Fundación BBVA Microfinanzas 15 aniversario

CLOSING GAPS, CREATING OPPORTUNITIES

Social Performance Report 2022

Measuring what really matters

Contents

Executive summary

This report analyzes entrepreneurship, reflecting the stories of people who, with the help of their individual get-up-and-go and the capital supplied by BBVA Microfinance Foundation institutions, can be sure of a source of income and with this a higher welfare for themselves and their families.

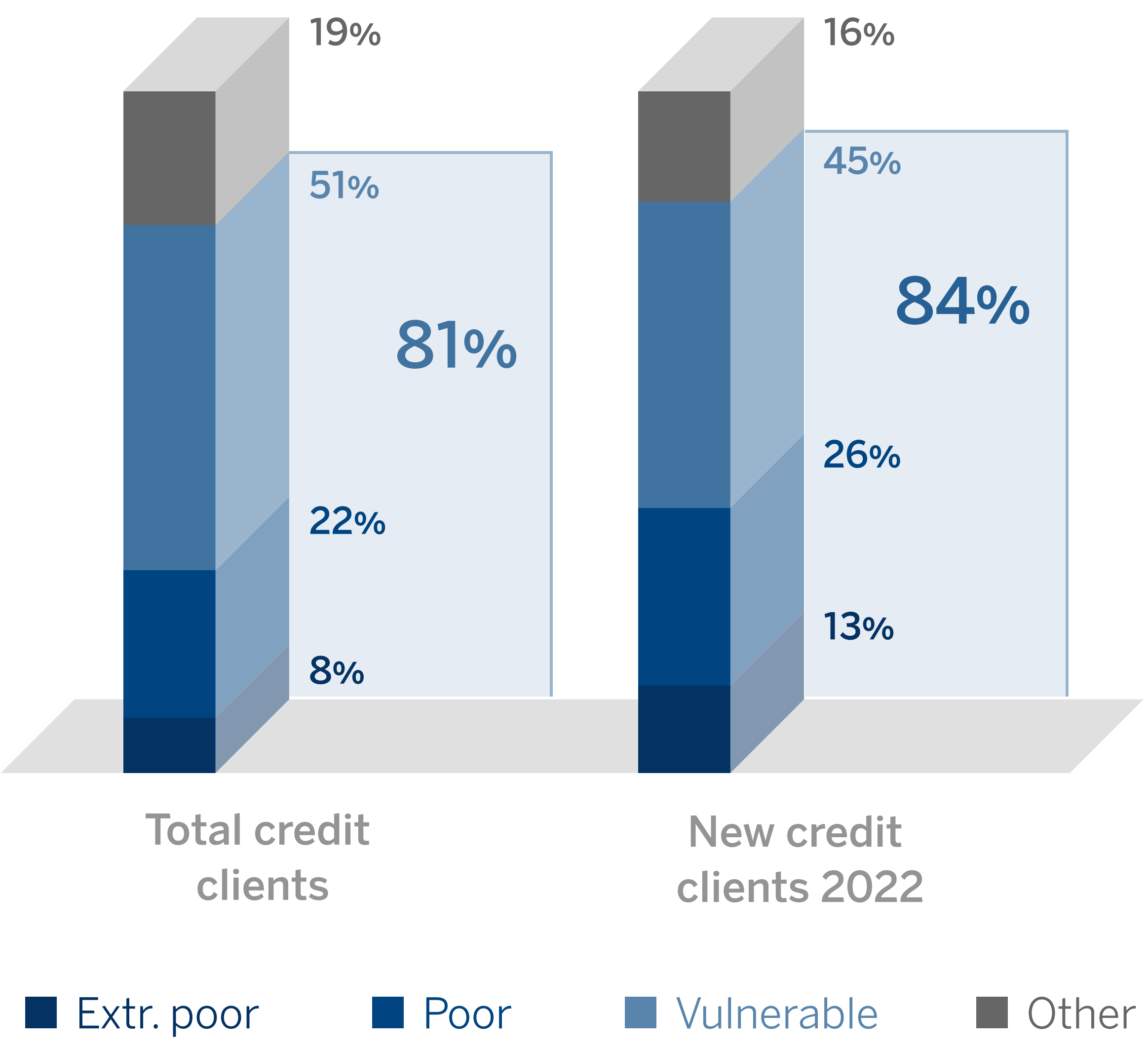
Latin America's economies and societies are going through several crises at the same time. This has had not only a major social impact but also the potential to generate second and third order effects that are not always apparent. Climate change, the COVID-19 pandemic, a feeble economic recovery, and soaring inflation –, pose questions about resilience that must be tackled with great care and a systematic approach.

In 2022, 504,608 entrepreneurs renewed their loans to invest in their enterprises and 294,672 new entrepreneurs were served. Despite the difficult circumstances, varying from country to country, the Foundation's institutions returned to virtually normal rates of activity, achieving 94% of their 2019 levels. This has been done while respecting the commitment to entrepreneurs in vulnerability.

ENTREPRENEURS

Total n° clients	2,858,166
Credit clients	918,900

Economic vulnerability



Social vulnerability

Women	59%
Rural environment	35%
Basic ed.	35%
< 30 years	21%
> 60 years	12%

HOUSEHOLDS

Multidimensiona poverty

24% are in multidimensional poverty

41% is the intensity of their deprivations in housing and healthcare

IIPM
Índice Interno de Pobreza Multidimensional

This activity is an accurate reflection of the resilient entrepreneur profile: to March 2022, 52% of entrepreneurs had recovered and even increased their sales compared to 2020. These businesses, which are the household's main source of income for 56% of vulnerable families, show solid growth in sales and surpluses (25% and 26% respectively) which translates into higher income for households. The segment of poor people served shrank by 23% after two years of banking with one of the Foundation's institutions. Indeed, six out of ten entrepreneurs succeed in overcoming poverty after 5 years. Although 16% fall into poverty by the end of these period, the longer they bank with us, the more likely they are to escape poverty.

Business development

Resilient

53% recovered their sales or raised them since the pandemic

Growing

25% sales

26% surpluses

Escape poverty

24% out of poverty

35% is unstable

Small neighborhood stores selling textiles and food products, crops and livestock, together with beauty parlors and hairdressers, take up their activity again, adapting their businesses:

- **Sales channel**: Direct sales from the home or other premises remain the most popular channels, although there has been a move to social media (28% of total sales) and the telephone (20%), particularly in the case of young people.
- **Buying inputs**: Online purchasing of inputs – previously non-existent, at least on a proactive basis, is starting to be noticeable (10% of entrepreneurs).
- **Managing expenditure**: The search for new suppliers, or renegotiating with current ones, as a way of trying to reduce operating costs.
- **Adjusting product lines**: Only half of our entrepreneurs do this, but those who have done so have found that product diversification has been an effective strategy for mitigating the impact of the pandemic on sales, according to entrepreneurs' own opinions about the activities most affected (eg. retail trade).

Ultimately, the impact sought by the Foundation is to empower low-income entrepreneurs so that they become the agents of their own change, able to take different decisions about their lives and, in the final instance, make the leap to escape poverty, moved by their own entrepreneurial drive.

In the absence of social safety nets that meet contingencies, such as the illness of a family member, or the need to repair their home, and when there is no medium-term economic planning, imbalances are created that may cause the household's financial capacity to deteriorate, slowing down or completely stopping its progress, despite the entrepreneur's endeavors.

An extreme shock, such as the crisis caused by the pandemic, has impacted their capacity to accumulate assets. This has forced them to diversify their sources of income, which is why it has become even more important to encourage saving.

> **The Foundation backs the entrepreneurship of low-income people so that they can become the agents of their own change**

Specifically, the savings of one in every four clients have been seriously reduced. Among the main difficulties that entrepreneurs say they have in saving is the lack of income. What is more, most of them admit to keeping their savings at home (in cash) or using informal channels such as cooperatives, neighbors' associations, etc. (29%), increasing the precarious nature of their modest asset base. We thus are looking at an enormous opportunity to provide insurance and savings products to improve their financial planning.

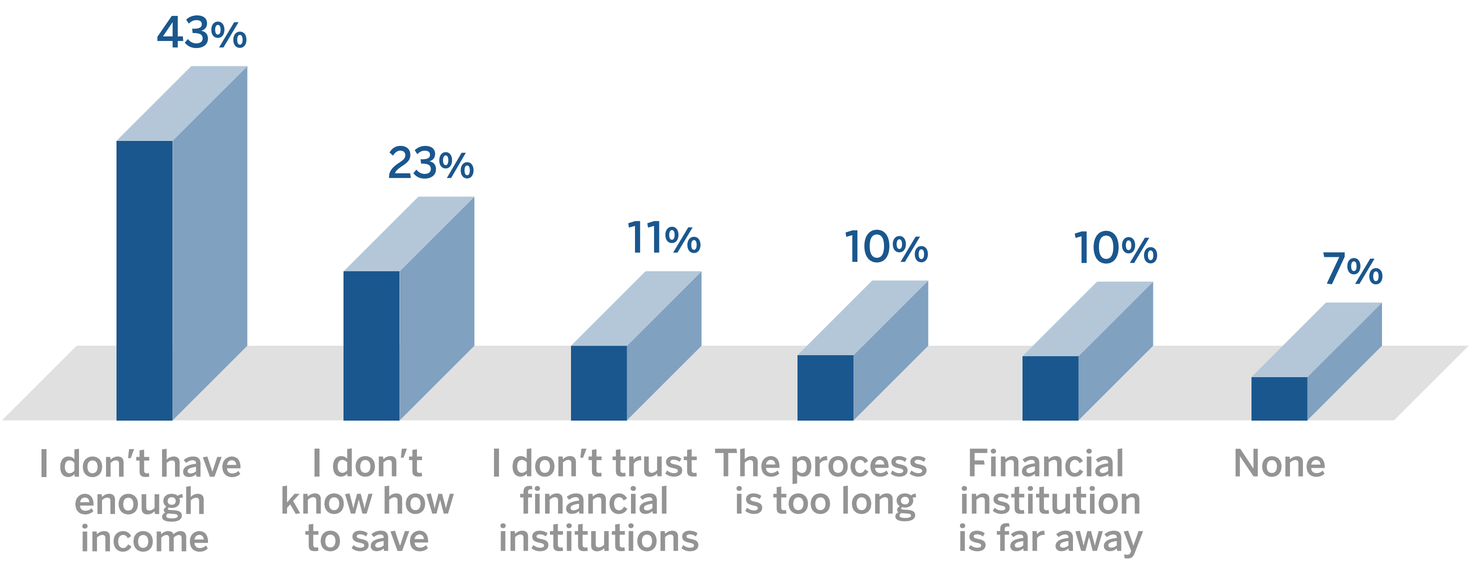
Financial health

2,624,500 clients with savings products

84% **have the capacity to save**, but most have been affected by the pandemic

87% **have a buffer of less than six months**

Mitigating their obstacles to saving



This instability means that many are still living with low incomes or with a series of structural shortfalls (housing, education, health). That is why the upgrades in housing and education have slowed down. Instead, there has been more investment in health insurance, covering contingencies that households have lived through recently or that are still fresh experiences.

Our support for sustainable performance means that we must back better financial health and identify mechanisms to cope with income instability. Investing both in the payment facilities that we offer and in increasing their financial skills remains fundamentally important.

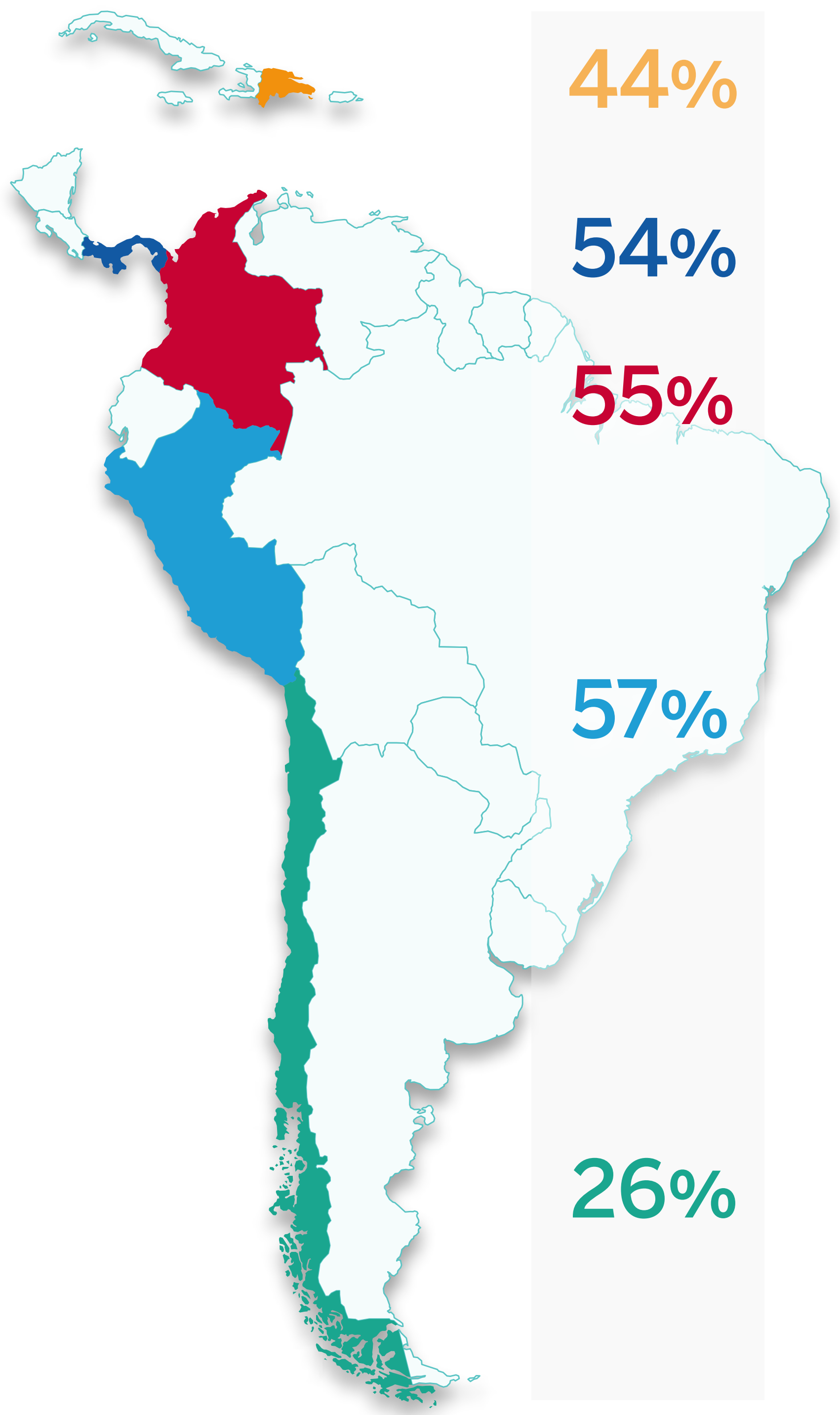
Indeed, the era in which we live is increasingly defined by the interaction of multiple complex disruptions, with very different origins and long-term consequences. Existing social structures are not ready for these new landscapes, so inequalities persist, although the impact they have on the most vulnerable populations is hidden, as they are practically invisible to the State. Many vulnerable entrepreneurs are used to adverse situations and cope with them and their effects as they occur. We need greater engagement and to dig deeper into understanding the causes.

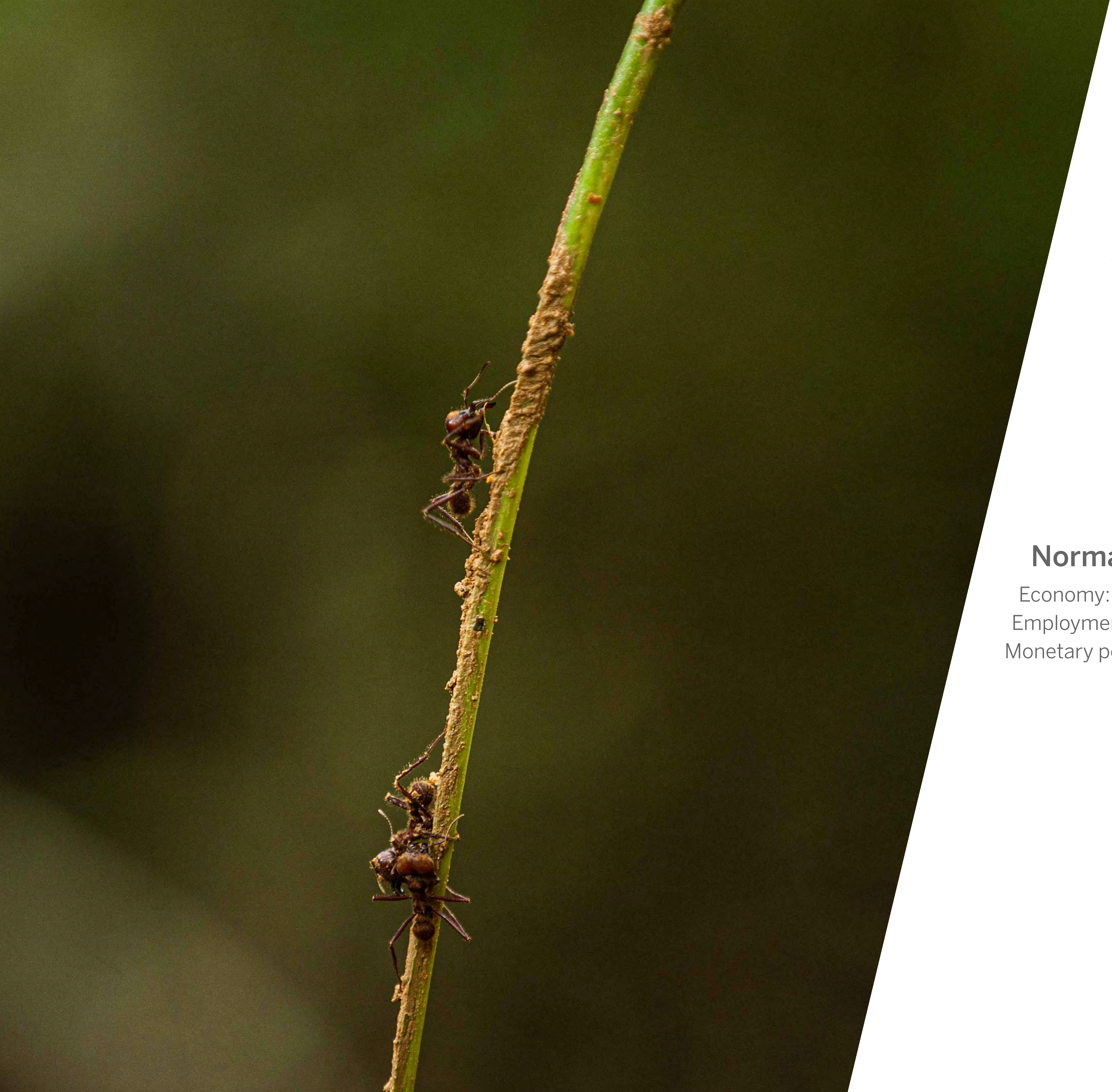
This need for greater engagement is what prompted us towards applied research, where we invest our resources and experience into understanding their reality, looking for causations and testing solutions. We use all these inputs to drive the most impactful value creation initiatives.

The sum of everyone collaborating in the learning process is crucial in achieving greater inclusive and sustainable growth. This report is a summary of some of these learnings.

1 | National poverty rates & financial exclusion

	National poverty rate	Financial exclusion indicator
Dominican Republic	21.8%	44%
Panama	24.5%	54%
Colombia	38.1%	55%
Peru	27.5%	57%
Chile	11.5%	26%





Macroeconomic context

Normalization in a high-inflation environment

Economy: Activity returns to normal levels[1]

During 2022, the economies where the institutions belonging to BBVAMF operate (hereinafter our *footprint*[2]) experienced three events that have affected their performance: the COVID 19 pandemic, Russia's invasion of Ukraine and the hardening of financing conditions in the second half of the year.

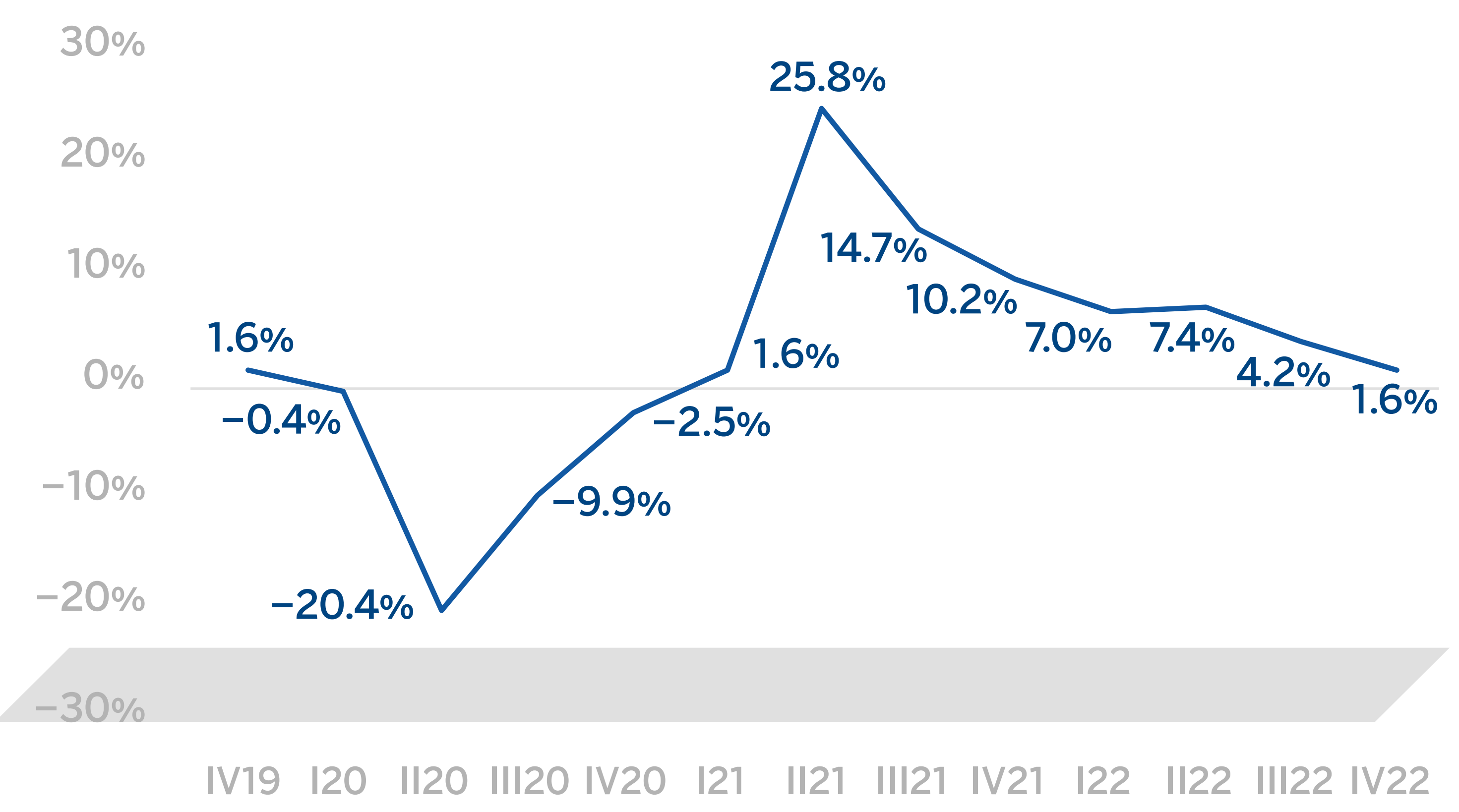
Despite this, activity in each of these countries has continued to normalize, edging towards pre-pandemic levels. This is apparent when we look at changes in growth rates which have gradually slowed since the second quarter of 2021. Growth has gone from 25.8% in that quarter to an estimated 1.6% in the fourth quarter of 2022, back to the figure recorded in the fourth quarter of 2019. Recovery remained steady through the end of 2021 and early 2022. This is mainly due to the fact that people's mobility returned to pre-pandemic habits because of high vaccination levels. Domestic demand was particularly strong in the first half, driven by spending, but slowed in the second.

Throughout 2022, economic activity in our footprint increased by 4.9% from the previous year. The highest growth rates were in Panama (10.8%), Colombia (7.5%) and Dominican Republic (4.9%). Peru (2.7%) and Chile (2.4%) expanded less although they had enjoyed the strongest recoveries in 2021 after Panama's. The strength of spending, which grew by 5.2%, and private investment (8.8%), drove this recovery. These factors were accompanied by very loose monetary and fiscal policies, together with higher exports linked to better prices for raw materials.

1. National sources. Estimates to end of 2022 by BBVAMF Research.

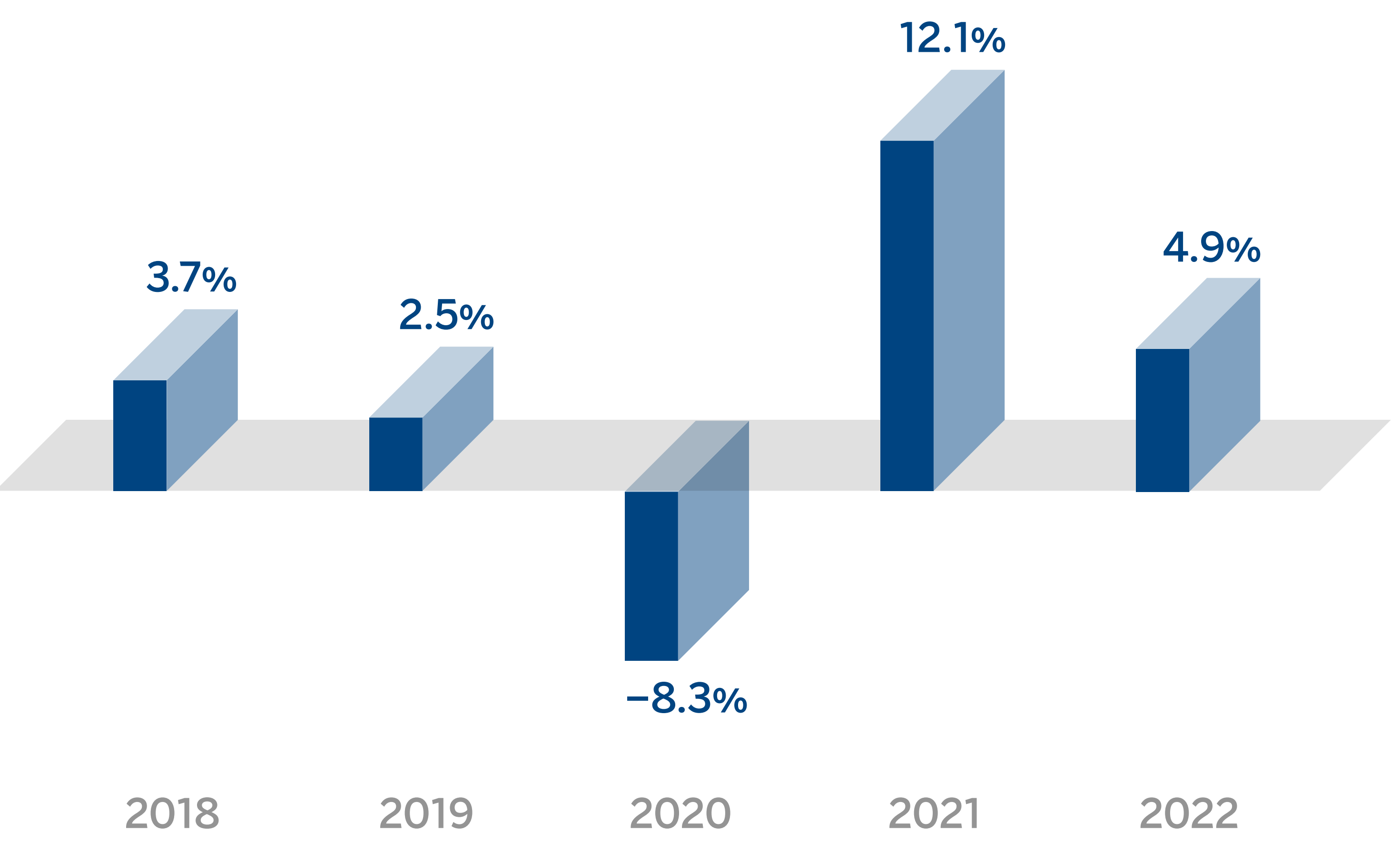
2. Chile, Colombia, Panama, Peru and Dominican Republic.

1 | Quarterly GDP growth, footprint (var %)



GDP growth in footprint

2 | GDP growth in footprint (var %)

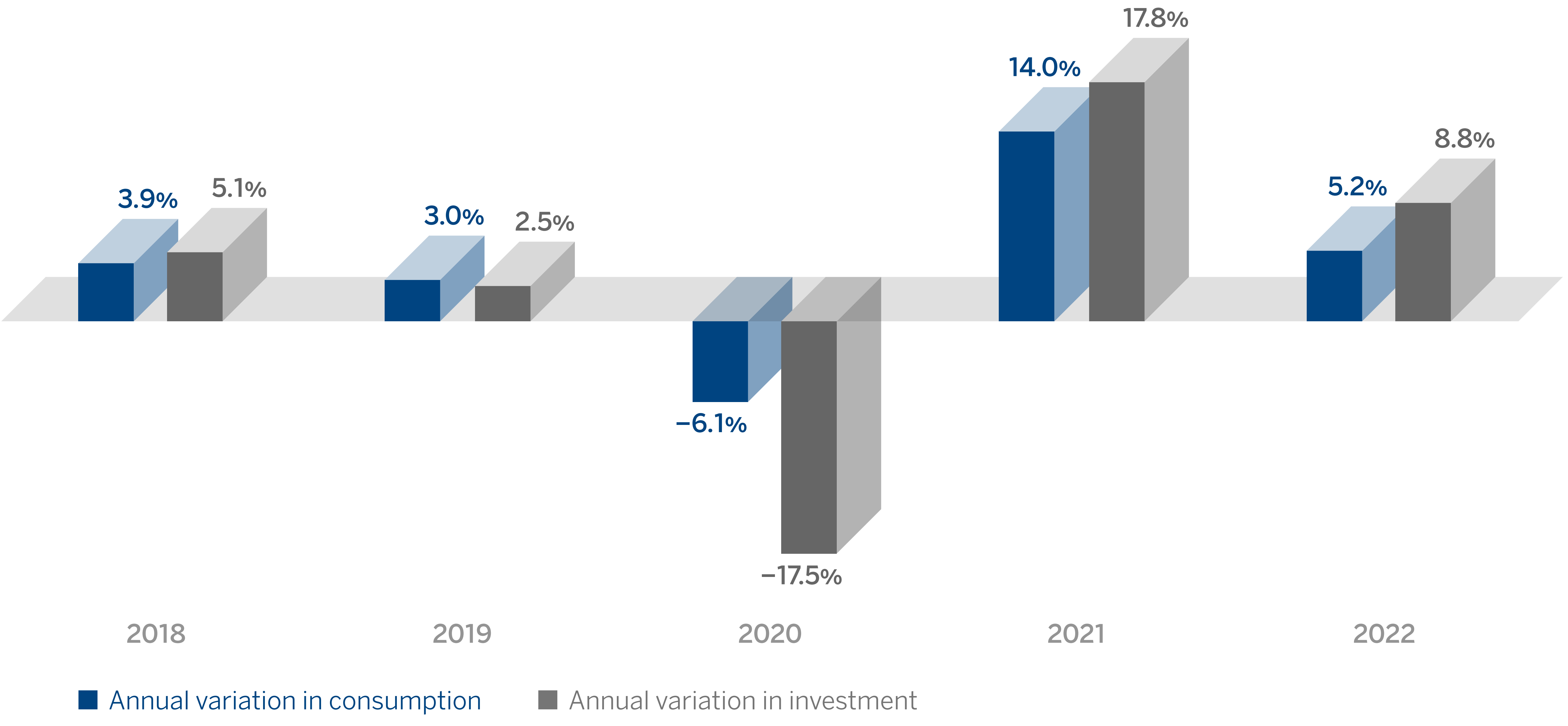


The improvement in the terms of trade[3] and in export volumes meant that the external sector made a greater contribution to growth in most countries, where on the supply side the most buoyant sectors were construction, trade, services, extractive activities and manufacturing.

All countries were impacted by the changes in inflation worldwide and regionally that have been determined by the interaction of supply and demand factors. On the supply side, there were persistent interruptions affecting global supply chains, together with the increase in the prices of primary goods, particularly energy and foodstuffs, linked to the consequences in the raw materials markets of Russia's invasion of Ukraine. These events did not only affect the countries in the footprint, but have been determinants across the world in inflation, which came in at 8.7%, posting at 7.3% in developed countries, while in emerging markets it was 9.8%.

Countries' monetary policies —whether developed or not— have been conditioned by these circumstances, making inflation containment their main goal. The Federal Reserve's actions have been particularly significant: to keep the sharp uptick in prices and pressure on the labor market in check, it suspended its net purchasing of assets in March 2022, started reducing the overall size of its balance sheet in June and raised monetary policy rates by 400 base points, in order to keep long-term inflation expectations anchored.

3 | Growth in domestic demand, footprint (var %)



This in turn had a noticeable impact on funding flows that, in conjunction with certain idiosyncratic factors, translated into greater exchange rate volatility in the countries in our footprint. In view of the situation, the monetary authorities in the five countries reacted speedily, in fact much earlier than other economies. This helped to keep price pressures in check but has not yet managed to anchor long-term inflationary expectations, as inflation in these countries has averaged 10.9% in 2022.

3. Ratio between the index of export prices and the index of import prices. This relationship shows the purchasing power of domestic products sold abroad.

Central banks in the footprint intervened more in the second half of the year, which accounts for the moderation in spending in the second half of the year and lower growth.

In Colombia, inflation remained more anchored, closing the year at 13.1%, despite the Bank of the Republic adjusting its monetary policy rate by 900 base points. In Chile, inflation closed at 12.8%, while its Central Bank adjusted its monetary rate by 750 base points.

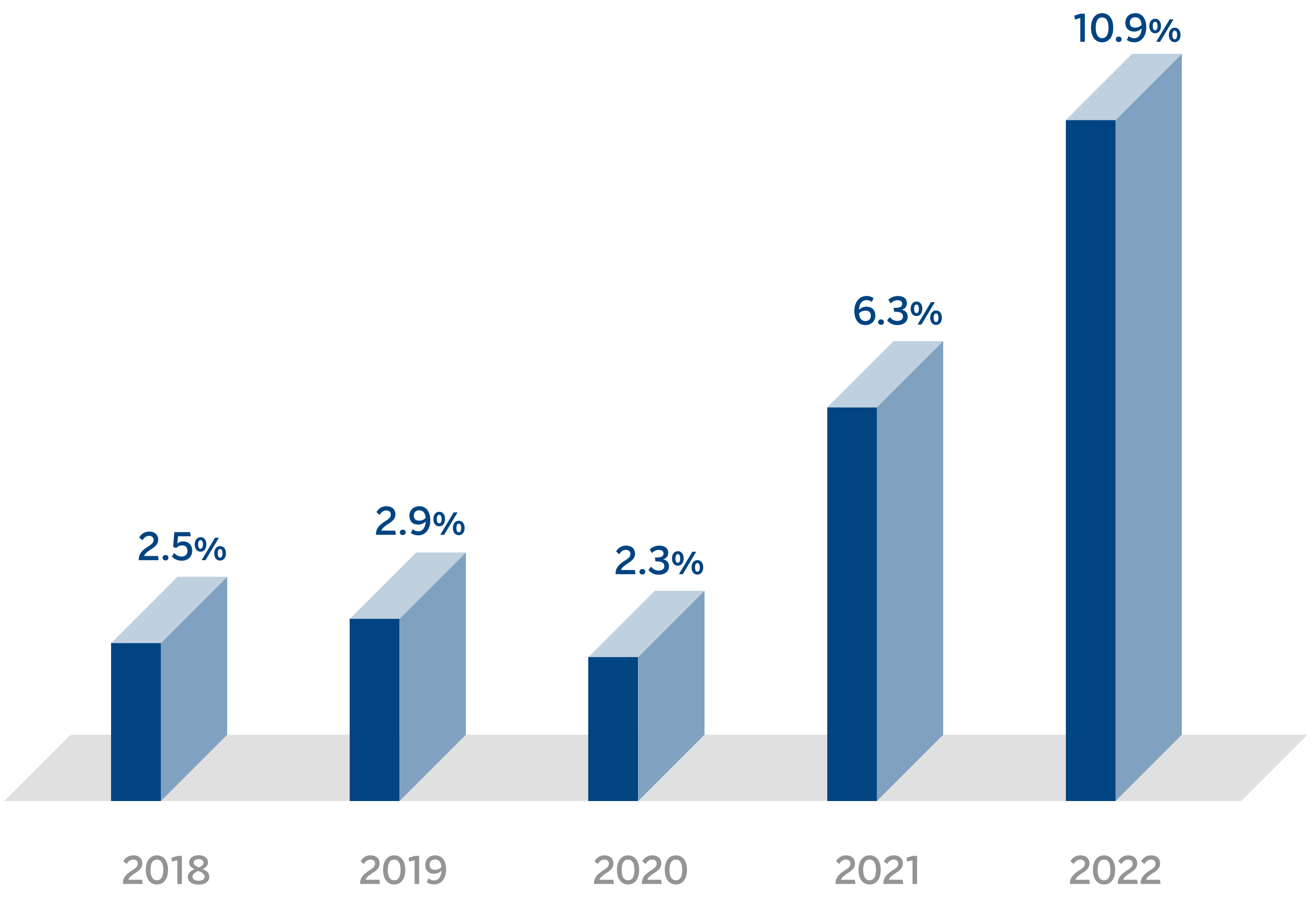
Inflation posted at 8.5% in Peru and the rate was tightened by 500 base points, whereas in Dominican Republic it came in at 7.8% with an adjustment of 500 base points to its monetary policy rate. Panama reported the lowest inflation (2.9%), although this represented a significant uptick from 2021, when it was 1.6%.

Persistently high inflation was the consequence of the elevated private-sector spending of previous years, associated in some countries with policies to withdraw resources from their pension funds, a strongly expansionist fiscal policy and vigorous growth of consumer lending in certain cases, all factors that pushed up prices.

Although inflation has slackened, due to the rise in interest rates on the part of central banks, together with energy and food prices starting to trend downwards, underlying price pressures are proving more long-lasting.

These countries have been exposed to multiple inflationary shocks, including the depreciation of their exchange rates, that have mounted up in the last two years, with the result that the inflationary component of imports has greater weight. Added to the dynamics intrinsic to domestic markets and the indexing mechanisms of some economies, the sum of these factors has meant that the impact of adjusting monetary policy on price dynamics is proving slower than other processes.

4 | Inflation across footprint (var % GDP)



Employment recovers, but of lower quality[4]

The region was hit in 2020 by high infection and mortality rates, as well as a sharp drop in activity. This was reflected in a reduction in working hours equivalent to 36 million full-time equivalent jobs, and 25 million net job losses, 82% of which were people leaving the labor force.[5]

Given that the crisis affected all sectors, the mobility restrictions prevented those leaving the formal job market from moving into informal employment, which had in the past been a key mechanism in job market adjustments. Instead of this, they left the workforce, triggering a drop in the labor participation rate.

Approximately 14% of the people who formed part of the work force in the fourth quarter of 2019 left it. After the pandemic they slowly rejoined the labor market. By the beginning of 2022, around 28 million people were looking for a job and not finding one, and nearly four million had joined the ranks of the unemployed.

The recovery of activity and the return of normal mobility meant that some of these workers were absorbed, bringing the average unemployment rate in the region as a whole down from 10% in 2021 to 9.3% by the end of 2022. However, despite this improvement, there is still a significant scarcity of jobs compared to 2019.

Across the footprint, unemployment fell by 0.8 percentage points, down to 7.7% in 2022. This is the outcome of an improved labor market, especially in Dominican Republic (unemployment down by 2.3%), Panama (–1.4%), Peru (–1.1%) and Colombia (–0.8%). Nevertheless, in Chile unemployment rose by 0.8%, as the work force grew (4.3%) faster than the number of people in work (3.4%).

Like the rest of the region, these countries posted recoveries in their participation rate.[6] During 2022, participation ratios improved on the 2021 figures, going from 64.5% to 65.6%. Despite this increase, participation was still 1.2% below pre-crisis levels.

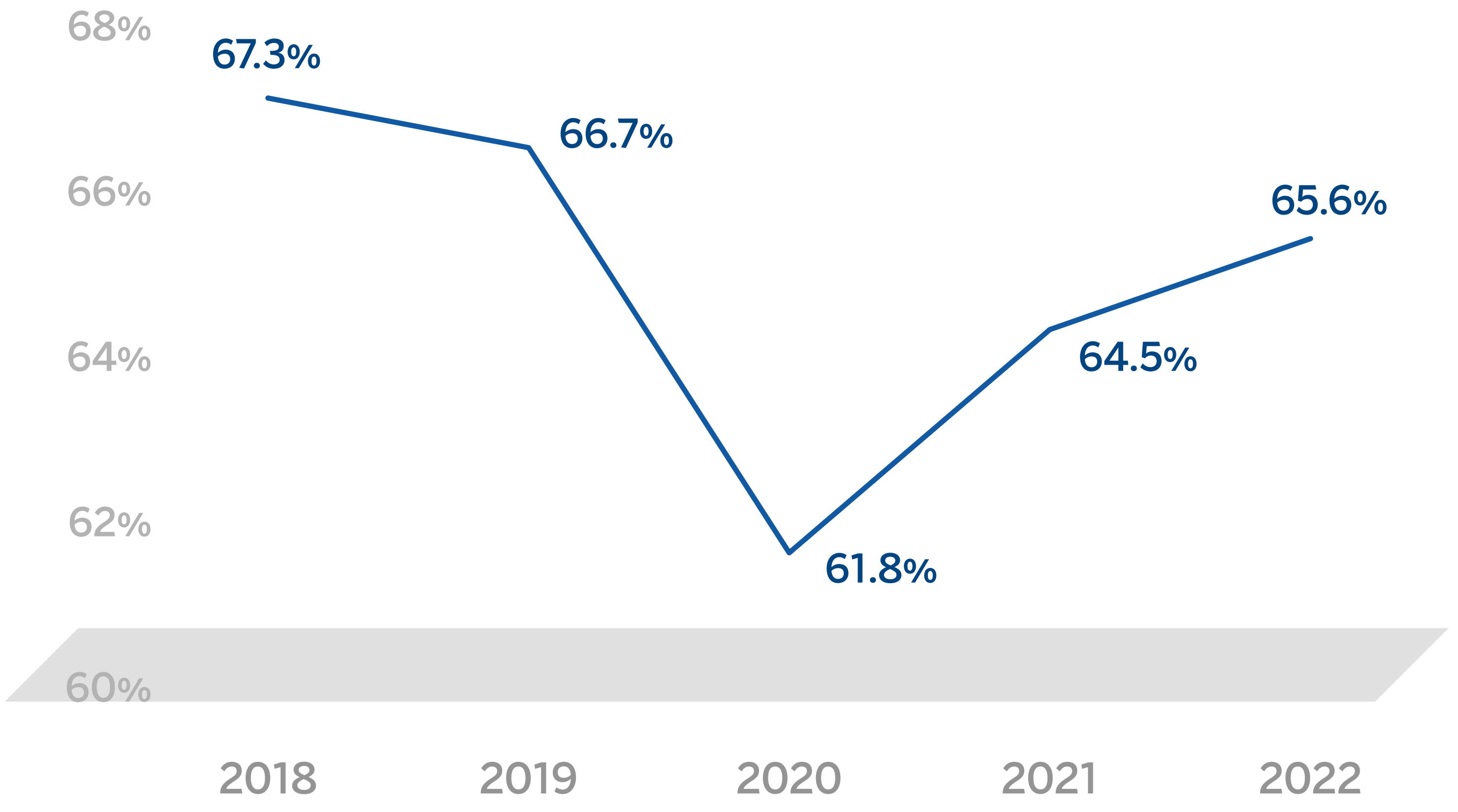
This lower participation could be seen in the more sluggish growth of the active population compared to the adult population as a whole, as many of them chose to stop actively looking for work. 86% of the people pushed into unemployment by the pandemic have returned to the labor market. The ratio would have been 52% if the labor participation rate were the same as it had been in 2019.

4. National sources. Estimates to close of 2022 by BBVAMF Research.

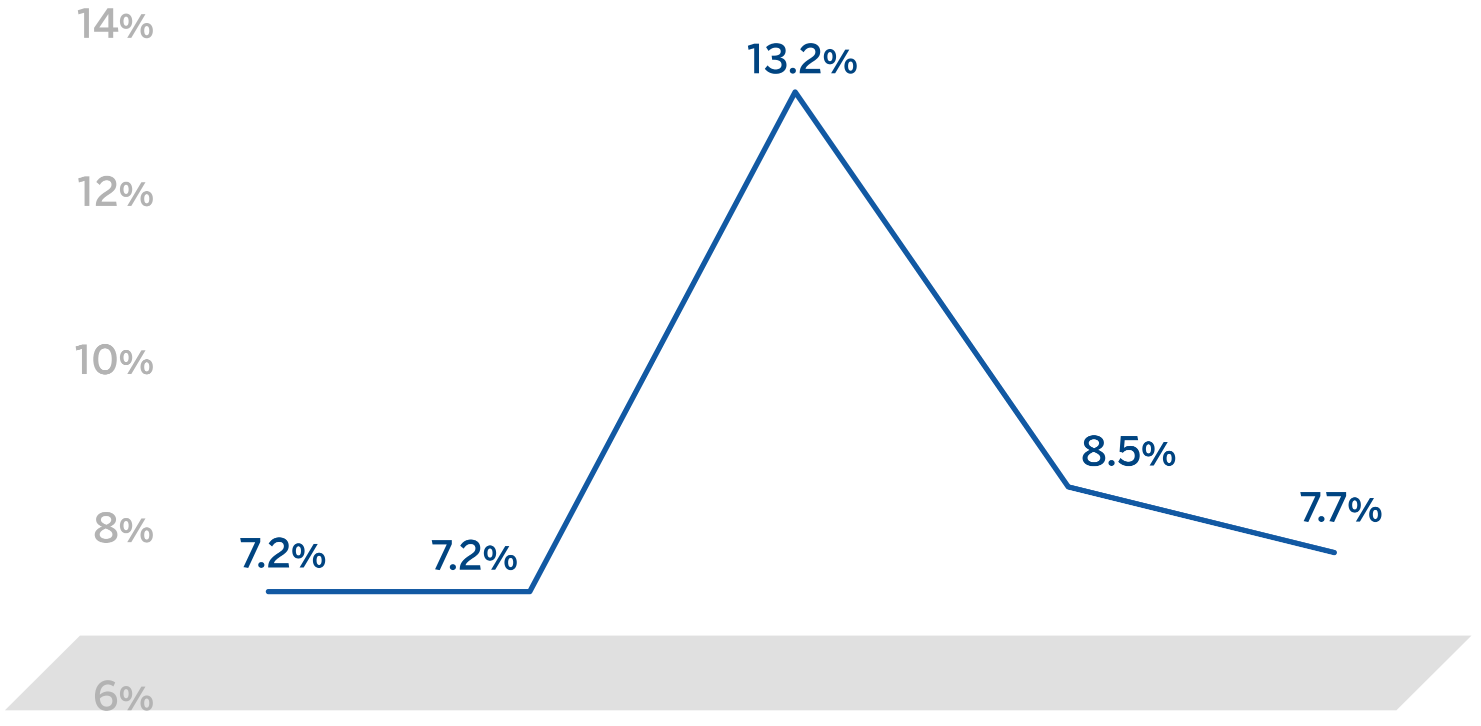
5. International Labour Organization (ILO)

6. Active population participation over working-age population.

5 | Overall participation rate, footprint (var %)



6 | Unemployment rate, footprint (var %)

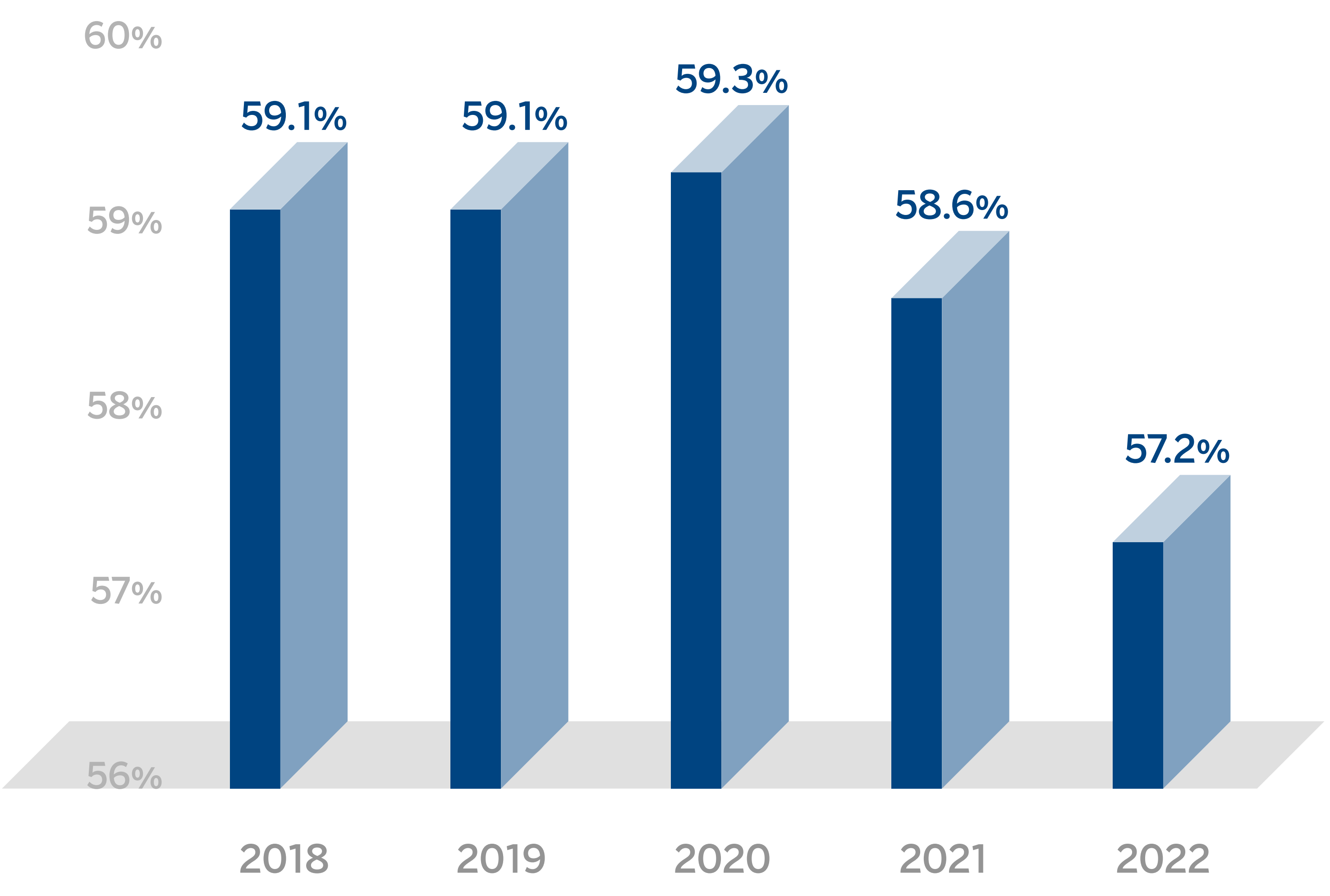


21% of the jobs created in 2022 were informal. Nevertheless, the recovery of 44% of employment can only be accounted for by an expansion in informal jobs since the end of the pandemic. A large part of the job losses were due to mobility restriction policies. Both the formal workers who lost their jobs and those working for themselves left the workforce instead of joining the numbers of the unemployed or working in the informal economy.

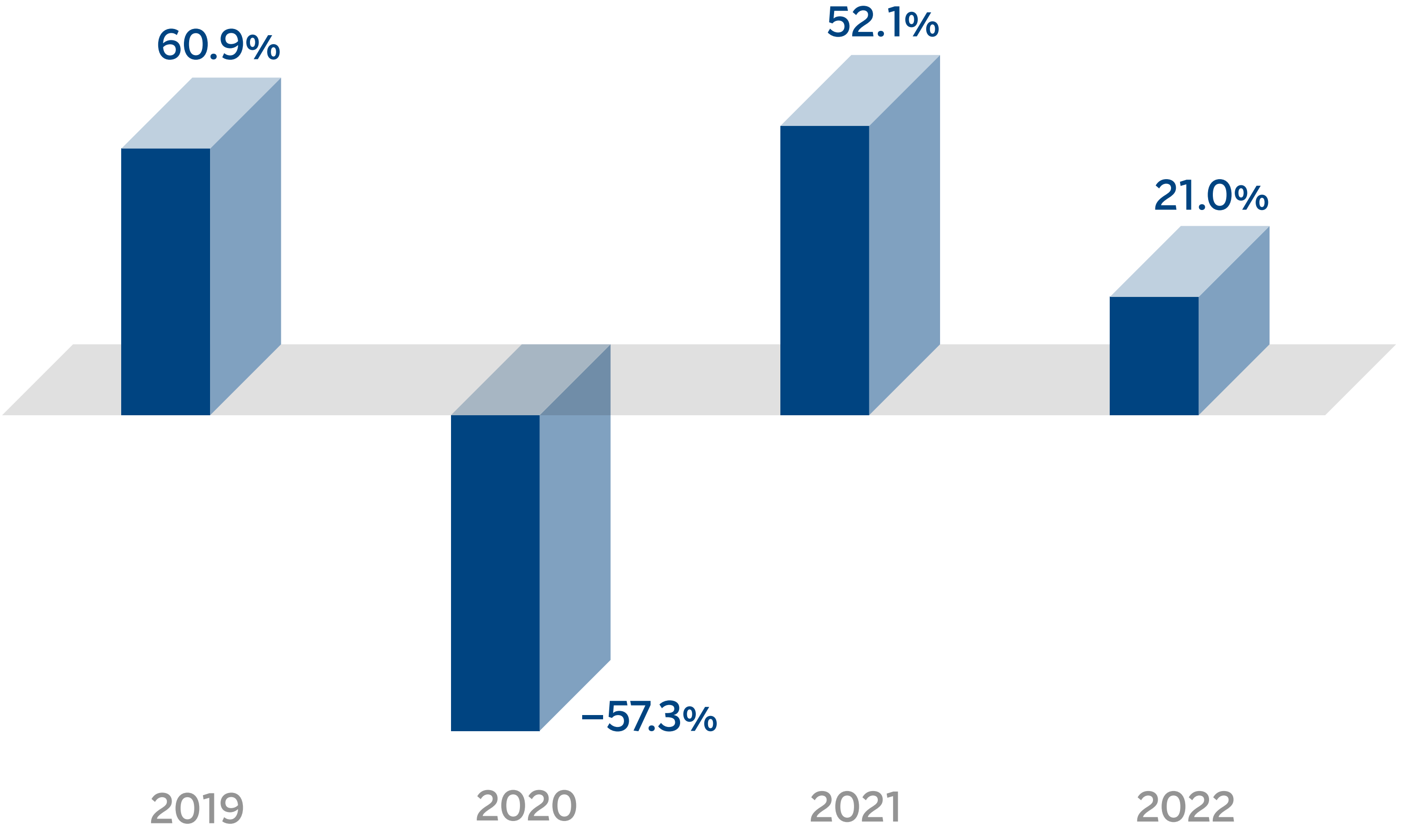
This was all reflected in a 1.9 percentage-point drop in the rate of informal jobs compared to 2019. Around 31.8 million workers (57 of every 100 jobs in the footprint) worked in the informal sector. The disproportionate effect of the pandemic on informal-sector workers in 2020 showed up in a fall in the informal employment rate in some countries during the worst moments of the crisis. This highlights the close links between informal employment and low-income households, generally associated with activities with high social contact.

57% of the job destruction in 2020 was in the informal sector, demonstrating that the policies to protect jobs did not cover this segment. Conversely, 52% of job recovery in 2021 was in this same segment.

7 | % of informal employment, footprint (var %)



8 | Percentage of informal employment in the creation (+) or destruction (–) of total employment, footprint (var %)



The participation rate was not homogeneous by gender, posting a gap of 23.8 percentage points between men and women (73.2% and 49.4% respectively), proof that the pandemic had a harsher impact on the latter. Nevertheless, women are gradually returning to the labor market, with the gap in participation narrowing slightly, by 0.3% since 2021.

This being noted, the difference in participation reflects the difficulties in accessing the labor market still encountered by women, above all in the most vulnerable groups, who face economic disincentives in the lower waged segments.

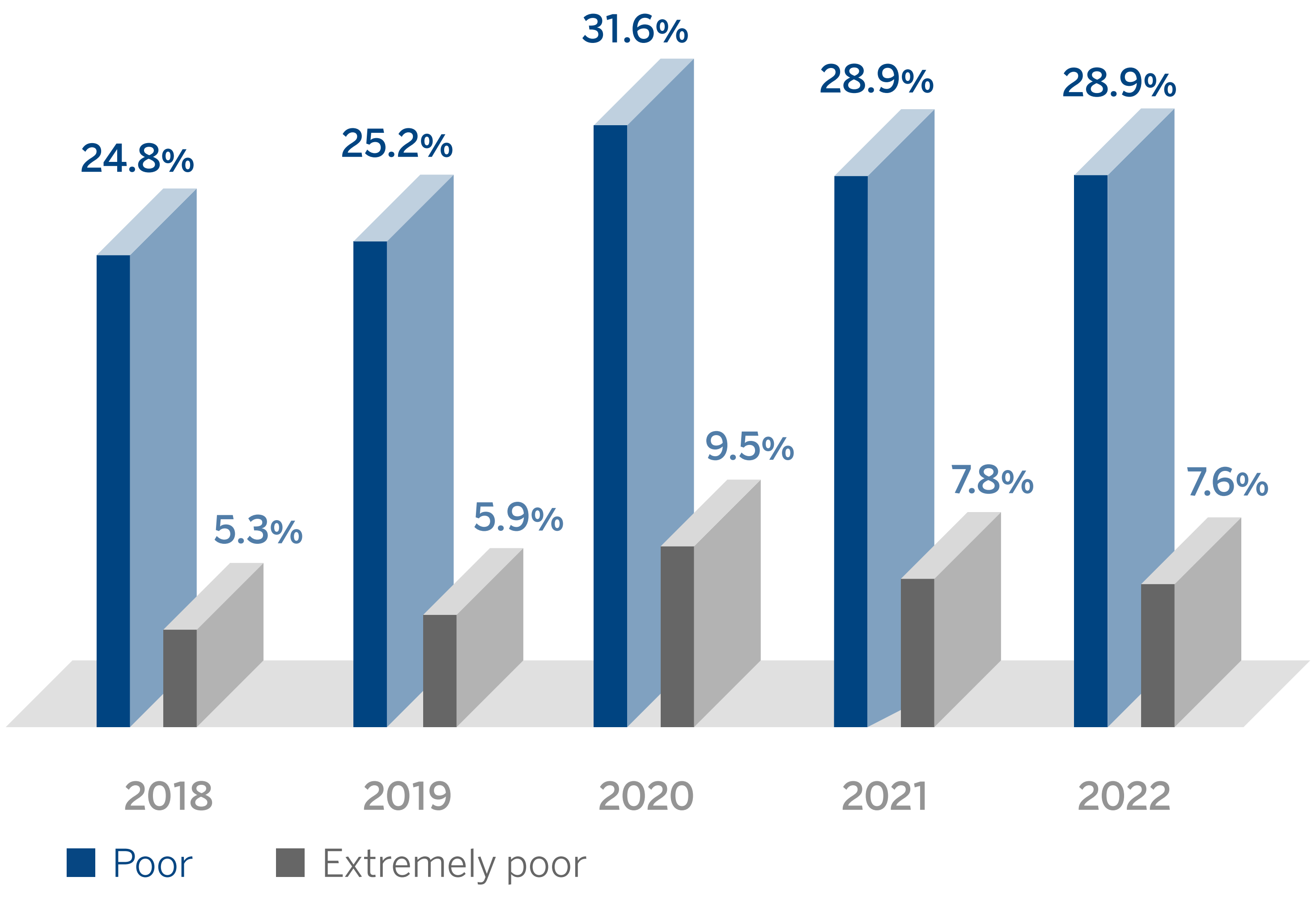
Monetary poverty and inequality

In the last year, around 689,000 people have escaped poverty. But monetary poverty in the footprint in 2022 affected 28.1% of the population, with nearly 33.4 million people finding themselves in these circumstances. 27% of these are in extreme poverty, representing 7.6% of the total population. In other words, around nine million people are not managing to pay for the basic basket of goods from their income.

The pandemic changed the dynamics of poverty: around 8.3 million people fell into this bracket as a result, 53% of them into extreme poverty. The combination of the impact on the sectors with most human contact, plus the mobility restrictions, particularly affected the most vulnerable segments and those which, while not in poverty, were most fragile and the most likely to succumb after a shock of this magnitude.

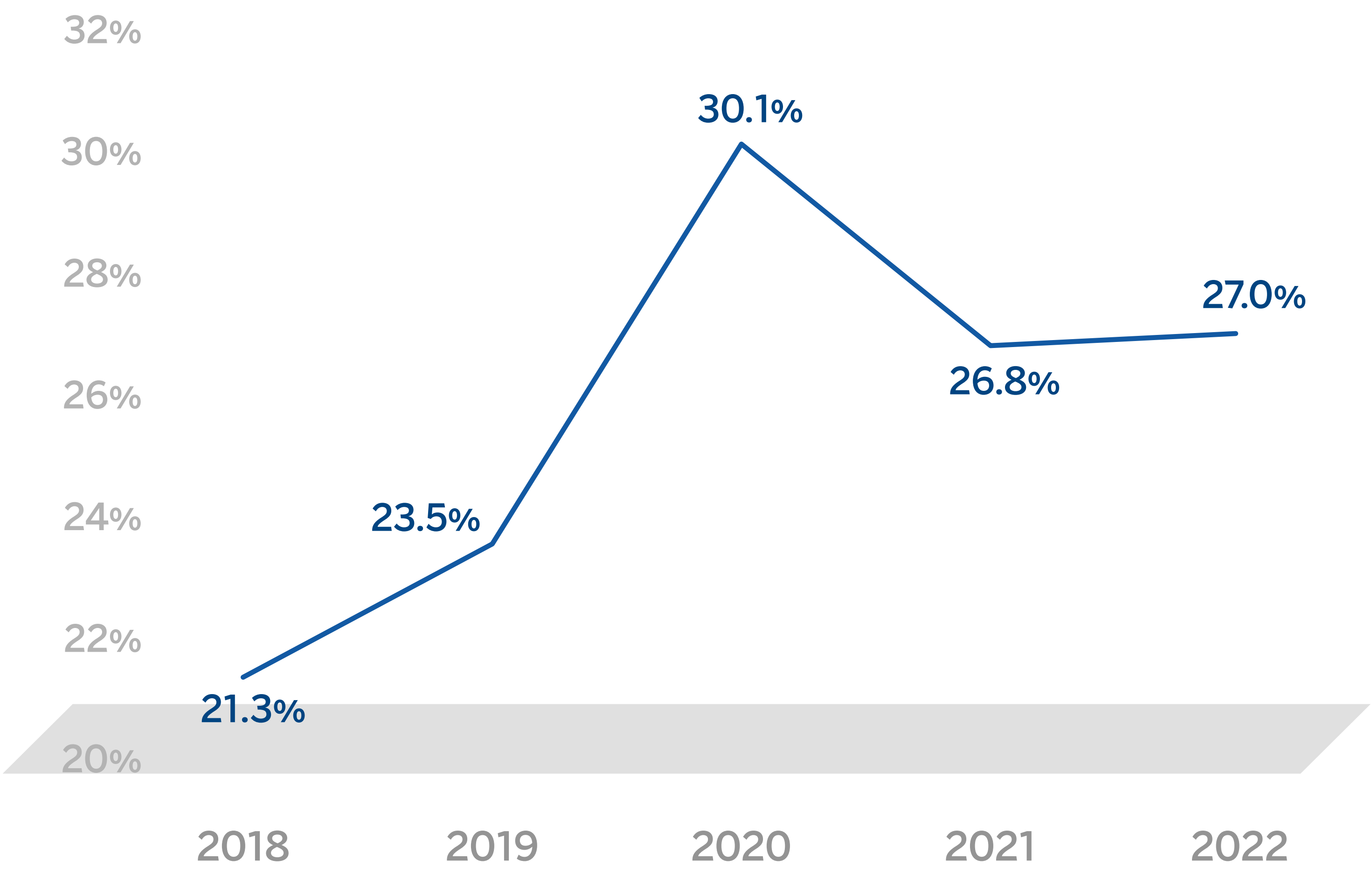
The dynamics of the post-pandemic recovery have enabled 3.4 million people who fell into poverty to escape. However, fully 4.8 million of the newly poor are still in this situation, causing the poverty ratios to worsen, reversing the progress made in the last decade.

9 | Population in poverty, footprint (var %)



Higher inflation, essentially in foodstuffs and energy, has hit the lower-income segments particularly hard, as they had still not recovered from the pandemic's impact on their incomes. This has meant that the number of people in extreme poverty has increased by 3.4 percentage points as a proportion of the total population, compared with pre-pandemic levels.

10 | Population in extreme poverty, footprint (var %)



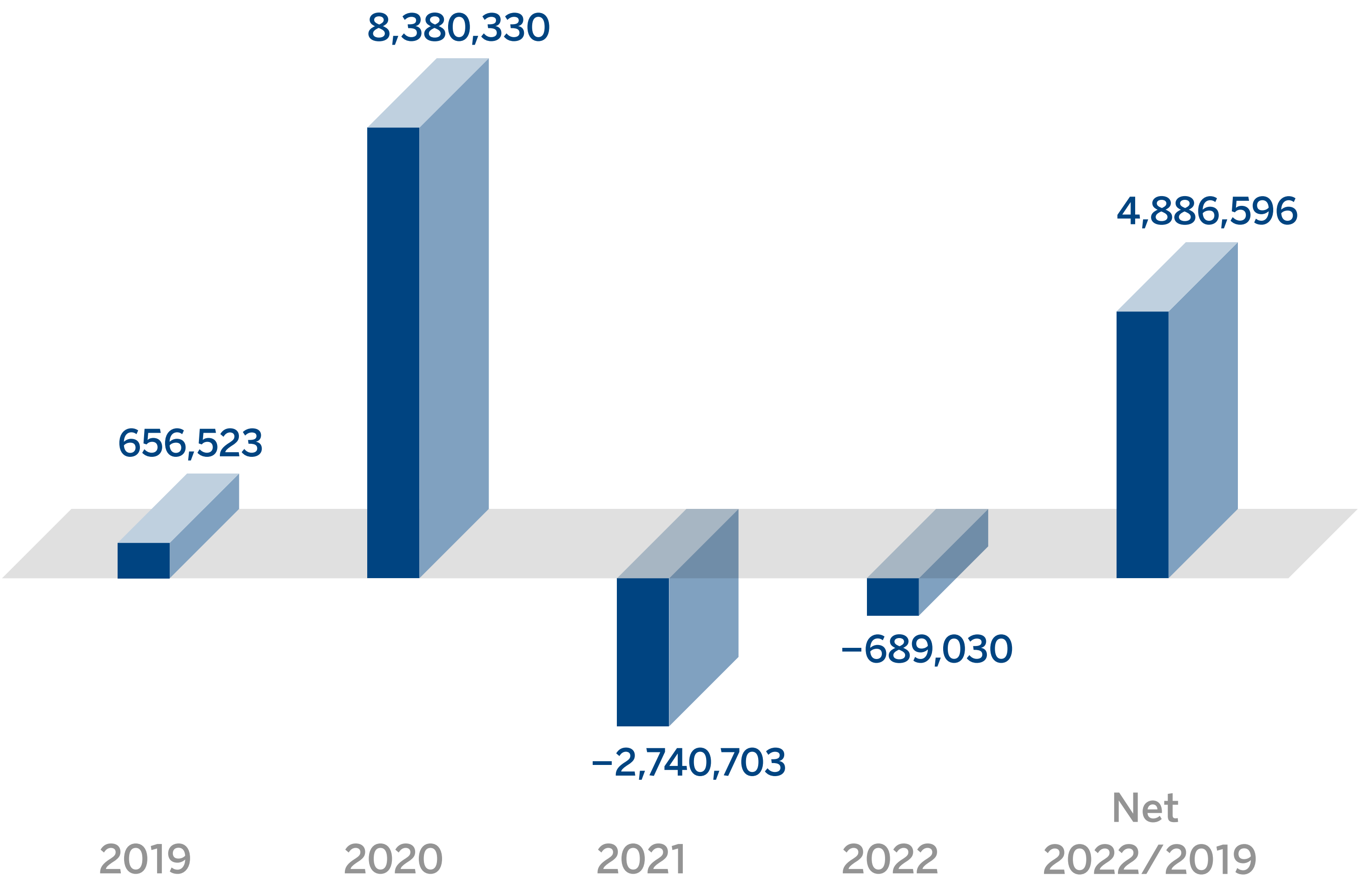
This is important because it has happened despite the large public transfers received by these segments during the pandemic. Many of these are being withdrawn due to fiscal restrictions, which leads us to believe that a structural increase in the segments of poverty may be forming.
This situation will tend toward permanence if the extremely poor segment is absorbed by the labor market through informal, lower quality employment.

The most vulnerable segments are those with lower levels of educational attainment, a high proportion of young people and children, and who often live in rural areas.

Another characteristic of the pandemic was the reverse in reducing inequalities. While this had been stable since 2017, the impact was not the same for everyone, with the result that equity in income distribution across our footprint —measured using the Gini index[7]— was further impaired, moving from 0.479 in 2019 to 0.492 in 2020.

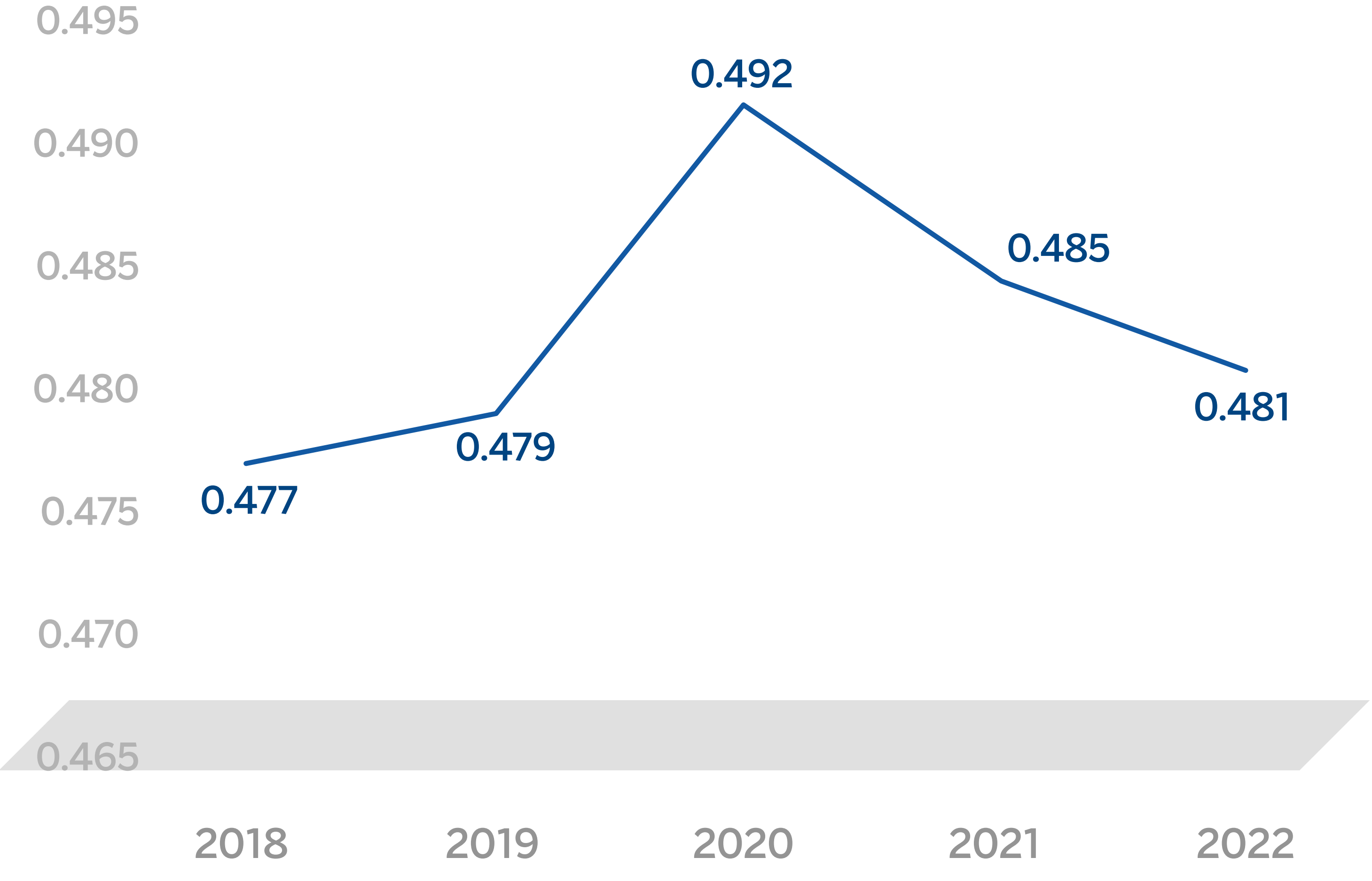
Although income distribution improved in 2022, as the lower score in the index shows, this improvement has been very slight, with inequality levels recorded at 0.481 in 2022, and thus worse than pre-pandemic levels.

11 | Poverty variation, footprint



When we analyze trends across the five countries in our footprint, we see that this index has improved most in Dominican Republic, where there are no relative income drops in any of the income distribution quintiles. In Colombia and Peru the index is basically the same, whereas in Chile and Panama there is an impairment, with impacts that vary between the distribution quintiles.

12 | Inequality: Gini index, footprint



7. The Gini index scores between 0 (no inequality) and 1 (maximum inequality). BBVAMF Research calculations.

Introduction

Economic realities differ vastly, both between the countries where BBVA Microfinance Foundation (BBVAMF or the Foundation) institutions operate and within them, and these differences are getting bigger. Perspectives of inequality are determined by highly local economic and social factors. Even so, entrepreneurs' performance is strongly correlated with the year's overarching macroeconomic trends, so it is important to put this into context.

Normalization of activity, although with strong inflationary pressure. In 2022, the normalization of the economies where the Foundation's entities operate continued. Average growth of activity was 4.9% up from the year before. Despite this, activity was subject to much uncertainty because of the war between Russia and Ukraine, commercial tension between the United States and China, and strong inflationary pressure. Soaring inflation, which posted at 10.9%, was triggered mainly by the foodstuffs and energy sectors, something which particularly affected lower-income segments that are still suffering the impacts caused by the pandemic.

Unemployment fell, although new jobs were of low quality and with a high rate of informality. The average unemployment rate dropped to 9.3% by the end of 2022, but there is still a significant job deficit compared to 2019. In fact, 57% of the jobs in the economies where BBVAMF operates, our footprint, are informal. Informal employment has acted as a buffer but not as a sustainable income solution for many families in vulnerability, as we will see below.

Poverty and inequality rates remain high, with heterogeneity between countries. All these factors have had a direct impact on people's monetary poverty, the numbers for which, while edging down a little, remain higher than pre-pandemic, at 28%. In 2022, around 33 million people found themselves in this situation.

In short, even though income distribution has improved, shown in the fall in the GINI index, this improvement has been painfully slow, with inequality levels remaining at 0.481, above pre-pandemic levels. It is interesting to note how, depending on the country, these trends are very diverse. We can see that in the Dominican Republic the indicator has improved; in Colombia and Peru it has remained practically unchanged, whereas in Chile and Panama it has got worse, showing the uneven impacts between quintiles of income distribution.[2]

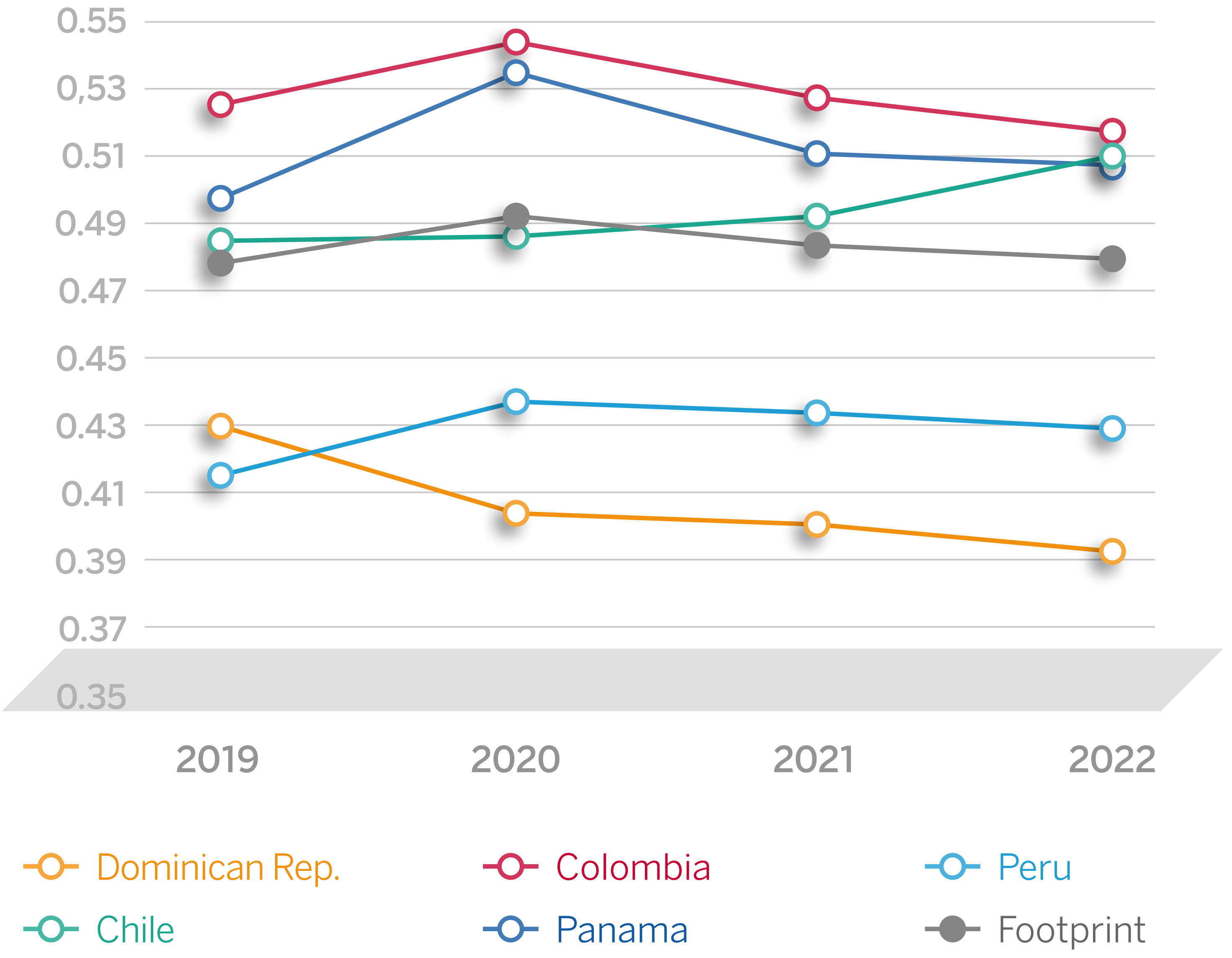
1 | National poverty rates & financial exclusion

1. The GINI index is the most common measure of inequality. 1 is maximum inequality (one person has all the income and the rest have none) and 0 is maximum equality (everyone has the same income). https://www.worldbank.org/en/topic/poverty/lac-equity-lab1/income-inequality/income-distribution

2. For more details on macroeconomic results, see Macroeconomic Context.

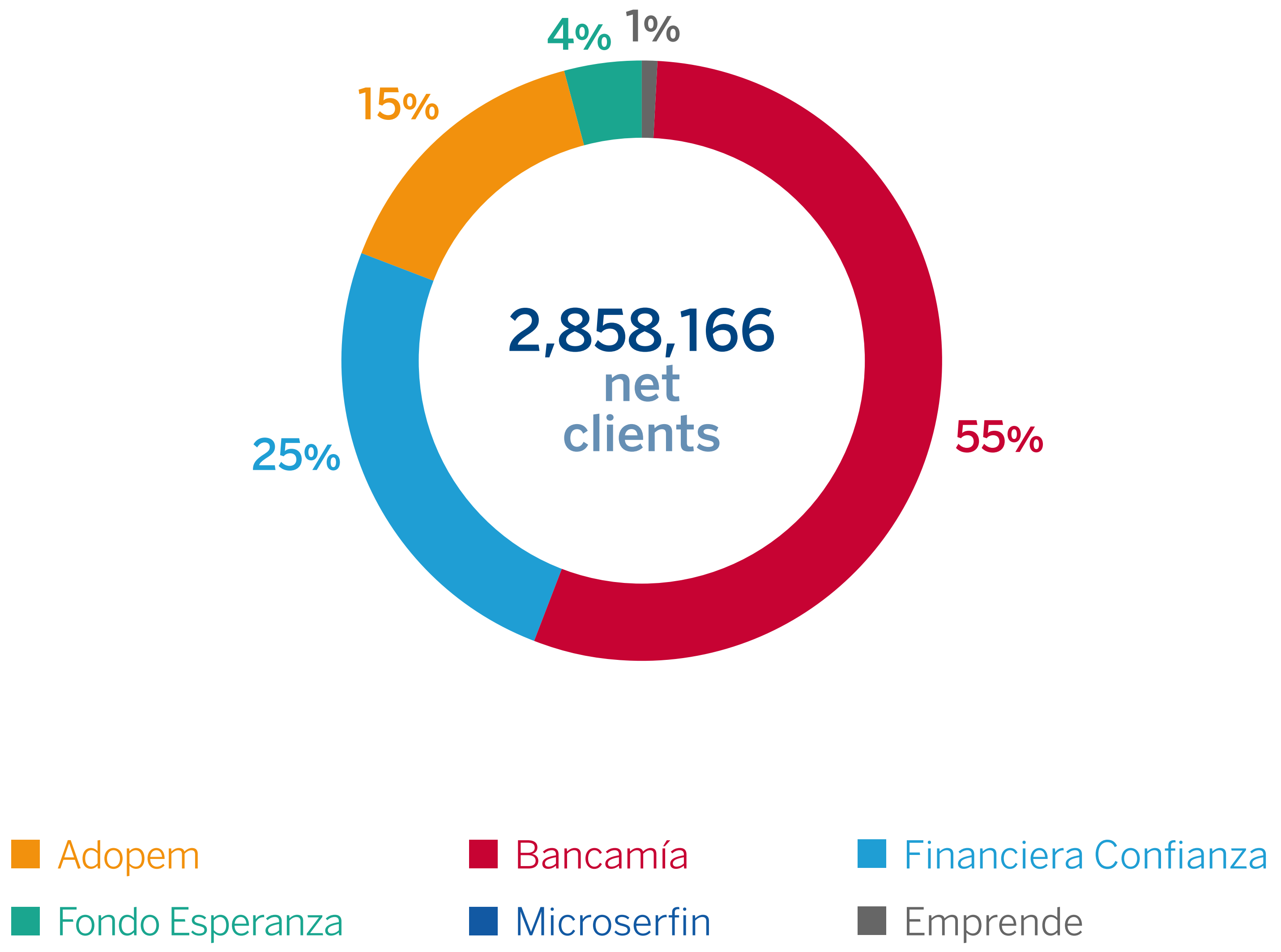
G-**1.** 2022 poverty indices published by each country's statistics bureau. Global Findex Data 2021.

2 | Inequality index (GINI) footprint



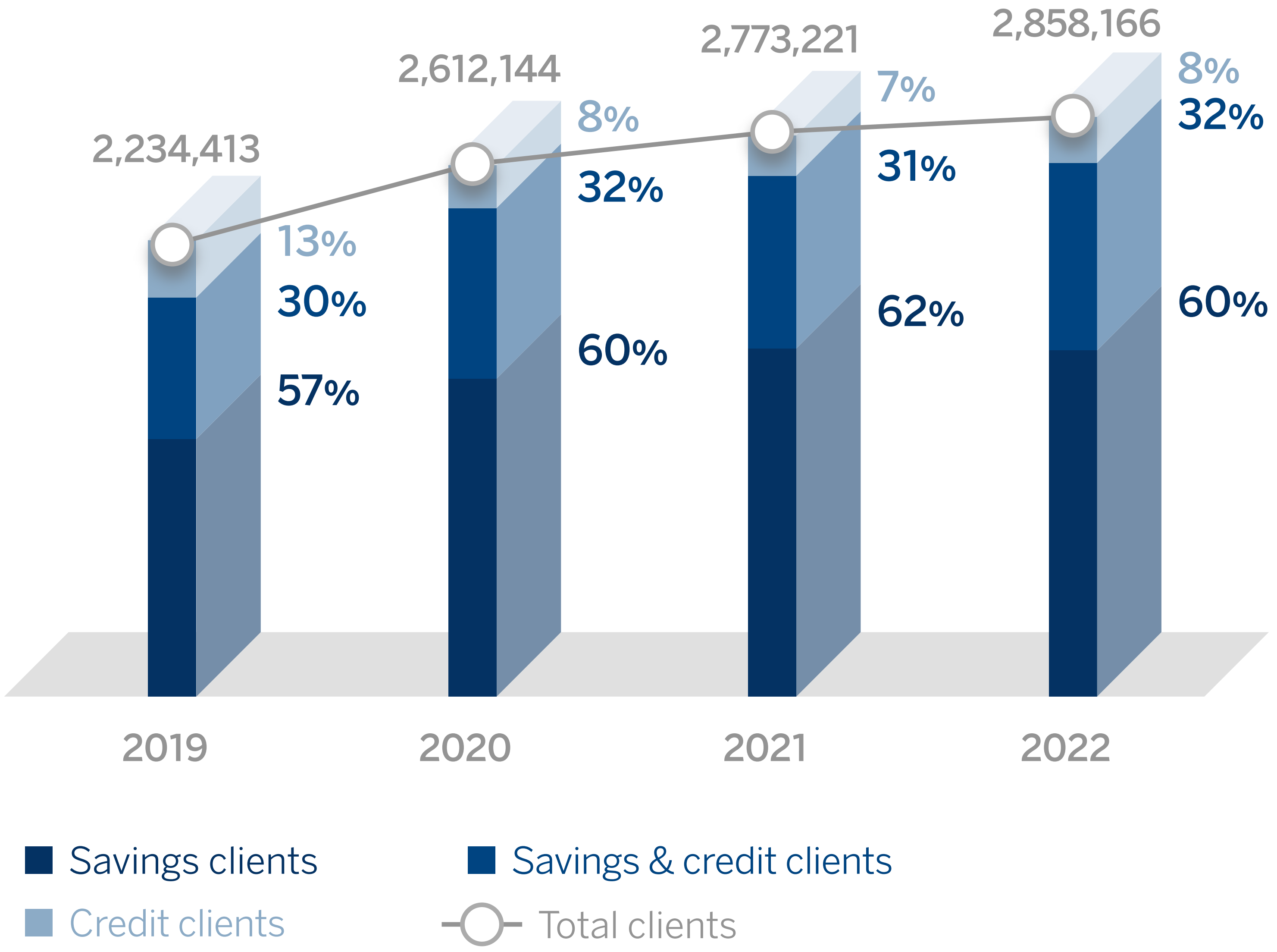
3 | Total clients by country

Total clients at year-end



4 | Clients by product type

Total clients at year-end



Financial inclusion improves, but it is low quality. This contrasts with the significant improvement in this type of inclusion globally and in our footprint. 10% of the global unbanked, 140 million adults, live in Latin America. Of this number, 35 million are in our footprint.[3] In other words, 37% of the population in our footprint countries has no access to a bank account. Even so, appropriate use of accounts is far from widespread, as the percentage of inactive accounts among adults varies from 1% in Chile to 13% in Dominican Republic. The group with the highest proportion of inactive accounts are those with lower educational levels and those who are not in the labor market, with the exception of Dominican Republic, where it is women in general who are most likely not to use their accounts.[4]

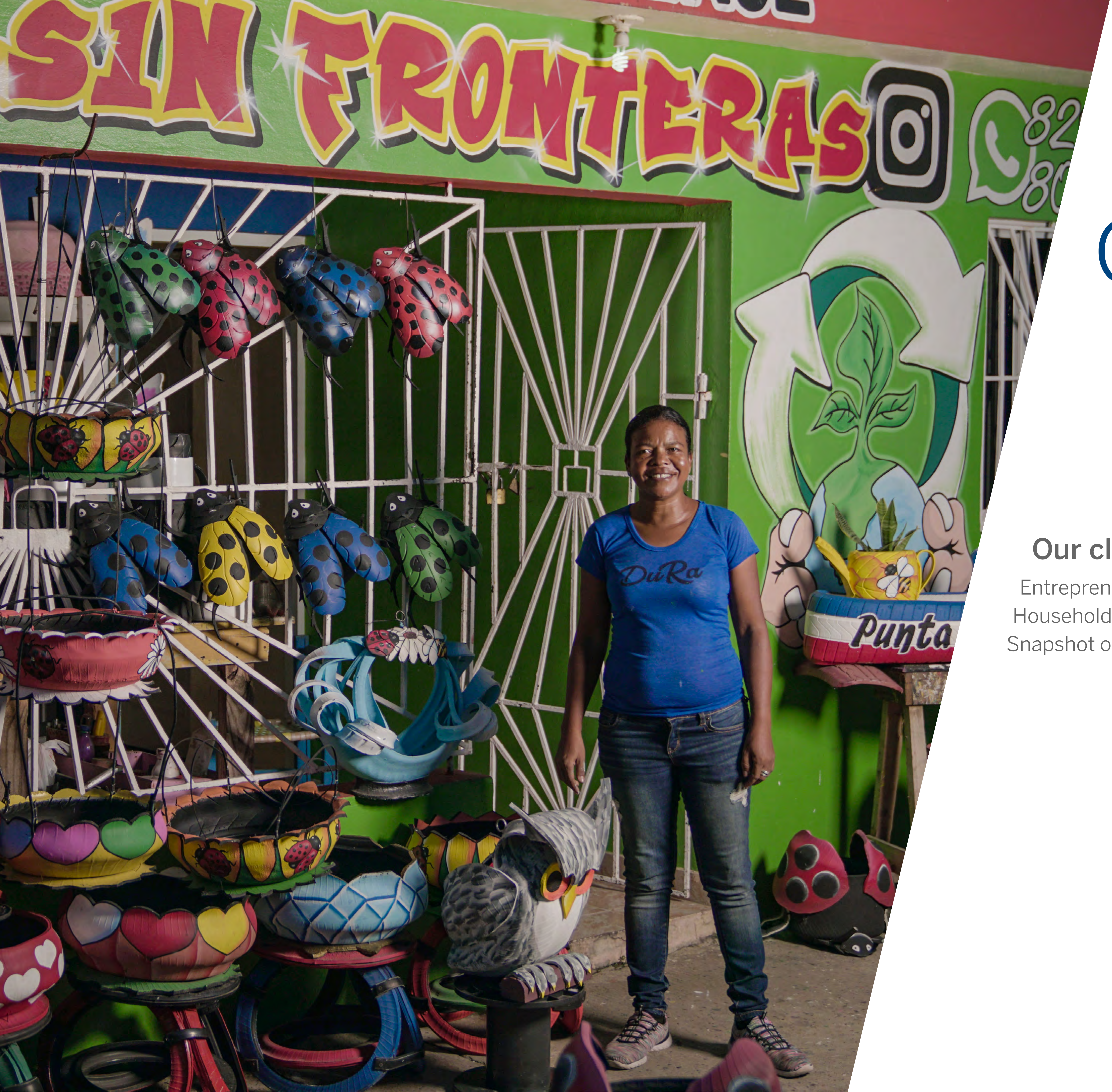
The Group's entities have continued supporting the most vulnerable segments. In this context, during 2022, the six institutions that form part of the BBVA Microfinance Foundation Group (BBVAMF Group or BBVAMFG) have stood by 2.8 million low-income people, making financial products and services (loans, savings accounts, remittances, etc.) available to them, together with training to leverage their economic and personal progress. BBVAMFG's mission is to stay with its target segment for whom the Group was set up, and not leave it: entrepreneurs who are excluded from the traditional financial system, those who are overlooked and in vulnerability.

3. The countries in which BBVAMF operates are Colombia, Peru, Dominican Republic, Chile, and Panama.

4. All financial inclusion data are taken from the Global Findex Database 2021, World Bank Group.

G-**3.** Clients current at 12.31.2022. Bancamía, Financiera Confianza & Banco Adopem are regulated institutions, licensed to market savings products.

G-**4.** Clients current at 12.31.2022.



Our clients

Our clients

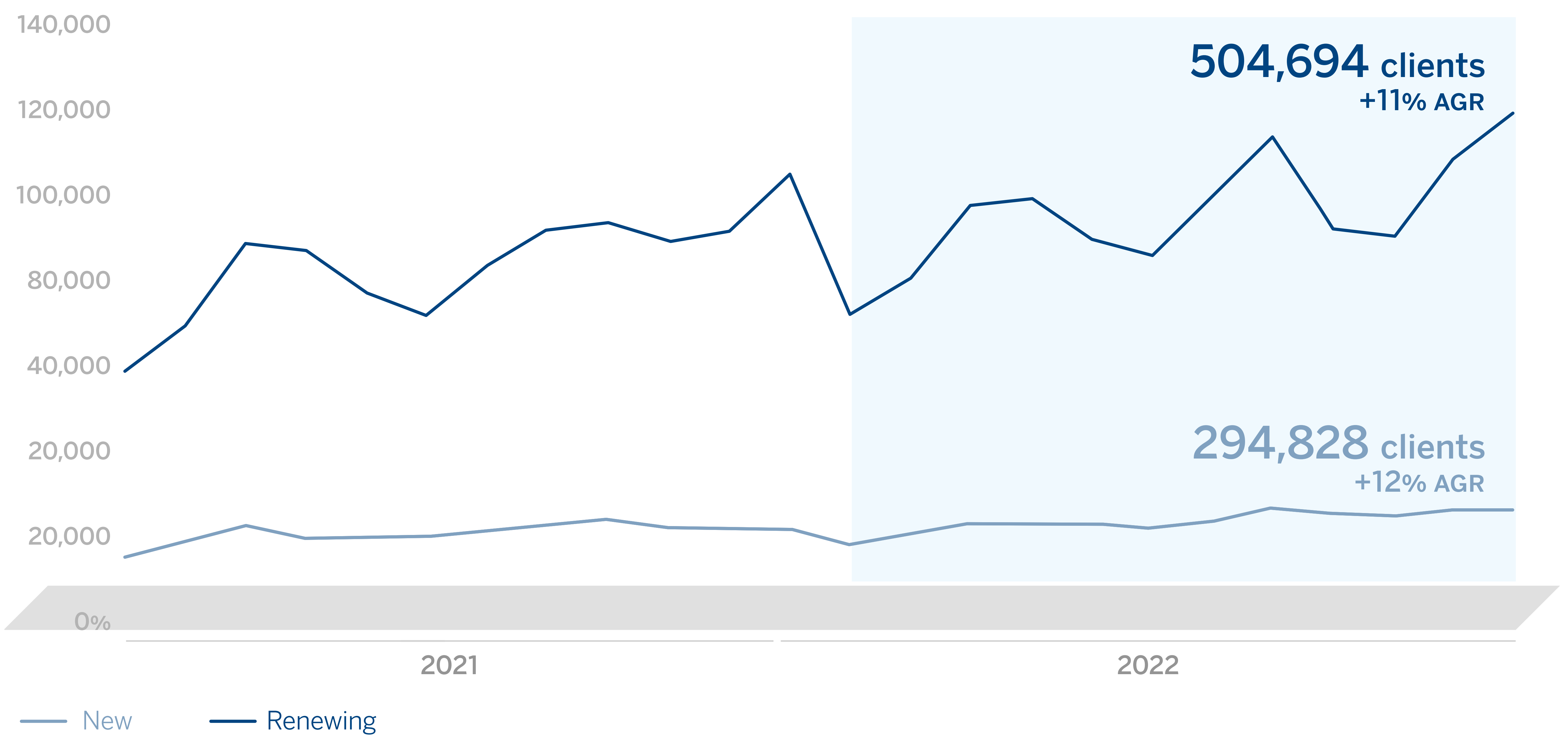
The economic recovery has helped our entrepreneurs' reactivation. In 2022, 504,608 entrepreneurs renewed their loan and, furthermore, 294,828 new entrepreneurs were served. Despite a difficult environment, and one that differed greatly between countries, the Foundation's entities returned to virtually normal levels of activity, achieving 94% of their performance in 2019.

Our institutions in Colombia, Peru, and Panama posted fast recovery speeds, with services to new entrepreneurs above the volumes for 2019. Fondo Esperanza (Chile) recovered nearly all its activity, while in the Dominican Republic, Banco Adopem, one of the hardest hit by the pandemic because of its high weighting of clients engaged in the retail trade, was close behind.

This activity is an accurate reflection of the particularly resilient client profile of the entrepreneurs we serve.

5 | Entrepreneurs' recovery

Volume of clients served at each date



G-**5.** Nº of entrepreneurs who have taken out a new loan or renewed an existing one, at each date. The total is the annual sum of both. AGR: annual growth rate since 2021,

Annual change in disbursements, by client type.

	New	Renewed
BA (Bancamía)	4%	16%
FC (Financiera Confianza)	12%	8%
AD (Adopem)	31%	5%
FE (Fondo Esperanza)	26%	17%
MS (Microserfin)	–13%	–9%

Entrepreneurs' activity recovered its pre-pandemic dynamic, with around 800,000 entrepreneurs receiving loans

Entrepreneur profile

Socio-demographic profile

Access to the financial system depends on both social and purely national factors. We continued serving entrepreneurs throughout 2022 in the main segments identified as priority from the social[5] perspective. Women, people with primary education at best, and those living in the rural environment, have been particularly well represented. This is partly due to the dynamics of the labor market (the access gap is greater for these groups) and access to financial systems.

When we look at the global figures for financial inclusion, the access gaps to the financial system vary by country. The widest gap by gender is in Peru. In Chile, divergences in educational level are greatest, while in Colombia it is income, in the Dominican Republic it is age, and in Panama the biggest disparities depend on income and education.[6]

We should note the change in trend in 2022 from 2021, with the fall in the number of young entrepreneurs served. This is possibly due to the increase in the employment rate, as they tend to have the best trained and more flexible profiles and are thus the first to return to the labor market, especially in a context of economic reactivation.

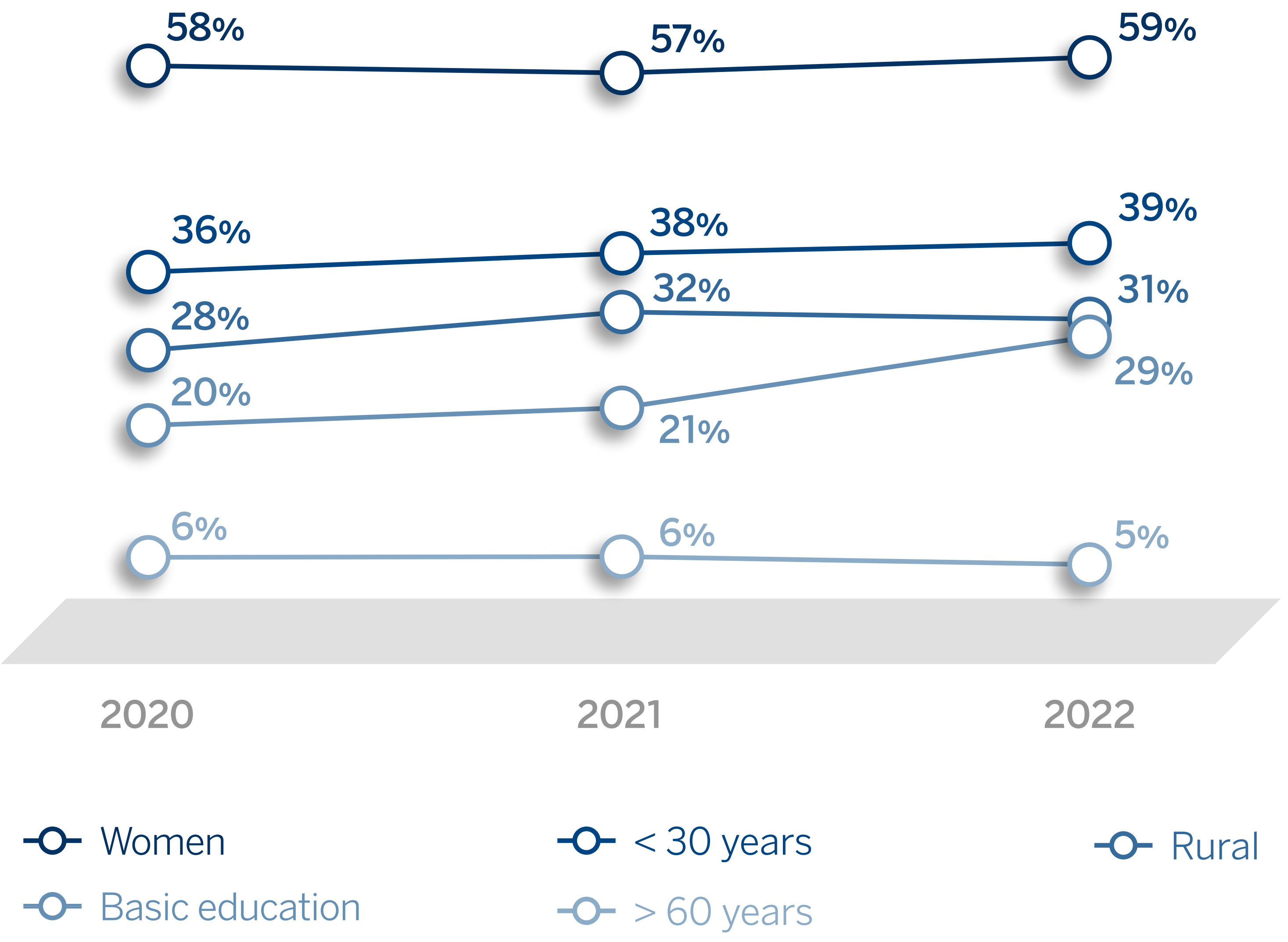
6 | Social vulnerability

Total credit clients

December 2021		December 2022
59%	Women	59%
35%	Rural environment	35%
35%	Basic ed.	35%
22%	< 30 years	21%
12%	> 60 years	12%

7 | New trends in profiles

Total credit clients



Poverty affects population groups in different ways depending on their social segment. That is why it is crucial to pay attention to the significant inequalities that occur. For example, there is a slight increase in the number of women, if we compare with each of the previous years and women start off from a position of worse poverty, as we will see later in this piece.

5. No significant changes from 2021.

6. Global Findex 2021, The World Bank Group.

G-**6.** Credit clients current at 12.31.2022.

G-**7.** New clients (no previous loans) during the year and former clients who renew a loan during the year.

Entrepreneurs' businesses

The clients we serve continue to work predominantly in trade. This sector accounts for 51% of the total businesses, and specifically retail. Even in rural areas 40% of our clients work in trade. Entrepreneurs prefer to operate in flexible areas, where it is relatively easy to swap out their type of business, enabling them to work with low overheads. The sector is characterized by the high rotation of its assets.

Retail trading is preferred by women (as we will see below). One in three retail enterprises operates in the food segment, encompassing not only supermarkets, grocery and general stores, but also specialist outlets, all of them activities with a clear urban profile. However, minority activities in this sector, such as street stalls (4.5% of the whole) and workshops (3%), are generally owned by men. Most workshops are urban.

Farming is the second biggest sector we serve. In 2022, it accounted for 19% of clients, the same as the previous year, 2021. Both stockbreeding and agriculture are segments where men and the rural environment are foremost. **Entrepreneurs in the farming sector need high levels of productive assets**. This is particularly true for cereal and other crops and mixed stockbreeding. They tend to sell foodstuffs directly to the end consumer, onward sale or export. On average, their profitability is 33%, compared to other sectors such as production/transformation or services, which convert 40% and 43% of their sales respectively into surpluses. These are thus the most profitable activities and as a result where most of the non-poor entrepreneurs are to be found.

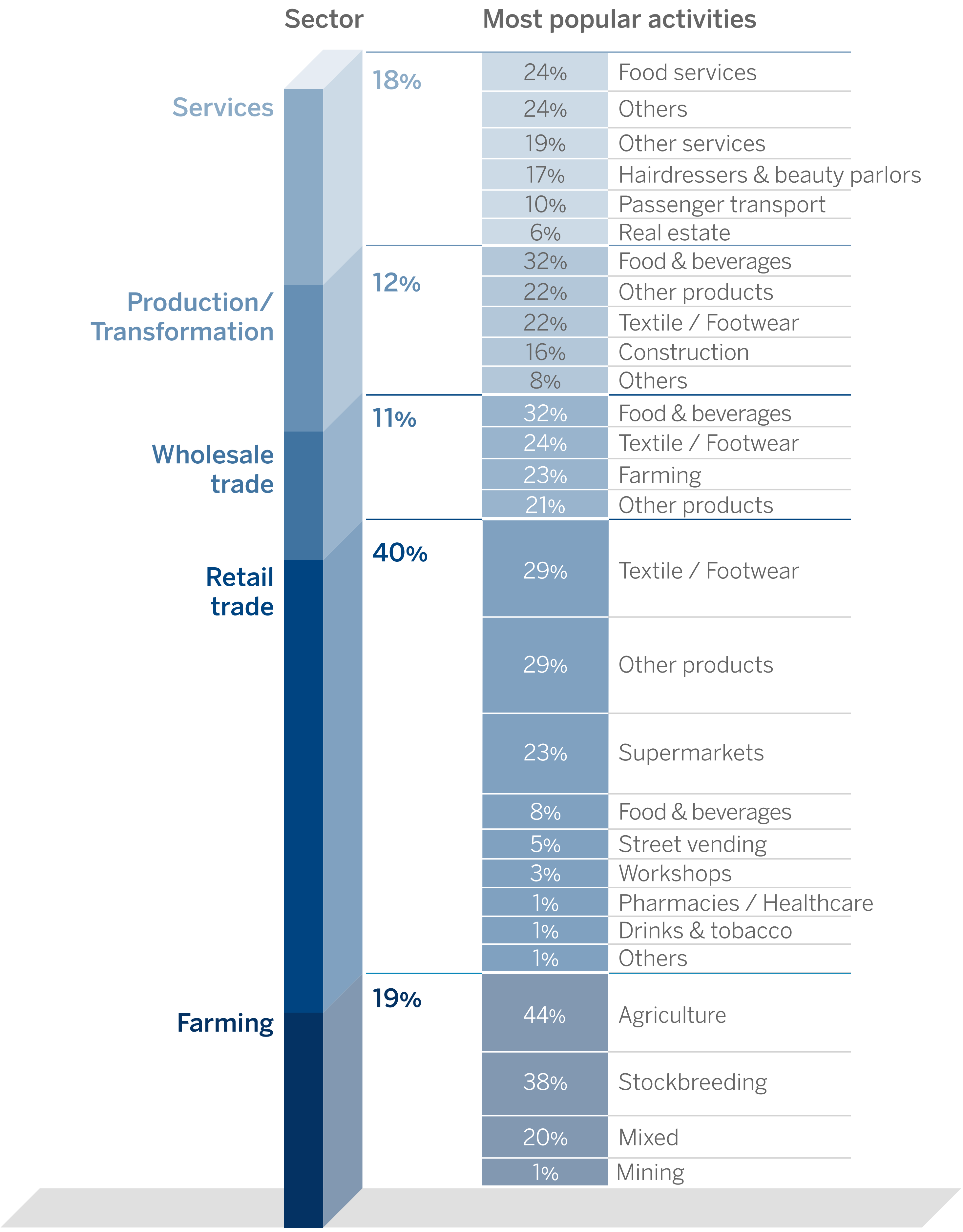
The service sector has been particularly impaired. This was accentuated after the pandemic, although among new entrepreneurs there are signs of green shoots, above all in the restaurant, hairdressing, and beauty parlor segments. In fact, food services are the principal activity, accounting for 24% of the sector, whereas hairdressers and beauty parlors represent 17%.

In the case of beauty services, this activity is basically limited to urban women. Transport of people or merchandise and the "other services" category, which amount to 16% and 19% in this sector respectively, are businesses mostly run by men – almost exclusively so in the case of transportation – and are located mainly in urban settings.

Finally, production/transformation and wholesale trade, with shares of 12% and 11% each, are the least popular sectors among entrepreneurs. Women are in the majority in the food and textile/footwear industries, while men are in construction and other industries, together with those trade activities linked to farming and in wholesale.

8 | Client sectors

Total credit clients

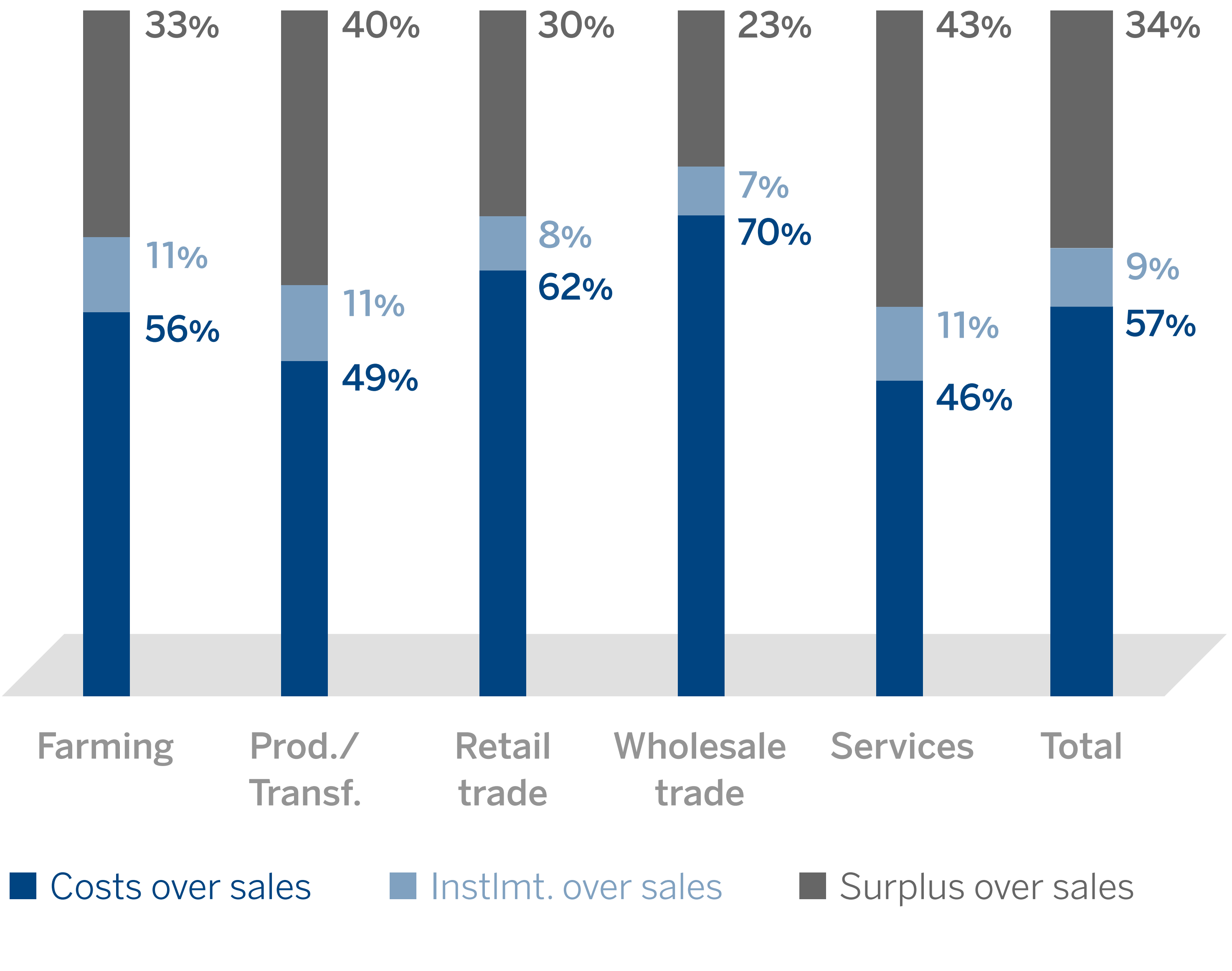


G-**8.** Clients current at 12.31.2022.

As one would expect, the sectors with the slimmest margins on surpluses are those involving trade. Services tend to have lower overheads (especially after the pandemic, as now people operate out of their homes) and better margins. All activities are reporting lower monthly overhead payments compared to 2019 and 2021, a sign of the efforts being made to streamline cost structures.

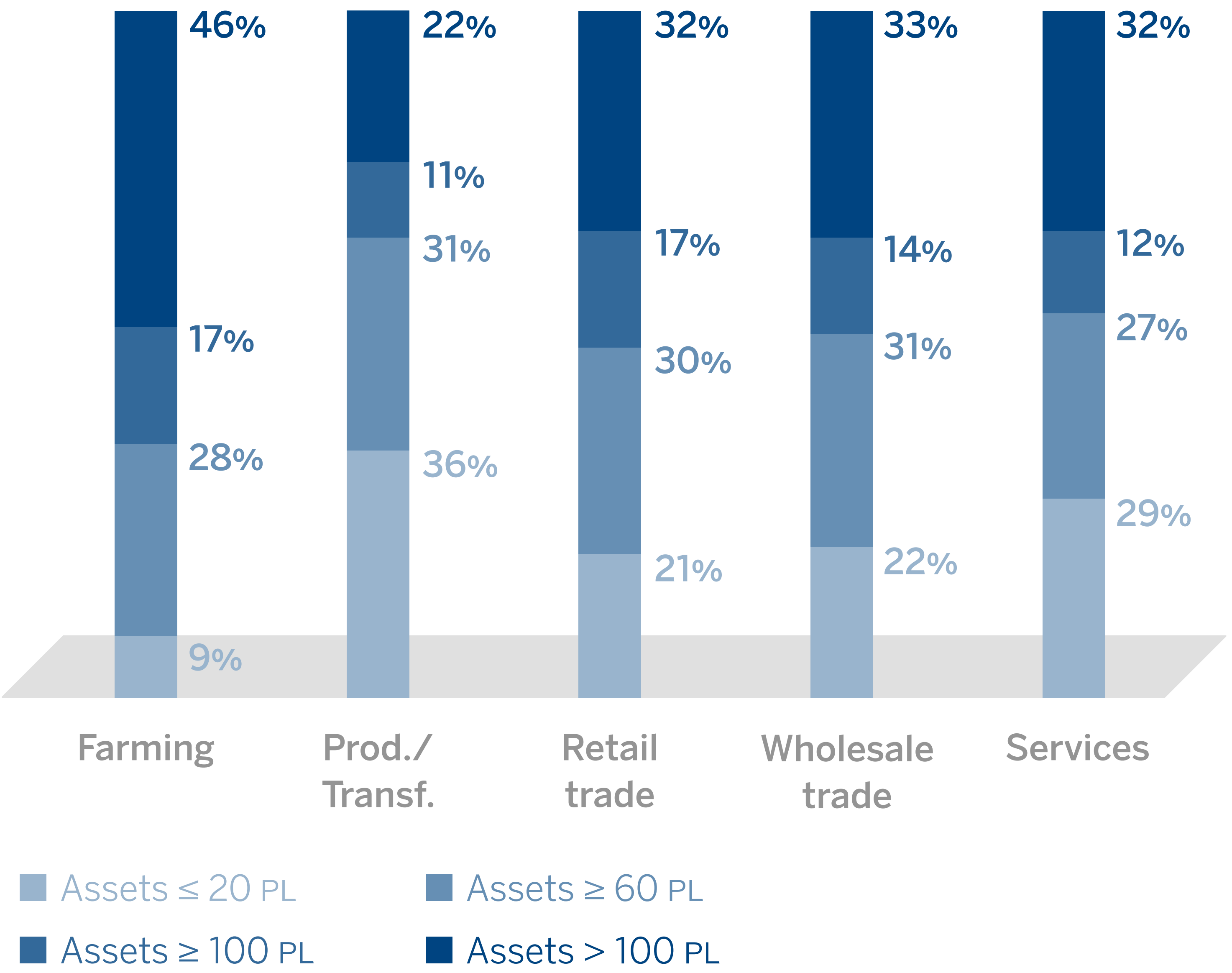
9 | Margins by sector

Total credit clients



10 | Asset levels, by sector

Total credit clients



Trade is the predominant sector, especially retail, chosen by our female clients

BBVAMF: Average assets by segment & sector (USD)

	BBVAMF				
Group	Farming	Wholesale trade	Retail trade	Prod./ Transf.	Services
Average Sector Assets	9,703	10,078	9,285	6,620	9,550
- Assets ≤ 20 PL	986	1,090	1,075	935	970
- Assets ≤ 60 PL	2,501	3,411	3,649	3,046	3,285
- Assets ≤ 100 PL	5,267	7,387	7,810	6,798	7,350
- Assets > 100 PL	17,206	23,668	20,418	21,224	23,449

G-**9.** Clients current at 12.31.2022. Note: % of costs, payment installment and surplus over average sales in each sector. Surplus is after paying the payment installment.

G-**10.** Clients current at 12.31.2022. Note: The average value of assets is calculated for each of the four brackets and relative to each country's poverty line (PL).

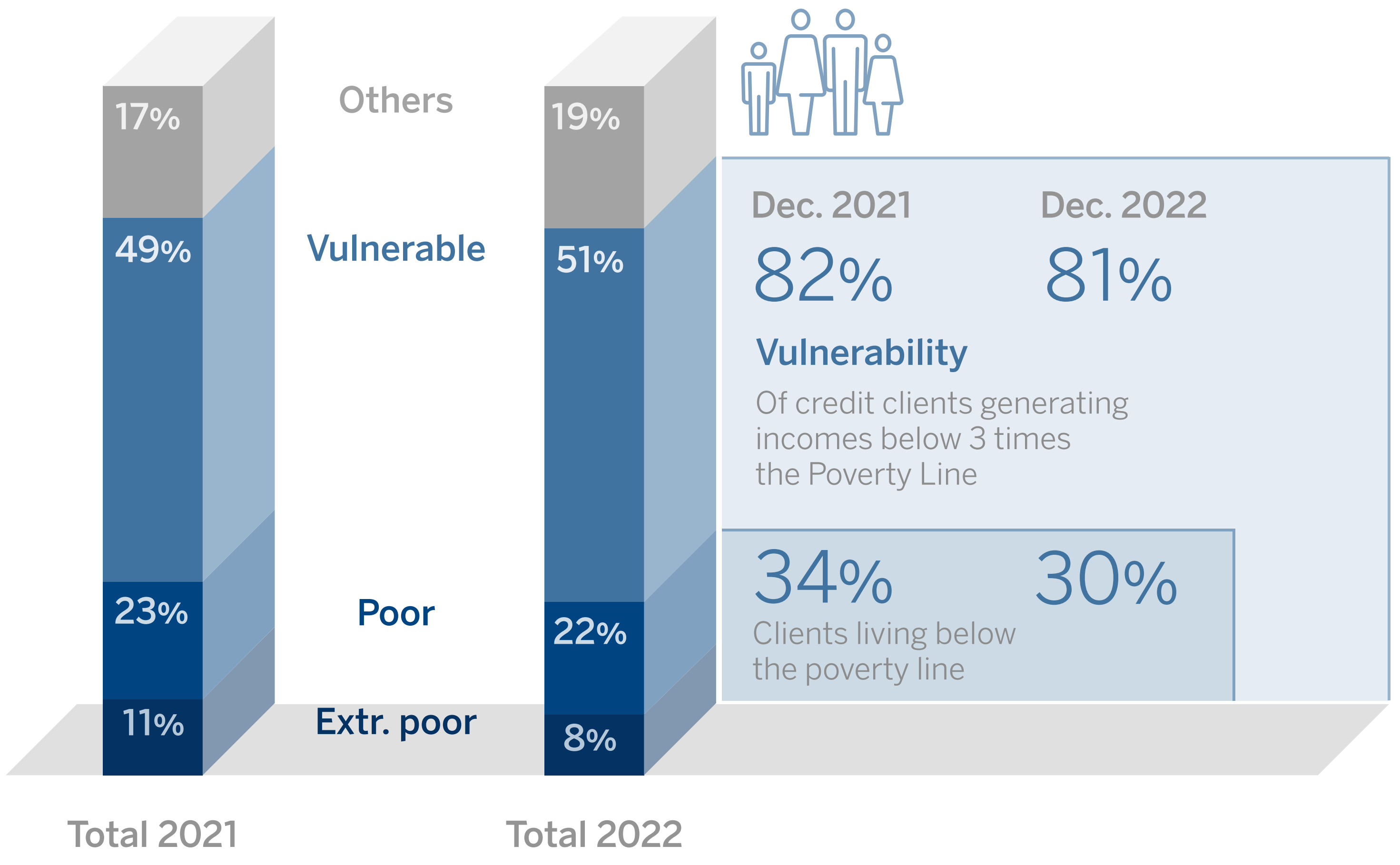
Economic vulnerability

Measuring economic vulnerability enables us to understand the entrepreneur profile served by the Foundation. This measurement is one of our differentiators and means that we can assess the impact and depth of our service. In 2022 over 294,000 new entrepreneurs applied for a loan when they joined us, of whom 84% were in vulnerability (vulnerable, poor and extremely poor), and 39% had incomes below the poverty line (PL).

Of the new clients served in the last three years, on average 85% were in economic vulnerability, while 40% were in poverty (according to BBVAMF's own classification). In the case of the latter, their average monthly income did not exceed USD 100, putting them 20% below the poverty line. In other words, entrepreneurs classified as poor earned an average of USD 3.30 a day, while those in the vulnerable category took home USD 7.20.

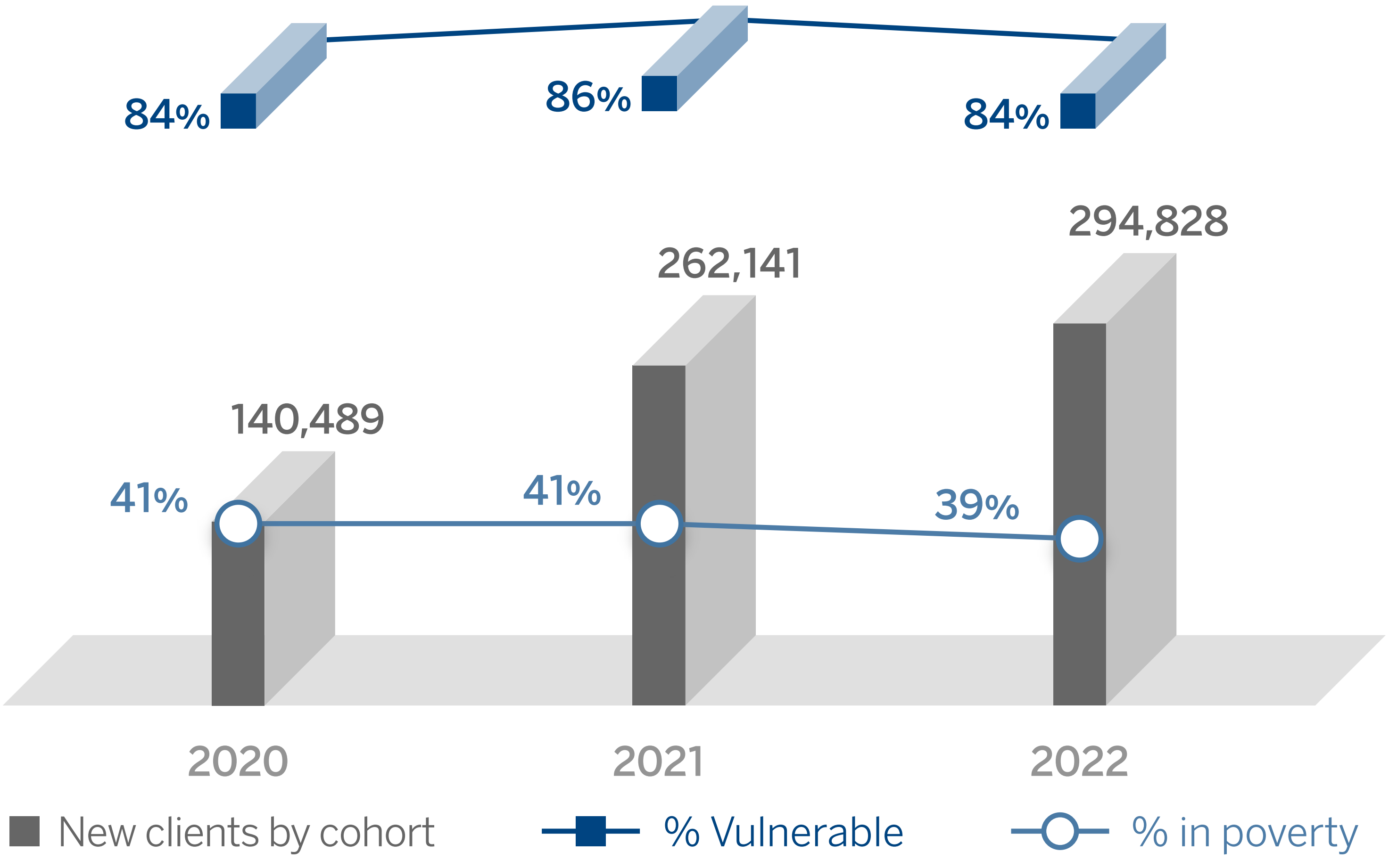
11 | Economic vulnerability

Total credit clients



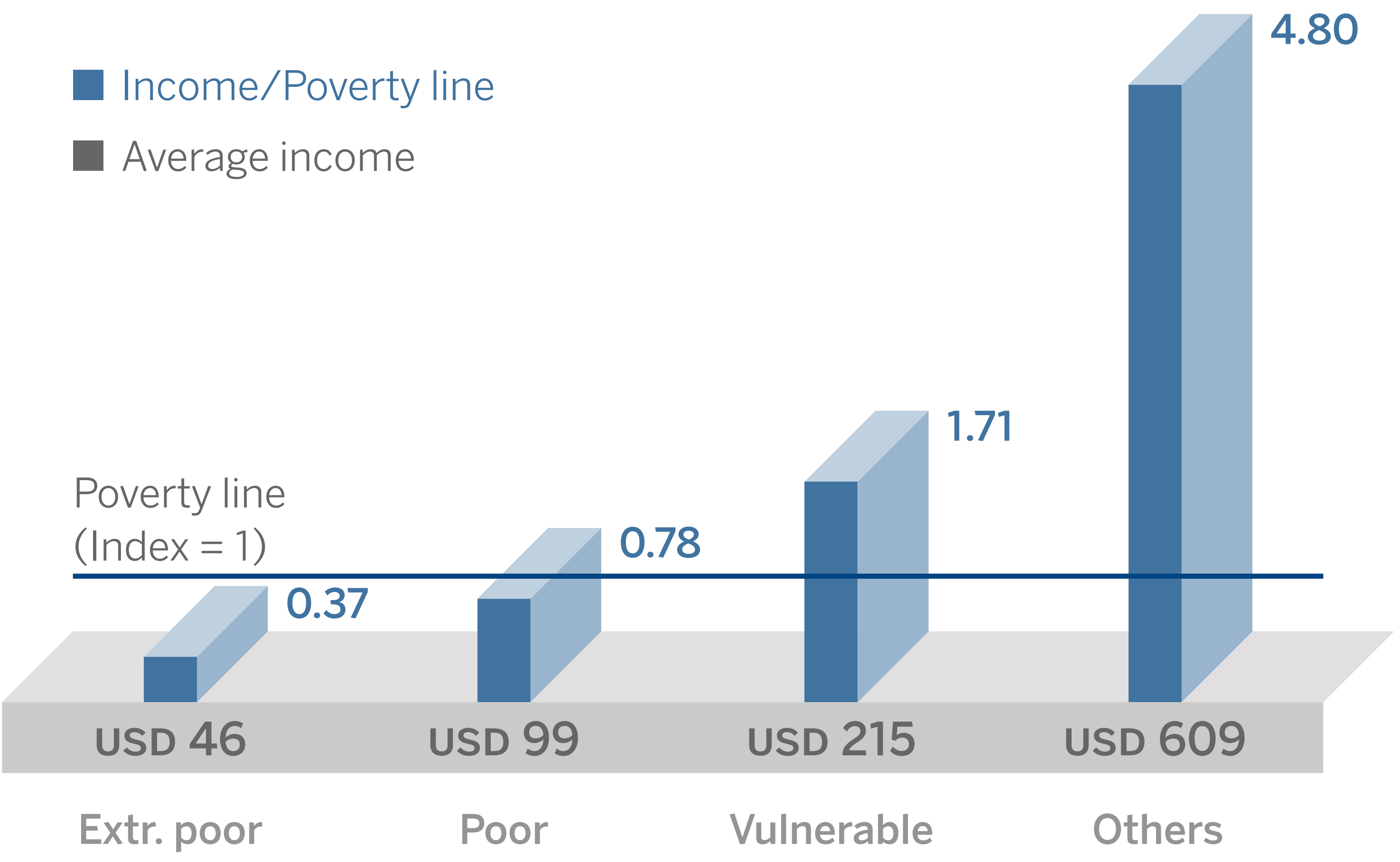
12 | New entrepreneurs served

New credit clients by year of entry



13 | Entrepreneurs' incomes

New credit clients



By 2022, 84% of the Foundation's new entrepreneurs were in economic vulnerability

G-**11.** According to each country's poverty line. Clients current at 12.31.2022.

G-**12.** Incoming clients during the year (no previous credits). Vulnerability is the % of clients with incomes lower than three multiples of that country's official poverty line.

G-**13.** According to each country's official poverty line.

Methodological note

We analyzed entrepreneurs' economic vulnerability according to the contribution made by their business to their households. The capacity of their microenterprises to generate surpluses for each household member, surplus per capita and their income are all analyzed against the benchmark of the cost of a basic food basket (extreme poverty line) and a bigger basket that includes basic services (poverty line).[7]

The methodology for calculating the PL in each country is based on shared precepts. As such, the poverty line is a national reference which allows us to put the information in perspective, compare it across countries and assess performance over time.

BBVAMF Group's economic vulnerability classification:

- **Extremely poor**: when the surplus for each household member (or income) is below their country's extreme poverty line.
- **Poor**: when their income is above the extreme poverty line but below their country's poverty line (represented by the cost of a basic basket of foodstuffs, goods and essential services).
- **Vulnerable**: when their income is over the poverty line, but less than three times their country's poverty line (for more details, see Methodology Note).
- **Others**: when their income is more than three times their country's poverty line.

Although this is the Group's own classification, it is comparable with the benchmarks used by international bodies such as the United Nations or the World Bank.

On the other hand, relative income is the business surplus divided by each household member relative to the poverty line. This income measures the distance from the PL and this allows us to assess how poor a set of clients is, how much their businesses need to grow in order to overcome their poverty and to what degree they are at risk of falling back into poverty. This indicator is also a gauge of the concentration of poverty in the portfolio.

The relative income of vulnerable clients served in 2022 was 1.7 multiples of the PL, very different from that of clients in the "Others" category, who are a long way above the poverty line (4.8 times the PL), meaning that the likelihood of the former falling into poverty was much greater.

7. The poverty lines vary depending on whether the context is rural or urban in the case of Colombia, Peru, Dominican Republic, and Panama. In Chile they are differentiated by household size.

Household profiles

The Foundation conducts surveys every year to find out more granular detail about the performance of its entrepreneurs so that the information it handles on a regular basis is more nuanced. 6,615 clients were surveyed this year, and the results are presented throughout this report (identified as "entrepreneurs surveyed").

In 2022 the survey's aim was to understand entrepreneurs' resilience and what adaptations they made as a result in their businesses. It also looked at the impact on saving, to analyze the effect on their households.

The fieldwork for the surveys took place between March and July 2022 using the branch networks of all the institutions. A representative set was taken from the client base, and a simple random sample was used, with a confidence level between 95% and 99%, and a margin of error between 2.8% and 5%. Clients in default, employees, and institutional clients were eliminated from the sample. The surveys were conducted by our loan officers in the branch networks.

Household income

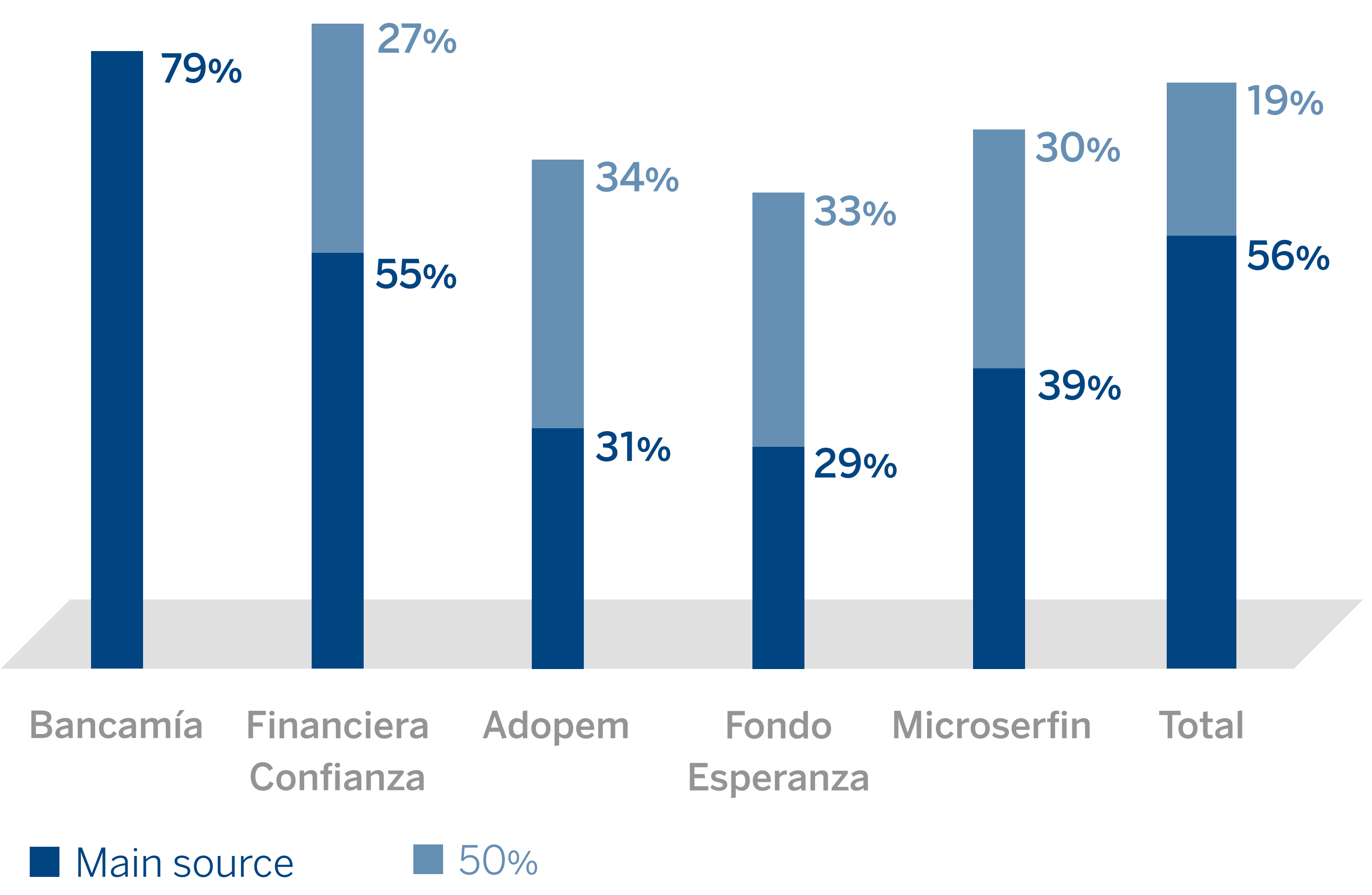
Many people decide to become entrepreneurs because they cannot find a job, so their business becomes the main source of income for the majority. Sometimes they supplement their incomes from their enterprise with revenues from other sources. Their business is the main source of income for 56% of entrepreneurs. For 19% of them, this income is matched by inflows from other activities. Although most businesses have recovered after the sharp drop in 2020, many households are keeping their income diversified as part of their survival strategy.

The results obtained vary significantly by country. In those where there is a higher proportion of women, there is a lower weighting on the business as the main source of income. This is because women tend to see their business as their secondary income source.

Alternative inflows — mainly another family member's income — are perceived as being more stable. On the other hand, other types of enterprises help to diversify their revenue streams. These strategies tend to be adopted chiefly by younger profiles with lower income levels (the economically vulnerable).

14 | Business as the main source of income

Entrepreneurs surveyed

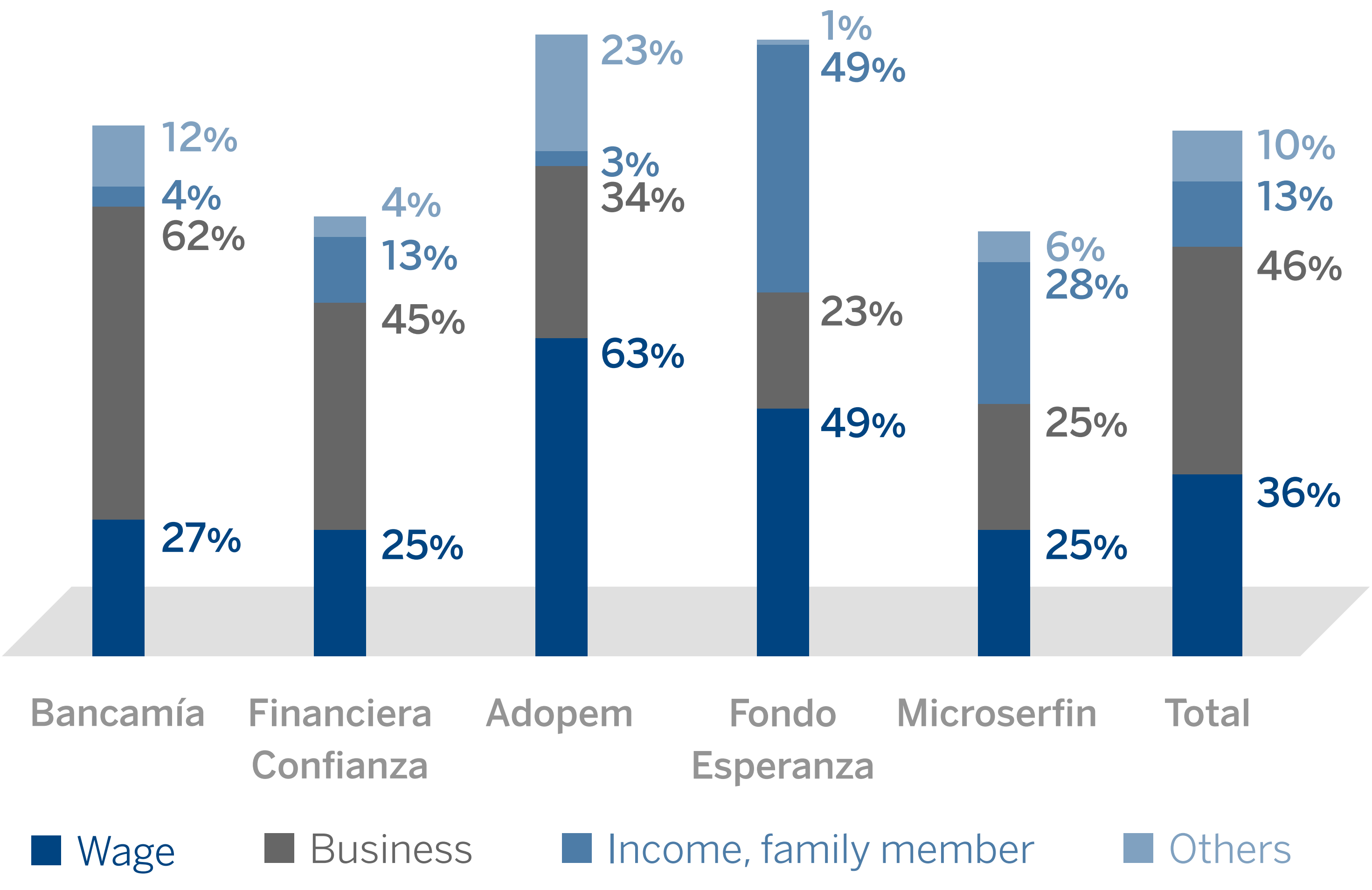


The instability of their business revenue forces entrepreneurs to look for alternative income streams

G-**14.** An income stream is classified as primary when the business contributes more than half of the household income. 50% of household income is included above, given that this ratio has changed greatly in the last three years. Note that in Colombia the reply option "equivalent to 50%" was removed. The only response options available were "more or less than 50%", so the answers are not directly comparable with the other countries.

15 | Other sources of household income

Entrepreneurs surveyed



Income source diversification has intensified since the pandemic. Instability of business incomes appears to be forcing entrepreneurs to look for alternative sources for obtaining money. Among these sources is waged work and incomes from other businesses, followed by income from a family member. .

In the countries where the business is not the main source of income (eg. Banco Adopem in the Dominican Republic and Fondo Esperanza in Chile), waged work prevails. In these countries in particular, many clients look to their enterprise for greater income flexibility and a better work/life balance.

In the countries where the dedication to their business is greater, there are other sources of income such as other businesses (eg. Bancamía in Colombia and Financiera Confianza in Peru). Here perhaps the strategy is to diversify risks by having several enterprises.

We should point out that remittances are an important source of funding in the Dominican Republic (23%), a characteristic feature in this country

In Peru and the Dominican Republic, age is a determining factor. The older the entrepreneur, the greater is their dependence on their revenue from their enterprise. This is possibly due to their experience, and the stability that their business offers over time.

In Colombia and Chile, the more stable the business, the greater its contribution to household inflows. As clients' businesses grow —i.e. they are less economically vulnerable— their dependence on other revenues shrinks, enabling them to live on their productive activity. Eight out of ten entrepreneurs in poverty depended on other inflows, but only six or seven out of ten did so from small businesses. This suggests that enterprises enable them to break the sometimes-vicious circle of economic vulnerability.

> **46% of entrepreneurs have incomes from other businesses and 35% of them complete their incomes with waged work**

G-**15.** Multiple answers possible. "Others" are remittances or pensions.

Multidimensional poverty

To get a broader vision of poverty, we need to extend the concept of monetary poverty. We have to go deeper into our understanding of the details about the quality of life of entrepreneurs and assess the potential shortfalls they face in their homes. This information will help us create a value offering that allows our entrepreneurs to overcome these structural shortfalls – often associated with the lack of goods and services provision–, and to narrow these gaps.

Among the households served by BBVAMF, the key deficiencies relate to the number of years of schooling, sanitation, access to water, housing materials and access to internet. These shortfalls vary considerably between countries. Nevertheless, insufficient schooling is a feature common to all entrepreneurs, and it means that they will be less likely to get employment in the labor market, so their need to be entrepreneurs becomes imperative.

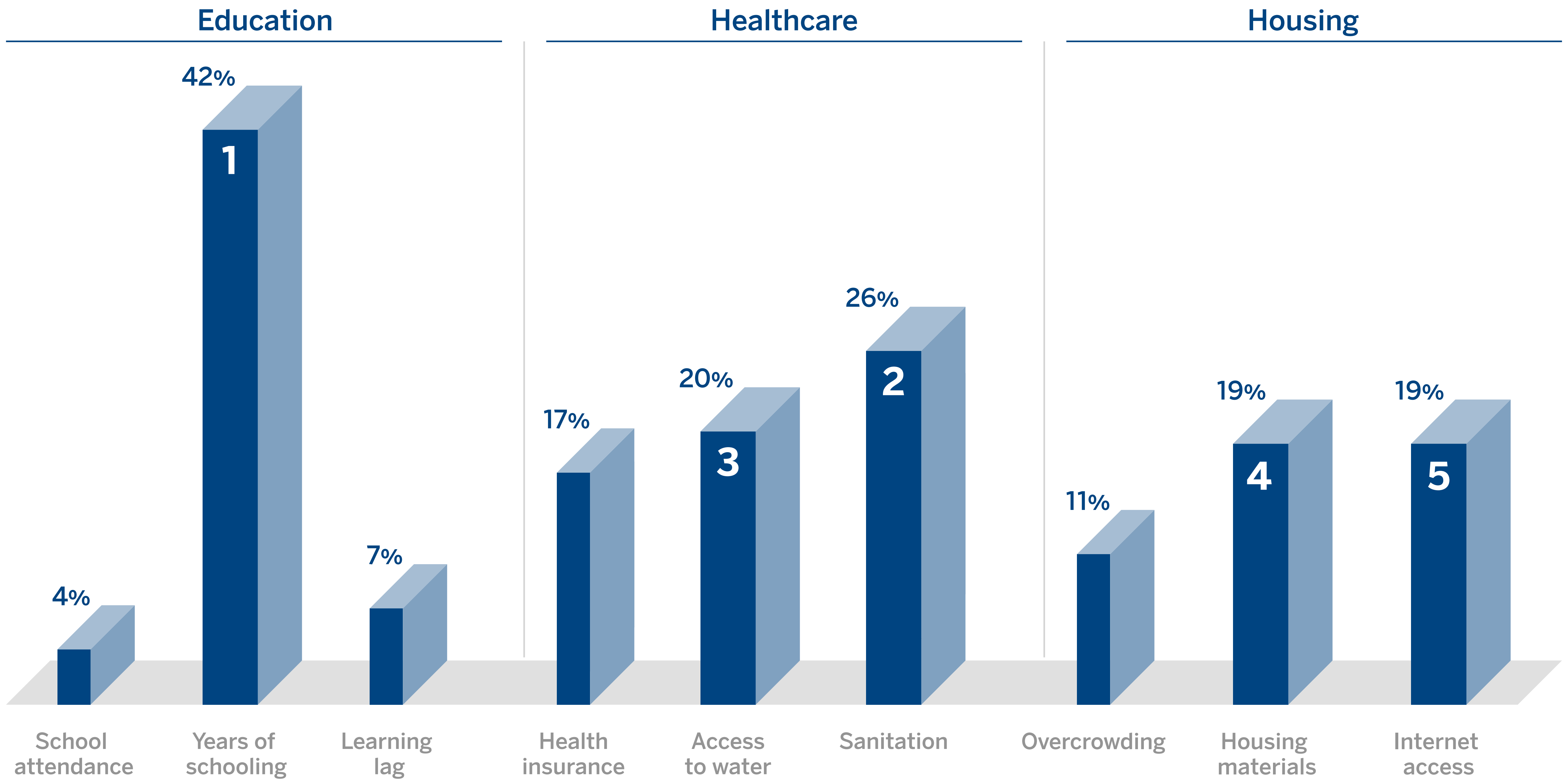
Our traditional measurements have meant that we have catalogued our entrepreneurs using monetary criteria. However, to get a sharper vision, we need to go beyond that threshold and dig deeper into entrepreneurs' quality of life, assessing the potential shortfalls facing their households.

People in poverty generally define it as an experience with simultaneous different deprivations, not merely a lack of income. Multidimensional Poverty Indicators (MPI), based on Alkire-Foster methodology, can provide a broader understanding of the nature of poverty that complements one-dimensional monetary measurements. An MPI reveals who is poor, and in what way, contributing relevant information to identify which people are in poverty, as well as the problems that keep them there.

That is why, using a representative sample, we have created an Internal Multidimensional Poverty Index based on national indicators that we have adapted to the profile of our entrepreneurs.

16 | Incidence of deprivations

Percentage of deprived households



G-**16.** Entrepreneurs surveyed in 2021 (Multidimensional Poverty Survey). For more details, see SDG 2021.

The Internal Multidimensional Poverty Index (IMPI) is a poverty measurement that picks up on the multiple shortfalls suffered simultaneously by people in areas such as education and health, among others.

It reveals that the rate of multidimensional poverty (the proportion of people in a population group that is multidimensionally poor) **in the households of our clients is 24%**. Households living in multidimensional poverty have, on average, shortfalls in 41% of the indicators (which equates to 3.7 of the 9 indicators).

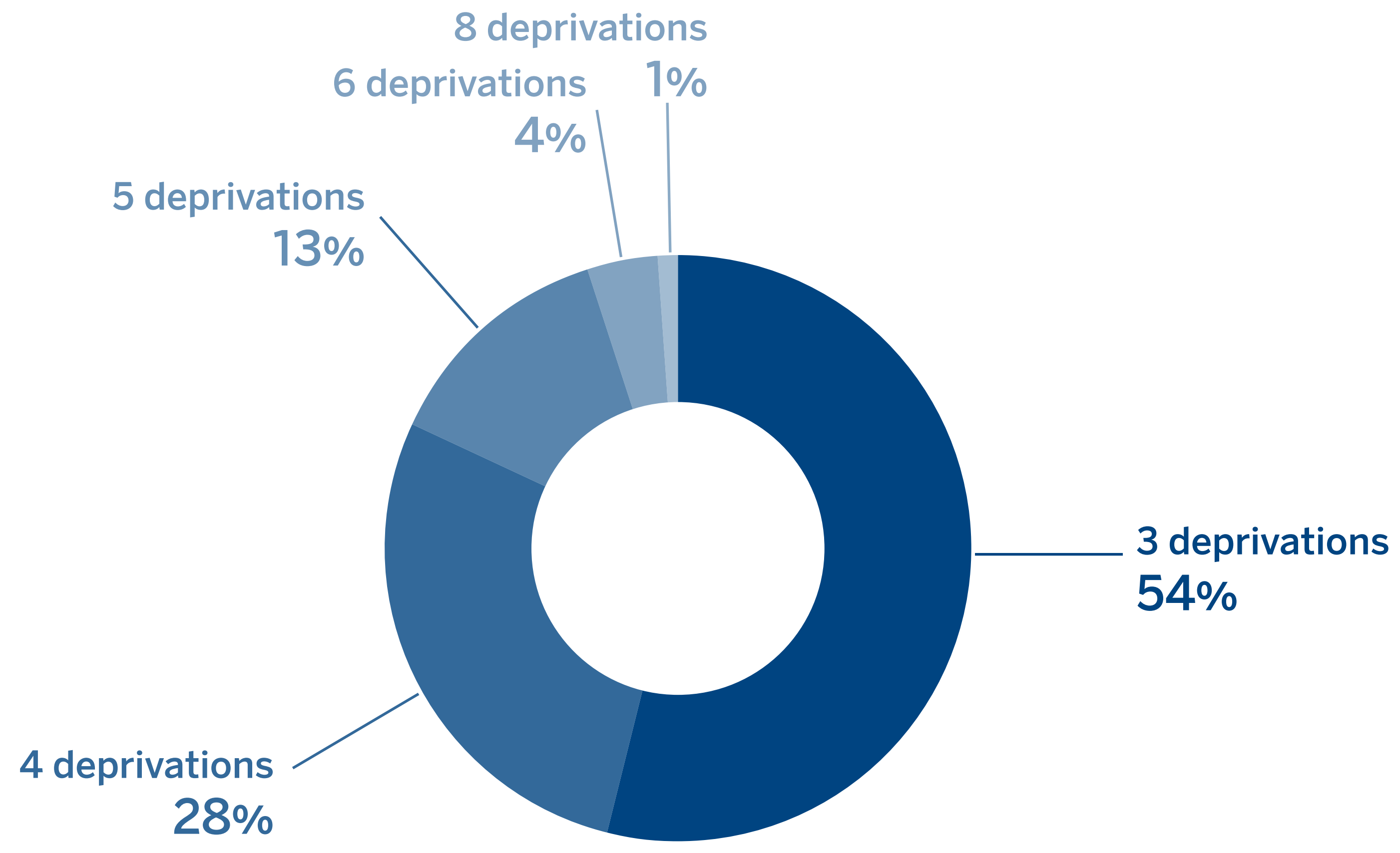
Households show higher levels of deprivation in actionable indicators —i.e. that can be changed with specific measures— such as sanitation, housing materials and medical insurance. This has allowed us to start to think about solutions to accompany them as they get ahead (see 'Welfare section').

The results show that across all our institutions households in poverty generally contain more people, more children and lower household income. Clients of Bancamía, Financiera Confianza and Banco Adopem are also more likely to live in rural areas.

Four in every ten households face some kind of shock

17 | Distribution of poverty intensity

Percentage of households



18 | Internal Multidimensional Poverty Index

Incidence & intensity

IIPM
Índice Interno de Pobreza Multidimensional

Index	Value
IIPM	0.099
Incidence (H, %)	24.2
Intensity (A, %)	41.0

G-**17** and G-**18.** Survey conducted in 2021. For more details, see SPR 2021.

Another important feature of households in vulnerability is the number of contingencies they have to deal with. Clients were asked whether they had faced any unexpected contingencies in the previous 12 months. The data show that those who suffered a shock tended to experience higher levels of multidimensional poverty. The percentage of households undergoing some kind of shock varied between 37.6% (Bancamía) and 47.7% (Fondo Esperanza). In other words, it is important not only to identify shortfalls but also to track them over time in order to have an effect on them.

If all these shortfalls are mitigated simultaneously, these households are more likely to get ahead.

Short methodological notes

- Entrepreneurs surveyed on the ground (Oct.-Nov. 2021): 9,102 households. .
- Poverty threshold: 33.33%.
- Alkire-Foster methodology.

For more information, see SPR 2021.

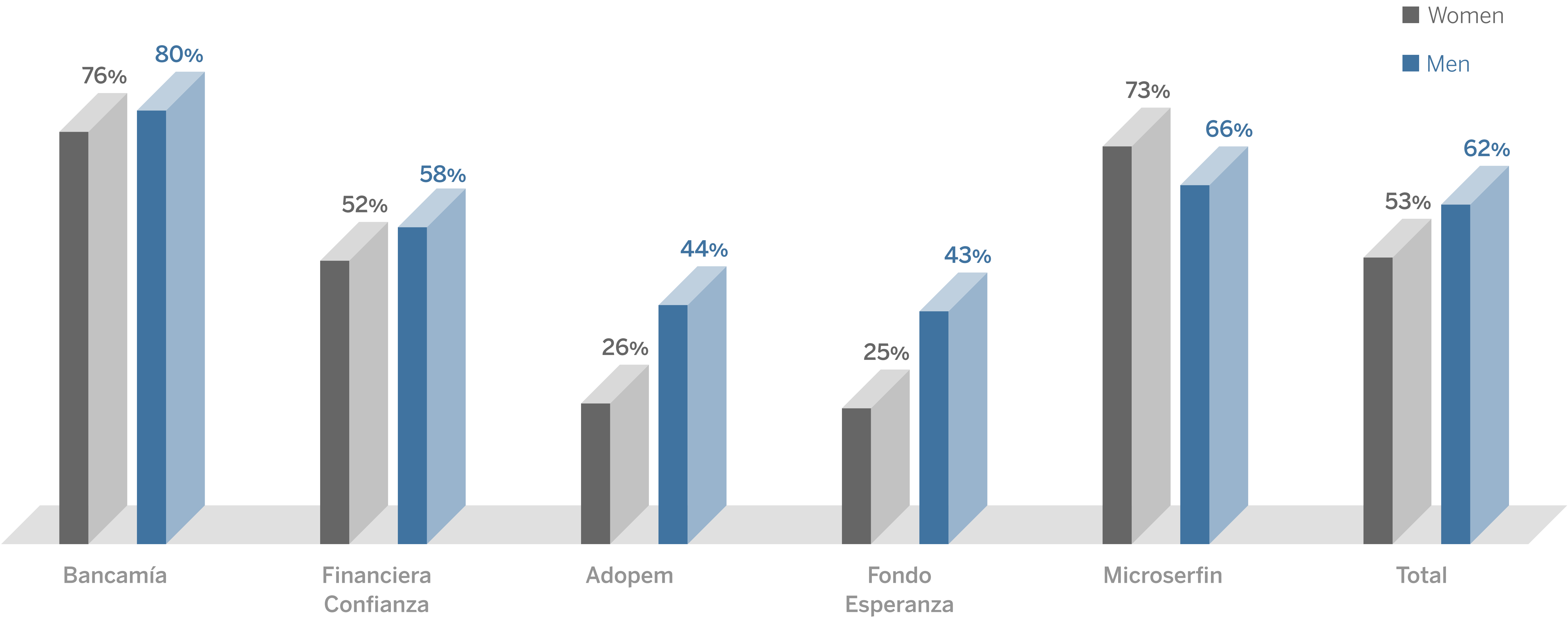
Snapshot of the entrepreneurial woman

Serving women remains crucial: although the financial inclusion gap has narrowed in recent years, access to the financial system is still more difficult for them. The labor market's exclusion gap persists, so they find themselves compelled to start up enterprises that help them to resolve not only their work status but also the compatibility of looking after their children. This leads to their being over-represented in enterprises that are smaller and less productive. Many women belonging to the most vulnerable segments are excluded from the formal financial system or do not make full use of it, eventually exiting it in many cases.

Furthermore, women are more affected than men when looking for formal jobs (particularly in low-to medium-low income countries) and often find themselves in situations of greater vulnerability.

For half of women entrepreneurs, their business is not their main source of household income (it is for 53% of them, compared to 62% in the case of men). Their other income sources tend to be "income from another family member", which suggests that they tend to assume this position for cultural reasons.

19 | **Main sources of income**
Entrepreneurs surveyed



We should also point out that stemming from the pandemic and the effects of inflation, many women have been forced to look for new sources of revenue to withstand the economic crisis, not only through third parties, but also as employees in the job market. These alternative sources are probably viewed as being more stable.

Women's enterprises tend to be their secondary income source

Entrepreneurship not only enables them to make money but is also compatible with their domestic responsibilities. This conditions the type of activities chosen by the majority, activities which tend to be flexible, but with low productivity. 48% of women work in retail trade, especially in the areas of textiles and footwear, one of the most affected by the pandemic.

The enterprises of the women we serve have lower revenues on average than men's; as a result their levels of economic vulnerability are higher. Of women served by BBVAMF Group for the first time in 2022, 35% were in poverty, compared to 23% of men.

In addition, we note how age is also a determining factor. In the poor segment, the gap between men and women in income generation (sales) is greater than the gap in the vulnerable group. The younger they are, the more pronounced is this gap. That is, younger women have not been able to consolidate their business because they are spending more time on their family. Among young people, 49% of women are poor, compared to 35% of men. This gap is narrower between older men and women (>60 years old).

It is especially important to design social policies that help with family planning and how to manage their responsibilities while also generating inflows that are sustainable over time.

20 | Profile by gender

New credit clients

Woman		Man
59%	Gender	41%
88%	Vulnerability	78%
46%	Poverty	29%
26%	Rural	37%
USD 172	Income[8]	USD 230

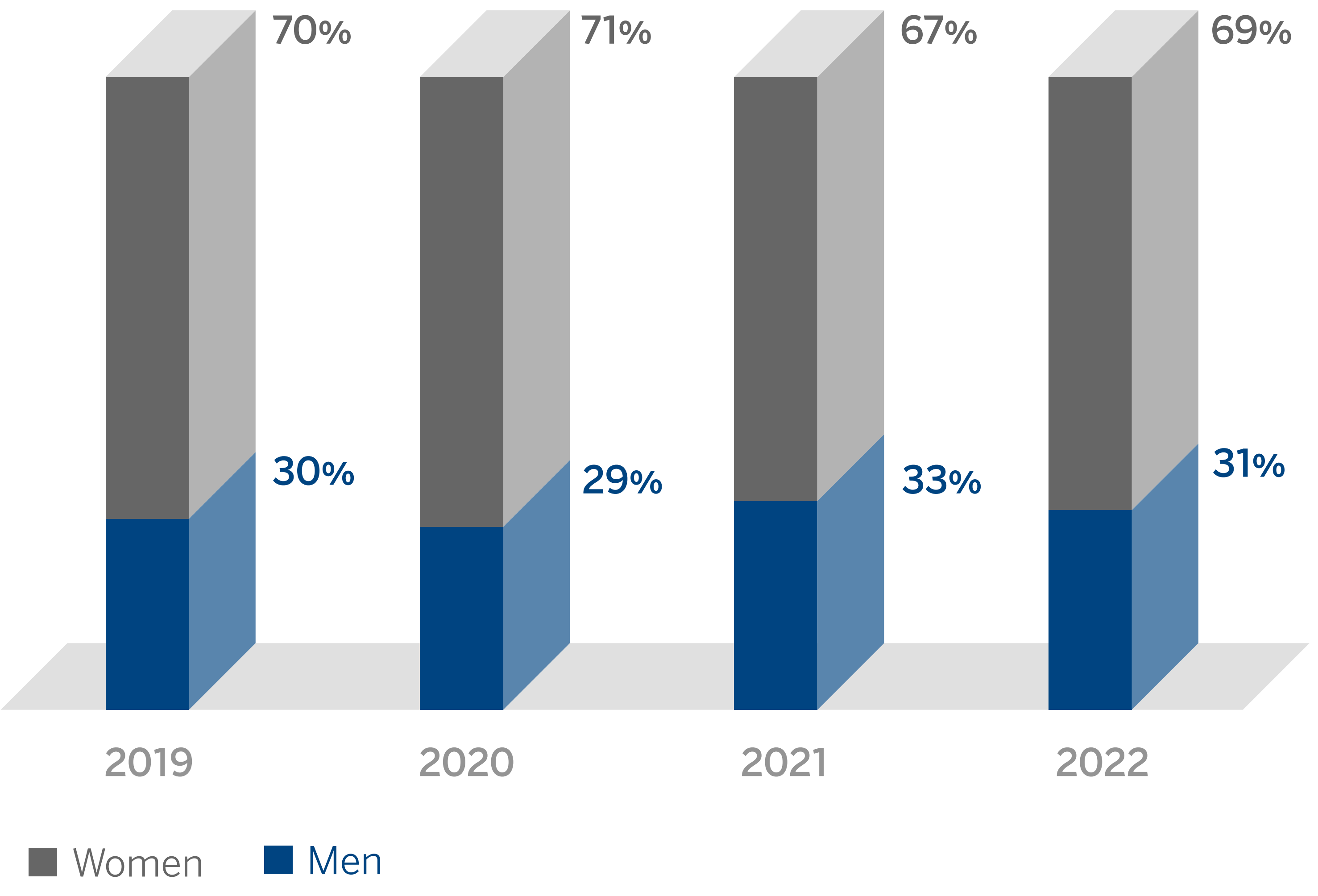
8. Business surplus per household member.

G-**20.** New clients during the year (no previous loans). Vulnerability is the % of clients with incomes lower than three multiples of their country's official poverty line.

G-**21.** New clients during the year (no previous loans).

21 | Poverty by gender

New credit clients



In 2022, of all the clients in poverty coming to bank with our institutions, 69% were women. This is because they work in low-productivity sectors and have to juggle working with their household tasks.

How their businesses are progressing

How their businesses are progressing

Situation of their businesses, postpandemic

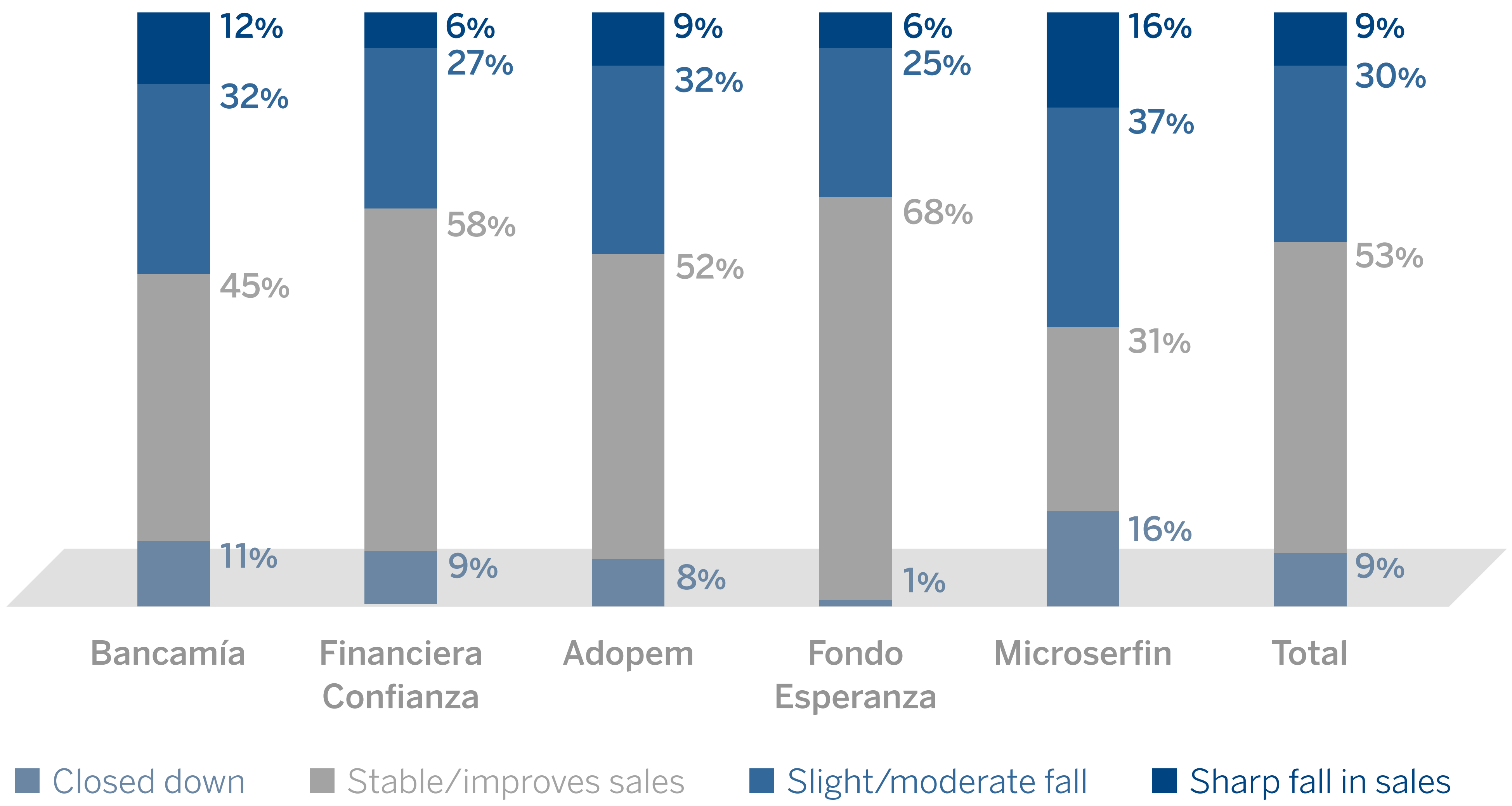
Most entrepreneurs have been resilient to shocks such as the pandemic, although the loss of income has entailed some kind of curtailment in other areas of the entrepreneurs' business/household. To March 2022, 53% of entrepreneurs had recovered or even increased their sales over 2020. Just 9% of their businesses remained shuttered. Even though in April-August 2020, when the pandemic was having its greatest impact, lockdown affected 47% of their businesses, practically all of them have managed to reopen. Furthermore, the proportion of entrepreneurs with lower sales has fallen significantly since 2020.

To a large extent this is determined by their type of activity, with behavior patterns similar across countries:

- Minimarts (grocery and general stores, etc.) benefited from the pandemic, generally raising their sales.
- Crops and stockbreeding activities (or mixed farming) saw a slight impact on sales. Where these fell, they subsequently recovered rapidly.

22 | **Effect on their business sales**

Entrepreneurs surveyed



- Services such as hairdressers, beauty parlors and transportation were generally very affected, but recovered quickly.
- Restaurant and food service businesses were the most impacted, suffering sharp falls in sales and some have not managed to reactivate, being forced to close down.

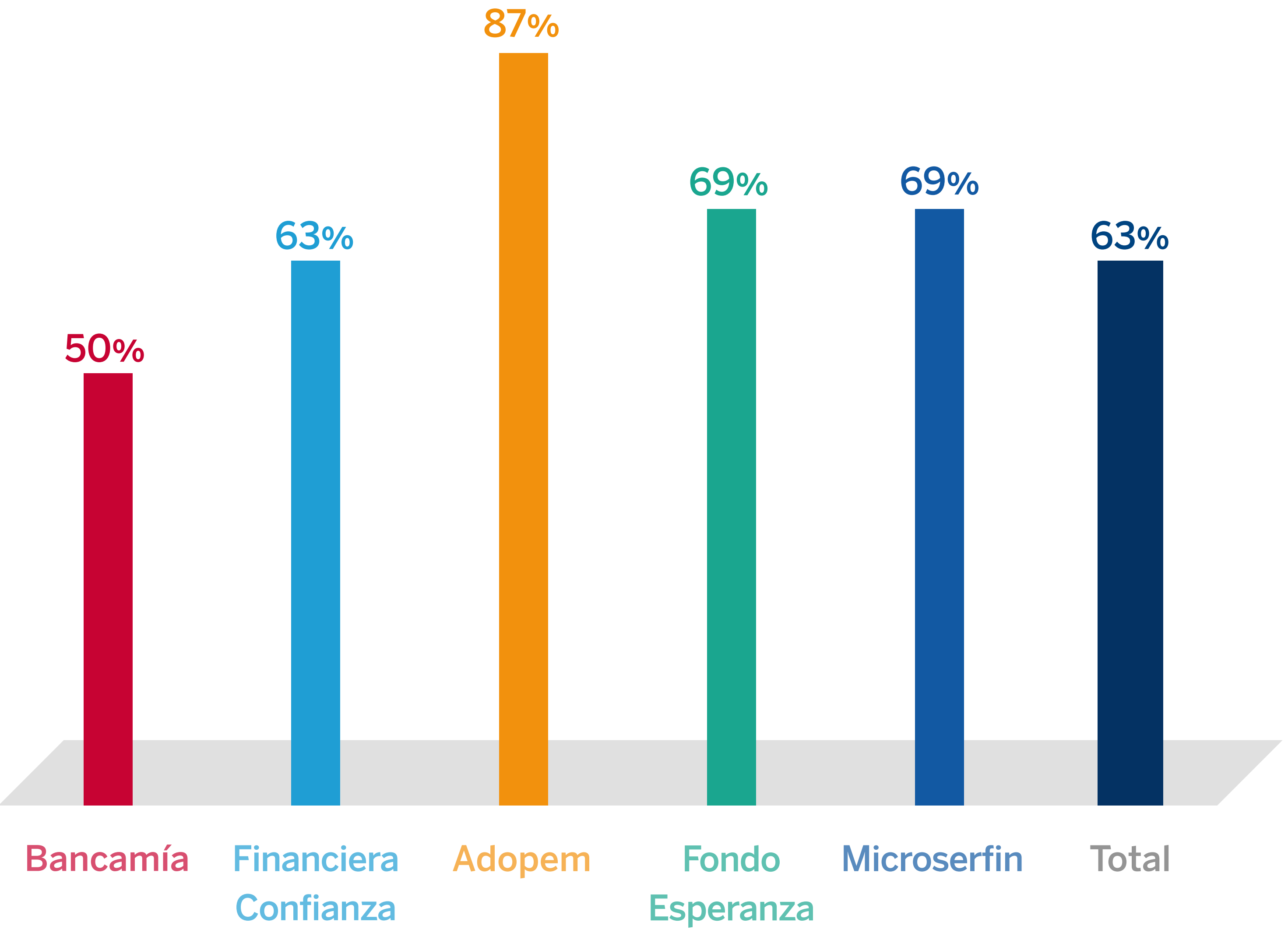
Entrepreneurs return to normal, showing that half of them are resilient

G-**22.** Compared to the situation pre-pandemic. The question asked was "When compared to your situation two years ago (pre-pandemic, in January/February 2020), are your monthly business sales higher/lower/the same?" A fall of over 50% is classified as serious, of less than 50% as slight.

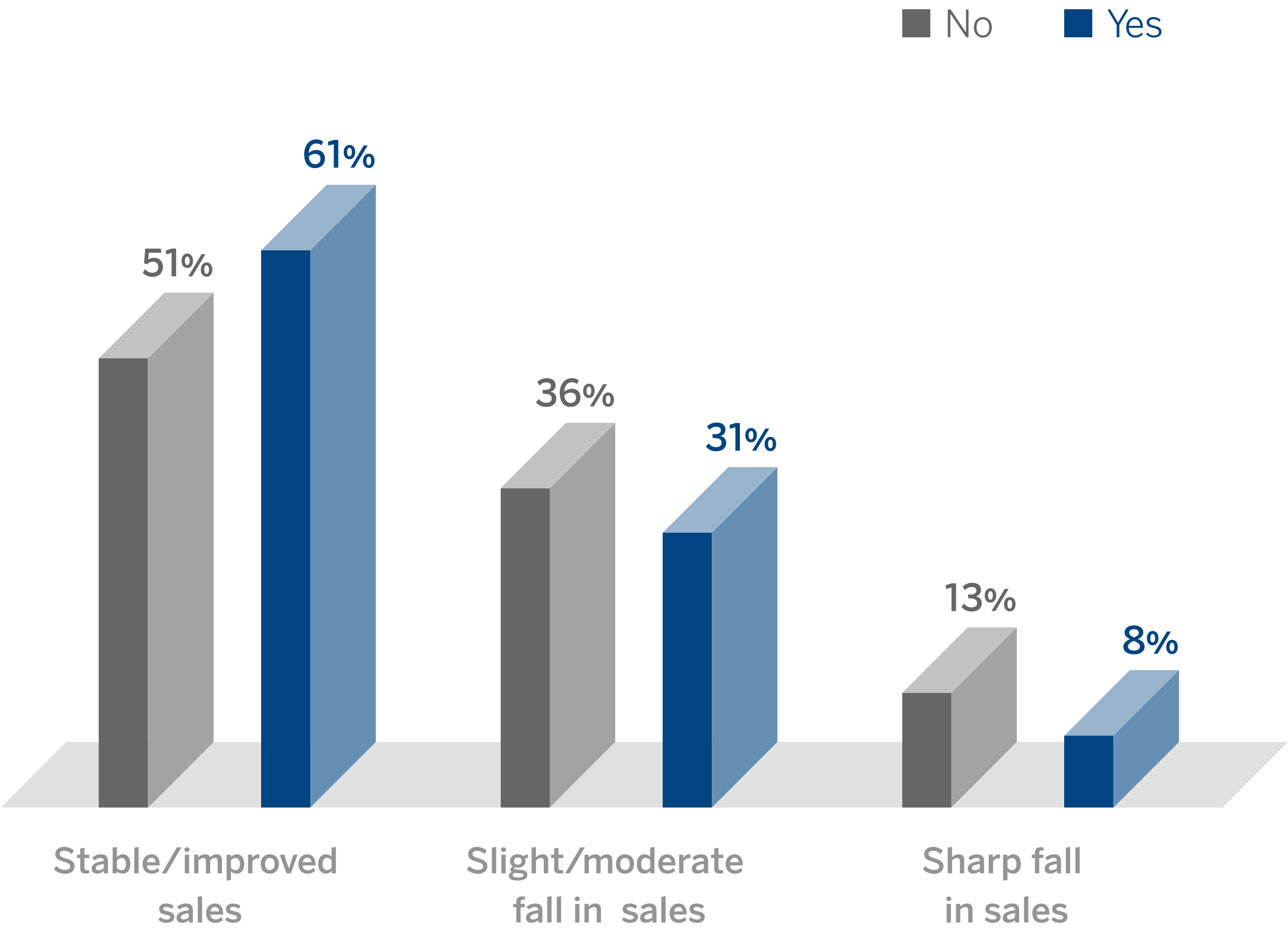
Our era is increasingly defined by people's great capacity for adaptation, especially in the case of informal micro-entrepreneurs who face multiple, complex disruptions and their consequences over the long term. However, they are often not in conditions to deal with them. Digitalization has crept cautiously into sales channels and is only sometimes used to buy inputs. Diversification as a strategy for mitigating risks, while successful during the pandemic, has not been permanent. And investment in new installations to serve new, different needs is virtually non-existent. To this is added the financial stress suffered by these entrepreneurs day after day, especially inflationary pressure, that reduces the margins for their households, where the needs of their business and of their families are intrinsically interrelated.

63% of entrepreneurs have the capacity to make plans[9] for the next 12-month period, which suggests that it is this ability to anticipate that enables them to be resilient. Indeed, the (less positive) impact on household welfare (as we shall see below) is not aligned with this trend, indicating therefore that contingencies become important in the household sphere. That is, not only is it important to accompany them with the right financial tools, that are timely and appropriate, but also education and mentoring services are increasingly relevant in dimensions that go beyond just the business itself. Furthermore, 37% merely survive, a percentage that is particularly unequipped with this quality of resilience.

23 | Those with a 12-month plan
Entrepreneurs surveyed



24 | Those with a 12-month plan
Entrepreneurs surveyed



The 63% of entrepreneurs with a plan to expand their business in the next 12 months are the most resilient

9 and G-**23.** The survey question "Do you have a plan for expanding your business in the next 12 months?" tends to be a good proxy for financial management capacity.

Business adjustments

Sales channels

Sales channels have been a key tool for increasing the incomes of entrepreneurs' businesses, especially since they have had to adapt after the pandemic.

Selling directly from the home or from commercial premises continue to be the most popular channels, although they were displaced by social media and the telephone after the pandemic. The latter two channels, as well as enabling entrepreneurs to adapt to a changing environment, entailed some cost savings.

Household: In the Dominican Republic, hairdressers and beauty parlors continued to conduct their activity from their homes, whereas in Peru this strategy was mainly followed by the restaurant trade and general goods stores. In Colombia, small traders such as minimarts or convenience stores kept their businesses at home, as did takeaway food services.

Social media: The most significant increase has been in the use of social media: whereas beforehand, 19% of clients used it, the percentage now stands at 28%. This form of sales has been taken up more by young people, especially those with secondary education or higher. Telephone sales have also grown, rising from 14% before the pandemic to the current 20%. We should highlight the case of the Dominican Republic, where street sellers have been particularly keen to adopt telephone sales.

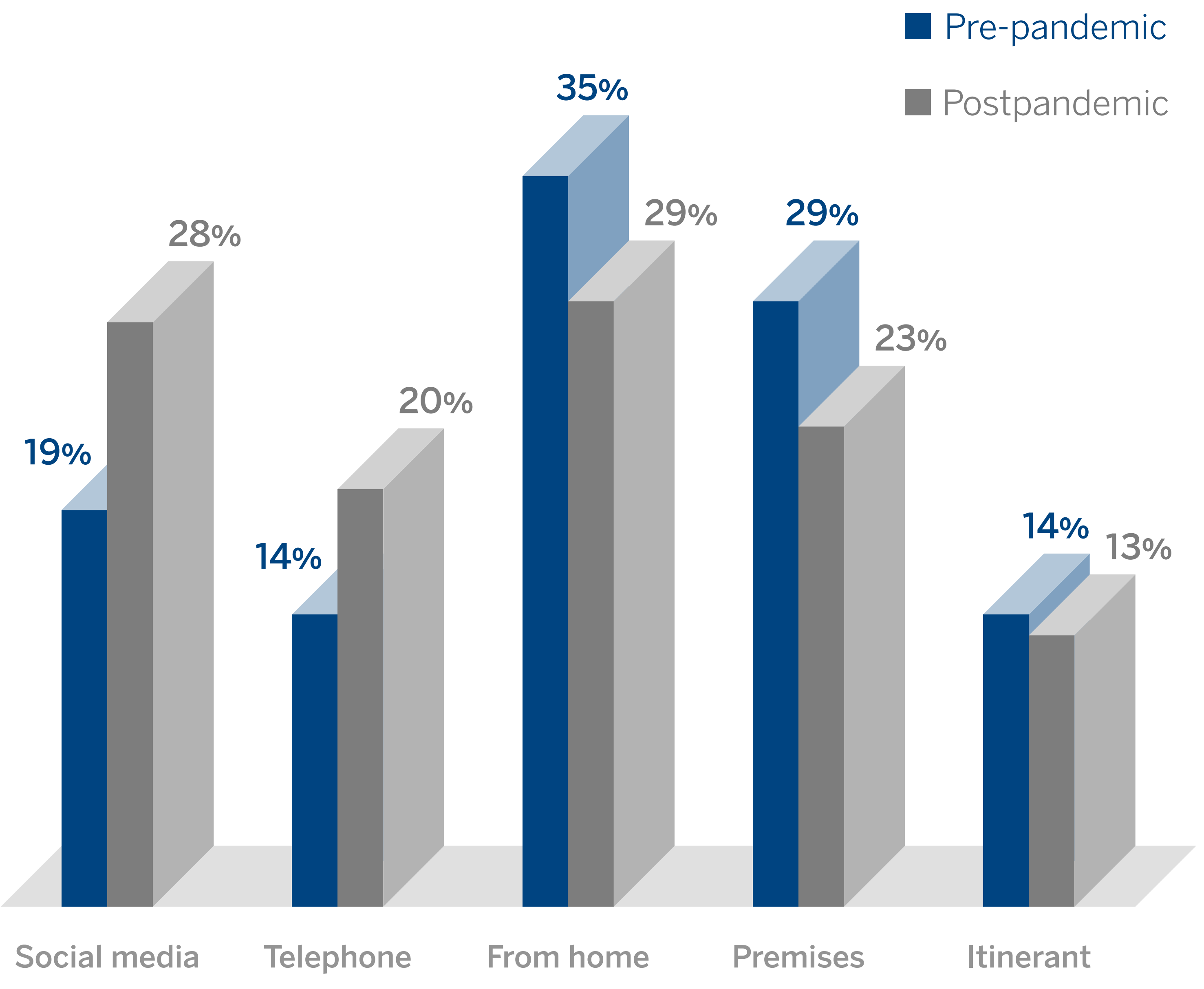
Street selling: Currently 13% of businesses are itinerant, with practically no change across the different countries. This suggests that this small entrepreneurial segment remains excluded from digital progress.

Markets/Fairs: It is very noticeable that in Colombia, the Dominican Republic and Chile, sales in markets and fairs have virtually disappeared. In Peru they continue to account for 24% of the whole.

When looked at country by country, we note a clear positive correlation between using technologies for sales and each country's level of nationwide connectivity. Thus, Chile is the country that used social media the most, followed by the Dominican Republic and Panama. As a consequence, in these countries sales using this channel have grown the most. Even so, the marketplace still hasn't really taken off. Peru has the fewest digital sales. In all countries the use of the telephone remains significant, suggesting that digital skills still have a way to go.

25 | Sales channels

Entrepreneurs surveyed



G-**25.** When asked about the sales channel used pre- and post-pandemic.

Purchase of inputs

The way in which entrepreneurs obtain their inputs has not been affected by the pandemic. The habit of buying directly in markets or stores continues to be the most popular (66% of the total), followed by buying through intermediaries (29%). Even so, online buying has risen from 7% to 10%.

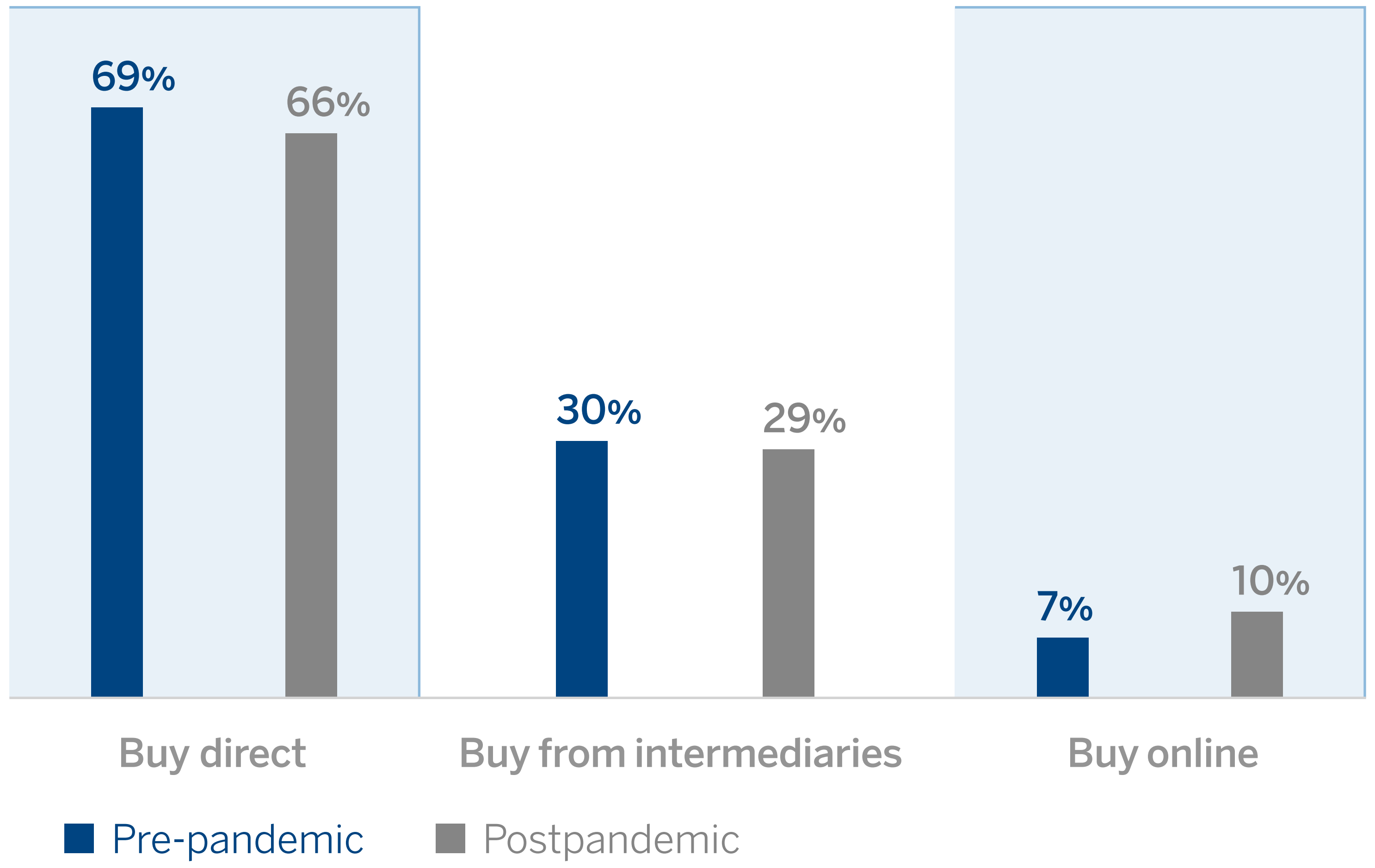
The digital channel is clearly the choice of the younger segment, where 54% of entrepreneurs use it, compared to 35% in the middle-aged segment, and 17% among older clients. In fact, it is the young who have made the transition from direct purchasing to using digital channels, while the over-60s have not changed their way of obtaining inputs to any significant degree, mainly using intermediaries.

The switch to using internet to buy supplies is slow, so the learning curve for many people will be progressive and will require mentoring.

G-**26.** When asked about how they acquire supplies, pre and post-pandemic.

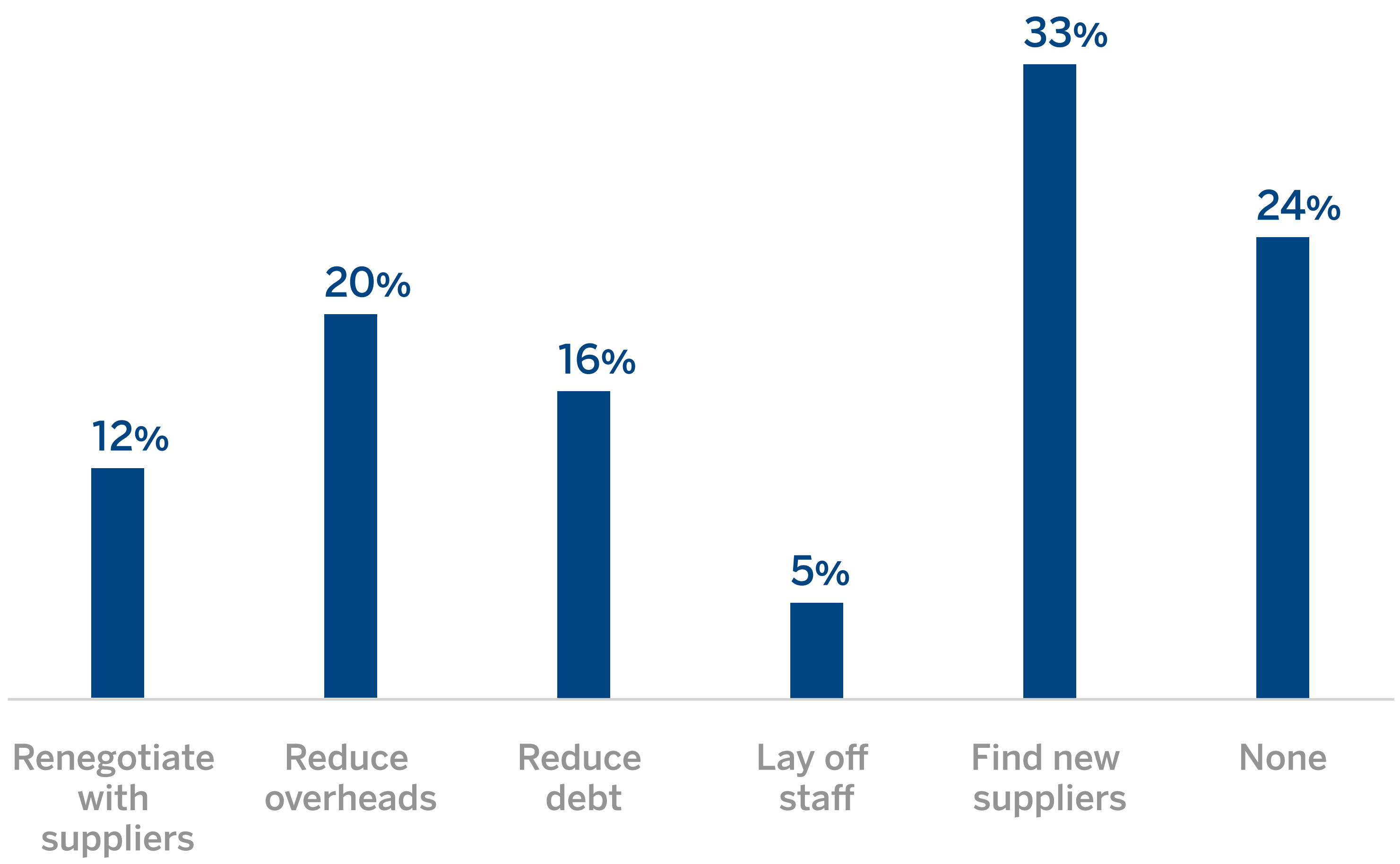
26 | Buying supplies

Entrepreneurs surveyed



27 | Managing expenses

Entrepreneurs surveyed



Managing expenditure

The search for new suppliers, or renegotiating with current ones, is the formula most used when trying to reduce business expenses. The options most used to adjust expenses has been to shrink overheads and reduce debts, whether by reducing their value or that of the monthly installment payments. Firing workers is the least used formula.

In Colombia and the Dominican Republic, the younger entrepreneurs are most inclined to adjust their expenses, possibly because they have less to lose. This indicates that there are opportunities to mentor entrepreneurs in managing suppliers to help them reinforce their resilience.

When the countries are analyzed one by one, we see notable differences in many of our clients' solutions to managing their expenses. Nevertheless, one of the star measures, the most common of all, has been to reduce overheads.

Young entrepreneurs are the most inclined to reduce their expenses

Adjusting installations or products

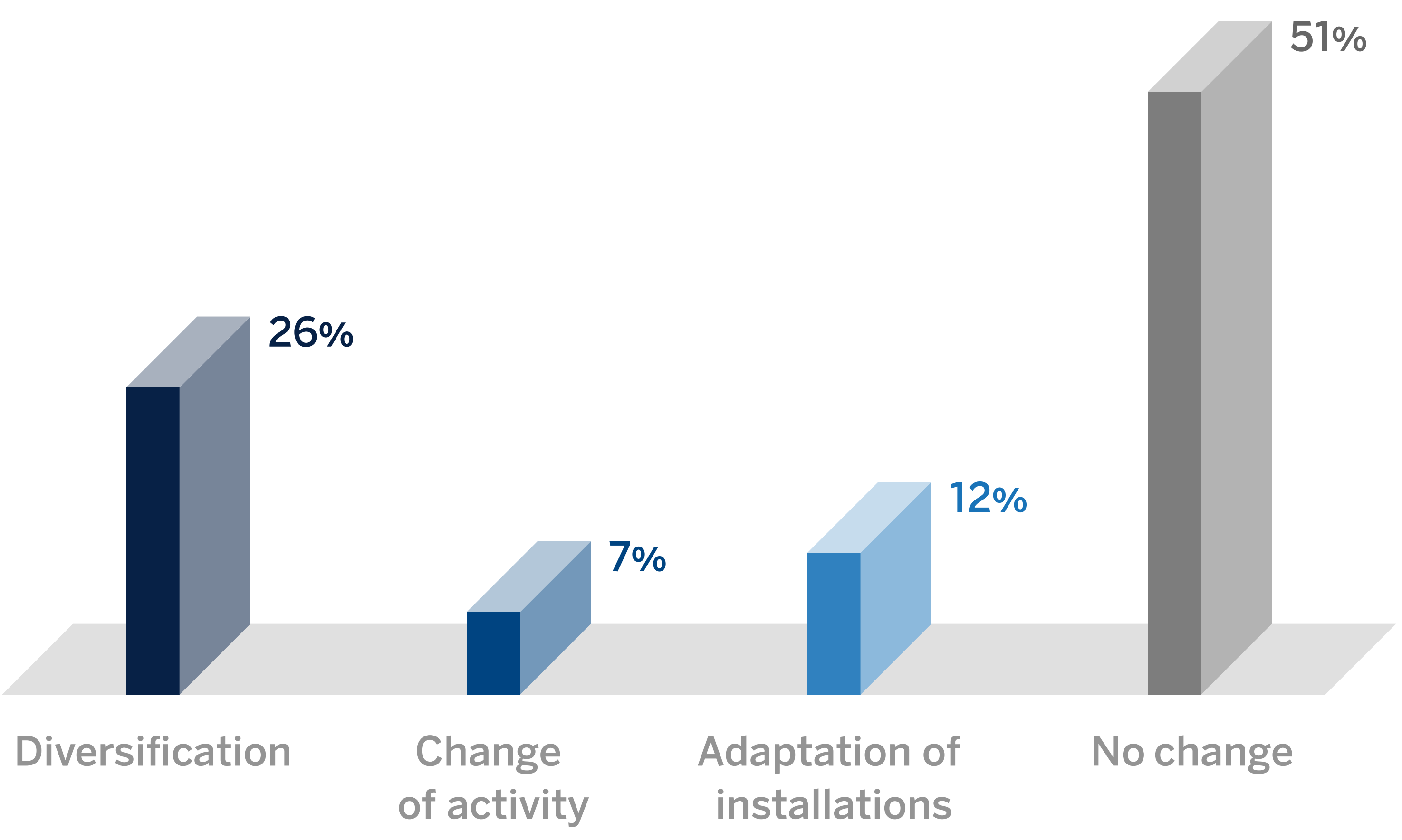
Half of the people surveyed had made no changes to their activity. This means that to continue operating they didn't need to change their activity or to adapt their installations. An example of this are farming clients. Those who did decide to make more structural changes reported positive outcomes in all countries as, thanks to this decision, they succeeded in expanding their sales when compared to their lowest point.[10]

Diversification of products has been the most popular adjustment and the one generating the highest number of positive opinions about its results.

Although the majority of these adaptations have been positive, they have also been temporary. In the Dominican Republic and Colombia, they have been adopted on a provisional basis, to be abandoned when activity returned to normal. This short-term vision differs depending on the nature of the change. The most drastic adjustments, entailing a complete activity swap, are the least permanent. In Peru there has been no difference between permanent and non-permanent, whereas in Chile the opposite is true. Seven out of ten Chilean entrepreneurs say that they have made their changes permanent. Indeed, Chile is the country with the best outcomes: nine out of every ten entrepreneurs comment that these adaptations have enabled them to increase their sales and/or earnings.

28 | Adjusting installations or products

Entrepreneurs surveyed

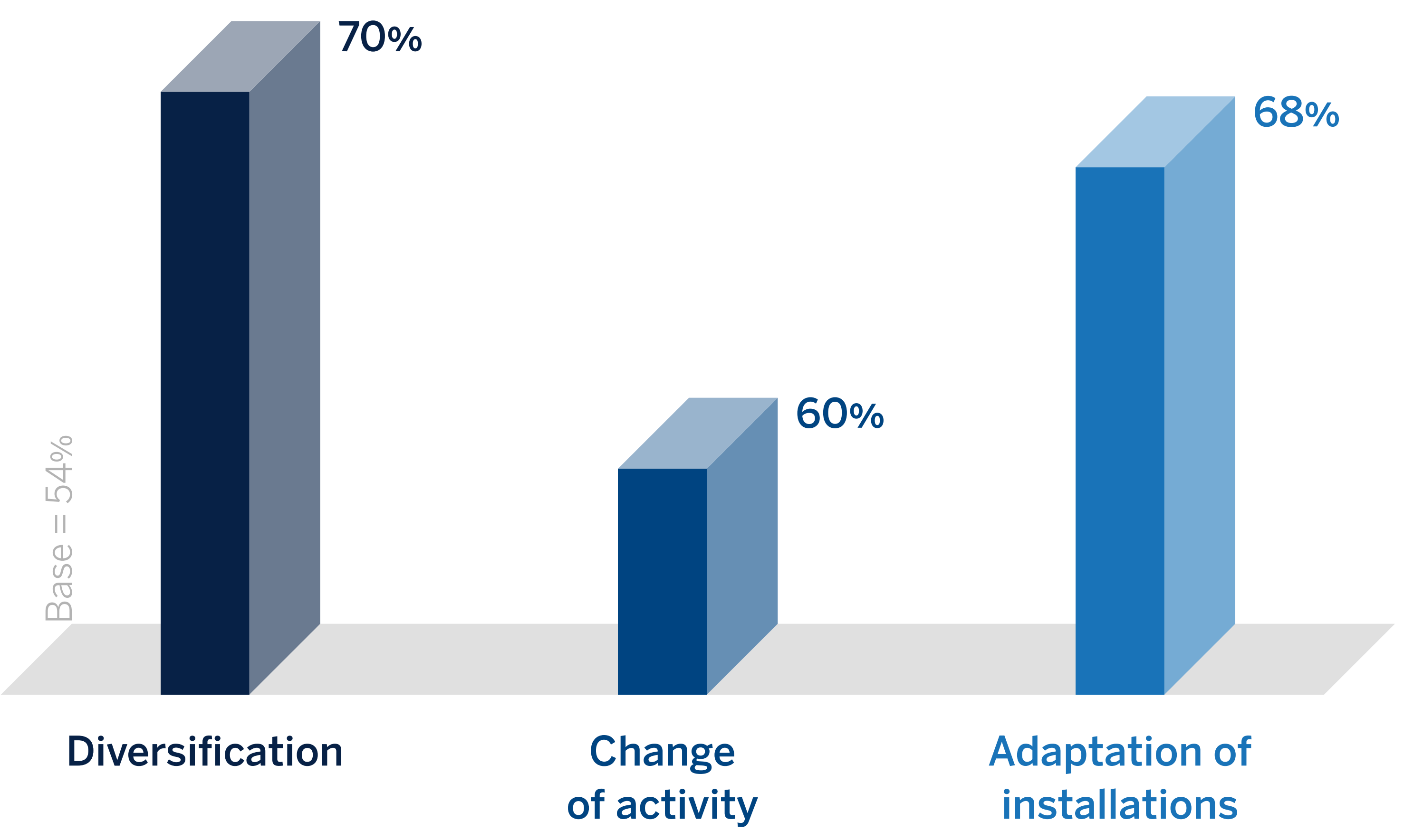


The case of Chile captures our attention, given that nearly 20% of businesses have totally changed their productive activity. This is the most complex change, since it implies starting a different business from scratch, with a learning curve and the need for time before it becomes profitable. Finally, our clients in Panama differ from those in other countries as they made the most adaptations to their installations.

Women are a little more proactive than men when it comes to making changes (54% of women have done so, compared to 50% of men) and it is in business diversification where we see the greatest different between the two sexes, on aggregate (29% women and 24% men).

29 | Effectiveness of the changes

Entrepreneurs surveyed who report that the change has been positive



Once again it is our young entrepreneurs who are more inclined to make changes in their businesses: 54% of those under 30 years old made adjustments, compared to 40% of older clients. Young people show greater readiness to make changes, especially if they have to change their activity completely.

7 in every 10 believe that adaptations have been effective to mitigate the impact of the pandemic on their sales

10 and G-**29.** Clients self-reporting response. The question was "Do you believe that these changes to your business have enabled you to increase your sales/earnings when compared to the worst moment of the pandemic?"

Growth and instability

Growth of their businesses

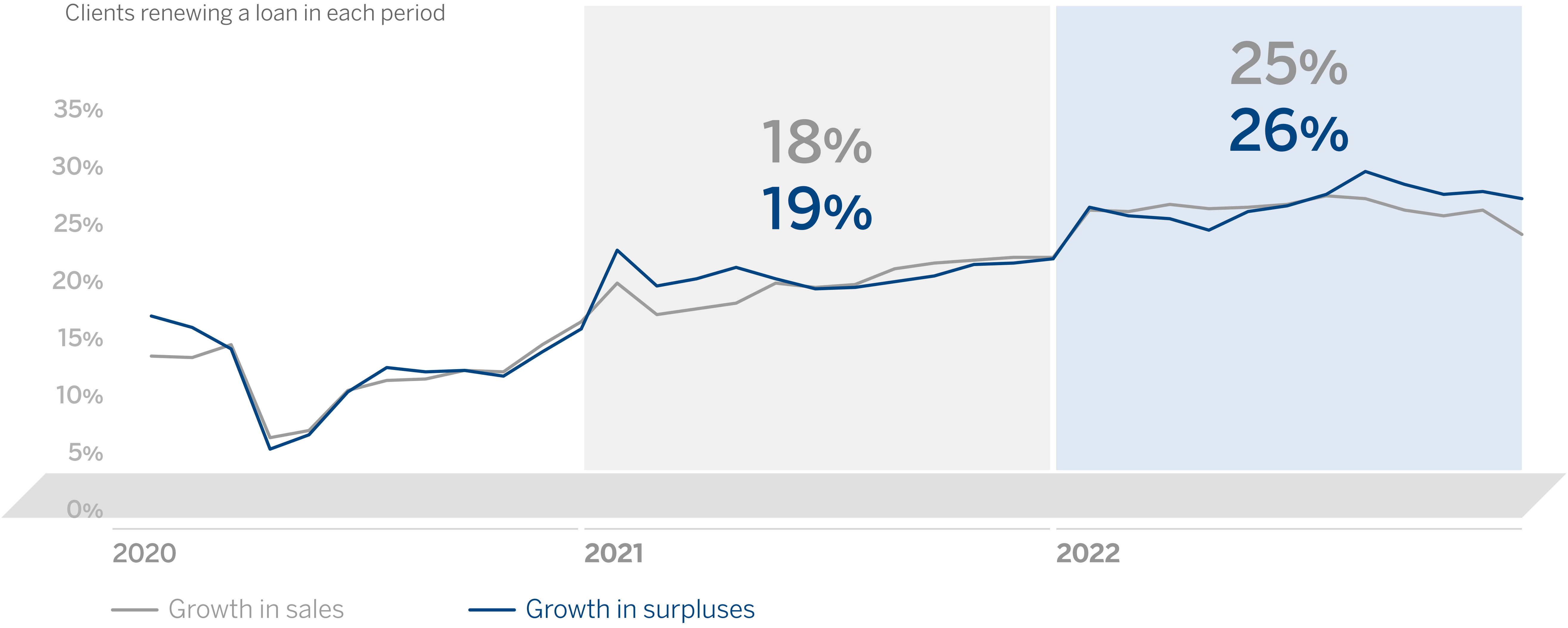
How businesses perform depends in many ways on the macroeconomic environment. Thus, **the resilience of microentrepreneurs is converted into solid growth,** both of sales and surpluses, reaching in both cases annual increases of 27%. This growth has passed over into higher household incomes that in 2022 grew for 52% of our clients, similar to the rate in 2021 (51%). Nevertheless, these averages hide differences both by country and by activity.

In Peru, a country that is highly entrepreneurial, businesses enjoyed strong growth across all activities, whereas in Colombia and the Dominican Republic this was more moderate and localized. In Colombia, agriculture and mixed farming posted high growth rates, while in the Dominican Republic takeaway food services did well. This is to a large degree due to the economic reactivation: primary goods (which include food) performed solidly, followed by leisure activities such as beauty services and restaurants. The remaining activities improved too, but at a slower rate

In general, the food industry – from farming to supermarket/ general store – has benefited the most from the pandemic, increasing its sales and consolidating its business.

30 | Business growth

Clients renewing a loan in each period



Services, which at the beginning suffered a great deal, managed to recover after activity returned to normal, posting solid growth. Both this sector and its activities are the most flexible.

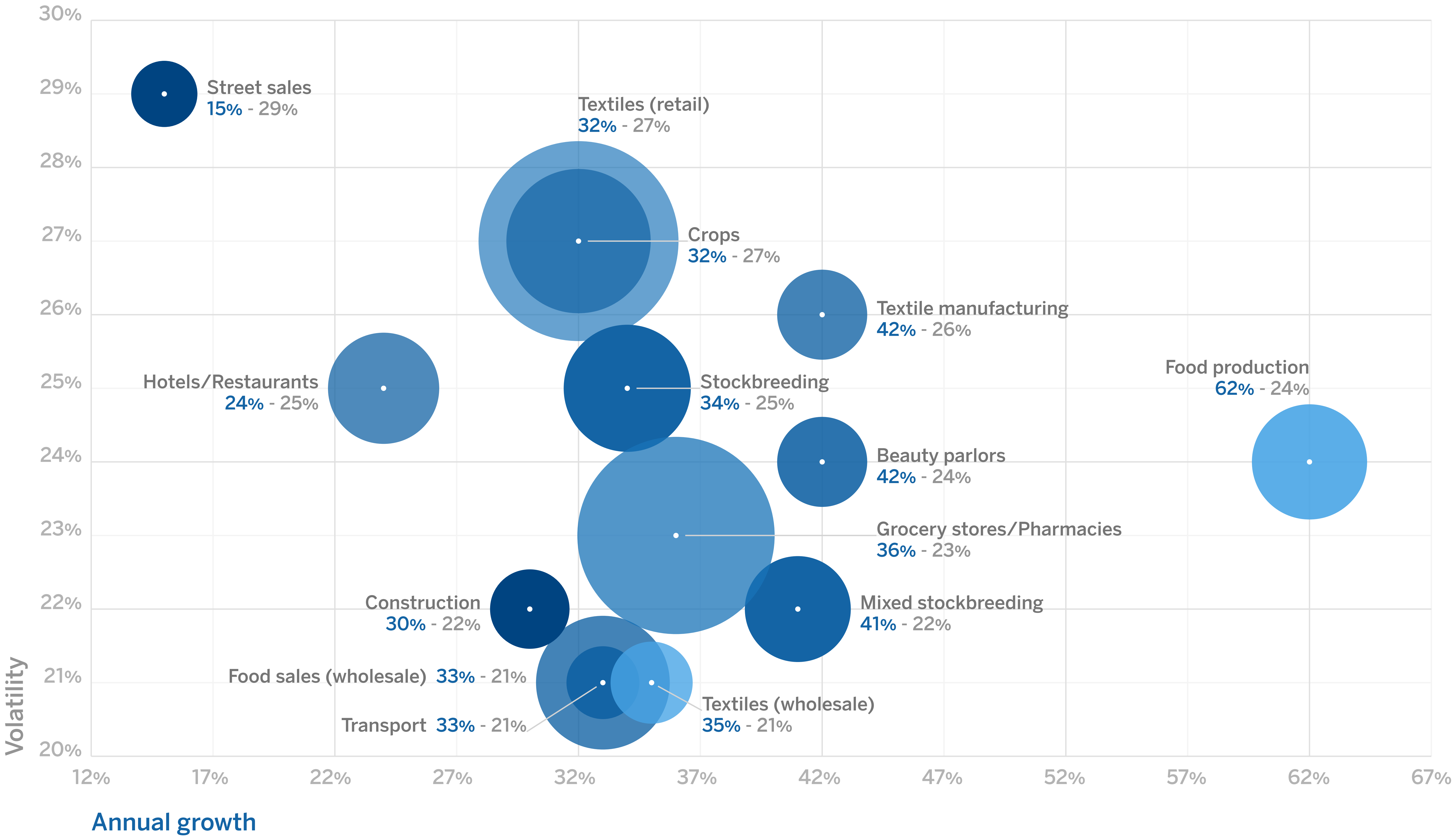
Finally, both trade and the textile industry have recovered more slowly, as they are second-tier needs.

G-**30.** Clients renewing a loan each month. Average annual growth of sales and surpluses in those businesses. Excludes data from Chile and Colombia between March and December 2020.

The food industry has benefited the most from the pandemic, increasing its sales and consolidating its business

31 | Growth of surpluses and volatility, by activity

Clients renewing a loan in each period



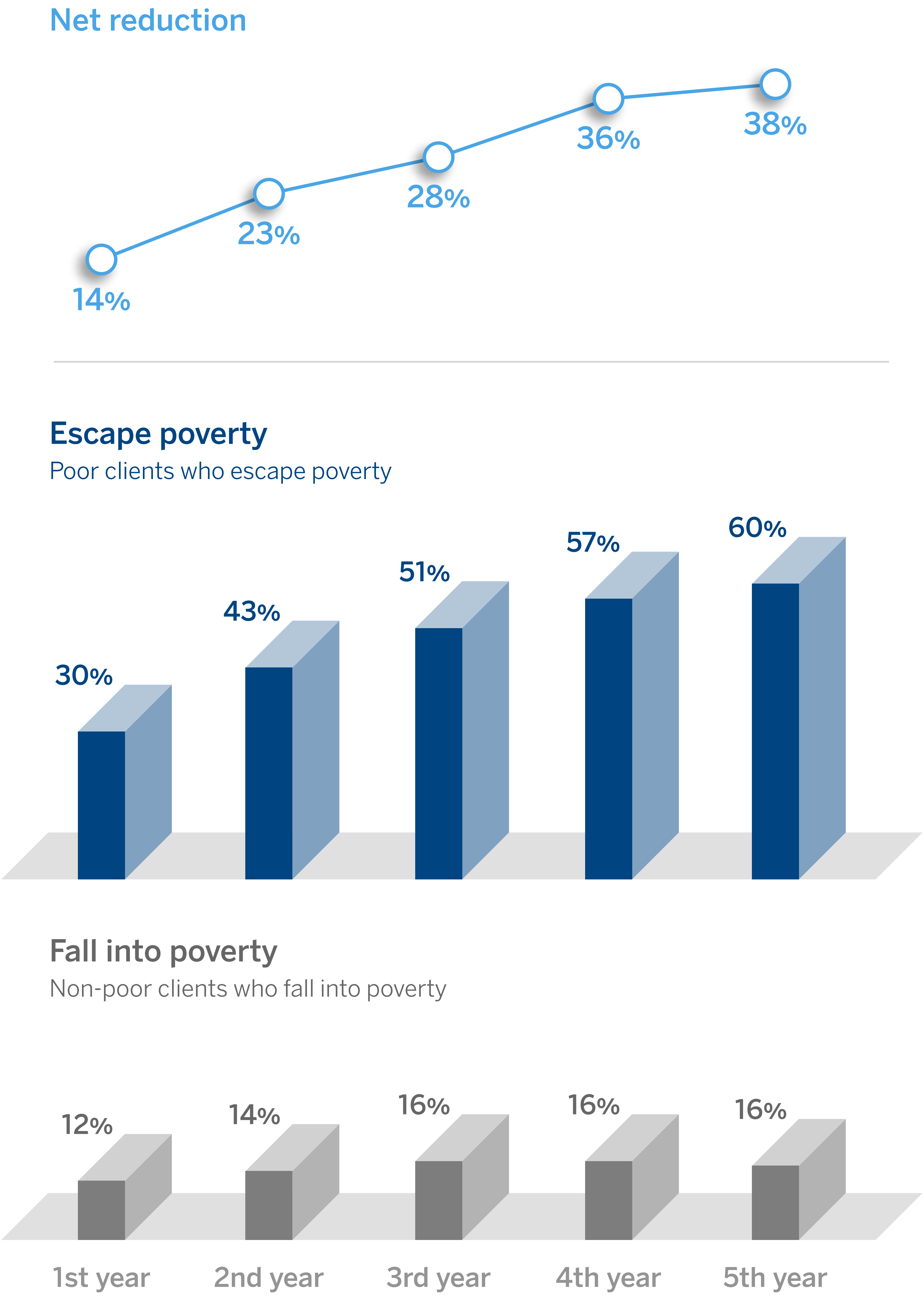
G-**31. Growth:** Clients renewing a loan every month. Average annual growth of sales and surpluses in those businesses. Excludes data from Chile and Colombia between March and December 2020.

Volatility was calculated from clients who have received at least 3 disbursements. Entrepreneurs whose incomes have crossed the poverty line at least twice in the previous 3 loan periods are classified as volatile.

The diameter of the circles in the diagram is approximately proportional to the number of clients in each activity.
As a reference, in "Street Sales" there are 8,252 clients and 66,561 in "Textiles (retail)".

32 | Reduction in the poverty segment

Clients renewing a loan in 2022



Overcoming the poverty line

Business growth implies an increase in household income, something that often improves the situation of entrepreneurs' vulnerability. After two years banking with us, two in ten manage to overcome poverty, and this number increases over time. The longer they bank with us, the better their performance.

After two credit cycles, entrepreneurs classified as poor have overcome poverty; the extremely poor need at least four cycles to do so. This is because their initial financial status is worse and, although their growth rates are much greater (in relative terms), they have further to go.

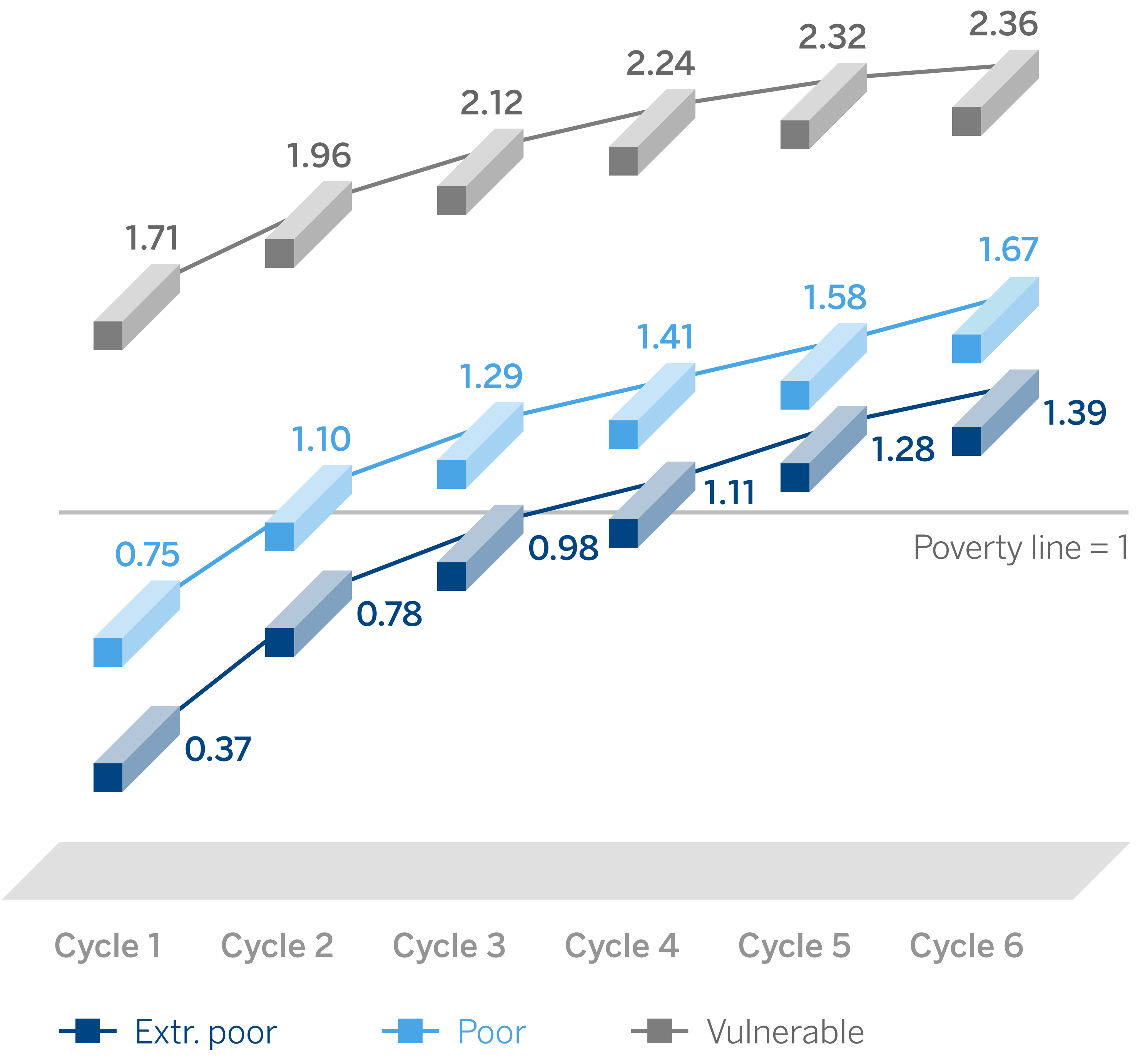
Given that long-term banking relationships promote positive performance, it is crucial to continue mentoring entrepreneurs over time so that they manage to achieve sustained progress, especially as, for many of them, their business represents their household's main source of income.

G-**32.** Entrepreneurs current at year-end who have renewed a loan at some point in 2022.

- **Escape from poverty:** Clients in poverty at the outset of their relationship with the institution (classified as extremely poor or poor) who have generated income taking them over the poverty line.
- **Fall into poverty:** Non-poor clients at the outset of their relationship with the institution (classified as vulnerable or others), who have generated income that leaves them below the poverty line.
- **NNet reduction:** Escape from poverty - Fall into poverty

33 | Income relative to the poverty line, for each credit cycle

Credit clients renewing a loan in 2022



G-**33.** Clients with an individual loan during 2022 –classified by their situation at the first loan. Surplus per capita at each credit cycle and in relation to the country's official poverty line in the year of disbursement. Relative income has the value of 1 when it is the same as the poverty line.

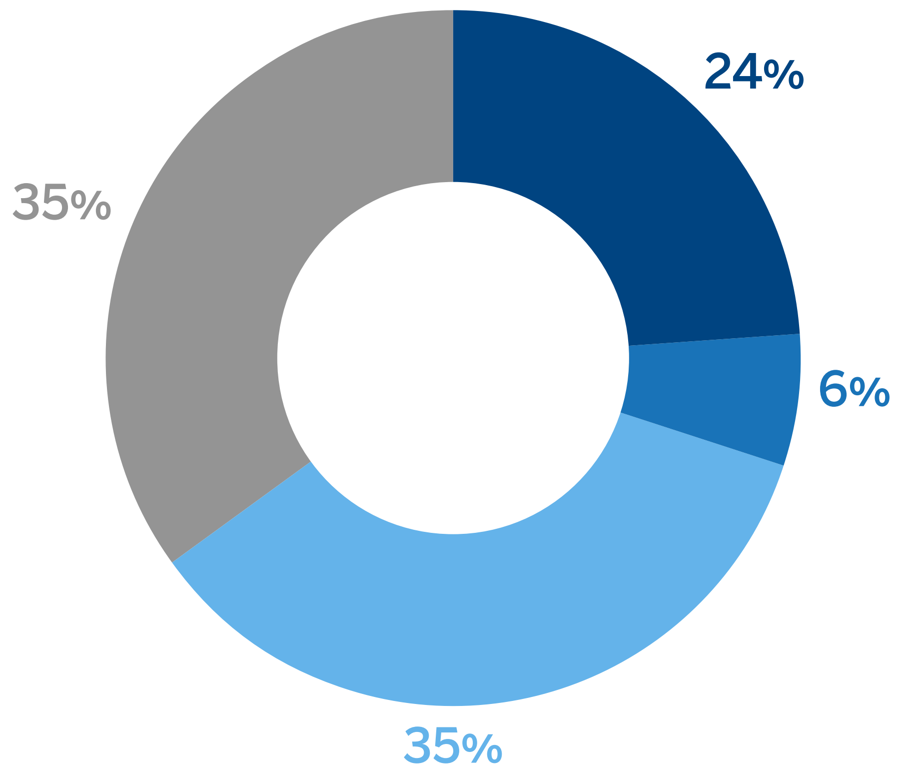
The existence of this long-term relationship enables us to analyze the variations in the poverty status of entrepreneurs over time, since some of them do not succeed in stabilizing their incomes due to their vulnerability profile.

35% of those with more than five credit cycles have experienced changes in their income, falling below the poverty line at least twice at some point during these cycles. There are no significant changes from 2021, which indicates stabilization in their business performance (a return to normal).[11]

There is still a long way to go: 18% of the people in poverty had not managed to overcome it, and 12% fell into poverty. That is why it is so important to accompany them with loans and medium-term savings, as well as with insurance and education, creating some of the conditions for them to better avoid the obstacles in their environment.

34 | Income volatility

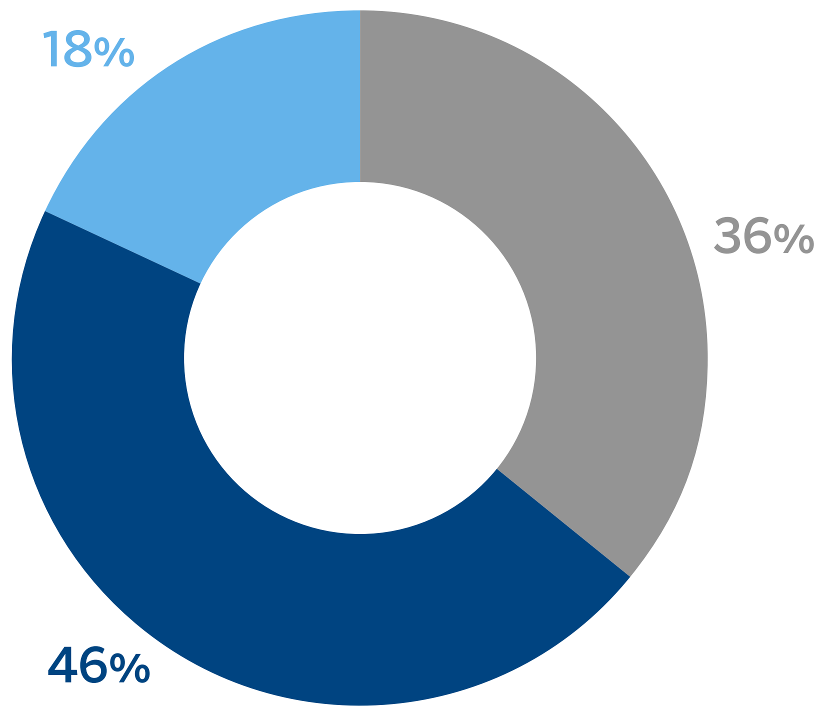
Credit clients with at least 5 disbursements



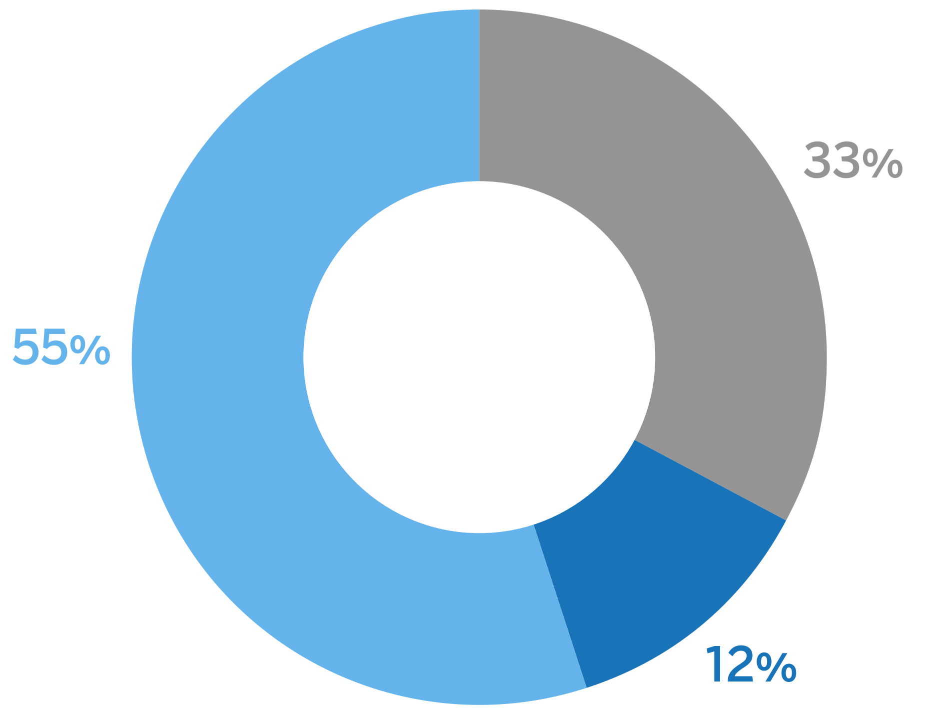
35 | Income volatility – clients below and above the poverty line

Credit clients with at least 5 disbursements

In poverty at the outset



Non-poor at the outset



G-**34.** Clients served since 2011 to 12.31.2022 with at least five disbursements. Analysis of the number of times a client crosses the poverty line (PL). **Volatile:** Clients whose surpluses for each member of the household cross the PL more than once are classified as volatile. **Escape from poverty:** Clients who are poor at the outset whose surpluses grow to pass the PL (and are not seen to fall back again). **Fall into poverty:** Clients who were not poor at the outset whose surpluses fall below the PL (and are not seen to increase). **Stable:** Clients who remain poor (or not poor) throughout their five disbursements.

G-**35.** Volatility in two segments: poor at the outset vs. non-poor at the outset. Segmented by entrepreneurs who, at the beginning of their relationship with the entity, generated surpluses for each household member below/above the Poverty Line.

11. 2021 data: Volatility: 35%; Stable: 37%; Escape poverty: 23%; Fall into poverty: 6%. Compared to 2019 if there are changes: Volatility: 30%; Stable: 42%; Escape poverty: 22%; Fall into poverty: 6%.

Financial health

Financial health

Introduction

In the absence of social systems to deal with contingencies such as the illness of a family member or the need to pay for home repairs, and when medium-term economic planning is not in place, imbalances are generated that can negatively impact business and household capacity, slowing down or paralyzing their progress. Domestic financial management is a central tool in dealing with unexpected expenses and for recovering them with one's own resources, as well as for the progress of household members. We understand financial health as the capacity of households to manage their finances today and to anticipate future eventualities in order to cope with them. This becomes particularly important in vulnerable communities, since they are more likely to be affected, and helped, by access to and appropriate use of financial products.

To tackle this, we have identified four ways of coping with income instability: saving, loans, other sources of income and the sale of assets. Insurance was not perceived by entrepreneurs as a protection mechanism when they were asked about it.

Household financial strategies

Maximum financial stability
Wage

Financial planning →

Maximum financial instability
Business income
(microentrepreneur)

Coping mechanisms

Saving	Loans	Other sources of revenue (e.g. remittances, wages, pensions, etc.)	Assets
Impaired, difficult to increase it	More diversification	More diversification	Don't tend to use them

Savings and insurance are products that have been specially adapted to mitigate risks and encourage sound financial health. These products are an essential part of our value offering, as they help entrepreneurs to increase their resilience and reduce their vulnerability to adverse impacts.

For this reason, the ability to manage the family's assets will be an area of research which we will shortly be working on in some depth.

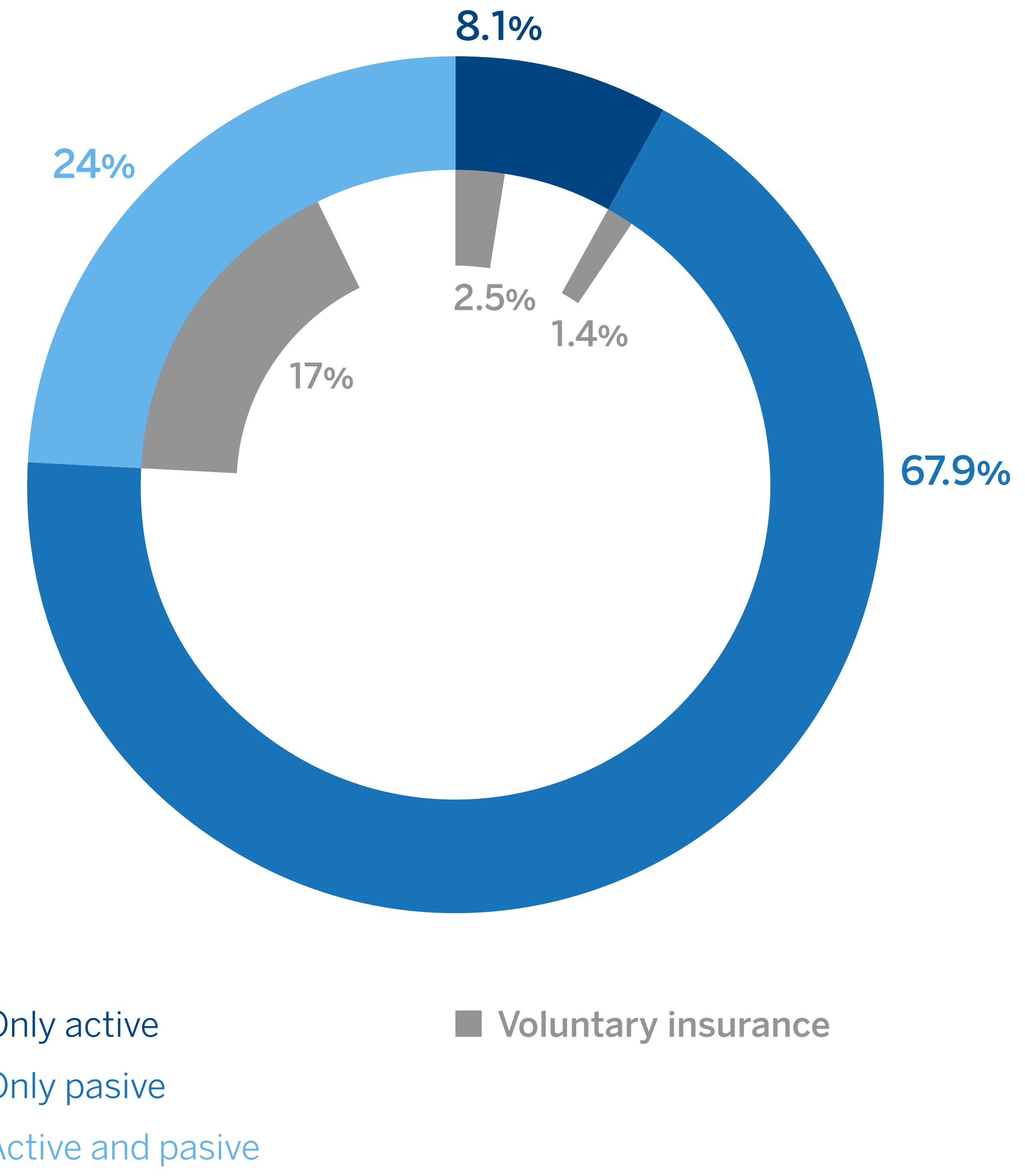
In Asia, around three in every five people in vulnerability say they have faced financial difficulties in the last 12 months, with the number one problem being financial difficulties caused by health issues, at 19% . Meanwhile, inflation is forcing many families to go without basic goods (or in the "best" of cases using up all their savings to acquire them) which is putting a great deal of pressure on their spending management.[13]

Research conducted recently in Pakistán[14] showed that low-income households now spend a greater proportion of their income on food, rising from 30% in March 2020 to 47% in April 2021. As a result, this makes them particularly sensitive to food inflation. When they consider the mechanisms available to them to cope with inflationary pressure, they often resort to strategies that can have serious consequences for their welfare and their standards of living. Some examples of this are reducing the amount and quality of the food they eat, the sale of assets and taking their children out of school. Although we do not believe that Latin America is facing similar degrees of desperate measures to stay afloat, the data on how savings have been affected suggest that this situation must be monitored very closely.

In other words, it is as important to identify the causes that make financial planning in the home difficult as it is to have the margin to cope with contingencies. The Foundation's research aims to look deeper into these issues in the future, given that the understanding we have obtained so far will enable us to generate new opportunities by applying that knowledge to our financial offering.

36 | Client linkage, by product type

Total clients



G-**36.** Clients current at 12.31.2022.

12. *Leapfrog Emerging Wealth and Health Index 2022.*

13 - 14. KASH Foundation Focus note; June 2021. *Food inflation and Impact on Low Income Households.*

Relationship with credit

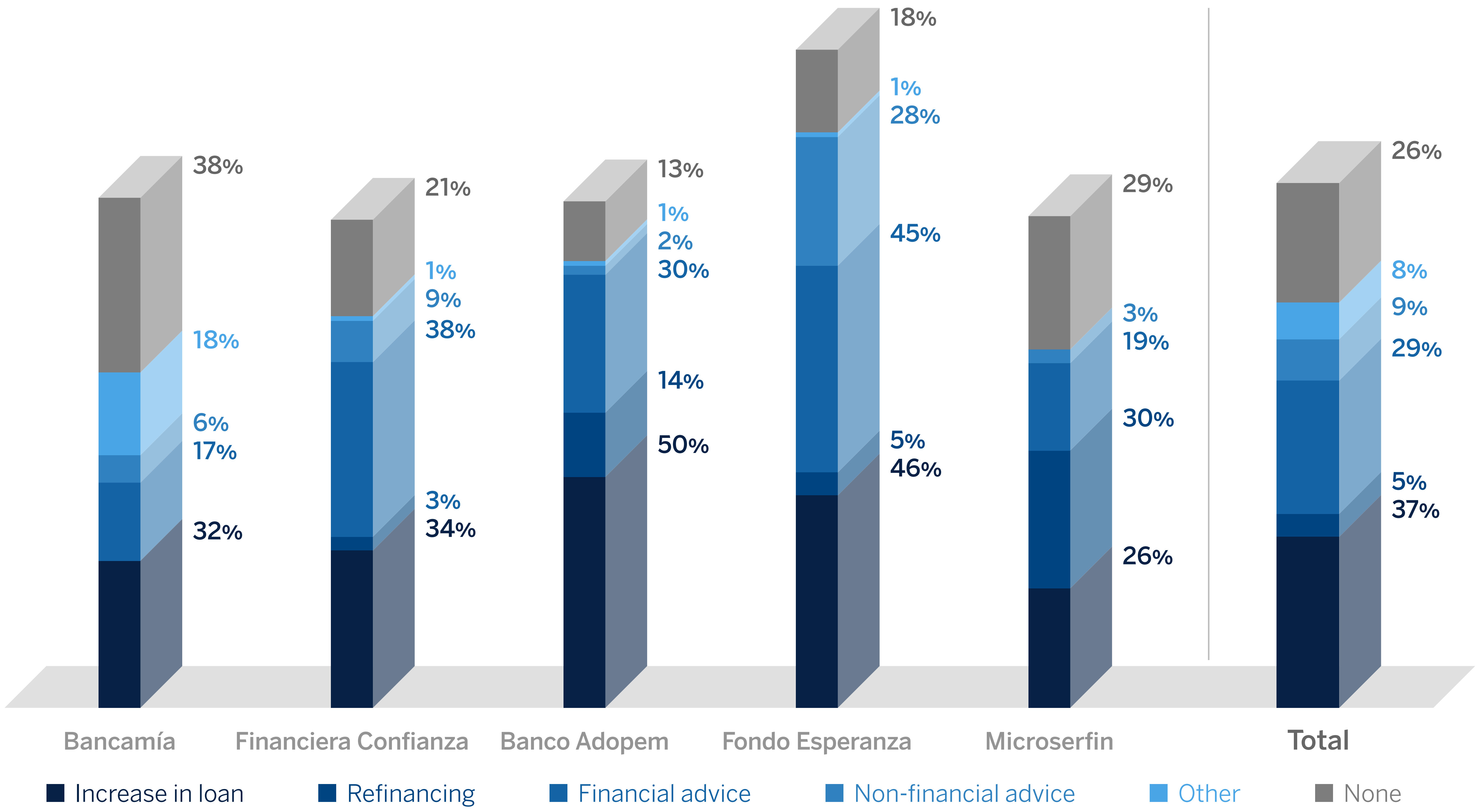
When choosing the best help that the institution can provide, 42% of those surveyed believe that an increase in their loan and refinancing would help them to improve their business management. Receiving financial advice is the second most popular option, especially in Chile, Peru, and the Dominican Republic. 25% of clients think that they do not need any help from their entity.

Thus, even though entrepreneurs know about the range of products, credit continues to be the product most requested.

Microentrepreneurs believe that if their loans were increased and refinanced, their business management would improve

37 | **What entrepreneurs need**

Total surveyed. Multi-response in all countries apart from Dom. Rep (Banco Adopem)



G-**37.** The question was "If you could choose something to improve your business management, which of the following do you think would help you to grow your enterprise?"

The trust that our institutions place in microentrepreneurs is evident from the number of people who access the formal financial system for the first time (becoming "banked") and who, with the help of a loan, can drive their businesses forward and start their formal credit history. In 2022 this figure came to a total of 71,002 clients (28% of all new clients), with around half of these based in rural areas.

Although the average amount disbursed for new clients has grown in recent years, reaching USD 1,239, the monthly payment installment has remained the same proportion of sales, at 9%.

On the other hand, as clients renew their loans, the amount they receive increases. So it is that in the last six years, the average disbursement to new clients was USD 786, whereas after five years on average they were receiving USD 1,778.

> **The amount our clients receive increases as they renew their loans with our institutions**

38 | Amount disbursed

New credit clients

Average disbursement
USD **1,239**

39 | Banked entrepreneurs

Credit customers entering the formal financial system for the first time

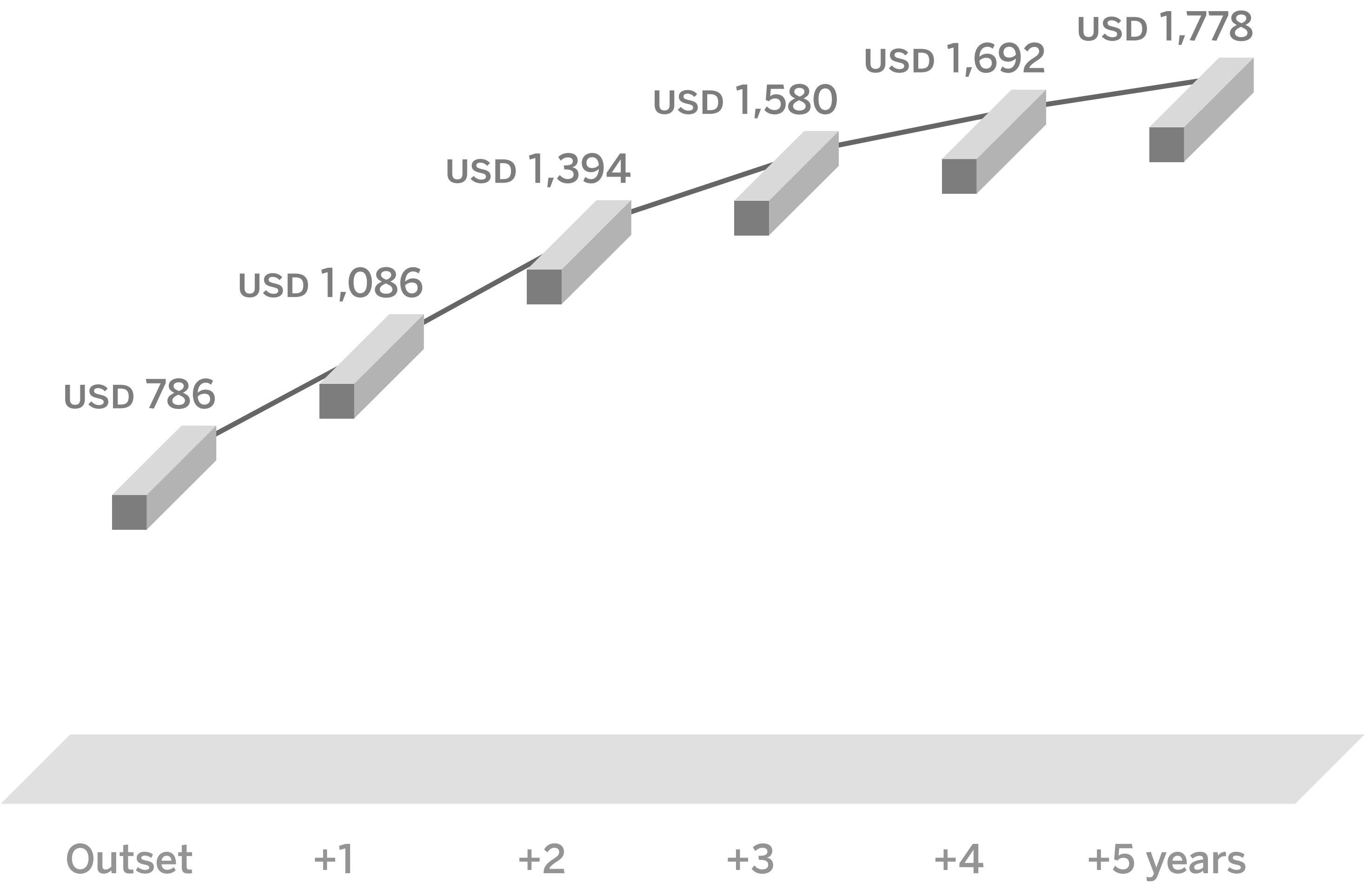
Banked
103,735 people in 2022

41% of new credit clients
(+200,000)

56%
Women

31%
Rural environment

40 | Change in average amount disbursed



G-**38.** Amount disbursed to new clients in 2022.

G-**39.** Clients who have not had a loan with any other institution in the financial system.

G-**40.** Clients in each cohort (year of entry). Initial value is the average initial value (1st disbursement by cohort). The average growth of disbursement to the group of clients in each cohort is applied to this value after one year, two years, etc.

Relationship with saving

Saving, understood as a monetary reserve to meet unexpected or future expenses, or to make new investments, is something to which our entrepreneurs are committed. The problem is that it has been heavily impaired since the pandemic, with formal saving through financial institutions becoming a challenge. In the same way as income diversification is a mechanism that has been employed by households to cope with financial stress in the last few years, so saving is another survival mechanism used by clients, and one that, as financial institutions, we want to reinforce as their financial capacity scales up. Nevertheless, the capacity to save, together with its adoption or not, is not homogeneous across the Group's entities.

G-**41.** All the research in this section excludes institutional clients. The balance is taken at each year-end.

G-**42.** Client with savings balance on each date. **1. Saver:** client with specialized savings product (not including transactional accounts). **2. Potential:** client with transactional savings products and greater affiliation to the institution. **3. Transactional:** client with transactional savings product & little affiliation with the institution. **4. Inactive:** remaining clients.

Our saver clients

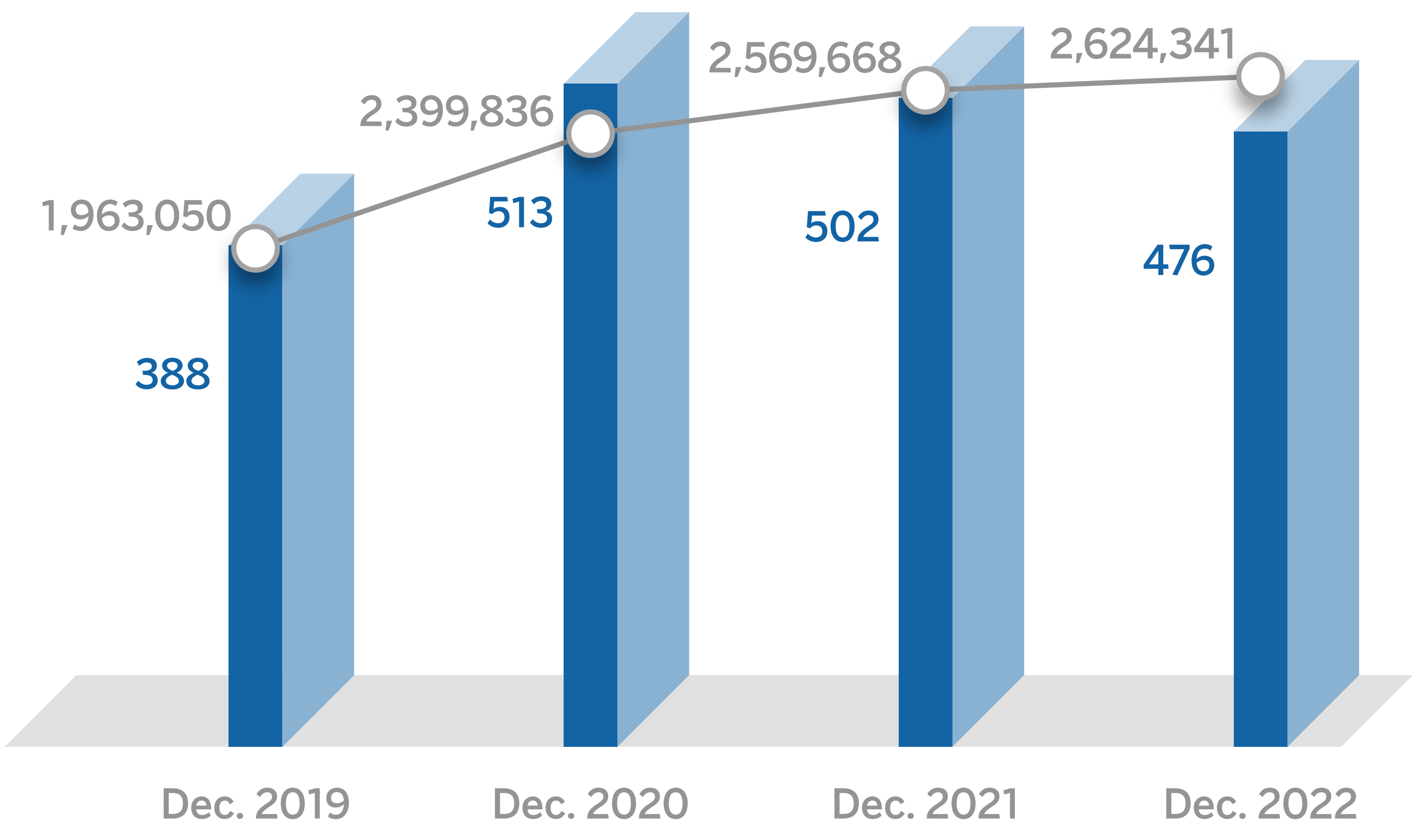
In 2022 the number of BBVAMF Group clients who saved went up (by 2%), although they saved smaller amounts, which meant there was an overall drop (-5%) in the total balance of up to USD 470 million, above pre-COVID 19 levels.

In institutions where savings culture is more widespread, such as Bancamía and Banco Adopem, both the number of clients and the balance have grown compared to 2021. While the increase in the number of Banco Adopem's clients is significant (9%), the rise in balances has remained more modest, no higher than 5% anywhere.

Despite the efforts made by households, saving is still a challenge for most of them. For this reason, for several years now clients have been segmented by different factors in order to offer them a product that is suitable to each of the phases in which they find themselves. These segments contain, among other profiles, potential savers and transactional clients, who are more inclined to increase their saving in institutions. These account for nearly half of all clients, representing 21% of the total balance, whereas clients in the "saver" segment, a smaller percentage numerically (7%) contribute about 80% of the total balance.

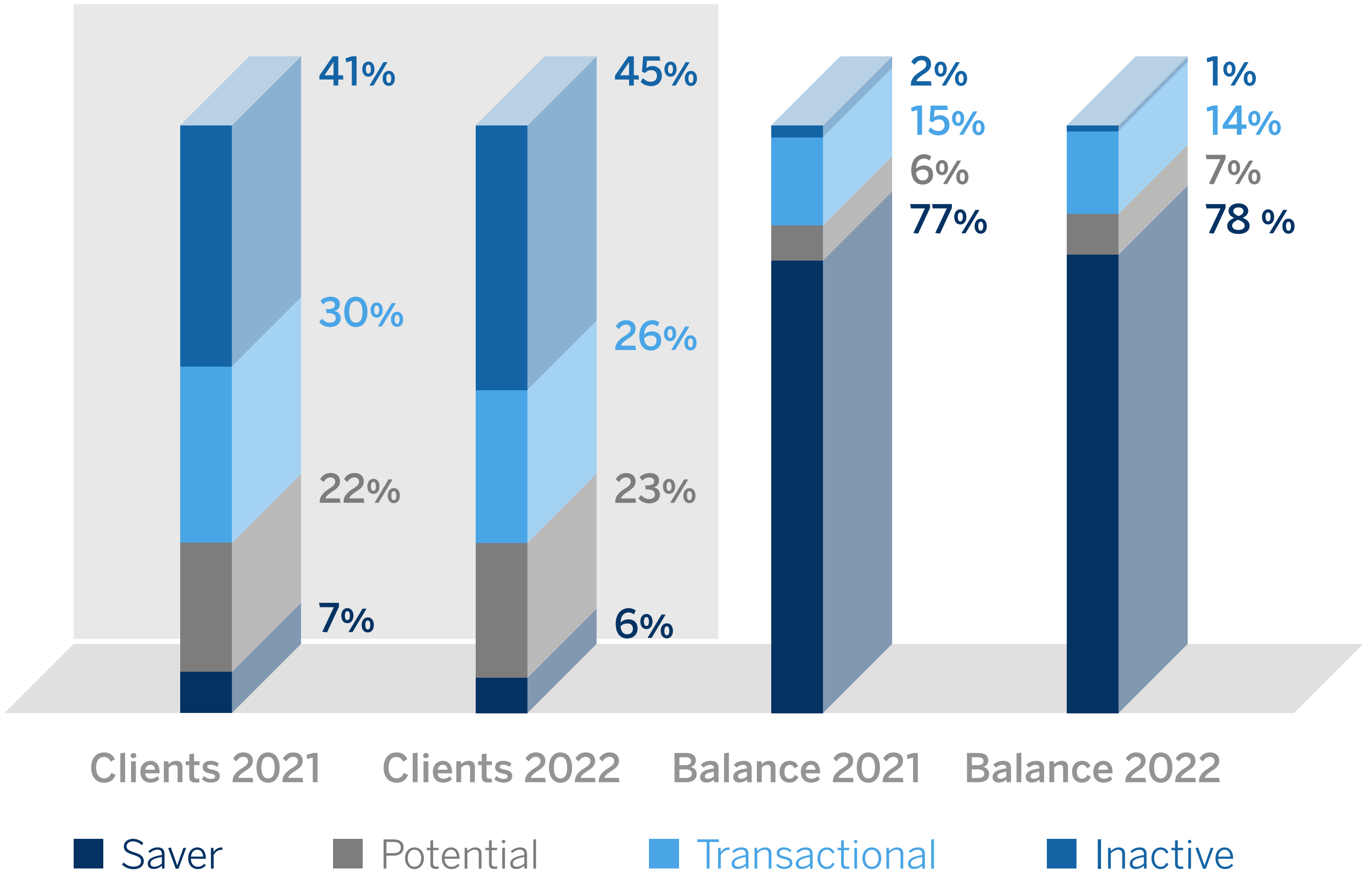
41 | Clients with savings & deposit accounts

Total clients & balances



42 | Saver client segments

Segmentation of savings clients & balances



Part of the Foundation's mission consists of balancing or matching the relationship between balances and clients. In this way the most vulnerable, as well as increasing their surpluses, can also increase their savings. This requires investment, both in the facilities that we offer them and in building on their financial skillsets.

1 Income

Having surplus high enough to cover each person's basic needs.

2 Facilities

Having mechanisms that allow them to keep saving steadily: savings accounts, term deposits or any other savings product.

3 Skills

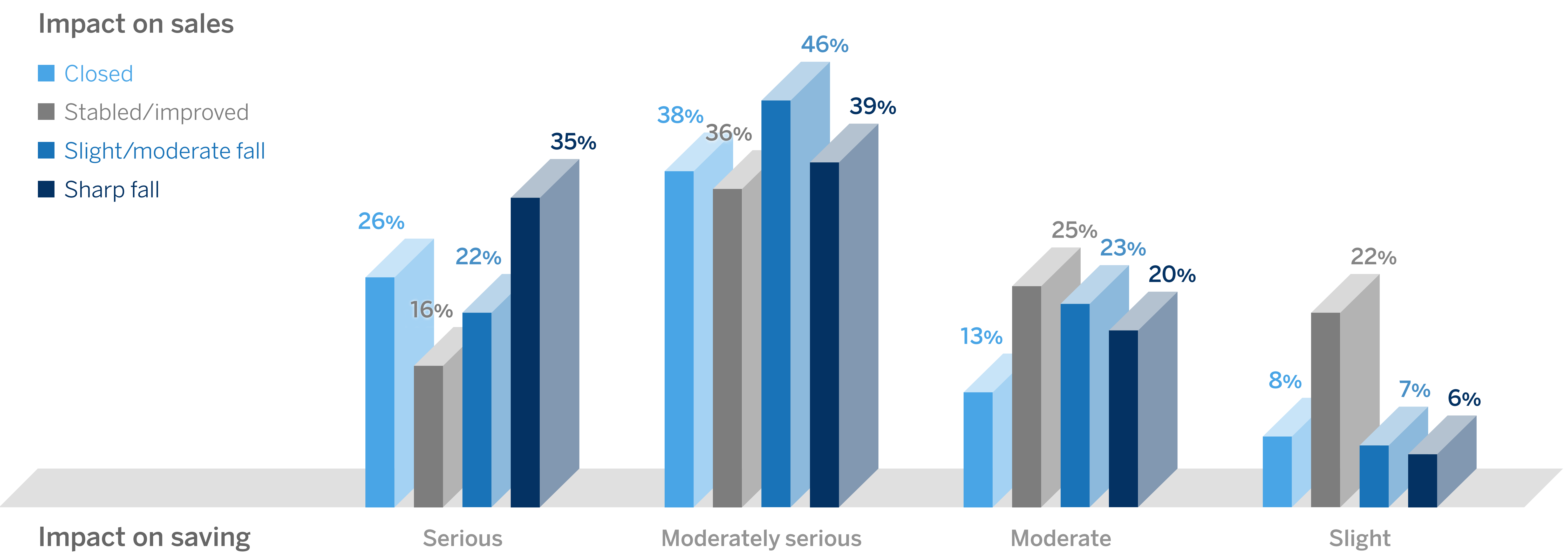
Having a skills plan, or else a short, medium or long-term goal.

Difficulty and the savings channel

The pandemic's impact on sales has had a negative repercussion on entrepreneurs' savings capacity and their robustness. Most of the businesses that closed saw their savings seriously impaired. In those businesses that stayed open but suffered a serious drop to their sales, savings were badly hit in 35% of cases, while 6% were only slightly affected.

43 | **Impact on the capacity and strength of savings according to the impact on business sales**

Entrepreneurs surveyed



G-**43.** Segmentation of the impact on sales and savings, defined as follows:

• Impact on sales: **Sharp fall** is a reduction of over 50% compared to pre-pandemic, **slight fall** is a reduction under 50%.

• Impact on saving: **Slight:** no effect on capacity to save; **Moderate:** Capacity to save impaired and resources to subsist for 6-9 months; **Moderate-serious:** Capacity to save impaired and resources to subsist for up to 3 months; **Serious:** No saving capacity.

Entrepreneurs' capacity to save significant amounts was sharply affected by the pandemic, which without a doubt impinged on how household financial decisions are taken.

Saving is an ingrained habit for entrepreneurs, with 90% of them identifying as savers. However, the pandemic has meant that one in three households has lost this capacity. At the other extreme, 15% have not altered this habit at all.

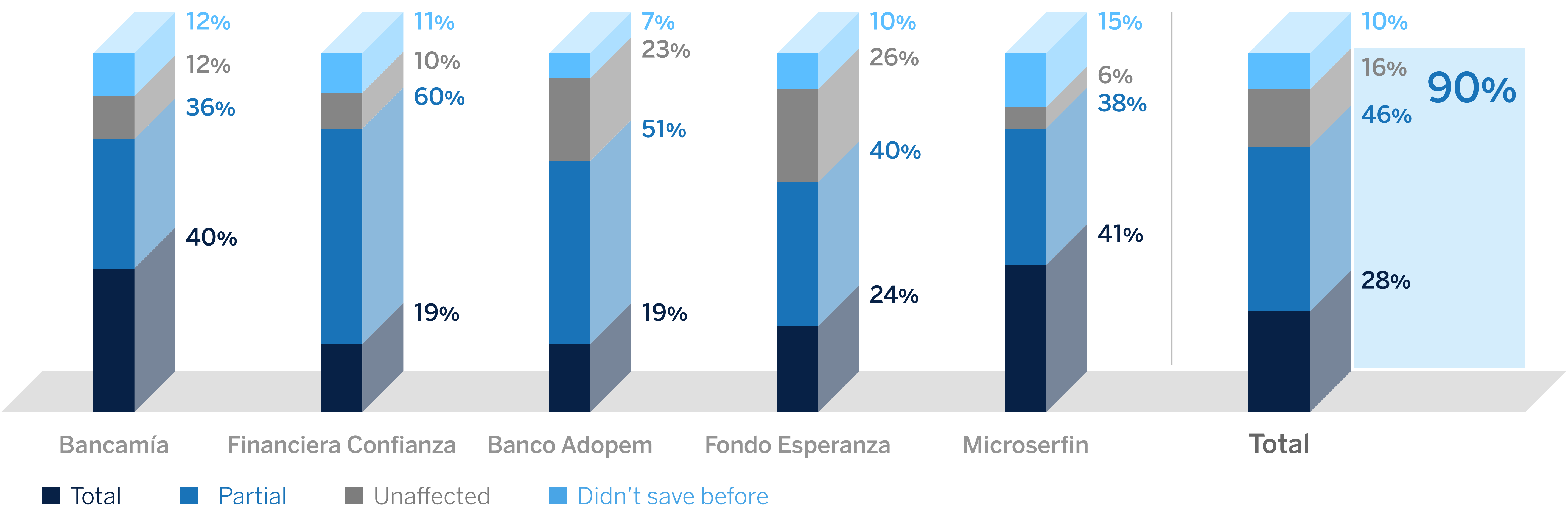
This implies that their financial buffer has been impaired (there is a positive correlation between the reduction in households' capacity to save and their current savings level).

For 24% of them their income situation could be critical if anything unexpected happens, since they have exhausted their savings. 41% could not survive for longer than three months if they did not have alternative sources of revenue. We should note that 11% said they had sufficient income to survive for over six months. Chile and Peru stand out here, two countries where access to financial accounts is more widespread nationwide.

One in four clients reported serious deterioration to their savings levels

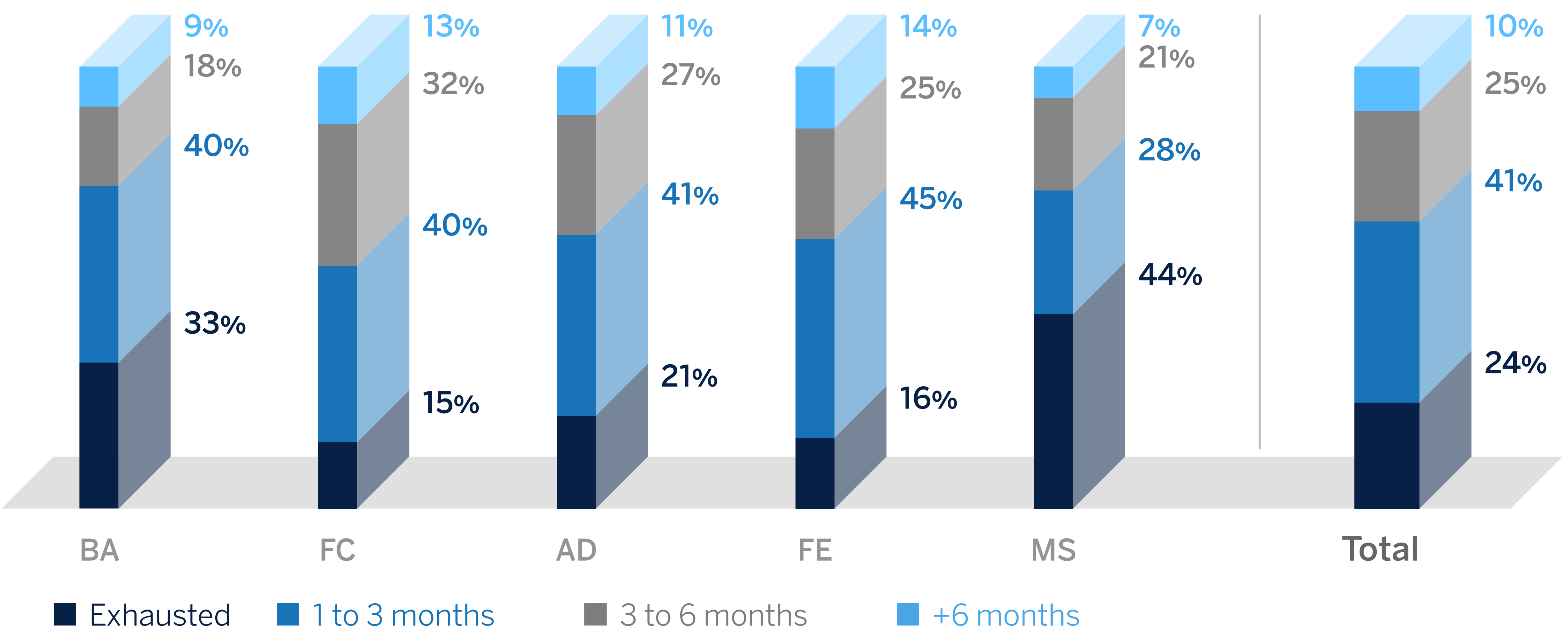
44 | **Savings capacity**

Entrepreneurs surveyed



45 | **Current savings**

Entrepreneurs surveyed



G-**44.** Clients were asked "How much has your household's savings capacity been affected by the pandemic?"

G-**45.** Clients were asked "In terms of household savings, in your current situation how many months could you subsist without your income?"

BA: Bancamía. FC: Financiera Confianza. AD: Banco Adopem. FE: Fondo Esperanza. MS: Microserfin.

The main difficulty that entrepreneurs say they face in saving is lack of income (44%), followed by three factors, all of which were selected approximately the same number of times: mistrust of banks (11%), the lengthy signing process and the physical distance of institutions (the last two were both chosen as reasons in 10% of answers).

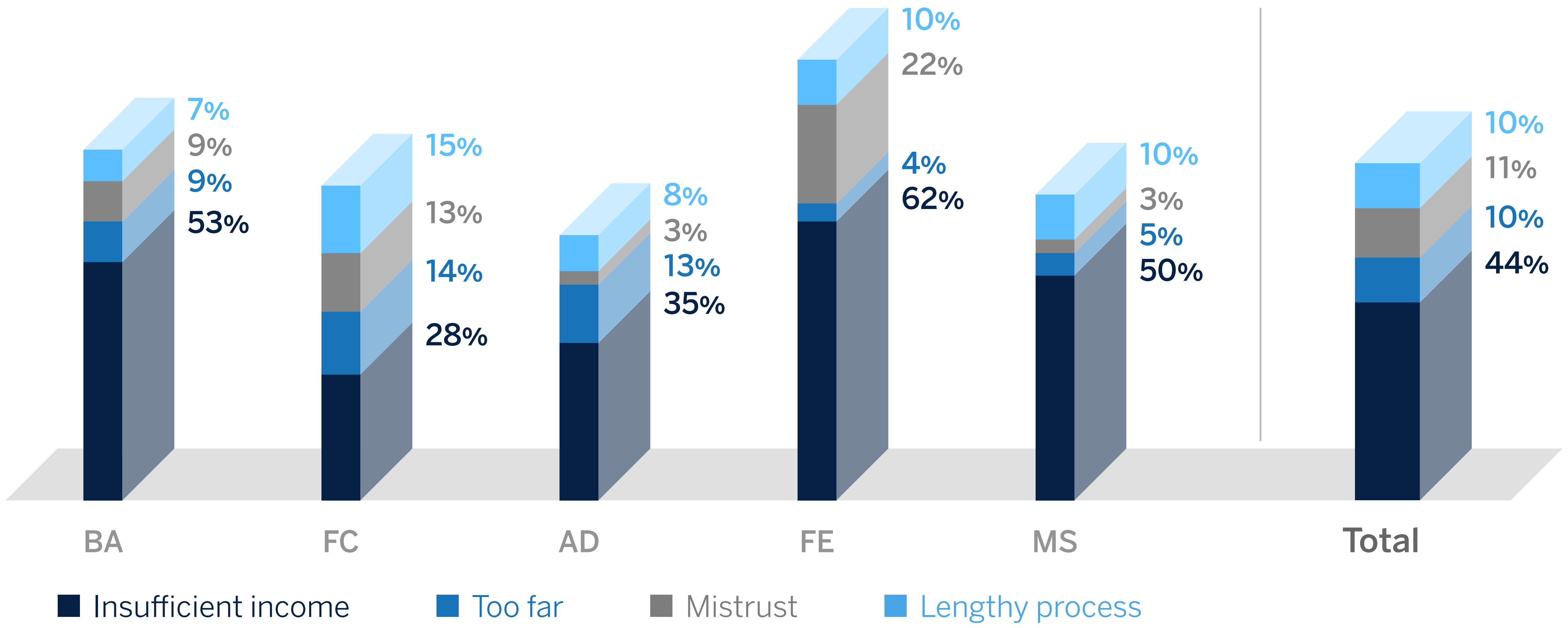
These difficulties vary considerably depending on the country.

- **Lack of income:** This is particularly important in Chile (a profile that is much poorer compared to the country's average) and Colombia. The lack of income is particularly acute for older people in Colombia. By contrast, in the Dominican Republic, it is mostly the young who report this obstacle.
- **Lack of trust:** This aspect is particularly significant in Chile and Peru and is more common among older people.
- **Distance:** This issue is most often given in Peru and is consistent with the types of channels used by Peruvians.

Therefore, our commitment to continue offering educational services that help to improve the financial capacities of people remains fundamental and represents an enormous opportunity.

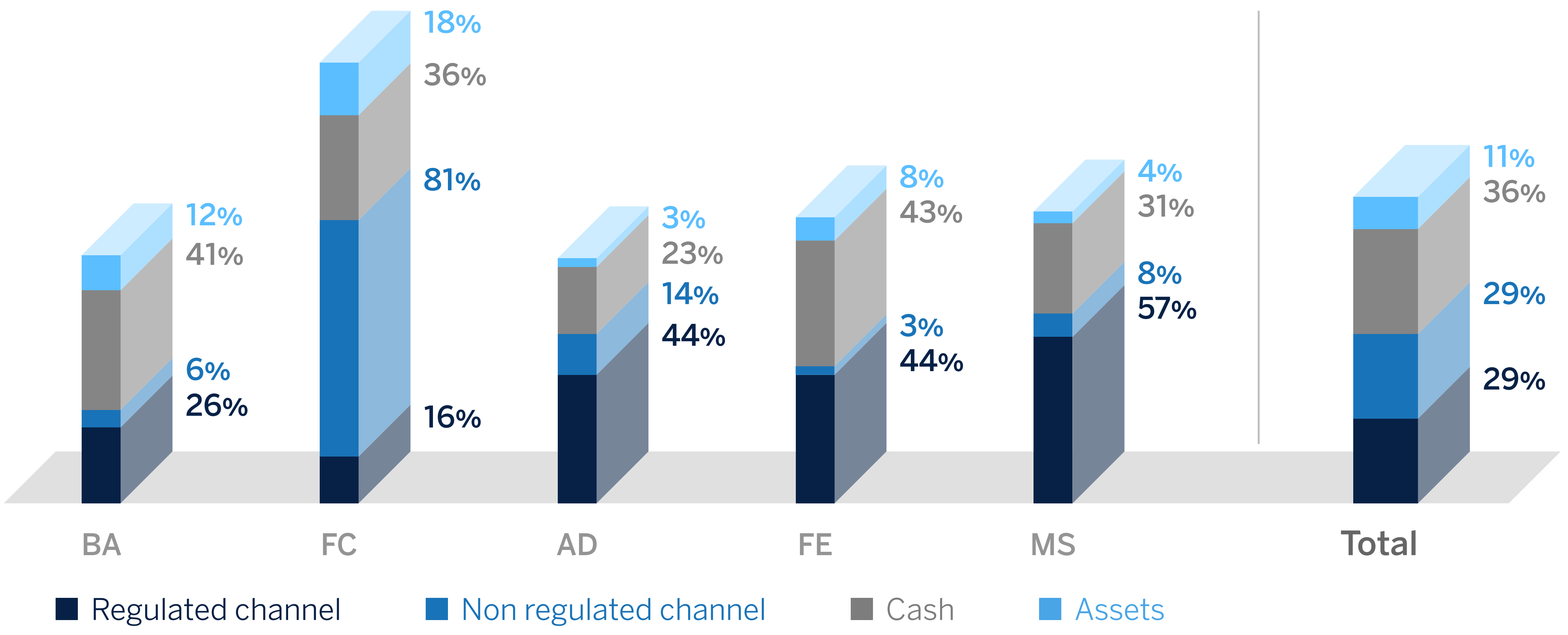
46 | Obstacles to saving

Entrepreneurs surveyed. Multi-response



47 | Saving channel

Entrepreneurs surveyed. Multi-response



G-**46.** Clients were asked to choose the issues that made saving most difficult for them.

G-**47.** Only for savers. Clients were asked "How do you save?" Options varied, ranging from the financial institution to informal proposals (adapted to each country), assets and cash

Most entrepreneurs admit to still keeping their savings at home (36% do so in cash) or informal channels such as cooperatives, associations, etc. (29%). Only a third (29%) use financial institutions. The manner of saving, while widespread, continues to be extremely old-school.

As a least frequent option we find investment in liquid assets or goods, one that is only chosen by 11% of clients.

These preferences vary hugely by country. In Peru (where there is distrust of saving), people tend to choose an informal channel, unlike the Dominican Republic and Panama, where financial institutions are more established. The use of more formal mechanisms is directly related to educational level, so the propensity to save in a formal manner increases in line with the level of education: the better educated people are, the more they know about the payment facilities, the transactional and monetary benefits that formal channels provide them.

There are important differences depending on the profile:

- **Men are more likely to turn to assets** (Colombia, the Dominican Rep.), which is particularly marked in farming sectors. This option is almost residual among women.
- **Older people tend to use unregulated channels** (Colombia, the Dominican Rep.).
- **Using cash as a savings model** is **more widespread in rural and farming environments,** whereas saving with financial institutions is the majority option in urban settings.

Relationship with insurance

Insurance policies for vulnerable entrepreneurs are products that have been specially adapted to our clients' needs, whether in terms of the risks covered, the prices, acquisition processes or the claims payments. They are an essential part of our value proposition, since they help to raise their resilience and reduce their vulnerability to the negative effects of events beyond their control. Furthermore, insurance enables them to access medical and farming advice anytime, anywhere.

In the last few years, we have made a major push to promote greater uptake of these products. The voluntary insurance offering entails numerous complexities (in designing the product, the cost of adapting it and its tangible characteristics), but after the pandemic, health insurance has become particularly attractive.

BBVAMF Group closed 2022 with 609,000 beneficiaries in all, of whom more than 208,000 had taken out healthcare cover. The number of people with some kind of insurance cover grew by 64% in 2022.

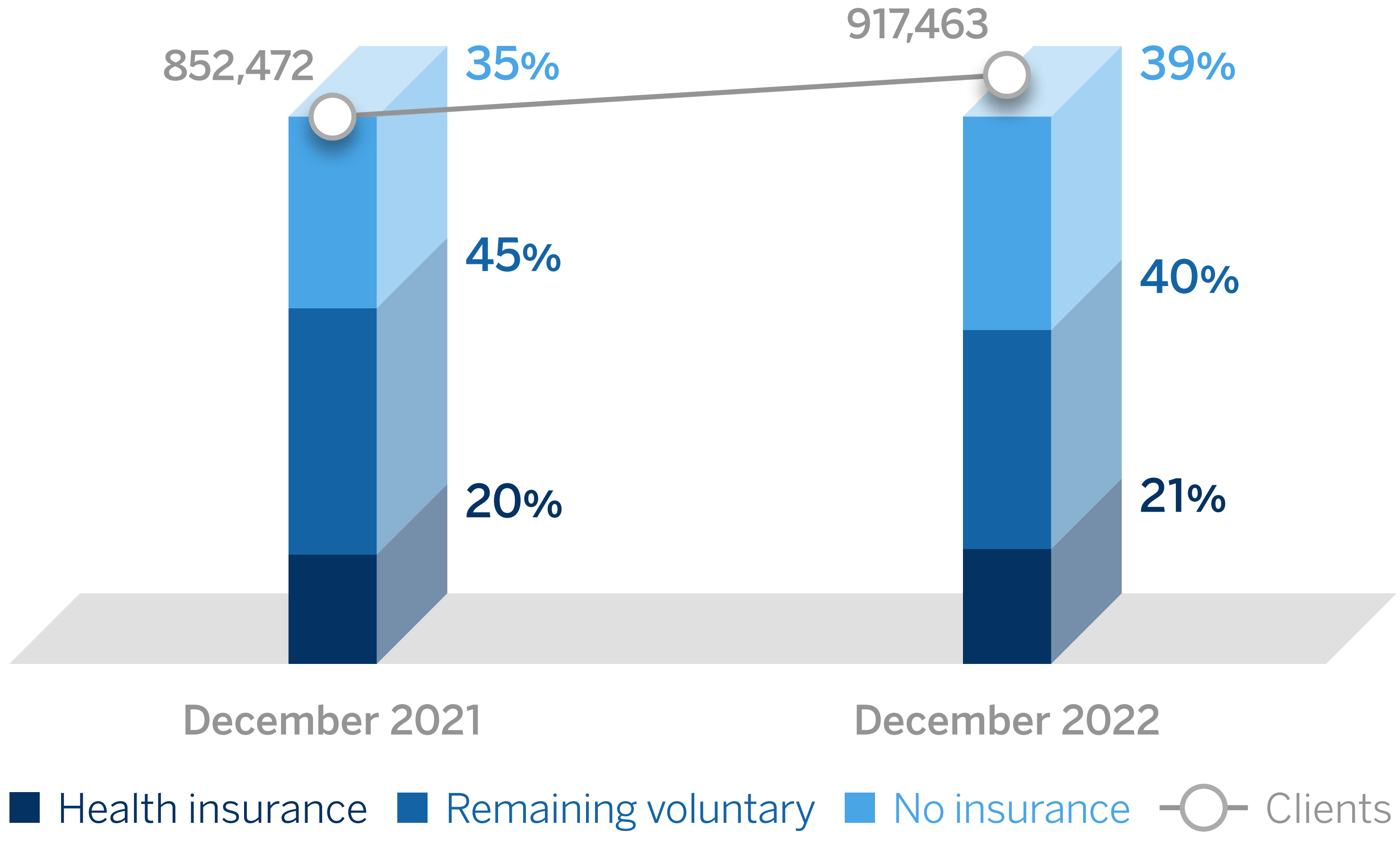
Insurance — **613,184 beneficiaries** (+7% Dec. 2021-Dec. 2022)* — **1,207,373 policies**

Health & Care services — **211,715 beneficiaries** (+67% Dec. 2021-Dec. 2022)* — **279,992 policies**

The most vulnerable are more prone to take out healthcare insurance: we see that 47% of clients in poverty or extreme poverty take out this kind of cover, compared to 22% of vulnerable and 13% of non-vulnerable clients.

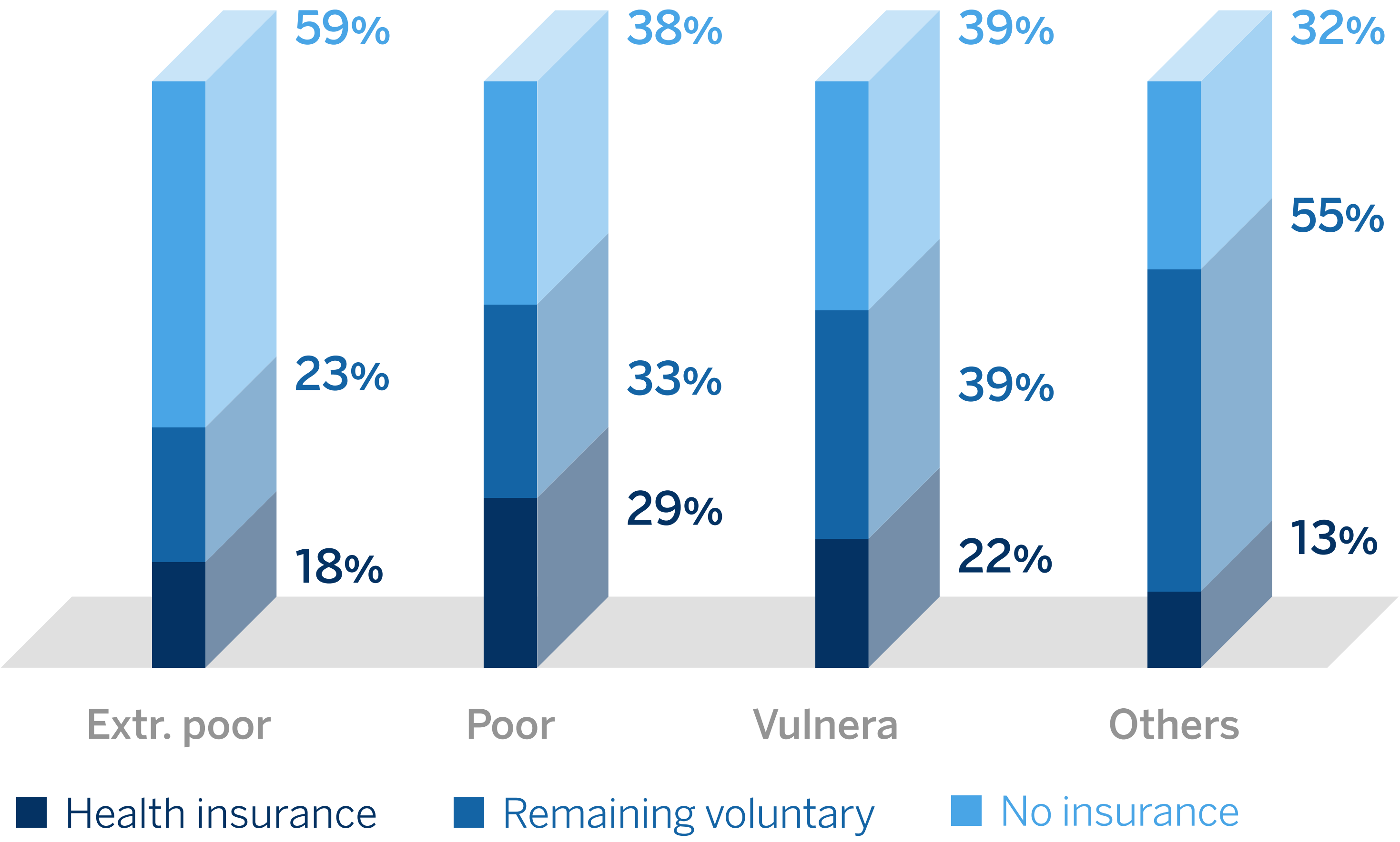
48 | Clients with voluntary insurance

Total credit clients



49 | Healthcare insurance, by vulnerability segment

Total credit clients



* No 2021 information available for Panama.

G-**48.** Clients with outstanding loans on the date of analysis having also a voluntary insurance policy. Only clients, not beneficiaries.

G-**49.** Clients with outstanding loans at 12.31.2022 who have taken out a voluntary policy, by vulnerability segment. Only clients, not beneficiaries.

Welfare

Welfare

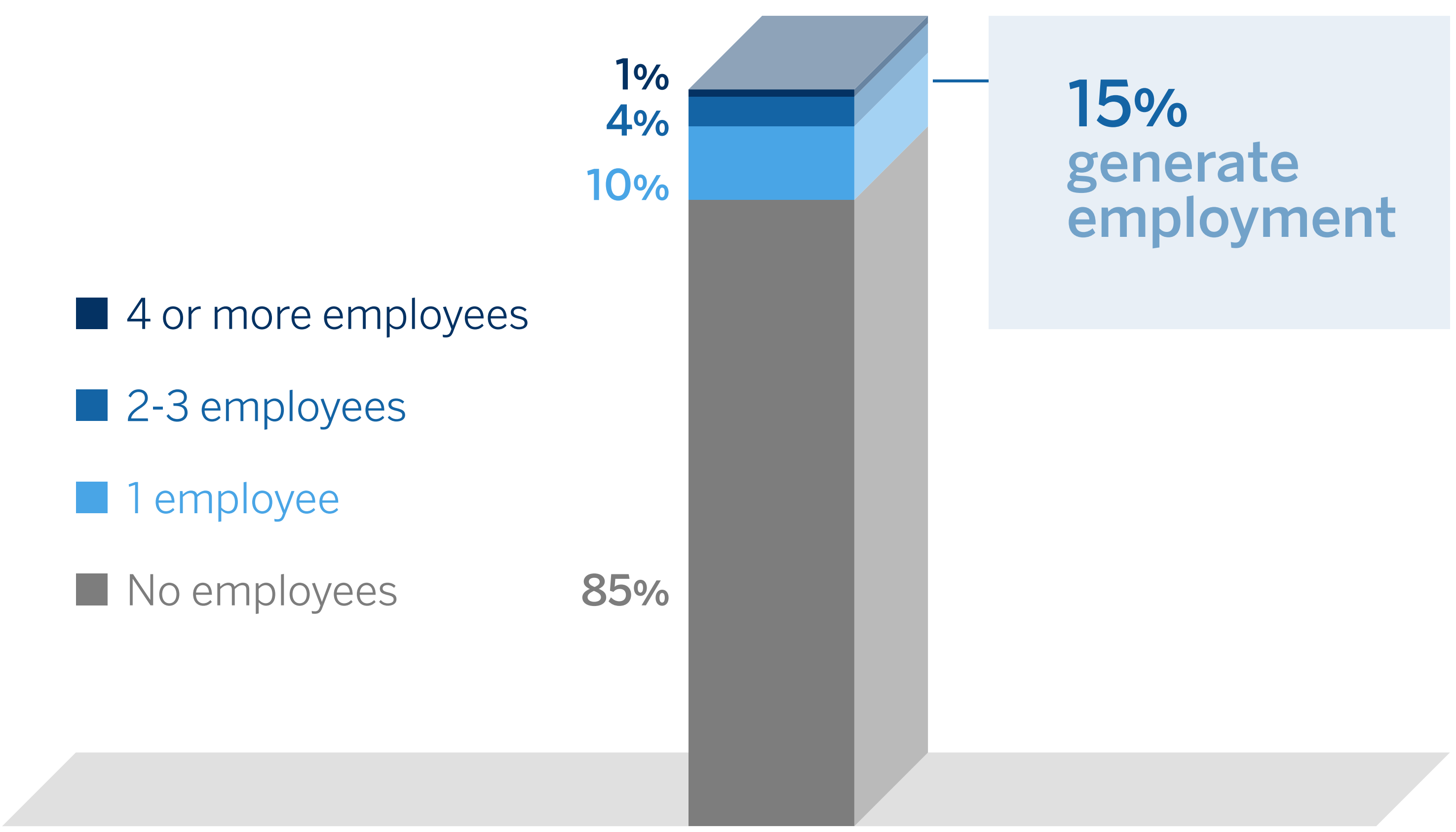
Improvement in employment, education, and housing

People's economic progress not only has an impact on areas such as their domestic welfare, their housing and education, but also on the societies in which they operate, through job creation. 15% of entrepreneurs with current loans generate employment through their business, which translates into 186,285 people hired.

Job creation grows as entrepreneurs' relationship with their financial institution matures. After two years, 5% of clients generate at least one new job position. This figure stood at 9% in 2019, before the pandemic. Hiring people or having to let them go was a strategy adopted by entrepreneurs before the pandemic. The slow recovery of this indicator is a sign of this deeper impact on the financial management of their businesses.

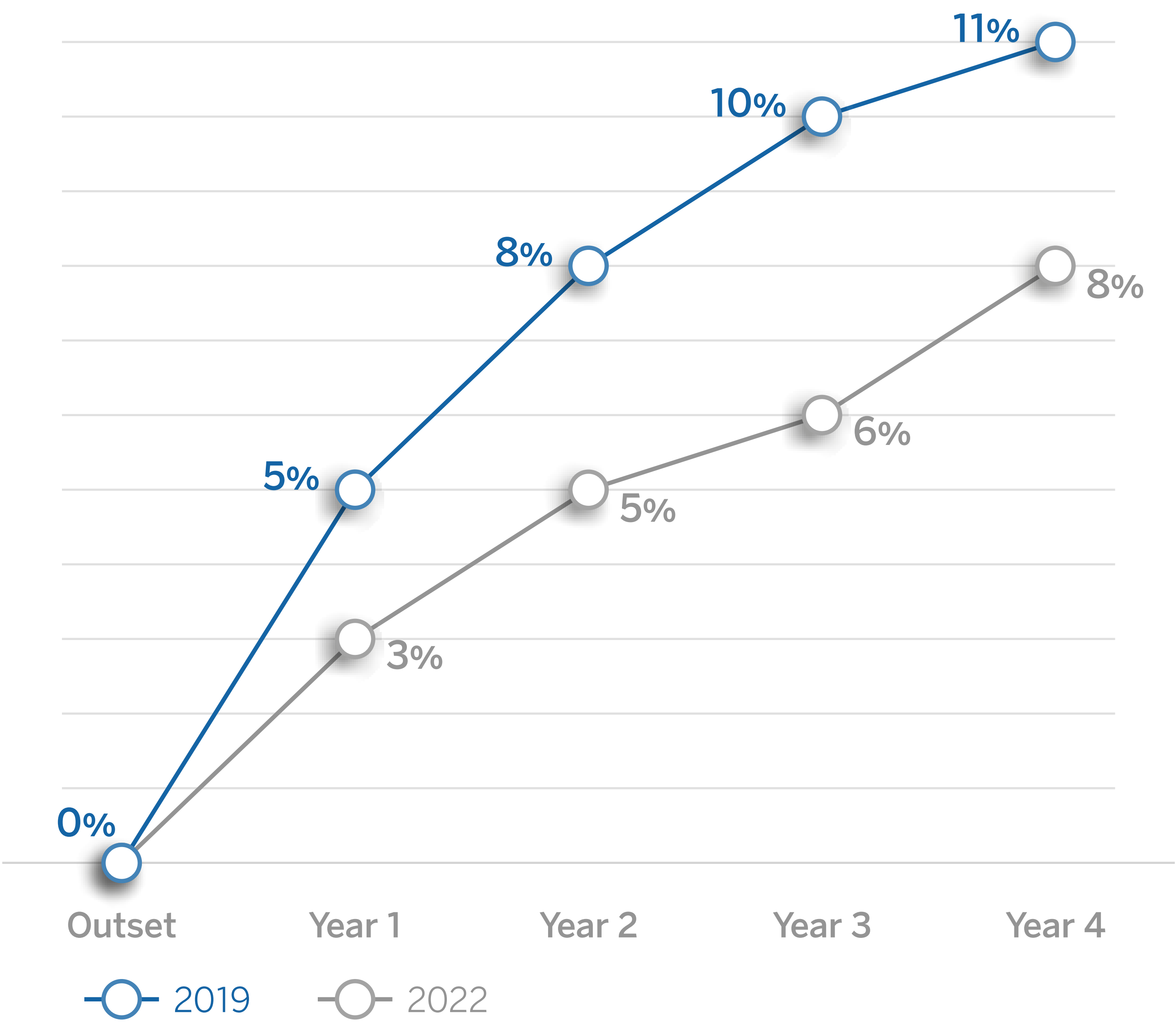
50| Employement source

Total credit clients



51 | Job creation

Total credit clients



G-**50.** Nº of employees in current clients' businesses at 12.31.2022. Information available for all institutions.

G-**51.** Increase in the nº of business employees compared to the outset. Average for each cohort (entry year) between 2015 and 2022. Information available for Banco Adopem, Fondo Esperanza & Microserfin.

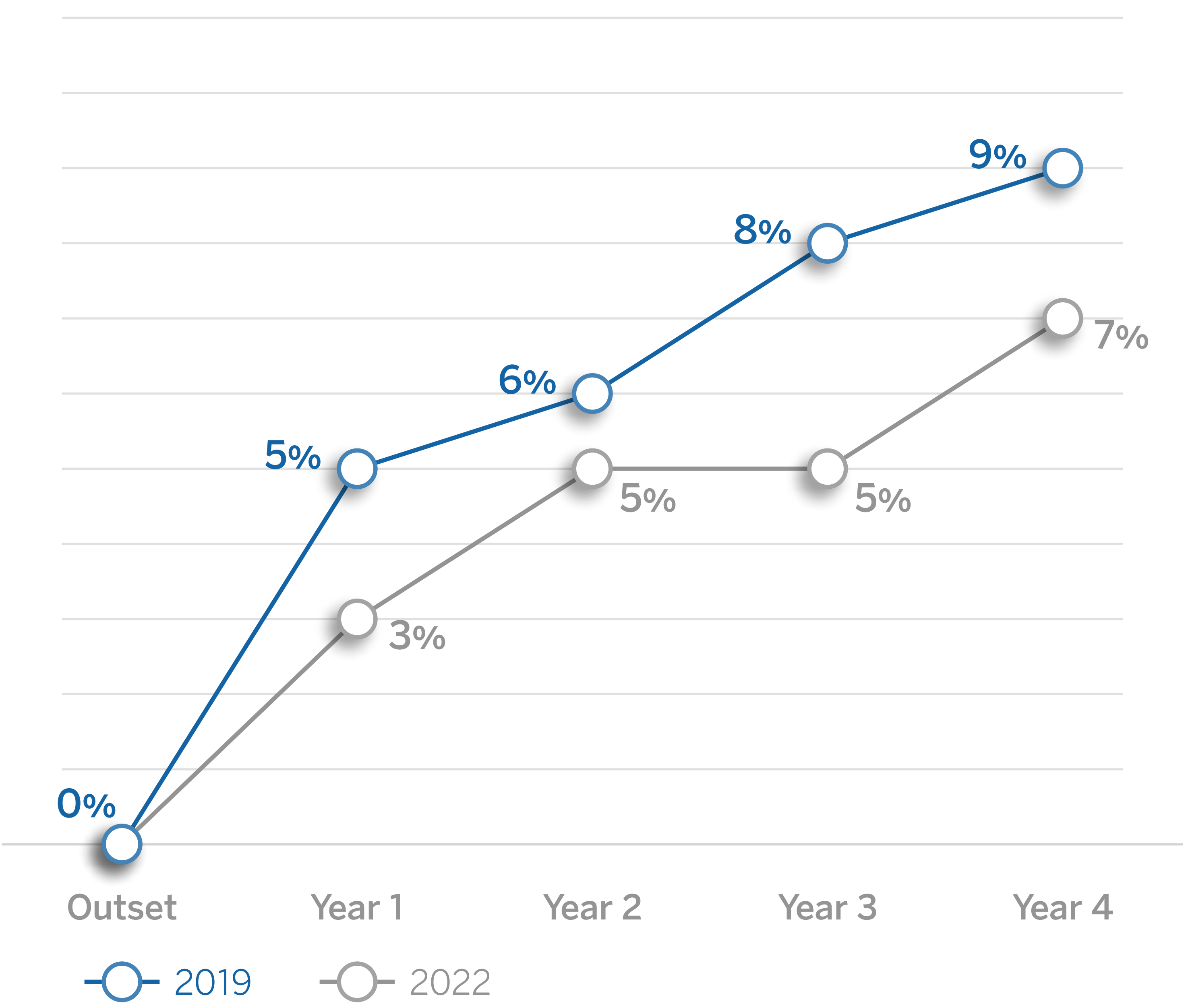
The pandemic and the current complexity of the economic environment have delayed improvements to household welfare

Another need met by business surpluses is that of upgrades to housing and education. In the third year of banking with us, 5% of clients had made an improvement to their home and 2% had invested in raising their educational attainment level. However, in both dimensions we see a lag compared to 2019.

The issues in the local context (the impact of the pandemic, inflation, etc.) pass over into a slowdown in the improvements to household welfare, with less job creation, lower investment in housing and education. Healthcare is the only area where households have made a significant commitment, by taking out healthcare insurance (see 'Relationship with insurance').

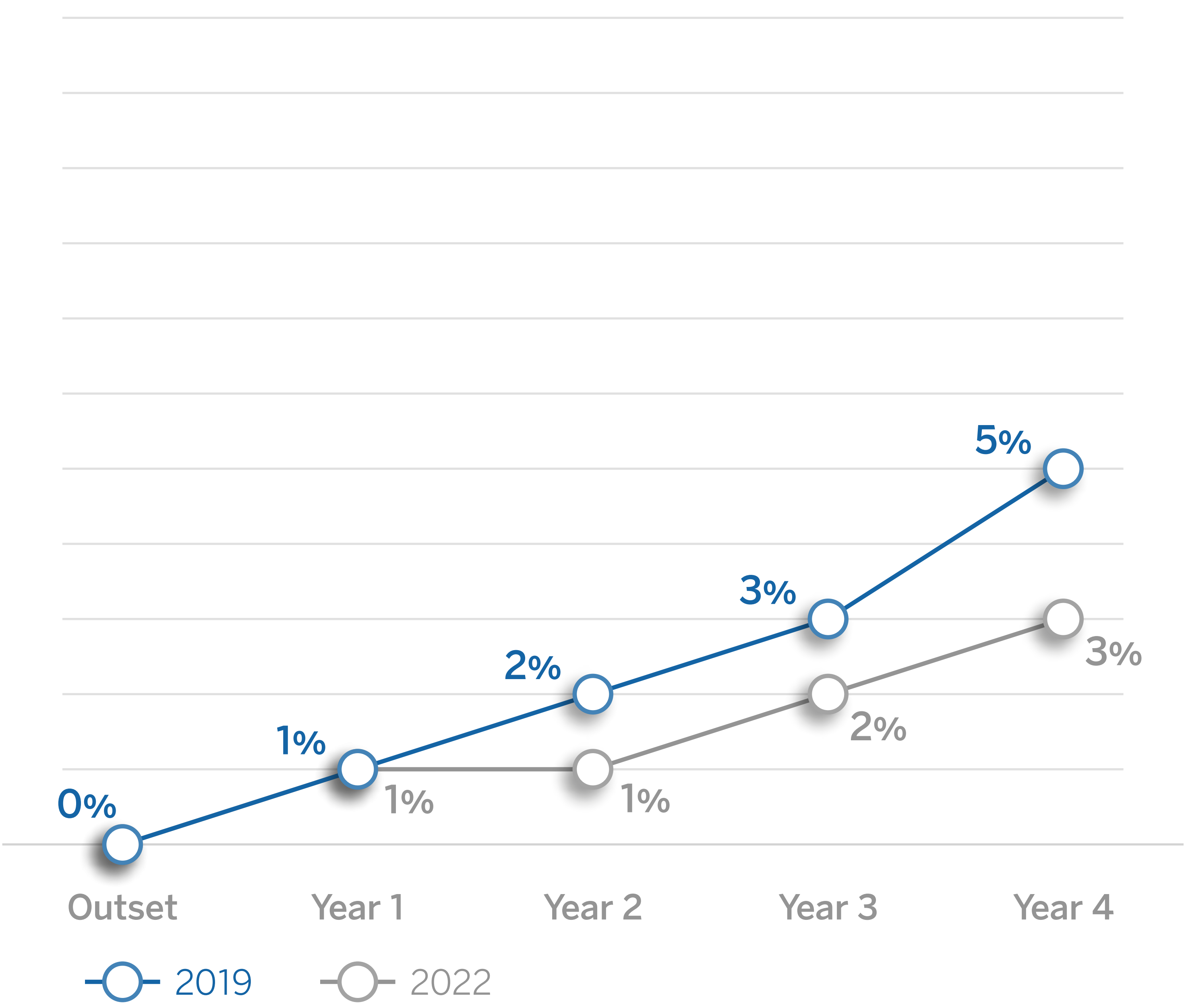
52 | **Home improvements**

Total credit clients



53 | **Housing improvements**

Total credit clients



G-**52.** Proportion of clients in each cohort, current at 12.31.2022, that had moved to having their own home or had upgraded their home's sanitation (bathroom, septic tank), building materials, fuel or had increased the number of rooms initially recorded. Information available: Bancamía, Financiera Confianza & Banco Adopem.

G-**53.** Proportion of clients current at 12.31.2022 that had improved their educational level. Average for 2013-2018 cohorts (year of entry). Information available for Bancamía.

Creating minimum living standards

After analyzing the results of the multidimensional poverty surveys conducted in 2021, we have become even more aware of the multiple dimensions of vulnerability and of the importance of households having decent living standards. Progress has been made in two areas during 2022:

The development offering

We have started to frame our activity with more than financial services, attaching importance and visibility to different areas of household welfare and the communities of which they form part.

We are designing a value offering that covers these shortfalls and improves households' quality of life, either directly (with an internal product/service), or through partnerships with third parties. For more details on the welfare offering, go to *Activity Report*, Welfare.

Multidimensional poverty figures

The aim is to learn about shortfalls in housing, education, and healthcare for each of our entrepreneurs' households in order to have a more targeted, direct impact on their welfare. In fact, the new assessment is already being rolled out in our systems to enable us in the future to originate this targeted offering and build an Internal Multidimensional Poverty Index (IMPI). The methodology will follow the standard introduced in 2021 (Alkire-Foster), with minor adjustments. The information will be available from 2024.

54 | Multidimensional value proposition

Total credit clients

Housing
Loans for housing upgrades

Colombia, Peru, Dominican Republic & Panamá

35,710 clients

USD 119 M

Education
Educational loans for the children of 3,306 clients

USD 1.6 M

Colombia, Peru & Dominicana Rep.

Health
Health insurance & care services

Colombia, Chile & Panama

197,739 policyholders

G-**54.** Customers with credit in force as of 12.31.2022.

Sustainability

Introduction

The Foundation has been making its vision of inclusion and growth a reality for over 15 years, working to maximize the welfare and sustainable progress of entrepreneurs in vulnerability. To achieve this, we put all the opportunities offered by this new era within their reach.

Our aim of sustainability is based on what we know how to do best: serving overlooked populations, who are vulnerable along multiple dimensions and excluded from such basic structures as the financial system. With this vision in mind, we try to raise their position in different economies and throughout all their stages of development, that is, across sectors and dimensions, sustained over time and recognizing the complexity of their circumstances and the obstacles they face.

Our contribution to the ESG fundamentals

Our purpose includes, therefore, the protection and repair of the natural environment, working to go beyond mitigating the effects of the climate crisis, and involves all our stakeholders.
Our commitment is materialized through a solid governance body that operates in all our institutionss.

To this end we use a framework of indicators that guides our sustainability strategy, one that considers the social, environmental and governance dimensions (our ESG[3] model). Our entrepreneurs are at its center, the heart of our purpose. This model has been in force for the last three years and was updated in 2022. It is, thus, the framework for designing initiatives that will enable us to reduce income disparities, multiple social gaps and, above all, to make available to vulnerable populations tools to increase their financial resilience in the medium term with a view to empowering their development.

1. In dimensions of economy, health, education and housing.

2. Multidimensional wellbeing encompasses: housing, health, education and employment, e.g., social welfare.

3. Environmental, Social and Governance.

The complexity of sustainability in the social dimension

Across the world in the last 50 years there have been extraordinary rates of economic growth, poverty reduction, increased welfare, and better standards of living. Today we live in a world with greater capacity to grow and produce food, higher productivity in goods manufacturing and a vast improvement in service provision. It is true to say that humanity has the highest levels of welfare in its history.

Nevertheless, we also face the **greatest challenges in distributing resources** in a timely and fair way for everyone, with the key challenge being inequality. Rapid growth of the global population, which has doubled in the last 50 years, topping 8 billion people, has a range of consequences, requiring an increase in resources and effort to satisfy the need for food, water, medical attention, technology, and education.

One of the major challenges lies in serving the population which is growing most swiftly in the poorest countries in the world, many of whose citizens live in areas that are excessively vulnerable to natural disasters and are the main victims of the ravages of climate change. Massive efforts are necessary to prevent social and economic conditions from deteriorating even further.

All this means that the growth model must be rethought. We face unprecedented environmental challenges and, despite the achievements in welfare, overwhelming poverty with tensions in many geographical regions still persists. For this reason, the need to move forward toward an inclusive and sustainable growth model is imperative.

The poor face obstacles that limit their opportunities. To include them in society and in development, growth should help them, giving them more opportunities without leaving anyone behind, enabling them to share in the wealth to a greater degree. On some occasions this entails a conflict with other dimensions, as decisions with contradictory impacts need to be weighed up and some given priority.

For example, encouraging the production of minimarts may improve the income streams of vulnerable households, create employment, and raise the welfare of an entire community. However, the environmental cost may be high (more carbon emissions, more waste, etc.). Similarly, offering solar panels to populations lacking electricity seems, at first sight, an excellent solution, both in social and environmental terms. But the waste products from these panels, together with their production and transportation costs, are tremendously damaging to the environment. So, the problems that social challenges trigger have initial effects, and then secondary ones and, almost inevitably, generate tertiary issues that may give rise to a whole new problem. Thus, development becomes a complex web of issues – sometimes invisible -that need creative solutions with a long-term vision and lots of innovation.

That is why real commitment and coordination between the different levels and agents is needed, as well as engagement by both the public and private sectors throughout the world. The Sustainable Development Goals which were set for 2030, if pursued conscientiously by everyone, will be a catalyst that will drive creativity and innovation and accelerate inclusive progress.

Our ESG model

The Foundation's ESG model reflects the challenges that must be resolved in an integrated way, that is, taking into account and acknowledging to a certain degree these tensions and above all adapting the way we measure to the organization's needs. This is entirely aligned with the Sustainable Development Goals 2030.

Among the **social factors**, we start by prioritizing the needs of the most vulnerable entrepreneurs and their progress. We are committed to serving segments in vulnerability to track their performance– in their business, their financial health and welfare – and we set indicators to measure the services and attention they receive. Our activity is directed at mitigating financial and social exclusion factors, as well as to facilitating a set of green products that make it possible to improve the resilience of the most vulnerable to climate change, improve their interaction with the environment and their living conditions. Thus, we endeavor to reduce the gaps in their income, their housing, their education, and healthcare in order to raise their resilience and with that, their likelihood of getting ahead for the long term.

The key ESG indicators are:

Driving an economy that is environmentally sustainable for all	Achieve progress for the most vulnerable and the end of inequalities	Create an inclusive environment in which to grow together	Reach maximum ethical standards at all levels
4,038 clients who have taken out environmental sustainability loans	**2,858,166** clients, of whom **81%** are in economic vulnerability	**8.062** employees, **61%** of whom are women	**9** members of the governance body, of whom **63%** are women
3,173 tnCO_2 emitted as a consequence of our activity	**41%** clients we have newly intriduced into the financial system	**45%** of all managers are women	**100%** of employees have signed up to the code of conduct & anti-corruption policies
	51% clients who have raised their income during the year	**84%** of employees have received training	
	43% clients who escape from poverty after two years		

Explanation of the table in the annex.

Social reach also refers to impacts on employees, the factors of their inclusion and the materialization of safe, satisfactory work practices and standards. This means that the social dimension is a dual one: on the one hand ensuring entrepreneurs' sustainable progress, and on the other, concerning itself with employees' welfare and satisfaction.

Environmental factors entail measures to protect and minimize risks to the environment and efforts to conserve resources. Some examples are: reducing greenhouse gas emissions, compliance with governmental regulations on pollution and the conservation and management of resources by better handling of water and waste products, and energy saving practices. But we go further than environmental risk mitigation: we anticipate them, particularly those relating to climate change that endanger the populations living in precarious conditions. That is why we are making progress on building and consolidating climate vulnerability indicators in all our footprint countries.

Finally, we are building a **governance model** with a vocation for the long term, with high ethical standards, that aligns the interests of all the stakeholders involved. This represents the foundation of our model, where our commitments to the social dimensions and environmental sustainability are entirely integrated into our day-to-day management.

To this end, the BBVA Microfinance Foundation and its institutions have pushed ahead and constructed an ESG framework that encompasses all the opportunities and limitations developed in each of the dimensions, placing greater emphasis on the social dimension, because this lies at the heart of our purpose, which is to boost the sustainable and inclusive development of people in vulnerability.

Aligned with the Sustainable Development Goals

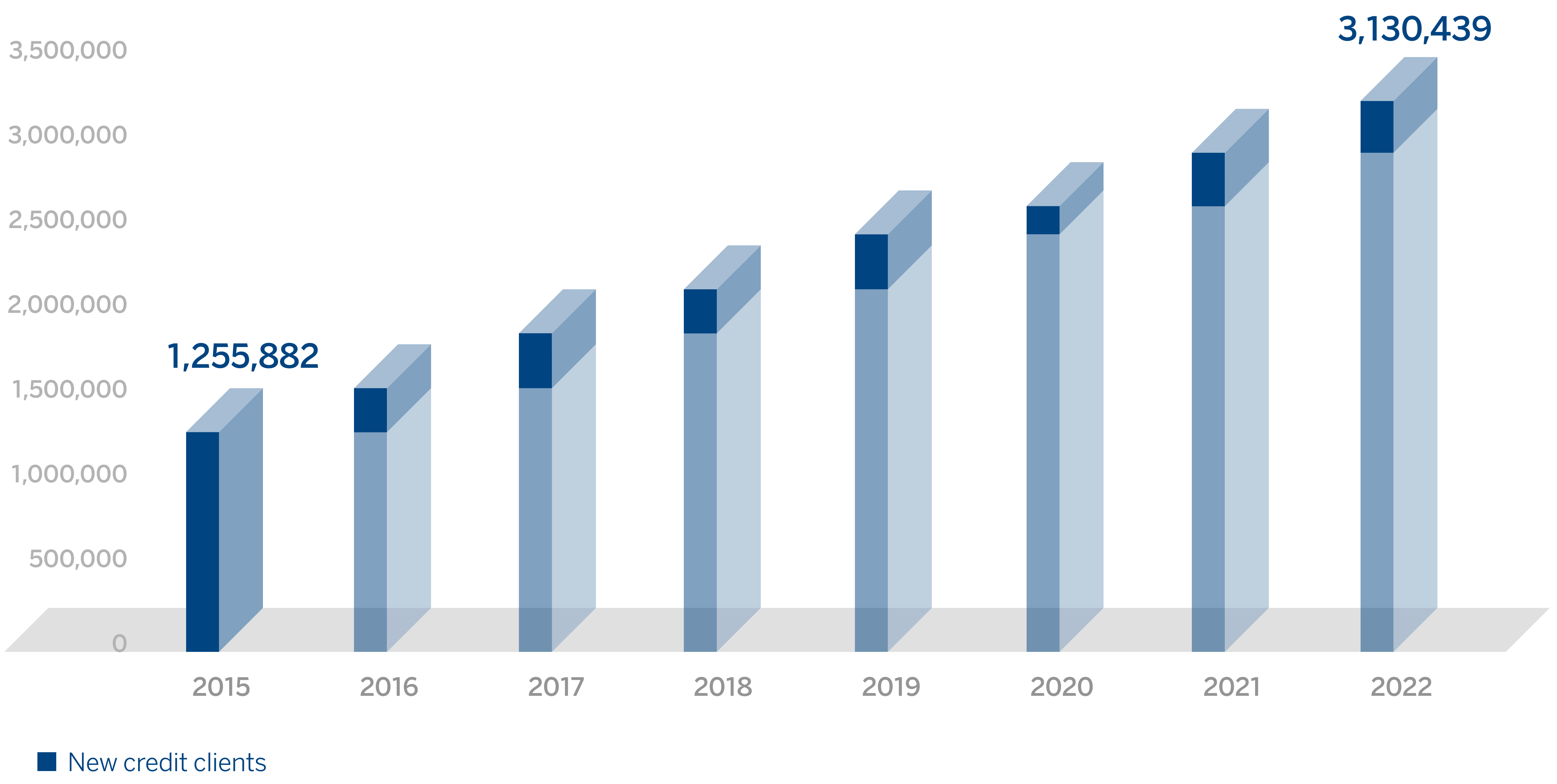
As discussed, the challenge over the next few years encompasses not only the environmental but also the social dimension. This was put on record in the Sustainable Development Agenda 2030, which set 17 interrelated goals, providing an ambitious plan for prosperity, sustainability, and peace, with the aim of not leaving anyone behind.

The ESG indicators were established in order to move forward in achieving these Sustainable Development Goals. Achieving them entails acknowledging these considerations and requires the participation of players from both the public and private sectors. Both sectors are needed to tackle this huge challenge and to mobilize financial and non-financial resources on a massive scale to narrow these gaps.

The BBVA Microfinance Foundation makes an impact on twelve of these 17 goals. Since 2015, a set of indicators has been tracking our contribution to the SDG. Some have a cross-sectional effect on our activity (SDG 1, 8, 10 & 17), while others are addressed with specific initiatives. Furthermore, the profile of the entrepreneurs we finance has been associated with each SDG we are impacting. This enables us to identify gaps and areas for improvement in contributing to greater welfare for more people.

Total nº of credit clients served

Credit clients served since 2015, accumulated



SDG	INDICATOR	2021	2022	%VAR.
1 NO POVERTY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES; 17 PARTNERSHIPS FOR THE GOALS	Entrepreneurs benefiting	713,451	796,557	12%
	Amount disbursed (USD)	1,312,360,904	1,534,491,086	17%
	Average amount disbursed	**1,285**	**1,293**	
	People taken on by entrepreneurs	162,753		186.285
	% clients escaping poverty after 2 years	**27%**	**23%**	n/a
2 ZERO HUNGER	Entrepreneurs benefiting - rural	155,519	162,031	4%
	Amount disbursed - rural	277,261,820	311,299,295	12%
3 GOOD HEALTH AND WELL-BEIN	Entrepreneurs benefiting - healthcare	8,408	9,599	14%
	Amount disbursed - healthcare	15,147,555	18,588,577	23%
	Total nº clients insured - healthcare	128,997	208,656	62%
4 QUALITY EDUCATION	Entrepreneurs benefiting - education	7,022	7,489	7%
	Amount disbursed - education	7,155,419	8,205,977	15%
	Total nº training actions	594,614	696,450	17%
5 GENDER EQUALITY	Entrepreneurs benefiting - women	435,929	491,570	13%
	Amount disbursed - women	706,418,751	831,182,935	18%

SDG	INDICATOR	2021	2022	%VAR.
11 SUSTAINABLE CITIES AND COMMUNITIES	Entrepreneurs benefiting - housing & related activities	+50,010	53,759	7%
	Amount disbursed - housing & related activities	1,312,360,904	1184,418,104	16%
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Entrepreneurs benefiting - sustainable	14,938	17,670	18%
	Amount disbursed - sustainable	24,717,364	29,952,305	21%
	Water consumption (m^3)	104,414		213.269
	Paper consumption (kg)	212,380	219,176	
	Emissions tCO			
	Scope 1	140	202	
	Scope 2 - location based	2,624	2,522	
	Scope 2 - market based	2,462	2,522	
	Scope 3	120	449	
13 CLIMATE ACTION	Entrepreneurs benefiting - green	2,207	3,309	50%
	Amount disbursed - green	2,119,704	3,452,380	63%
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Entrepreneurs benefiting - migrants	64,490	70,146	9%
	Amount disbursed - migrants	108,828,203	118,513,5947	9%

ESG indicators · 2022

		BBVAMF Group			FUN			Aggregate			Bancamía			Financiera Confianza			Banco Adopem			Microserfin			Fondo Esperanza		
Environment	Measurements	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Access to mechanisms to protect against & adapt to climate change effects																									
Environmental insurance	Nº of policies taken out	4,428	10,817	21,204	—	—	—	4,428	10,817	21,204	4,428	10,817	21,204	—	—	—	—	—	—	—	—	—	—	—	0
Support for greater enviro. sustainability in our entrepreneurs' businesses																									
Environmental sustainability products ("green")	Nº of credits taken out										627	943	1,182	—	—	—	—	—	1,870	—	0	0			—
Productivity-boosting funding	Nº of credits taken out				—	—	—	861			187	282	354	—	—	—	861	—	1,852	—	0	0	—		0
People trained in sustainability	Nº of people (clients & non-clients))																								—
Efficient & sustainable management of natural assets																									
Energy consumed	Kwh	9,153,898	8,611,044	8,315,206	66,269	69,234	61,792	9,087,629	8,541,810		4,226,437	4,081,637	3,838,598	2,147,289	1,904,460	1,906,349	2,168,522	2,149,579	2,085,115	416,169	414,737	413,305	129,211	120,023	110,437
Water consumed	m^3	116,450	104,414	213,269	173	82	160	116,277	104,331		23,390	20,512	21,800	31,526	30,130	128,204	53,483	48,029	56,412	0	288	288	7,878	5,648	6,565
Paper used	% of all waste generated	203,075	212,380	219,176	0	0	0	203,075	212,380		87,039	64,362	62,600	76,726	66,841	—	25,201	68,668	89,146	5,875	6,066	5,135	8,234	6,444	3,486
Reduction of our carbon footprint																									
Emissions generated	Tn CO_2	2,733	2,876	3,173	53	27	127	2,744	2,864	3,287	696	870	1,054	521	424	577	1,409	1,391	1,294	83	119	141	73	56	99
	$KgCO_2$ / m^2																				0,91	1,08			
Scope 1	Tn CO_2	191	140	202	4,31	6	4	186	134	202	2	1	1	70	11	19	110	119	181	3,1	0,3	3,7	1	2	8
Scope 2	Tn CO_2	2,479	2,624	2,522	17	14	10	2,462	2,610	2,522	681	787	878	431	385	339	1,225	1,267	1,111	73	119	135,98	52	53	49
Market-based	Tn CO_2	2,479	2,624	2,522	17,26	14	10	2,462	2,610	2,522	681	787	878	431	385	339	1,225	1,267	1,111	73	119	135,98	52	53	49
Location-based	Tn CO_2	2,462	2,610	2,523	0	0	10	2,462	2,610	2,523	681	787	876	431	385	339	1,225	1,267	1,115	73	119	136,97	52	53	49
Scope 3	Tn CO_2	64	112	449	31,83	8	114	96	120	563	13	82	176	19	28	218	74	5	2	7	0	1	20	0	42

ESG indicators · 2022

Social | Client	Measurements	Aggregate 2020	Aggregate 2021	Aggregate 2022	Bancamía 2020	Bancamía 2021	Bancamía 2022	Financiera Confianza 2020	Financiera Confianza 2021	Financiera Confianza 2022	Banco Adopem 2020	Banco Adopem 2021	Banco Adopem 2022	Microserfin 2020	Microserfin 2021	Microserfin 2022	Fondo Esperanza 2020	Fondo Esperanza 2021	Fondo Esperanza 2022
Focus on poor, vulnerable, excluded people & those with multidimensional deprivations																			
All clients	Total nº of clients	2,612,144	2,773,221	2,858,166	1,422,185	1,503,043	1,574,824	683,166	731,496	699,958	381,746	408,663	442,609	14,468	17,695	18,302	106,583	109,268	121,036
Clients with a credit	Total nº of clients with previous credits	837,947	855,528	918,900	295,908	329,183	354,141	253,489	244,751	265,106	163,503	151,575	158,878	14,468	17,695	18,302	106,583	109,268	121,036
Economically poor	% of total clients	32%	33%	30%	32%	34%	35%	33%	30%	24%	22%	24%	23%	19%	20%	18%	46%	35%	40%
Economically vulnerable	% of total clients	82%	82%	81%	84%	86%	87%	74%	72%	66%	83%	86%	86%	82%	85%	85%	83%	83%	87%
Women	% of total clients	60%	59%	57%	54%	54%	53%	55%	53%	56%	67%	67%	60%	43%	44%	45%	80%	79%	72%
• Women heads of family	% of all women clients																		
Rural	% of total clients	34%	35%	35%	44%	44%	43%	30%	30%	30%	41%	42%	42%	44%	45%	48%	11%	12%	13%
With low educational attainment	% of total clients	38%	35%	35%	47%	42%	38%	16%	14%	17%	48%	46%	44%	32%	29%	26%	31%	29%	26%
Migrants or displaced	Total nº of clients	44,144	79,531	95,809	44,116	79,503	93,811	—	—	1,003	—	—	—	28	28	23	—	—	972
With homes of +5 people	% of total client	15%	14%	13%	13%	13%	11%	13%	12%	11%	11%	10%	9%	17%	16%	16%	28%	24%	23%
Our entrepreneurs' drive in business development																			
Clients who escape poverty	Economically poor as % of total clients	49%	44%	43%	44%	44%	44%	39%	34%	39%	60%	54%	52%	28%	35%	43%	53%	53%	44%
Clients who raise their income	% of total clients	52%	51%	51%	61%	55%	53%	42%	48%	50%	51%	49%	53%	—	44%	54%	—	69%	50%
Clients with 3 or + credit cycles	% of total clients	64%	73%	55%	59%	68%	47%	55%	71%	50%	74%	86%	69%	54%	62%	44%	86%	71%	77%
Strengthening their financial health																			
Clients with deposit products	Total nº of clients	2,399,909	2,569,816	2,624,500	1,409,287	1,480,043	1,539,752	616,448	682,195	642,332	374,174	407,578	442,416	—	—	—	—	—	—
Clients with savings products	Total nº of clients	—	169,909	154,985	—	90,006	82,074	—	45,752	43,432	—	34,151	29,479	—	—	—	—	—	—
People receiving financial education	Nº of people (clients + non-clients)	401,648	594,614	696,450	248,809	378,758	457,045	49,808	80,135	84,801	56,708	21,823	34,523	5,988	15,437	21,333	40,335	98,461	98,748
Clients with 3 or + products	Total nº of clients		453,623	485,342			279,902		152,490	158,564			46,876	—	—	—	—	—	—
Raising the welfare of our clients and their families																			
New credit clients	Total nº of clients with new credits	139,504	261,011	294,828	32,557	99,279	103,309	78,270	99,303	114,060	10,264	25,610	33,492	1,513	5,862	5,066	16,900	30,957	38,901
• Banked (in the financial system for 1st time)	% of total new clients	33%	29%	41%	29%	12%	40%	29%	35%	31%	72%	72%	70%	19%	56%	51%	—	—	—
Clients with housing products	Total nº of clients served	40,443	38,002	35,710	2,449	1,284	938	26,486	26,676	24,712	10,631	9,675	9,848	877	367	212	—	—	—
Clients with educational credits	Total nº of clients served	2,993	2,910	3,306	8	3	7	2,543	355	3,041	442	2,552	258	—	—	—	—	—	—
People with healthcare cover	Total nºof people with healthcare cover	32,678*	118,459*	211,715	26,479	115,628	198,228	0	0	0	0	0	0	—	—	13,482	6,199	2,831	5
Clients who generate employment	% of total clients	15%	15%	15%	16%	17%	16%	15%	15%	15%	20%	20%	19%	30%	25%	24%	6%	5%	4%
People attending training events	Nº of people	401,648	594,614	696,450	248,809	378,758	457,045	49,808	80,135	84,801	56,708	21,823	34,523	5,988	15,437	21,333	40,335	98,461	98,748
Clients receiving any credit during year																			
Clients with housing products					—	85	503	16,691	19,738	19,301	4,424	5,713	5,757	180	64	76	—	—	—
Clients with educational credits					12	2	9	2,781	3,716	4,166	171	98	55	—	—	—	—	—	—
People with healthcare cover		31,834*	111,343*	197,739	25,635	108,512	184,259	0	0	0	0	0	0	—	—	13,475	6,199	2,831	5
Clients who generate employment		16%	15%	15%	16%	16%	17%	15%	15%	14%	20%	20%	20%	30%	25%	24%	6%	5%	5%
People attending training events				696,450			457,045			84,801			34,523			21,333			98,748
Training & integration in the digital world																			
People provided with internet access by the BBVAMF Group	Nº of people (clients + non-clients)		685,559																

*Excluding Panama.

15 aniversario

ESG indicators · 2022

		BBVAMF Group			FUN			Aggregate			Bancamía			Financiera Confianza			Banco Adopem			Microserfin			Fondo Esperanza		
Social | Employee	Measurements	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Respect for diversity, equity & inclusion																									
Women	Nº of FTEs	7,657	7,664	8,062	48	45	38	7,609	7,619	8,024	3,195	3,119	3,212	2,302	2,402	2,690	1,280	1,287	1,332	216	236	265	544	511	525
Age	% of all FTEs	—	—		58%	58%	61%	51%	50%	50%	52%	49%	51%	46%	45%	45%	43%	43%	42%	57%	58%	55%	83%	83%	82%
Nationalities		—	—		43	45	45	33,8	33,8	28,3	33	34,5	34,8	33	33,5	33,4	35,5	32,2	31,7	33	32	32	34	35	35
Hierarchical level in the organization	Nº of nationalities	—	—		10	13	13	17	19	19	6	5	4	3	4	3	3	2	2	5	5	5	6	4	4
Directors																									
Directivos	% of all FTEs				20,8%	24,4%	28,9%	0,8%	0,9%	0,8%	0,3%	0,3%	0,3%	0,4%	0,4%	0,4%	1,6%	1,6%	1,7%	4,6%	4,2%	3,8%	1,3%	1,4%	1,5%
• Women directors	% of all Director-level FTEs				30%	58%	45%	48%	44%	42%	44%	40%	38%	40%	40%	45%	52%	52%	50%	40%	30%	30%	57%	43%	25%
Non-directors	% of all FTEs				79%	76%	71%	99%	99%	99%	100%	100%	100%	100%	100%	100%	98%	98%	98%	95%	96%	96%	99%	99%	99%
• Women non-directors	% of all Director-level FTEs					84%	78%				51%	51%	51%			45%			50%			30%			25%
Acquisition, development & retention of talent																									
Average time in organization	Average nº of years				—	7,7	7,7	6,7	5,9	—	6,0	6,7	6,6	5,0	5,0	4,4	6,5	6,0	5,4	5,0	2,5	3,0	5,0	5,5	6,0
Employee training	% of all FTEs				—	71%	84%	67%	72%	72%	72%	72%	100%	97%	88%	88%	92%	88%	2%	2%	88%	88%	96%	88%	5%

ESG indicators · 2022

		BBVAMF Group			FUN			Aggregated			Bancamía			Financiera Confianza			Banco Adopem			Microserfin			Fondo Esperanza		
Governance	Measurements	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Purpose of an independent, fair & diverse governance body																									
Composition of Governance Body	Total nº of members	8	8		8	8					7	7	7	7	7	6	8	8	8	5	5	5	7	7	9
	% of women	63%	63%		63%	63%					43%	43%	43%	43%	43%	50%	38%	38%	38%	20%	20%	20%	0%	0%	22%
	% independent board members												86%	—	—	67%	—	—	63%						0%
	Age(by age brackets)																								
	<50 years old	—	—		—	—					—	—	—	—	—	—	13%	13%	13%	20%	20%	0%	14%	14%	12%
	Between 50 & 60 y.o.	25%	25%		25%	25%					29%	29%	14%	29%	29%	17%	38%	38%	25%	60%	60%	60%	43%	43%	44%
	>60 years old	75%	75%		75%	75%					71%	71%	86%	71%	71%	83%	49%	49%	63%	20%	20%	40%	43%	43%	44%
	Average nº of years on the Board												7						9						
	Total nº of nationalities	3	3		3	3					3	3	3	4	4	4	2	2	2	3	3	3	2	2	3
Governance Body's expertise & experience	Business administration & senior management	88%	88%		88%	88%					100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	86%	86%	100%
	Finance & risks	88%	88%		88%	88%					86%	86%	86%	71%	71%	33%	75%	75%	100%	80%	80%	80%	57%	57%	67%
	Microfinance sector	63%	63%		63%	63%					100%	100%	100%	86%	86%	50%	88%	88%	—	100%	100%	100%	100%	100%	100%
	Talent management	75%	75%		75%	75%					43%	43%	43%	71%	71%	33%	38%	38%	—	40%	40%	40%	43%	43%	56%
	Technology & Processes	38%	38%		38%	38%					29%	29%	29%	43%	43%	0%	13%	13%	—	40%	40%	40%	14%	14%	11%
	Development	75%	75%		75%	75%					29%	29%	29%	57%	57%	—	25%	25%	—	60%	60%	60%	57%	57%	67%
Governance Body's continuous professional development	Annual hours spent by Board members on training																								
Commitment of time & engagement	Attendance rate at governance meetings	100%	100%		100%	100%					99%	96%	99%	99%	100%	100%	100%	99%	100%	88%	95%	85%	93%	88%	
Remuneration policies	USD for attendance at Board of Trustees/Directors	—	—		—	—					300	300	600	300	300	600	750	750	1.500	200	200	400	200	200	350
	USD for attendance at committees	—	—		—	—					300	300	300	300	300	300	750	750	750	200	200	200	200	200	200
Independence of Committees	Nº committees chaired by independent directors															4			4						0
Self-assessment	% compliance with Board members' action plan	100%	100%		100%	100%					100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Commitment to ethics & compliance standards																									
Code of conduct	% de empleados que han aceptado el código de conducta	100%	100%		100%	100%		100%	100%		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	88%	100%	100%	100%
Anticorruption policies	% de empleados que han completado la formación anticorrupción	100%	100%		100%	100%		100%	100%		100%	100%	100%	100%	100%	94%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Integrated risk management																									

Conclusion

After the shock the pandemic caused to the micro-entrepreneurs of Latin America in 2020 and 2021, we saw a full recovery of their activity in 2022, with similar disbursements to those in 2019 and sales and revenue growth in their businesses above the average of the last two years.

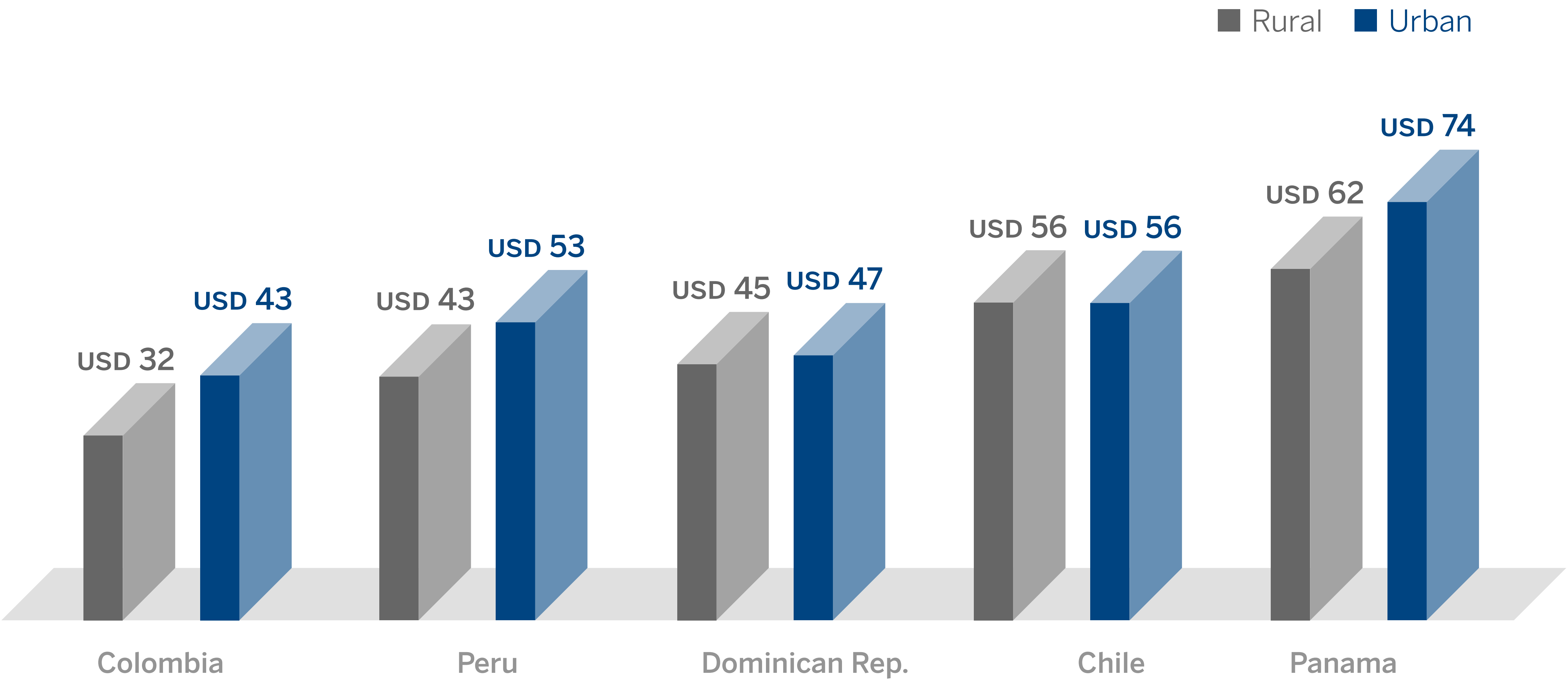
This, however, did not necessarily lead to the recovery of their pre-pandemic welfare, nor did it achieve a sustainable improvement. On the contrary, many are still living with low incomes or a series of structural shortfalls (in housing, education, and healthcare) and, as such, with less financial stability.

Against this backdrop, in 2023 the Foundation will continue to champion an integrated vision of financial services, one grounded in measuring impact so as not to leave anyone behind, and in the need to use a broad range of methodologies to get a closer understanding of the complex challenges and to propose innovative solutions.

Annex

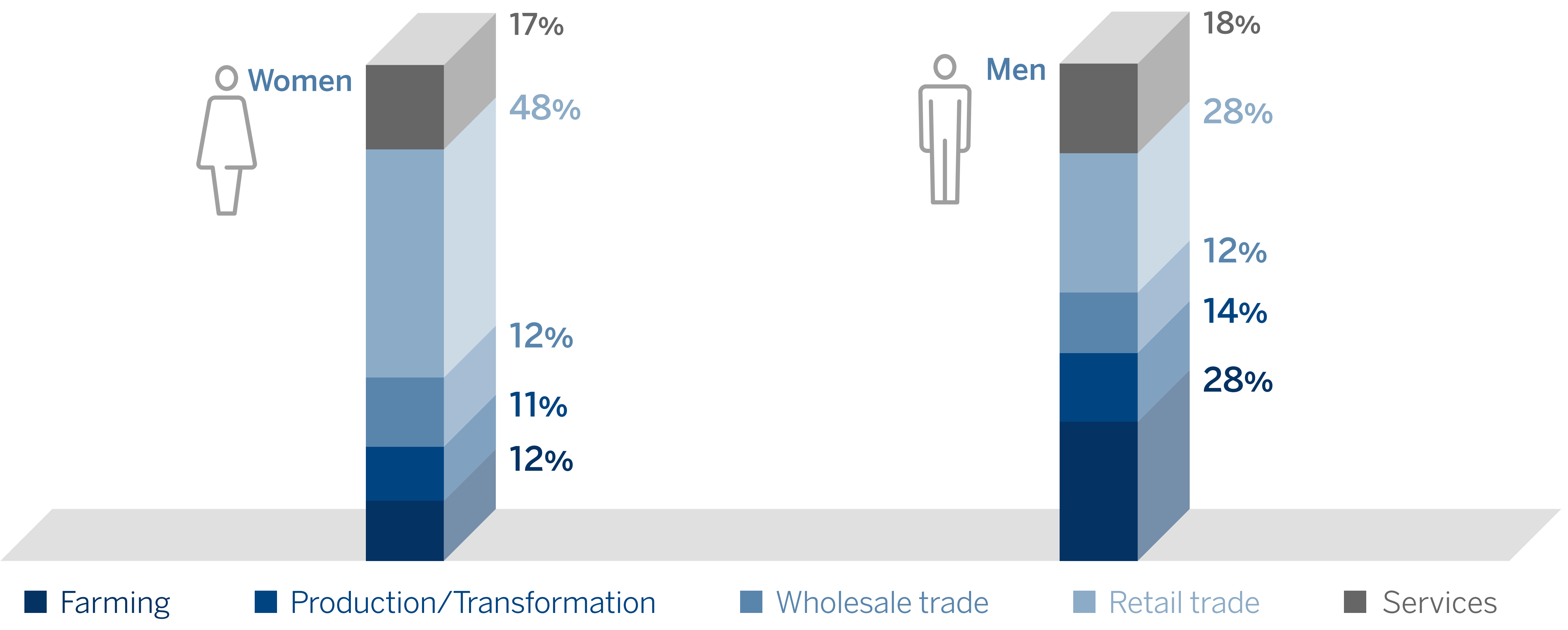
Basic basket of goods, by country*

Extreme poverty line according to each country's statistics institute



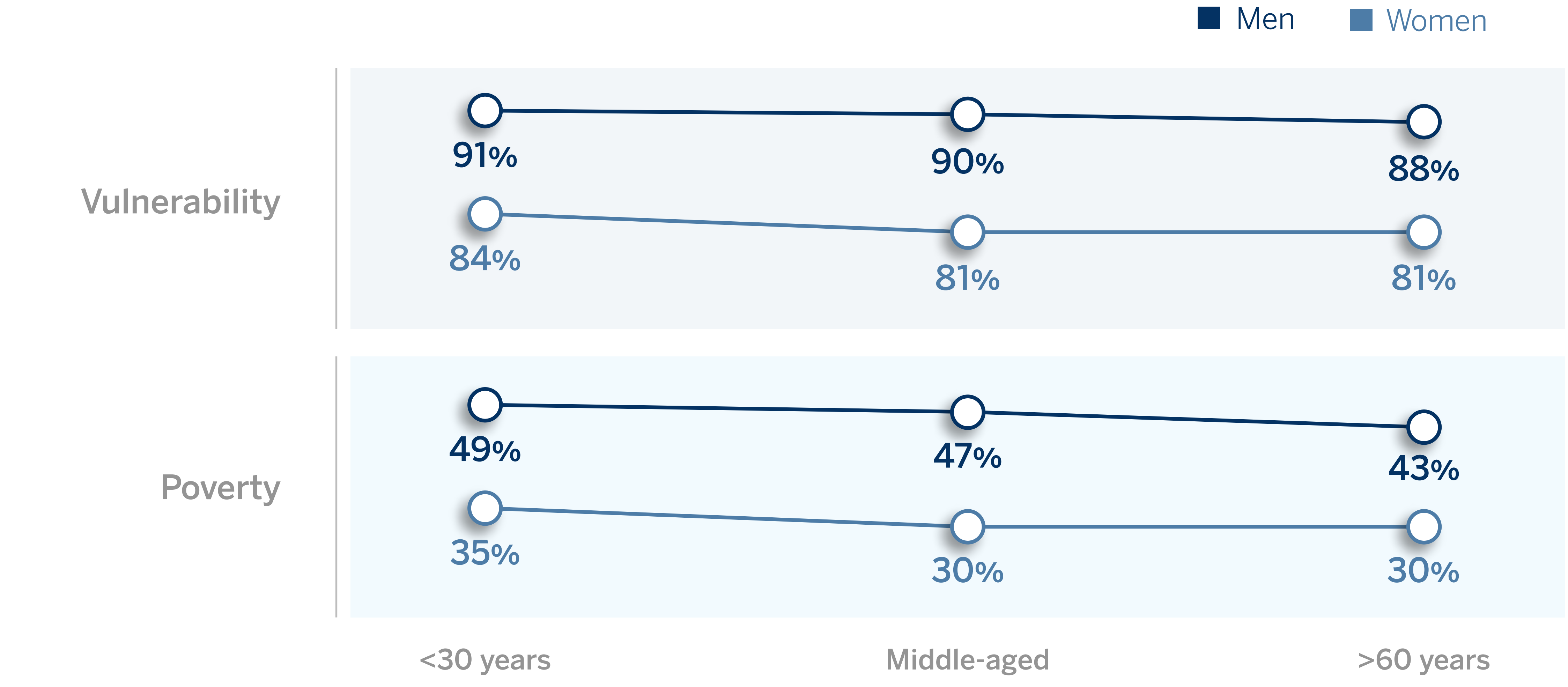
Sector by gender****

Total credit clients



Household sizes & economic vulnerability***

New credit clients



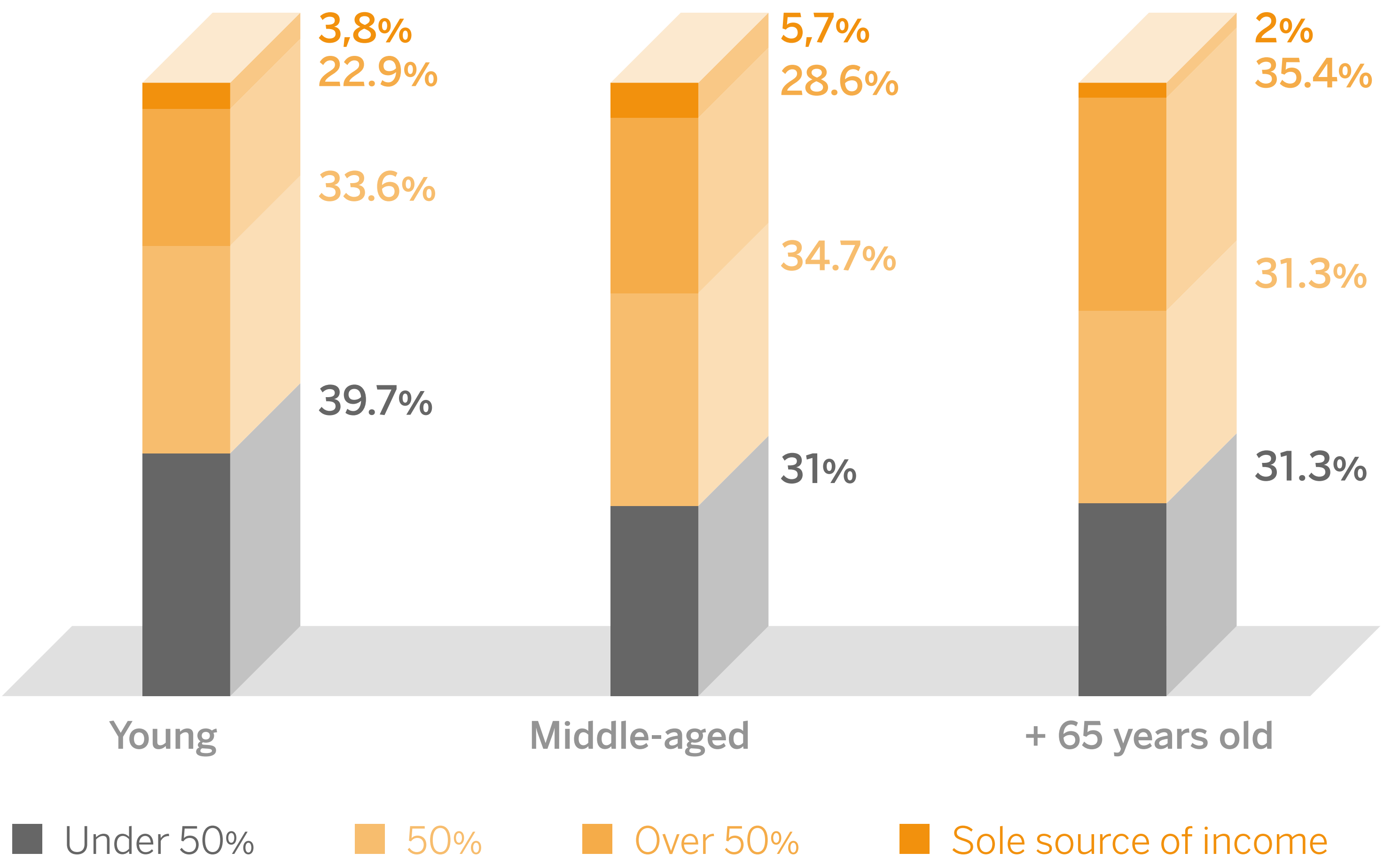
* Each country's 2022 basic food basket is shown, updated in turn by the CPI at the end of 2022. All countries apart from Chile differentiate this basic basket by surroundings (rural/urban) and it represents the Extreme Poverty Line. A basic basket of goods is calculated in Chile, but the poverty lines are reached using a new methodology that distinguishes between household size (from one to ten members).

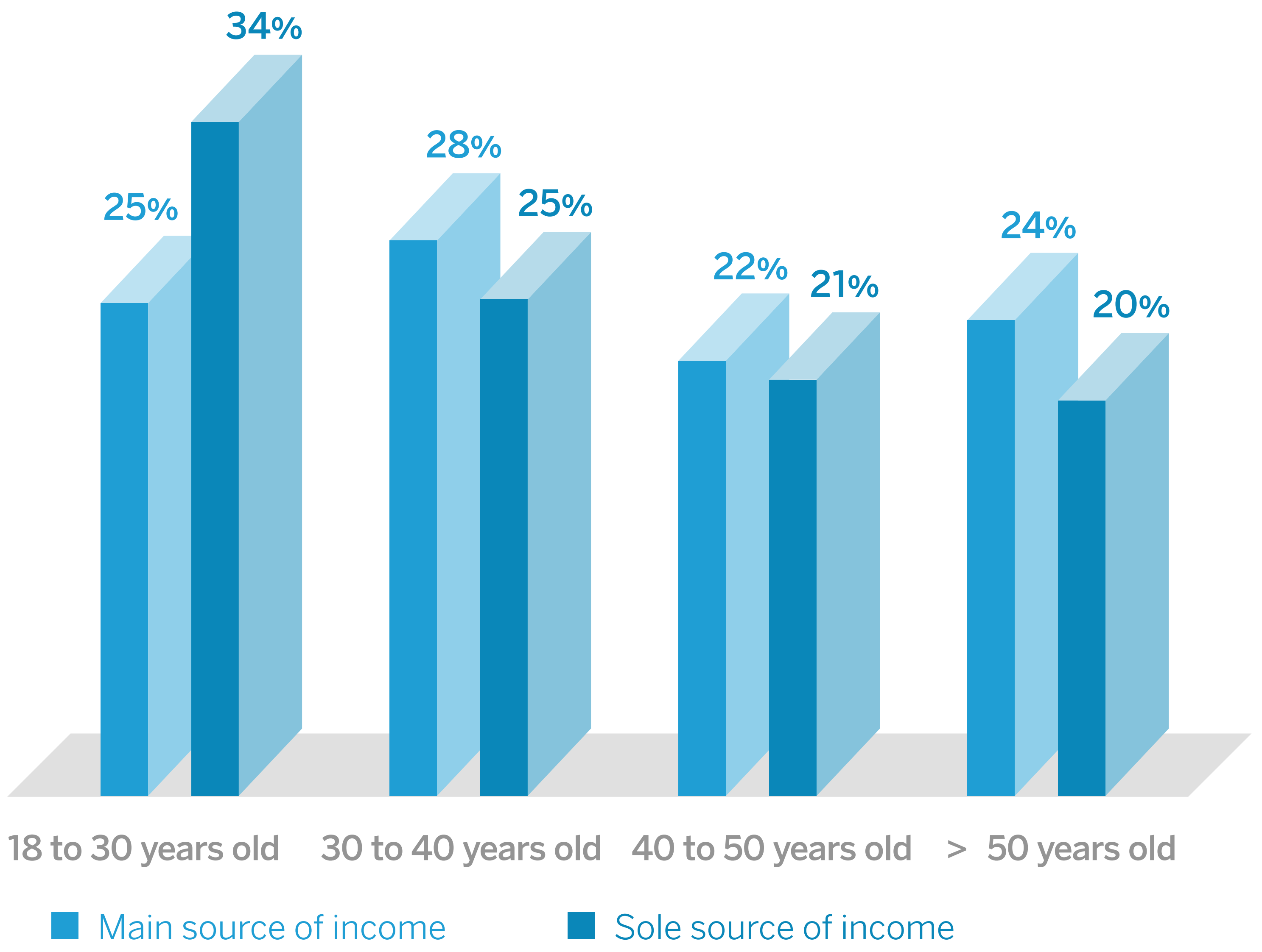
** Credit clients current at 12.31.2022.

*** New clients without previous loans, differentiated by gender and age bracket at the moment of disbursement.

Main source of income, by age

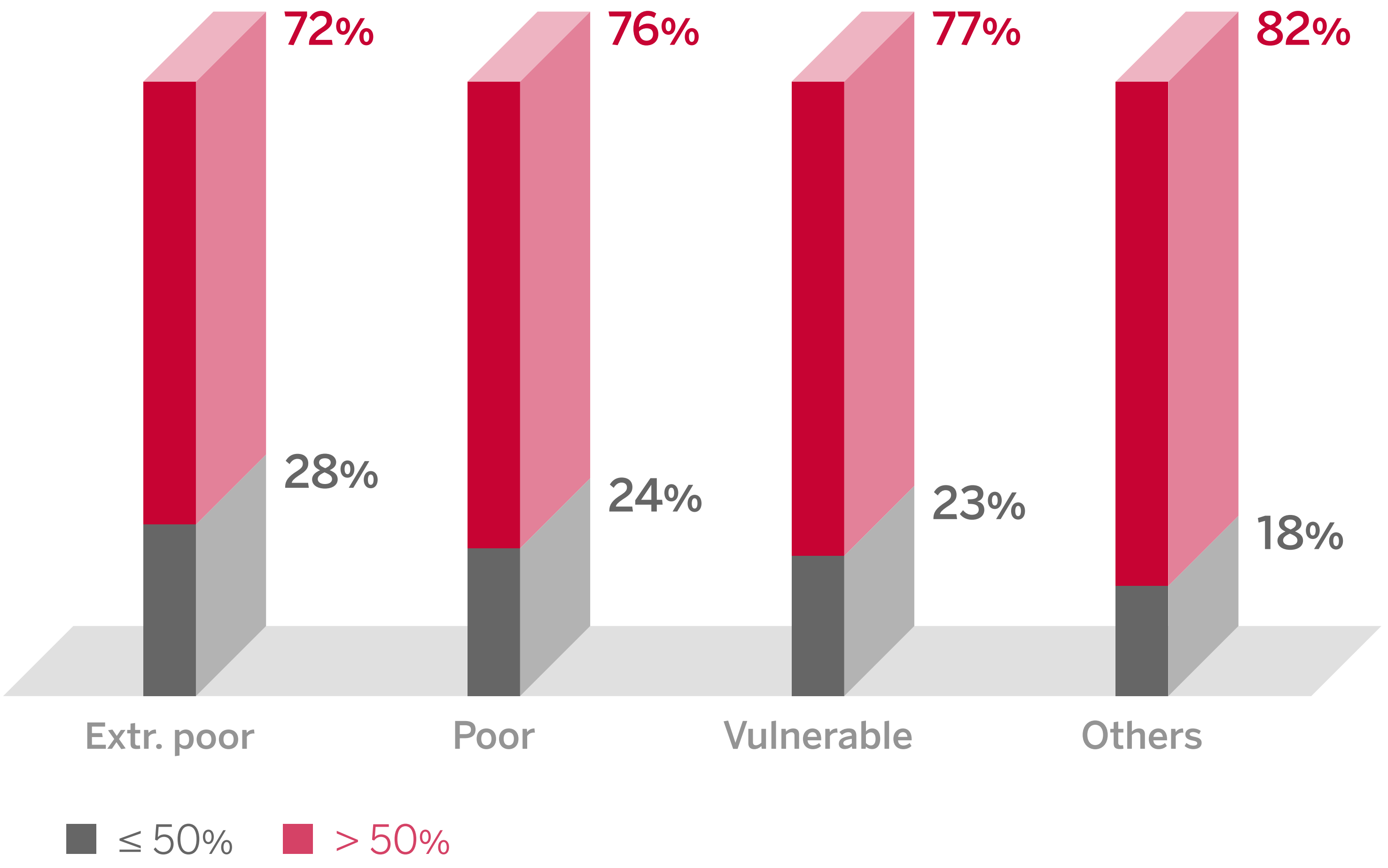
Entrepreneurs surveyed



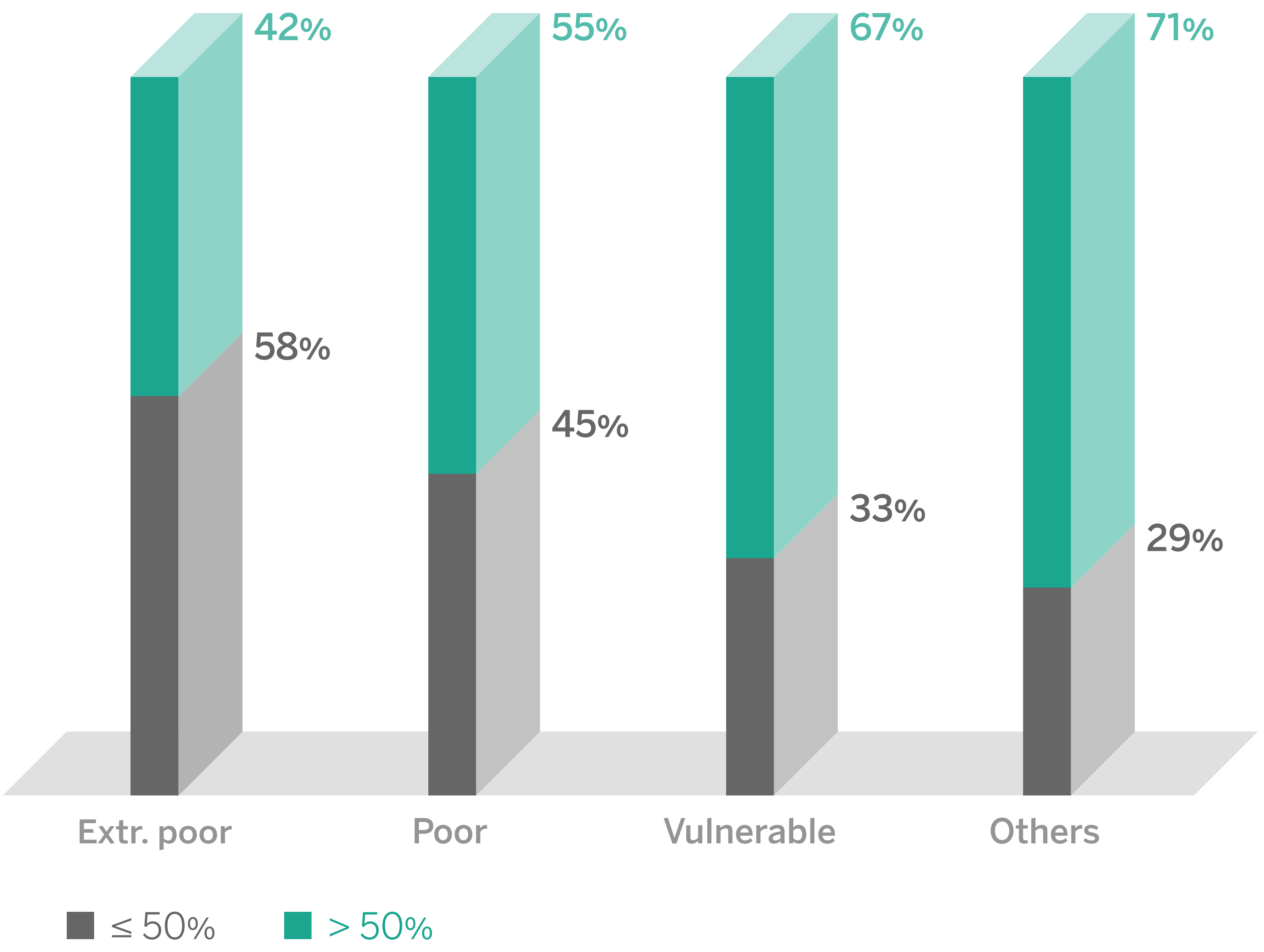


Main source of income, by vulnerability

Entrepreneurs surveyed

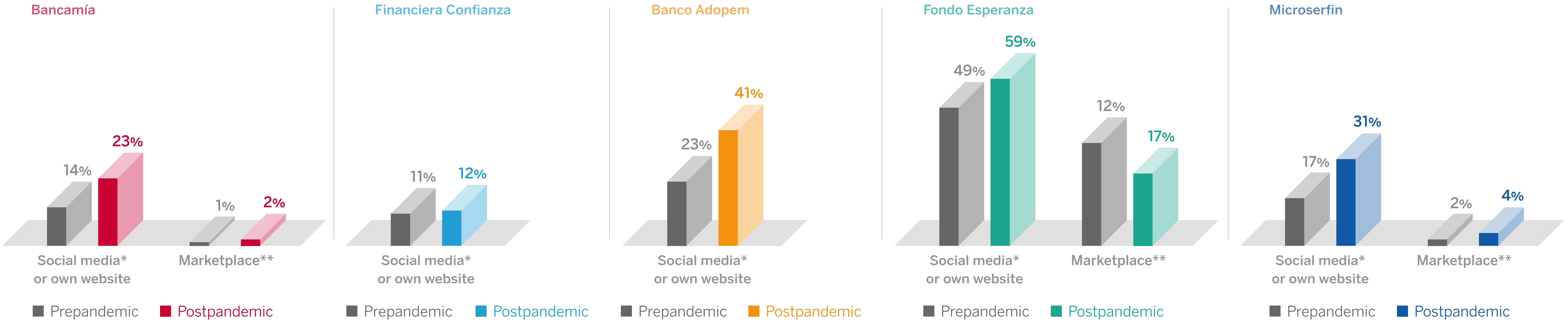


Banco Adopem
Bancamía
Financiera Confianza
Fondo Esperanza



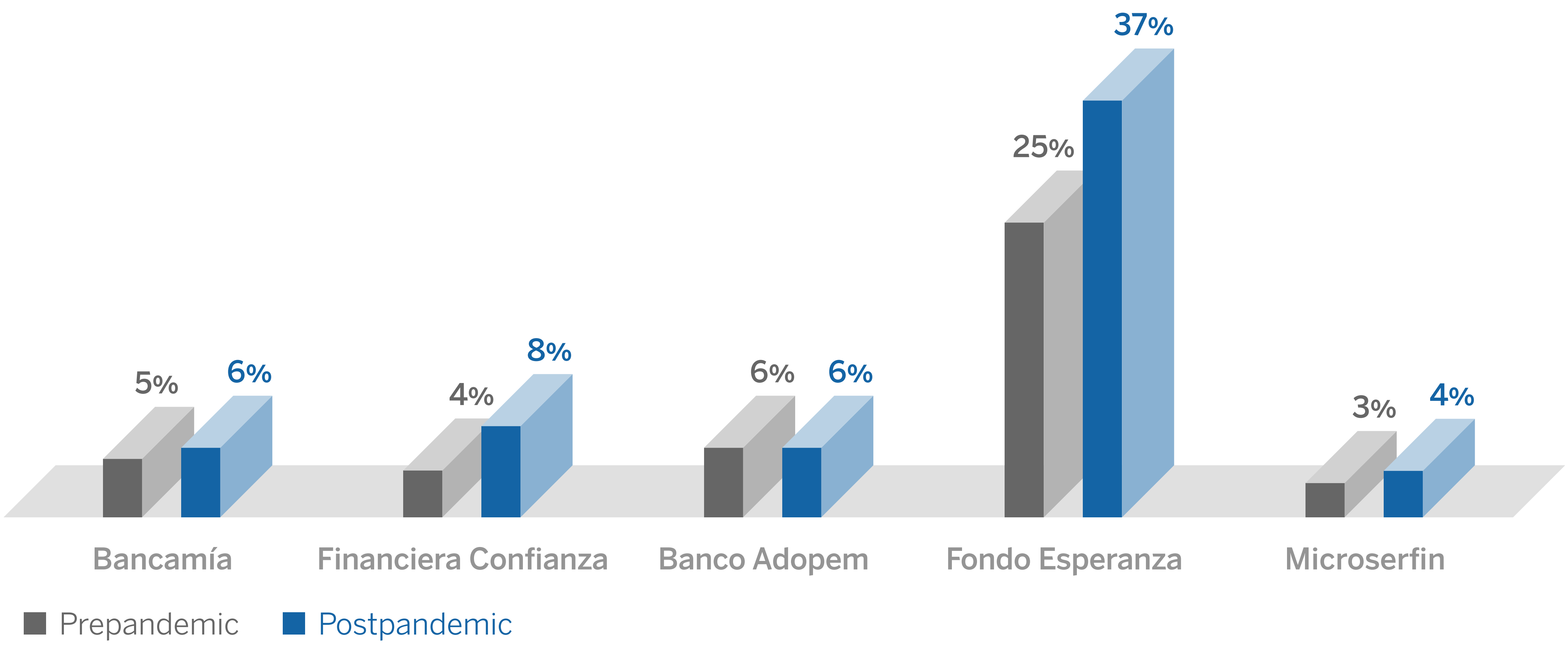
Main source of income, by vulnerability

Entrepreneurs surveyed



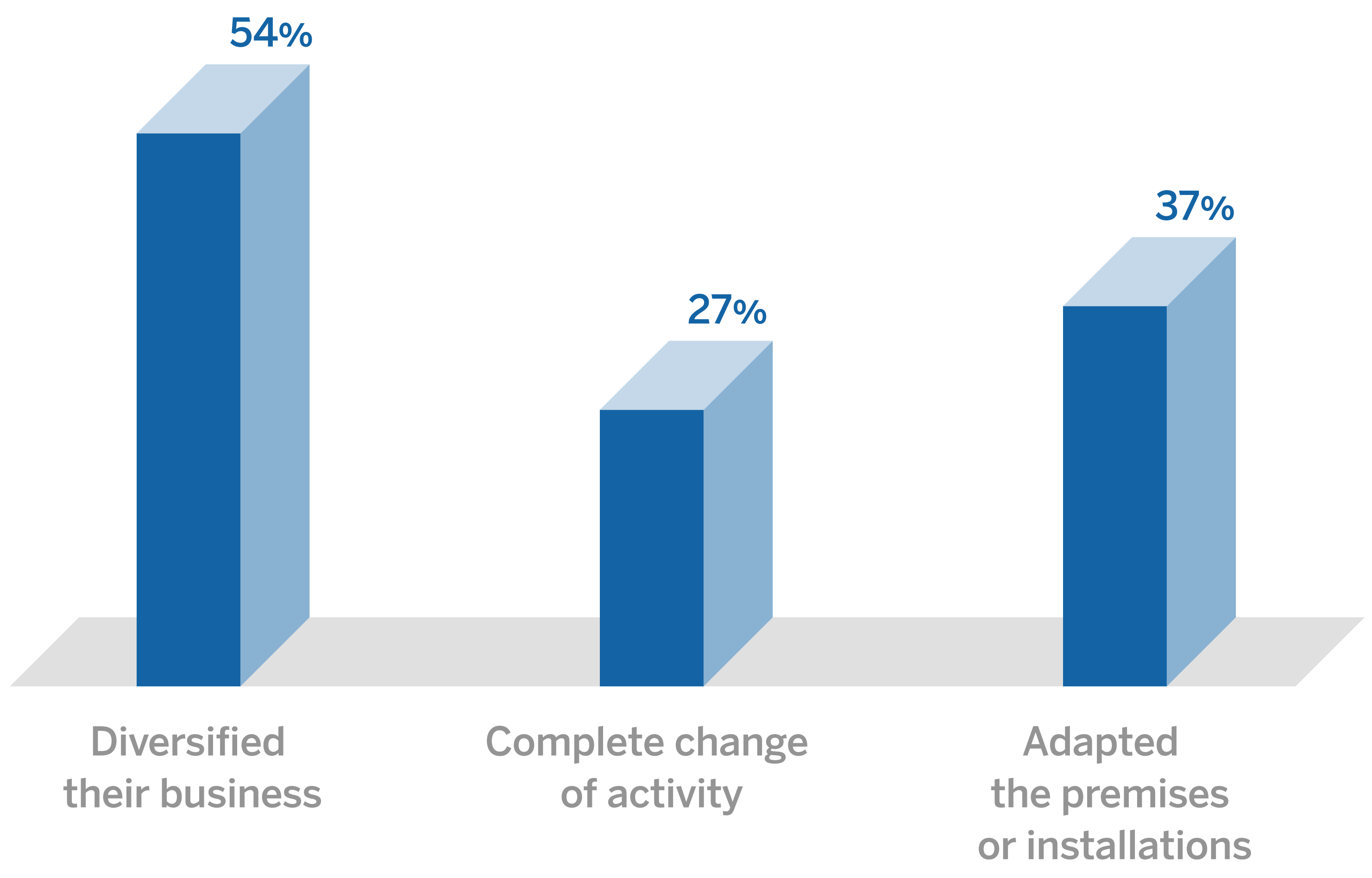
Online buying by country

Entrepreneurs surveyed



Permanence of adaptations***

Entrepreneurs surveyed



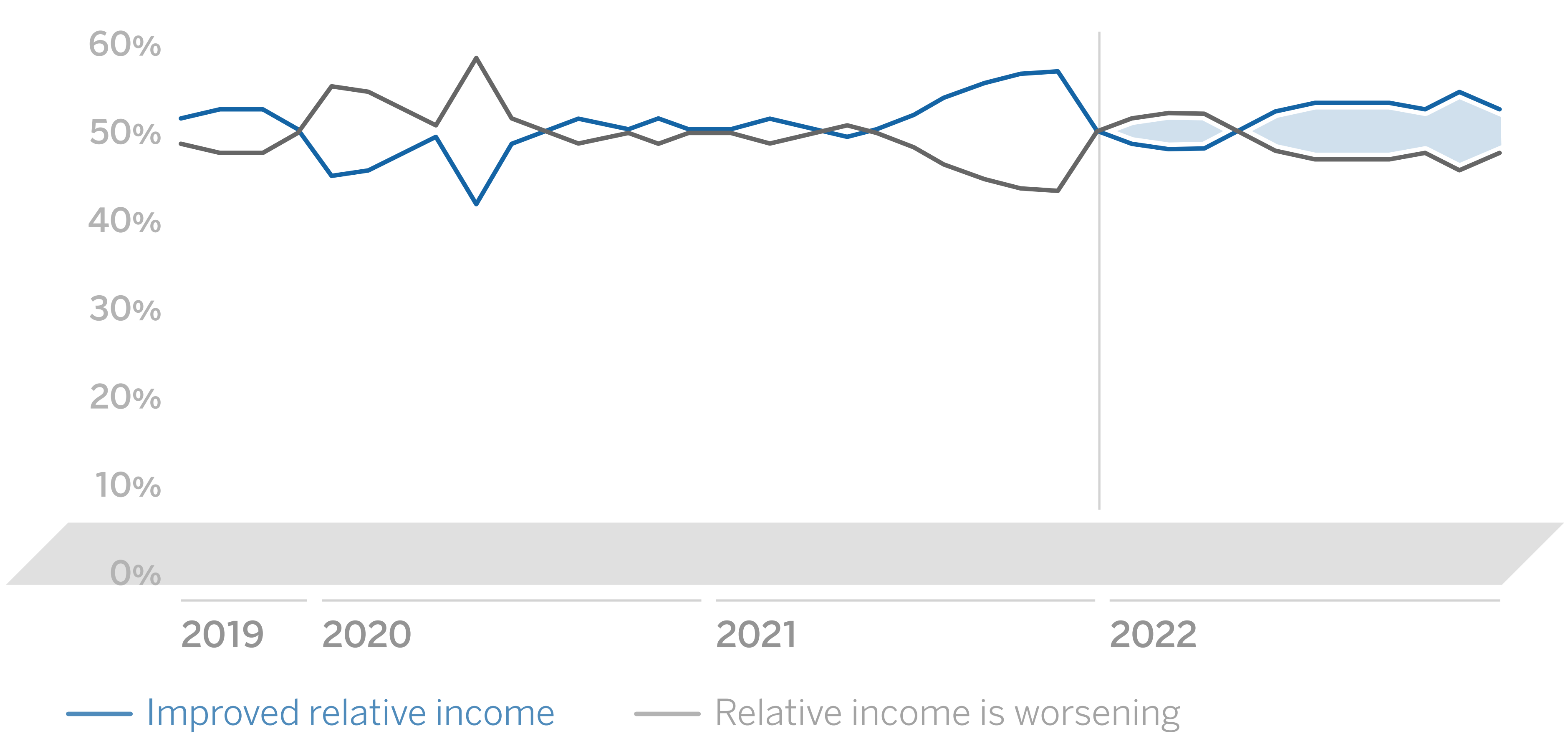
* Social media: WhatsApp, Facebook, Instagram, other.

** Marketplace/Entrepreneurial community (digital sales via an online market)

*** The question was “Do you believe this adaptation is temporary or permanent?” The “permanent” option by type of adaptation is shown.

Improving relative incomes

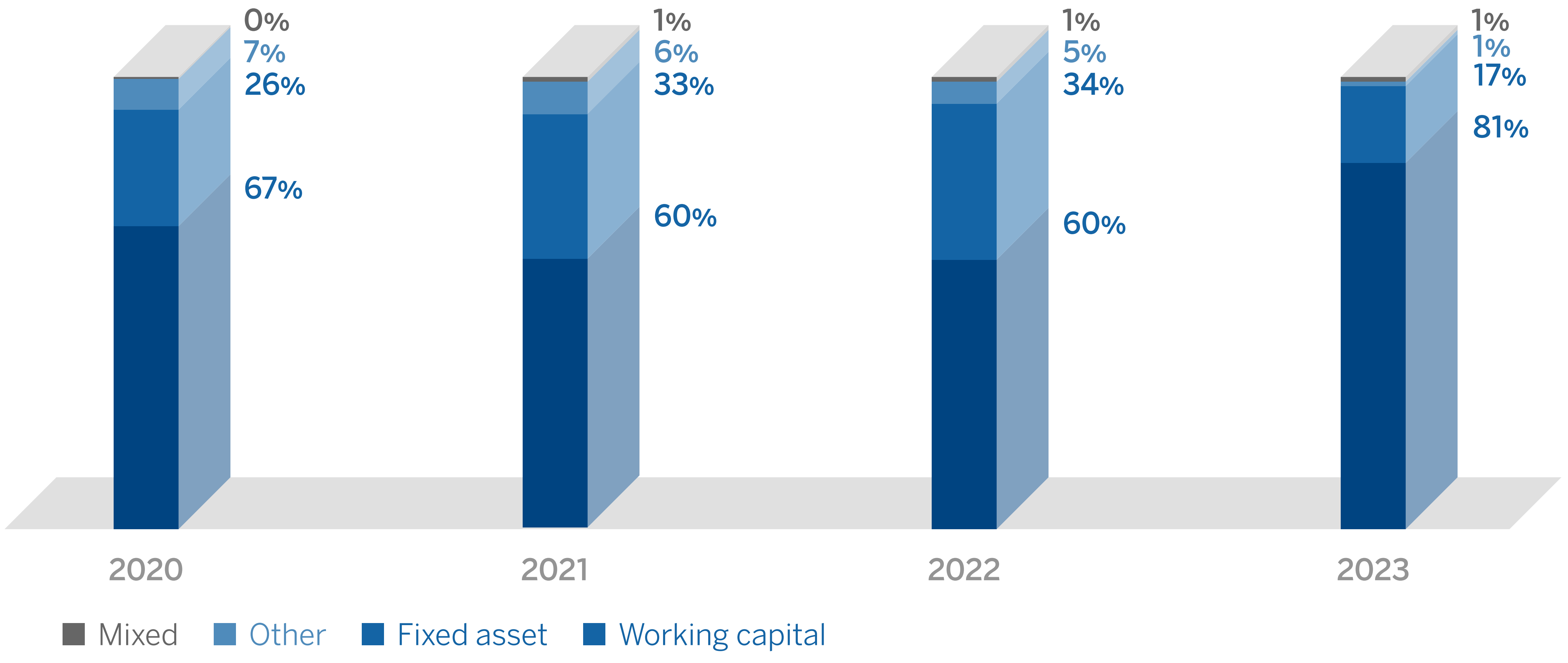
Clients who have rolled over a loan in each period



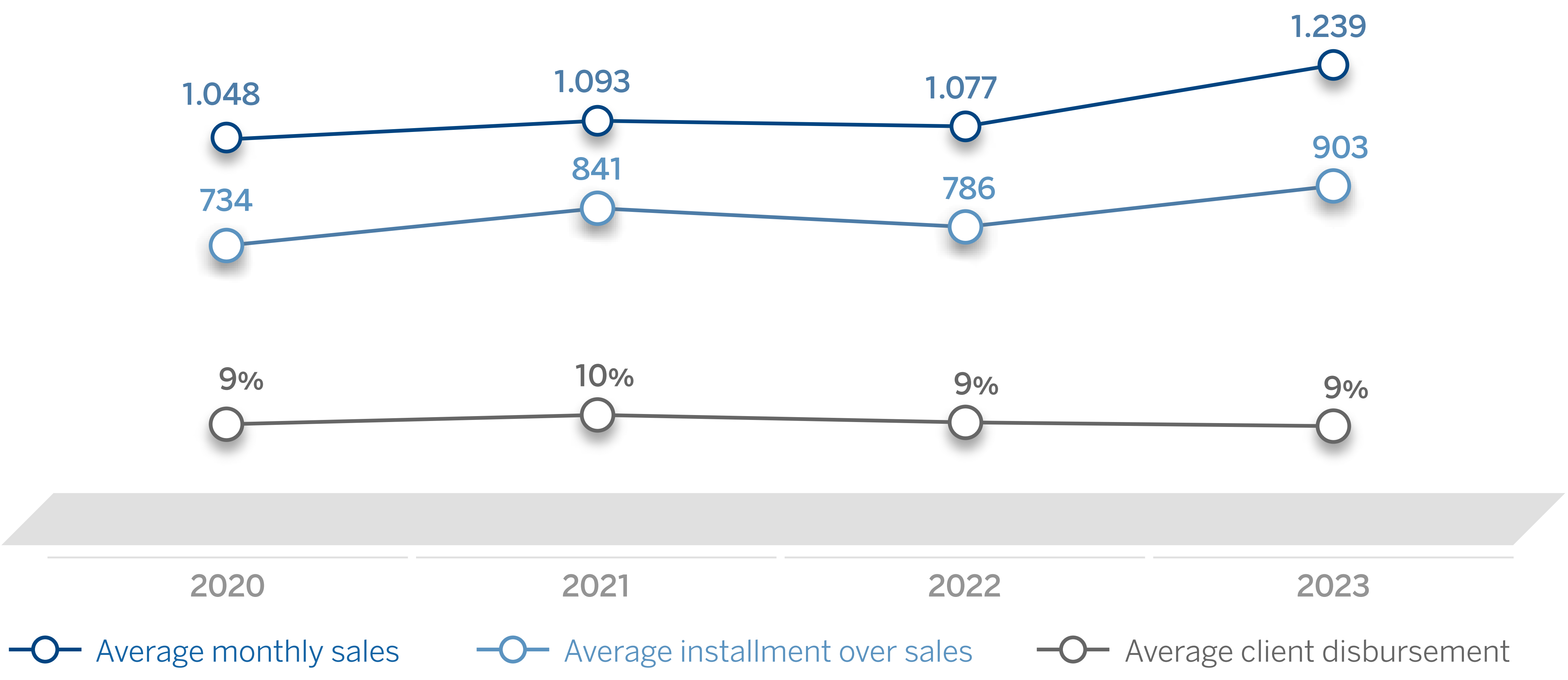
52% improved their income in 2022, compared to 51% the year before

How loans are used

Clients (new and returning) with loans disbursed during the year



Sales to sum disbursed ratio*



* New clients. Average disbursement calculated as the average first disbursement for new clients each year. Weight of the payment installment calculated as each client's average ratio (installment over sales). Installments expressed in monthly terms.

Notes on methodology

Information limitations

Information limitations	Comments
Lack of information on certain variables. There are certain variables for which client information is not available.	Where there are gaps in a given client's data, or it is felt to be unreliable, this client's data is removed; expert or interpolated values were not used.
Positive bias. Clients' tendency to present their microenterprise's performance in a more favorable light than reality.	BBVAMF methodology works on the premise that the data is gathered by an agent/loan officer with an informed understanding of the client's circumstances, who will therefore only report data considered credible.
Process limitations. Information gathering is essentially from loan processes; normally data are collected when the client acquires a new product or renews their loan (information is stored in each microfinance institution (MFI's) core banking system).	There are limitations in the data capture process, such as the difficulty of valuing the business, input errors, incorrectly interpreting the variable, lack of time, etc. For group lending this limitation may be greater. As far as possible, when we have found the data to be less robust, it has not been presented.
Heterogeneous databases and different criteria. Indicators are based on the faithful interpretation of each MFI's criteria and those of its agents/officers. In a very few cases, there are variables with definitions or nuances at a local level or variables that are only collected in certain countries.	• Assets and sales indicators, in particular, are based on the in-depth understanding of each MFI's criteria and that of its agents. Criteria applied to value assets, liabilities, etc may di • Social variables (e.g. housing conditions, educational level, capacity to access other income for the household, etc) are not collated in all the institutions or collated differently. BBVAMF has adapted to the information available from each institution and each country's requirements.

Methodological explanations of some of the indicators and variables

Choosing the variables for consideration

Variable	Comments	
New credit clients	New clients are defined as those who have had a loan during the year without having had previous loans with BBVAMF Group entities.	
Urban / rural environment	The "environment" variable is defined by each institution as follows:	
	Bancamía	The client's business address (street, highway, etc).
	Financiera Confianza	The client's address; in a given district all clients are classified as being in the same "environment", according to their classification by the National Statistics Institute (INEI). If the rural proportion of the district is over 50%, according to the INEI, the entire district is classified as rural.
	Banco Adopem	Assigned according to the % of rural/urban land in the province where the bank office is located, according to the National Statistics Organization. All clients in the branch office are classified in the same category as the branch.
	Fondo Esperanza	Assigned according to the % of rural/urban land in the commune where the client lives, according to the Chilean Statistics Organization (2017 census). All clients in the branch office are classified in the same category as the branch.
	Microserfin	The client's address determines the environment, according to the parameters of the province and the district.

Variable	Comments
Economic sectors	Based on the United Nations International Standard Industrial Classification of all economic activities (version 4). • **Agriculture:** agriculture, forestry, fishing, mining, and quarrying. • **Production/Transformation:** manufacturing; electricity, gas, steam, air conditioning supply; water supply, sewerage; waste management, remediation activities; and construction. • **Trade:** wholesale and retail trade (includes repair of motor vehicles and motorcycles). • **Services:** Transportation and storage; accommodation and food service activities; information and communication; financial and insurance activities; real estate activities; professional, scientific and technical activities; teaching; human healthcare and social work; other services.
Data from financial statements (balance sheets and P&L)	Financial variables shown are those reported by clients • At the first disbursement • At their latest disbursement. • Depending on the methodology interim information can be presented, i.e. whenever data is obtained because there has been a disbursement or an information update (except in the case of Fondo Esperanza. See Financial data performance and variation in the poverty segment).

Variable	Comments
Payment installment	The installment has been calculated as a monthly figure (where the frequency had been different) and, where the client has more than one loan, all their installments to the institution are added together.
Household size	Household members are defined as the number of people living in the same home, whether they are family members or not, who have a shared food budget or share food costs.

Selected indicators

Indicator	Comments
Credit clients	When calculating the indicators for credit clients, we looked at those with a productive unit (microenterprise), thus excluding loans to employees. New clients are defined as those who have taken out a loan during the year and have had no previous loans with BBVAMF Group institutions. Returning clients are those who have received a disbursement in the last 12 months. Total clients are all clients with an outstanding loan as of 12.31.2022.
Savings clients	Clients with savings products and deposits have been analyzed in order to classify them according to their goals. For the indicators on savings clients, institutional clients and employees were excluded. Four categories were identified: • **Savers.** Those who have taken out products designed specifically to encourage saving. • **Potential.** Clients who have taken out transactional savings products and have an outstanding loan. • **Transactional.** Clients who have taken out transactional savings products, but do not have an outstanding loane. • **Inactive.** Remaining clients.

Indicator	Comments
Clients with voluntary insurance	The research presented here has been conducted on insurance policies taken out voluntarily by clients and shows, depending on the study, either the perimeter of clients who take out a policy (policy holders), or the type of parties insured under the policies taken out by clients.
Financial variables	Financial variables are those reported by clients at: • The first disbursement, in the case of graphs about new clients. • The last disbursement or update available, when the graphs refer to renewing clients or the existing portfolio. • In the various client disbursement processes, when the graphs refer to clients' progress over time.
Monthly per capita surplus or "income"	The monthly per capita earnings figure is used by the BBVA Group as the measure of a client's disposable revenues. The surplus (business revenues, less direct and indirect business costs) is divided by the number of people in the household. If necessary, it is calculated by month. Other household income or costs are not included in the calculation for two main reasons: • The aim is to show the impact of the enterprise on clients and their families, rather than the entire household income from other sources. • The information about the client is related to the loan and to the information pertinent for this transaction, so there is no control over the frequency or continuity of any other income unrelated to the microenterprise. Obtaining full documentary proof would be difficult to achieve. Monthly net income is divided by the number of household members to understand its impact on the household as a whole. The household size is the number of people living in one place who share the food budget. It is a more stable figure than the number of dependents, which can vary over time. Monthly net income is calculated from the situation immediately before granting the loan, so does not include the payment installment on the loan that is about to be approved.

Indicator	Comments
Income relative to the poverty line	This measures the monthly per capita surplus (income) as a percentage of the poverty line. Relative income is calculated over the poverty line at disbursement (poverty line for the year in question). As the measurement is relative, it enables us to make comparisons over time (similar to the financial updating of currency units), as well as comparing different geographical areas or segments. Relative income takes the value of one when it is the same as the poverty line. Values under one indicate that the client is in poverty.
Vulnerabilidad económica	Categories have been set using the monthly incomes generated by the micro-enterprise to determine clients' economic situations. These are compared with the poverty and extreme poverty lines for each country, as defined by that country. Clients with monthly income below the extreme poverty line will be classified as *extremely poor*. Those between the extreme poverty and poverty lines will be classified as *poor*. A third category is made up of *vulnerable* clients, those with monthly per capita (p.c.) net incomes less than three times the national poverty line. The businesses of these clients generate monthly p.c. incomes above the national poverty line, but still suffer from great economic uncertainty, understood as a high likelihood of falling back into poverty. The reference to clients under the poverty line or in poverty groups together the *extremely poor* and the *poor*. The term "vulnerability" covers all three segments: *extremely poor, poor and vulnerable*. Remaining clients are classified as *others*.

Indicator	Comments
Vulnerability line (three times the poverty line)	The threshold of three multiples of the poverty line has been defined thus because clients with revenues over this limit are unlikely to fall into poverty. In other words, the threshold of three times the poverty line represents a level of economic security such that the likelihood of clients with higher incomes falling into poverty is less than 10%. This definition is in line with studies by the World Bank.

Relative income distribution of clients who fall into poverty

	100% Max.	99%	95%	90%	75%	50%	25%	10%	5%
Initial relative income	56.89	7.43	3.97	2.92	2.04	1.44	1.16	1.05	1.02

Indicator	Comments
Financial data performance and variation in the poverty segment	There are two ways of measuring performance indicators such as progress made in terms of financial variables (monthly sales and surpluses): • Data from those clients who were current in the last 12 months, and who have updated their information is used to compare their growth with their situation at the outset. Similarly, there are the monthly renewals, where the calculations are made against the disbursement made to the client directly beforehand. • In the case of Fondo Esperanza, the criteria differ slightly, due to the peculiarity of their processes, in which the client's financial information is only updated during the fifth credit cycle. A timespan in which the update has been made is not a requirement. Thus, the client universe considered in the calculation is made up of those who have had two disbursements and an update of their financial data, and this may not have occurred in the previous 12 months.

Indicator	Comments
Social improvement indicators	• **Housing upgrade.** Clients who have changed to having their own home, or who have upgraded their home, whether with sanitation improvements (bathroom, septic tank), in the construction material, in the fuel they use, or who have increased the number of bedrooms since the initial registration. • **Education improvement.** Clients who have improved their level of educational attainment compared to their situation at the outset. • **Improvement in employment.** An increase in the number of the enterprise's employees compared with at the outset. All clients who have improved their circumstances were analyzed, independently of when the improvement occurred.
Employment creation indicator	To assess microenterprises' capacity to generate employment, the change in the number of workers hired by clients over time was analyzed. Although there is no historical series for this data, the number of reported employees hired has been presented for clients current as of 12.31.2022. The criterion used to collate information was changed in Financiera Confianza: family members are now excluded from worker numbers. For this reason, the evolution of employment creation has not been presented.
TCAC y TAM	**Compound annual growth rate (CAGR)** is calculated as the average growth of clients' financial values since their previous disbursement. Outlying values of less than 1% or more than 5% are excluded. To calculate the average annual rate, and in those cases where the client has received two loans in the same year, only the growth of the latest credit disbursed during the year is included, in order to have the most recent data point. **AAR: average annual rate** comparing growth (generally of client segments) over time.

National poverty lines

The official extreme poverty and poverty lines are taken for each country, depending on whether it is urban or rural, as published by each country's official bodies. Where these lines have not been updated from the previous year, the latest available are taken and updated using the annual CPI (Consumer Price Index) to December of the year in question.

Poverty lines in all countries except for Chile (except for Chile)

Country	Source	Year	Poverty level	Rural (LOC)	Urban (LOC)
Colombia	2021 lines updated by CPI (13,1%)	2022	Extreme poverty	138,419	194,807
			Poverty	256,239	441,864
	2020 lines updated by CPI (5,6%)	2021	Extreme poverty	118,688	163,064
			Poverty	211,018	390,454
	National Statistics Department (DANE)[1]	2020	Extreme poverty	112,394	154,417
			Poverty	199,828	369,748
	DANE	2019	Extreme poverty	106,924	146,189
			Poverty	210,969	361,574
	DANE	2018	Extreme poverty	100,041	122,742
			Poverty	169,185	283,239
	DANE	2017	Extreme poverty	99,082	121,409
			Poverty	165,062	275,818
	DANE	2016	Extreme poverty	97,867	119,685
			Poverty	159,543	266,043
	DANE	2015	Extreme poverty	86,918	106,653
			Poverty	157,752	246,336
	DANE	2014	Extreme poverty	79,837	98,407
			Poverty	139,792	233,530
	DANE	2013	Extreme poverty	77,947	95,884
			Poverty	136,192	227,367

1. http://www.dane.gov.co

National poverty lines (continued)

Country	Source	Year	Poverty level	Rural (LOC)	Urban (LOC)
Peru	2021 lines updated by CPI (8,5%)	2022	Extreme poverty	183	227
			Poverty	303	438
	2020 lines updated by CPI (6,4%)	2021	Extreme poverty	170	212
			Poverty	281	410
	National Statistics & Informatics Institute (INEI)[2]	2020	Extreme poverty	161	199
			Poverty	265	384
	INEI	2019	Extreme poverty	158	195
			Poverty	260	377
	INEI	2018	Extreme poverty	154	191
			Poverty	253	369
	INEI	2017	Extreme poverty	153	191
			Poverty	250	364
	INEI	2016	Extreme poverty	150	184
			Poverty	244	353
	INEI	2015	Extreme poverty	137	169
			Poverty	226	328
	INEI	2014	Extreme poverty	137	169
			Poverty	226	328
	INEI	2013	Extreme poverty	132	163
			Poverty	218	316

2. https://www.inei.gob.pe

National poverty lines (continued)

Country	Source	Year	Poverty level	Rural (LOC)	Urban (LOC)
Dominican Republic	2021 lines updated by CPI (7,8%)	2022	Extreme poverty	2,790	2,910
			Poverty	5,756	6,464
	2020 lines updated by CPI (7,7%)	2021	Extreme poverty	2,602	2,715
			Poverty	5,370	6,031
	Ministry for the Economy, Planning & Development (MEPyD)[3]	2020	Extreme poverty	2,380	2,484
			Poverty	4,911	5,516
	MEPyD	2019	Extreme poverty	2,295	2,395
			Poverty	4,736	5,320
	MEPyD	2018	Extreme poverty	2,223	2,320
			Poverty	4,588	5,153
	MEPyD	2017	Extreme poverty	2,172	2,267
			Poverty	4,482	5,034
	MEPyD	2016	Extreme poverty	2,076	2,167
			Poverty	4,285	4,813
	MEPyD	2015	Extreme poverty	2,048	2,138
			Poverty	4,228	4,749
	MEPyD	2014	Extreme poverty	2,041	2,130
			Poverty	4,212	4,730
	MEPyD	2013	Extreme poverty	1,985	2,071
			Poverty	4,096	4,600

3. http://economia.gob.do

National poverty lines (continued)

Country	Source	Year	Poverty level	Rural (LOC)	Urban (LOC)
Panama	2021 lines updated by CPI to Dec. (2,1%)	2022	Extreme poverty	63	74
			Poverty	113	152
	2020 lines updated by CPI to Dec. (2,6%)	2021	Extreme poverty	61	73
			Poverty	110	149
	2019 lines updated by CPI to Dec. (0%)	2020	Extreme poverty	60	71
			Poverty	108	145
	2018 lines updated by CPI to Dec (0%)	2019	Extreme poverty	60	71
			Poverty	108	145
	Finance & Economy Ministry[4]	2018	Extreme poverty	60	71
			Poverty	108	145
	MEF	2017	Extreme poverty	59	70
			Poverty	107	144
	MEF	2016	Extreme poverty	59	70
			Poverty	106	144
	MEF	2015	Extreme poverty	59	69
			Poverty	105	141
	MEF	2014	Extreme poverty	59	69
			Poverty	105	142
	MEF	2013	Extreme poverty	56	66
			Poverty	102	137

4. http://www.mef.gob.pa/es/informes/paginas/pobreza-e-indigencia.aspx

The value of poverty lines used in the traditional methodology is the value of the poverty lines published in 2013 by the Social Development Ministry, updated using the CPI.

National poverty lines (continued)

Poverty lines in Chile

We should draw attention to the case of Chile, where in 2015 the Social Development Ministry (SD Ministry) published a new methodology (NM) in consensus with a broad selection of experts,[5] because "the traditional measurement was no longer reflecting the situation of poverty in which many families were living".[6] The aim is to adapt to Chile's economic and social reality (higher standards) and reflect situations of deprivation that go beyond low income (multidimensional).

The NM brought in some important changes, with the most significant ones summarized below:

Updated poverty line

The basic food basket has been updated[7] and the proportion between the poverty and the extreme poverty lines reviewed.

- **Basic basket:** The NM for measuring poverty by income recalculates the basic food basket (with a new estimate of its contents) for the average household.
- **Relationship between extreme poverty and poverty:**

  Extreme poverty line for an average household: EPL = $\frac{2}{3}$ PL
  wher:
  PL: Poverty line; EPL: Extreme poverty line
- **Extreme poverty line:** This value is set so that EPL covers food, clothing and housing.[8] The NM includes in its income a charge for renting the home for those who own or have the use of one. The previous methodology, conversely, only included a charge for those who had their own home.

Use of equivalence scales, elimination of environment

Instead of having a single poverty and extreme poverty line (expressed in per capita (p.c.) values), lines have been drawn that depend on the size of the household (as the number of household members increases, the expense incurred to cover nutritional requirements associated with basic food and non-food needs falls proportionately). Note that the NM does not consider the environment (rural vs. urban).

5. The Poverty Measurement Commission (2013-2014); the Inter-Institutional Technical Roundtable formed by the National Institute of Statistics and the Ministry of Social Development, with support from ECLAC (2014); the CASEN 2013 Expert Panel and the Oxford Poverty and Human Development Initiative (OPHI, 2014-2015).

6. Social Development Ministry, Una Medición de la Poverty Moderna y Transparente para Chile. CASEN 2013 & 2015 [A Modern and Transparent Poverty Measurement for Chile].

7. Minimum income stipulated as necessary to meet one person's basic nutritional needs.

8. Nueva Metodología de Medición de la Poverty por Ingresos y Multidimensional (CASEN Observatorio Social 2013), page 11 [New methodology for measuring poverty by income and multi-dimensions].

National poverty lines (continued)

Poverty lines in Chile (continued)

The poverty lines in use since 2015 are, as such, significantly higher than those applied using the previous methodology, where the extreme poverty line was equivalent to the basic basket of goods and the poverty line mirrored the cost of food, goods, and basic services.

Given that the NM poverty lines are defined based on household revenue, business income is taken (instead of per capita surplus) to calculate the metrics and the corresponding poverty line is set depending on the size of the household. The poverty line series used are as follows:

	Household size	2015	2016	2017	2018	2019	2020	2021	2022
Extreme poverty (LOC)	1	100,944	103,139	105,653	108,696	111,982	116,629	123,274	138,611
	2	163,985	167,550	171,633	176,577	181,915	189,464	200,259	225,175
	3	217,805	222,541	227,963	234,530	241,620	251,646	265,984	229,077
	4	266,394	272,187	278,819	286,850	295,522	307,785	325,321	365,797
	5	311,431	318,203	325,956	335,345	345,483	359,819	380,320	427,639
	6	353,825	361,519	370,327	380,995	392,512	408,800	432,092	485,852
	7	394,140	402,711	412,523	424,406	437,236	455,380	481,326	541,212
	8	432,758	442,168	452,942	465,989	480,076	499,998	528,486	594,239
	9	469,950	480,169	491,869	506,038	521,335	542,969	573,905	645,310
	10	505,920	516,922	529,517	544,770	561,238	584,528	617,832	694,702
Poverty (LOC)	1	151,417	154,709	158,479	163,044	167,973	174,943	184,911	207,917
	2	245,977	251,326	257,450	264,865	272,872	284,196	300,388	337,762
	3	326,707	333,811	341,945	351,795	362,429	377,469	398,976	448,616
	4	399,591	408,280	418,228	430,275	443,282	461,677	487,982	548,696
	5	467,146	477,304	488,934	503,018	518,224	539,729	570,480	641,459
	6	530,737	542,278	555,491	571,492	588,768	613,200	648,138	728,779
	7	591,210	604,066	618,785	636,609	655,854	683,070	721,988	811,817
	8	649,137	663,253	679,414	698,984	720,114	749,997	792,729	891,359
	9	704,925	720,254	737,804	759,056	782,003	814,454	860,858	967,965
	10	758,881	775,382	794,276	817,155	841,857	876,792	926,748	1,042,053

Currency exchange rates

All the (historical) data from MFIs is input in local currency and the exchange rate applicable on December 31, 2022 is applied so that exchange rate fluctuations do not impact the conclusions.

Country	Exchange rate		Source
Colombia	COP/USD	0.0002079	BBVA Bank, mid-market rate on December 31, 2022
Peru	PEN/USD	0.2628881	BBVA Bank, mid-market rate on December 31, 2022
Dominican Republic	DOP/USD	0.0178616	BBVA Bank, mid-market rate on December 31, 2022
Chile	CLP/USD	0.0011635	BBVA Bank, mid-market rate on December 31, 2022
Panama	PAB/USD	1.0000000	BBVA Bank, mid-market rate on December 31, 2022

Surveys

Between 2020 – 2022 several rounds of client surveys were carried out via the branch network, to find out:

- **The impact of the pandemic from the perspective of economic vulnerability,** sfinancial health, and household welfare. .
- **Their resilience, once they had weathered the pandemic.** How they adapted, the sustainability of the adaptations to their business and how interested they are in financial and non-financial solutions, among others; the surveys also tackled the degree of entrepreneurs' connectivity and how affordable it is, with a view to measuring digital poverty at a later stage.
- **Their deprivations in dimensions relating to education, healthcare and housing,** as well as information about the client's business and their household income; this will make it possible to roll out measuring in our systems, so as to link it to the value offering.