with the real exchange rate, which depreciated 2.8% against the US dollar, a performance similar to the previous year.

The fall in fuel prices has meant that even though the Dominican economy is growing above its potential, we have seen rock bottom inflation levels in the country over the last three years.

We estimate that consumer inflation will stay below the central bank's lower target thresh-

Economic growth in the Dominican Republic is one of the highest in the region, but 50% of employment is still in the informal economy.

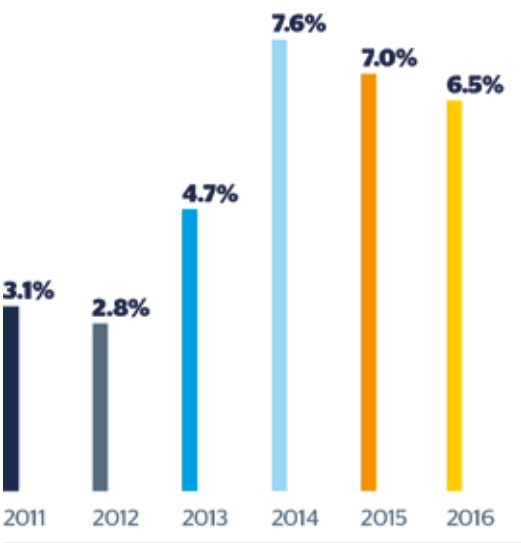
old of 3%, closing at 1.7%, in a year marked by five months of deflation (a fall in the price index). Despite this the central bank, after leaving the monetary rate untouched for 16 months, adjusted it at the end of the year by 50 base points, to close at 5.5%.

This decision has created the expectation that current levels of inflation are temporary and that, once the base effects from the fall in energy prices have passed, as well as the impact of the recent trend of higher International oil prices, inflation will return to the band set by the central bank (between 3 and 5%). Inflationary pressure from the monetary rate, after correcting for exogenous effects, is reflected in core inflation, which stands at 1.9%, still lower than it has been in recent years.

Labor market

Growth shown by the economy has had an effect on the labor market⁽⁴⁾, where there has been a significant rise in the Employment rate, offsetting the increase in the country's active population. The proportion of occupied people among the population of working age has increased by 80 bp in the last year, up to 56.6%. In the last six years it has risen by 3 percentage points, showing greater use of the active population.

Real GDP growth



Source: Dominican Republic central bank. 2016 figures have been estimated by BBVAMF Research.

This has meant that the 40 bp increase in the population of working age has been absorbed, with 65.2% of the labor pool taking an active part in the labor market. The performance of both variables is shown in a fall both in the open and in the broad unemployment rates, by 40 and 70 bp, respectively, which posted at 5.5% and 13.3% at year end.

The Ozama, Metropolitana and Este regions are the best performers on these indicators, with the highest rates of occupation and participation. Nevertheless, the lowest rates of unemployment are in the northern Cibao region, mainly due to the fact that it has the lowest labor force participation rate. The southern region displays the lowest employment rates, although the Metropolitana region has the highest rates of unemployment.

The Dominican Republic has a working age population of 7.3 million people and an economically active one of 4.6 million. About 2 million have formal jobs, another 2 million work in the informal sector and the remaining 600,000 are unemployed. Around 243,000 workers are underemployed and work by the hour, and the potential labor force is 380,000 (looking for employment and available to work). If we add the unemployed figure to this, 20% of the broader work force (including potential workers) is actively looking for work.

In terms of structural employment, half of those occupied are working in the informal sector. Of these, 57% do not receive an acceptable proportion of the labor benefits provided for by law.

26% of all informal employment is in trade, 17% in agriculture and stockbreeding, 13% in construction, 12% in transport, 9% in hospitality services in hotels, bars and restaurants, and the remaining 23% in other sectors. This structure is very similar to employment distribution for lower

income segments, which mainly operate in the informal economy.

The bulk of small one-person enterprises is in the retail or services sectors, representing the main source of self-employment, which accounts for 35% of all employment.

Poverty and inequality

Despite the robust growth of the Dominican economy, 32.3% of the population is still in households with incomes below the poverty line⁽⁵⁾. In rural areas poverty stands at 40.4%⁽⁶⁾, while in urban zones it is 28.4%⁽⁶⁾, with the structural persistence between those two areas unchanged.

It is the first time that the poverty ratio has fallen to the levels of 2000-2002, prior to the 2003 crisis. Most of this progress has occurred in the last two years, the period in which poverty has fallen by around nine percentage points, 68% of which is accounted for by the effect of robust growth over that period, while the remaining 32% has been the result of distributive improvements in household income. The combination of the nominal income improvement with a low inflationary environment boosted real household incomes.

38% (approximately 1.6 million) of the people who were in a situation of poverty at the close of 2013 have escaped it. However, they are still very vulnerable and these achievements must be built on in order to extend the distance from poverty so as to be able to absorb unexpected shocks.

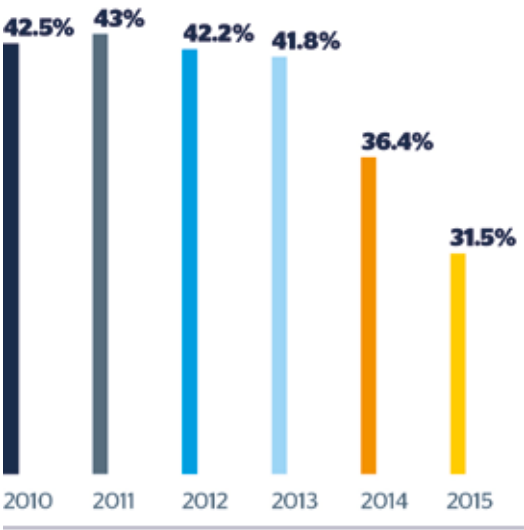
This progress in terms of poverty has occurred in tandem with a reduction in levels of inequality inasmuch as the Gini index (a coefficient with a value range between 0 and 1, that represent perfect equality and maximal inequality, respectively), has fallen from 0.476 at the close of 2013 to 0.454 currently. This reduction was the result of

32.3% of the population remains poor and inequality has fallen more in urban areas.

the allocative improvement in urban zones, edging down from 0.485 to 0.458. In rural zones, where incomes are less concentrated, this has worsened over the period, rising from 0.388 to 0.399.

Although the improvement in terms of inequality has been constant over the last ten years, both in rural and urban areas, the better relative performance in the latter is accounted for by greater recovery of real incomes associated with waged employment.

Poverty (% total population)



Source: Ministry of the Economy, Planning & Development (MEPYD).

Financial inclusion

In terms of access to the financial system,⁽⁷⁾ as measured by possession of a bank account, in the Dominican Republic 54% of adults are banked, a marked advance on the results of the previous assessment in 2011, in which only 38% of adults had accounts in financial institutions. This is one of the few countries in the region, indeed the world, in which women have greater access (56%) than men (52%).

One of the main causes of the disparity is determined by levels of schooling. 73% of adults with secondary education or higher are financially included, whereas only 41% of those with primary education at best have a bank account.

Another important reason for the gaps in financial inclusion is, as one would expect, income levels. 63% of the segments in the higher income percentiles (the highest 60%) have access to the financial system, whereas among those in the lower income brackets (the lowest 40%), only 42% are banked.

In terms of usage, 53% of adults requested a loan in the previous 12 months, however only 18% requested it from a formal financial institution, whereas the remaining 35% of adults asked their families, friends and/or informal lenders for the money.

On savings, 57% reported having saved some money the previous year, but only 26% did so in formal financial institutions (i.e. the remaining 74% was kept in informal systems, which are less secure). This low rate of use of formal financial institutions is proof that people are prepared to take on high credit costs, and tolerate less security for their savings, in exchange for immediate and easy access, with lower transaction costs for the client, which in many cases offset the other higher costs involved in informal channels.

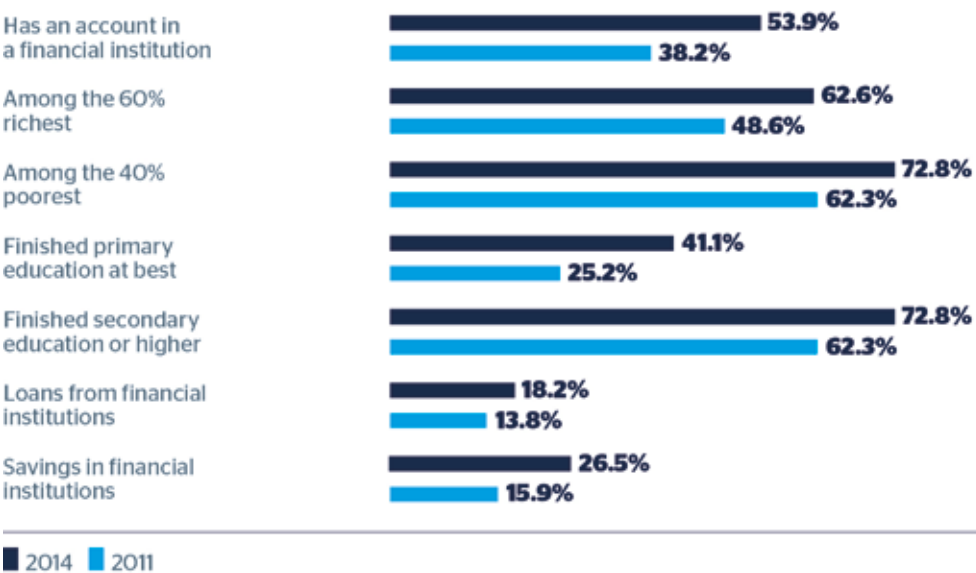


53% of adults applied for a loan in the last 12 months, but only 18% did so through a formal financial institution, whilst the remaining 35% asked family, friends and/or informal lenders.

This is a key issue which needs to be addressed and which, if addressed, could result in a higher use of the financial system for these groups, which carry out most of their activities as self-employed workers in small enterprises.

This is corroborated by the fact that only 14% of adults conduct more than three transactions a month, with most opting to use cash. In fact, 55% of those receiving wages are paid in cash, which would to a large degree account for the difficulties around *cash in-cash out* issues on transactions by institutions working in these segments.■

Financial Inclusion (% adults)



Source: World Bank Global Findex.

Notes (1) Conducted at the end of November 2016. (2) Banco Central de la Dominican Republic (Dominican central bank). Preliminary Dominican economy results, January to September 2016. (3) All estimates at the close of 2016 are by BBVAMF Research. (4) All the data in the section is sourced from the Dominican central bank, Banco Central de la República Dominicana. (5) Ministry of the Economy, Planning & Development (MEPYD in the original Spanish acronym), National Statistics Office (ONE in the Spanish acronym). (6) Source: Ministry of the Economy, Planning & Development. (7) World Bank Global Findex.

Fondo Esperanza **Chile**

Social Performance
Report 2016



**Measuring
what really
matters**

Table of contents

“Where there is a tree to plant,
you be the one. Where there is
a mistake to undo, let it be you.
Where there is a task that
everyone avoids, accept it.
You be the one to remove
the rock from the field”.

The Pleasure of Serving
Gabriela Mistral

Fondo Esperanza Description 334 Management team and board 337	Measuring 2016 Social performance results Our clients 340 Our clients' businesses 344 Our clients' development 346 What really matters Stories of achievement Roberto Luis Rosas 356 Rosa Norambuena 360 José Miguel Jara 364	Special projects <i>School for Entrepreneurs</i> 366
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Improving lives

Fondo Esperanza has been encouraging entrepreneurship in Chile's vulnerable population groups for 14 years. It is the biggest community banking microfinance institution in the country, providing financial services to over 110,000 entrepreneurs. It also runs a number of programs for prisoners in several penitentiary centers.

Fondo Esperanza SpA (Fondo Esperanza) is a development institution that offers microfinance services with the mission of supporting vulnerable entrepreneurs. Its *School for Entrepreneurs* and support networks also provide training to improve the standards of living of entrepreneurs, those of their families and of their communities.

Fondo Esperanza was awarded the *2016 Financial Inclusion Prize* by the *Superintendencia de Bancos e Instituciones Financieras* (SBIF, the banking and financial institutions authority) and the University of Chile. The award was presented by the President of Chile, Michelle Bachelet, for its innovative program *Excluded Segments*. This program started in 2013, when 17 prisoners in Osorno penitentiary decided to put their trust in Fondo Esperanza, in other prison

inmates and in their manual skills to set up an enterprise.

This program gives them the opportunity to of change their future, to bring in income to their families and to show that even though they are serving a sentence, they are capable of re-joining society and making their way in life. The drive shown by these entrepreneurs and the positive outcomes have meant the program has been rolled out in other penitentiaries. In 2015 it was also expanded to include the homeless. The *Excluded Segments* program is an example of Fondo Esperanza's mission to reach out to vulnerable groups who do not have access to the formal banking system, so that they can improve their lives and those of people close to them. The entity won third prize in the *Contribution to Financial Inclusion* category,

an award that promotes education and financial education throughout the country.

The Roca brothers, three Spanish chefs who are well-known internationally and are Goodwill Ambassadors for the *United Nations Development Program* (UNDP), presented *Entrepreneurs à la carte*. This book, published by Fondo Esperanza, tells the stories of its leading characters through their recipes, how they have succeeded in forging a future and bringing up their families thanks to their efforts in the kitchen and their hard work. The publication contains 42 recipes that use the ingredients of popular Chilean cuisine, both mixed and indigenous, highlighting Chile's identity and culinary tradition.

Fondo Esperanza signed an agreement in November 2016 to take part in a program run by Chile's Ministry of Economy, De-

velopment & Tourism, through its Technical Cooperation Service (Sercotec) the *Financial Services in Business Development Centers Program*. That same month the entity signed another agreement, with Óptica Local, so that entrepreneurs from community banks and their families could have free eye checks and get discounts when buying prescription glasses.

Fondo Esperanza develops entrepreneurial activity among Chile's vulnerable population segments. It has been running for 14 years and is the biggest community banking microfinance institution in the country. With 53 branches serving over 110,000 entrepreneurs, it has a footprint in 248 districts stretching from Arica to Chiloé. ■

The *Excluded Segments* program represents a chance for 17 prisoners to change their futures, to bring in income for their families and to show that, even though they are serving a sentence, they are capable of re-joining society and making their way in life.

Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)	N° of employees
64,668,275	560
Amount disbursed in 2016 (USD)	N° of offices
196,807,915	53
N° of disbursements in 2016	People who have received financial education
270,150	110,136
Average disbursement in 2016 (USD)	
729	

Management team and board

Management team		Board
Mario Pavón General Manager	Pablo González Risk Manager	Ramón Feijóo President
Karina Gómez National Office Manager	Zunilda Vergara Operations & Systems Manager	Luciano Magnet Vice-President
Consuelo Herreros HR Manager	Daniela Olfos Development & Service Manager	Jorge Cruz Member
Catalina Valenzuela Administration & Finance Manager	Oliver López Program Manager	Javier M. Flores Member
Pilar Egaña Communications Manager	Fernando Jara Audit Manager	Andrés Silva Member
		Cristian Barros Member
		Juan Cristóbal Member

Measuring

90% of the clients served in 2016 by Fondo Esperanza are classified as *vulnerable*, and 77% are women. A high percentage are entrepreneurs with small businesses and low net incomes, but with high growth rates: both sales and net incomes are expanding rapidly (sales by 33%, net incomes by 54%). The indicators reflect that *poverty* and *vulnerability* are steadily being undermined.



Total clients
110,817
New credit clients
47,602

(1) According to Chile's official poverty line, traditional methodology. Source: Ministry of Social Development. Household income *per capita* resulting from the client's microenterprise's net income. Those clients whose *per capita* income is above the poverty line but below the threshold obtained from multiplying this figure by 3 are classified within the vulnerable segment.

(2) Clients with primary education at best, as proportion of all credit clients.

Total credit clients as of Dec 31, 2016

87%	41%	83%	16%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Under 30 years old

New credit clients 2016

91%	36%	77%	28%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Under 30 years old

Our clients and our scale

Fondo Esperanza continues with its clear mission to provide financial access to *vulnerable* clients: 87% of its clients have net incomes that are less than three times the poverty line.

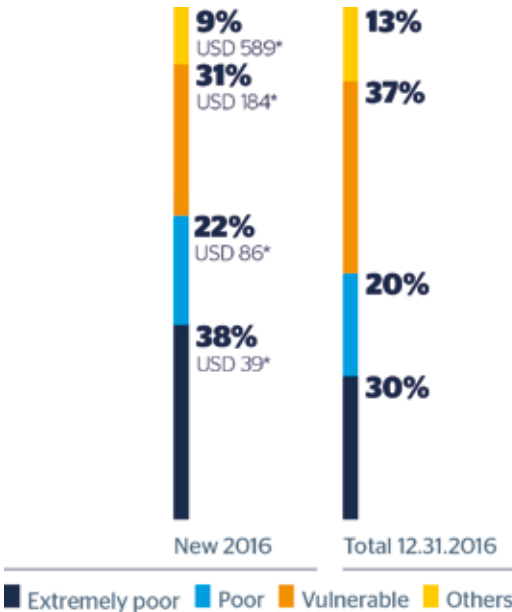


91% of new clients in 2016 live on USD 3.3 per person/day from their microenterprises, while 60%, classified as *poor* get by on USD 1.9 per person/day.

- In a context of low economic growth over the last three years (GDP grew by 1.5% in 2016), Fondo Esperanza is staying firm to its commitment to serve the most vulnerable segments, and has managed to sign up 1.7% more clients than in 2015, of whom 90.6% are classified as *vulnerable*.

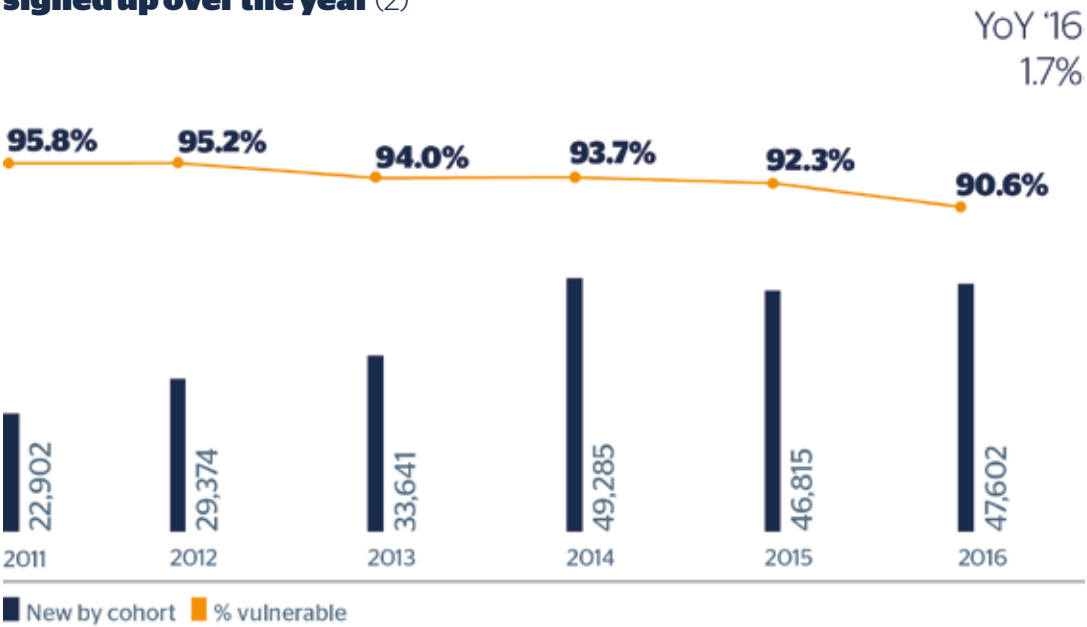
(1) According to Chile's official poverty line, traditional methodology (distinguishing between rural and urban environments). Source: Ministry of Social Development. Household income *per capita* resulting from the client's micro-enterprise's net income. Those clients whose *per capita* income is above the poverty line but below the threshold obtained from multiplying this figure by three are classified within the vulnerable segment.

Clients' economic vulnerability (1)



*Monthly net income per capita.
Source: Fondo Esperanza, BBVAMF calculations.

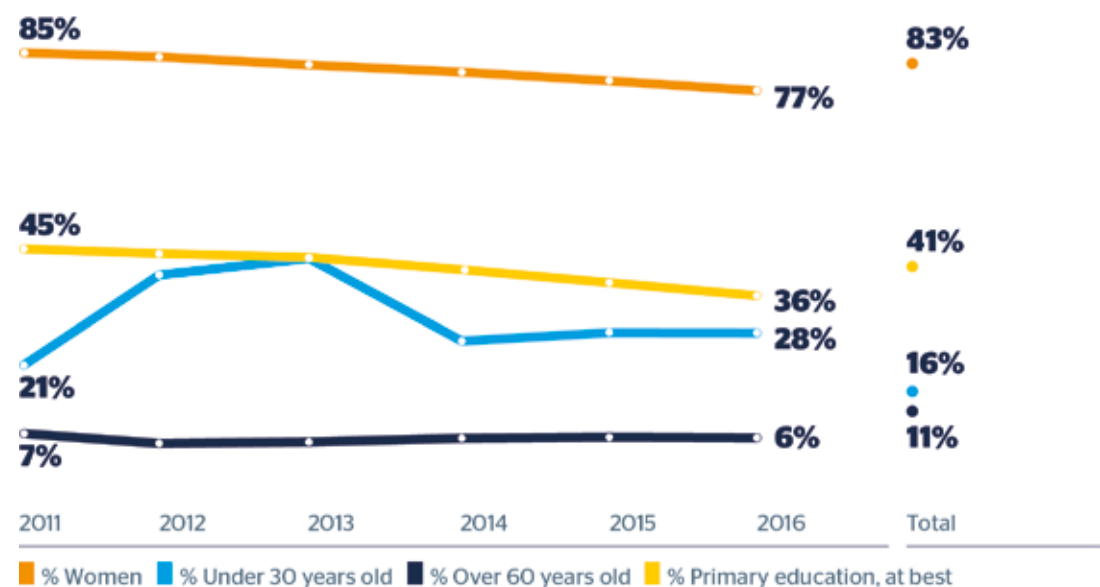
New clients (without previous loans) signed up over the year (2)



Source: Fondo Esperanza, BBVAMF calculations.

(2) New clients (without previous loans) signed up over the year.

Profile of our clients (3)



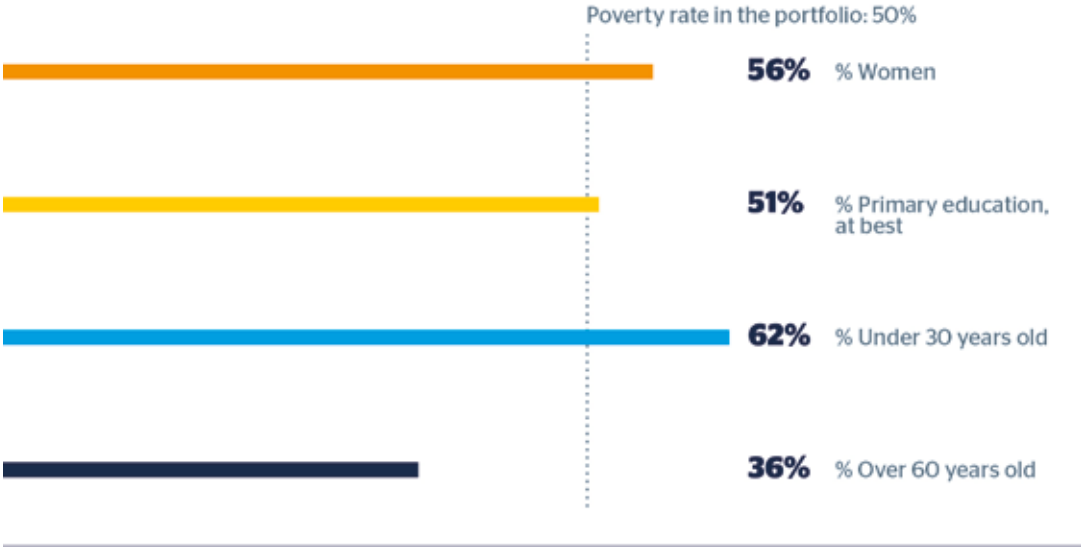
Source: Fondo Esperanza, BBVAMF calculations.

Women (56% of whom are classified as poor), represent 77% of new clients served. Fondo Esperanza has the highest proportion of women in its portfolio (83%) of all the institutions in the Group.

- Those with no education beyond primary also have a high degree of vulnerability (51% live below the poverty line). This category accounts for 36% of new clients.
- Because their businesses are small, new clients' average monthly sales are low, although they have grown in recent years. Over time, the average first disbursement to new clients has grown at a similar rate to their sales, so the weight of the payment installment over sales has remained stable.

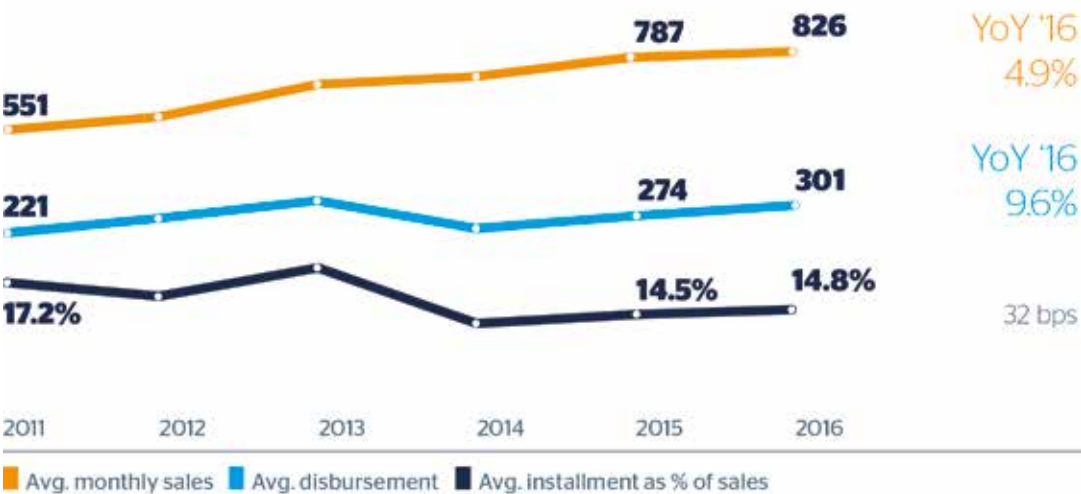
(3) New clients (without previous loans) signed up over the year. Total represents the entire portfolio current as of 12.31.2016.

Poverty profile (4)



Source: Fondo Esperanza, BBVAMF calculations.

New clients' sales, disbursements USD & weight of installment (5)



Source: Fondo Esperanza, BBVAMF calculations.

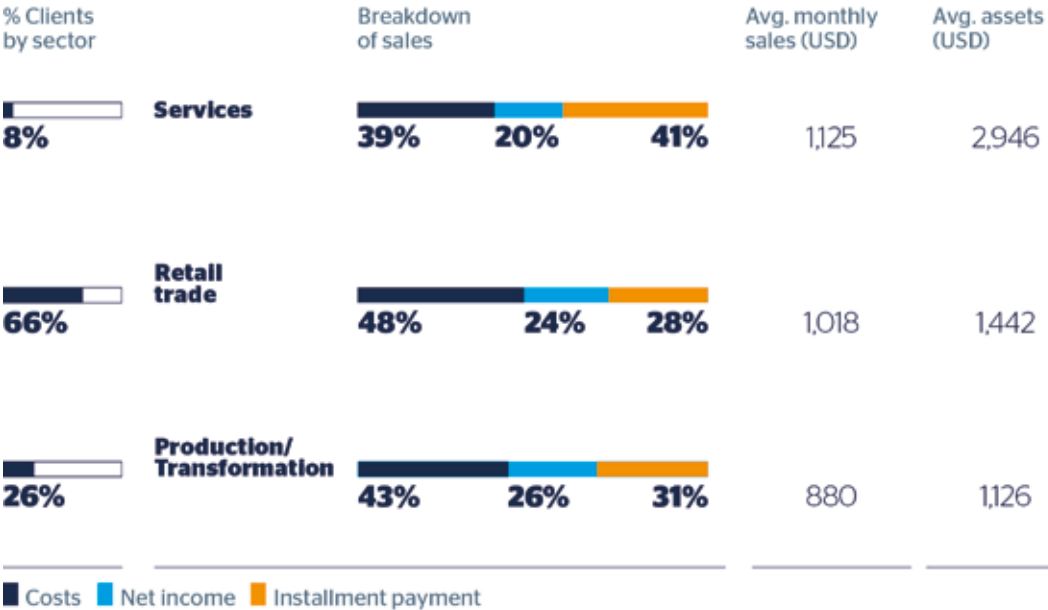
(4) Clients current as of 12.31.2016
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

Our clients' businesses

Due to the focus on the vulnerable, targeted clients' activities require low initial investments and limited educational and technical requirements, and therefore operate principally in the *trade* sector.



Average margins, sales and assets, by sector (6)



(6) Clients current as of 12.31.2016.

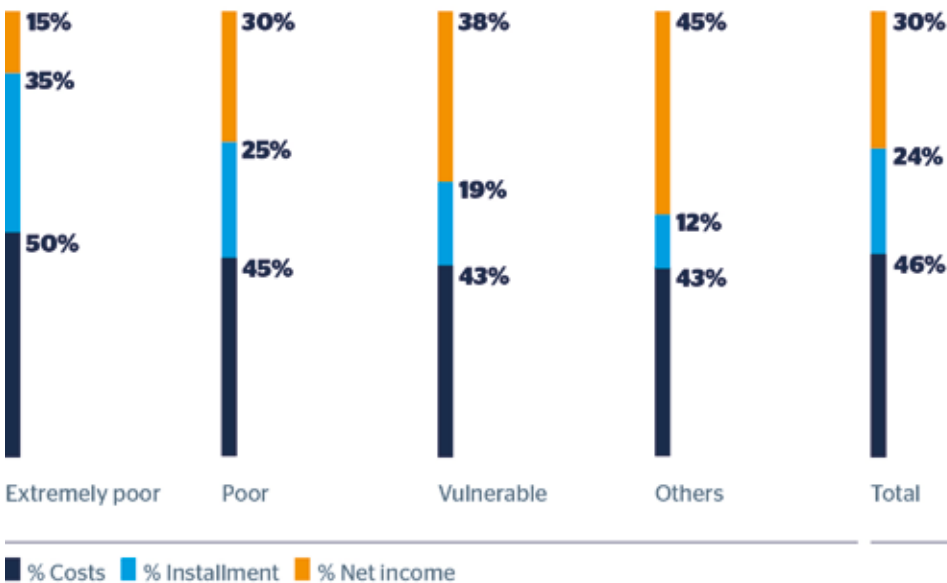
Source: Fondo Esperanza, BBVAMF calculations.

- Given the vulnerability of Fondo Esperanza's microentrepreneurs, most of them work in *retail trade* and, to a lesser degree, in *production/transformation* (manipulation of foodstuffs, textile manufacturing, handcrafts and such like). The MFI's sign-up rate of clients in these sectors has remained very stable.
- The *service* sector enjoys the highest margins (41% of net income over sales after paying the loan installment), while *trade* is the segment with the lowest margins (28%) in line with the trends in other Group institutions.
- Most Fondo Esperanza clients work in activities that require low levels of initial investment and little training or skills.

For the client base as a whole, net income levels after paying the loan installment remain at 30%.

- Fondo Esperanza's deep involvement has translated into serving very small businesses and originating back-to-back short-term loans, which has an impact on the weight of the payment installment.
- As the enterprises become less vulnerable (generally as they get bigger) they succeed in making their businesses more efficient and in generating high net incomes against sales: costs account for 50% of sales for the *extremely poor*, and fall to 43% for *others*.

Expenses and margins as % of sales, by vulnerability (7)



(7) Clients current as of 12.31.2016.

Source: Fondo Esperanza, BBVAMF calculations.

Our clients' development

The small size of clients' enterprises means that inevitably efficiencies are not high, but they do have the capacity to generate high levels of growth in percentage terms.



- Fondo Esperanza is above all a supplier of group lending (community banking). As such, its loans tend to be shorter term: clients will have renewed a loan several times by the time they have been with the institution for a year. For this reason, its retention levels are lower than those of other institutions: after two years, the average is 31%.
- 75% of clients access a second loan with Fondo Esperanza; this indicator is higher than in other Group institutions precisely because of the shorter loan terms.
- On average, 28% of clients have taken out nine or more loans with the institution.

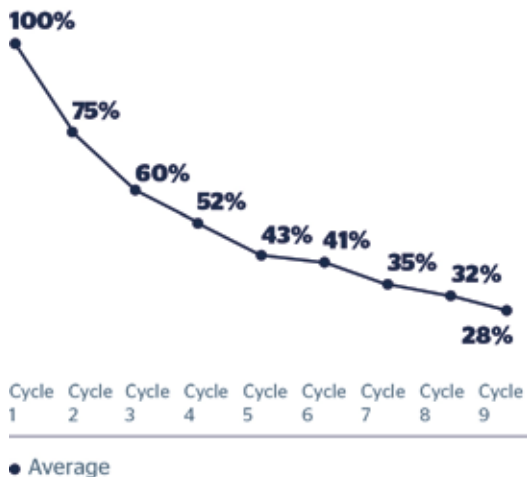
(8) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention
(by cohort) (8)



Source: Fondo Esperanza, BBVAMF calculations.

Credit client recurrence (9)



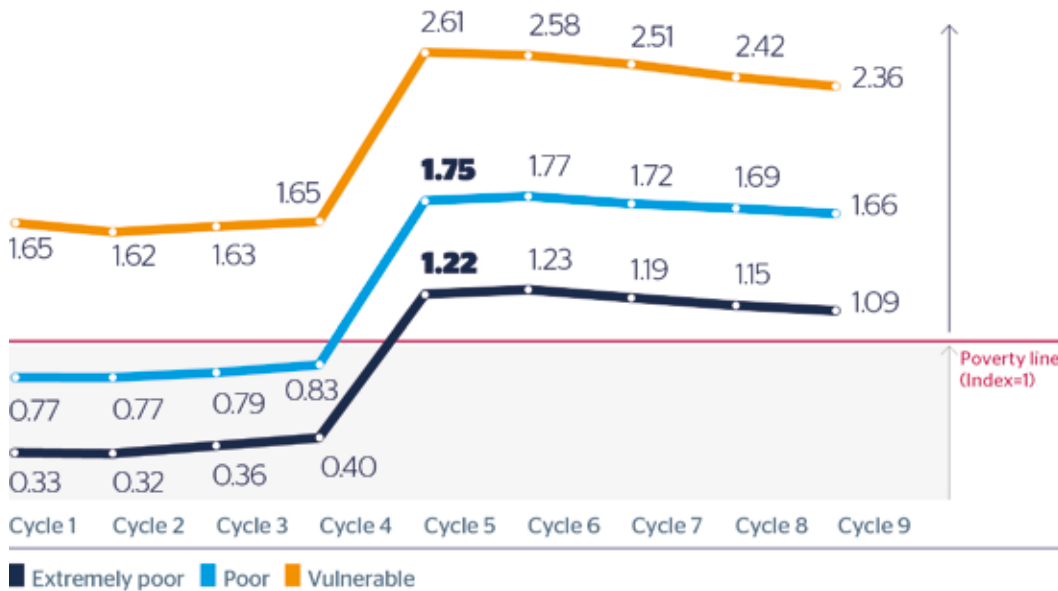
Source: Fondo Esperanza, BBVAMF calculations.

- In Fondo Esperanza, economic data about entrepreneurs is only updated after the client's fourth or fifth loan (after they have been with the bank for about a year and a half), so this is the moment when the clients' gains become visible.
- After this period, we can see how, on average, clients' *per capita* net incomes rise. Clients that were classified at the outset as *poor* or *extremely poor* break through the poverty line.
- Clients who were initially classified as *vulnerable* have shortened the distance from the "ceiling" of *vulnerability* (3 times the poverty line income figure).

(9) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle 1 and 2 is 161 days, between cycle 2 and 3 is 155 days; between cycle 3 and 4 is 157 days, between cycle 4 and 5 is 153 days, between cycle 5 and 6 is 152 days, between cycle 6 and 7 is 150 days, between cycle 7 and 8 is 294 days, and between cycle 8 and 9 is 290 days.

(10) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of 1 when it is the same as the poverty line.

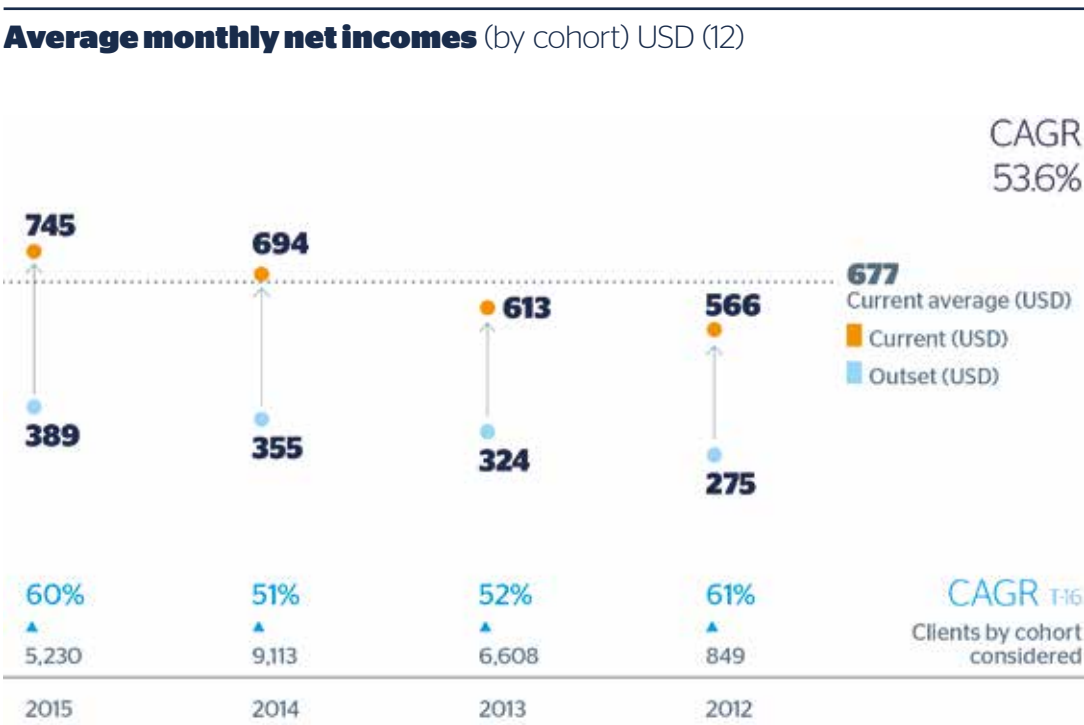
Per capita net income relative to poverty line (10)



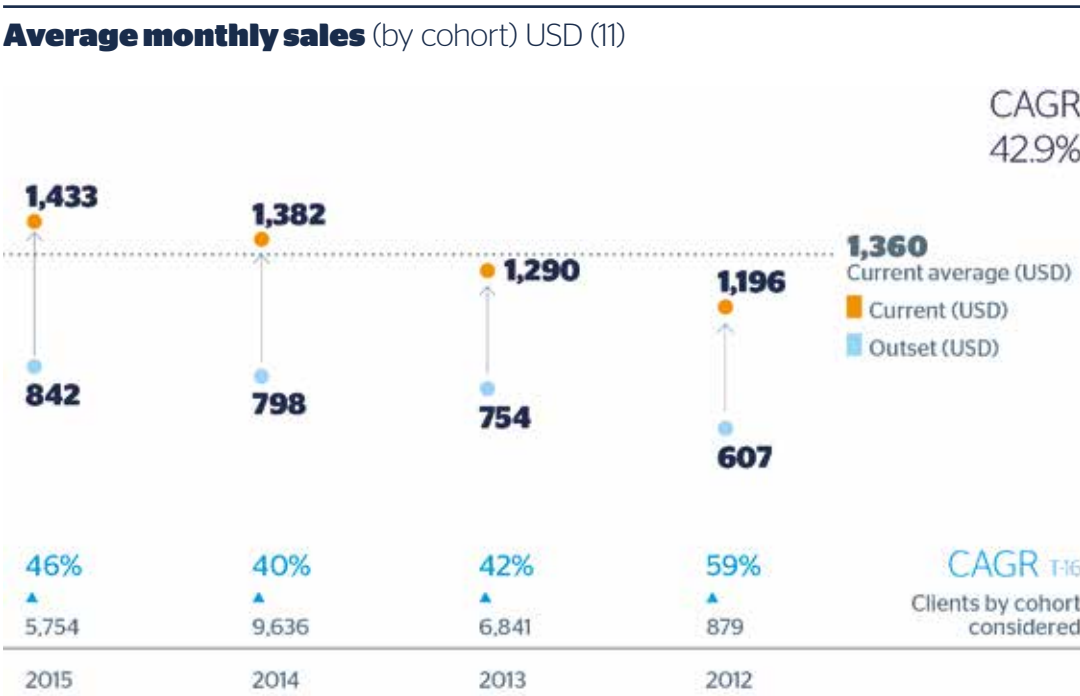
Source: Fondo Esperanza, BBVAMF calculations.

Small businesses have the capacity to grow a lot in percentage terms: on average, 43% annually for sales, 54% annually for net incomes and 27% annually for assets.

- Clients included in the sample are those who have updated their economic information after the fourth/fifth disbursement, and are particularly vulnerable clients. They have very low sales, net incomes and assets (compared to other institutions in the Group), a reflection nevertheless of high growth rates.

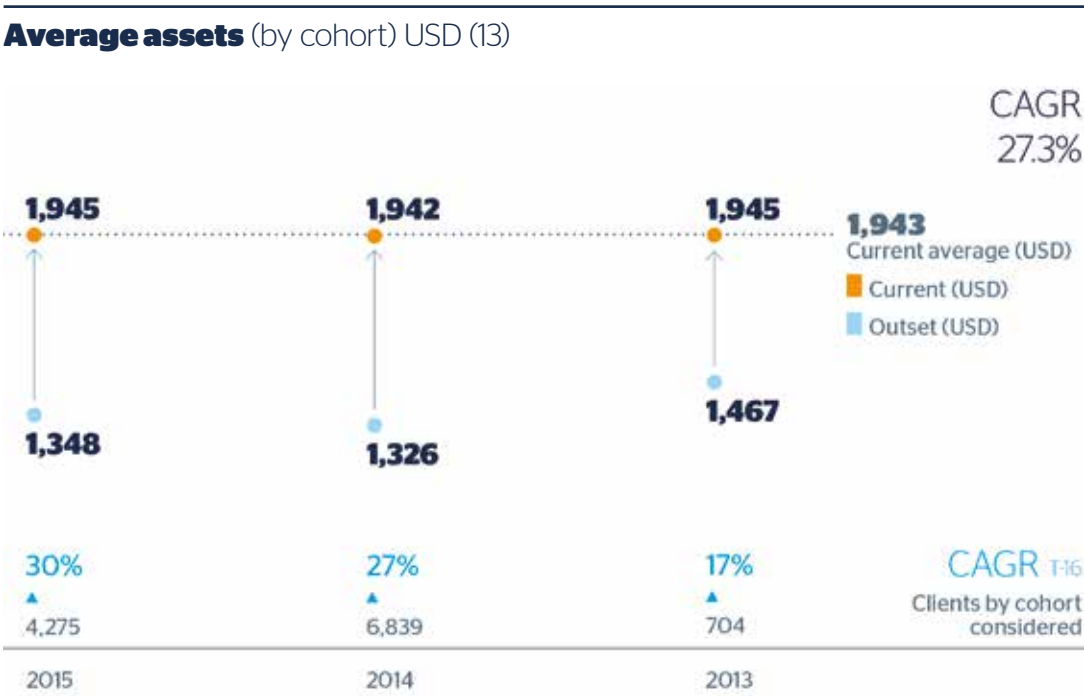


Source: Fondo Esperanza, BBVAMF calculations.



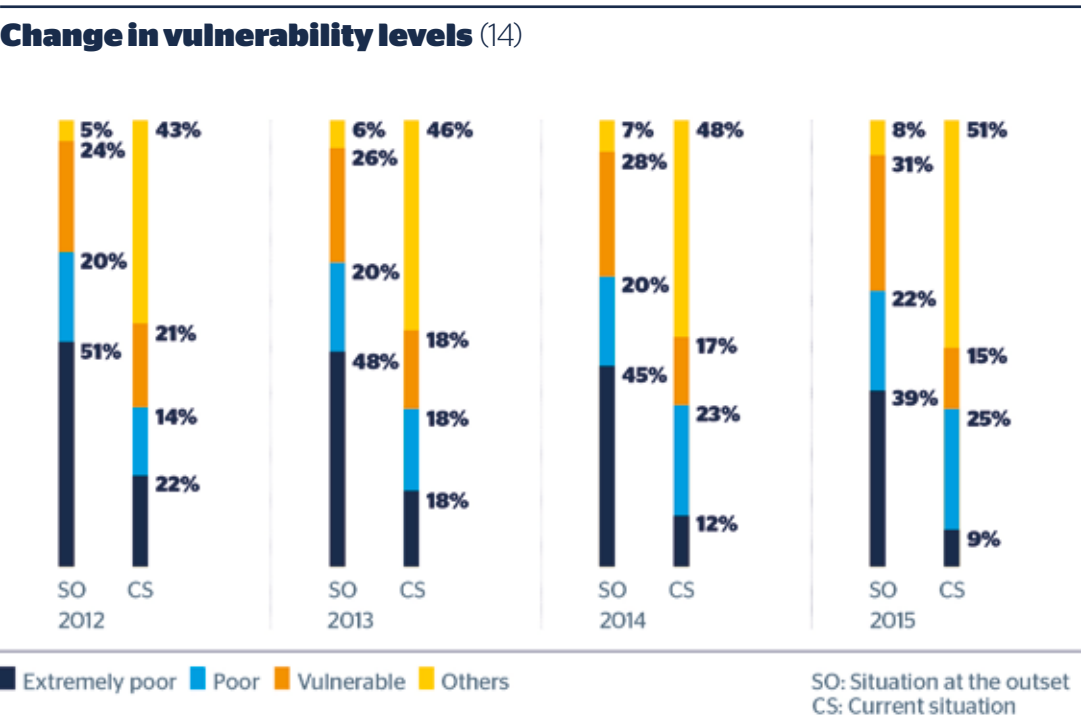
(11) Data on clients current as of 12.31.2016, and who have made another disbursement with the corresponding update of their economic information. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Source: Fondo Esperanza, BBVAMF calculations.



(12 & 13) Data on clients current as of 12.31.2016, and who have made another disbursement with the corresponding update of their economic information. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Source: Fondo Esperanza, BBVAMF calculations.



(14) Situation at the outset (SO) and the current situation (CS).

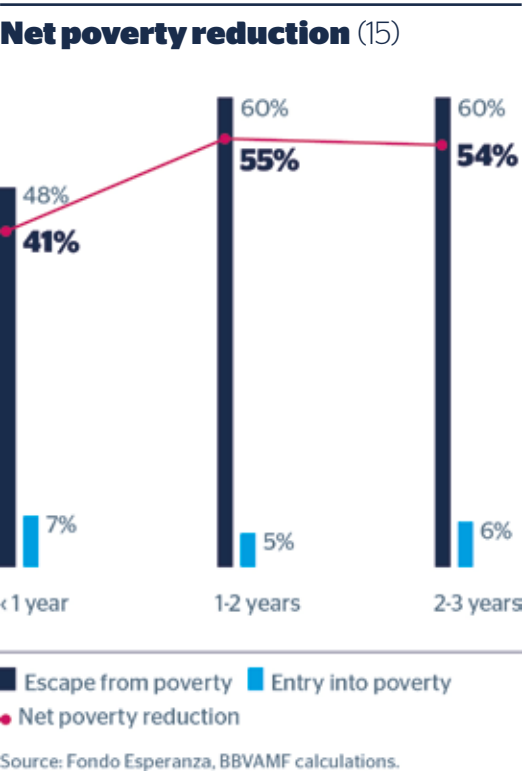
Clients who have been current at some point during 2016, and who have updated their economic information. Clients who have been written off are not classified as having escaped poverty.

(15) Clients who have been current at some point during 2016, and who have updated their information. Clients who have been written off are not classified as having escaped poverty.

• **Escape from poverty:** Clients classified as *poor* at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as *poor* at the outset.

• **Entry into poverty:** Clients classified as *non-poor* at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as *poor* at the outset.

• **Net reduction:** escape from poverty, less entry into poverty.

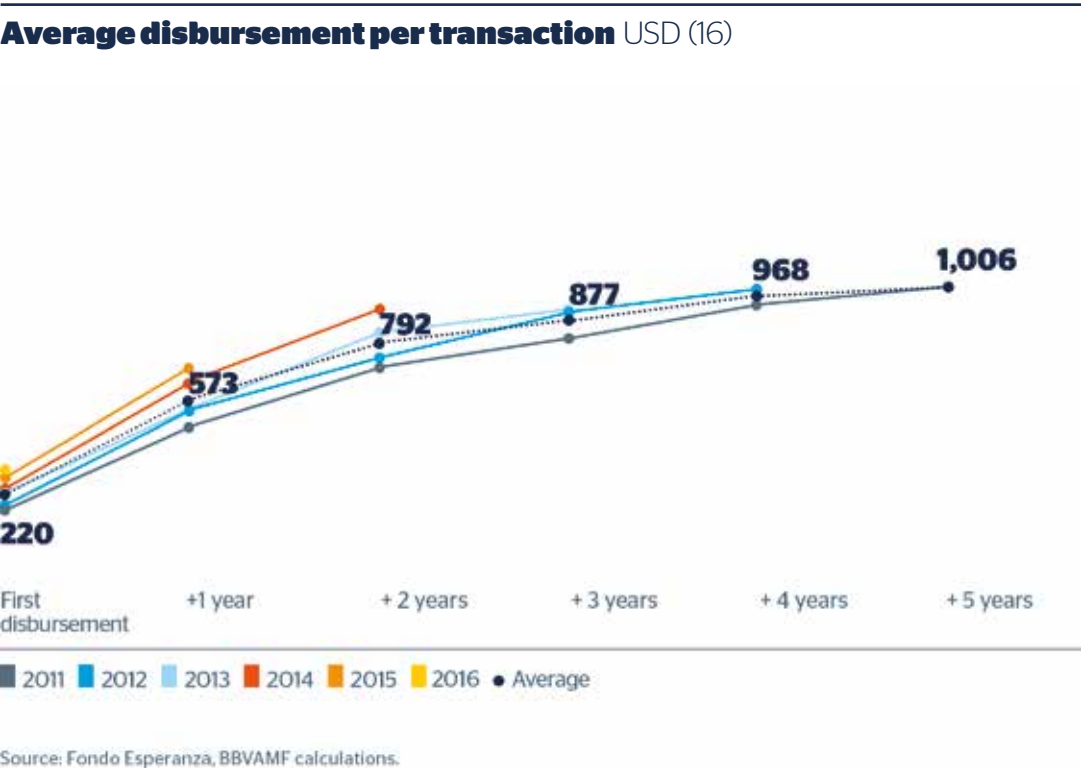


• Of the clients assessed by Fondo Esperanza (after the fourth loan), the *poor* and *extremely poor* segments perform positively: in their second year with the institution, these segments shrink by 55%.

• Some clients who at the beginning had net incomes above the poverty line, do in fact slip back down again, although this represents a very small proportion.

Initial disbursements grow over time (without discounting for inflation), but YoY growth rates are stable, reflecting the policy of protecting clients against over-indebtedness and of providing more financing gradually.

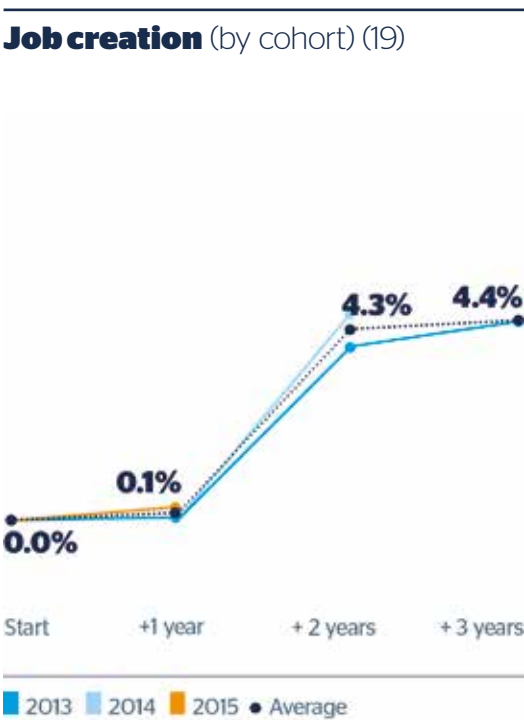
- In 2016, over 10,700 clients raised their net incomes, of whom 5,248 succeeded in climbing up over the poverty line.
- Disbursements increase sharply in the first few years, and then stabilize just below USD 1,000: this appears to be the average maximum indebtedness capacity of clients served by Fondo Esperanza.



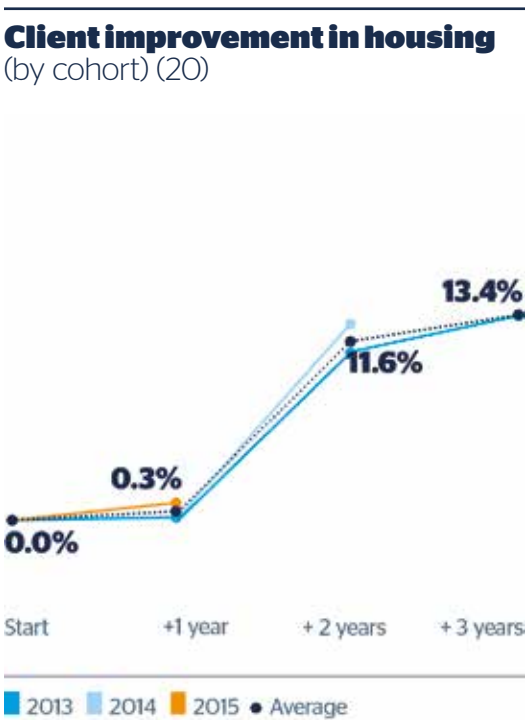
(16) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.

- An average of 4.3% of credit clients take out a voluntary insurance policy, more than in 2015. Although this percentage may appear to be low, it has increased steadily over time in line with the creation of microinsurance products for clients (for more detail, see the *Microinsurance* special project).
- The most vulnerable clients are rarely able to create jobs (only 7% take on an employee), but less vulnerable clients employ someone else in 18% of cases. Consistent with the trend throughout the Group, clients' enterprises are for self-employment.

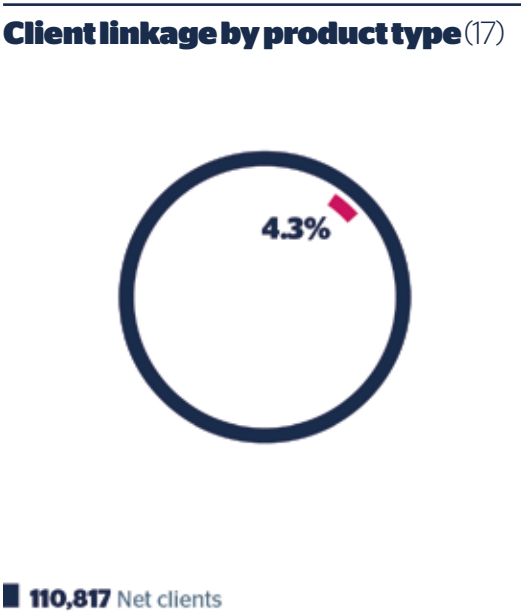
The high percentage of women served influences the use of net incomes to improve the home; so after three years, 13.4% of clients have made improvements to their homes. These investments help to alleviate the housing deficit.



Source: Fondo Esperanza, BBVAMF calculations.



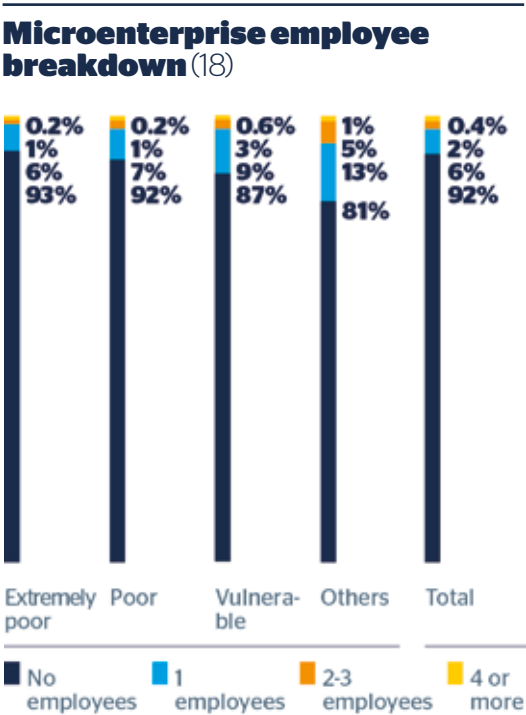
Source: Fondo Esperanza, BBVAMF calculations.



■ 110,817 Net clients

■ Voluntary insurance coverage

Source: Fondo Esperanza, BBVAMF calculations.



Source: Fondo Esperanza, BBVAMF calculations.



Source: Fondo Esperanza, BBVAMF calculations.

(17) Clients current as of 12.31.2016.
(18) Number of employees in the enterprises of clients current as of 12.31.2016.

(19) Increase in the number of employees in the microenterprise compared to the situation at the outset, for clients current as of 12.31.2016, in each cohort. Averages from cohorts between 2013 and 2015.
(20) Proportion of clients still current as of 12.31.2016 in each cohort who have improved their housing conditions, from rented to owned. Averages for cohorts 2013-2015.
(21) Proportion of clients current as of 12.31.2016, from each cohort that have improved their educational attainment. Averages for cohorts 2013-2015.

- Substantial changes start to become visible in the second year, when clients are in their fourth/fifth disbursement and update their data in Fondo Esperanza's systems.
- Entrepreneurs' good performance has meant that after three years, 4.4% of clients have created jobs in addition to the one(s) at the outset, increasing the impact that their businesses have in their communities.
- After three years with the institution, around 5% of clients are able to improve their educational attainment, another critical factor to further their progress.

What really matters

These are just some of the stories of achievement that demonstrate the success of Fondo Esperanza's work.

The fact that he is a prisoner does not prevent Roberto Luis Rosas from fashioning wooden craft objects, which his wife then sells to other workshops. When an earthquake destroyed her workshop, Rosa Norambuena decided to seek help from Fondo Esperanza. She set up her business all over again and now provides employment for two other people. José Miguel Jara studied to be a History and Geography teacher. Knowing that he is useful encourages him to carry on trying to integrate vulnerable people and those on the margins into society.



Bars do not lock out hope

Roberto Luis Rosas is an artisan who, with his companions in Osorno penitentiary, makes furniture that is then sold in stores. Fondo Esperanza's loans enable him to spend his time on crafting these, so that his wife can sell his pieces to other workshops. Thanks to his work in prison, his family has enough to live on.

Roberto's workshop smells of freshly sawn wood and the floor is covered with sawdust. Furniture and decorative objects come to life in his hands and wood is transformed into boxes, pencils and wall clocks. He is a craftsman and, with his companions, he makes pieces of furniture that are then sold in stores. He doesn't have his own business, he has not even met his customers. His workshop is in an association room in Osorno penitentiary center, where he is serving his sentence. With craftsmanship, he is trying to carve out his future.

In 2013 he joined the *Segmentos Excluidos* [Excluded Sectors] program, with which Fondo Esperanza supports the most vulnerable: the homeless and the incarcerated.

"I learned about Fondo Esperanza through the Prison Gendarmerie and I was keen to apply for this possibility that they give to those of us prisoners who want to make a go of our lives", remembers Roberto, who belongs to the community bank *Unión, esfuerzo y trabajo* [Union, effort & hard work] formed in the jail with other prisoners.

At first, he sold furniture wholesale. Now he makes artisan pieces for a smaller market. He is painstaking and a perfectionist, sculpting the wood in its natural state so that his wife can sell his pieces to workshops that then decorate and paint them. Roberto knows that thanks to his work in prison his family has enough money to live on. He knows that his good behavior is essential



Name: Roberto Luis Rosas.
Age: 57.
Activity: Craftsman in wood.
Location: Osorno Penitentiary Center (Chile).
Total loans: Since 2013, four loans for a total of USD 1,687 (CLP 1,100,000).
Other products and services: Microloans, financial education courses, support networks and microinsurance.

Scan the
QR code and
discover
the story of
Roberto Luis





Roberto has found an escape route with his carpentry.



In the workshop the inmates learn a trade that will give them a future when they leave jail.

“We have achieved a great deal and are the living proof that if you want to, you can do it”.

if he is to hang on to the opportunity to be an entrepreneur that Fondo Esperanza has given him, and he spends his time exclusively on the orders that come in.

In the last twenty years, his wife, María, has not missed a visit one single day. Roberto chokes up when he talks about her, saying that she is his light, his pillar, his hope. Together they want to open a bazaar in his home. “I want to set up a business and

carry on this activity because it helps me a lot. Not just me either, but my companions too. They have the same plans as me: to pull themselves up and demonstrate that we are people. The fact that we are locked up doesn't prevent us from having aspirations”, he explains.

“My quality of life has improved considerably thanks to Fondo Esperanza. I support my family and hope never to go back to prison. I would recommend this institution because it is an enormous help to those of us without resources. We have achieved a great deal and are the living proof that if you want to, you can do it”, explains Roberto, as he carves a piece of wood, turning it into a tiny house for keeping your keys.■

Rosa's bricks: clay, sun and courage

When Rosa Norambuena decided to manufacture bricks she had to deal with an additional challenge: she was starting a job that was viewed as being only for men. But she did it, and with some other friends, became one of the first women in this sector in Cauquenes (VII Maule region).



Scan the
QR code and
discover
the story
of Rosa



Ever since she started, 17 years ago now, Rosa saw the business opportunity in making bricks: “I started with a company and for the last eight years I have been doing this on my own. Some women friends and I decided to learn the trade from the experts. I managed to keep myself going with the help of programs, my own funding and help from friends”, she reminisces, sitting on one of the enormous piles of bricks that are drying in the intense sun.

But an earthquake in 2010 snatched everything from her: she lost her house and her business. The machines, the tools and the raw material were all destroyed. Rosa needed to get her life back and help from the government was not forthcom-

ing. So she decided to go to Fondo Esperanza for funding and to get the factory going again. In just two months, she was already a member of the community bank *Santa Sofía con esperanza y esfuerzo* [Saint Sofia with hope and effort], which gave her the boost she needed to carry on expanding as a microentrepreneur and to consolidate her brick business. “It was a great help, it arrived at just the right time”, she says, convinced.

Thanks to Fondo Esperanza's financing she could reduce her debts and buy the hoses, brick molds and forklifts with which she works now with her employees, who fill in the molds by hand and stack the bricks in the sun so that the clay hard-

ens. “My experience with Fondo Esperanza has been an enriching one because of the confidence and respect they have shown me right from the beginning. Before they came along I had no support and nobody treated me so well, their values have changed me”, she explains.

Rosa encourages other Chilean women to follow her example, to fight for their dreams without caring whether they are in a world which may appear to be led only by men. “I invite all entrepreneurial women to get motivated and go to the offices of Fondo Esperanza; it is a great opportunity to become women who make a contribution to the country, not just at home, but also outside it”.

“You have to organize yourself and have a vision for the future”, she says, proudly. That is why she attaches so much value to the courses that the BBVA Microfinance Foundation institution has given her, which

“Fondo Esperanza is the cornerstone I need in all my plans in order to reach my goals. This institution is the anchor from which I set my goals and I am going to achieve them”.

Name: Rosa Norambuena.

Age: 43.

Business: *Rosita*, brick factory for the construction industry.

Location: Cauquenes, VII Maule región (Chile).

Employees: Two and two other relatives

Total loans: 15 loans, totaling USD 10,575 (CLP 6,919,314).

Other products and services: Microloans, financial education courses, network support and microinsurance.

To highlight: Schooling to secondary level. Single, no children. Is on the *Female heads of household* program run by Sernam, through a Maule Catholic University program, with Fosis and Sercotec funds.

“I have lived through an experience with Fondo Esperanza that has enriched me thanks to the confidence and respect they showed in me right from the beginning. Before I met them nobody supported me”.

have enabled her to improve her enterprise management. “Before, I didn’t know what a School for Entrepreneurs was. Nobody had explained what fixed and variable costs are... all this helps my business go better”, points out this natural entrepreneur.

To expand her business and sell bricks further afield, Rosa wants to buy a vehicle. Her dream has no limits and she is already thinking about exporting to other countries: “Fondo Esperanza is the cornerstone I need in all my plans in order to reach my goals. This institution is the anchor from which I set my goals and I am going to achieve them”, she concludes.■



Rosa with her employees, filling the molds by hand and stacking the bricks to harden in the sun.



Rosa smiles as she thinks of the promise her future holds.

A teacher who learns every day

José Miguel Jara studied to be a History and Geography teacher. What he learned has helped him in his job at Fondo Esperanza, where he enjoys contributing to the progress made by entrepreneurs who want to get ahead, and helping them make their dreams come true. Knowing that he is useful to those who have the least encourages him to carry on pushing himself to be useful to vulnerable, marginalized people.

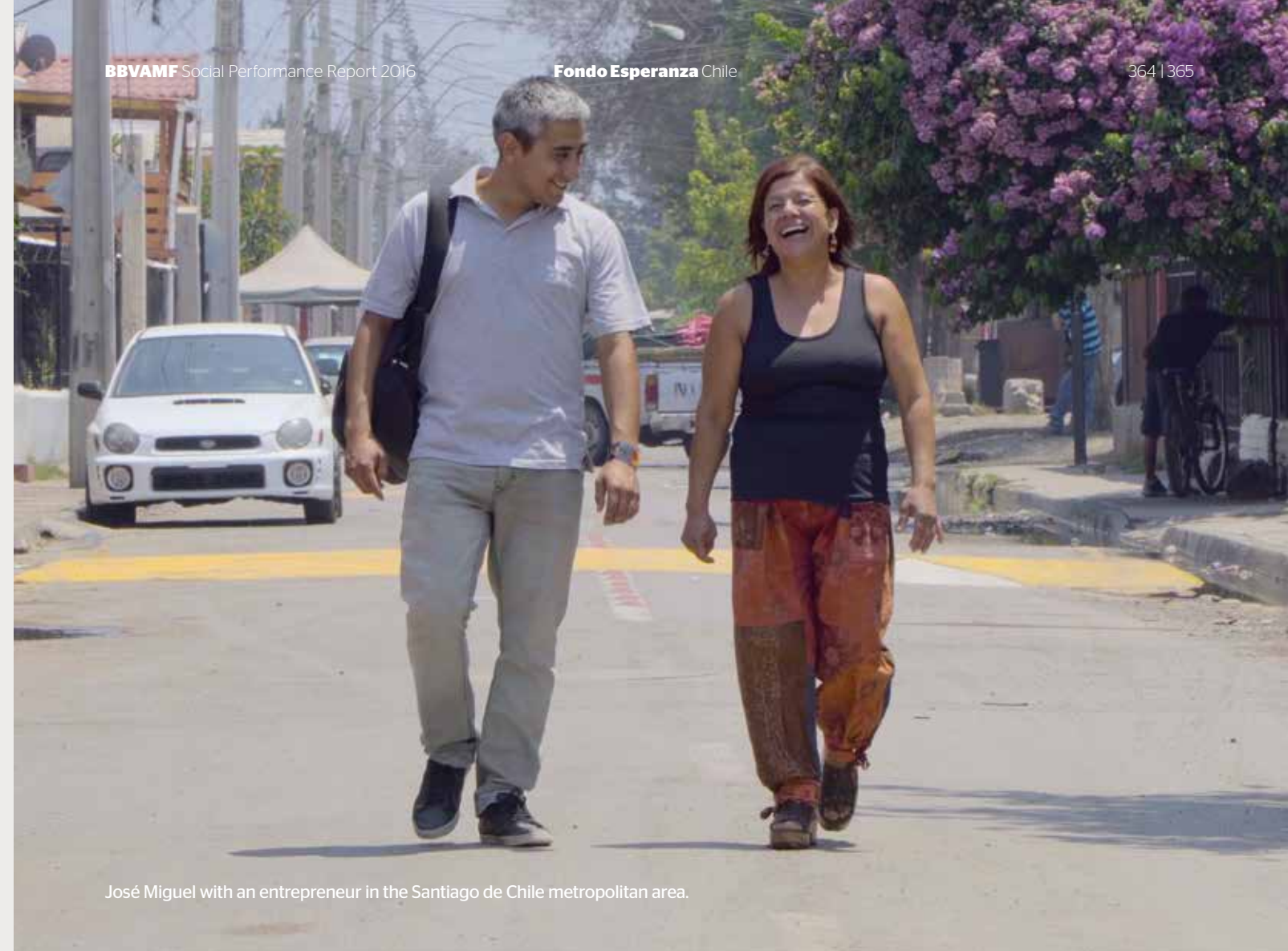
“In Fondo Esperanza you can do an important job, it is worth the effort”, says José Miguel with conviction. He has been a loan officer for this institution’s community bank since 2011. Although he never worked as one, he studied to be a History and Geography teacher. His training helped him to be a better professional. “I managed to achieve an interesting fusion between my love of teaching with the institution’s educational model. At the beginning the fact that I was working with adults was a stimulating challenge because it was a field in which I lacked experience”, he comments.

Full service

The first community bank he worked at, *Camino al Cambio* [Journey to Change], welcomed his group very warmly. “It was really

admirable, they received us so enthusiastically. The response from all the entrepreneurs was remarkable too; they met their obligations 100% and were never behind with their payments”. The community bank loan officers organize meetings with the people living in the communities in their homes, as well as visiting them at their places of work, which is the activity that José Miguel likes best.

He is pleased to be working in the field and to be learning about the reality of the people to whom he is providing full service care. He knows that it is in his power to bring about positive change in their lives and those of their families. He advises entrepreneurs in the metropolitan region of Santiago de Chile, Colina, Lampa and Tiltill, in an office that serves nearly 1,200 members, in around 60 community banks.



José Miguel with an entrepreneur in the Santiago de Chile metropolitan area.

He also looks after the prisoners in the Colina penitentiary who are on Fondo Esperanza’s *Segmentos Excluidos* program. Thanks to this entrepreneurial initiative, targeting the most vulnerable sectors, such as penitentiaries and the homeless, prisoners

can set up community banks in order to create opportunities for themselves when they are out of jail.

José Miguel is 32 years old, father of two small children and tells us how his family is a cornerstone in his life, with whom he learns something every day. Knowing that he is of use to those who have the least drives him to carry on making an effort, putting the best of himself into the task to help those who are vulnerable and on the margins. ■

What he most likes about his job is that he learns something every day and feels useful, bringing about positive changes in the lives of entrepreneurs and their families.

‘School for Entrepreneurs’, financial education and beyond

The *School for Entrepreneurs* supports all-round development for the most vulnerable entrepreneurs, with training that not only helps clients to access financial services, but also makes available resources that enable them to build on their empowerment, their business development, social capital and their family’s welfare in order to achieve success in their enterprises.

From its beginnings, Fondo Esperanza has developed a specific model in which its clients’ all-round education is a key part of the institution’s value proposal. Training courses, which are a response to clients’ needs, have the aim of encouraging the all-round development of entrepreneurs taking part in its community banking program.

The first educational workshops run by the institution focused on issues such as self-esteem and personal development. In 2006 the education offered by Fondo Esperanza was subjected to a full assessment by the clients themselves, employees and experts. As a result of this the School for Entrepreneurs was born in 2007, and holds the following key principles:

- An education model for adults that keeps the entrepreneurs center stage, encouraging their empowerment at all times.
- A participatory and flexible program, where the clients themselves choose from a curriculum the areas that they want to develop.
- Continuous assessment throughout the program.

The subjects studied at the school are frequently reviewed in order to ensure they meet clients’ needs. To date, there are four main development blocks, each with its respective modules:

- Empowerment
- Business development
- Social capital
- Family welfare

This training, which is aimed at the most vulnerable (88.2% of clients are *vulnerable*⁽¹⁾ according to the MIDE classification), is an integral part of the community bank’s loan processes, and is provided to clients on a rolling basis.

Entrepreneurs receive training designed around:

- Promoting the entrepreneur’s all-round development.
- Contributing to the growth and retention of a stable income.
- Contributing to develop a savings mentality and avoiding over-indebtedness.
- Reinforcing entrepreneurs’ empowerment, making them the main players in their change process and that of their communities.
- Contributing to the financial inclusion of entrepreneurs.
- Helping to build development opportunities for entrepreneurs.

During 2016, training was given to 110,136 entrepreneurs, with 47,982 hours of education given to over 5,100 community banks.

Impact assessment

Fondo Esperanza has proprietary methodology for measuring its clients’ progress and improvement; this involves a quantitative impact assessment when the client applies for their first loan, and this is conducted again or reviewed after the client has been with the institution for 18 months. This assessment was implemented in October 2012 for new clients and in 2014 for clients after their first year and a half, which enabled each of the areas analyzed to show a progression. This client assessment at two different moments meant that it was possible to see any improvements there might be in their standards of living and businesses. In 2016 (from January to September) 11,603 clients who applied for a fifth loan (and who, as such, had been with the institution for about a year and a half), and who had an evaluation from their first, were assessed.

The figures show that financial education has most impact on two particular areas: client empowerment (increasing the importance their opinions are given within the family), as well as issues more related to managing programs and accounts.

The dimensions assessed, using the Social Indicator Scoreboard (SIS), are:

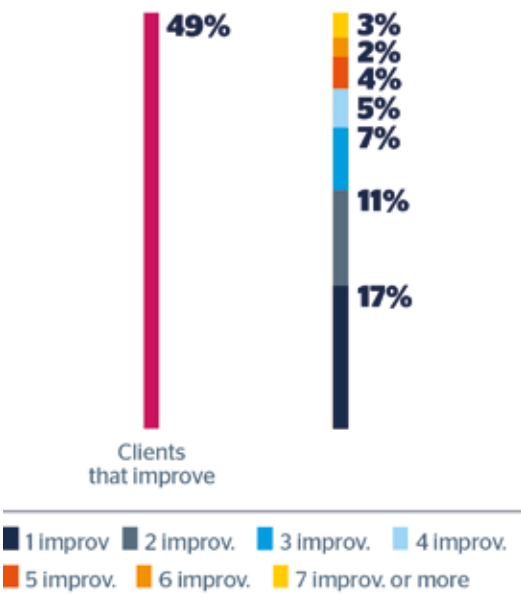
- Business development: improvements and development of their enterprise.
- Empowerment: personal or individual development of each entrepreneur.
- Family welfare: rise in the family’s standard of living.
- Social capital: positive links with the local community, analyzing the relationships between social groups.

Each of these dimensions includes quantitative and qualitative variables; altogether, 33 variables are assessed between cycle one and cycle five. The following 11 qualitative variables have been identified as having a more direct connection with the all-round education received by clients: (*see next page*).

Variables for measuring the impact of the School for Entrepreneurs (a)

Business development	Whether they record business sales and profits.
	Whether they keep family and business accounts separate.
	Frequency or constancy in monitoring expenditure.
	Clear vision as to how to make the business grow.
	Whether, on starting a new project or task, they first collect all information available about how to go about it.
	Whether the possibilities of success or failure are assessed beforehand.
	Whether, on starting a project, the tasks involved are planned beforehand.
Family welfare	Whether budgets for household expenditure are compiled.
Empowerment	Whether they feel they have the ability to develop the business.
	Whether they feel that their opinion is important when family decisions are being taken.
	Whether they often become the leaders of the groups in which they take part.

Clients assessed in the fifth cycle who show improvements (b)



Source: Fondo Esperanza Social Indicator Scoreboard as of September 2016. Collated by BBVAMF.

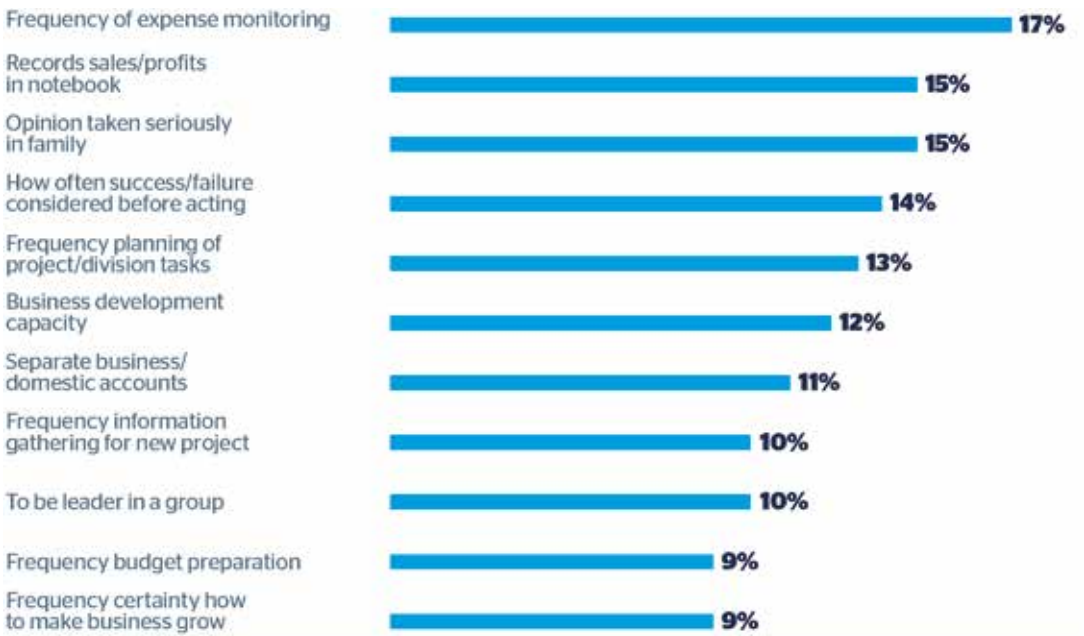
(b) Proportion of clients in their fifth cycle during 2016, assessed by Fondo Esperanza through its Social Indicator Scoreboard, who have improved in any of the variables being analyzed.

Between January and September 2016, of the 11,603 clients assessed, 5,650 (49%) showed some improvement.

The figures reveal that financial education impacts the most on two particular areas: client empowerment (increasing the importance their opinions have within the family), as well as issues more related to the business and accounts, such as monitoring business expenses or starting to record sales and profits in writing.

If we analyze the relationship between those variables in which clients show an improvement, we see that the strongest correlation is between business development variables: clients with training have increased the frequency with which they conduct analysis and collect information before going forward with a project (DN5), they have also often made progress in assessing the likelihood of success or failure (DN6) and they plan and share tasks to achieve a goal (DN7).

Areas in which clients improve (c)



Source: Fondo Esperanza qualitative analysis, Social Indicator Scoreboard (SIS) as of September 2016. BBVAMF analysis.

Correlation between variables (d)

	DN1	DN2	DN3	DN4	DN5	DN6	DN7	BF1	EM1	EM2	EM3
DN1		0.34	-0.01	0.02	0.03	0.04	0.02	0.01	0.02	0.02	0.02
DN2			0.02	0.03	0.04	0.04	0.03	0.01	0.03	0.02	0.01
DN3				0.34	0.27	0.28	0.29	0.24	0.15	0.16	0.15
DN4					0.38	0.37	0.35	0.23	0.22	0.21	0.18
DN5						0.46	0.41	0.24	0.19	0.20	0.17
DN6							0.42	0.25	0.22	0.22	0.19
DN7								0.25	0.18	0.17	0.15
BF1									0.15	0.14	0.13
EM1										0.35	0.30
EM2											0.30
EM3											

Business development						Family well-being					
DN1	Records sales/profits in notebook	DN2	Keeps business/domestic accounts separate	DN3	Frequency of expense monitoring	BF1	Frequency budget preparation	EM1	Business development capacity	EM2	Opinion taken seriously in family
DN4	Frequency of being certain how to make business grow	DN5	Frequency with which information for new project is gathered	DN6	Frequency likelihood of success/failure is assessed before acting	EM3	To be leader in a group				
DN7	Frequency with which project/ division tasks are planned										

Source: Fondo Esperanza qualitative analysis, Social Indicator Scoreboard (SIS) as of September 2016. BBVAMF analysis.

(c) Proportion of clients in their fourth cycle during 2016 assessed by Fondo Esperanza through its Social Indicator Scoreboard who have improved compared to their situation at the outset in each of the variables being analyzed. (d) '1 to 1' correlations of the improvements in the variables described, for all clients with SIS assessments.

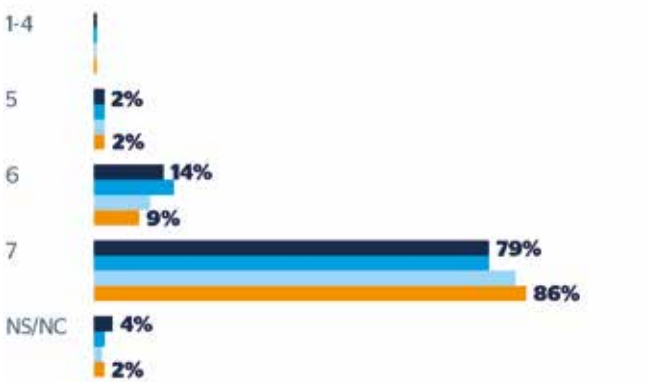
Furthermore, the analysis shows that empowered clients who consider that their opinion is given more weight now than before within their family (EM2), also believe that they are improving their leadership skills (EM3).

Those clients who record their sales in a notebook (DN1), also often make improvements when it comes to separating business and household accounts (DN2). However, this does not appear to be linked with other improvements.

Satisfaction surveys are held every year with the aim of improving service and finding out about client needs. The 2015 survey revealed that around 80% of the clients surveyed rated the *School for Entrepreneurs* and the methods it uses very highly (giving it the top score), as the results in the Client satisfaction graph below (e) show.

The methods employed at Fondo Esperanza's *School for Entrepreneurs* thus help clients, not only to access financial services, but also to make resources available to them so that they can increase their empowerment, social capital and family welfare, in order to achieve success in their enterprises. ■

Client satisfaction with the School for Entrepreneurs (from 1 to 7) (e)



■ Overall assessment of the School for Entrepreneurs
■ Usefulness of subjects learned in the School for Entrepreneurs
■ Opinion of teaching method ■ Clear contents

Source: Fondo Esperanza. Collated by BBVAMF.

Notes (1) According to the poverty line as set by the Ministry of Social Development (differentiating between the rural and urban environments). Taking *per capita* net income (estimated as business surplus divided by the size of the household), the segment made up of clients whose *per capita* net income is over the poverty line, but under the threshold obtained by multiplying the poverty line by 3, is considered vulnerable.

(e) Assessment of the *School for Entrepreneurs* of a sample of 4,069 clients who received training in 2015. 13% of the sample gave invalid responses. Each classification shows the percentage of clients in the sample who assigned that mark, against total clients in the sample with valid responses.



Emprende **Chile**

Social Performance
Report 2016



**Measuring
what really
matters**

Table of contents

“We all have an unsuspected reserve of strength inside that emerges when life puts us to the test”.

Island Beneath the Sea
Isabel Allende

Emprende Description 376 Management team and board 379	Measuring 2016 Social performance results Our clients 382 Our clients' businesses 386 Our clients' development 388 What really matters Stories of achievement Arturo Mora 396 María Leviman 400 Marcela Sanhueza 404	Special projects Microinsurance in Chile 406 Macroeconomic context Chile 414
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At the service of microentrepreneurs

Emprende was the first Chilean microfinance institution focusing exclusively on supporting productive and commercial activities on the part of low-income segments. It is committed to financial education and micro-insurance policies for small businesspeople.

Emprende Microfinanzas S.A. (Emprende) is an organization that specializes in financing Chile's vulnerable entrepreneurs, with the aim of promoting their economic and social development by providing products and services that are tailored to the particular needs of this segment of the population. The institution is over 30 years old, initially existing as a savings and loan cooperative, and since 2009 as a member of the BBVA Microfinance Foundation.

Emprende was a microcredit pioneer in Chile. It was the first Chilean microfinance institution focusing exclusively on supporting productive and commercial activities on the part of low-income segments. It is a non-profit, social responsibility institution. Its aim

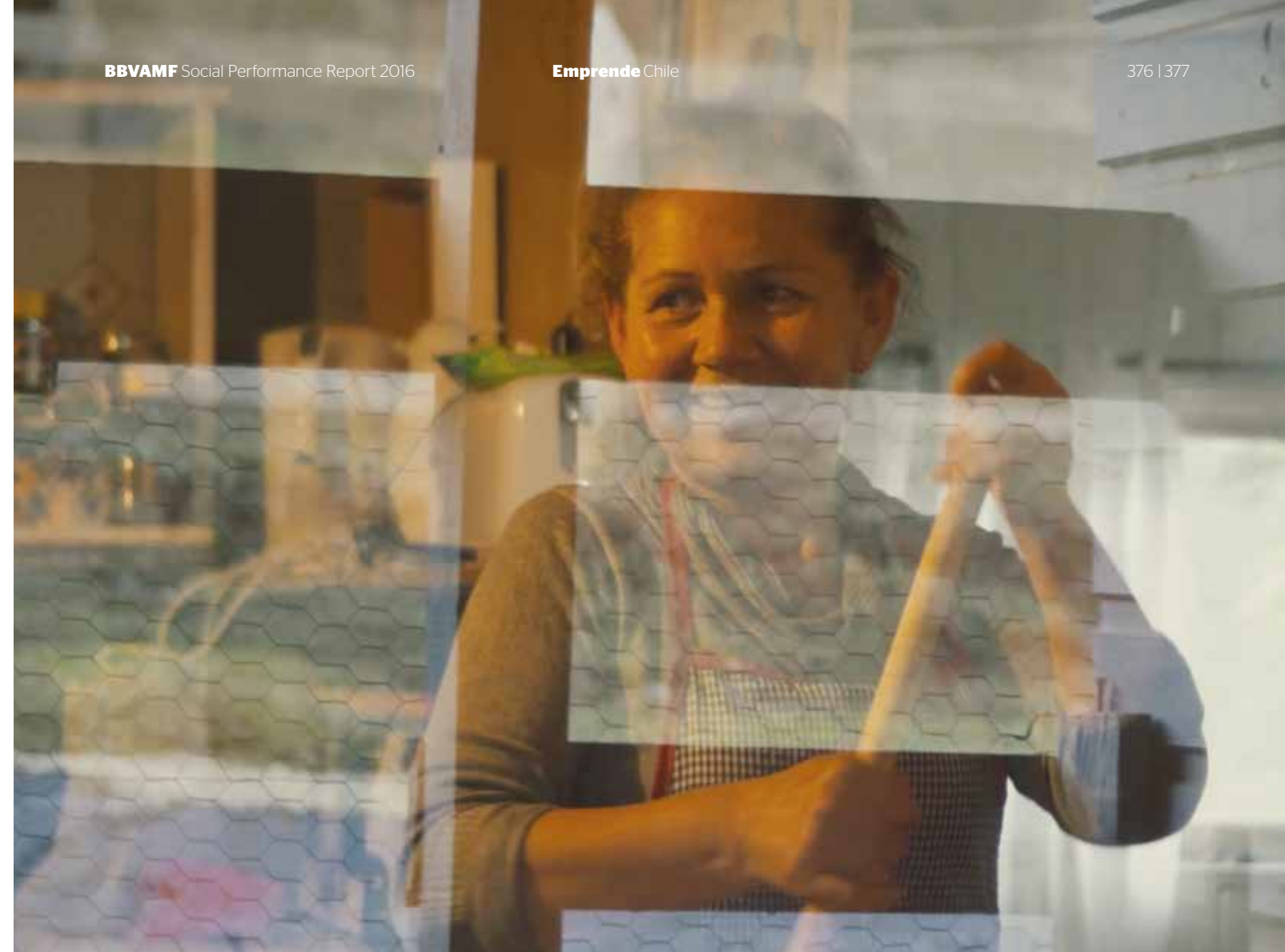
is to contribute to sustainable progress for the country's vulnerable entrepreneurs through Responsible Productive Finance.

In 2016, Emprende signed agreements with the municipalities of Lo Prado, Pudahuel, Cerro Navia and Estación Central, through its productive development corporations. In November 2016, it agreed to take part in the *Financial Services in Business Development Centers Program*, Sercotec. This network of centers operates as part of Chile's Ministry of Economy, Development & Tourism and was set up as part of the arrangement between the governments of Chile and the United States to promote enterprise and growth on the part of SMEs. The Business Development Centers have the purpose

of contributing towards increased private sector productivity and sustainability. The program also includes financial education and microinsurance policies designed for small businesspeople.

Emprende was a microcredit pioneer in Chile, and exists to support the economic and social development of vulnerable entrepreneurs.

In 2016, it granted loans to over 11,000 entrepreneurs, of whom more than 58% are women. With a loan portfolio of nearly USD 15 million, it has a presence in six of the country's regions (Valparaíso, Metropolitana de Santiago, O'Higgins, Maule, Bio Bio and Araucanía), employing 163 people in 21 offices.■



Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)	N° of employees
15,213,664	163
Amount disbursed in 2016 (USD)	N° of offices
15,555,474	21
N° of transactions in 2016	
11,690	
Average disbursement in 2016 (USD)	
1,331	

Management team and board

Management team		Board
Pablo Coloma General Manager	Luis Conejeros HR & Communications Manager	Ramón Feijoo President
Rosa González Business Development Manager	Alejandro Vidal Infrastructure & IT Resources Manager	Jorge Cruz Member
Diego Solar Finance Manager		Javier M. Flores Member
Rodrigo Urrea Risk & Collections Manager		

Measuring

Chile has one of the lowest rates of poverty in Latin America. Emprende continues to serve the population with the least access to financial services and seeks to create long-term relationships with them in rural areas. The drive to serve these segments has had positive outcomes, with their businesses growing in size and increasing in efficiency. Monthly business sales figures have risen by 10%. Moreover, 8% of the microenterprises financed have increased the number of their employees after three years.



Total clients

11,106

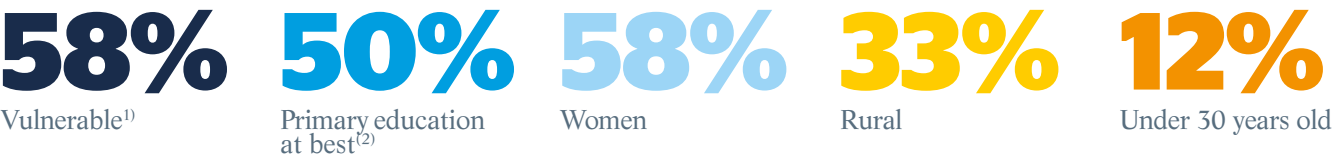
New credit clients

3,673

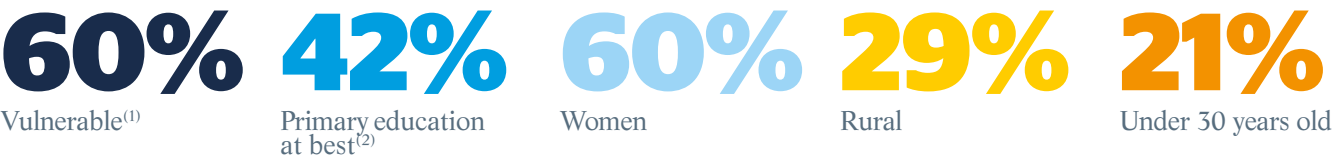
(1) According to the Social Development Ministry's poverty line, traditional methodology. Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three, are classified as *vulnerable*.

(2) Proportion of all credit clients who have completed primary education, at best.

Total credit clients as of Dec 31, 2016



New credit clients 2016



Our clients and our scale

During 2016 Emprende gave financial access to a larger number of clients, most of them women entrepreneurs.

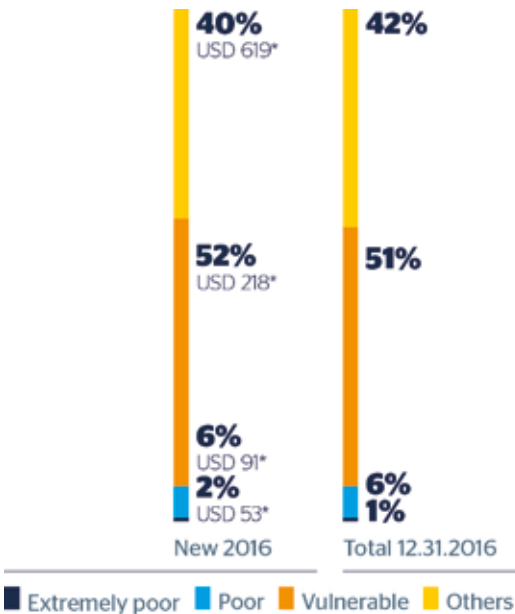


60% of new vulnerable clients live on USD 6.7 per person/day from their microenterprise, and the 8% in the lowest income bracket (*poor*) lives on USD 2.7 per person/day.

- The number of clients enrolled has increased in 2016 from 2015 (28.7% growth), but *vulnerability* levels have fallen thanks to a strategy focused on sustainable scalability.
- There is insufficient information about the older cohorts (2011-2013) on the expenditure and home size variables to be able to report on economic *vulnerability*.

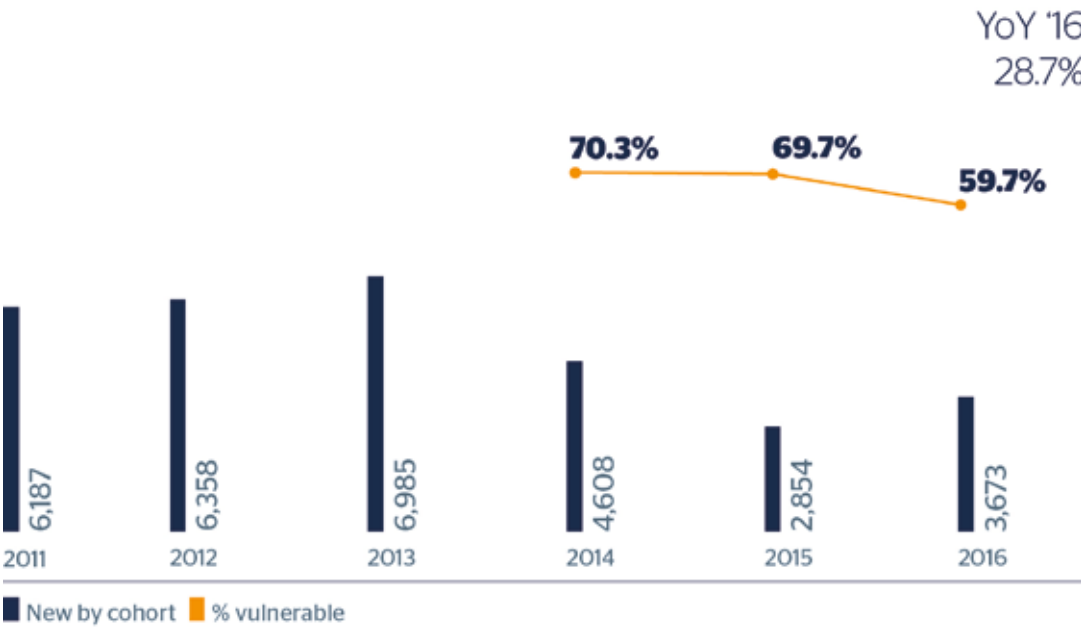
(1) According to the Social Development Ministry's poverty line, traditional methodology. Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three are classified as *vulnerable*.

Clients' economic vulnerability (1)



*Monthly net income per capita.
Source: Emprende. BBVAMF calculations.

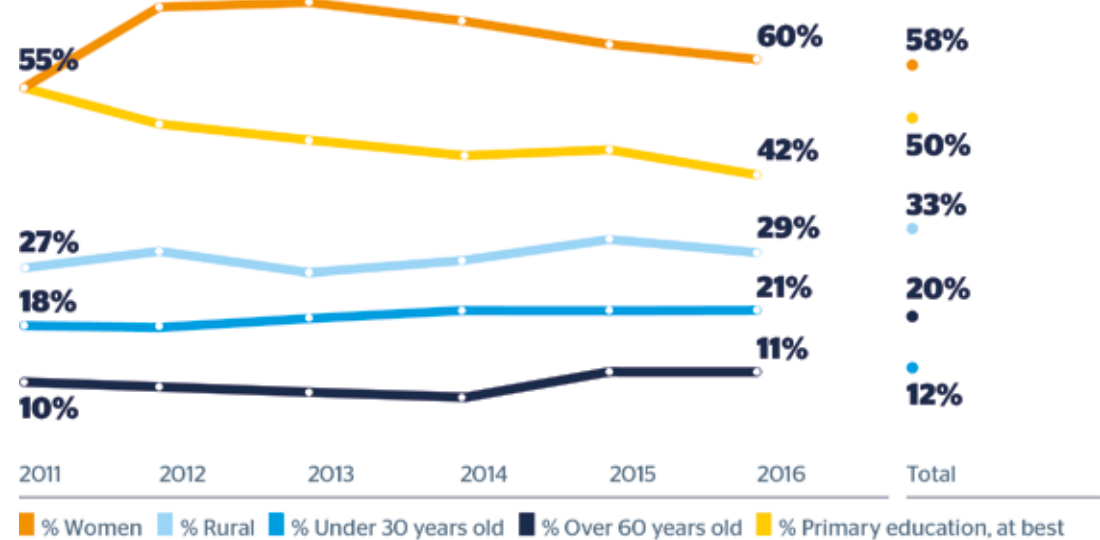
New credit clients (2)



Source: Emprende. BBVAMF calculations.

(2) New clients (without previous loans) signed up over the year.

Profile of our clients (3)



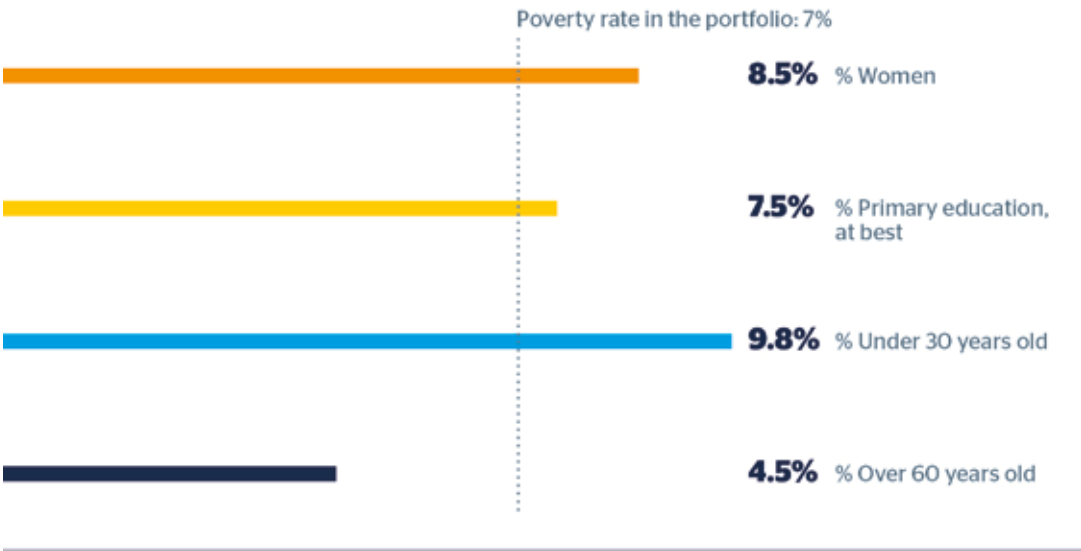
Source: Emprende. BBVAMF calculations.

The focus has remained on serving vulnerable segments, such as women (60% of the new clients served in 2016) and those with lower educational attainment (42%).

- Monthly sales and the average disbursement of new clients have increased particularly strongly in the last year; this accounts for the drop in the degree of vulnerability among new clients. The rise in both variables has meant that the average installment over sales has remained unchanged from 2015.

(3) New clients (without previous loans) signed up over the year. Total represents the entire portfolio current as of 12.31.2016.

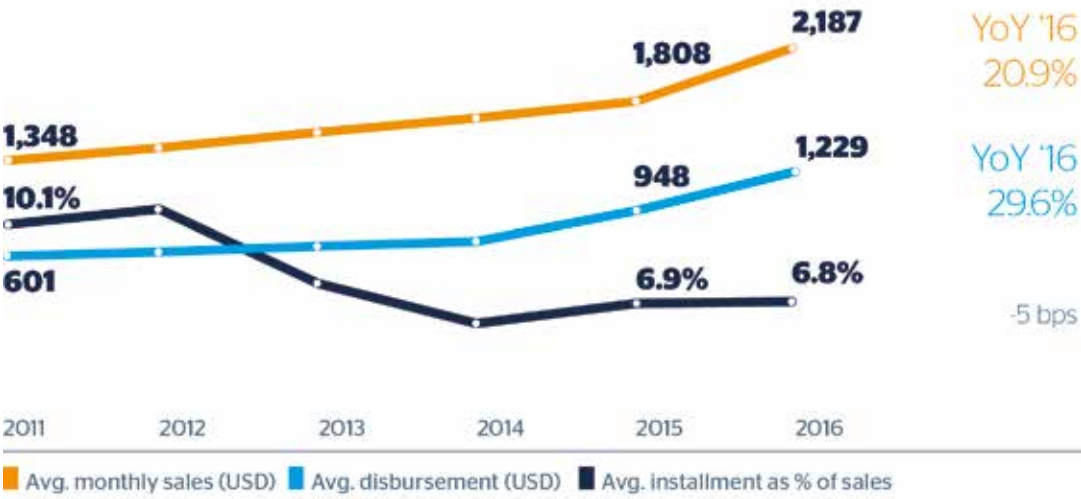
Poverty profile (4)



Source: Emprende. BBVAMF calculations.

(4) Clients current at 12.31.2016. The poverty level of clients in the rural environment cannot be established because the indicator is not available at client level.
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

New clients' sales, disbursements USD & weight of installment (5)



Source: Emprende. BBVAMF calculations.

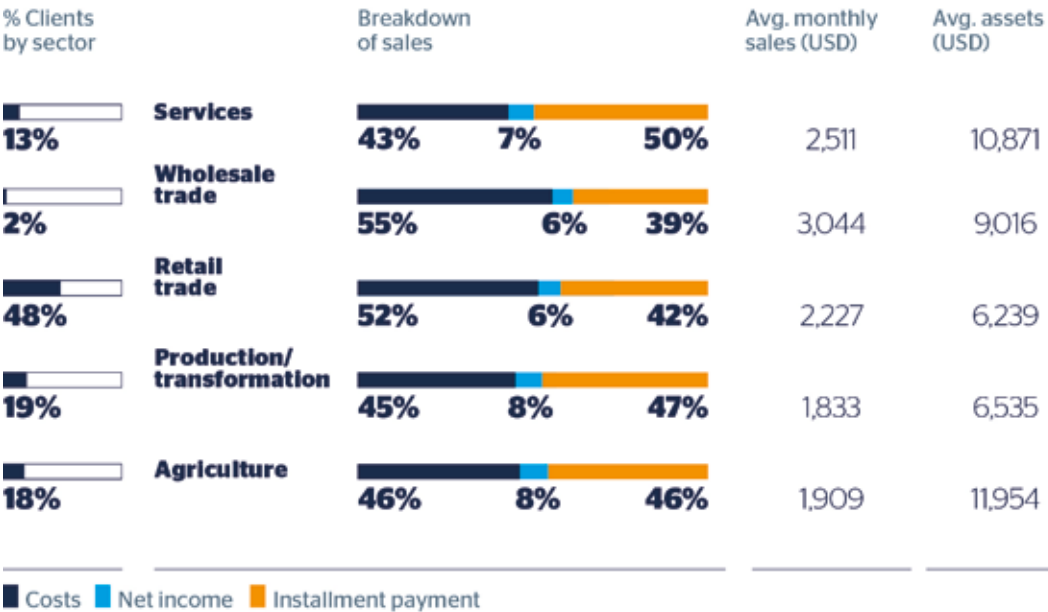
Our clients' businesses

Emprende clients develop their activity in a wide range of sectors, posting positive growth rates in sales and net incomes of over 10%.



- The institution acts in a range of sectors, but 50% of clients work in *trade*. Both the average value of monthly sales and margins (after paying the installment) are high compared to other institutions because the profile of clients served is, by comparison, less *vulnerable*. At the same time, the weight in the installment is comparatively low and relatively stable between sectors.
- The activity sector where microentrepreneurs are most profitable is *services*, with the highest margin after the installment (50%) and the highest average assets. This is the sector in which the less *vulnerable* clients operate.
- The *agriculture, production/ transformation* and *trade* segments have similar proportions of *poor* clients in their portfolio (around 6%). The average level of assets in the *farming* sector is higher, a reflection of less *vulnerable* clients.
- The structure of expenditure reveals a group of clients with high margins (44% on average). As *vulnerability* falls, businesses grow and become more efficient, managing to reduce their operating expenses (from 60% to 49%) and financial costs (the weight in the installment payment falls from 12% to 6%).
- Emprende clients' leveraging (liability vs. assets) is very low, although it edges up slightly as their *vulnerability* level lessens.

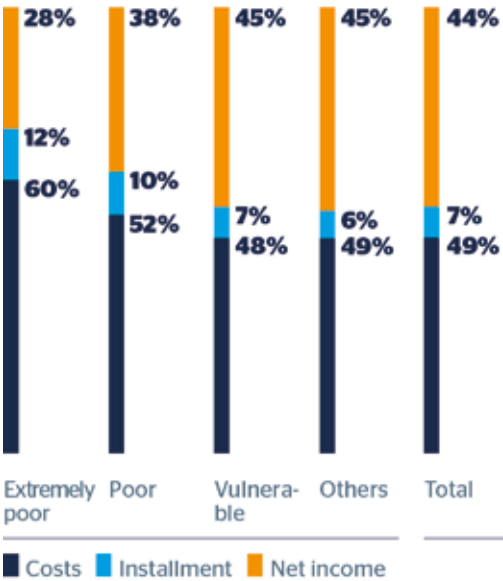
Average margins, sales and assets, by sector (6)



(6) Clients current as of 12.31.2016.

Source: Emprende, BBVAMF calculations.

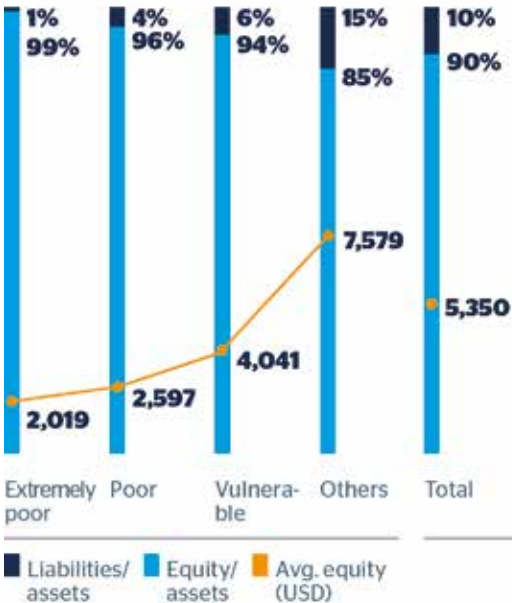
Expenses and margins as % of sales, by vulnerability (7)



(7 & 8) Clients current as of 12.31.2016.

Source: Emprende, BBVAMF calculations.

Assets, liabilities and equity by vulnerability (8)



Source: Emprende, BBVAMF calculations.

Our clients' development

For *poor* clients one cycle is enough to climb above the poverty line.



Emprende is succeeding in upholding longer-term relationships with its clients.

- Emprende retains 63% of its clients after a year and this is improving over time. The 2015 cohort, after a year, has a retention rate of 67% compared to 58% the year before, reflecting an improvement in recent cohorts.

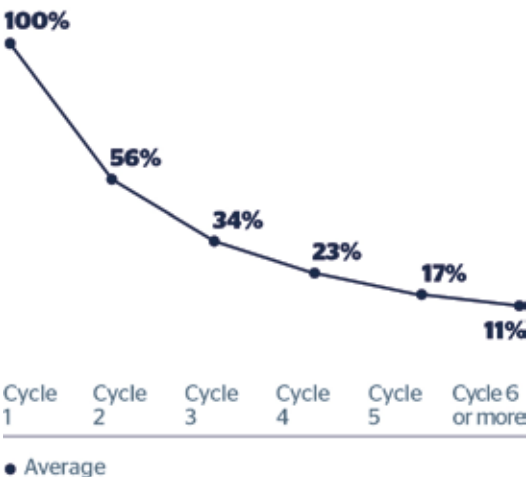
(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention (by cohort) (9)



Source: Emprende. BBVAMF calculations.

Credit client recurrence (10)



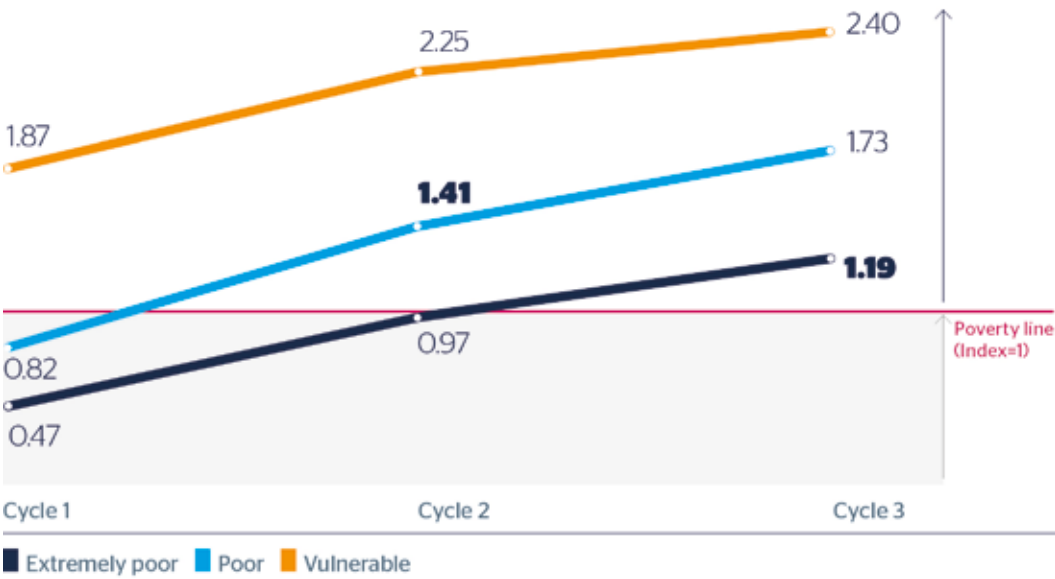
Source: Emprende. BBVAMF calculations.

- 56% of clients with their first loan take out a second, and 60% of these take out a third (34% of the total of clients at the outset).
- On average, with every loan, the ratio of clients' *per capita* net incomes relative to the poverty line improves.
- In particular, for *poor* clients one cycle is enough to climb above the poverty line, while the *extremely poor* achieve this in two cycles.

(10) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle one and two is 300 days, between cycle two and three is 293 days; between cycle three and four is 285 days, between cycle four and five is 258 days and between cycle five and six is 242 days.

(11) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by year of disbursement). Relative net income *per capita* takes a value of 1 when it is the same as the poverty line.

Per capita net income relative to poverty line (11)

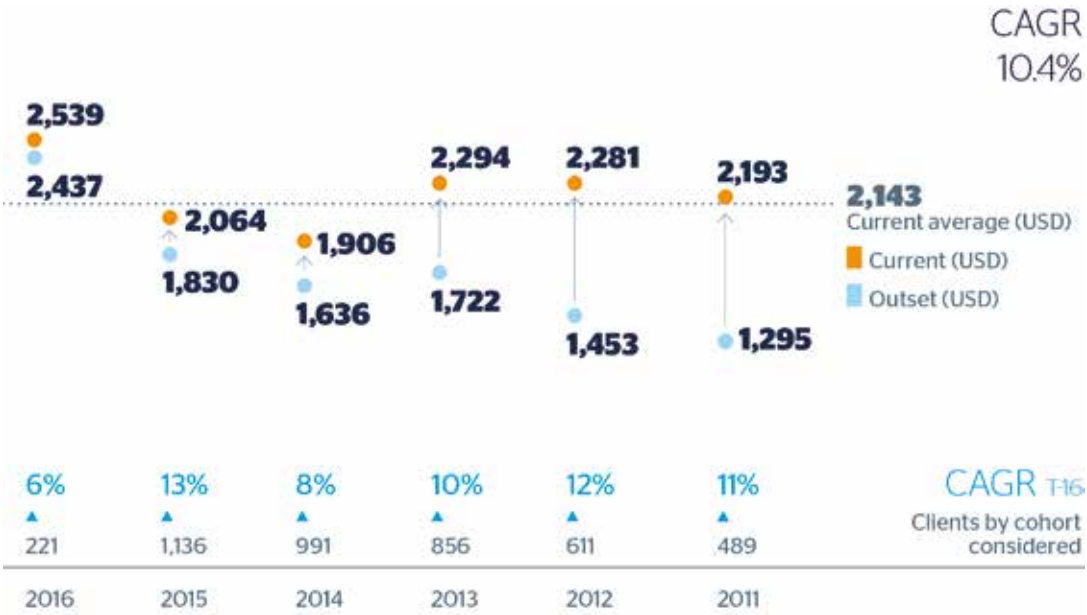


Source: Emprende. BBVAMF calculations.

- Monthly sales and average assets have grown by 10%, while the increase in net income nearly doubles that, showing increased efficiency on the part of clients.
- Despite the high level of assets at the outset, clients still achieve sustained growth.
- There is insufficient information about older cohorts (2011-2013) to report on the development of net incomes and assets.

Emprende clients achieve average monthly sales figures of USD 2,143, up from the average USD 1,796 they reported in 2015. This shows a sustained growth of client revenue in a context of economic slowdown.

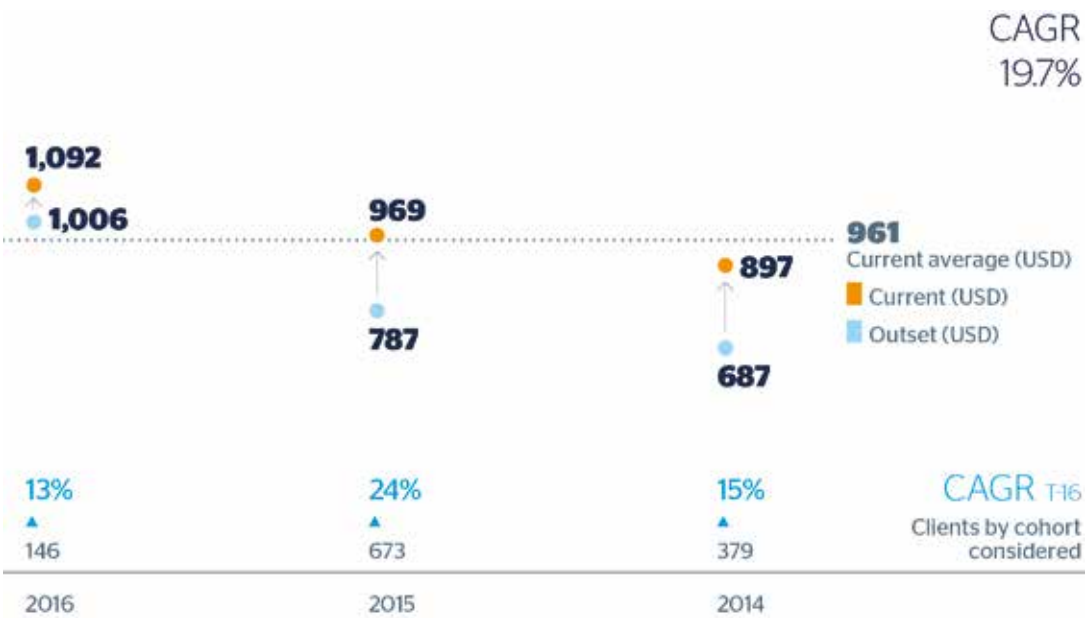
Average monthly sales (by cohort) USD (12)



Source: Emprende. BBVAMF calculations.

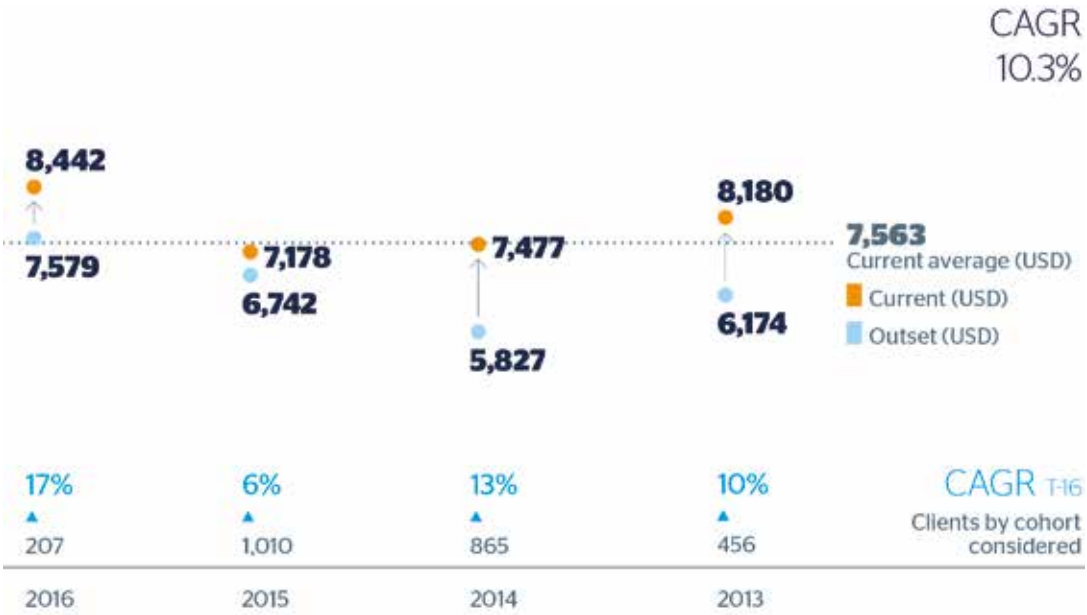
(12) Data on clients current as of 12.31.2016, and who have made another disbursement with the corresponding update of their economic information. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Average monthly net income (by cohort) USD (13)



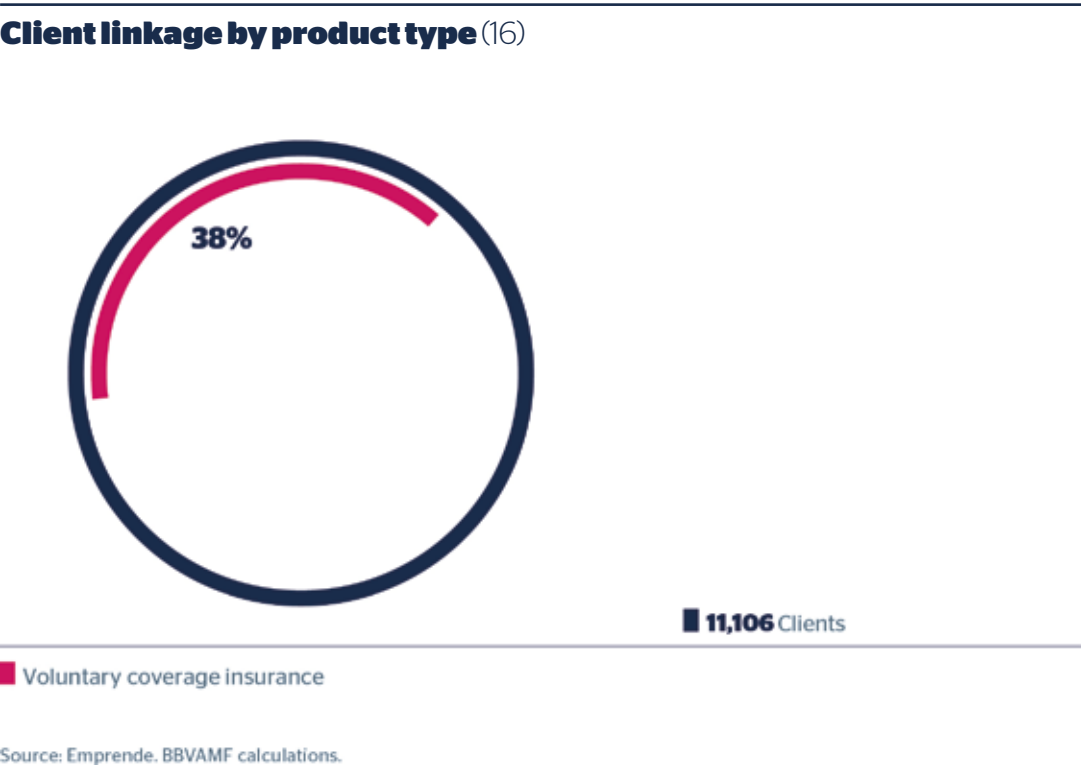
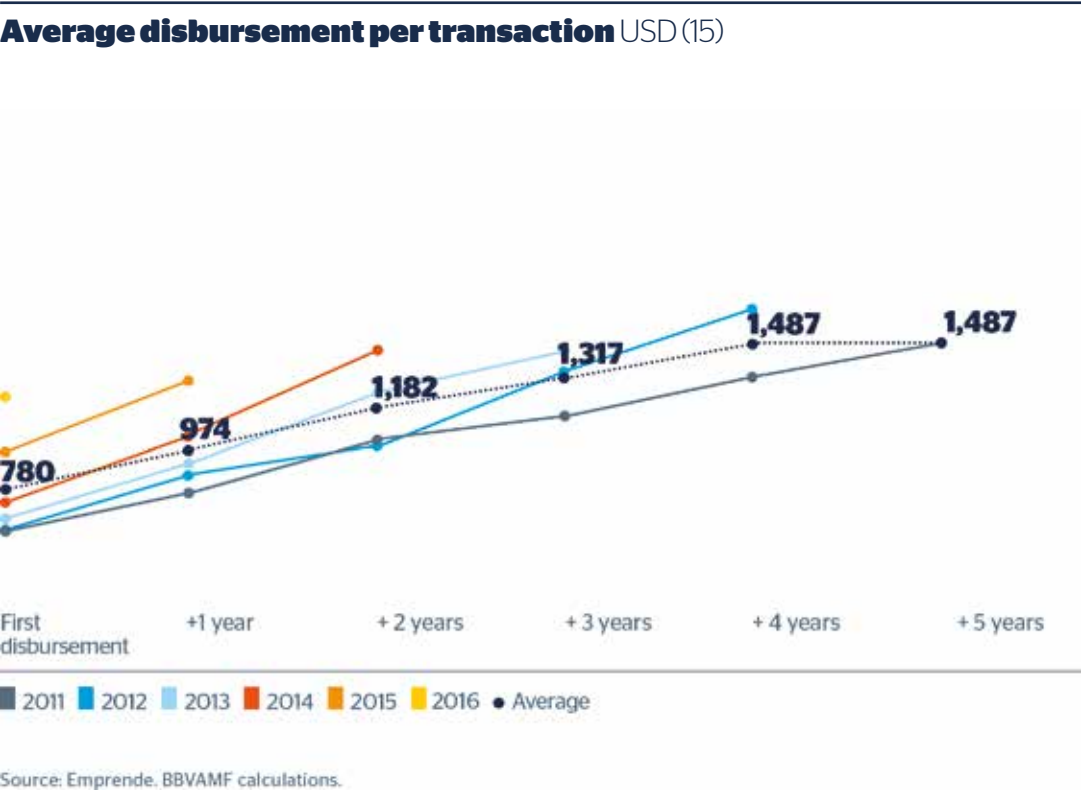
Source: Emprende. BBVAMF calculations.

Average assets (by cohort) USD (14)

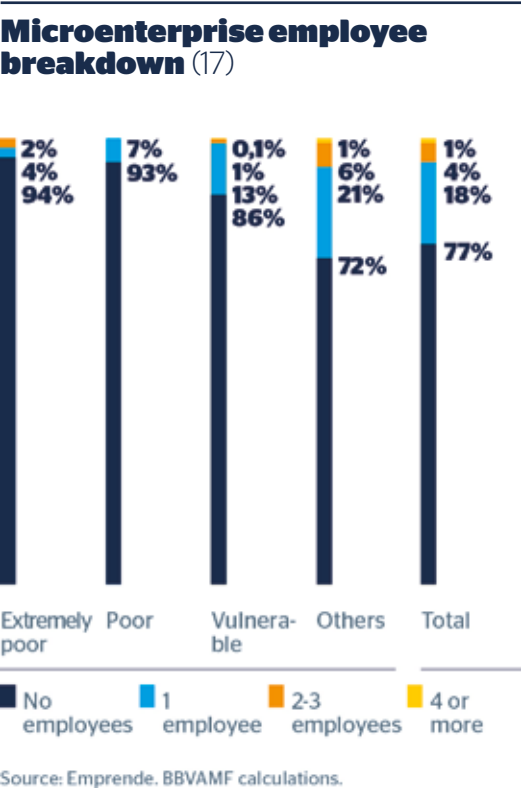


Source: Emprende. BBVAMF calculations.

(13 & 14) Data on clients current as of 12.31.2016, and who have made another disbursement with the corresponding update of their economic information. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.



(15) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.
(16) Clients current as of 12.31.2016.



Although microinsurance has only been introduced recently, it is very popular with clients: 38% of credit clients have a non-mandatory insurance policy (for more information, see the Microinsurance special projects section).

- As the relationship with the institution matures, clients take out bigger loans.
- For more recent cohorts, the average first disbursement has been bigger and its growth rate higher.
- Emprende is one of the Group institutions whose clients have the greatest capacity to create jobs: 23% of all clients take on one or more employees.
- After 3 years with Emprende, 8% of microentrepreneurs have generated at least one additional job position. This rate continues to improve, compared to performance in 2015.
- Job creation is a multiplier of the microentrepreneur's success, since it gives more families the opportunity to take part in economic development.

(17) Number of employees in client enterprises current as of 12.31.2016.
(18) Increase in the number of employees in the microenterprise compared to the situation at the outset, for clients current as of 12.31.2016, in each cohort. Averages from cohorts between 2013 and 2015.

What really matters

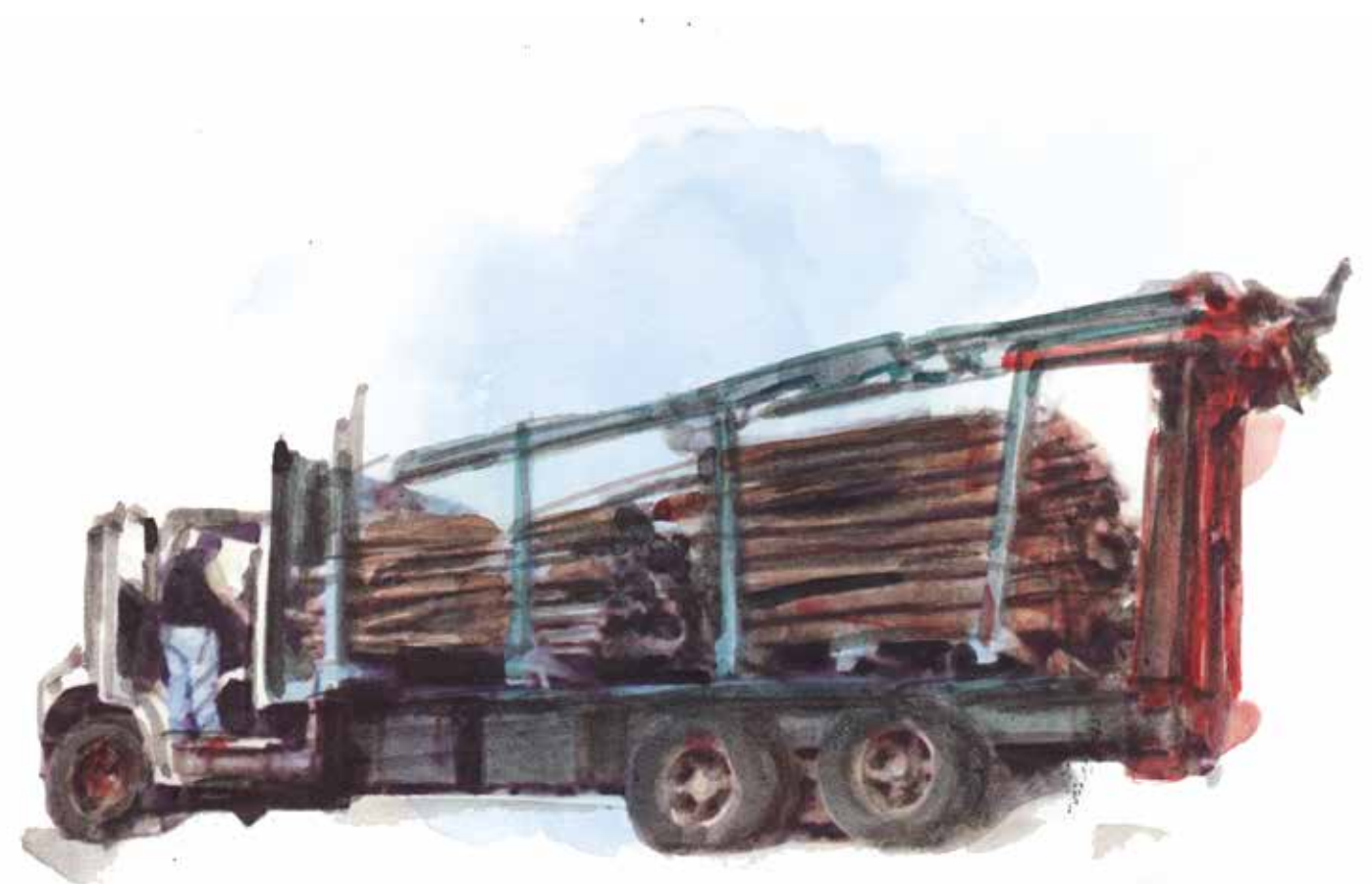
Three experiences that demonstrate how something small, such as a microcredit, can become something big, when put in the right hands.

María Leviman and her husband have become the most successful strawberry producers in their community, after buying a truck, farm machinery and seeds. Arturo Mora began his timber transport business with his first loan; now he has two trucks, a van and a plot of land where he is planting trees. Marcela Sanhueza has risen to become an executive in one of the institution's busiest branches, where she looks after clients and has seen their hard work and effort with her own eyes.



Entrepreneurial hardwood

In 2007, Arturo Mora began his lumber transport project. Since his first loan, which enabled him to pay for the maintenance on his truck and the gasoline, he has received a further 12 to buy two trucks and a van in which he transports the tree trunks to the cellulose factories. He has also bought a plot of land to plant trees.



Arturo's business was in serious trouble. The three trucks in which he moved lumber that he then sold on to the cellulose plants had broken down and so he was not making any money: "Imagine it, all the money went to pay the mechanics and the spare parts that had to be put in, and on top of that I had to look after my three workers. Not to mention the domestic bills I had to pay", he recalls from that terrible phase. He was thinking about closing the business and reinventing himself with another job, but his family encouraged him not to give up and he decided to carry on fighting to stay open. Luckily, he managed to overcome the obstacles and get the business moving again.

Arturo, who has been married for eight years and has two children, met his wife

when he was still working on the land. Shortly after that he found a job through a friend as a driver of a lumber transport truck. It was love at first sight: "One day I thought of setting up on my own. If my friend could, why not me?" he smiles at the recollection. To do so he needed a little help that would enable him to take his first steps. He remembered that his father had received support from a cooperative, that today is called Emprende Microfinanzas, and decided to follow in his footsteps.

In 2007, he started off in lumber transportation. He was given his first loan from this institution, which allowed him to finance the maintenance on the truck he had just bought and to pay for the gasoline. Since then, he has received 12 loans that he has used to buy two trucks and a van to take

the tree trunks to the cellulose plants. He was also able to buy himself a plot of land to plant trees.

It is not easy managing a business like his. Arturo has overcome the obstacles with his own effort and has made his way: "It's hard, you have to be on top of everything", he explains. "In the winter, it's tough because it rains really hard in this area and the damp affects the quality of the wood. And it's not easy competing with the large lumber transportation firms".

Nevertheless, he is very satisfied, because with the expansion of his business he has been able to offer a job to three employees. "This has made me develop as a person, I have people under me, which has helped enormously in my expansion as a company.

Without a doubt it would have been impossible to reach my goals without them. And now, thanks to Emprende, we can have more machinery", he adds, as he walks between the lumber which is about to be loaded onto the trucks.

When he remembers his beginnings and the ground he has covered, he says he feels proud. What he values most highly is having attained a better standard of living for his family: "I have two children and I have been able to give them more than I had when I was a child, and I have my own home. In the future I see myself with more heavy machinery, taking on more people, spending more time with my family. My dream is to give a house in the country to my children, a good education and to have a quiet life".

Name: Arturo Mora.
Age: 29.
Business: Lumber transportation.
Location: Carahue (700 km from Santiago, Chile).
Employees: Three.
Total loans: 13, for a total of USD 55,000.

Scan the
QR code and
discover
the story
of Arturo



Emprende
Stories of achievement
Arturo Mora

Arturo watches as his employees maneuver the crane to load the tree trunks and gazes at the forest, that every day gives him the lumber with which he has forged a future. “When I came to Emprende I felt safe and confident. Thanks to them I am what I am, and I hope to carry on doing better with them. Go to your nearest office, dare to do it, Emprende will support you, take that first step and you will get on”, he recommends to everyone he talks to.■

When he remembers how he started, and what he has achieved, Arturo admits that he feels proud. What he most appreciates is having made a better life for his family.



Arturo collects the timber with his new machinery for loading onto his truck.



One of Arturo's children playing near the logs.



Arturo at his timber transport business, which has paid to give his children a good education.

Strawberries that grow dreams

María is the owner of two plots of land with 5,000 and 10,000 strawberry plants, respectively. Her first crop was so successful that, together with her husband, they became the biggest strawberry producers in their community. She has received nine loans which she has invested in her truck, in farm machinery and seeds.



Scan the QR code and discover the story of María



When María Leviman finished her auditing studies and was starting her career in the financial sector, her father's death led to a change of plans. She inherited two hectares of land in the Araucania region, over 700 km from the capital of Chile, in the middle of an indigenous community. She and her husband, Sergio Castillo, decided to work the land and make a living from growing fruit and vegetables. Sergio sold them in the Pinto de Temuco fair and their high quality won them loyal customers who soon started going directly to the couple's home to buy their produce.

To expand the business, María started growing strawberries. Her first crop was so successful that they became the biggest

“Emprende helped us a lot so that we could invest. Thanks to that we have been able to make a go of it. I am grateful for their trust in us. They lend us the capital so that we can make a sound investment and get a good crop”.

producers in their community. To achieve that, they sought technical advice from several state institutions in order to improve all their planting, irrigation, harvesting and sales procedures.

But their skill as producers was not enough; to grow they needed financing. They heard about Emprende Microfinanzas thanks to a farmer from the indigenous community, who told them that there was an institution in Temuco that helped those on low incomes. They were granted their first loan with the institution in 2008 for USD 400, the first of the nine loans with which María and Sergio repaired their truck and bought machinery and seeds.

“Emprende helped us a lot so that we could invest. Thanks to that we have been able to make a go of it. I am grateful for their trust in us. They lend us the capital so that we can make a sound investment and get a good crop”, she says.

María is the owner of two plots of land with 5,000 and 10,000 strawberry plants, respectively. Her working day is tough, but she doesn't falter. She gets up early, picks the fruit and carefully places it in boxes that her husband then transports in his van at sundown to the market in Temuco. “I love working with strawberries. When I get up and I see my fields, I see that, whatever the weather, ripe fruit have appeared overnight, and I find that very pleasing. In the future I

Name: María Leviman.
Age: 54.
Business: Fruit and vegetable production.
Location: Rucapangue (Chile).
Employees: She works with her husband and has two seasonal workers.
Total loans: Nine, for a total sum of USD 22,000.
Other products and services: Microinsurance.
To highlight: She belongs to her community's indigenous association.



would like to carry on working with Emprende to continue improving my investment, I need to invest more”, she says, as she weaves her way through the lines of strawberries.

She has new projects in sight. She wants to improve their infrastructure and buy products that enable her to raise her crop’s performance, to bring forward the picking date for the fruit so that she can get a better sales price. “In the end, strawberries have become part of my life and I want to carry on perfecting my production continually so as to be able to continue growing, and what better way to do that than with my favorite fruit”, she exclaims, proudly. ■

María has new projects in mind. She wants to acquire the infrastructure and products that will enable her to improve the yield from her crops, bringing forward the date when the strawberries are picked so that she can get a higher sale price.



María and her husband, Sergio Castillo, do the figures so that they can carry on expanding.



María with some of her strawberries on her farm in the Araucania region.

“We are often the only option for rural clients”

In 2011, Marcela Sanhueza became an executive at one of Emprende’s most dynamic branches. She went on to complete her training by studying business administration in order to better perform her role. She enjoys being witness to all her clients’ hard work.

Marcela very much enjoys talking with the entrepreneurs, to whom she will always explain the institution’s unswerving commitment to the client, in supporting programs that enrich their business. She has worked for the entity for nearly eight years and, for her, helping vulnerable microentrepreneurs rewards her efforts handsomely.

She began as a sales assistant and also assessed loans. “When I arrived I felt that I knew very little about microenterprises. Gradually I began to feel more empowered to further the institution’s goal of supporting microentrepreneurs financially, training, advising and guiding them”, she says. In 2011, she became an executive in one of the institution’s most dynamic branches, in the town of Coelemu. “I began to feel that I needed to study business administration in order to have the skills necessary to better support my clients, and thus enable Emprende to carry on growing”, remembers Marcela.

Her working day is divided between the office and visiting entrepreneurs, most of whom are in rural areas. First, she drops her daughter off at school; then she finalizes her schedule for the day, and halfway through the morning she sets off on her route. “Whenever I have to visit a client, whether it is to strengthen the relationship or to keep our network of contacts going, I talk to clients who are looking for an opportunity. This time in the field is the most valuable, because it is when I can find out what microentrepreneurs are doing”, explains Marcela. In the afternoon she takes care of management tasks: client assessments, collections, inputting data into the institution’s network... She is also a member of the Credit Commission, where she shares her experience with the new executives. “Although there is always something to learn from those in the team”, she stresses.

Stories to tell

She has lots of stories to tell about things that happen in Emprende. For example, an entrepreneur who combined her job as an assistant in a pastry store with her own business making cakes at home. She began asking for very small loans to renew her work utensils. Thanks to the institution, in which she has continued to put her trust, she is now an independent woman, owner of her own pastry store, where she employs three people. A job she combines with being the head of the household and mother of two daughters.

For Marcela every microentrepreneur is unique. She particularly likes dealing with farming clients: “What our farmers most

need is to receive training so that they can equip themselves. We are often the only option for rural clients”. She enjoys being part of the process, from production through to marketing the products, and above all witnessing the efforts made by each of them: “They are the salt of the earth”, she believes. ■

“The time in the field is the most valuable, because it is when I can find out what microentrepreneurs are doing”.



Marcela in her office in Coelemu.

Microinsurance in Chile

With the aim of extending the range of financial products in Chile, a survey was carried out that confirmed that 70% of the clients interviewed would be interested in taking out insurance cover for healthcare, life, burglary and death. So Emprende, Fondo Esperanza and the BBVA Microfinance Foundation worked together to help insurers understand the low-income client profile.

An unmet need in a more developed market

Chile is sometimes categorized as a developed market or, rather, one where microfinance plays a less prominent role. Nevertheless, it is a country where microinsurance cover is lacking for clients classified as *vulnerable*. According to research carried out by MicroInsurance Network, only 7% (in 2013) of the population had cover⁽¹⁾, in a country where the low-income population accounts for 11.7% of the whole, ie. two million people (CASEN 2015)⁽²⁾.

In particular, there is a high need to adapt the product to the low-income client's needs in terms of premiums⁽³⁾, since potential insurance clients are unlikely to have easy access to a policy, given their low net incomes (an average of USD 6 and USD 13 a day respectively in the case of Fondo Esperanza and Emprende clients)⁽⁴⁾. Furthermore, given that insurance companies do not know how to insure informal businesses, it is extremely helpful to offer this product in cooperation with microfinance institutions.

(a) Data on clients current as of 12.31.2016.

A 2013 survey in Fondo Esperanza confirmed that 70% of clients would be interested in taking out an insurance policy, and of those who would not, only 11.5% are already insured, while 49% rule it out on cost grounds or from lack of interest (cost, coverage, etc.).

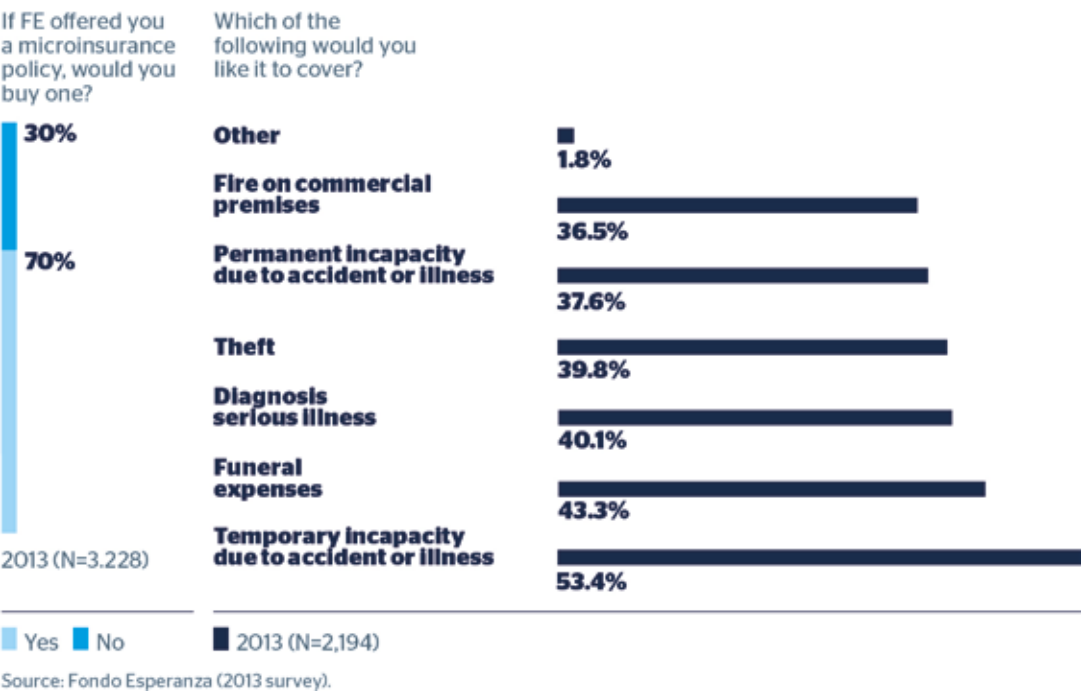
In line with expectations, clients would be interested in covering, in this order, four major areas: healthcare, life, theft and death.

Potential microinsurance clients' income levels (a)

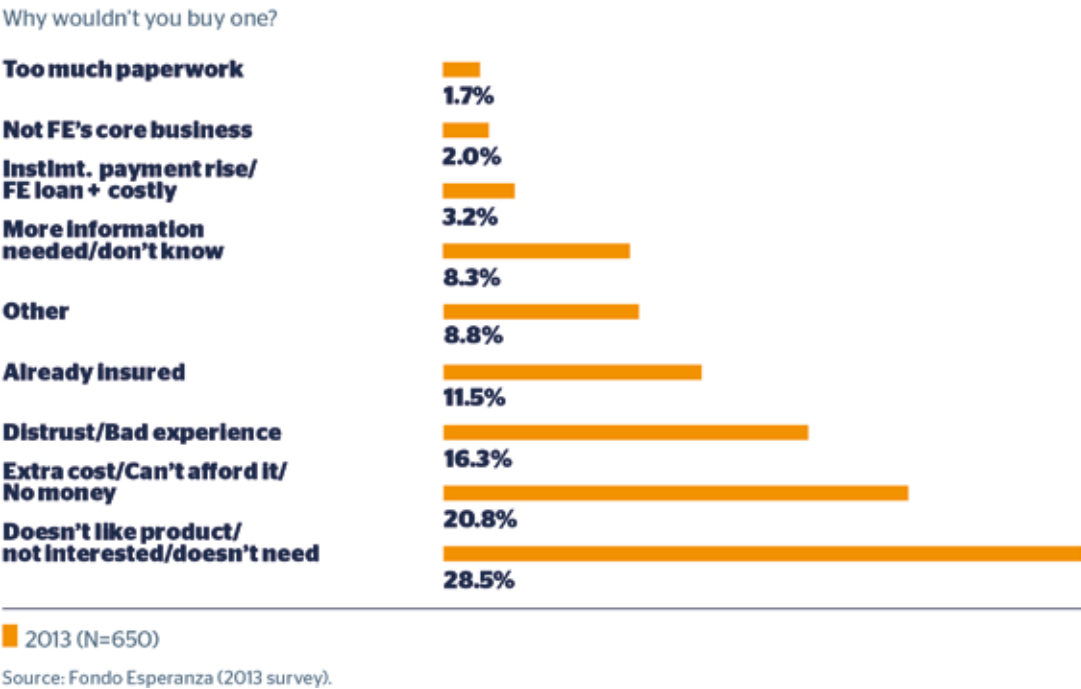
	FE	EM	Total
N° current clients	103,054	11,011	114,065
Avg. income/day (USD)	5.7	12.9	
N° ext. poor & poor clients	37,969	449	38,418
Avg. income/day (USD)	2	2.9	

Source: Fondo Esperanza, Emprende. BBVAMF analysis.

Results of the microinsurance survey in Fondo Esperanza (b)



Results of the microinsurance survey in Fondo Esperanza (c)



A product tailored to the client

Work began on researching in more depth the demand for insurance, with a survey and several focus groups. During development, the project had to bear three considerations in mind:

- How the various players would adapt to the microinsurance market
- Reviewing the product types
- Identifying the characteristics of the microfinance institutions

Adaptation by the various players to the microinsurance market

Active steps were taken to familiarize the insurer, the broker and clients with the particular demands of the microinsurance market. On the one hand, neither the insurer nor the broker were accustomed to

working on a regular basis with the micro-finance client, so a clear understanding of the realities and the risks involved had to be reached. On the other, the client was not used to operating in the traditional banking environment, in which financial products are calculated in Development Units [Unidades de Fomento, UF]. In Chile, micro-finance institutions make the exchange to the peso automatically, to make it easier for clients to make transactions in the local currency, so it is essential that the client has better financial information if they are fully to understand the product.

Reviewing the product types

The main types of microinsurance products and client demand in the market were reviewed, assigning a priority to each for the institutions to consider:

Characteristics of the microfinance institutions

It was important that the microinsurance offering is aligned with the institution’s integrated value proposal. To this end, its features had to be borne in mind:

- Small loans: the average loan is for USD 1,480 in Emprende and USD 698 in Fondo Esperanza⁽⁵⁾.
- Short durations: the average term varies by methodology. For Fondo Esperanza group lending, the average term is about 132 days, while for individual credits the terms are longer, 424 days in the case of Emprende⁽⁶⁾.
- Process alignment: unifying credit and microinsurance processes has been key in achieving greater operational efficiency. This has been a decisive factor in Emprende, because agile procedures were set up that do not trigger additional transactional costs either for the client or for the officer.
- Microinsurance training: microinsurance is an intangible product requiring specialist training to generate trust, both for clients and for officers:

- Clients: The training was adapted to the institution’s credit methodology, so in Emprende (individual methodology) training focused on the relationship with the officer, and in Fondo Esperanza (mainly group methodology), the group sessions were used to provide specific training on microinsurance⁽⁷⁾, building up the relationship step by step, and the product offering was made once this training had been completed. These procedural differences are a response to the fact that Fondo Esperanza’s

Active steps were taken to familiarize the insurer, the broker and clients with low-income clients, as well as in training both clients and officers.

insurance customer linkage (compared with all clients) is, comparatively, lower than in Emprende.

- Officers: Given that no institution had prior experience in the provision of voluntary insurance to their clients, training the officers was a critical feature of the project, with support being given to them during their learning curve. It was essential that the officers understood the products fully and were convinced of their usefulness to their clients.

Once all these elements had been analyzed and defined, the following life and voluntary protection product was drawn up, together with the insurer. Selling began in November 2014, and there has been wide demand for it from both institutions’ clients.

These results prove that clients are interested in the product on offer and that it is aligned with the needs identified.

Main types of microinsurance products (d)

Products	Subclasses	Assessment	Priority
Life & protection	Temporary life insurance, death, accidents, invalidity	Preferred by the client and easy to implement for the institutions, mainly because it is easy to understand the risks being covered, the management procedures are straightforward, there are a limited number of people involved and the premiums are low.	1
Life and credit	Life protection (combined with microcredit)	Preferred by the institutions because of its direct relationship with credit and more efficient management of the activity-related risk.	2
Assets	Home/business, commercial assets	Preferred by clients, particularly cover for fire and theft, but entails some difficulties, mainly in understanding the cover provided and the management processes.	3
Health	Hospitalización, asistencia médica general, enfermedades graves	Preferred by the client, but difficult for the institutions to implement. Requires (comparatively) greater resources for implementation and has many operating obstacles, among them: identifying the country’s welfare and non-welfare provision, reviewing medical service quality, and the need to find appropriate partnerships.	4
Agriculture	Insurance on the harvest, livestock & indicator-based covers	Clients with farming businesses make up only 2% of the total ⁽⁸⁾ , so this is not seen as a priority product.	-

(d) Clients current as of 09.30.2016. Fondo Esperanza has no clients working in agriculture, whereas Emprende has about 2,000.

A product that is equally attractive across all segments

Emprende has higher take-up rates among young clients (under 30 years old), where nearly five out of every ten young people decide to take out microinsurance, and among *poor* clients. These trends are not appreciable in Fondo Esperanza, or are much less pronounced; in particular, *poor* people take out slightly fewer insurance policies. In general, across both institutions, there is a trend in favor of microinsurance, whatever the gender,

educational attainment, vulnerability segment or activity sector.

It is essential that work continues on adapting financial and sector-specific language so that it can be clearly understood by clients. The challenges for the future are centered around continuing to focus on improving clients’ insurance “culture” and the training of officers, both of them key elements in the provision of responsible microfinance products. ■

Life insurance and protection (e)

Cover	Capital insured	Monthly premium
Accidental death	UF 50	UF 0.0323
Accidental total & permanent incapacity	CLP 1,310,540	
Funeral expenses	UF 20	CLP 847
	CLP 524,216	

Source: Fondo Esperanza, Emprende. BBVAMF analysis.

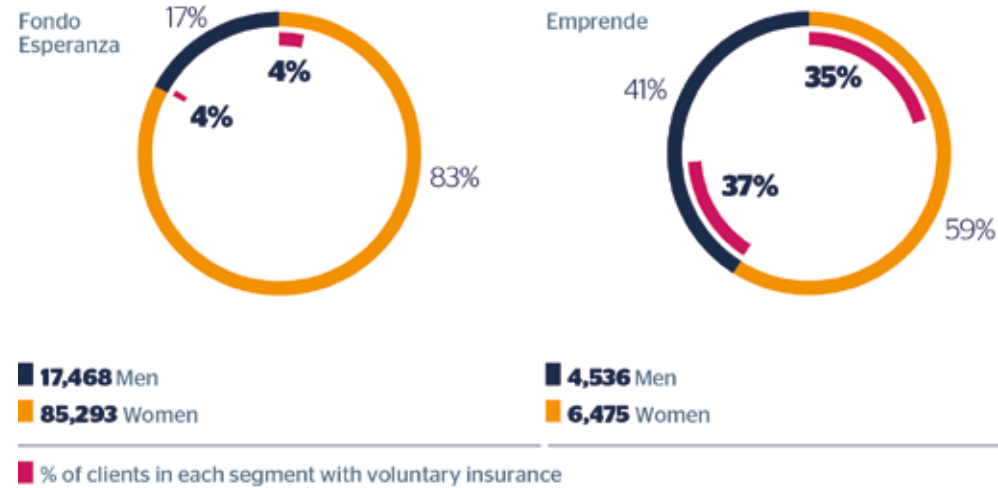
Insurance policies taken out (accumulated) (f)



Source: Fondo Esperanza, Emprende. BBVAMF analysis.

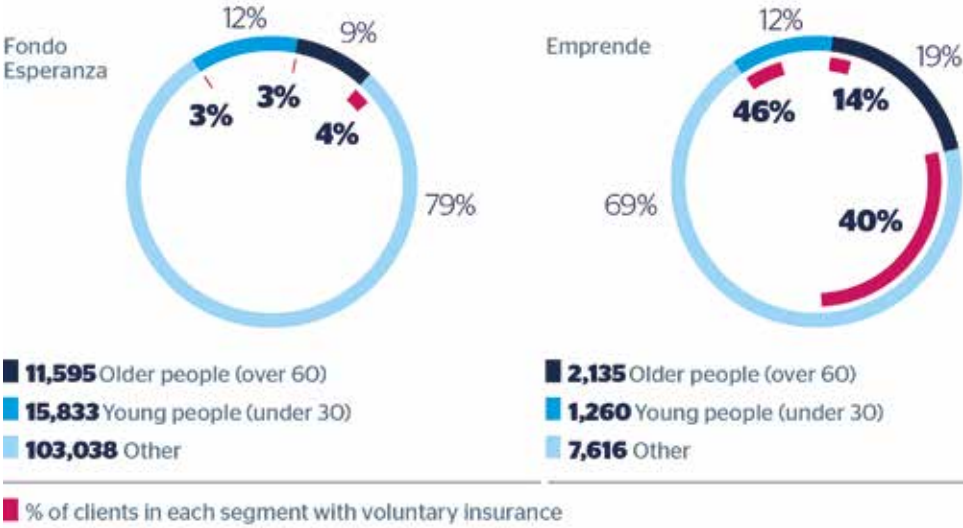
(e) Reference value based on the UF as of 09.01.2016 (CLP 26,210).
(f) Number of people that take out an insurance product.

Insurance linkage by profile - Gender (g)



Source: Fondo Esperanza, Emprende. BBVAMF analysis.

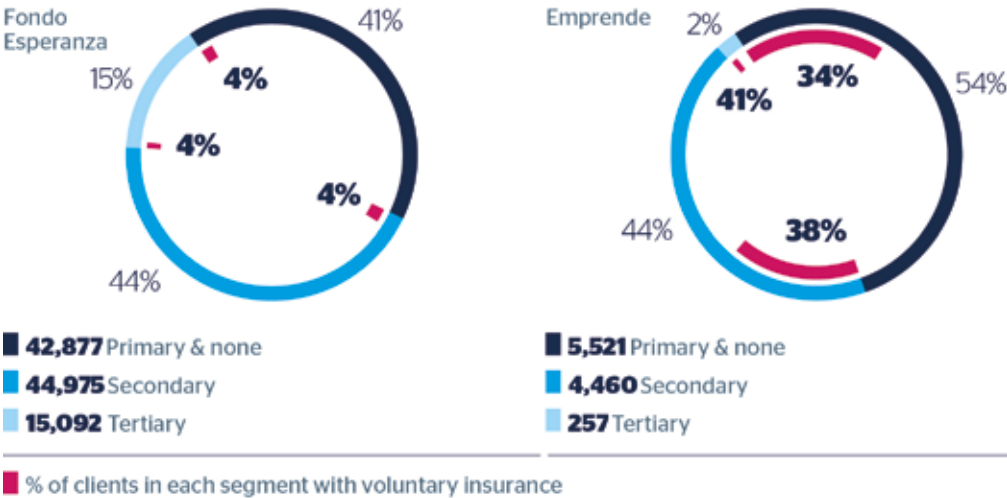
Insurance linkage by profile - Age (h)



Source: Fondo Esperanza, Emprende. BBVAMF analysis.

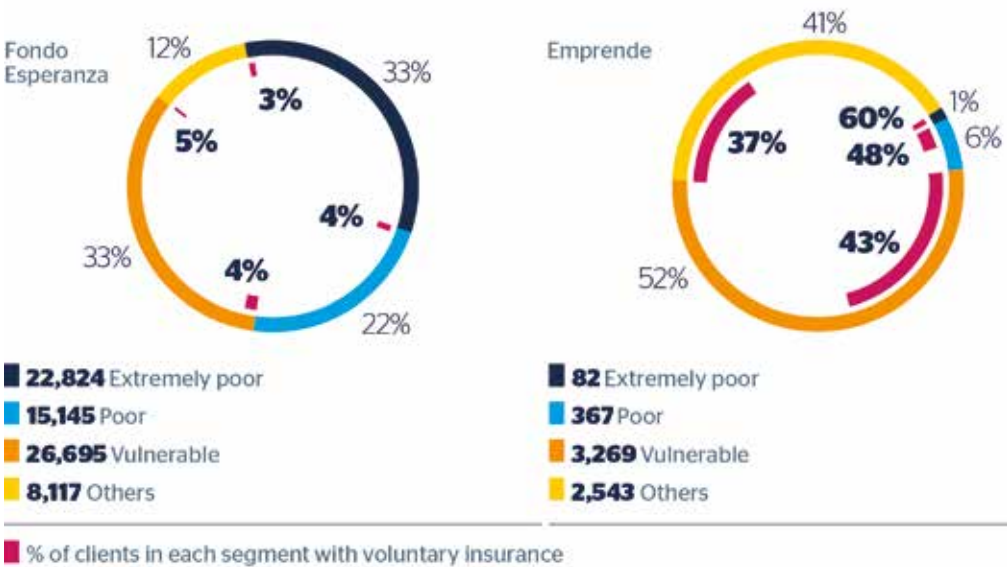
(g & h) Clients current as of September 30, 2016 classified by profiles. The percentage of the inner circle shows the number of clients in each segment that has insurance. For example, 35% of Emprende women clients have insurance.

Insurance linkage by profile - Education (i)



Source: Fondo Esperanza, Emprise. BBVAMF analysis.

Insurance linkage by profile- Vulnerability (j)

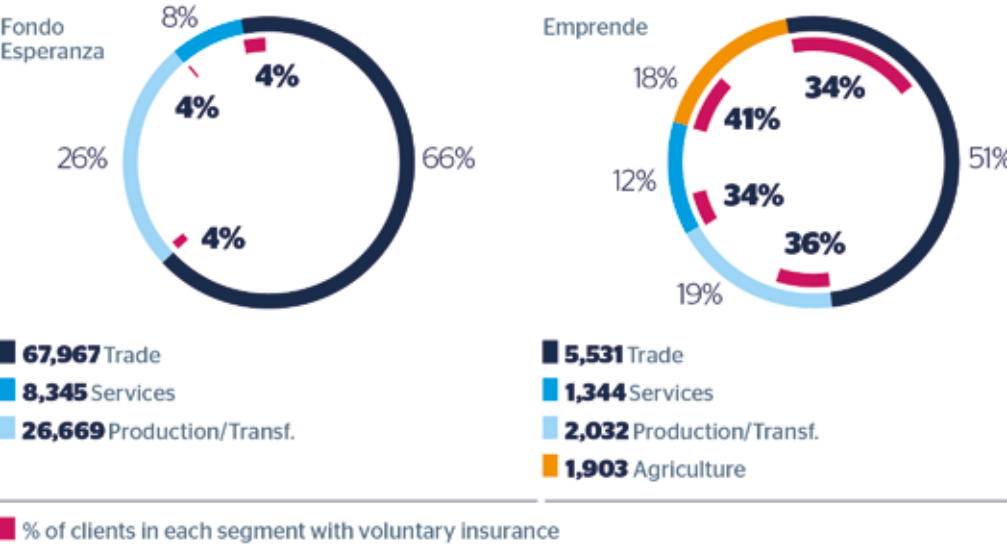


Source: Fondo Esperanza, Emprise. BBVAMF analysis.

(i & j) Clients current as of September 30, 2016 classified by profiles. The percentage of the inner circle shows the number of clients in each segment that has insurance. For example, 34% of Emprise clients that have primary education at best, have voluntary insurance. The degree of the client's economic vulnerability has been calculated using the update nearest in time to the 09.30.2016 close (the latest available). Source: Fondo Esperanza and Emprise, BBVAMF analysis.



Insurance linkage by profile- Sector (k)



Source: Fondo Esperanza, Emprise. BBVAMF analysis.

Notes (1) In 2013, 6.96% of Chile's population, 1.22 million people, had voluntary insurance cover (accident, health, life, property) vs. 14% in Colombia, 10% in Peru, 1.3% in Panama, and 2.5% in the Dominican Republic (Microinsurance Network; http://www.microinsurancenet.org/sites/default/files/Country%20profile_Chile_jpegs.pdf) (2) http://observatorio.ministeriodesarrollosocial.gob.cl/casen-multidimensional/casen/docs/CASEN_2015_Ampliando_la_mirada_sobre_la_pobreza_desigualdad.pdf (3) The premium is the cost of the insurance, the installment that an insured party or policy holder must pay to an insurance company to transfer the risk within the cover being provided by the latter to its clients for a specified period of time. (4) Average daily *per capita* net income of clients active as of 09.30.2016. (5) Average disbursement per transaction between January and September 2016. (6) The average term of transactions initiated in 2016. (7) Although Fondo Esperanza also trains the officer.

(k) Clients current as of September 30, 2016 classified by profiles. The percentage of the inner circle shows the number of clients in each segment that has insurance.

Timid growth but less poverty

Weak domestic demand continues to account for Chile's lower growth, which after two years has brought inflation back within the central bank's range. Around 1.8 million people have escaped poverty in recent year, and 3.8 million have been included in the financial system.

GDP closed 2016⁽¹⁾ at 1.5%, in an environment of great uncertainty and pessimism in the confidence indicators. Domestic demand edged up 1.2%, underpinned by consumption which grew by 2.9%, mainly in public consumption, which has shot up by 6.6%, whilst household consumption, supported by durable goods, expanded by 2.1%. Investment, meanwhile, has only grown by 0.9%, due to the 0.2% contraction in building projects, although machinery and equipment expanded by 3.2%.

On the supply side, the sectors driving growth are: *personal services*, posting an uptick of 6%; *financial services*, with a rise of 3.5%; *trade*, up by 4.1%; *transport*, which rose by 4.4%; and *electricity, gas and water*, which have expanded by 3.1%.

Taken together, these sectors make up 38% of total GDP, which has offset the 2.8% fall in *mining*, the dip of 0.8% in *manufacturing* and of 0.1% in *construction*. These last sectors account for 32% of total GDP.

The deterioration in the terms of trade in 2015 generated a nominal depreciation in the exchange rate of 14%, which has

Domestic demand has posted a rise of 1.2%, underpinned by consumption, which has grown by 2.9%.

reversed in 2016, thanks to the recovery of the copper price, which showed a nominal appreciation of 6%. As regards inflation, after two years of breaching the upper limit of the range set by the central bank, this trend has been corrected. Inflation closed 2016 at 2.7%, as a result of the adjustment in goods linked to the exchange rate, as the Chilean peso appreciated, correcting the rise occurring in 2015.

Inflation in services has fallen more slowly, bearing in mind its high degree of indexation. Lowered domestic momentum has been a factor which has been shown in excess capacity in goods and *services* production. In this scenario, the central bank has held the monetary policy rate at 3.5% throughout the year.

The other factor that has helped the improvement in the terms of trade is a lower current account deficit, 40 b.p. better in GDP terms, closing the year at 1.6%.

In urban zones, poverty stands at 10.2%, which is 11.9 p.p. less than in rural areas, where poverty afflicts 22.1% of the population.

Labor market

The unemployment rate⁽²⁾ stands at 6.2%, up by 10 b.p. on twelve months earlier. The labor force participation rate has risen by 1.7%, while occupation has grown by 1.6%. The productive sectors with the biggest increases in the number of people employed were *trade* (97,680 new jobs) and *agriculture and fisheries* (37,300 more jobs). This contrasts with cuts in *mining* (36,700 jobs) and in *construction* (28,070 jobs).

The percentage of waged workers with a contract was 87%, a 29 b.p. drop from the year before. Meanwhile, the number of workers with fixed term contracts was 27%. 21% of waged workers are subcontracted, 1.25 p.p. down on the year before. The increase in the number of people with employment is due, above all, to the increase in the number of self-employed (87,800 positions), followed by waged workers, adding another 31,900 jobs. The number of people in housekeeping services, on the other hand, showed the sharpest drop (down by 15,300 jobs).

The regions with the highest unemployment are Antofagasta (8.8%), Coquimbo (8.2%) and Atacama (7.2%). The lowest rates of unemployment are to be found in Los Lagos (2%), Aysén (2.8%) and Magallanes (4.1%). Some of the regions where unemployment has risen most in the last year are the three which already suffered the

Real GDP growth



Source: Chile central bank. BBVAMF Research estimate.

Chile is one of the countries with the highest level of financial inclusion and greatest penetration in the region.

highest rates: Atacama, Antofagasta and Coquimbo, with increases of 3 p.p., 2.9 p.p. and 1.6 p.p, respectively. Antofagasta and Valparaíso have the highest rates of female unemployment, while Atacama, Coquimbo and Araucanía post the largest numbers of youth unemployment.

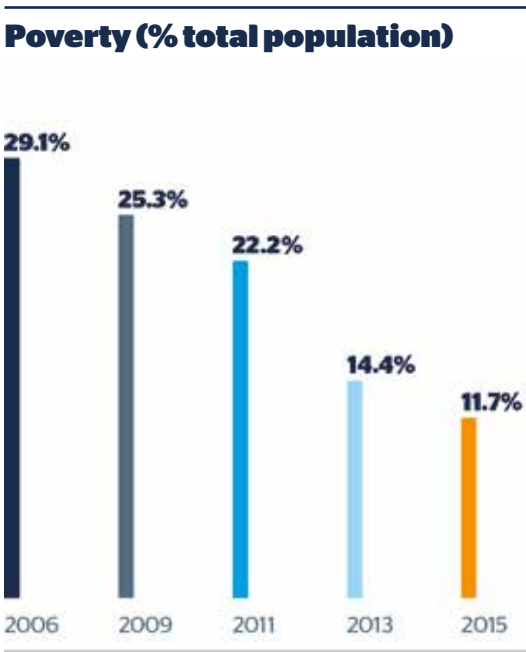
Poverty and inequality

In Chile around 2.05 million people find themselves on or below the poverty line, representing 11.7% of the country’s population; of these, 620,000 are in extreme poverty⁽³⁾. In the last six years, the poverty rate has fallen by 13.6 p.p., ie. over this period about 1.8 million people have escaped poverty.

Income growth growth accounts for 61% of the drop in poverty, with redistribution responsible for the remaining 39%. In urban areas poverty stands at 10.2%, with a gap of 11.9 p.p. between rural areas, where poverty affects 22.1% of the population.

18.3% of the indigenous population lives on or under the poverty line, whereas the ratio for other groups is 11% on average. 70% of households in poverty contain children and adolescents, 40% are single-parent, and in 49% the head of the household is a woman.

The poorest regions are: Araucanía, Maule and Biobío, with poverty rates of 23.6%, 18.7% and 17.6%, respectively.



Source: Casen survey, Ministry of Social Development.

Financial inclusion

Chile is one of the countries with the highest rates of financial inclusion and the best rate of progress⁽⁴⁾ in the region, as measured by having a bank account, given that 63% of adults have access to the financial system; this is a 21.1 p.p. improvement on the previous assessment. Around 11.5 million adults are included in the financial system, although another 6.7 million adults are excluded. In the last three years 3.8 million adults have joined the financial system.

In rural areas 61% of adults say they have an account in the financial system, which is a 24.1 p.p. improvement on the previous measurement. 68% of the adults with higher incomes (60% *richest*) have access to the financial system, whereas in the segments with lower income (40% *poorest*) only 56% have access to the system, making the gap between them 12 p.p.

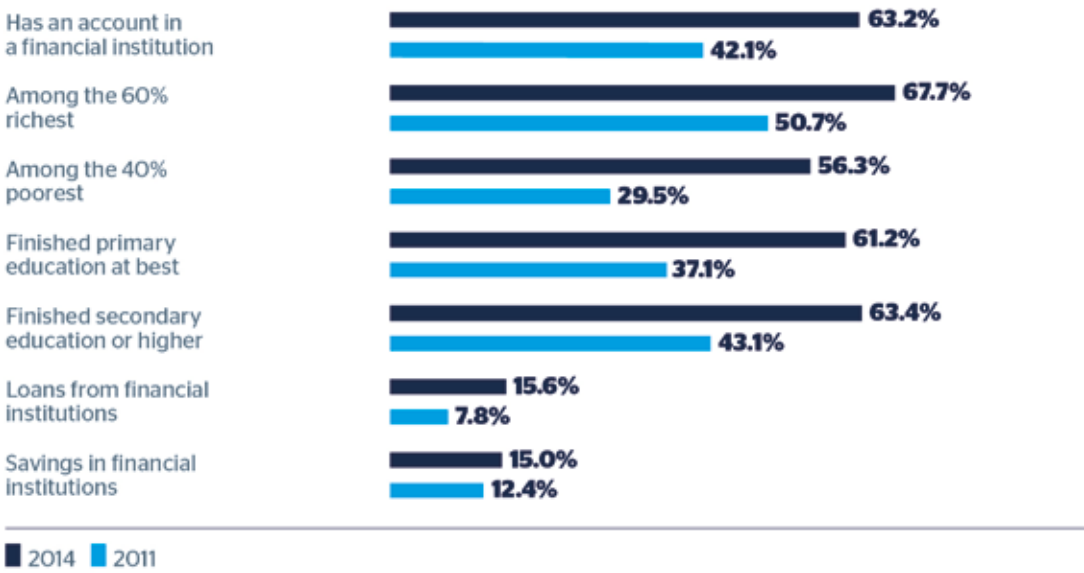
63% of adults over 25 say they have an account in the financial system, a ratio that has improved by 20.3 p.p. since 2011. Because of its established welfare systems, Chile is one of the countries in the region with the highest proportion of adults who have accounts in the financial system.

In terms of products, 36% said they had made some savings the previous year, but only 16% put the money in formal financial institutions. 6% spent it on starting up, running or expanding a commercial

venture. 29% of adults have applied for a loan in the last year, but only 16% did so through a formal financial institution, and only 3% used it to operate, start or expand their commercial venture.

In terms of use, 74% of those possessing an account have made some kind of movement during the previous year. 37% have made one or two movements in their accounts every month, whereas only 31% of adults have made more than three transactions a month.■

Financial inclusion (% adults)



Source: World Bank Global Findex.

Notes (1) November 2016. (2) Ministry of Work & Social Welfare. (3) Casen survey, 2015. Ministry of Social Development. (4) Global financial inclusion, Global Findex.

Microserfin **Panama**

Social Performance
Report 2016



**Measuring
what really
matters**

Table of contents

“We are merely peasants, sowing seeds of faith on an uncertain path of events, shared experiences and dreams of our Latin American land”.

Rubén Blades

Microserfin Description 422 Management team and board 425	Measuring 2016 Social performance results Our clients 428 Our clients' businesses 432 Our clients' development 434 What really matters Stories of achievement Silvana 444 Víctor Cervelio 448 Heydi Alonso 452	Special projects <i>Casafin</i> 454 Macroeconomic context Panama 460
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Towards greater equality and less poverty

Microserfin has a team of over 240 professionals working to reduce the levels of poverty and vulnerability of their clients all over the country, but especially in rural areas. To this end, in November 2016 Microserfin signed the 'National Entrepreneurial Pact' to boost the country's economic development, levels of equality and poverty reduction.

Soluciones de Microfinanzas S.A. (Microserfin) has a strong track record in Panama. Its key purpose is to improve the living standards of low-income entrepreneurs and their families, through Responsible Productive Finance. A team of 243 professionals drives the organization's commitment every day to strengthening its clients' potential, reducing their levels of poverty and vulnerability and sowing prosperity in disadvantaged population segments.

The institution has nationwide coverage, with particular emphasis on rural areas, where Microserfin remains true to its promise to serve entrepreneurs, whom it guides at the outset and during the expansion of their farming businesses, with personalized advice from its specialist officers.

Microserfin is a member of Panama's *Strategic Entrepreneurial Board*, which brings together the country's key public and private sector and academic bodies to promote the right conditions for stimulating enterprise in the country. This *Strategic Board* reports to the Panamanian Government's Micro, Small & Medium Enterprise Authority (AMPYME), and develops programs for these entrepreneurs and businesspeople.

In 2016 Microserfin signed the *National Entrepreneurial Pact*, to boost the country's economic development, equality and poverty reduction. With the implementation of this nationwide pact, Microserfin is reaffirming its commitment to improve standards of living for low-income entrepreneurs and their families.



Microserfin received an award at the IX APC Awards, held by the Panamanian Credit Association (APC) every year, recognizing the financial and commercial bodies that best, and most thoroughly and accurately report the information necessary for the benefit of the system, the country's economy and their clients. Microserfin was awarded the prize in the Updating category, from 100 institutions that had been nominated.

In 2016, in line with its vision of generating opportunities for social and economic development using productive and sustainable microfinance services, Microserfin originated around USD 21.34 mn in productive credits by means of over 14,486 credit transactions, as a palpable demonstration of its commitment to support its clients'

Microserfin received an award at the IX APC Awards held by the Panamanian Credit Association (APC) in the Updating category, from among 100 nominated institutions.

development. In the same year the institution also improved its service network for entrepreneurs, opening a new office in Sabanitas Colón, bringing the total number of offices in the country up to 11.■

Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)	Nº of employees
25,523,141	243
Amount disbursed in 2016 (USD)	Nº of offices
21,337,742	11
Nº of disbursements in 2016	People receiving financial education
14,486	6,227
Average disbursement in 2016 (USD)	
1,473	

Management team and board

Management team		Board
Luis Germán Linares General Manager	Arquímedes Rivera Senior Production Manager	José Antonio Colomer President
Jacqueline Rodríguez Transformation & Innovation Manager	Ericka Pastore Human Talent Manager	Arturo Gerbaud Member and Secretary
Hector Ángel Distribution Manager	Onilda Rodríguez Audit Manager	Margarita Correa Member
Sandra Soler Senior Control Manager	Stephanie Carneiro Legal department	Mercedes Canalda Member
Rosalía Espinales Compliance Manager		Gissele González Member
Sebastián Acevedo Senior Administration & Finance Manager		

Source: Microserfin. BBVAMF calculations.

Measuring

At the end of 2016, 71% of clients served were classified as *vulnerable*. Client sales volumes remained stable, in general, with positive growth rates that were higher than in previous years. As clients become less *vulnerable*, there are efficiency and cost gains, improving margins.

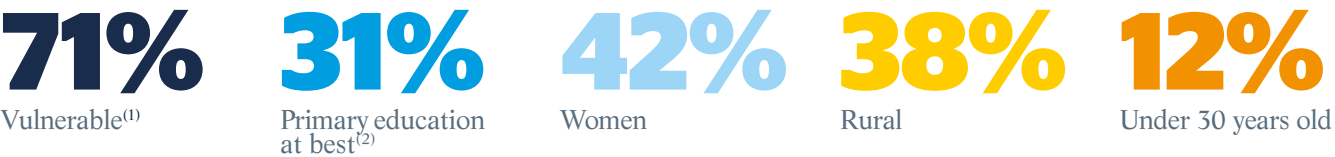


Total clients
17,084
New credit clients
5,506

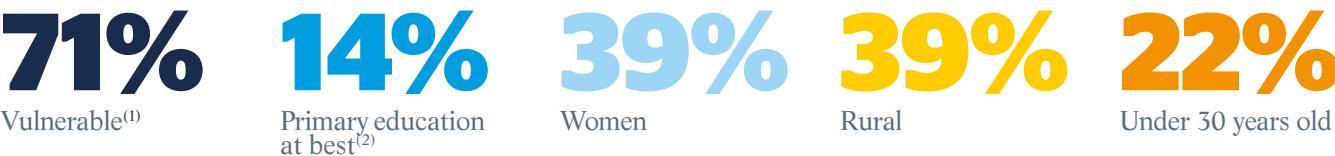
(1) According to the Economics & Finance Ministry's poverty line (differentiating between rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three, are classified as *vulnerable*.

(2) Proportion of all credit clients who have completed primary education, at best.

Total credit clients as of Dec 31, 2016



New credit clients 2016



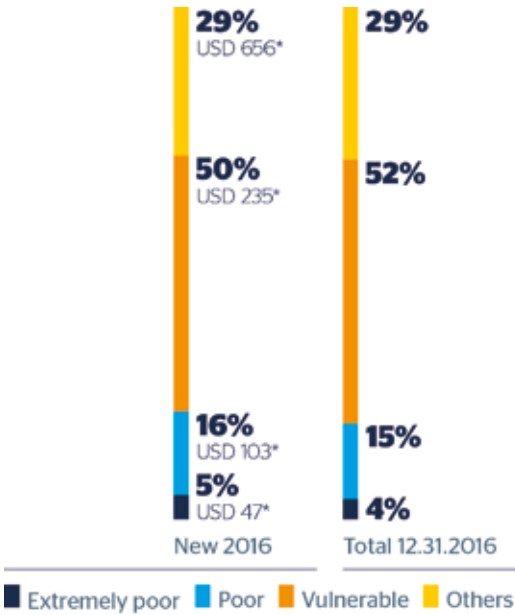
Our clients and our scale

Microserfin strives to become a benchmark in the medium term in serving low-income entrepreneurs in Panama, in both the urban and rural environments. Currently 38% of its clients come from the latter segment.



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

Clients' economic vulnerability (1)

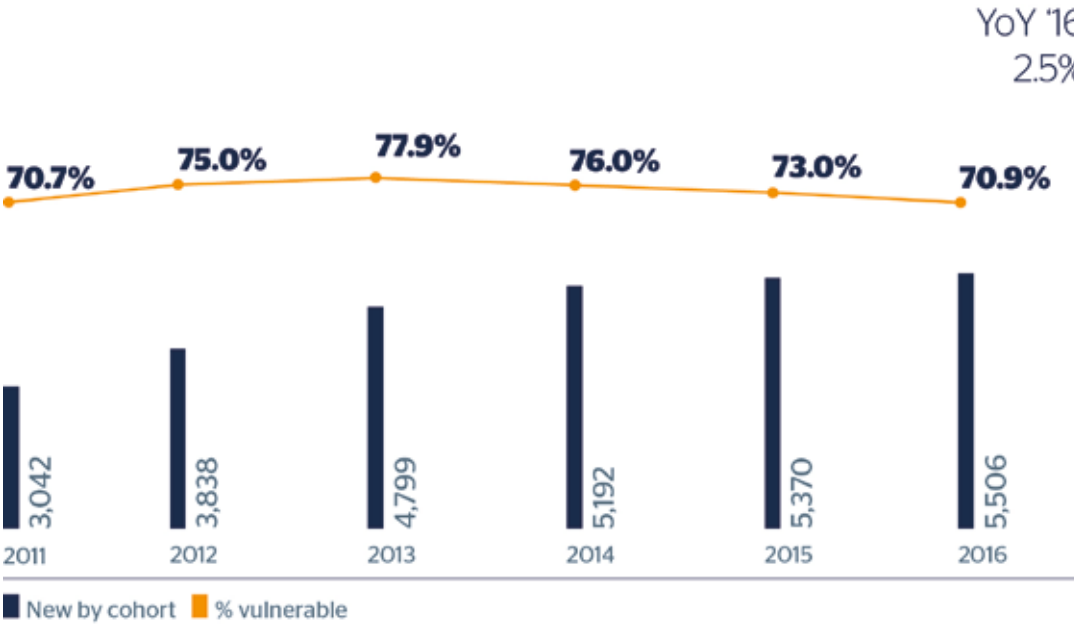


* Monthly net income per capita.
Source: Microserfin, BBVAMF calculations.

Clients classified as *vulnerable* are earning an average of **USD 6.4 per person/day** from their microenterprises.

- In a slowing economic environment (2016 GDP 5.8%; 2015 GDP 5.4%), the rate at which new clients are signed up has eased (growing by 2.5% in 2016 compared to an average between 2011 and 2015 of 16%) and it is difficult to maintain the proportion of *vulnerable* clients. 71% of new clients served are *vulnerable*.

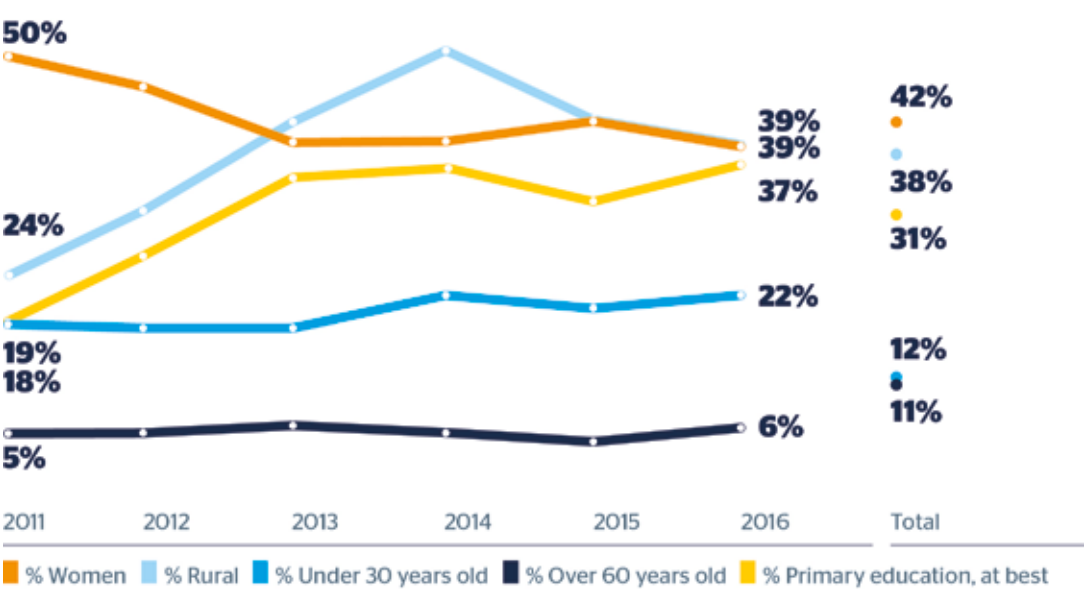
New credit clients (2)



(2) New clients (without previous loans) signed up over the year.

Source: Microserfin, BBVAMF calculations.

Profile of our clients (3)



Source: Microserfin. BBVAMF calculations.

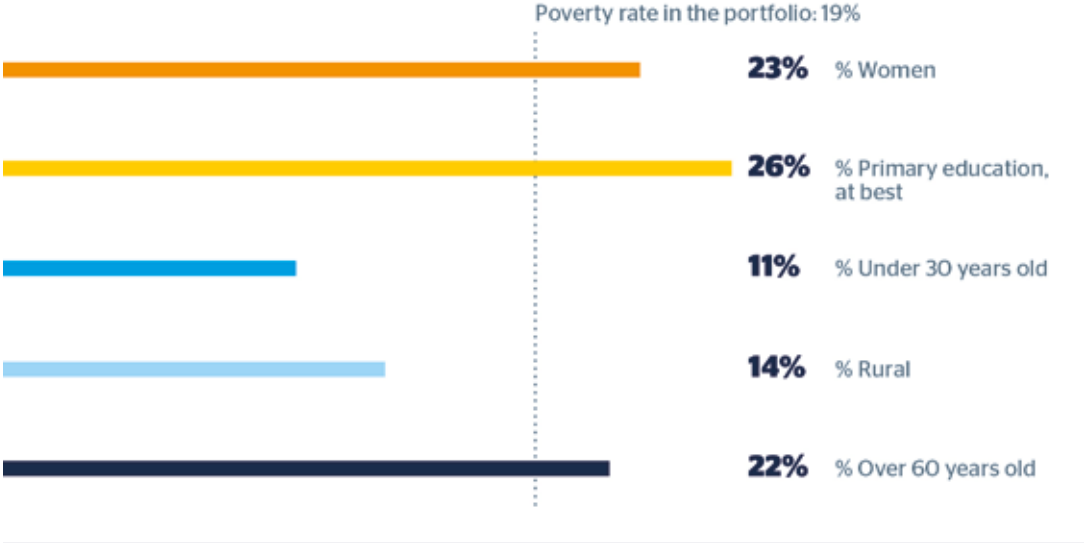
In terms of clients' vulnerability profile, **fewer women and clients in the rural environment were signed up in 2016** although penetration of the latter segment, the rural, continues to be one of the strongest in the Group, together with Bancamía (47%) and Banco Adopem (43%).

It is noticeable that older people (over 60) are poorer, on balance, than clients in the portfolio as a whole (which is not the case in other institutions), perhaps because of the lack of social cover.

- There is higher *poverty* among clients who only have primary education (segment in which client enrollment increased in 2016) and among women.

- Despite the higher poverty rate in rural areas, fewer Microserfin clients in these environments are *poor* than in urban areas (14% vs. 22%).
- The average sales figures of clients signed up over the last three years has stabilized, after the change in focus (2011-2013) to originating loans with more *vulnerable* clients, with smaller enterprises.
- The average disbursement has grown faster than sales and, as such, the weight of the installment against sales has increased a fraction, remaining at between 5%-6%, a small burden compared to other markets.

Poverty profile (4)



Source: Microserfin. BBVAMF calculations.

New clients' sales, disbursements USD & weight of installment (5)



Source: Microserfin. BBVAMF calculations.

(3) New clients (without previous loans) signed up over the year. The total gives clients current as of 12.31.2016.

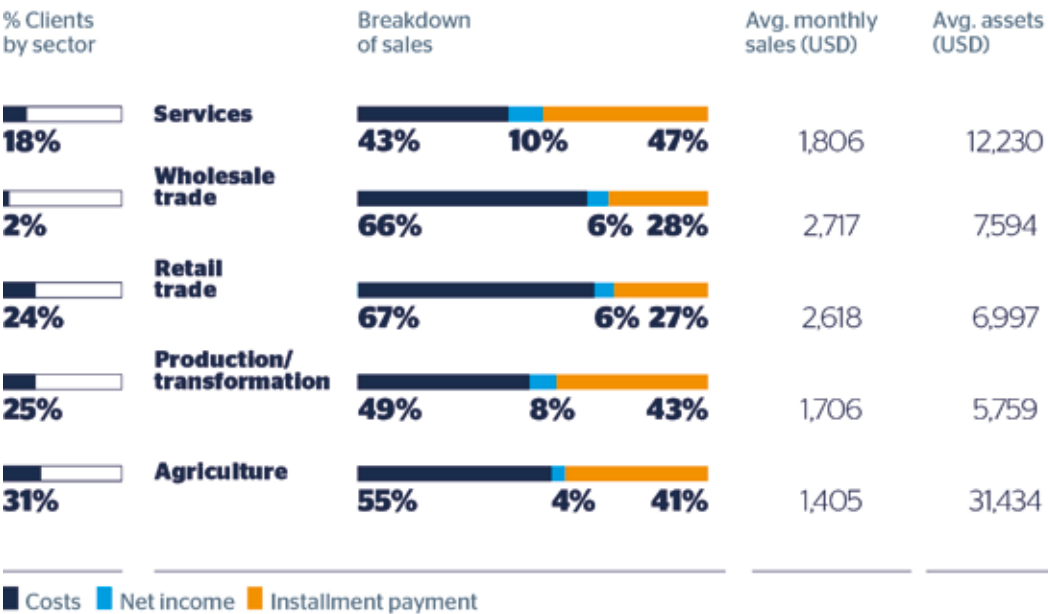
(4) Clients current as of 12.31.2016.
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

Our clients' businesses

Microserfin is an institution serving a wide range of sectors; it has a particular specialization in *agriculture* (31%), which concentrates those of its clients who are classified as *poor* (23%).



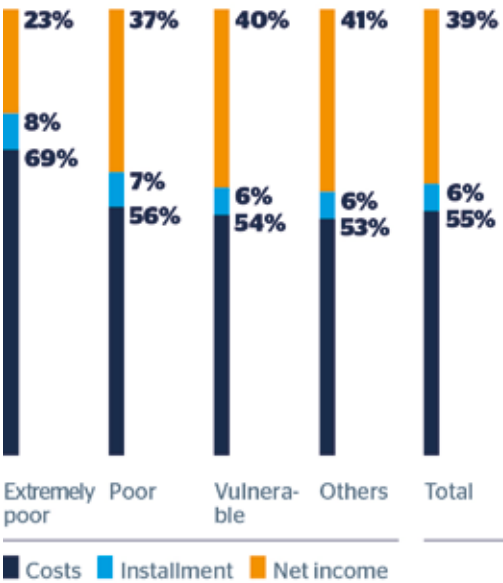
Average margins, sales and assets, by sector (6)



Source: Microserfin. BBVAMF calculations.

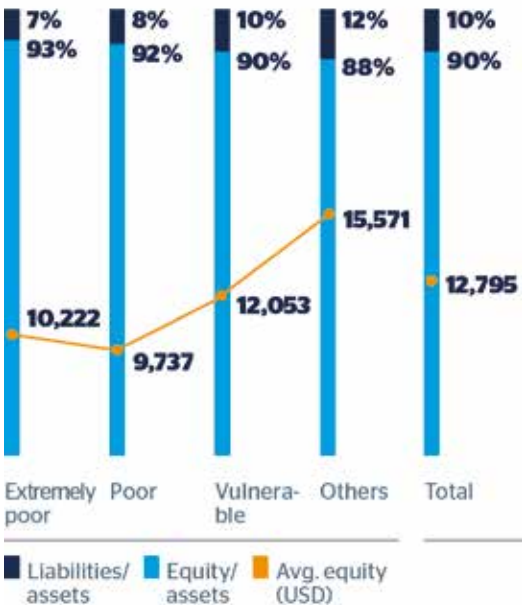
- Microserfin clients work mainly in *agriculture* (this sector has grown since 2015), *production/transformation* and *retail trade*, but a wide range of sectors are represented.
- *Retail trade* offers low margins but also low asset levels, so barriers to entry are correspondingly low. Clients probably sell products with low added value (small margins) and so need high turnovers to make a profit.
- In the *agriculture* segment, the institution serves clients with high levels of assets, compared to the rest, but small net incomes (although the margins are high, the sales level is low).
- As *vulnerability* lessens, efficiency rises and costs drop, which improves the margins: the net income over sales of clients classified as *others* is nearly double that of clients classified as *extremely poor*.
- The relative weighting of the installment payment has remained fairly stable, with a difference of just two percentage points between the most and the least *vulnerable* clients.
- Microenterprises led by *non-vulnerable* clients are more highly leveraged, with liabilities representing 12% of total assets (*others*).

Expenses and margins as % of sales, by vulnerability (7)



Source: Microserfin. BBVAMF calculations.

Assets, liabilities and equity by vulnerability (8)



Source: Microserfin. BBVAMF calculations.

(6) Clients current as of 12.31.2016

(7 & 8) Clients current as of 12.31.2016.

Our clients' development

As well as posting positive average growth rates in sales, net incomes and assets, those clients who continue their partnership with Microserfin generate new job positions in their microenterprises.



- Client retention is fairly stable across cohorts, with an average of 70% staying after a year. As to long-term retention rates, there is a slight improvement between cohorts: after 3 years, 31% of clients are still with the institution vs. 29% on average at the end of 2015.
- Recurrence figures show that half of clients who take out one loan come back for a second.
- After the first cycle, many clients are lost (clients who only ever take out one loan); from the second cycle onwards, more than half the clients stay with the institution (50% of original clients receive a second disbursement, 31% stay for a third loan, in other words, 62% of clients taking a second loan also take a third) and apply for another loan.

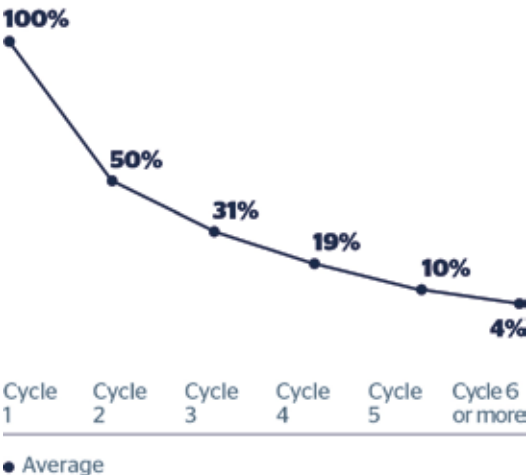
(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention (by cohort) (9)



Source: Microserfin. BBVAMF calculations.

Credit client recurrence (10)



Source: Microserfin. BBVAMF calculations.

- Clients classified at the outset as *extremely poor* enjoy, on average, strong growth in their first cycle, with their relative average *per capita* net income rising from 0.38 to 0.69 (+ 81%). On average, after four cycles, they have not broken through the poverty line.
- Clients classified as *poor* need on average two credit cycles to overcome poverty and their growth is fairly sustained.
- *Vulnerable* clients grow more slowly; after four cycles they have not reached the *non-vulnerable* bracket (three times the poverty line).

(10) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle one and two is 372 days, between cycle two and three is 385 days; between cycle three and four is 373 days, between cycle four and five is 341 days and between cycle five and six is 273 days.

(11) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of 1 when it is the same as the poverty line.

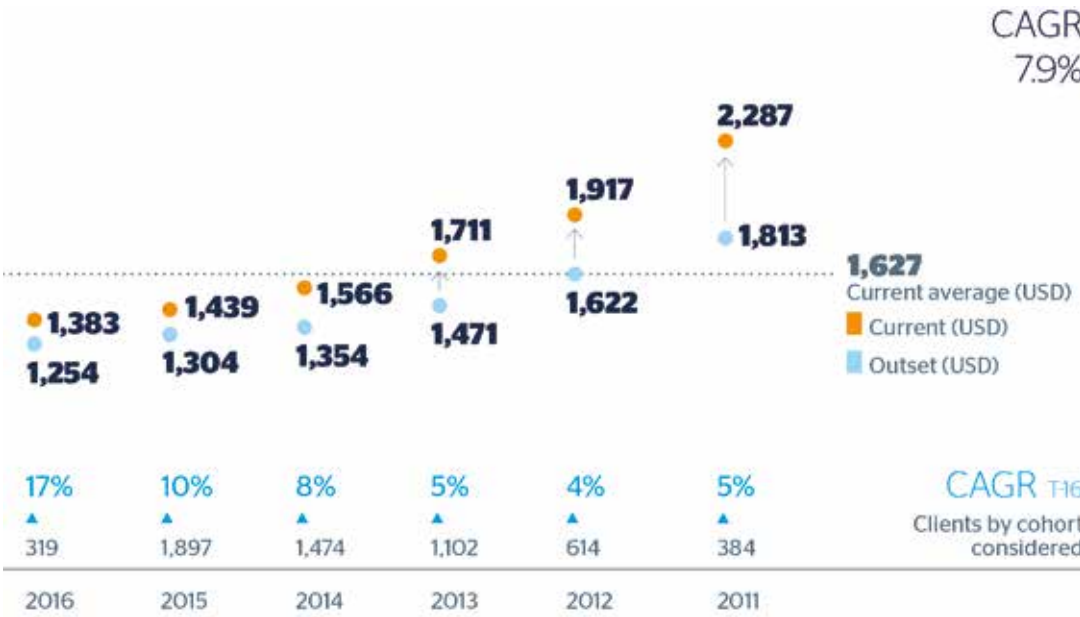
Per capita net income relative to poverty line (11)



Source: Microserfin. BBVAMF calculations.

- Clients expand in terms of sales, net incomes and assets. (Note: CPI is 1.5% and the economy is growing at 5.4%).
- The sales and asset figures at the outset and at the end have been sliding a little in the last three years, partly because of the focus on more *vulnerable* clients; nevertheless, net incomes are fairly stable, showing that efficiency has improved.
- The growth rate of assets is higher than that of sales and net income; this suggests the money is being reinvested in the business.
- In the years when more *agriculture* clients are signed up, the portfolio assets at the outset are higher (2013-2015), with slightly lower growth rates because of the relative asset/growth proportion.
- In total, average assets have increased from USD 13,946 in 2015 to USD 15,460 in 2016.

Average monthly sales (by cohort) USD (12)



Source: Microserfin, BBVAMF calculations.

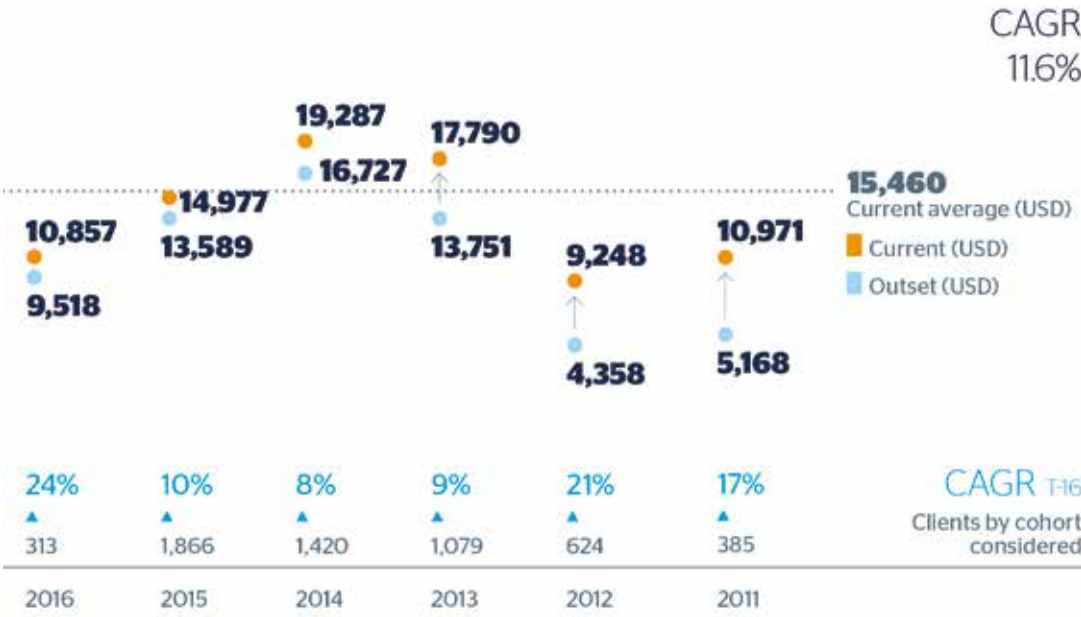
(12) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Average monthly net incomes (by cohort) USD (13)



Source: Microserfin, BBVAMF calculations.

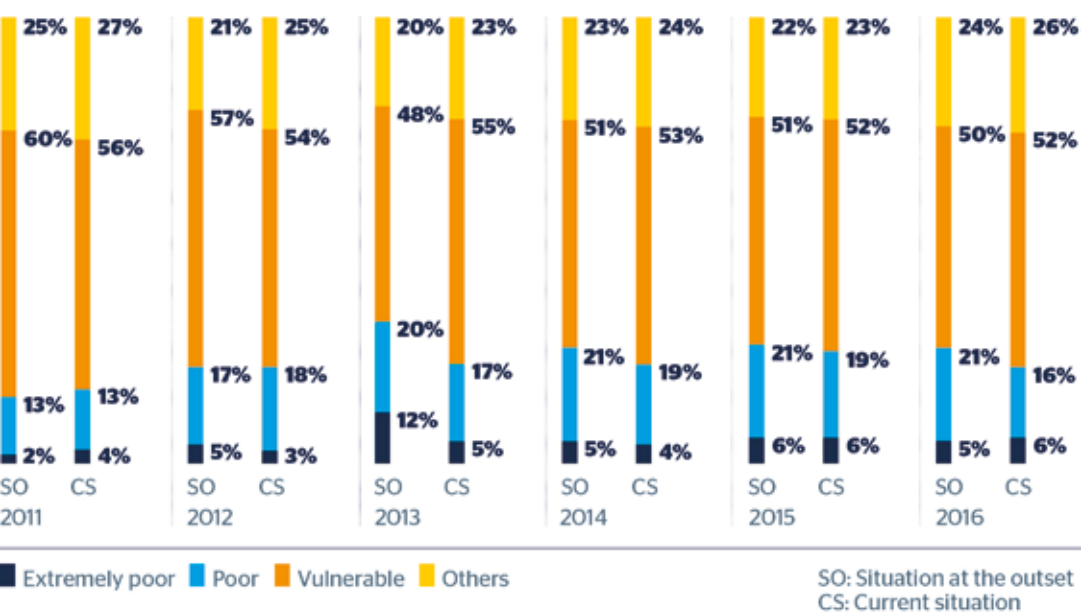
Average assets (by cohort) USD (14)



Source: Microserfin, BBVAMF calculations.

(13 & 14) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Change in vulnerability levels (15)

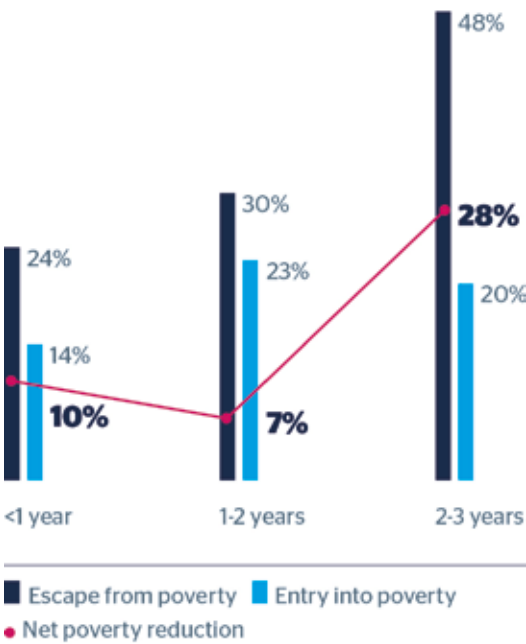


Source: Microserfin. BBVAMF calculations.

During the second year, 29% of clients manage to break through the poverty line and 48% do so the following year. However, a high proportion of clients do not succeed in stabilizing their incomes and fall back below the poverty line.

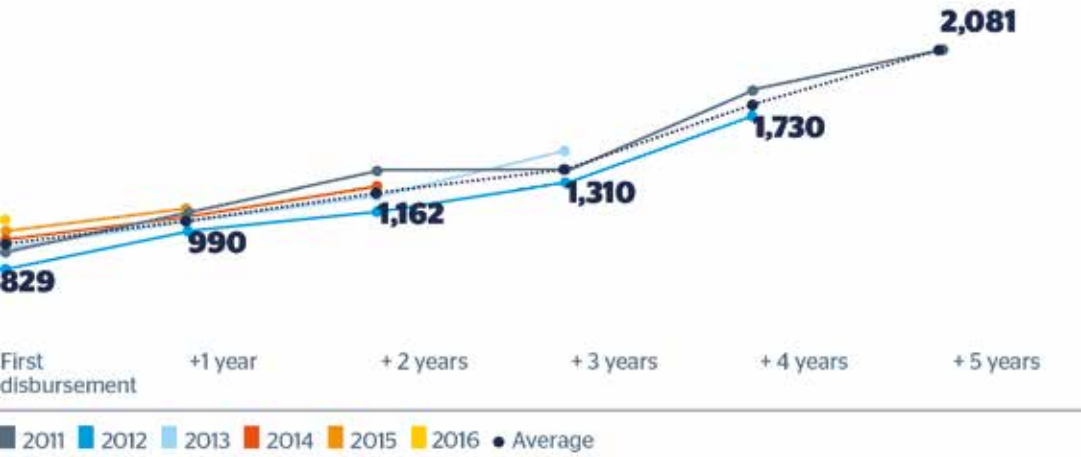
- The reduction in the *poverty* segment is volatile: in the second year poverty falls by 7% and another year is needed before there is a more significant reduction (28%).

Net poverty reduction (16)



Source: Microserfin. BBVAMF calculations.

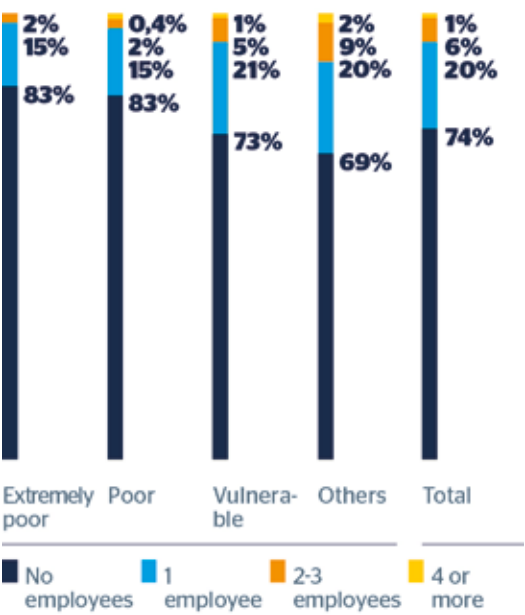
Average disbursement USD per transaction (by cohort) (17)



Source: Microserfin. BBVAMF calculations.

- During 2016, 3,814 people raised their *per capita* net incomes, and of these, 471 overcame the poverty line.
- Disbursements grow in proportion to the time the client has been with the institution, and significantly so when the 4-year mark is reached.
- Initial disbursements are growing from cohort to cohort (in nominal terms), although the annual increases remain the same.
- As clients become less *vulnerable*, their businesses have the capacity to take on more employees; of those in the *others* category, 31% have one or more employee in their business. Overall, 74% of microenterprises only serve to provide employment for the owner.

Microenterprise employee breakdown (18)



Source: Microserfin. BBVAMF calculations.

(15) Situation at the outset (SO) and the current situation (CS). Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.
(16) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.
• Escape from poverty: clients classified as *poor* at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as *poor* at the outset.
• Entry into poverty: Clients classified as *non-poor* at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as *poor* at the outset.
• Net reduction: escape from poverty, less entry into poverty.

(17) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.
(18) Number of employees in the enterprises of clients current as of 12.31.2016.

6% of Microserfin microentrepreneurs on average are capable of generating at least one new job position after two years. In addition, this percentage increases as the cohort matures, despite the *vulnerable* profile of the clients served (between 2011 and 2014).

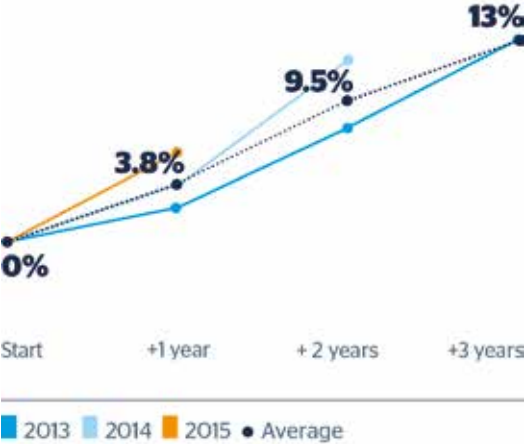
- Around 9.5% of Microserfin entrepreneurs have improved their housing after two years. Panama's housing deficit is a nationwide challenge, and Microserfin markets a product in support of housing improvements (see *Casafin special project*).

Job creation (by cohort) (19)



Source: Microserfin. BBVAMF calculations.

Client improvement in housing (by cohort) (20)



Source: Microserfin. BBVAMF calculations.

(19) Increase in the number of employees in the microenterprise compared to the situation at the outset, for clients current as of 12.31.2016, in each cohort. Averages from cohorts between 2011 and 2015.
(20) Proportion of clients still current as of 12.31.2016 in each cohort (2013-2015) who have improved their housing conditions, from rented to owned or changed to a newer home.



What really matters

The stories below bring to life the way we all work in Microserfin.

Víctor Cervelio Rodríguez upholsters vehicles; with the loans he has received from Microserfin he has opened a second workshop, bought work equipment and pays his three employees. Silvana, a primary schoolteacher in exile, received several loans which she used on her pastry making: she cooks at home and sells her desserts to stores. Heydi Alonso serves these entrepreneurs, with whom she shares dreams of achievement, personal growth and a better standard of living.



Silvana, refugee and entrepreneur

After fleeing from Colombia, where her life was in danger, Silvana, who is a primary school teacher by profession, received help from Microserfin, in the form of loans, which she used for the wherewithal to make cakes, applying what she had learned in a restaurant. She cooks at home and then takes the cakes around to a number of stores. She also sells costume jewelry on the go and directly in-company.



Scan the
QR code and
discover
the story
of Silvana



Silvana bears the mark of the Colombian conflict tattooed on her life. She prefers to remain anonymous because she fears possible reprisals from those who forced her to leave her country, her family ... her life. She was a teacher in Cali, where she taught people without resources in rural areas. In 2003, together with other teachers, she set up a group called *Semillero de Paz, Colombia sin futuro* ["Seedbed of Peace in a Colombia without a Future"] to try to prevent the village children from being recruited by the guerrilla and the paramilitaries. But their work annoyed people: "The guerrilla and the paramilitary groups sent several messages to our organisation saying 'We don't want you to carry on doing this work, please leave'. To start with they said 'please' in inverted commas, accompanied by an undertaker's card", says Silvana.

After these initial threats, the nightmare began. The teachers' group was declared a military target, explosive devices were put in the classrooms, while their names and those of their families appeared on the lists of the criminal organization *Aguilas Negras* [Black Eagles]. "The collective disappearances started and my colleagues were murdered atrociously", she continues.

When they went to get Silvana, she pretended to be deaf and dumb and they didn't recognize her. So she managed to avoid answering the interrogations about herself. Even though they beat her up and left her lying on the ground, she saved her life. That was when she decided to flee her country and go to Panama, with the idea of one day returning to her home.

But time passed and the situation in Colombia became worse and worse. In Panama she couldn't work as a teacher because she didn't have a work permit, and she couldn't find a way of keeping her head above water. She went through some very hard times, although she was able to reunite with her old-

Microserfin provides opportunities to entrepreneurial refugees within the framework of an agreement with UNHCR and the Panamanian Red Cross.

est son who had also fled Colombia. When she had been in Panama for three years, she decided to reach out to Microserfin.

This institution offers opportunities to entrepreneurial refugees thanks to an agreement with the United Nations High Commission for Refugees (UNHCR) and the Panamanian Red Cross. A commitment that enables exiles to access microloans and training, in order to reduce their vulnerability and make it easier for them to enter the world of work and financial services.

Silvana, with recognized refugee status, was able to access the services offered by Microserfin: "I was surprised when the loan officer got in touch, came to visit me and in practically three days I had my first loan. That was

Name: Silvana (an alias, to protect this entrepreneur's identity).
Business: Makes cakes and sells costume jewelry.
Location: Panama City.
Total loans: Two, totaling USD 1,600.



a great satisfaction for me because someone believed in me again”, she remembers from her first contact with the institution.

She decided to make the most of her work experience in a restaurant to make cakes and desserts. Thanks to the help from Microserfin, she cooks in her home and then takes the dishes to a number of stores. She has already won the loyalty of her clients and, after two years, things started going well. She expanded her business and with a second loan from Microserfin she now sells costume jewelry on the go and directly in-company.

“This support gave me the opportunity to reinvent myself. The loan that Microserfin gave me was wonderful for me as a person,

as a woman and as a human being”, she concludes. According to UNHCR, there are currently over 1,500 refugees living in Panama who, like Silvana, have fled from Colombia in search of a better life.■

“I was surprised when the loan officer got in touch, came to visit me and in practically three days I had my first loan. That was a great satisfaction for me because someone believed in me again”.



Thanks to the UNHCR agreement, entrepreneurial refugees get a second chance.



Silvana shows the jewelry which is helping her forge a new future.

Sewing for a more comfortable future



Scan the
QR code and
discover
the story
of Víctor



Víctor Cervelio Rodríguez's business, *Tapicería Víctor*, is upholstering vehicles. The ten loans he has taken out have enabled him to open a second workshop, buy work equipment, pay his three employees and take on another three on an occasional basis when there is more demand.

Víctor's workshop is littered with sewing machines, covers, fabrics, cushions and other upholstery materials. He is an upholsterer and lathe operator by trade. 33 years ago he decided he wanted to be his own boss. "I realized that upholstering was the art that could bring us success, and I took the decision to set up my own business", he explains.

With financial help from some relatives, he rented premises and began promoting his business, *Tapicería Víctor*. Later on, his father gave him a plot of land where he constructed a building to house his workshop. Over time, he purchased another urban site in the center of *El Coco*, an area with commercial potential, where he built a larger warehouse.

Altogether he has had ten loans from Microserfin, which have enabled him to buy work equipment, pay his employees and make improvements to his commercial premises. He has always covered his annual business growth needs with financing from this institution.

Name: Víctor Cervelio Rodríguez.
Age: 54.
Business: *Tapicería Víctor*.
Location: Chorrera (Panama).
Employees: Three.
Total loans: Ten, for a total of PAB 22,000.
Other products and services: SME.
To highlight: Víctor has been a client since 2011 and was designated *Outstanding Son* in his community, because his workshop was one of the first in the area, and the first to generate employment.



Victor in his workshop in the center of El Coco.



“I was able to pay for both of my children and my wife to study. All thanks to the upholstery workshop”.

At the moment, Víctor has two commercial premises and three people on payroll; when there is a peak in demand he takes on another three occasional workers. He has diversified his products and makes upholstery for cars and buses, furniture, awnings and office furniture. His workshop is one of the few in Panama specializing in upholstery for vehicles. His customers are in Colón Panamá, La Chorrera, Chame and Coronado.

Altogether he has had ten loans from Microserfin, which have enabled him to

buy work equipment, pay his employees and make improvements to his commercial premises. He has always covered his annual business growth needs with financing from this institution.

“I was able to pay for both of my children and my wife to study. All thanks to the upholstery workshop. Our standard of living is nearly middle class”, explains Víctor proudly, because he could only study up to high school.

“As a businessman I encourage people who have an idea like the one I had to put it into practice. With the help of companies like Microserfin they can do it. The fact is it’s all a question of effort, work and dedication to your craft”, concludes the entrepreneur, while he upholsters the seats of a bus, changing the foam padding with the precision and skill for which *Tapicería Víctor* is known.■



Victor putting the final touches on the upholstery of a bus.

Much more than an officer: a psychologist, educator, confidant and coach

Heydi Alonso serves entrepreneurs in rural areas, where access is not always easy. But bad weather does not prevent her from giving them advice. She likes it when her clients shares their dreams of achievement, of making their businesses grow and that their children get an education and become professionals.

Every day, Heydi gets into her car to help vulnerable entrepreneurs make their dreams come true: to expand their small businesses and find a way to escape poverty. She has worked in Microserfin for 16 years and spent the last 15 advising clients, with excellent results. Not only does she always reach the goals she is set, but she helps her compatriots attain theirs.

Most of Heydi's clients have small urban stalls selling arts and crafts or they sell on the go; the most vulnerable have businesses in their own homes. She looks after entrepreneurs in the Chitré area in the province of Herrera, which includes the municipalities of Monagrillo, Chitré, Parita and Pesé. The last

of these is very remote, where most clients live deep in the countryside.

Getting to some of her clients' businesses is not always easy. More than once, Heydi has had to cross rivers under heavy rain and other bad weather conditions, but she has never stopped looking after them and advising them.

The job: intense but worthwhile

She remembers with affection the story of Julia Margarita Sandoval, an entrepreneur who, thanks to nine loans from Microserfin, is no longer going from village to village

with a foodstall that she set up for the fairs, but now has her own premises.

As well as a loans officer, Heydi describes herself as a mix of psychologist, educator, confidant and coach, because she has managed to connect on such a deep level with her clients that she feels as though they are part of the family. That is why her job is sometimes even more intense.

"I have had the opportunity to work in rural and urban areas. I have found interesting, all-round and successful businesses in both. It is very worthwhile for me to work in rural areas as a loan officer, to travel distances in the midst of nature and share experiences with straightforward people, without formalities, who want to do their best every day, to make their businesses grow, and who dream of their children getting an education and becoming professionals", Heydi tells us, displaying the same passion she shows in her work.

Her action-packed 15 years of experience are a source of many memories, anecdotes and stories. Often, just getting to clients' homes-enterprises is hard: "One day I was in Chumical de Las Minas, on an earthen track where the houses are a long way from one another. I was visiting a client when, suddenly, my car started overheating and broke down. And in the middle of a lonely track two men appeared and helped me with my vehicle", explains this officer. Her experiences showcase the work of Microserfin, which reaches the most vulnerable and remote communities in Panama.

"I like the work I do because I identify with our core mission as an institution: to support these people in their business and in their desire to overcome obstacles and grow."



Heydi, just about to visit one of her clients in the Chitré area.

To achieve her task she receives continued online training given by the BBVA Microfinance Foundation through its Microfinance Campus. "I find it very helpful and interesting, because we stay up to date on issues that are directly relevant to the environment we work in every day", says Heydi. "I like the work I do in Microserfin because I identify with our core mission as an institution: to support these people in their business and in their desire to overcome obstacles and grow", concludes Heydi.

‘Casafin’, towards decent housing

The *Casafin* loan is an individual microcredit product designed to help low-income families to improve their home gradually, correcting shortcomings in clients’ housing.

The 2030 Agenda for Sustainable Development includes the goal of making cities and human communities inclusive, safe, resilient and sustainable. As a means towards our clients accessing decent housing, Microserfin provides a product that allows clients to meet their home improvement needs little by little, with repairs, upgrades and phased construction.

Housing deficit

The ‘housing deficit’ (understood as the lack of resources to own and inhabit a decent home where you can sleep, wash, feed yourself and live under one roof with your family) is a problem that impacts on the standard of living of those who suffer it and entails other social exclusion factors.

Panama’s housing deficit is estimated at around 150,000 residential units, equivalent to 14% of the country’s housing. Economic growth from 2000 onwards led to a steep drop in this percentage, which had previously been as high as 30%, but in recent years the levels have been stagnant⁽¹⁾. It is thus an issue for the country’s economy and a development factor for Microserfin’s vulnerable clients.

The *Casafin* loan is an individual microcredit product designed to help low-income families in the informal economy (mainly microentrepreneurs) to improve their homes gradually with a *Technical Building Assistance* plan. This product does not have to be backed up by mortgage collateral since, as with all Responsible Productive

Finance products, it is granted subject to the revenue-generating capacity of our clients’ micro-enterprises and of the business assets that sustain their enterprise.

The program began in May 2012 with a pilot. The feasibility studies, product design and financing were managed within the scope of a technical cooperation agreement with the Interamerican Development Bank (IDB). An important differentiating factor of this initiative is that it is reinforced with a Technical Building Assistance plan which supports the family in planning and organizing the improvements, choosing the necessary materials and quotes, as well as a rigorous ‘post-disbursement’ follow-up to make sure their home improvement plan is on track and to verify the standards of construction.

As of today, the product is being used throughout the country, except for the provinces of Bocas del Toro, Colon and Darién, and is principally for clients in the trade, services and production sectors.

Since it began in May 2012, 4,284 projects have been financed for 2,948 low-income clients, who have been able to make improvements to their homes or business premises. As of September 30, 2016, *Casafin* accounts for 9.7% of the total loan portfolio, making it an important product in the institution’s portfolio mix.

Our target client’s needs

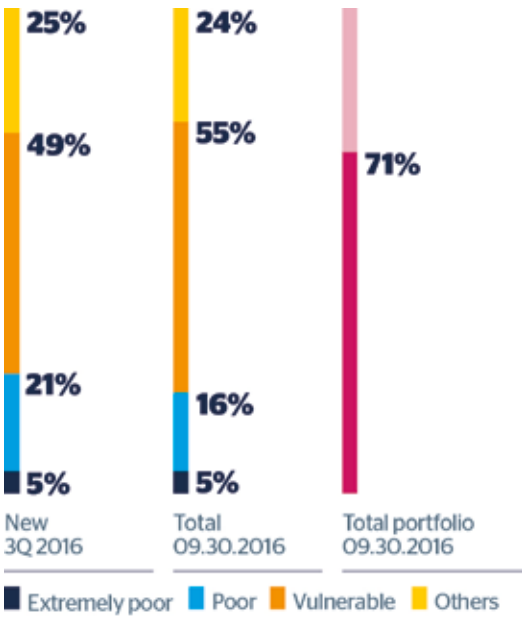
The target client profile encompasses clients in rural or urban areas, with housing or land that belongs to them or to family members. These family units should have a microenterprise as their main source of income. *Casafin* offers loans to meet the needs of low-income families to improve their housing, especially families who are excluded from the banking system and, as such, from accessing a mortgage. Clients served by this special program (current in September 2016), are 5 p.p. more *vulnerable* than Microserfin clients as a whole at September 30, 2016.

(a) New *Casafin* clients in the third quarter; current *Casafin* clients at 09.30.2016 vs. *vulnerability* of all Microserfin’s current clients at 09.30.2016. According to the poverty line set by the Ministry of Economics & Finance (differentiating between rural and urban environments).

The key purpose of this product is to bring forward the building of a suitable home, adapted to the construction that is traditional in that particular community, in stages or gradually, thus contributing to reducing Panama’s housing deficit.

This product’s main purpose is to bring forward the building of suitable housing (upgrades, repairs or the construction of part of the home), adapted to the construction that is traditional in that particular

Monetary vulnerability of Casafin clients (a)



Source: Microserfin data. BBVAMF analysis.

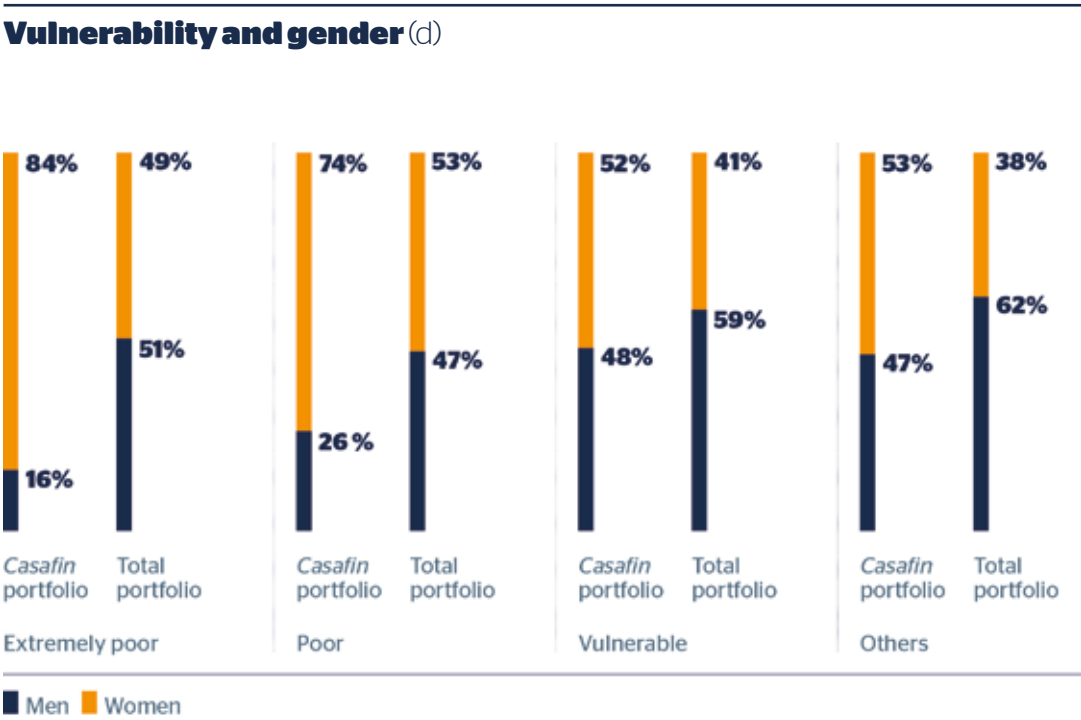
community, in stages or gradually. This type of product aims to match unsatisfied demand in this segment, especially for women microentrepreneurs, since it tends to be the women who invest their surplus in the home and the family.

The new loans are serving clients who are more *vulnerable* than clients served by the institution as a whole (74.7% of vulnerability among *Casafin* clients in 3Q16 vs. 70.3% of all new clients over the quarter). So this is clearly a product that helps us to maintain our focus on the most *vulnerable* clients.

The clients taking out this loan for home improvements are mainly women. Of current clients as of September 30, 2016, the percentage of women with *Casafin* is

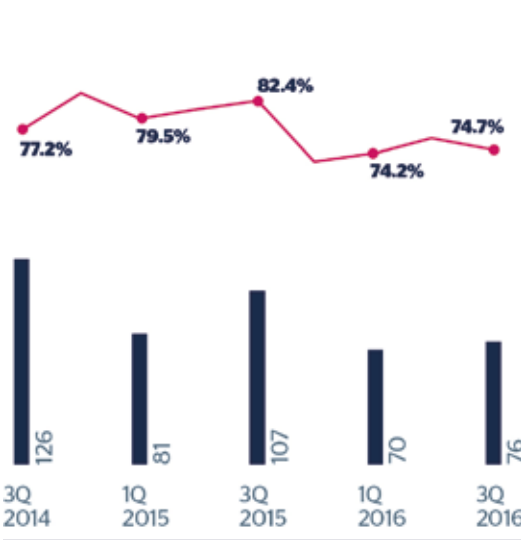
57% whereas in the portfolio as a whole they make up 42% (ie. 37% more than the average for the portfolio). Furthermore, the profile is highly urban and has higher educational levels than the average for the portfolio (23% of clients with *Casafin* have primary education at best vs. 32% for the portfolio as a whole), although the second factor is also conditioned by the fact that most clients live in the urban environment.

The *vulnerability* profile of female *Casafin* clients reveals a high proportion of women in the most *vulnerable* segments, much higher than in the total client portfolio, which is a reflection of this product's reach with the most vulnerable sectors of the population, women in particular, because of the impact that this has on their families.



Source: Microserfin data. BBVAMF analysis.

New credit clients who have taken out *Casafin* (b)

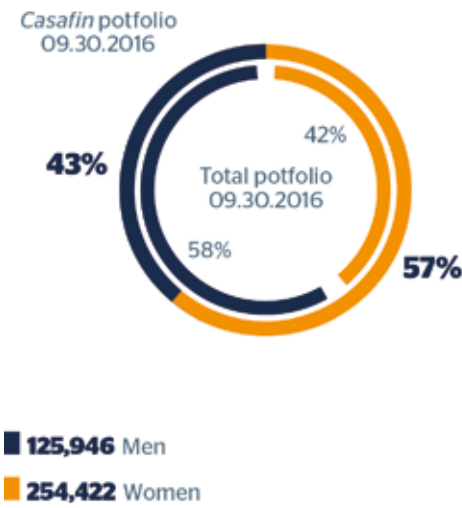


Source: Microserfin data. BBVAMF analysis.

(b) New *Casafin* clients by quarter and level of economic *vulnerability*. According to the poverty line as set by the Ministry of Economics & Finance (differentiating between rural and urban environments).

(c) Proportion of women in the client portfolio with a *Casafin* product current as of 09.30.2016.

Clients by gender (c)



Source: Microserfin data. BBVAMF analysis.

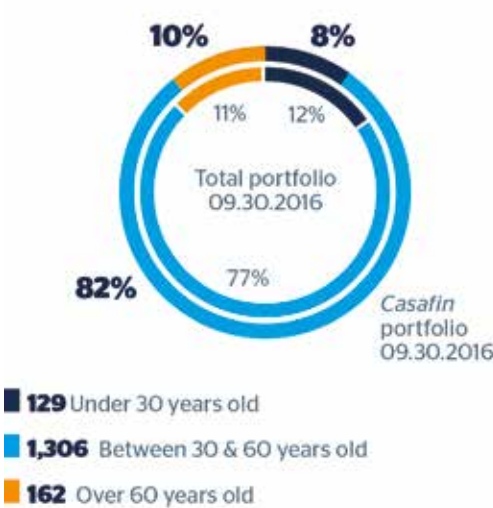
(d) Monetary *vulnerability* of *Casafin* clients vs. total portfolio at 09.30.2016. According to the poverty line as set by the Ministry of Economics & Finance (differentiating between rural and urban environments).

(e) Number of clients by age current in the portfolio at 09.30.2016.

Since it is a home improvement product, the young person's segment (under 30 years old) is under-represented compared to total current clients. The client group serviced by this product is over 30 (82% of the *Casafin* portfolio) with their own home (99% of clients have their own home).

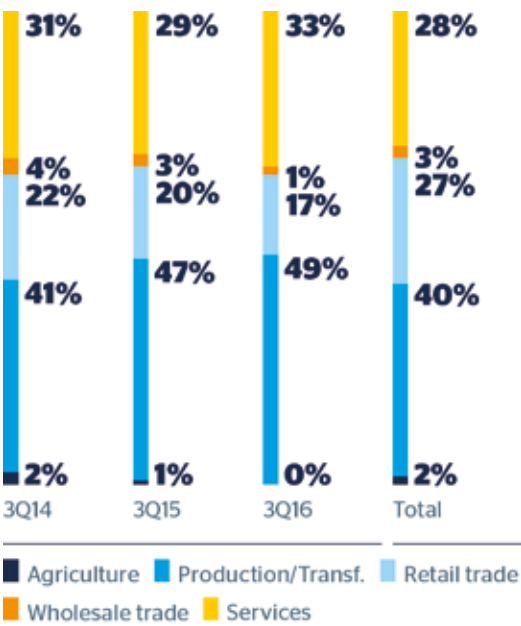
The clients taking out this loan for home improvements are mainly women. In the total portfolio as of September 30, 2016, 57% of women had a *Casafin* product, whereas in the portfolio as a whole they make up 42%.

Client breakdown by age (e)



Source: Microserfin data. BBVAMF analysis.

New clients - Sector breakdown (f)

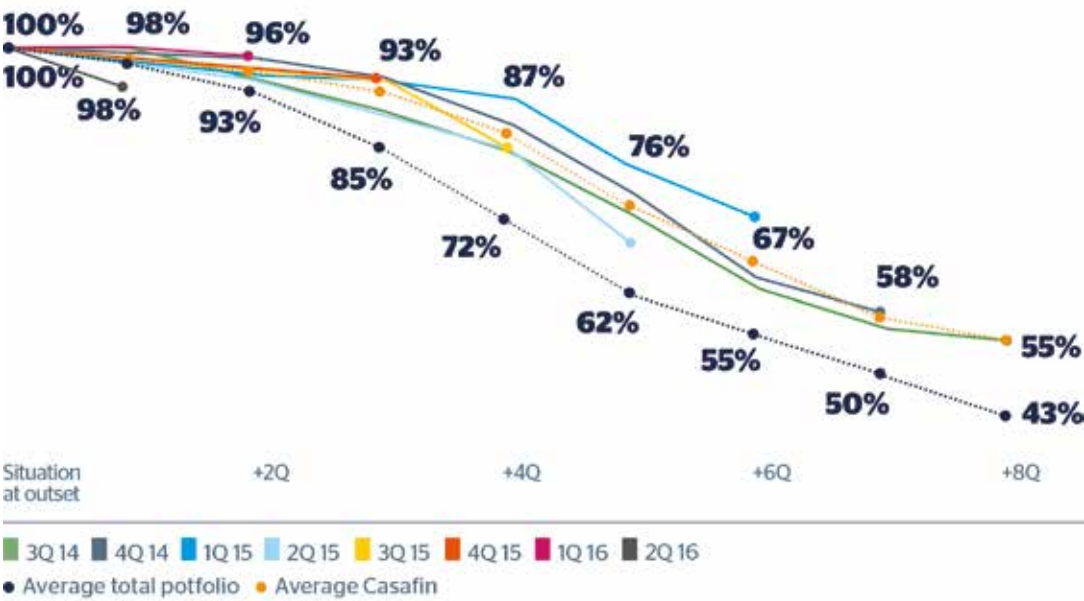


Source: Microserfin data. BBVAMF analysis.

Casafin clients' businesses, as the product definition itself indicates, are mainly *production* and *transformation* (49% of new clients vs. 40% of the total *Casafin* client portfolio current at 09.30.2016) and *services*, accounting for 27% of all clients. Conversely, the participation of *agricultural* clients is very low.

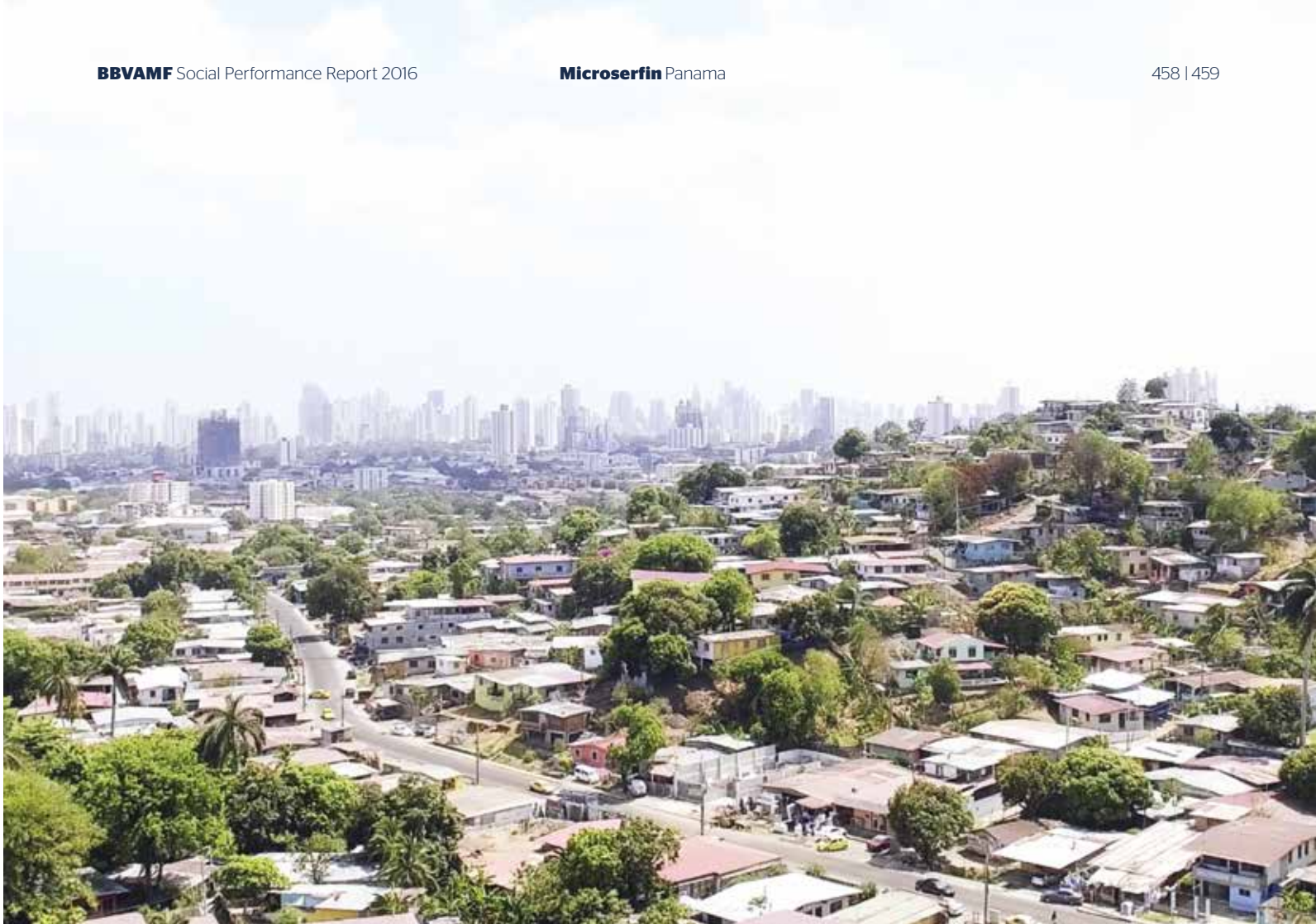
This product generates long-term relationships, so it encourages clients to remain with the institution. Thus, at +4Q *Casafin* client retention is 15pp higher than the portfolio average; at +8Q, this differential is still high, although it has edged down to 12%.

Casafin client retention (g)



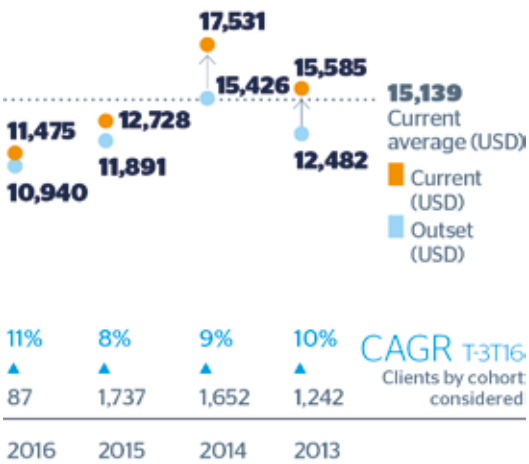
Source: Microserfin data. BBVAMF analysis.

(f) New *Casafin* clients every quarter and total *Casafin* clients current at 09.30.2016.
(g) Percentage of *Casafin* clients in each cohort still current on each date; average of quarterly 2014-2016 cohorts.



Performance of assets (h)

CAGR
8.8%



Clients of this product, with fairly high assets at the outset, perform positively in terms of asset growth; these grow at an annual rate of 8.8%.

Casafin is an innovative product that promotes access to decent housing, in living conditions that are suitable for our clients' development. The impact of these improvements has repercussions, not only for the client, but also in improved standards of living for their entire family.■

(h) Data on clients current at 09.30.16, and who have updated their data in the previous half year. Situation at the outset (data on their cohort year) and the situation at 09.30.16. CAGR: Compound Annual Growth Rate.

Notes (1) National Competitiveness Center [Centro de Nacional de Competitividad], CNC, Panama.

Converging towards its potential growth

The Panamanian economy is still one of the fastest growing economies in the region despite being in its fifth consecutive year of slowdown. Construction is the driver of the economy, bringing the unemployment rate down to 5.5%. Poverty continues to fall and in the last five years, 785,000 adults have joined the financial system.

The Panamanian economy⁽¹⁾ is in its fifth consecutive year of slowdown. The traffic of vessels through Panama Canal has fallen by 6.6%, both deeper draft (7.1%), and shallow draft (2.3%) ships, causing a reduction in tolls (3.7%), associated with lower momentum in world trade. Even so, in 2016 the economy grew by around 5.4%. Building work to expand the Canal has bolstered the economy, together with the rest of the construction sector⁽²⁾.

Mine and quarry construction and operating grew at around 7.9%, due to investment in the public sector, in building, such as the urban renewal in Colón, the restarting of healthcare sector projects, progress on Line 2 of the metro, the construction of the third bridge over the Canal, the expansion and improvement of the country's road network, the construction of an electricity plant, and a mineral processing plant in the

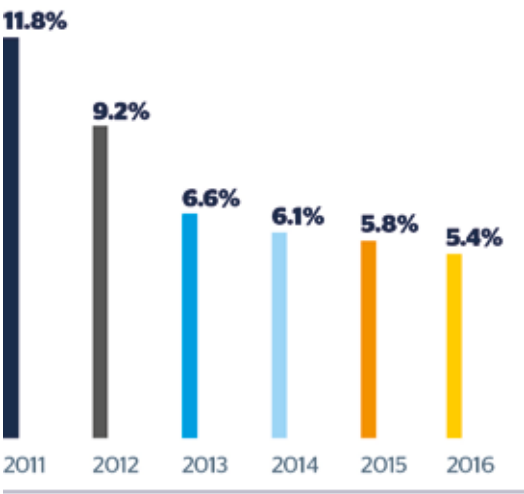
Donoso district, in Colón province. This sector accounts for 16% of the economy's entire GDP. The supply of electricity, gas and water has grown by 10.7%, making it the most buoyant sector over the year, while financial intermediation has expanded by 7.2%. This last sector has gained in weight as a proportion of GDP, making up 4% of the total.

In the last few years wholesale and retail trade has been affected by the difficulties the country's main trading partners are experiencing, particularly Venezuela, which has had an impact on the levels of activity in the Colón Free Trade Area, with the result that for the second consecutive year sector growth has slowed, closing the year with an increase of 4.1%. This sector accounts for 18% of the economy as a whole. The reduced momentum in global trade referred to above is reflected in the

minimal growth in transport, storage and communications, 14% of the country's GDP, which edged up by just 0.2% over the year. The sectors where activity has shrunk are: fisheries, manufacturing and agriculture, with drops of 9.5%, 1.3% and 0.2%, respectively. Together, these sectors account for 8% of the whole.

This performance in the economy has been mirrored by the central government deficit, which has remained at 4% of GDP, similar to 2015. The fall in oil price has had an effect since 2015 in that inflation levels are at their lowest in the last five years; however, this drop is expected to correct as the price of this raw material recovers. In the first 11 months of the year, inflation was 1.3%, an outcome of the falling prices in communications (-2.7%) and less momentum in food and non-alcoholic beverages, as well as housing, water, electricity and gas, which posted rises of 0.7% and 0.5%, respectively. By the end of 2016, inflation is expected to stand at 1.5%.

Real GDP growth



Source: IMF, BBVAMF Research estimates.

Labor market

Panama⁽³⁾ has one of the lowest rates of unemployment in the region, at 5.5%, having kept it for seven years in a row at under 7%. The labor force participation rate is, for the fifth consecutive year, around 64.4%, whereas the employment rate is about 61%, for the sixth consecutive year.

According to official figures, although total occupation in the country has risen by around 37,000 people, private sector employment has fallen by about 15,000, representing a fall of 2% between 2015 and 2016. For its part, employment in the public sector has increased slightly by 2.2% from the year before which, together with the boost from a number of public investment projects in infrastructure executed by the private sector, has made it possible to reduce the adverse impact of the deceleration in growth.

The data suggest that growth in occupation is due to the informal sector, where the rate has risen by 8.3%, most of which is accounted for by the increase in self-employed work. Informal employment makes up 53% of the workforce, of which about 13% consists of informal wage-earners in formal companies⁽⁴⁾.

Panama has one of the lowest rates of unemployment in the region, at 5.5%, remaining for the seventh consecutive year under 7%.

Poverty and inequality

The proportion of poor people in Panama⁽⁵⁾ continues to fall, currently standing at 23%, which means that 903,000 people are in poverty. In the last five years, however, 93,000 people have escaped this trap. The robust growth enjoyed in the country over the past few years undoubtedly accounts for 83% of this improvement; the remaining 17% can be laid at the door of transfer policies to households and individuals, which has had a noticeable redistributive effect.

The provinces as a whole suffer a poverty rate of 18.9%, an improvement of 4.4% over recent years. The province with the lowest level of poverty is Panama West, at 8.6%, whereas the highest is endured in Boca de Toro, with a rate of 48.1%. This latter province, however, has posted the greatest progress in terms of poverty reduction, improving its ratio by 6.9 p.p. The districts where the indigenous population live have the highest rate of poverty, at 84.6% and they have only improved by

4.6%. Ngäbe Buglé, Kuna Yala and Emberá suffer poverty levels of 86.8%, 78.5% and 68.5%, respectively.

Extreme poverty has also fallen, from 11.1% to 10.3%. Although in the last year around 19,000 people left the threshold of poverty, in accumulated terms there has been no change. This reduction was more pronounced in the provinces than in the districts; in the latter, 65% of the population suffers from extreme poverty, on average. The progress made in poverty terms has not made any significant impact on inequality, with the result that Panama has one of the worst inequality figures in the region, with a Gini indicator score⁽⁶⁾ of 0.528 in 2010, and of 0.519 in 2016.

Financial inclusion

Going by the number of people with a bank account, in Panama 43% of adults have access to the financial system⁽⁷⁾, an 18 p.p. improvement since the previous evaluation, in 2011, in which only 25% had access. Around 785,000 adults are included in the financial system, from which 1.1 million are still excluded. In the last three years 330,000 adults have joined.

Schooling levels account for the greater financial inclusion gap. 50% of adults with secondary education or more are included in the financial system, compared to only 22% of those with primary education or less, a gap of 28%. Furthermore, it is the group of those who have been schooled up to secondary or better that has progressed most in terms of financial inclusion, from 28% having an account in 2011, to 50% in the recent measurement, an improvement of 22%. The segment with primary education or less has made the least progress in financial inclusion terms, rising from 15% inclusion in 2011, to 22% in the latest measurement, an improvement of 7%.

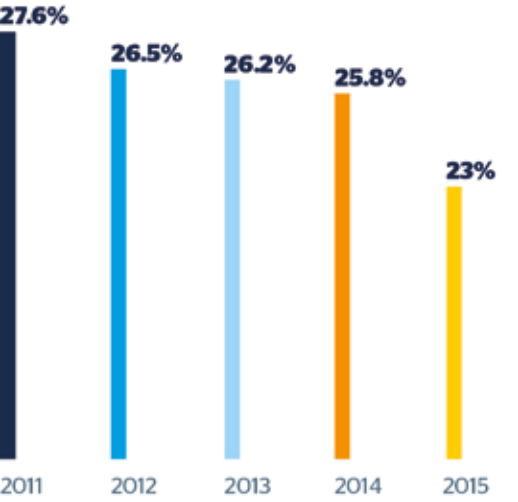
51% of the higher income adults (the 60% richest) have access to the financial system, whereas in the lower-income segments (the 40% poorest) this is true of only 32%, the

50% of adults with secondary or more education are included in the financial system, compared to only 22% of those with primary education at best.

gap thus being 19%. The group belonging to the lower-income segments has made progress in terms of financial inclusion, going from 19% inclusion in 2011, to 32% in the last evaluation, a rise of 13 p.p.

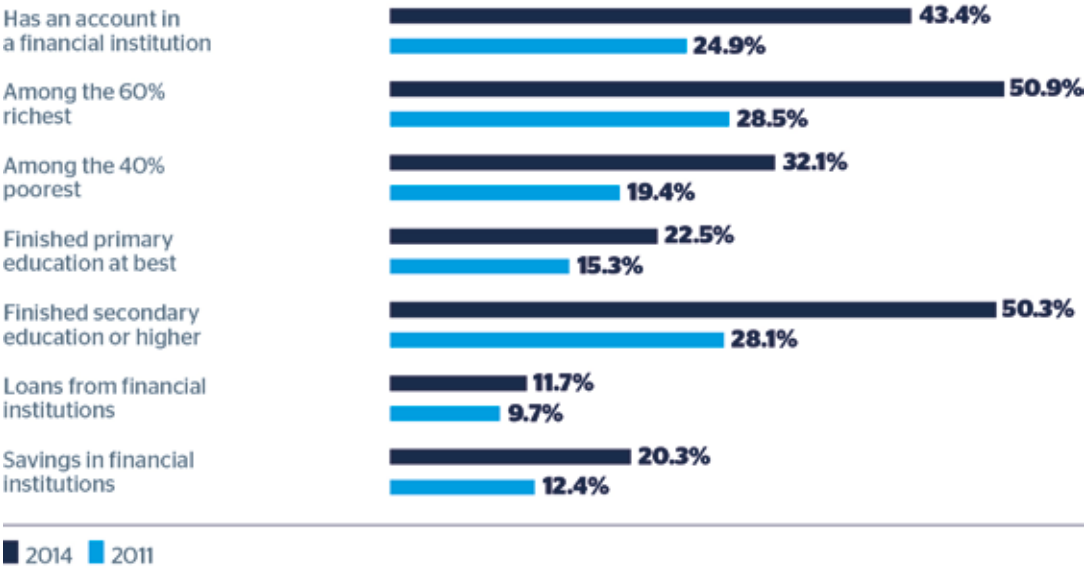
In terms of products, 62% said that they had saved some money in the previous year, but only 20% have done so in formal financial institutions. 13% did so to start, operate or expand some kind of commercial activity. 48% of adults applied for a loan last year, but only 12% did so from a formal financial institution, and of these, 7% did so to operate, set up or expand commercial activity. In terms of use, 69% of those with an account have made some movement in that account in the last year. 34% have made one or two movements a month in their accounts, compared to 29% who have conducted three or more transactions a month.■

Poverty (% total population)



Source: Ministry of Economy & Finance.

Financial inclusion (% adults)



Source: World Bank Global Index.

Notes (1) To the end of November 2016. (2) All estimates are by BBVAMF Research with information from the national Statistics and Census Institute [Instituto Nacional de Estadística y Censo]. (3) I.L.O. (4) Employment Foundation [Fundación Empleo]. (5) Ministry of Economy & Finance. (6) Ratio from 0 to 1, distributive equality and total concentration, respectively. (7) Global Index World Bank.

Measuring what really matters

Social Performance Report 2016

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