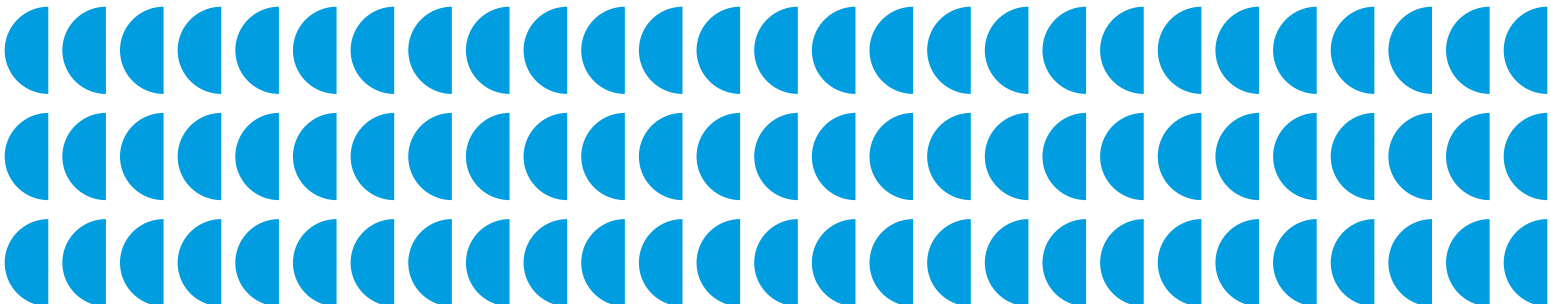


# Peru

Financiera Confianza

 SOCIAL PERFORMANCE  
REPORT **2018**

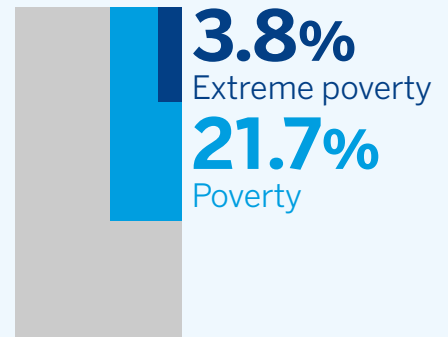


# Numbers that measure achievements

## National data

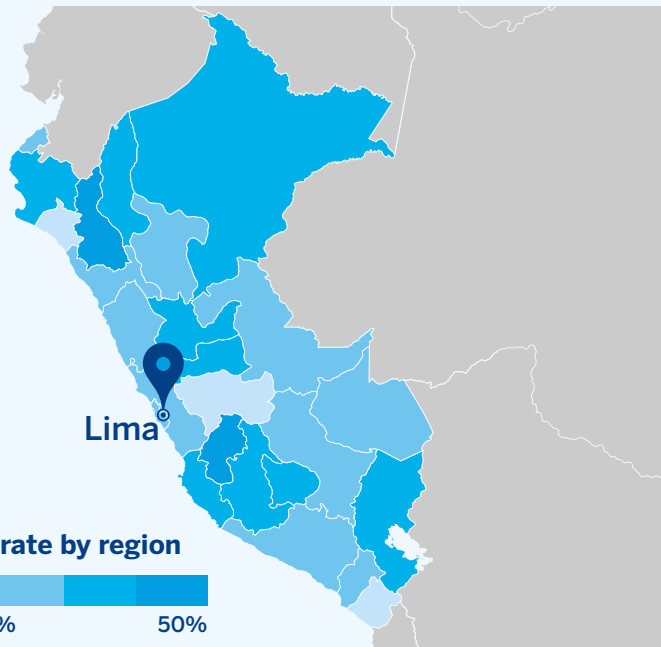
### % Poor

according to the national poverty line<sup>1</sup>.

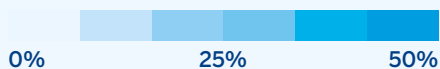


# 57%

Unbanked adults<sup>2</sup>.



### National poverty rate by region

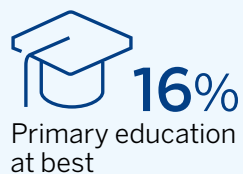


## 1. CLIENTS

### Committed to vulnerable people

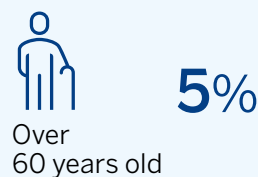
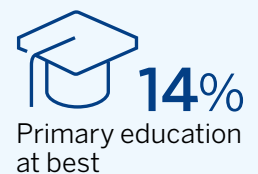
#### Total credit clients<sup>3</sup>

# 217,669



#### New credit clients 2018

# 85,195



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

(1) National poverty rate according to INEI data.

(2) Global Findex 2017. (3) Data as of 12.31.2018.



## 2. PROGRESS

Working with them as they develop



More than 1 in every 2 renewing clients has improved their income.



In their second year banking with the institution.

...and their projects grow



Annual growth rate.



Annual growth rate.

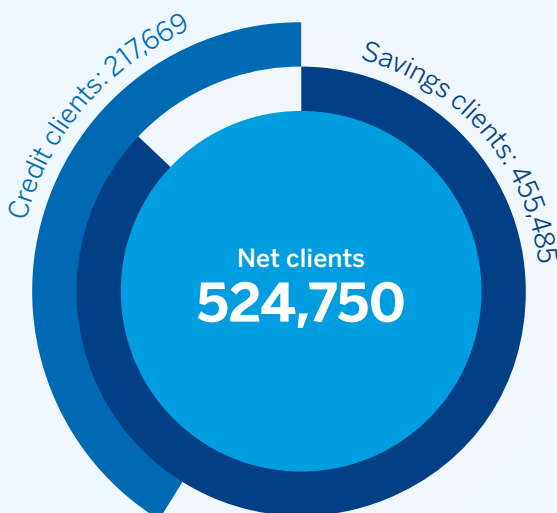
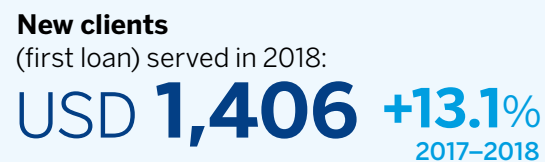
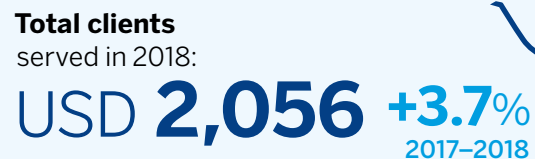
## 3. RELATIONSHIP

Providing timely and relevant products and services

Present in regions throughout the country

<b>Branch offices</b> 154	<b>Loan officers</b> 1,221	<b>Service points</b> 48
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Average disbursement



**Savings**

**10%**

10% of clients use their transactional account actively.



USD **400**

Deposits: 50% of clients saved USD 400 or more in 2018.

## Introduction

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Peru's economic recovery –its GDP has grown by 4%– enabled an estimated 120,000 Peruvians to escape poverty in 2018. Nevertheless, 21% of the population still does not earn enough to pay for the basic basket of foodstuffs, goods and services.

After moderate growth (2.5%) in 2017, notable particularly for the Coastal Niño phenomenon, 2018 was a year in which Peru returned to the path of robust growth. This was thanks to greater momentum in non-primary sectors, which expanded by 4.2%, while primary activities grew by 3.3%. Consumption recovered strongly, rising by 3.6% thanks to the improvement in employment and in accessing funding.

Inflation came in at 2.2% over the year, converging with its target range, and allowing the central bank to keep its reference interest rate at 2.75%, in a negative product gap context.

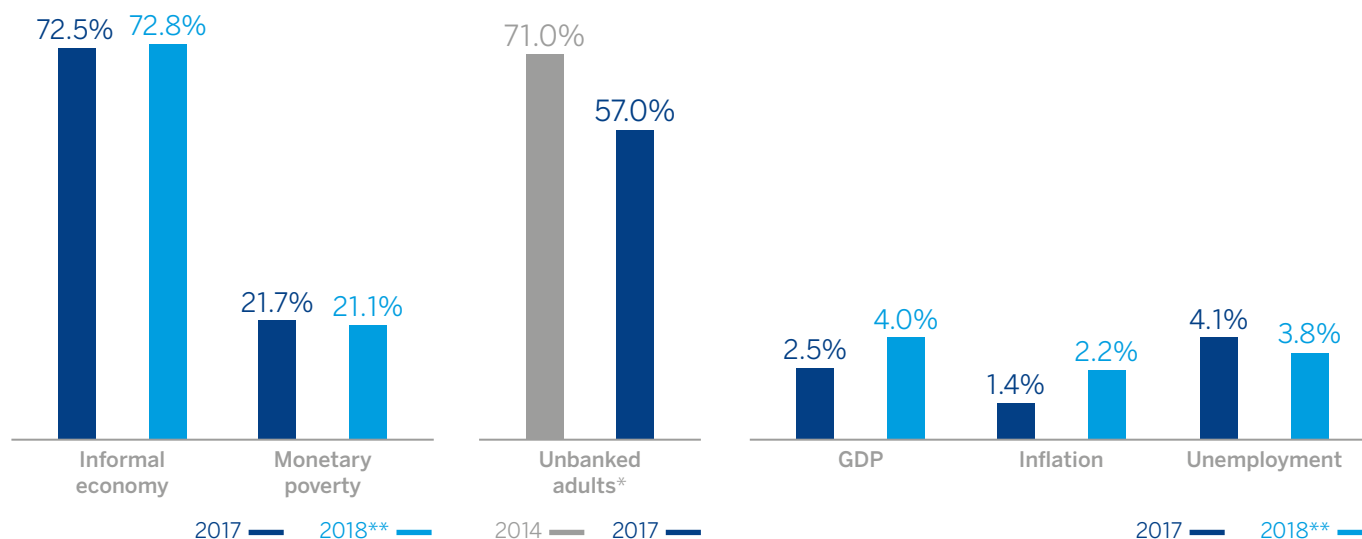
This stronger economic performance was reflected in a 0.3 percentage-point fall in the unemployment rate, which in 2018 posted at 3.8%. Even so, the gender gap, and the gap between young people and adults, persist. 76% of occupied women were in the informal sector, with men having a 6.5 percentage points lead in formal occupations, their informal occupation level standing at 69.5%.

The Peruvian microfinance system is one of the most developed in the world. According to the Global Microscope 2018<sup>1</sup>, Peru ranked second in terms of the financial inclusion ecosystem it has built up for the excluded. The report highlighted the State's commitment to promoting financial inclusion over the long term and its goal of providing financial services throughout the country by 2021 (National Financial Inclusion Strategy).

In this environment, the microfinance industry plays an important role. As of June 2017, approximately two thirds of the system's borrowers had a loan with a microfinance institution. The extensive coverage of the microfinance system is also an important feature, with 2,400 agencies of a total 4,200 in the entire financial system, and significant footprint across the country's provinces, where a sizable proportion of the population still does not have access to the formal financial system.

However, the industry still has to cope with major challenges, particularly if we bear in mind that the penetration of financial inclusion in Peru is one of the lowest in the region. 36% of the population has taken out a loan in the last year. Peru also lags behind by number of depositors, since only 42% of

<sup>1</sup> Drawn up by The Economist Intelligence Unit.



*Peru has one of the most developed microfinance systems in the world. But there are still opportunities to improve financial inclusion and reduce informality in the labor market.*

the population has such an account, although the indicator has shot up in just 4 years from 29%. If we break down this indicator by income, only 26% of adults in the poorest 40% of households have an account in a financial institution, compared to 53% of adults in the wealthiest 60% of the population\*.

To narrow this gap, all parties involved must work together to increase cover, enhance digital financial services and drive the supply and provision of savings, insurance and financial education.

## KEY VOLUMES<sup>2</sup>

Total clients	<b>524,750</b>
Number of employees	2,173
Number of branches	154
Gross portfolio (USD)	<b>494,446,087</b>
People receiving financial education	38,271
Client assets under management (USD)	325,584,778
Amount disbursed in 2018 (USD)	<b>668,554,944</b>
Number of disbursements in 2018	325,193
Average disbursement (USD)	2,056

\* Global Findex World Bank, 2014 & 2017.

\*\* BBVAMF Research estimate.

<sup>2</sup> USD/PEN 3.373 at 12.31.2018, BBVA Research.

## Introduction

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*The cost of the basic food basket is 26% higher in urban areas.*

<b>Credit clients</b>	<b>69,265</b>
<b>Credit and savings</b>	<b>148,404</b>
<b>Savings</b>	<b>307,081</b>
<b>Total credit clients</b>	<b>217,669</b>
<b>Total savings clients</b>	<b>455,485</b>

### PRICE OF THE BASIC FOOD BASKET



Financiera Confianza S.A.A. (Financiera Confianza) is a leading institution in the Peruvian microfinance sector, with the mission of building opportunities for families with few resources, improving their income and standard of living through finance for productive activities.

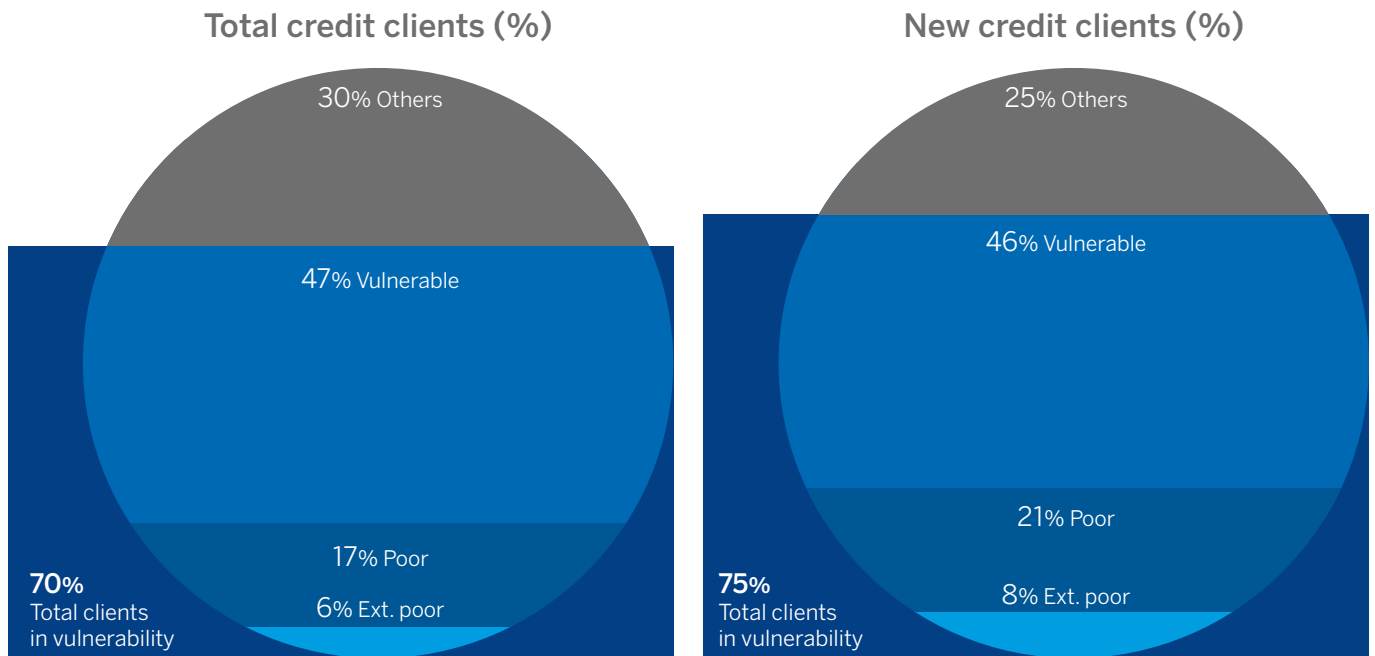
Financiera Confianza currently has a footprint in all of Peru's 25 administrative regions and is the first microfinance institution to achieve this reach. It has a major presence in the rural environment, with 28% of participation and 23% of its clients in the agricultural sector, where it is the institution in Perú with the highest stake.

In recognition of its work, in 2018 Financiera Confianza was awarded two Citi Microenterprise prizes (Premic). Financiera Confianza was the only entity to win in the category "Award for Responsible Financial Inclusion"; in addition, the entrepreneur Dionisio Huamán, owner of a specialty pastry business in Arequipa, won the "Award for the best microenterprise" in the Production category.

With around 220,000 credit clients, Financiera Confianza prioritizes low-income microentrepreneurs, and 70% of its clients are in vulnerability. Furthermore, 52% of its client base are women and 16% have primary education at best.

On the savings side, Financiera Confianza has 455,000 clients, 8% more than the year before. A visible sign of its commitment to the most vulnerable segments of the population is the fact that 28% of the entrepreneurs live in the country's poorest administrative regions. The institution prioritizes savings as a valuable tool for improving its clients' standard of living, particularly in the case of women, because saving empowers them and adds value to their role in the home as administrators of the family's resources.

## CLIENT ECONOMIC VULNERABILITY\*



New credit clients served in 2018 by Financiera Confianza have average monthly net surpluses (income) for every member of the household (per capita) of USD 242, which represents 4.2 times the basic monthly food basket in urban areas.

Those entrepreneurs whose businesses do not generate enough revenue to buy this basic basket are classified as extremely poor. Those who can buy the basic basket, but cannot afford certain goods and services, clothing and housing are considered monetarily poor. The price of this second set of goods determines the poverty line. In the case of Peru, it is USD 76 in rural areas and USD 111 in urban areas.

The category with the highest proportion of clients is made up of vulnerable people. These are entrepreneurs who, while not actually poor, have highly volatile incomes and who could be driven back into poverty by just one unexpected eventuality. The upper threshold for this category is that their per capita net incomes are equivalent to the national poverty line multiplied by three.

From the perspective of client relationships, the retention and recurrence ratios have improved this year, which has made it possible to stay with more clients for longer and foster their development. Their financial volumes have been higher than in previous years and the percentage of clients who have improved their incomes relative to the poverty line (ie. their purchasing power) has been higher.

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

# 1. Our clients

## SOCIOECONOMIC PROFILE

During 2018 Financiera Confianza served 85,195 new credit clients, bringing 36% of these into the banking system for the first time. It is one of the institutions in Peru that most actively pursues this policy. Clients served by Financiera Confianza are microentrepreneurs with small businesses who are looking for a financial institution to be a business ally, and from there to improve their standard of living. 75% of clients are in this situation of vulnerability and 29% are poor or extremely poor.

In the last few years, the commitment to serve clients in vulnerability has been kept. For this reason, the entity is particularly careful to include women and agricultural producers. So it is that 53% of new clients are women and 27% are in the rural environment.

Major efforts have been made to focus on the rural sector and agricultural clients, with the aim of banking them and giving opportunities to people who have up to now been excluded from the financial system. The agro sector is key in the fight to reduce poverty and Financiera Confianza, together with the municipal savings & loan entities, has become a key player in looking after this segment.

New clients served during 2018 who were in a situation of poverty had even lower incomes than poor clients in former years. Their per capita net incomes came to 77% of the poverty line, that is, they were each living on USD 2.7 a day.

In Peru the development of microfinance (as the second-ranked country according to the Global Microscope<sup>3</sup>) has meant it has been possible to research the more vulnerable layers of society, particularly in the urban environment. Despite high levels of poverty in rural environments, the institution has succeeded in serving clients in urban areas who are more vulnerable or poor. The most vulnerable clients are urban women, who present additional characteristics that may increase their vulnerability, such as not having further education or technical training, or their age, given that young women have fewer assets and lower incomes.

*Urban women without further or technical education are the most vulnerable clients (85% of them are in vulnerability). More than 1 of every 4 clients served in 2018 belonged to this segment.*

Gender-based indicators (see Fig. 4) show the differences that still persist. More of Financiera Confianza's female clients are urban, since access to land ownership is harder for them, and they produce per capita monthly net incomes (at USD 204) that are 27% lower than those generated by microenterprises managed by men.

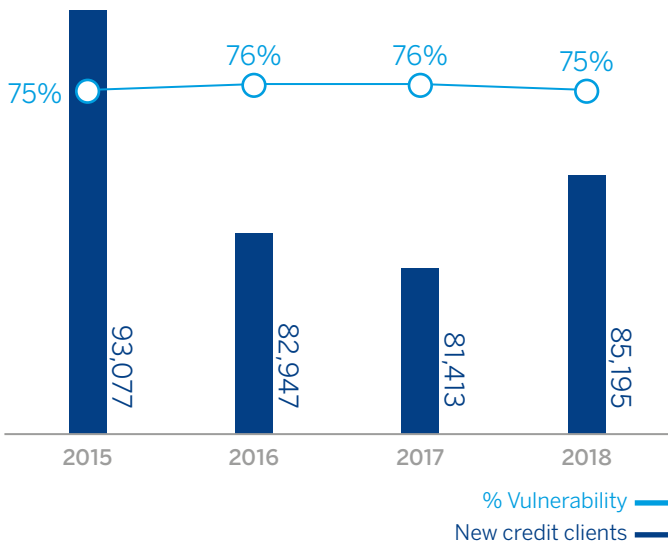
- (1) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.
- Banked clients: those who have not previously had financial products with formal financial institutions.
  - Exclusive clients: those whose only loans are with the institution between t-12 and t.

<sup>3</sup> Drawn up by The Economist Intelligence Unit.

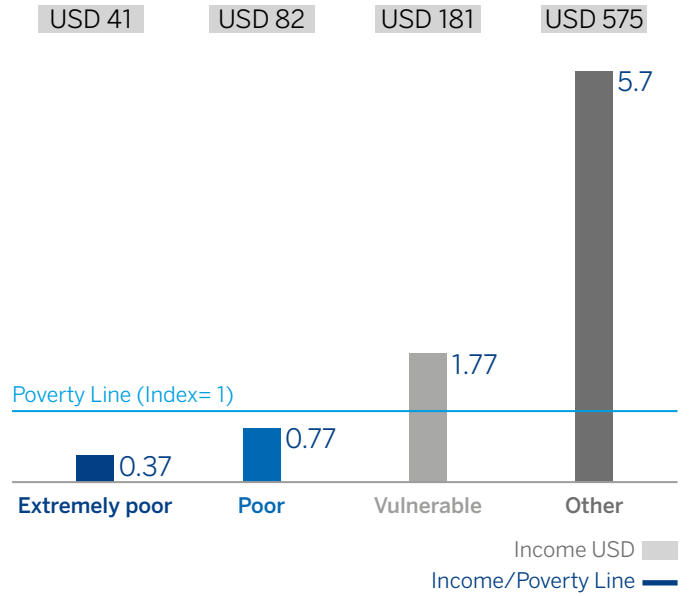
- (2) According to the country's official poverty line. New clients (no previous loans) signed up over the year.
- (4) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.



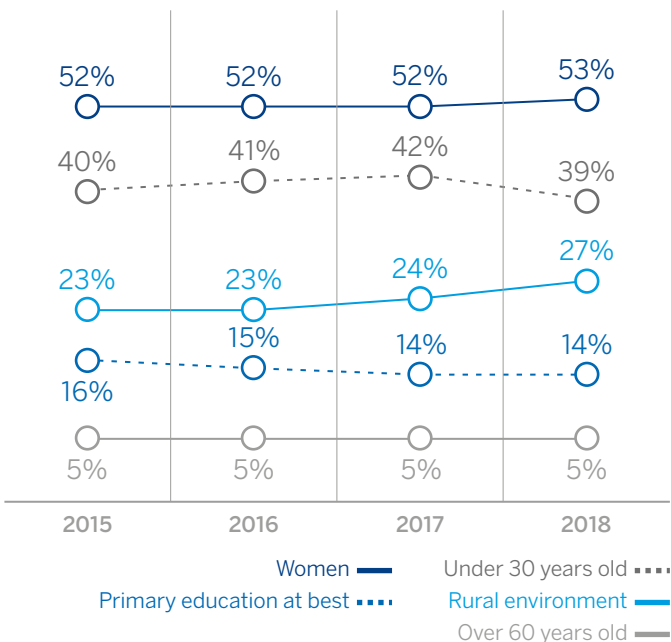
**1 NEW ENTREPRENEURS SERVED**  
 New credit clients by cohort  
**New banked clients in 2018: 36%**  
**New exclusive clients in 2018: 47%**



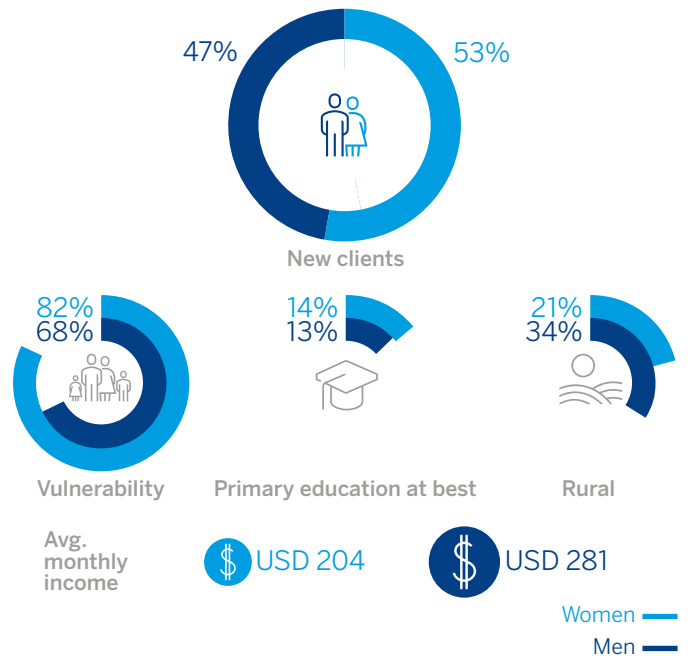
**2 ENTREPRENEURS' INCOME**  
 Income against Poverty Line



**3 NEW CLIENT PROFILES**  
 New clients by cohort (%)



**4 PROFILE BY GENDER**  
 New credit clients (%)



## 1. Our clients

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### PROFILE OF THEIR BUSINESSES

New Financiera Confianza clients work mainly in the trade sector (42%), services (27%) and agriculture (22%). Since agro is a strategic sector, year-on-year the entity is serving more of these clients.

Many poor and vulnerable clients work in the retail trade sector (79% of clients in this sector are in vulnerability). Sales as a ratio of assets (asset rotation) in this type of business is high but operating expenses are high too, so cost and expenditure control in the microenterprise is critical if these revenues are to become net income. On average, 21% of sales pass through to earnings.

These small companies are more highly leveraged compared to other sectors and as such microentrepreneurs' capital is more efficient. This may be due to the concentration of these enterprises (especially in urban areas), the loan officers' good understanding of this type of business and the high rotation or liquidity.

Thanks to the advanced development of the microfinance sector in Peru, and competitiveness and specialization in the industry, entrepreneurs can access loans for higher amounts, with more leveraging.

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

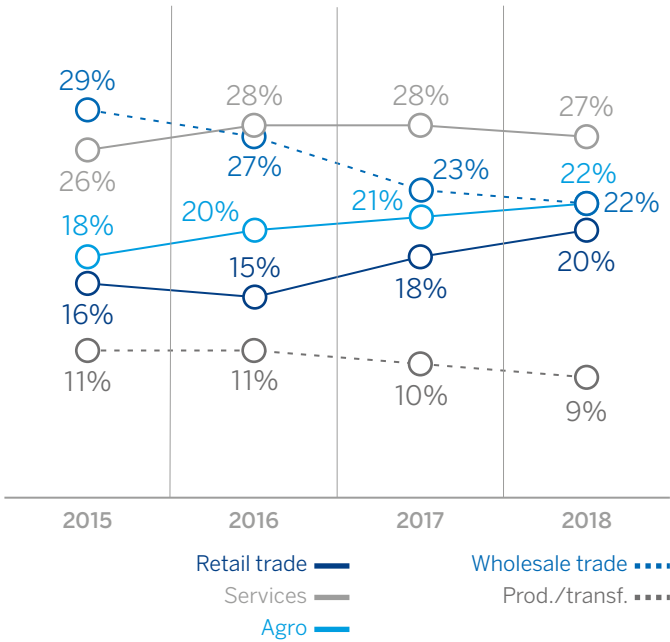
**(7)** Ratios of average costs over sales (o/sales) in each sector. Earnings are taken after payment of the financial installment.

**(8)** Data on these clients' average assets, liabilities, equity and ratios, for each sector.

Ratios (equity/assets, liabilities/assets) are calculated using each client's average ratio.

The loan granted by the institution is not included in the liability figure.

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

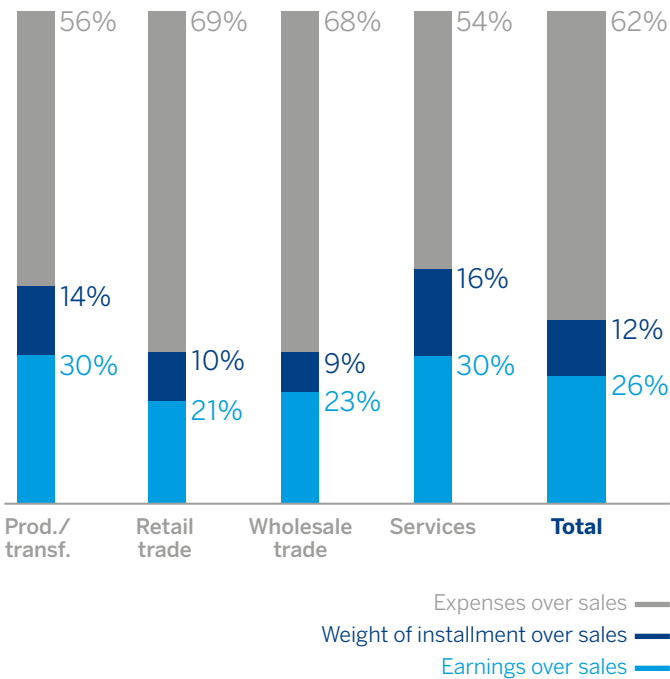


**6 RELATIONSHIP BETWEEN SALES & ASSETS**  
Total credit clients, poor and non-poor segmentation

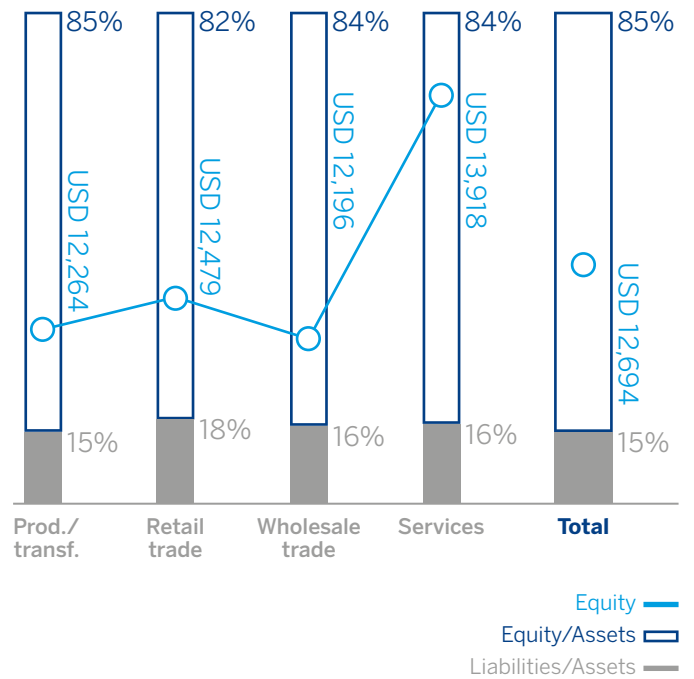
	Total clients	Monthly Sales USD	Assets USD
Services	23%	557 1,707	7,721 19,868
Wholesale trade	17%	938 3,566	5,280 17,472
Retail trade	27%	998 3,659	5,707 18,068
Prod./transf.	10%	714 2,206	8,043 16,511
<b>Total</b>		<b>777</b> <b>2,558</b>	<b>6,644</b> <b>17,705</b>

Poor —  
Non-poor —

**7 P&L- MARGINS OVER SALES**  
Total credit clients



**8 BALANCE STRUCTURE - LEVERAGING**  
Total credit clients



## 2. Our clients' development

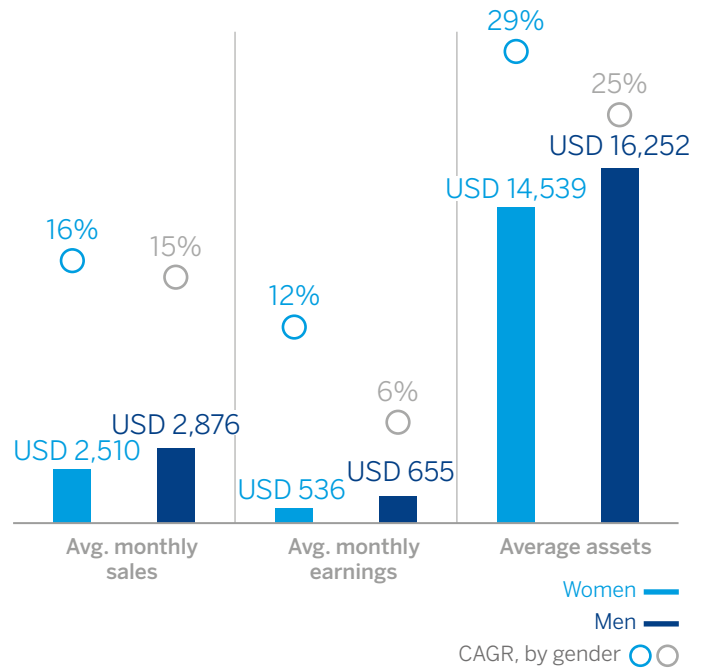
### GROWTH OF THEIR BUSINESSES

The businesses of the clients continue to post growth rates well above the country's inflation rate. Growth rates in sales and net incomes are higher than 2017, especially in the case of enterprises in the production and transformation sector.

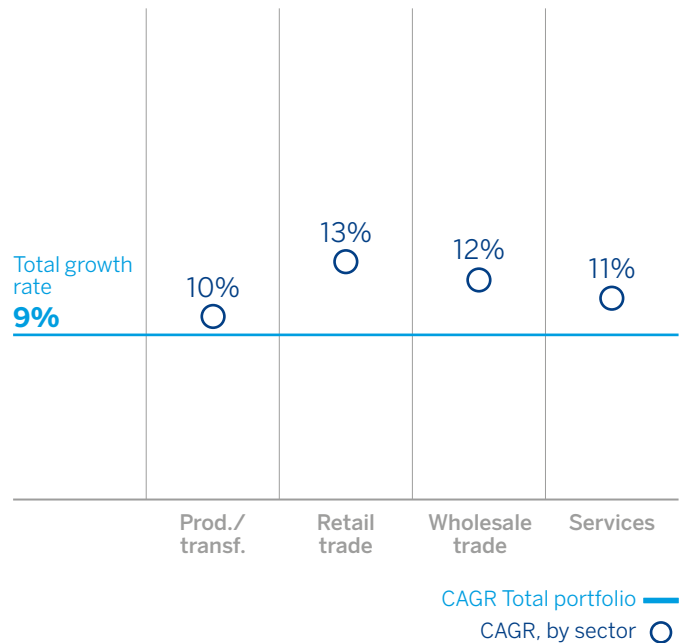
The growth rate of assets points to a re-investment of surpluses back into the microenterprises in order to increase their capacity to generate net income (whether the investment is in working capital or fixed assets). Assets are growing by an average of 27%. The highest growth in asset values is in trade which, as mentioned above, is the sector that generates the most liquidity.

Assets, net surpluses and sales are all lower in companies managed by women, although growth rates are higher so, as these are consolidated, the gender gap may narrow.

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



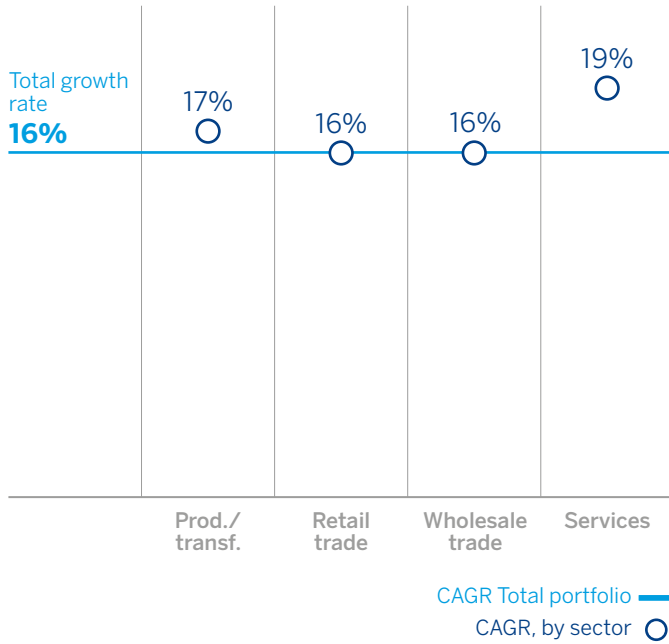
**11** GROWTH IN EARNINGS  
Compound annual growth rates



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

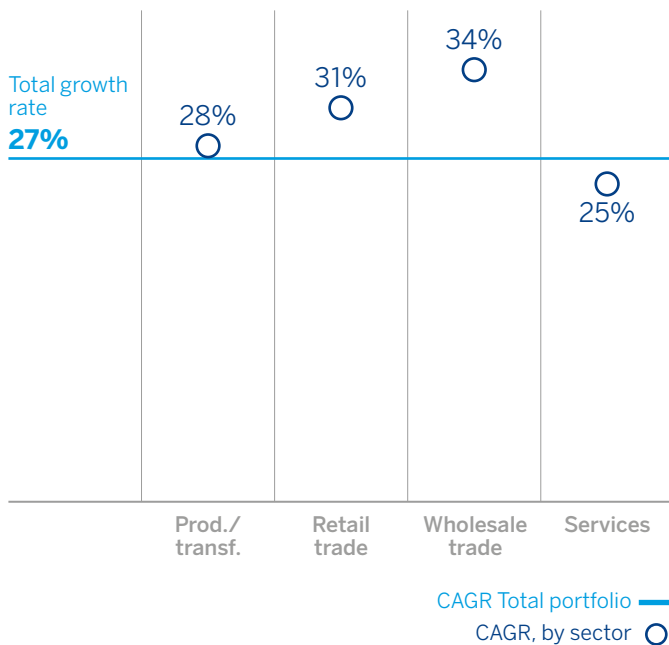
(10) (11) (12) Data on renewing clients. The compound annual growth rate (CAGR) for cohorts (entry year) between 2013 and 2018 was used for the calculation, taking the weighted average of these rates for each sector.

**10 SALES GROWTH**  
Compound annual growth rates



**Fast growth in sales and assets reflects the robust momentum in these businesses. Efficiency improvements mean that earnings can expand more.**

**12 GROWTH IN ASSETS**  
Compound annual growth rates



## 2. Our clients' development

### ESCAPE FROM POVERTY

Access to financing for lower-income clients appears to be more important at the beginning: it is in the first credit cycles when we see the greatest impact on the entrepreneur's income growth (see Fig. 14). The positive change is visible in the graph and the number of poor clients falls by 46% in their second year of banking with the institution (see Fig. 13).

There is another set of clients who at the outset of their relationship with the entity had income above the poverty line but that has suffered a fall in income and now finds itself in poverty. The likelihood of falling into poverty for these clients is around 10%.

The net reduction of the group of poor clients is 19% in the second year. Escape from poverty slows down a little, perhaps because of slower growth in the economy and the Coastal Niño phenomenon in 2017.

The surroundings in which businesses develop appear to be a determinant for escaping poverty. When rural clients access financial services, they are more successful in pushing forward with their enterprises and escaping poverty than clients in urban areas. In the second year 59% of them climb out of poverty, compared to urban clients with higher sales in each sector who overcome poverty in the second year in 45% of cases.

Vulnerable clients face the challenge of consolidating their wealth and maintaining the standard of living they have achieved. That is why they need to take decisions that look to the medium and long term, invest in productive assets, etc. It appears that the level of educational attainment is a barrier for many clients. When we analyze clients' performance over time, we see that the likelihood of clients without further education falling into poverty is greater than in other segments we serve.

The high numbers of microentrepreneurs working in the informal economy and their inadequate training makes it difficult to improve productivity<sup>4</sup> (*Creciendo con Productividad-Una Agenda para la Región Andina*. IDB – in Spanish only).

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

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

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

<sup>4</sup> <https://webimages.iadb.org/publications/spanish/document/Creciendo-con-Productividad-Una-agenda-para-la-Region-Andina.pdf>

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

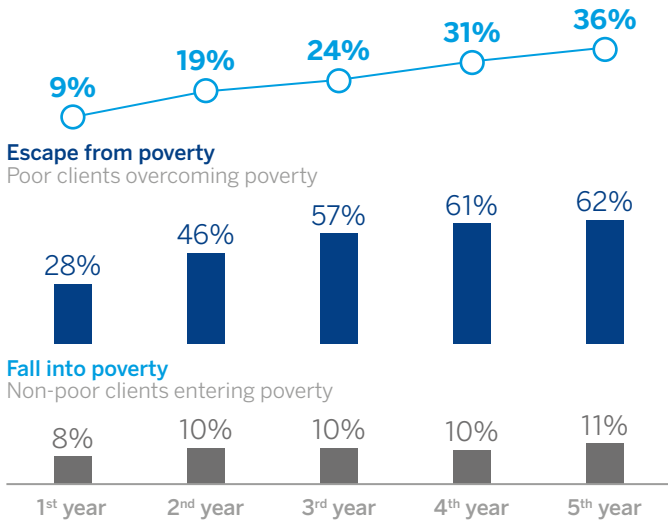
- Escape from poverty for each segment: Clients, by segment, in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.

**(16)** Renewing clients.

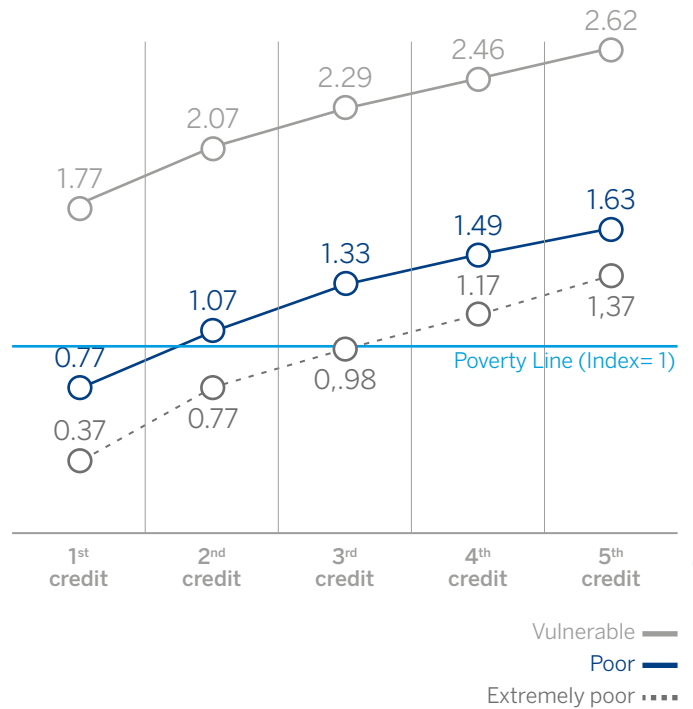
- Fall into poverty, by segment: Proportion of clients in each segment not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.

**13 VARIATION IN POVERTY SEGMENT**

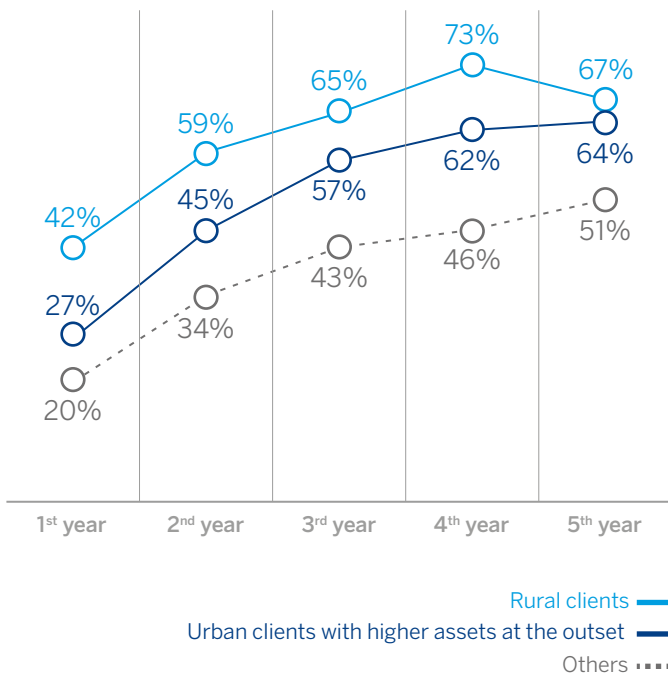
Net poverty reduction



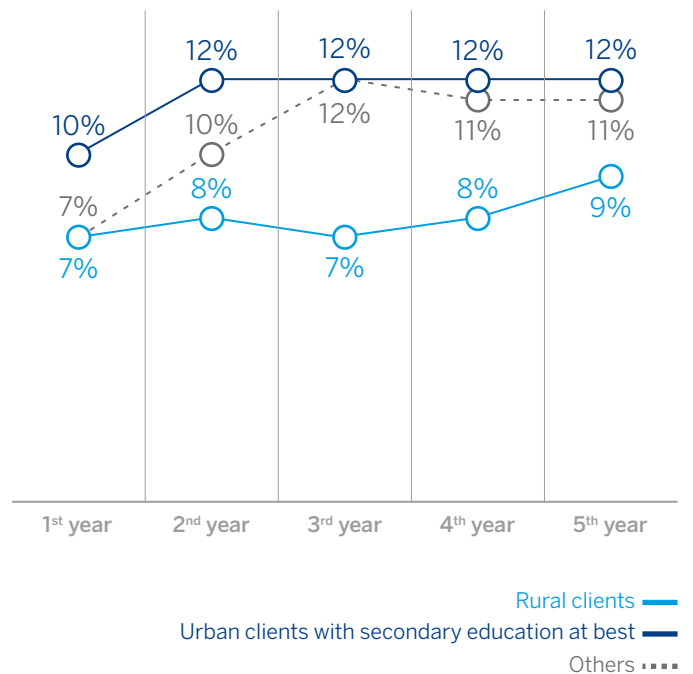
**14 GROWTH IN INCOME**  
Income of segment over poverty line



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



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



## 2. Our clients' development

### VULNERABILITY AND ASSET ACCUMULATION

Vulnerability is characterized by volatility or by the possibility of unexpected reductions or interruptions in income that endanger the living standards achieved and put a strain on the household's financial situation.

When we analyze clients who have taken out at least 5 credits with the institution we see that, in the case of clients who were poor at the outset, the likelihood of overcoming poverty is high (71% of clients). Nevertheless, some are trapped once again (24% of the total).

Non-poor clients also experience volatility, although this is less frequent than for those in the former category, affecting 13% of them. The environment in which the activity takes place is a key factor, since it determines access to other sources of financing, the amount of competition, the cost of raw materials, etc. Clients in rural areas who were poor at the outset are more likely to overcome poverty, although their volatility is a little higher than that of clients in similar situations living in urban areas. Non-poor rural clients are least likely to fall into poverty.

A good number of entrepreneurs reinvest their surpluses in their microenterprises to increase capacity. Despite the obvious correlation between investing in assets and the capacity to overcome unexpected eventualities, the big challenge is to make these assets liquid and productive. Thus, there is a positive correlation between escaping poverty and asset accumulation.

Of clients managing to escape poverty, 65% have accumulated assets. In contrast, the majority of clients who remain poor reduce their assets (28%) or their asset levels remain unchanged (22%). The numbers show that for non-poor clients, having a solid asset base is critical in consolidating and stabilizing revenues over time. A higher proportion (33% of those who remain non-poor) enjoy high asset levels. It is essential to help our clients to continue building this solid backstop.

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

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

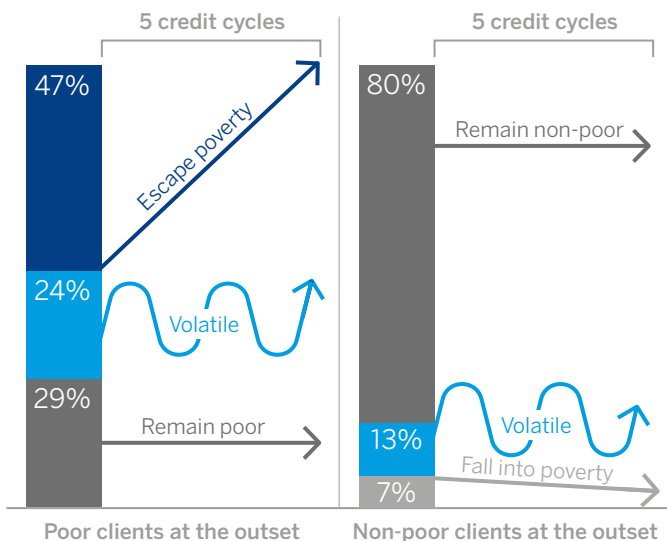
**(19) (20)** Sample of clients served from 2011 to 12.31.2018 who have had at least five disbursements. The agro sector is not included. Performance is analyzed by looking at the situation at the outset and comparing it to the outcome in two dimensions:

Income performance by whether clients are still in poverty or not  
Asset changes are analyzed according to whether the asset levels change, differentiating between the following categories:

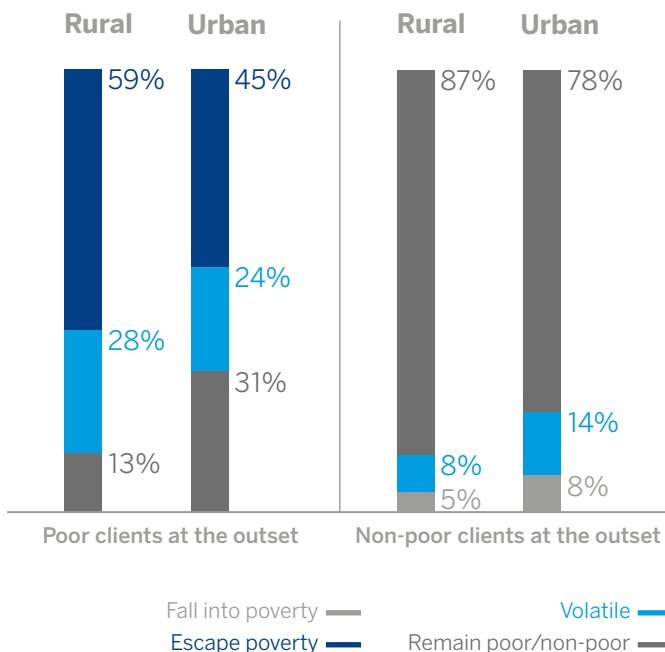
- Very low (between 0 and 20 multiples of the poverty line)
- Low (between 20 and 60 multiples of the poverty line)
- Medium (between 60 and 100 multiples of the poverty line)
- High (more than 100 multiples of the poverty line)



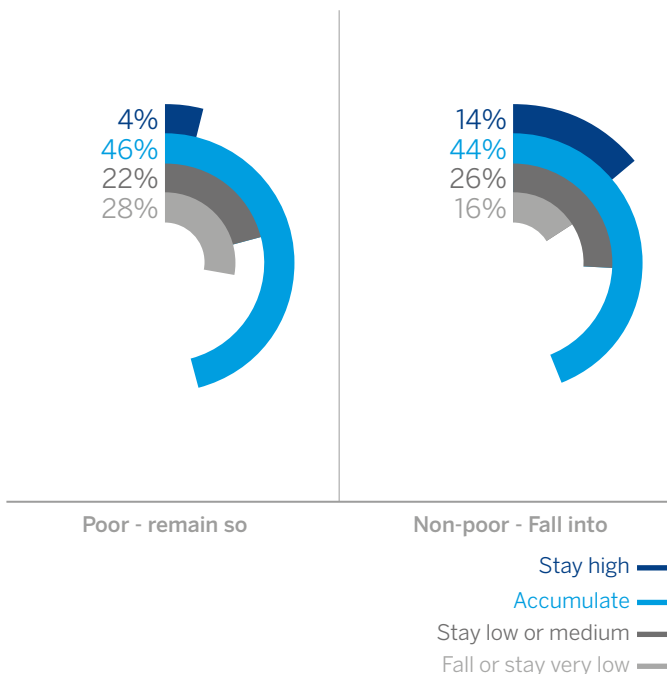
**17 INCOME VOLATILITY**  
Clients with 5 credits, classified by n° times they fall below/overcome PL



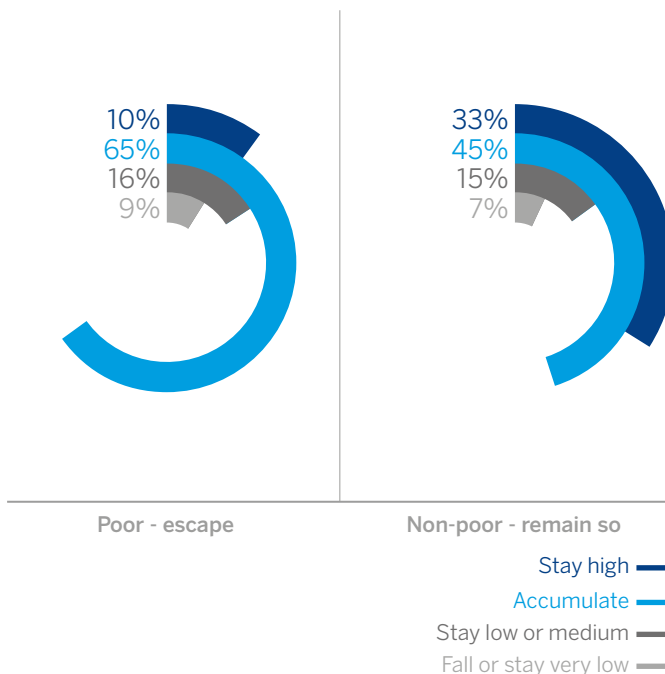
**18 INCOME VOLATILITY - RURAL/URBAN**  
Clients with 5 credits, classified by n° times they fall below/overcome PL



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



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



## 2. Our clients' development

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### INDIRECT IMPACT

Microenterprises are an integral part of Peru's financial ecosystem (approximately 96% of Peruvian companies are in this category)<sup>5</sup>, although they face enormous challenges in creating jobs, and most are only a source of self-employment. Furthermore, they are concentrated in the less productive sectors.

Financiera Confianza's clients fit this pattern, although we note that the proportion of clients that has managed to create jobs rises from 10% when the company generates very low revenues –extreme poverty– to 24% when clients are classified as "others".

The impact of business growth is also visible in improved standards of living. Around 8% of clients who remain with the institution after 2 years have made home improvements, making a positive impact on the entire household's standard of living.

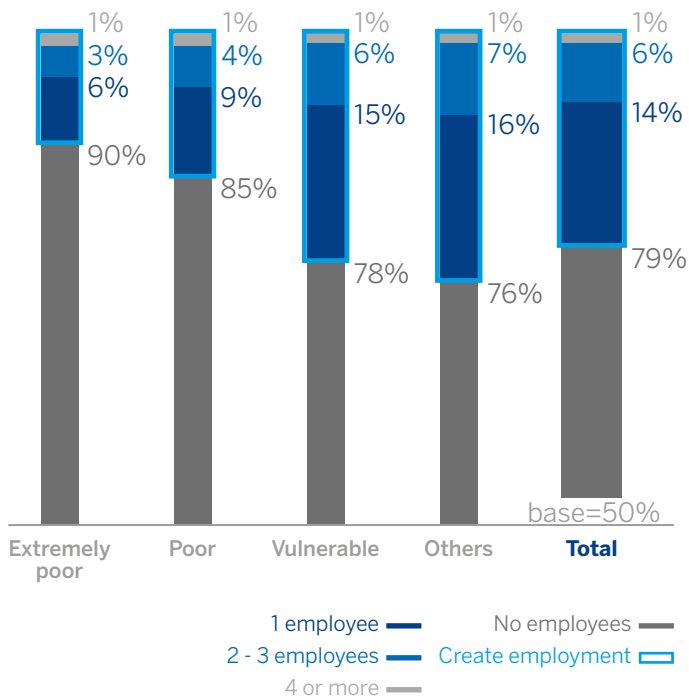
*Microenterprises face major challenges in creating jobs. Even so, 21% have at least one employee and 7% have 2 or more.*

<sup>5</sup> <http://ogeiee.produce.gob.pe/index.php/shortcode/estadistica-oee/estadisticas-mipyme>

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

**(22)** Proportion of clients current as of 12.31.2018 who get running water piped into their homes or who have upgraded their living conditions (going from rented to owned homes, improving construction materials or increasing the number of bedrooms).

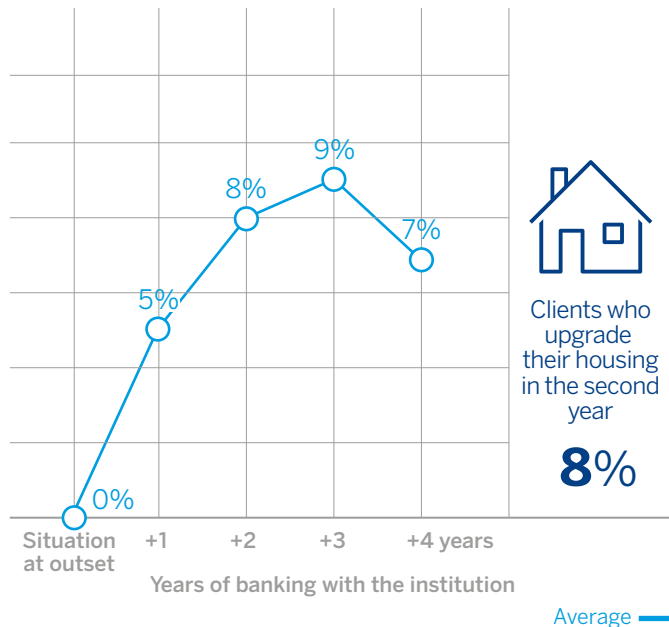
**21 EMPLOYEE BREAKDOWN**  
Clients according to n° of employees in their business



**The multidimensional poverty indicator that measures factors such as health, education and quality of life is around 10 times higher in rural areas.**

32.7% of the rural population is in multidimensional poverty\*.

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



\*INEI, 2017

### 3. Relationships with clients

#### RELATIONSHIP WITH OUR CREDIT CLIENTS

Only 26% of adults belonging to the poorest 40% of households are banked, compared to 53% of adults in the richest 60%, revealing an inclusion gap (see Macroeconomic Environment).

Financiera Confianza has a network of 1,221 loan officers and 154 branch offices, 48 establishments for basic transactions and over 9,500 collection points, all working to bring financial products and services to entrepreneurs, many of whom live and work in remote areas that are difficult to reach.

Correspondent banking and customer service points are just some of the initiatives that enable loan officers and clients to consult information, as well as signing contracts in real time. It is critically important to bring the formal financial network to the thousands of people who are far away from urban hubs and lack this opportunity.

In 2018 the institution served 524,750 clients, of whom 41% had credit products. The average loan disbursed to new clients during the year expanded slightly to USD 1,406, the equivalent of 2 basic annual food baskets and practically the same as the average monthly sales figure of our clients' businesses. These sums will enable entrepreneurs to push ahead with their investments, making the most of the positive economic outlook.



Number of branches

154



Number of loan officers

1,221



Service points

48



People receiving financial education

38,271

Clients appreciate Financiera Confianza' products and services and, in a country with much competition, more than half (58%) take out a second credit and 57% stay on as credit clients after a year.

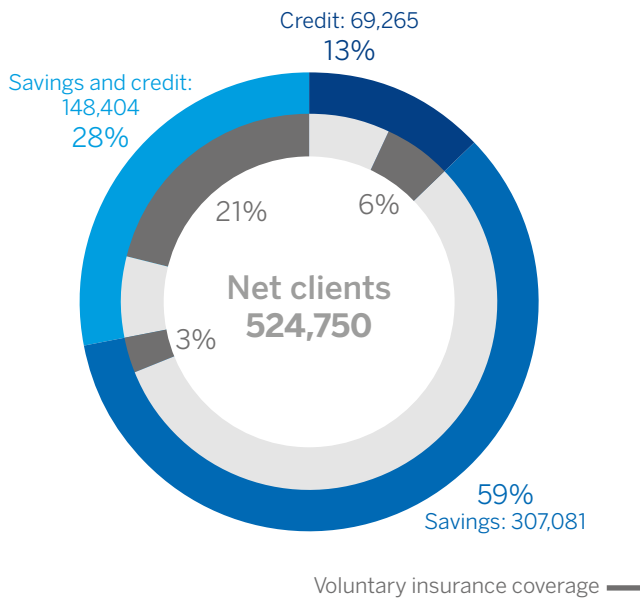
**(23)** Clients current at 12.31.2018.

**(24)** New clients. Average disbursement, calculated as the average first disbursement for new clients each year. Weight of the installment calculated as each client's average ratio (loan installment payment over sales).

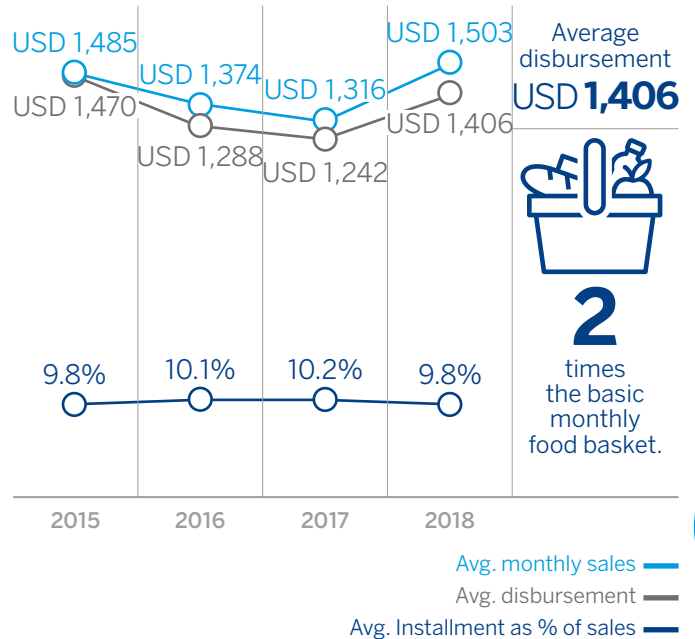
**(25)** Clients in each cohort (year of entry) between 2013 and 2018, at each data collection. The initial value is the average of the values at the outset (first disbursement by year of entry). The average growth after 1 year, 2 years, etc. noted from the disbursement to client groups in the 2013–2018 cohorts is added to this initial value.

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

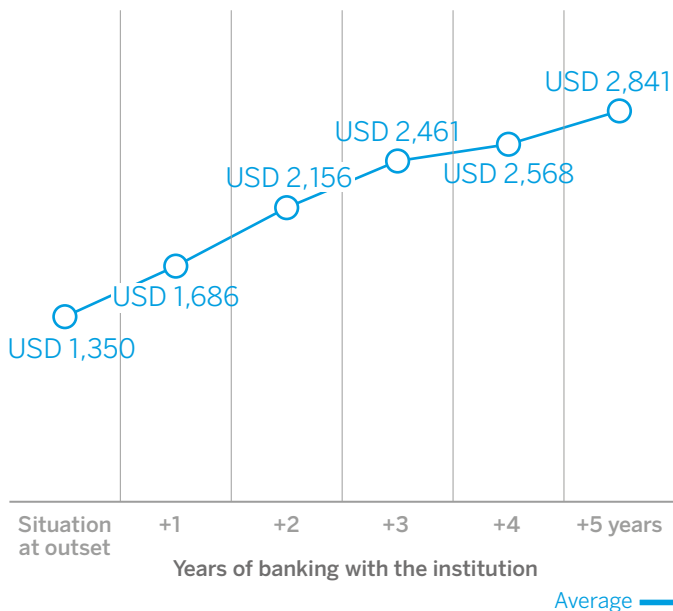
**23 CLIENTS BY PRODUCT TYPE**  
Total current clients



**24 SALES, DISBURSEMENT AND WEIGHT IN INSTALLMENT**  
New clients by cohort



**25 GROWTH OF AVERAGE DISBURSEMENT**  
Change, by duration of relationship



**26 RETENTION & RECURRENCE**  
Of credit clients

Clients with performing credit after x years

	Situation at outset	+1	+2	+3	+4	+5 years
Retention	100%	57%	32%	22%	16%	12%

Clients with a 2<sup>nd</sup>, 3<sup>rd</sup>... credit

	1 <sup>st</sup> credit	2 <sup>nd</sup> credit	3 <sup>rd</sup> credit	4 <sup>th</sup> credit	5 <sup>th</sup> credit	6 <sup>th</sup> credit
Recurrence	100%	58%	37%	25%	17%	12%
Distance (days)	-	304	289	269	248	228

### 3. Relationships with clients

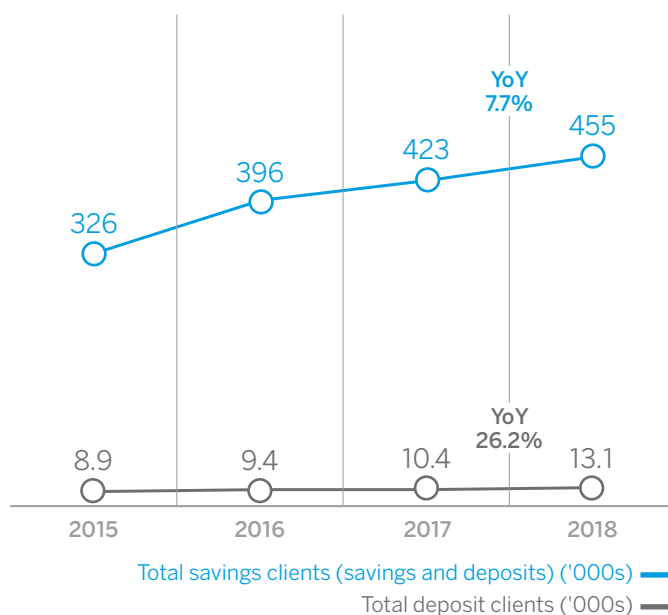
#### RELATIONSHIP WITH OUR SAVINGS CLIENTS

87% of Financiera Confianza clients have some kind of savings product with the institution. Demand is growing, with the number of clients reaching 455,000 during 2018, a 7.7% rise from the year before. Much of the increase was due to fixed term deposits, which grew by 26%.

Savings products, as well as electronic money, can represent a substantial change for microentrepreneurs, since they reduce accidental losses, help to improve financial decision making and encourage moving into the formal economy. For this reason, the Banking, Insurance and Pension Fund Management Authority (SBS) has adopted measures in this matter, supporting basic accounts, accounts that do not require a minimum monthly balance and that can be opened face-to-face or by using digital channels. In 2016 the government, in partnership with the private sector, launched the Peru Model initiative, an electronic money platform.

#### 27 SAVINGS CLIENTS, CHANGE

Clients with any savings product on each data collection date



#### 29 SAVINGS CLIENTS, TYPES

Core clients (saving & deposits) vs. non-core clients

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

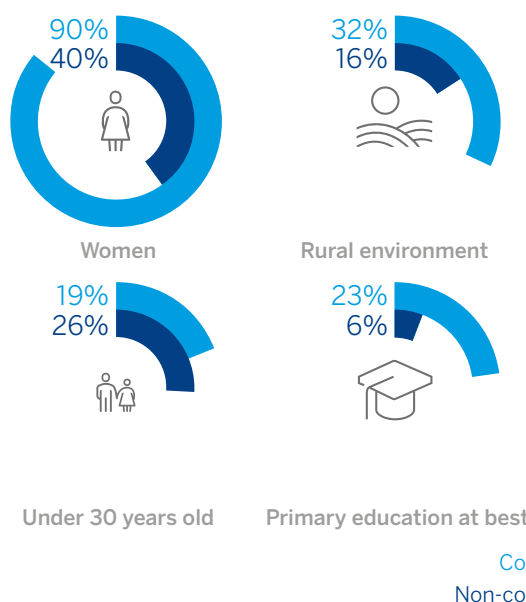
(28) Clients with any kind of savings current at 12.31.2018 (excluding institutional clients and employees).

- Core clients-savings: Clients with a programed savings product.
- Core clients-deposits: Clients with non-sight products (deposits) who have had a credit with the institution at some point.
- Transactional accounts: Clients with a current savings account. Non-core savings: all other clients.
- Non-core savings: all other clients.

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

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

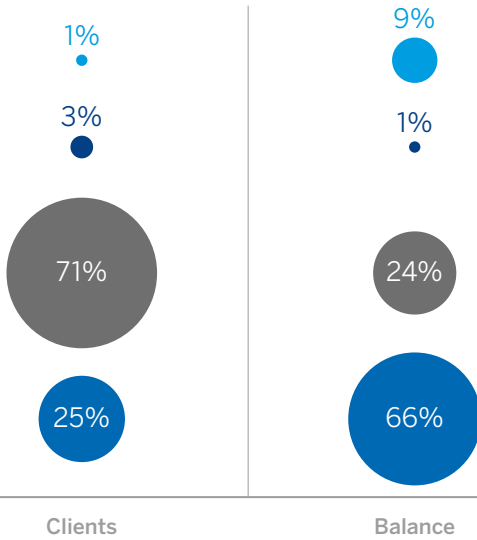
(31) Clients with financial certificates (deposits) current at 12.31.2018 who have had a credit with the institution at some point. Median saving by seniority. The median accumulated saving is shown.



28

**SAVINGS CLIENTS BY PRODUCTS**

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



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

**CLIENT TYPE**

**PURPOSE**

**CORE**

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

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

**TRANSACTIONAL**

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

➔ **Do they really use the transactional account?**

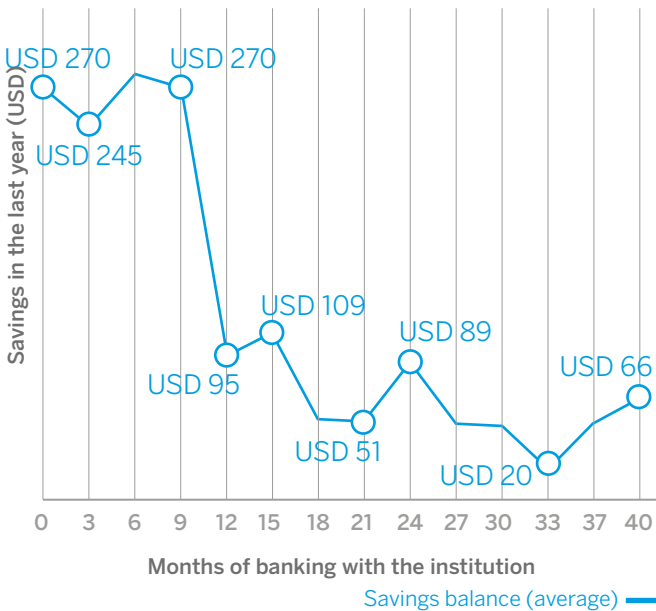
**NON-CORE**

Remaining clients, source of funding

30

**HOW MUCH THEY SAVE - SAVINGS**

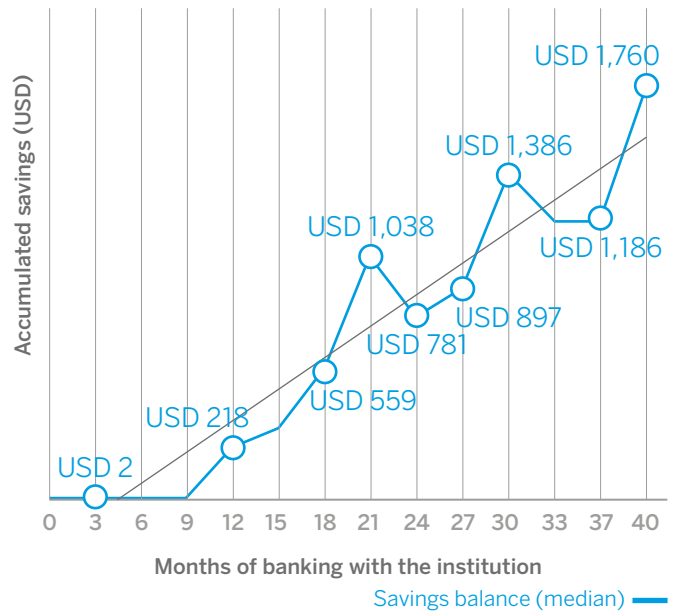
Core savings clients



31

**HOW MUCH THEY SAVE - DEPOSITS**

Core deposit clients



### 3. Relationships with clients

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71% of the clients served by Financiera Confianza with savings products are clients with savings accounts. 24% of the institution's entire liabilities are grouped in these transactional accounts.

In addition, the institution provides specific savings products for low-income entrepreneurs (core clients), in both savings and deposit accounts. In savings accounts, the institution offers *Ahorro Palabra de Mujer* [Woman's Word Savings], a savings product linked to the loan of the same name.

The data show that on average core clients with savings products manage to save USD 200 or more in the first 12 months. After the first year, few clients continue saving with products of this type.

When they open a fixed term deposit account, they also succeed in making savings: after 2 years, 50% of clients have over USD 800 in their accounts.

Indeed, low-income clients are interested in saving (64% of the less poor population saves on a voluntary basis, whereas the proportion rises to 70% in the case of the poorer population (National Financial Services Survey, Peru 2016). The great challenge facing Financiera Confianza when it comes to saving is that a high number of clients uses the product on a recurrent basis, rather than saving capital in a more long-term product.

In the case of clients with transactional savings accounts, the challenge is to encourage them to use these accounts proactively.

As the service becomes more tailored to microentrepreneurs, and they are supported with financial literacy and training programs, the use being made of these types of products and the number of transactions will increase.

*According to a national survey<sup>6</sup>, 70% of the poorest members of the population saves on a voluntary basis. Financiera Confianza is firmly supporting the development of these products, that increase resilience to shocks.*

<sup>6</sup> National Survey on the Demand for Financial Services, Peru, 2016.



## Every drop of confidence counts



**Mauricio Fernández**  
Manager at Lima's Chorrillos agency

In just nine months he has raised the percentage of clients who have improved their domestic running water or sewage arrangements from less than 5% to nearly 30% of his entire client portfolio.

Mauricio, who has been working for nearly nine years in Financiera Confianza, found out that a family member of one of his loan officers had contracted a skin infection from not having running water and sewage in their home. This prompted him to transmit to his team the importance of making it possible for enterprise owners to improve their sanitation arrangements.

*"By improving piping, buying septic tanks and installing running water, we are changing their lives. The happiness on our clients' faces –and those of their children– is what inspires us to carry on this work".*

**Without the certainty of a reliable water supply, or adequate organic waste removal, vulnerable people in Peru face basic infrastructure shortcomings in their own homes. Improvements in these critical areas bring down the number of cases of infectious disease, which particularly affects the health of children and older people.**

To support the improvement of installations to provide drinking water, properly working sanitation and sewage for its clients, at the end of 2017, Financiera Confianza joined forces with [Water.org](#), an NGO with 10 years of experience that operates in more than 10 countries and has over 80 financial partners.

Since many entrepreneurs run their enterprises from their homes, solving water and sanitation shortcomings represents a key improvement, not only for the home but also so that their businesses can develop properly, from both the social and economic perspectives.

The program began in the south of the country and involved 53 of the institution's agencies. As a result of the impact it made and the positive take-up, the second phase was rolled out in the north, with another 16 Financiera Confianza agencies getting on board.

Since November 2017 over

**7,903 clients\***

**have been served, with a impact on nearly**

**22,000 people\***

This partnership has enabled Water.org to upskill our loan officers and clients, so that they can put efficient, long-term solutions to work. In turn, Financiera Confianza has made it possible for enterprise owners, supported by our credit advisors, to make sustainable investments in bathtubs, lavatories and showers.

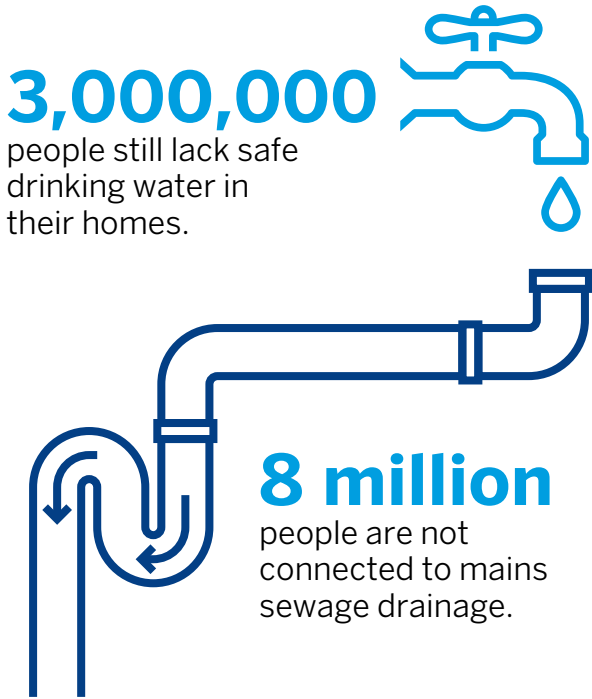
*"The bathroom wasn't suitable for my children, sometimes they got sick, so I built a little bathroom. My children are so happy with it; I tell them that everything is possible, it's a question of putting your mind to it".*

**Rosa Ancco, Financiera Confianza client.**

\* All data on clients current as of 09.30.2018

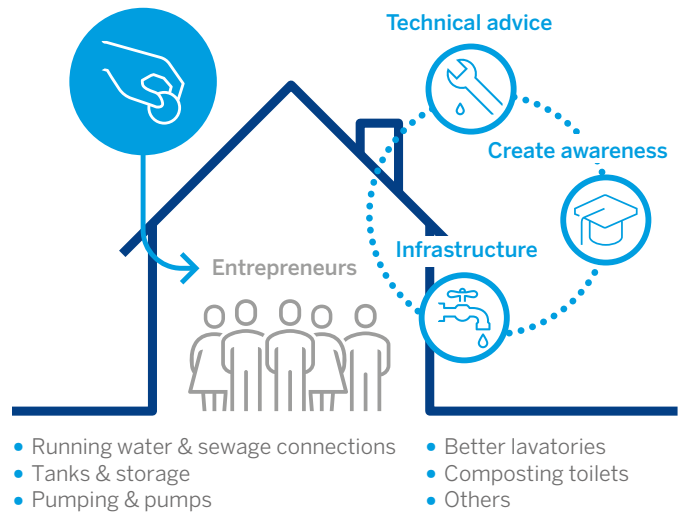


**DIMENSIONS OF NEED**  
(INEI)



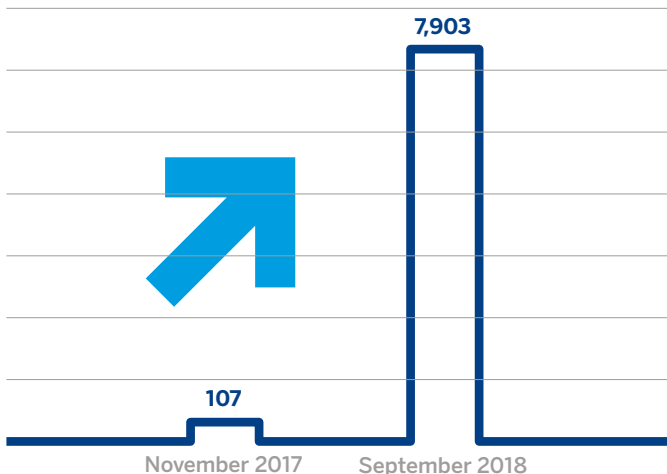
**HOUSING UPGRADES**  
Water-related

Part of the loan is spent on improving physical infrastructure.



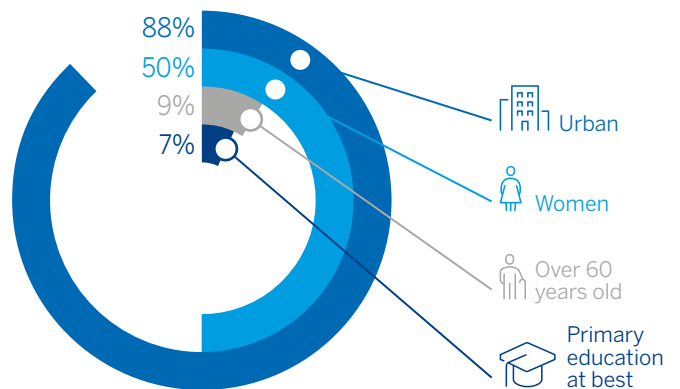
**TOTAL CLIENTS SERVED\***

For an average loan of **USD 1,928** (-10% of the general average loan at the institution) we can provide families in Peru with running water and sanitation.



**NEW CLIENTS 2018\***  
New client profile

**20%** banked clients and **26%** exclusive clients



**With increasingly dense urban populations and insufficient infrastructure, this loan provides a solution for vulnerable clients (72%):**

- They are in urban areas, where their housing is predominantly made of brick and breezeblock
- Large numbers of clients over 40 years old want to improve their family's housing conditions
- Economic activity is mainly retail sales of food, beverages and tobacco (8%) and transport (14%).

## Macroeconomic environment

### ECONOMY<sup>1</sup>

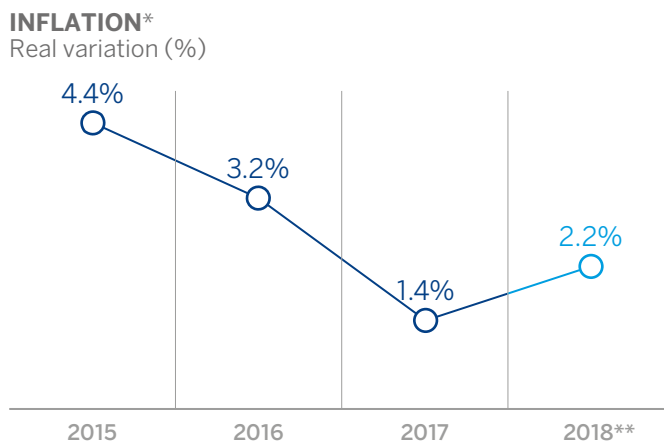
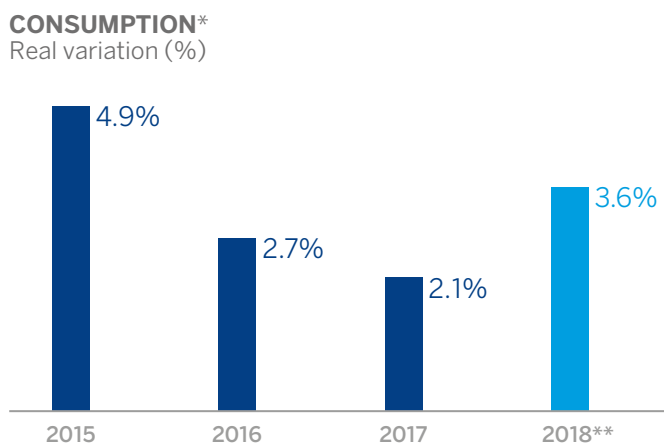
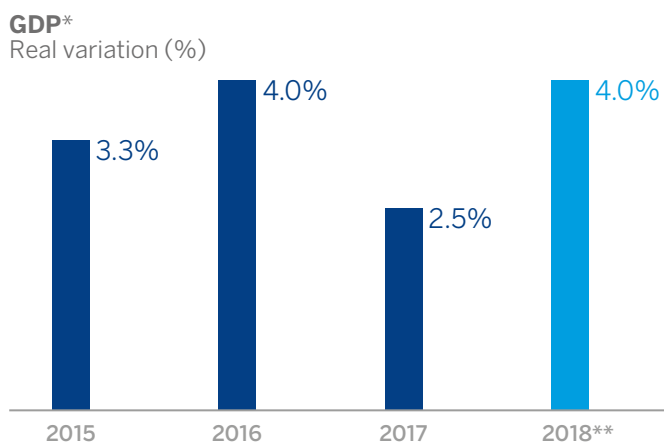
The Peruvian economy grew by 4% in 2018, recovering the rhythm it enjoyed prior to 2017. In that year, due to climate and political factors, expansion moderated to 2.5%. The recovery is linked to greater momentum in non-primary sectors, which grew by 4.2%, particularly construction, services and non-primary manufacturing, which expanded by 5.4%, 4.42% and 3.7% respectively.

Primary activities picked up by 3.3%, led by fisheries, which surged by 39.8%. This was down to the return to normal conditions in the sector, with bigger landings of Pacific anchoveta for industrial use, following on from the suspension of the second fishing season at the end of 2017. This in turn had an impact on the recovery of primary manufacturing, which jumped by 13.1% in 2018, driven by the improvement in fishmeal and oil production.

On the demand side, consumption recovered strongly, growing by 3.6%, compared to 2.1% in 2017. Private consumption was the real driver of annual growth, accounting for 63% of growth over the year, a result of solid employment and the availability of financing.

After three years of dips in private investment (2014–2016), and a modest recovery in 2017, private investment began to expand again in 2018, rallying by 4.4%. The same was true in public-sector investment; after contracting by 2.3% in 2017 because of delays in execution associated with the political crisis, this item surged by 8.4% in 2018. The steady improvement in domestic demand will continue to have an impact on greater growth in non-primary activity.

The adjustment to commodity prices in the second half of the year, which triggered a fall in the terms of trade, was a contributing factor to the reduction in traditional exports, offset by stronger growth in non-traditional exports. This allowed the balance of trade to stay fluid and enabled the current account deficit to remain at sustainable levels, financed by long-term capital, mitigating exchange rate volatility.



<sup>1</sup> All data from Peru's central reserve bank. Estimates to end of 2018 by BBVAMF Research.

\* Peruvian central bank.  
\*\* BBVAMF Research estimate.

The annual inflation rate, meanwhile, posted at 2.2%. This is accounted for by a reversal of the negative shock that affected agricultural supply during 2017 because of the Coastal Niño phenomenon. This meant that since June it has been running very close to the central bank's target range (1%–3%), offsetting the growth in fuel and lubricant prices and the rise in May of the Selective Consumer Tax, which taxes the most polluting fuels.

Inflation's convergence with the target range allowed the central bank to keep its benchmark interest rate unchanged since March at 2.75%, in a negative product gap environment, transferring this performance and these expectations on to the remaining interest rate curves.

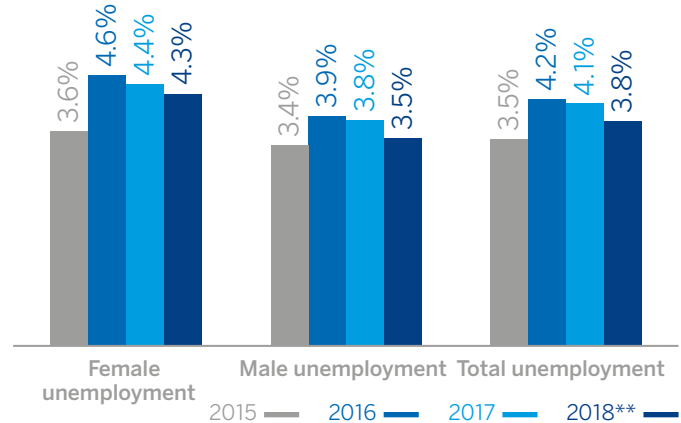
### EMPLOYMENT, WELFARE AND POVERTY<sup>2</sup>

The recovery in economic activity manifested itself in an improvement in private-sector employment in the formal economy; from April onwards it enjoyed growth rates of 4% similar to those in total employment figures. This allowed the national activity rate, that is, the ratio between the economically active population (the population either in work or looking for work) and the working-age population (14 years and above) to rise by 0.2p.p., from 72.4% in 2017 to 72.6% in 2018.

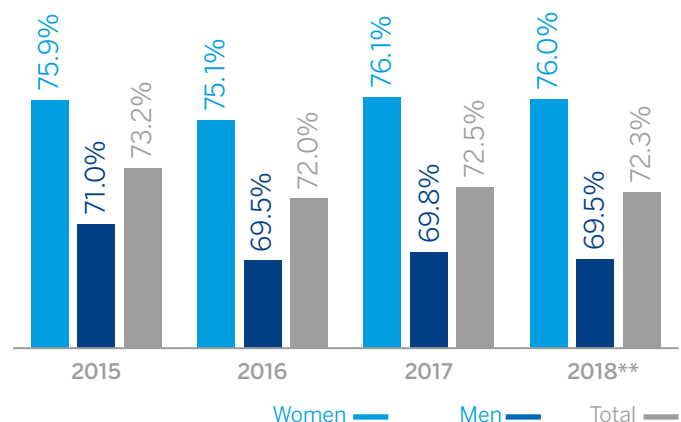
The activity rate in urban areas was 71%, whereas in rural areas it was 79.2%. This difference in favor of rural areas is conditioned by the lower activity rate in the coastal region [Costera], whereas the Sierra region has retained its higher activity rate.

There were clear differences, however, between these regions in terms of the quality of employment. While the coastal region had an informal employment rate of 62.8%, in the Sierra it was as high as 84.3%, similar to the Jungle region [Selva], where it was 84.5%. Nationally, the rate of informal employment improved slightly in 2018, edging down from 72.5% in 2017 to 72.3% in 2018.

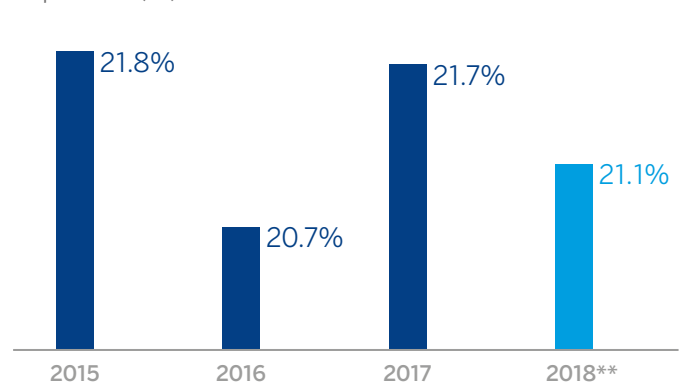
**LABOR MARKET\***  
(%)



**INFORMAL SECTOR\***  
(%)



**MONETARY POVERTY\***  
Population (%)



<sup>2</sup> Data from INEI.  
BBVAMF Research estimate.

\* INEI.  
\*\* BBVAMF Research estimate.

## Macroeconomic environment

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There is a significant gender gap in the Peruvian labor market. Whereas the activity rate for men is 81%, for women it is 64%. So, on average, women are less likely to take part in the labor market, with a participation deficit compared to men of 17p.p. They work mainly in the informal economy, with the female informal job rate reported as 76%. Men are ahead in terms of formal employment by 6.5p.p., with an informal job rate of 69.5%.

The economy's stronger performance was reflected in a 0.3p.p. fall in the unemployment rate, down to 3.8% in 2018.

4.3% of women are unemployed, whereas for men the figure is 3.5%, widening the gender gap, which rose from 0.6 to 0.8p.p. in 2018. In the case of young people, the unemployment rate was 3.5 times higher than that of adults between 25 and 44, and 5.7 times higher than people aged 45 or more.

In 2017 the number of Peruvians in poverty went up by 375,000 people, to 6.9 million. In other words: 21.7% of the population was in poverty, as classified by income. The deterioration in the poverty indicators was linked to lower growth in activity, particularly in the sectors that generate most employment, as well as the uptick in the informal sector.

In 2018, better economic performance, mainly in the non-primary sector, the improvement in employment and less informality led to a 0.6p.p. fall in the poverty rate, which was recorded as 21.1%. This means that 120,000 people escaped poverty, while 6.78 million people remain poor.

These results were accompanied by very little variation in national inequality levels. However, the results over the last 10 years show a reduction in inequality across the nation and in all regions, with the Gini ratio (in which a value of 0 means total equality and a value of 1 is maximum inequality) falling from 0.50 in 2007 to 0.43 in 2017. The greatest drop in inequality was on the urban coast, followed by the metropolitan area of Lima, the urban Selva region and the urban Sierra region.

## FINANCIAL INCLUSION

According to World Bank figures<sup>3</sup>, 42.6% of adults in Peru are banked, and this percentage has doubled since 2011. As is the case with most countries in the region, there is a noticeable gender gap in financial inclusion, with men ahead of women by 16.6p.p., the latter having an inclusion rate of 34.4%.

Only 27% of adults in the category of the 40% poorest households are banked, compared to 53% of adults in the 60% richest households. This inclusion gap by income differentiation, 26p.p., is a stronger differentiating factor than gender.

As adult educational attainment levels fall, the likelihood that they are not banked rises. In Peru, just 31% of adults with primary education or less are financially included, whereas in the case of those who have completed secondary education or higher, the figure is 45%.

On aggregate, the ratio of adults with an account but are not in the labor force is 25%. Among the unbanked, women are less likely than men to be in the labor force.

Looking at the reasons for not having a bank account, 47% of adults said that the main reason was insufficient funds. 31% gave the main reason as the distance from financial institutions, 29% pointed to difficulties as a result of not having the necessary documents, and 59% claimed that the main motive for exclusion was that financial services are "very expensive".

40% of adults had saved some money over the previous year. Only 9% of those with the least resources had done so, and just 8% of all adults had put these savings into a financial institution. This ratio fell to 2% for those adults in the category of the 40% poorest households.

14% of adults overall saved some money in order to start or expand a productive activity, whereas only 4% of adults with primary education or less did so. Among those completing secondary studies or higher, the percentage was 16%.

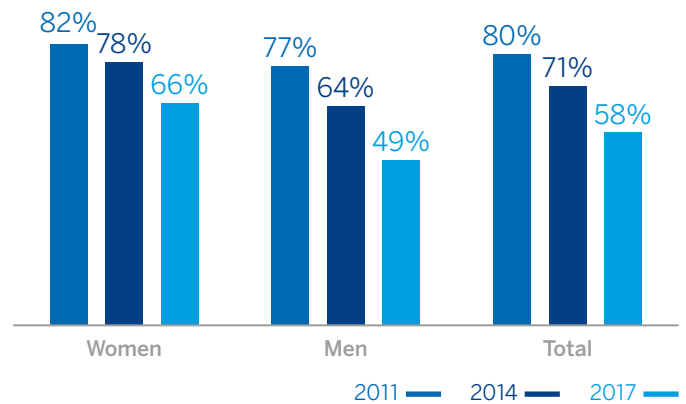
<sup>3</sup> Global Findex 2017, World Bank.

Meanwhile, 36% had taken a loan of some kind, although only 19% had obtained it from a financial institution. 16% had received it from family members or friends. Among those with the lowest incomes, although 30% had received some sort of loan, only 7% had obtained it from financial institutions and 13% from family members and friends.

According to local sources<sup>4</sup>, in the last five years 1.2 million borrowers have joined the financial system, bringing to 6.8 million the number of individuals with a loan as of June 2018. As a result, the percentage of the adult population with a loan rose from 29% in June 2013 to 33% in June 2018. Over the same period, 524,000 micro and small entrepreneurs (MSMEs) joined the financial system, reaching around 2.4 million MSME borrowers by June 2018. Over this five-year period the number of service points (branch offices, ATMs, banking agents and establishments for basic transactions) has increased, rising from 240 to 867 service points for every 100,000 adults.

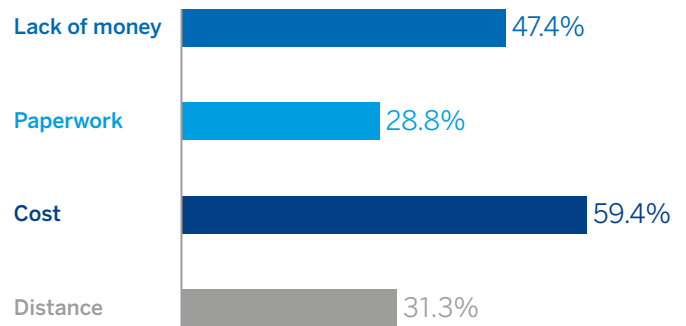
**UNBANKED ADULTS\***

Total over 15 years old (%)



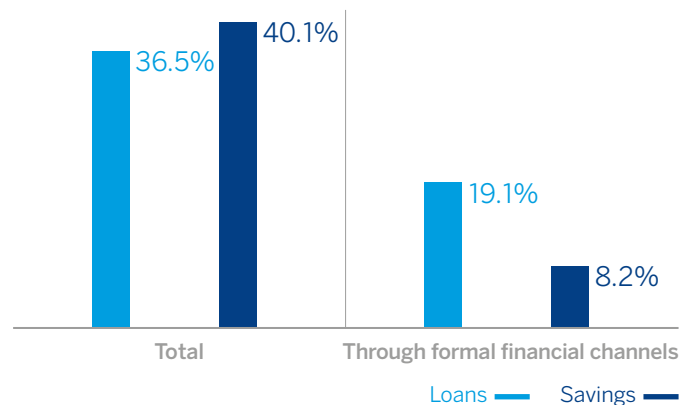
**EXCLUSION FACTORS\***

Excluded adults (%)



**PRODUCTS IN DEMAND**

Adults (%)



<sup>4</sup> Banking, Insurance & Pension Fund Management Authority (SBS) of the Republic of Peru.

\* Global Findex 2017, World Bank.