

Second-Party Opinion

Banco Compartamos Social Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Banco Compartamos Social Bond Framework aligns with the four core components of the Social Bond Principles 2020. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Employment Generation, Socioeconomic Advancement and Empowerment, and Access to Essential Services – are aligned with those recognized by the Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDGs 8 and 10.



PROJECT EVALUATION / SELECTION Banco Compartamos' Executive Committee and the Directors Committee will be in charge of evaluating and selecting Eligible Assets and ensuring compliance with the Framework. Sustainalytics considers this to be in line with market practice.



MANAGEMENT OF PROCEEDS Banco Compartamos will manage proceeds through a portfolio approach, in which an amount equal to the net proceeds of the social bond will be allocated to Eligible Assets that meet the eligibility criteria. The Bank intends to immediately fully allocate the proceeds to the Eligible Assets portfolio, and its Executive Committee and Finance Department will be in charge of overseeing the allocation process. This is in line with market practice.



REPORTING Banco Compartamos intends to publish, until full allocation, an Annual Social Bond Report on its website. The allocation reporting will include amounts allocated to each Eligible Assets and a brief description of select assets. In addition, the Bank is committed to reporting relevant impact metrics, where feasible, such as number of beneficiaries, number of first-time loan recipients, number of micro and small business benefited, and number of women owned business benefited. Sustainalytics views Banco Compartamos' allocation and impact reporting commitments as aligned with market practice.

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Issuer Location	Mexico City, Mexico

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Introduction

Banco Compartamos S.A. Institución de Banca Múltiple (“Banco Compartamos”, or the “Bank”) is a financial institution, part of Genera S. A. B. de C. V. (“Genera”, or the “Group”), offering loans and credits – mainly through group lending methodology – to community groups and low-income individuals, as well as bank accounts, saving products, insurance policies, and payment services. The Bank was created as a non-profit in 1990, until 2000 when it obtained a licence to operate as a Limited Object Financial Institution (Spanish: Sociedad Financiera de Objeto Limitado, “SOFOL”). In 2006, Banco Compartamos obtained a banking license and has since operated as a multipurpose bank. Headquartered in Mexico City, Mexico, the Bank currently serves over 2.6 million clients. Since 2011, Genera operates in Guatemala and Peru with its subsidiaries using the “Compartamos” brand.

The Bank has developed the Banco Compartamos Social Framework (the “Framework”) under which it intends to one or more social bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future lending. Additionally, the Bank will expand its product offering including bank accounts, payment services, transactional channels, savings products, insurance coverage and/or digital financial solutions that advance financial inclusion for underserved and unbanked populations, as well as using the liquidity generated by the transaction to strengthen its overall balance sheet and maintain liquidity in the face of the current pandemic-driven macroeconomic context. The Framework defines eligibility criteria in three areas:

1. Employment Generation – Microfinance and Entrepreneurs Financing
2. Socioeconomic Advancement and Empowerment – Programs to support women-owned businesses
3. Access to Essential services – Financial

Banco Compartamos engaged Sustainalytics to review the Banco Compartamos Social Framework, dated July 2020, and provide a second-party opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2020 (“SBP”).¹ This Framework has been published in a separate document.²

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Social Bond Principles 2020, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.4, which is informed by market practice and Sustainalytics expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Banco Compartamos’ management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Banco Compartamos representatives have confirmed (1) they understand it is the sole responsibility of Banco Compartamos to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

¹ The Social Bond Principles are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>.

² The Banco Compartamos Social Bond Framework is available on Banco Compartamos S.A.’s website at: <https://www.compartamos.com.mx/compartamos/informacion-financiera>.

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

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This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Banco Compartamos.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Banco Compartamos has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Banco Compartamos Social Bond Framework

Sustainalytics is of the opinion that the Banco Compartamos Social Bond Framework is credible and impactful, and aligns with the four core components of the SBP. Sustainalytics highlights the following elements of Banco Compartamos' Social Bond Framework:

- Use of Proceeds:
 - The eligible assets are aligned with categories recognized as impactful by the SBP 2020: Employment Generation, Socio-Economic Advancement and Empowerment and Access to Essential Services.
 - Compartamos intends to use net proceeds to financing/refinance its existing portfolio of loans to micro-businesses, small companies and entrepreneurs, women-owned businesses, and individuals facing barriers to access financial services.
 - Sustainalytics notes positively the identification of target populations for each category as recommended by the SBP. Sustainalytics notes that Banco Compartamos' loans are primarily intended for female entrepreneurs with limited or no credit history, and the Bank intends for the majority of the net proceeds to be allocated to underserved populations specifically those classified within the C-, D+ and D socioeconomic segments in Mexico.⁴ While noting that financing is not being exclusively granted to those with low incomes, based on the shares of individuals currently within the Bank's lending portfolio Sustainalytics views this targeting as aligned with market practice.
 - Within the "Microfinance and Entrepreneurs Financing" category, the Bank intends to finance micro-business, small companies and rural businesses that have, on average, ten employees or fewer. Sustainalytics views the identified target group as credible and impactful, and further notes the small average loan size (between USD 300 and USD

⁴ This classification has been developed by the Mexican Association of Marketing Research and Public Opinion Agencies (Spanish acronym "AMAI"). AMAI classifies households using the Socioeconomic Level Index (Spanish acronym "NSE") which groups households on their ability to meet certain needs of its inhabitants, based on indicators including education level, number of bedrooms and bathrooms in the home, employment, and access to vehicles and internet. For example 74% households in Level C- have a head of household with studies higher than elementary school, 52% have a fixed internet connection at home, and spend 38% of income on food and 24% on transportation and communication, while for Level D, 56% have a head of household that has completed elementary school, 4% have access to internet at home, 46% of income is devoted for food and 16% on transport and communication. See: <http://nse.amai.org/niveles-socio-economicos-amai/>.

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- 8,000) for these types of loans in Compartamos portfolio (both group and individual loans).
- Within the “Programs to support women-owned businesses” category, the Bank intends to finance loans to support women-owned businesses. Businesses should belong to a minimum group of 10 female entrepreneurs and have no more than 10 employees. Sustainalytics views positively the intended social impacts of financing mainly women-owned enterprises, and highlights the added social benefits of focusing on micro and small businesses within this space.
 - Within the “Access to financial services” category, the Bank will provide personal loans to low-income people, such as those with little or no credit history and those accessing a financial service for the first time, women and men looking to start a business, and excluded or marginalized populations or communities.
 - Sustainalytics views direct lending support to those who face barriers to accessing traditional credit as socially impactful, subject to appropriate considerations around due diligence which are particularly important for working-capital lending.
 - Sustainalytics notes that Banco Compartamos has robust policies in place to protect vulnerable populations against over indebtedness such as, but not limited to, no opening or administration fees, no early-repayment fees, and free life insurance on second group loans. Refer to Section 2 for further discussion of risk mitigation.
 - While the proceeds of the Social Bond will be allocated to the lending portfolio described above, Banco Compartamos has communicated that it also intends to make use of the increased liquidity provided by the issuance to support the development of existing and additional products and services that expand access to banking services for the target populations described above.
 - Within the “Access to financial services” category, the Bank will include investments in expanding the provision of financial services to individuals and communities who face barriers to accessing these services, including transactional banking and micro insurance products (such as through the Bank’s Yastas network). Sustainalytics notes the potential positive impact of greater financial inclusion by offering these services to the intended target population of “Excluded and/or marginalized populations and/or communities and bottom of the pyramid”.
 - The Bank has disclosed that the lending provided with proceeds from the social bonds are additionally intended to support those that are vulnerable and have been impacted by the economic effects caused by the control measures to limit the spread of COVID-19. Sustainalytics notes that, for the above reasons, this will be particularly impactful.
 - The Framework specifies exclusionary criteria for certain activities which may pose added social or environmental risk, such as gambling, mining, and alcohol. Sustainalytics views this as strengthening the Framework, while encouraging Compartamos to avoid where possible lending in the fossil fuels sector.
 - Project Evaluation and Selection:
 - The Executive Committee and the Directors Committee, the two most senior operating and management bodies at the Bank, will be in charge of evaluating and selecting Eligible Assets, and with ensuring compliance with the Framework.
 - Based on the delegation of authority to senior management, Sustainalytics considers this process to be in line with market practice.
 - Management of Proceeds:
 - Banco Compartamos will allocate an equal amount to the net proceeds of the Social Bonds to the portfolio of eligible loans. Sustainalytics notes the Bank intends to immediately fully allocate the proceeds to the Eligible Assets portfolio that matches or exceeds the balance of net proceeds from the social bonds.
 - The Executive Committee and Finance Department will oversee the allocation process, namely to ensure that proceeds are fully allocated to lending within the three categories of the Framework.

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- Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - The Bank intends to publish an Annual Social Bond Report on its website and until full allocation, as well as additional reporting, in a timely manner, in case of material developments. Allocation reporting will include the amount of net proceeds allocated to each Eligible Assets and a brief description of select assets. The impact reporting will include, where feasible, key performance indicators (“KPIs”) such as number of beneficiaries, number of first-time loan recipients, number of micro and small businesses benefited, and number of women owned businesses benefited.
 - Based on the Bank’s reporting commitments, Sustainalytics considers this process to be in line with market practice.

Alignment with Social Bond Principles 2020

Sustainalytics has determined that the Banco Compartamos Social Bond Framework aligns to the four core components of the SBP 2020. For detailed information please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

Section 2: Sustainability Performance of Banco Compartamos

Contribution of Framework to Banco Compartamos’ sustainability strategy

Sustainalytics is of the opinion that Banco Compartamos demonstrates a commitment to sustainability with a focus on financial inclusion and supporting female entrepreneurs. Since its founding as a non-profit organization, the Bank has focused on providing microfinancing to low-income and underserved populations and currently 88% of its clients in Mexico are women. As part of Genera, the Bank is aligned with Group’s corporate social responsibility approach which centers on six institutional values: (i) service, (ii) responsibility, (iii) passion, (iv) profitability, (v) teamwork and (vi) the personal wellbeing of people.⁵

As part of the Group’s mission to contribute to the development of communities in Mexico, Genera has earmarked up to 2% of its net profits to invest in projects that have a social impact. By year end 2019, the Group had invested approximately USD 5.2 million⁶ (MXN 98,383,358) in projects and programs to improve the quality of life for people in underserved communities. In order to further its mission, the Bank has developed “Talleres de Emprendimiento” an educational program which was attended by 790 people in 2019. The program is designed for micro and small business owners to better manage their finances and grow their businesses.⁷

To further advance financial inclusion, Genera has expanded its electronic and mobile banking systems’ contribution to the reduction of time and money invested per transaction. Yastás, another Group company, became the largest manager of bank correspondence in Mexico. This network has extended the reach of Banco Compartamos which now has over 40,000 transactional points, facilitating access to financial services including service payments, mobile top-ups, and remittance payments from supermarkets, local stores and other banking correspondents serving municipalities that had limited or non-existent banking infrastructure. Furthermore, the Bank has increased the number of financial services it provides to include five different savings products and three types of insurance products to better accommodate the needs of its target population.

Based on the Bank’s mission and demonstrated record of providing financial services to the underbanked, Sustainalytics is of the opinion that the Banco Compartamos Social Bond Framework is aligned with the Compartamos’ overall sustainability strategy and initiatives and will further the Bank’s action on its key social priorities.

Well positioned to address common social and environmental risks associated with the projects

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are recognized by the SBP to have positive social impact, Sustainalytics acknowledges that there

⁵ Genera, “Annual and Sustainability Report 2018”, at: https://www.genera.com.mx/wcm/connect/8e2e0a33-feaa-4ed5-9a19-617f43c51d54/Genera_Annual+and+Sustainability+Report+2018.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-8e2e0a33-feaa-4ed5-9a19-617f43c51d54-n7CClo3.

⁶ Exchange rate as of December 31, 2019

⁷ Genera, “Annual and Sustainability Report 2019”, at: https://www.genera.com.mx/wcm/connect/a9243524-0174-493b-b88a-129498fbb311/Informe+Anual+Genera+2019.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-a9243524-0174-493b-b88a-129498fbb311-n8JDC2e.

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exist environmental and social risks which could be associated with the financing provided. Specifically, some social projects may create or contribute to risks of social inequity if funds are not well-managed and directed to programs which are appropriately targeted to vulnerable populations and implemented with respect for impacts on local communities and other stakeholders, and some consumer credit services may present risks for the lendee. As a result of its lending activities, the Bank might also be exposed to projects that affect biodiversity and community relations or companies undertaking controversial activities.

To mitigate these risks, Banco Compartamos and Genera have in place a series of processes and policies that make up its Integrity Policy.⁸ This Integrity Policy is aligned with the General Law of Administrative Responsibilities,⁹ and comprises additional guidelines and procedures of which Sustainalytics highlights the following:

- Every employee and member of a governing body is governed by Genera's Code of Ethics and Conduct (the "Code").¹⁰ Every new member of the Group is required to do a training course on the Code's application and undergo yearly recertification. The Code includes human rights and labour protections, as well as delineates the Group's goal for responsible environmental stewardship. The Code also applies to collaborators, suppliers and NGOs who partake in the Group's social programs.
- In regards to client protection, Banco Compartamos has endorsed the Smart Campaign,¹¹ and adopted the Client Protection Principles to protect client's vulnerabilities and mitigate risks in relation to its financial inclusion programs which include: (i) appropriate product design and distribution; (ii) prevention of over-indebtedness; (iii) transparency; (iv) reasonable prices; (v) fair and respectful treatment of client; (vi) clients privacy protection; and a (vii) clients complaints resolution mechanisms.¹²
- For the prevention of over-indebtedness, the Group has specific training for its employees and the Group had 15,000 employees complete the Client Protection Certification program in 2019.¹³ Banco Compartamos also provides educational resources for its clients to learn how to manage their loans and resources, as well for the responsible management of their credit lines. For group loans, the Bank identifies and establishes the payment responsibilities for each person who partakes in such loans.
- To assess for additional material risks, the Group has established control mechanisms and audit systems that periodically review compliance of its subsidiaries with the Group's policies and standards and applicable regulatory laws.
- The Group has in place a series of grievance mechanisms to be used by internal or external stakeholders.

In addition to the above, Genetera has asked its stakeholders, including suppliers, consultants, partners, etc., to sign the Code of Ethics to ensure its values are respected along its supply chain. All Bank employees are certified in Money Laundering and Financing of Terrorism Prevention.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Banco Compartamos has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

⁸ Genera, "Política de Integridad", at: <https://www.genera.com.mx/genera/quienessomos/gobiernocorporativo>.

⁹ The General Law on Administrative Responsibilities ("GLAR"), enacted in July 2017, "provides for administrative liability of public officials as well as private natural and legal persons for 'serious' and 'non-serious' administrative offences. The GLAR regime is enforced by Ministry of Public Administration, and GLAR Articles 4 and 24-25 explicitly provide for corporate liability." OECD, "Implementing the OECD Anti Bribery Convention, Phase Four Report: Mexico", (2018), at: <http://www.oecd.org/corruption/anti-bribery/OECD-Mexico-Phase-4-Report-ENG.pdf>.

¹⁰ Genera, "Código de Ética y Conducta", at: <https://www.genera.com.mx/wcm/connect/07c9b0a8-c3f4-431b-9330-8c3b59db1dfb/C%C3%B3digo+de+%C3%89tica+y+Conducta+Genera.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-07c9b0a8-c3f4-431b-9330-8c3b59db1dfb-m.fiWZN>.

¹¹ The Smart Campaign is a global initiative that strives to ensure safe and responsible treatment of microfinance consumers by delivering transparent, respectful, and prudent financial services to clients. At: <https://www.smartcampaign.org/about/campaign-mission-a-goals>.

¹² Genera, "Informe Anual y de Sustentabilidad 2016", at: https://www.genera.com.mx/wcm/connect/3bb1e96f-a9b3-46c3-8419-3a0ddab31622/L.+1+ii+a%29+Informe+anual+y+de+sustentabilidad+2016+Genera+AGOA+20_Abr_17.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-3bb1e96f-a9b3-46c3-8419-3a0ddab31622-m9G3fhz.

¹³ Genera, "Client Protection", at: https://www.genera.com.mx/genera/quienessomos/proteccion-al-cliente/!ut/p/z1/04_Sj9CPykssy0xPLMnMz0vMAfljo8zi_Q1MHD3cLYx8LAK9zAwCjQKNPcP831xDa0z0w1EV-PsEuRg4hoR5mBoF-xkHuhnpRxGj3wAHcDQgTj8eBVH4jQ_Xj0K1AosP8CnwDDGEksBjSUFuaGieQaYnAJGhwy0l/dz/d5/LOIDUmlTUSEhL3dHa0FKRnNBLzROV3FpQSEhL2Vu/?mosHist=1.

Section 3: Impact of Use of Proceeds

The use of proceeds categories are aligned with those recognized by the SBP. Sustainalytics has focused below on how the impact is specifically relevant in the local context.

Importance of MSME financing in Mexico

In the context of Mexico's emerging market economy, MSMEs make up a vital part of the economy and overall employment. According to OECD, 4 million SMEs in Mexico represent 12.4% of total gross production and employ 47.2% of the entire workforce.¹⁴ However, the lack of access to finance for MSMEs has become a significant impediment for employment, economic development and shared prosperity in the country. Based on the International Finance Corporation ("IFC") statistics, MSMEs in Mexico face a financing gap of USD163 billion, accounting for 14% of GDP, the second-highest gap by volume among all Latin American countries.¹⁵ Additionally, 2018 data from the OECD shows a 5.9% interest rate spread between SMEs and larger firms as the average interest rates correlate with the size of the borrowing company, which further burdens MSMEs seeking financing.¹⁴

The MSME financing gap leads to wide labour productivity gap. Mexico has the lowest labour productivity of SMEs among all OECD countries.¹⁶ The huge productivity gap between SMEs and large firms aggravates income inequalities and slows economic growth in Mexico. The importance of addressing these concerns is represented in the steps the Mexican federal government has taken in implementing specific programmes targeted to micro and small enterprises. These include initiatives aimed at lowering the personal income tax rate, providing management training and ICT adoption in micro-business. The Financial Inclusion Action Plan, launched in 2016, also addresses the importance of MSME financing.¹⁶

Having served over 13 million people since its founding in 1990, and by continuing to provide financial services to underserved populations, Banco Compartamos' social bonds are expected to create job opportunities and to help promote the economic development of the communities targeted. Therefore, Sustainalytics is of the view that Banco Compartamos' provision of loans for micro/small and rural business will have a positive impact on job generation and improve economic growth in Mexico.

Importance of supporting women in entrepreneurship

Mexico's economy has continued to grow in recent years, weathering uncertainties related to elections and trade relationships. Despite the economic growth, women's labour force participation rate in Mexico lags the average of OECD countries as well as other large Latin American countries.¹⁷ Compared to an 80% rate of male labour force participation, Mexican women are represented at a rate of 48% based on the National Survey for Financial Inclusion (Spanish acronym: "ENIF") 2018 data. Additionally, the fact that women are over-represented in insecure and lower-paid jobs demonstrates a broader gap in gender inequality in Mexican society.¹⁸ According to the OECD, one cause of this low participation rate is the unpaid work burden on Mexican women, which has created more obstacles for women to devote time to formal employment.¹⁹ Moreover, based on the classification of the Mexican government to measure poverty, 14% of women agricultural producers and MSMEs are recognized as highly marginalized communities.²⁰

Mexico launched its National Financial Inclusion Strategies in 2016, which includes the Mujeres PYME policy aimed at supporting small businesses led by women. Along with other policies, this is expected to help nearly 7 million women to participate in the formal financial system.²¹

Banco Compartamos is targeting primarily female entrepreneurs with limited or no credit history. As 88% of the Bank's clients in Mexico are women, the use of proceeds of this social bonds allocated to female

¹⁴ OECD (2020), "Financing SMEs and Entrepreneurs 2020", <https://www.oecd-ilibrary.org/docserver/061fe03d-en.pdf?expires=1591799913&id=id&accname=guest&checksum=C16E2D403439F007FE4307E9EC4F1FFC>.

¹⁵ IFC (2017), "MSME Finance Gap- Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets", <https://www.smefinanceforum.org/sites/default/files/Data%20Sites%20downloads/MSME%20Report.pdf>.

¹⁶ OECE (2017), "Mexico Policy Brief", <https://www.oecd.org/mexico/mexico-raising-productivity-in-small-traditional-enterprises.pdf>.

¹⁷ IMF (2018), "Mexico's Economic Outlook in Five Charts", <https://www.imf.org/en/News/Articles/2018/11/07/NA110818-Mexico-Economic-Outlook-in-5-Charts>

¹⁸ Women's World Banking (2018), "Country Strategy Mexico", <https://www.womensworldbanking.org/country-strategies-mexico/#keytrends>.

¹⁹ Gurria (2018), "Gender Equality and the Empowerment of Women for Inclusive Growth in Mexico", <https://www.oecd.org/about/secretary-general/gender-equality-and-empowerment-of-women-for-inclusive-growth-mexico-january-2020.htm>.

²⁰ The World Bank (2017), "Women in Rural Mexico Benefit from Loan to Expand Financial Services", https://www.worldbank.org/en/news/feature/2017/09/05/women-in-rural-mexico-benefit-from-loan-to-expand-financial-services?CID=FAM_TT_FinanceMarkets_EN_EXT.

²¹ Center for Financial Inclusion (2016), "Mexico Launches Comprehensive Financial Inclusion Strategy", <https://www.centerforfinancialinclusion.org/mexico-launches-comprehensive-financial-inclusion-strategy>

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entrepreneurs will help advance Mexico's Financial Inclusion Strategy and empower women in leadership, promote women in the economy and bridge the gap of inequality.

Given this context, Sustainalytics recognizes the importance of supporting female-owned businesses, and its impacts on reducing gender inequality in Mexico. The projects funded through Banco Compartamos' social bonds are anticipated to bring positive impacts to gender equality in Mexico.

Importance of financial inclusion and access to services in Latin American countries

IMF studies show Latin American countries continues to lag behind other emerging markets on financial inclusion. Only 47% of households in Latin American countries have an account with a formal financial institution.²² The situation in Mexico is similar to these region-wide trends, with only 44% of adults holding a bank account;¹⁵ more than 30% of adult in Mexico have no access to financial services, with the percentage reaching 42.9% in rural areas.¹⁹ The low financial inclusion rate has been attributed primarily to low incomes.²³

Access to financial services should also be considered in the context of its interrelation with access to other basic services (e.g. housing, healthcare and education). According to the aforementioned IMF study, a positive correlation has been found between the percentage of financial inclusion, per capita income and education level.¹⁸ Considering the majority of people without access to financial services belong to highly marginalized communities, without the protection provided by banking services, they are more vulnerable during economic uncertainties. The lack of financial access also limits the potential economic development for these groups.

As a World Bank Group partner country, committed to prioritizing Universal Financial Access by 2020, Mexico launched the National Financial Inclusion Strategy in 2016. The strategy is expected to accelerate the access to financial services for more than half of its population. At the same time, the World Bank has implemented projects in Mexico to expand financial inclusion. To achieve this goal, the IFC supported the development of Banco Compartamos' microfinance offerings.²⁴

By financing projects that expand individual access to banking and other microinsurance products, Banco Compartamos can promote access to underserved populations with little or no credit history to affordable financial services and support their overall economic growth. Financial inclusion also provides more opportunities in education, housing and health care for low-income populations, leading to overall improvements in wellbeing in the country.

Therefore, Sustainalytics views Banco Compartamos projects for access to financial services as providing positive impacts for the target groups. The financial inclusion gaps in Latin American countries represent an opportunity for Banco Compartamos to generate measurable impact by strengthening the access to financial services for all people in Mexico.

Alignment with/contribution to SDGs

The Sustainable Development Goals ("SDGs") were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Employment Generation	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Socio-Economic Advancement and Empowerment	5. Gender Equality	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life

²² IMF (2015), "Financial Inclusion: Zeroing in on Latin America", <https://www.imf.org/external/pubs/ft/wp/2015/wp15206.pdf>.

²³ ENIF (2018), "National Survey for Financial Inclusion", https://www.gob.mx/cms/uploads/attachment/file/435813/ENIF_2018_en.pdf.

²⁴ The World Bank (2016), "Mexico to Accelerate Path to Financial Inclusion", <https://www.worldbank.org/en/news/feature/2016/06/23/mexico-to-accelerate-path-to-financial-inclusion>.

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Access to Essential Services	8. Decent work and economic growth 10. Reduced inequalities	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
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Conclusion

Banco Compartamos has developed the Banco Compartamos Social Bond Framework under which it will issue social bonds and use the proceeds to finance lending and advance social and economic inclusion. Sustainalytics considers that the assets funded by the social bond proceeds will provide positive social impact.

The Banco Compartamos Social Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Banco Compartamos Social Bond Framework is aligned with the overall sustainability strategy of the company and that the social use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 5, 8 and 10. Additionally, Sustainalytics is of the opinion that Banco Compartamos has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Banco Compartamos S.A. is well-positioned to issue social bonds and that the Banco Compartamos Social Bond Framework is robust, transparent, and in alignment with the core components of the Social Bond Principles 2020.

Appendix

Appendix 1: Social Bond/ Social Bond Programme -External Review Form

Section 1. Basic Information

Issuer name:	Banco Compartamos S.A.
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	Banco Compartamos Social Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	July 10, 2020
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

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Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds – Employment Generation, Socioeconomic Advancement and Empowerment, and Access to Essential Services – are aligned with those recognized by the Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDGs 8 and 10.

Use of proceeds categories as per SBP:

- | | |
|--|--|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Banco Compartamos' Executive Committee and the Directors Committee will be in charge of evaluating and selecting Eligible Assets and ensuring compliance with the Framework. Sustainalytics considers this to be in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

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Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Banco Compartamos will manage proceeds through a portfolio approach, in which an amount equal to the net proceeds of the social bond will be allocated to Eligible Assets that meet the eligibility criteria. The Bank intends to immediately fully allocate the proceeds to the Eligible Assets portfolio, and its Executive Committee and Finance Department will be in charge of overseeing the allocation process. This is in line with market practice.

Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only Allocations to both existing and future investments
- Allocation to individual disbursements Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Banco Compartamos intends to publish, until full allocation, an Annual Social Bond Report on its website. The allocation reporting will include amounts allocated to each Eligible Assets and a brief description of select assets. In addition, the Bank is committed to reporting relevant impact metrics, where feasible, such as number of beneficiaries, number of first-time loan recipients, number of micro and small business benefited, and number of women owned business benefited. Sustainalytics views Banco Compartamos' allocation and impact reporting commitments as aligned with market practice.

Use of proceeds reporting:

- Project-by-project On a project portfolio basis

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- Linkage to individual bond(s) Other (please specify):

Information reported:

- Allocated amounts Social Bond financed share of total investment
- Other (please specify): Asset descriptions, outstanding amount of net proceeds

Frequency:

- Annual Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported (expected or ex-post):

- Number of beneficiaries Target populations
- Other ESG indicators (*please specify*): Number of loans provided; number of life insurance policies provided; number of first-time loan recipients; customer retention rate; number of clients benefiting from financial capability building programs; Number of micro and small enterprise companies benefited; Amount disbursed/number of disbursements to micro and small enterprise companies; Number of rural business owners benefited: Amount disbursed/number of disbursements to rural business owners: Number of women-owned business benefited; Amount disbursed/number of disbursements to women-owned business

Frequency:

- Annual Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report

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- Information published in ad hoc documents
 Other (please specify): Annual Social Bond Report
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

To be published on the Bank's website

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP

- i. Second Party Opinion: An institution with social expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. Certification: An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Social Bond Scoring/Rating: An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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Sustainalytics

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