

Second-Party Opinion

Banco Compartamos Social Bond Framework



Evaluation Summary

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 Social Bond Principles 2023. 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 5, 8 and 10.



PROJECT EVALUATION AND SELECTION Banco Compartamos' Directors Committee and Finance Committee will be in charge of evaluating and selecting Eligible Assets and ensuring compliance with the Framework. Banco Compartamos' Risk Committee is responsible for assessing social risks in relation to all allocation decisions made under the Framework, while individual loan officers are responsible for assessing potential environmental risks. Sustainalytics considers these social and environmental risk management systems to be adequate and the selection process to aligned with market practice.



MANAGEMENT OF PROCEEDS Banco Compartamos' Executive Committee and Finance Department will oversee the allocation process to ensure that proceeds are fully allocated to eligible loans. An equal amount to the net proceeds of the Social Bonds will be allocated to the portfolio of eligible loans. The Bank will track proceeds using an internal tracking system. The Bank intends to fully allocate the proceeds to the eligible assets portfolio immediately after the issuance. The Bank has committed to ensuring continuous allocation of the proceeds to eligible loans. 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 asset, a brief description of selected assets and the outstanding amount of net proceeds yet to be allocated to assets at the end of the reporting period. In addition, the Bank is committed to reporting on 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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For inquiries, contact the Sustainable Finance Solutions project team:

Hamoda Youssef (Toronto)
Project Manager
hamoda.youssef@sustainalytics.com
(+1) 647 264 6644

Aishwarya Ramchandran (Toronto)
Project Support

Han Xing (Toronto)
Project Support

Lindsay Brent (Toronto)
Client Relations
susfinance.americas@sustainalytics.com
(+1) 646 518 9623

¹ This document updates the Second-Party Opinion dated 10 July 2020.

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-governmental organization in 1990, until 2000 when it obtained a licence to operate as a Limited Object Financial Institution (*sociedad financiera de objeto limitado* or 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 more than 2.7 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 Bond Framework dated August 2023 (the “Framework”) under which it intends to issue one or more social bonds and use the proceeds to finance or refinance, in whole or in part, existing and future lending. Additionally, the Bank will expand its product offering to include bank accounts, payment services, transactional channels, savings products, insurance coverage and digital financial solutions intended to advance financial inclusion for underserved and unbanked populations. The Framework defines eligibility criteria in three areas:

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

Banco Compartamos engaged Sustainalytics to review the Banco Compartamos Social Bond Framework, updated in August 2023, and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2023 (“SBP”).² This Framework has been published in a separate document.³

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ 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 2023, 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 1.14, 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.

² 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/>.

³ The Banco Compartamos Social Bond Framework is available on Banco Compartamos S.A.’s website at: <https://www.compartamos.com.mx/compartamos/informacion-financiera>

⁴ 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.

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 the Framework:

- Use of Proceeds:
 - The eligible expenditures are aligned with categories recognized as impactful by the SBP 2021: Employment Generation, Socio-Economic Advancement and Empowerment and Access to Essential Services.
 - Banco Compartamos intends to use net proceeds to finance or refinance its existing portfolio of loans to micro-businesses, small companies and entrepreneurs, women-owned businesses, and individuals facing barriers to accessing financial services.
 - The Bank has communicated to Sustainalytics that operating expenditures will not be refinanced under the Framework and, therefore, the Bank has not established a look-back period for refinancing activities.
 - Sustainalytics notes that Banco Compartamos' loans are primarily intended for female entrepreneurs with limited or no credit history, and that the Bank intends for the majority of the net proceeds to be allocated to underserved populations, specifically those classified in the C-, D+ and D socioeconomic segments in Mexico.⁵ Sustainalytics views this targeting as credible, noting that financing is not being exclusively granted to those with low incomes, considering the demographics in the Bank's current lending portfolio .
 - In the "Microfinance and Entrepreneurs Financing" category, the Bank intends to finance micro-business, small companies and rural businesses that have, on average, 10 employees or less. Sustainalytics views the identified target group as credible and impactful, and further notes the small average loan size (between USD 300 and USD

⁵ This classification has been developed by the Mexican Association of Marketing Research and Public Opinion Agencies (AMAI). AMAI classifies households using Mexico's Socioeconomic Level Index (NSE), which groups households on their ability to meet certain needs, based on indicators such as educational level, number of bedrooms and bathrooms in the home, employment, access to vehicles and internet. For example, 63% households in level C- have a head of household with maximum secondary education, 78% have internet connection at home, spend 40% of income on food and 18% on transportation and communication; for level D, 53% have a head of household that has education up to primary school, 14% have access to internet at home and 48% of income is devoted for food.

AMAI, "Nivel Socioeconómico AMAI 2022", at: https://www.amai.org/descargas/Nota_Metodologico_NSE_2022_v5.pdf

- 10,000) for these types of loans in the Bank's portfolio (both group and individual loans).⁶
- In the "Programmes to support women-owned businesses" category, the Bank intends to finance loans to support women-owned micro- and small-businesses. Businesses should belong to a minimum group of 10 female entrepreneurs and have up to 10 employees. Sustainalytics views positively the intended social impacts of financing mainly women-owned businesses and highlights the added social benefits of focusing on micro and small businesses in this space.
 - In the "Access to financial services" category, the Bank will provide personal loans to low-income people with little or no credit history, those accessing a financial service for the first time, 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 due diligence, which is particularly important for working-capital lending.
 - Banco Compartamos has communicated to Sustainalytics that it may also make use of the increased liquidity provided by the issuance to support the development of existing and additional products and services intended to expand access to banking services for the target populations described above.
 - In 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 Yastás network.⁷ Sustainalytics notes the potential positive impact of greater financial inclusion by offering these services to target populations "such as excluded or marginalized."
 - Banco Compartamos has communicated to Sustainalytics that the loans will be offered at interest rates below the market rate. Sustainalytics notes that the Bank 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. For additional details, refer to Section 2.
 - The Framework specifies exclusionary criteria for certain activities that may pose added social or environmental risks, such as gambling, mining, and alcohol. Sustainalytics views this as strengthening the Framework, while encouraging the Bank to avoid where possible lending in the fossil fuels sector.
 - Project Evaluation and Selection:
 - The Directors Committee and Finance Committee, along with one of the two most senior operating and management bodies at the Bank, will evaluate and select eligible assets and ensure compliance with the Framework's eligibility criteria.
 - The Bank's Risk Committee will support the project selection process by reviewing any reported social risks associated with investments to ensure all projects are appropriately managed and risks mitigated, in addition to ensuring compliance with relevant laws, standards and regulations. The Bank is in the process of establishing a broader socio-environmental risk assessment for eligible projects, while individual loan officers are currently in charge of assessing potential environmental and social risks. Sustainalytics considers the social and environmental risk management systems to be adequate.
 - 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' Executive Committee and Finance Department will oversee the allocation process to ensure that proceeds are fully allocated to lending in the three categories of the Framework. An equal amount to the net proceeds of the social bonds will be allocated to the portfolio of eligible loans. The Bank will track proceeds using an internal tracking system. Sustainalytics notes that the Bank intends to fully allocate the proceeds to the eligible assets

⁶ Shared with Sustainalytics confidentially.

⁷ Yastás is a banking correspondent administrator that provides people access to financial operations, service payments, multi-level payments and top-ups at communities where banking infrastructure is limited or non-existent. Gentera, "Yastás", at: <https://www.gentera.com.mx/gentera/nuestras-empresas/yastas>

portfolio immediately after the issuance. Sustainalytics also notes that the Bank intends to allocate to eligible assets that matches or exceed the balance of net proceeds from the social bonds. Sustainalytics considers it to be good practice to ensure continuous allocation by replenishing the value of the outstanding eligible loans to an amount that is equal to or greater than the net proceeds, in case underlying eligible loans in the pool are amortized or removed for any reason. Banco Compartamos has committed to implement this practice until bond maturity. Based on the above, 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 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 category, a brief description of selected assets and the outstanding amount of net proceeds yet to be allocated to assets at the end of the reporting period. Impact reporting will include, where feasible, key performance indicators 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 2023

Sustainalytics has determined that the Banco Compartamos Social Bond Framework aligns to the four core components of the SBP 2023. 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-governmental organization, the Bank has focused on providing microfinancing to low-income and underserved populations with a focus on women.⁸ Currently, 89% of the Bank's clients in Mexico are women.⁹ In addition, the Bank is aligned with Genera Group's sustainability strategy which hinges on five strategic axes: i) environment and climate change; ii) good governance and integrity; iii) corporate citizenship; iv) well-being of the employees; and v) impact on clients.¹⁰

In 2020, Banco Compartamos became a signatory to the UN Principles for Responsible Banking setting two objectives for 2025: i) financially empowering five million women through access to financing opportunities; and ii) approve ten million loans of less than USD 500 each to reinforce credit penetration among the lowest socioeconomic segments of the population.¹¹ The Bank has communicated to Sustainalytics, at the end of 2022, the Group invested USD 3.3 million¹² (MXN 57,029,918) in social projects to improve the quality of life for people in underserved communities. Examples of projects include: i) a digitalization plan for SMEs; ii) a training programme targeted for women in business management; and iii) a business and financial education programme. These projects resulted in the participation of 539 people, assisting 117 women and education for 186 people respectively.¹³ In 2022, 186 micro and small enterprises registered with the Group's ENKO platform, which provides online training on financial education and business management.¹⁴

To further advance financial inclusion, Genera has expanded its electronic and mobile banking systems contributing to the reduction of time and money invested per transaction. Yastás, another Group company,

⁸ Banco Compartamos, "Social Bond Framework 2023"

⁹ Ibid.

¹⁰ Genera, "Annual and Sustainability Report 2022", at: https://www.genera.com.mx/wcm/connect/b41750e1-1d77-4a26-92c8-012c5fa22a1a/IA_Genera_2022_INGLES.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-b41750e1-1d77-4a26-92c8-012c5fa22a1a-oCeMCbG

¹¹ Genera, "Annual and Sustainability Report 2022", at: https://www.genera.com.mx/wcm/connect/b41750e1-1d77-4a26-92c8-012c5fa22a1a/IA_Genera_2022_INGLES.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-b41750e1-1d77-4a26-92c8-012c5fa22a1a-oCeMCbG

¹² Exchange rate as of August 30, 2023

¹³ As per the information shared by Banco Compartamos

¹⁴ Genera, "Annual and Sustainability Report 2022", at: https://www.genera.com.mx/wcm/connect/b41750e1-1d77-4a26-92c8-012c5fa22a1a/IA_Genera_2022_INGLES.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-b41750e1-1d77-4a26-92c8-012c5fa22a1a-oCeMCbG

became the largest manager of bank correspondence in Mexico.¹⁵ As of 2022, this network has authorized 6,518 businesses to carry out financial transactions of the Bank extending the reach of Banco Compartamos' services in Mexico. In addition it facilitated 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.^{16,17} Furthermore, the Bank has increased the number of financial services to better accommodate the needs of its target population.¹⁸ The Bank has communicated examples of such services include increasing individual lending services for improving client convenience and auto insurance availability.

Based on the Bank's mission and record of providing financial services to the underbanked, Sustainalytics is of the opinion that the Banco Compartamos Social Bond Framework is aligned with the Group's 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

Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects expected to provide positive social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some of these risks include programmes not appropriately targeting vulnerable populations or not acknowledging impacts on local communities and other stakeholders, and credit risks related to consumer protection and predatory lending. As a result of its lending activities, the Bank may also be exposed to projects that affect biodiversity and community relations or companies undertaking controversial activities. While the Bank plays a limited role in the development of the specific projects that it finances, by offering lending and financial services, it is exposed to risks associated with the companies and projects that it may finance.

To mitigate these risks, Banco Compartamos and Genera have in place a series of processes and policies that make up its Integrity Policy.¹⁹ This Integrity Policy is aligned with Mexico's General Law of Administrative Responsibilities,²⁰ and comprises additional guidelines and procedures of which Sustainalytics highlights the following:

- Every employee and member of a governing body in the Bank abides by Genera's Code of Ethics and Conduct (the "Code").²¹ Every new member of the Group is required to do a training course on the Code's application and undergo a yearly recertification. The Code includes human rights and workplace safety policies, and it applies to collaborators and suppliers who partake in the Group's social programmes. Genera has also established a strategic ESG policy where the Company has outlined its environmental and social commitments including responsibilities on anti-corruption, non-discrimination, diversity and inclusion, labour rights and human rights.²²
- With regard to risks related to client protection and predatory lending, Banco Compartamos has endorsed the Smart Campaign,^{23, 24} and adopted Client Protection Principles to protect client's vulnerabilities and mitigate risks in relation to its financial inclusion programmes. The principles

¹⁵ Genera, "Annual and Sustainability Report 2022", at: https://www.genera.com.mx/wcm/connect/b41750e1-1d77-4a26-92c8-012c5fa22a1a/IA_Genera_2022_INGLES.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-b41750e1-1d77-4a26-92c8-012c5fa22a1a-oCeMCbG

¹⁶ Ibid.

¹⁷ Shared with Sustainalytics confidentially.

¹⁸ Ibid.

¹⁹ Genera, "Integrity Policy", at: <https://www.genera.com.mx/genera/quienes-somos/politica-de-integridad#:~:text=We%20verify%20personal%20and%20labor%20references%20and%20validate%20in%20the%20Control%20Lists.&text=We%20are%20a%20public%20company,could%20generate%20conflict%20of%20interests>

²⁰ Mexico's 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: <https://www.oecd.org/corruption/anti-bribery/OECD-Mexico-Phase-4-Report-ENG.pdf>

²¹ Genera, "Código de Ética y Conducta", at: <https://www.genera.com.mx/wcm/connect/a6a844a0-8b4b-40b4-8238-56fb512e2f03/C%C3%B3digo+de+%C3%89tica+y+Conducta+2021.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-a6a844a0-8b4b-40b4-8238-56fb512e2f03-nMZGxIS>

²² Genera, "Strategic environmental, Social and Governance (ESG) Policy", (2022), at: <https://www.genera.com.mx/wcm/connect/dfb7b043-3aad-4094-af1d-7c6c6f3ed8dd/Strategic+ESG+policy+%281%29.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-af1d-7c6c6f3ed8dd-06cliKr>

²³ Banco Compartamos, "Compartamos Banco obtains the Smart Campaign Certification", (2014), at: <https://www.compartamos.com/wps/wcm/connect/?MOD=PDMPProxy&TYPE=personalization&ID=NONE&KEY=NONE&LIBRARY=%252FcontentRoot%252Ficm%253Alibraries&FOLDER=%252FSala+de+Prensa%252FBoletines+en%252F2014%252F2014%252F20140903+Compartamos+Banco+obtains+the+Smart.pdf>

²⁴ Center for financial inclusion, "The Smart Campaign", at: <https://www.centerforfinancialinclusion.org/the-smart-campaign-adds-seventh-client-protection-principle>

include: i) appropriate product design and distribution; ii) prevention of over-indebtedness; iii) transparency; iv) reasonable prices; v) fair and respectful treatment of clients; vi) clients' privacy protection; and a vii) clients' complaints resolution mechanisms.²⁵ For the prevention of over-indebtedness, Genera analyzes customers' information to determine their ability to pay.²⁶ The Group also requires its employees to complete the Client Protection Certification as part of their training. 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.²⁷

- To assess for additional material risks, the Group has established control mechanisms and audit systems, which periodically review compliance of its subsidiaries with the Group's policies and standards and applicable regulatory laws.²⁸
- In addition to the above, Genera has asked its stakeholders, including suppliers, consultants, partners, etc., to sign the Group's Code of Ethics to enforce its values along its supply chain. All Bank employees have certified training in money laundering and financing of terrorism prevention.²⁹

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.

Section 3: Impact of Use of Proceeds

All three 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, micro-, small- and medium-sized enterprises (MSMEs) make up a vital part of the economy and overall employment. In 2022, Mexico had 4.86 million SMEs, generating 14.6% of national GDP and employing nearly 50% of the entire workforce. However, the lack of access to finance for MSMEs has become a significant impediment for employment, economic development and shared prosperity in the country: MSMEs in Mexico face a financing gap of USD163.9 billion,³⁰ accounting for 14% of GDP, the second-highest gap by volume among all Latin American countries.³¹ 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.³²

The MSME financing gap leads to a wide labour productivity gap. Mexico has the lowest labour productivity of SMEs among all OECD countries. The significant 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 adopting ICT in micro businesses. The Financial Inclusion Action Plan, launched in 2016, also addresses the importance of MSME financing.³³

Having served over 14 million people since its founding in 1990 and by continuing to provide financial services to underserved populations,³⁴ Banco Compartamos' social bonds are expected to contribute to creating job opportunities and to help promote the economic development of the communities targeted. Therefore,

²⁵ Genera, "Client Protection", at: <https://www.genera.com.mx/genera/quienes-somos/proteccion-al-cliente>

²⁶ Genera, "Código de Ética y Conducta", at: <https://www.genera.com.mx/wcm/connect/a6a844a0-8b4b-40b4-8238-56fb512e2f03/C%C3%B3digo+de+%C3%89tica+y+Conducta+2021.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-a6a844a0-8b4b-40b4-8238-56fb512e2f03-nMZGxIS>

²⁷ Shared with Sustainalytics confidentially.

²⁸ Ibid.

²⁹ Ibid.

³⁰ SME Finance Forum, "MSME Finance Gap", at: <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

³¹ IFC, "MSME Finance Gap- Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets", (2017), at: <https://www.smefinanceforum.org/sites/default/files/Data%20Sites%20downloads/MSME%20Report.pdf>.

³² OECD, "Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard. Full country profile: Mexico", (2022), at: https://read.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurs-2022_53f52411-en#page1

³³ OECD, "Mexico Policy Brief", (2017), at: <https://www.oecd.org/mexico/mexico-raising-productivity-in-small-traditional-enterprises.pdf>.

³⁴ Banco Compartamos, "Social Bond Framework 2023"

Sustainalytics is of the view that Banco Compartamos' provision of loans for micro, small and rural businesses will have a positive impact on job generation in Mexico.

Importance of supporting women in entrepreneurship

Despite Mexico's recent economic growth, women's labour force participation lags behind the average of OECD countries and other large countries in Latin America.³⁵ In 2022, only 40% of the total employed population were women in both the formal and informal economy.³⁶ Additionally, the fact that women are over-represented in insecure and lower-paid jobs demonstrates a broader gap in gender inequality in Mexican society.³⁷ 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.³⁸

Mexico issued its National Financial Inclusion Strategies in 2016,³⁹ which includes the Mujeres PYME policy aimed at supporting small businesses led by women. Along with other policies, this one is expected to help nearly 7 million women to participate in the formal financial system.⁴⁰

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 social bonds allocated to female entrepreneurs is expected to 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 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 Mexico

Latin American countries continue 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.⁴¹ The situation in Mexico is similar to these region-wide trends, with only 44% of adults holding a bank account; more than 30% of adults in Mexico have no access to financial services, reaching 42.9% in rural areas.¹⁹ The low financial inclusion rate has been attributed primarily to low incomes.⁴²

According to the IMF, a positive correlation has been found between the percentage of financial inclusion, per capita income and educational 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, Mexico launched the National Financial Inclusion Strategy in 2016. The strategy is expected to accelerate access to financial services for more than half of its population. Meanwhile, the World Bank and the International Finance Corporation support the development of Banco Compartamos' microfinance offerings.⁴³

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 healthcare for low-income populations, leading to overall improvements in their well-being.

Sustainalytics views Banco Compartamos projects for access to financial services as providing positive impacts for the target groups in Mexico.

³⁵ IMF, "Mexico's Economic Outlook in Five Charts", (2018), at: <https://www.imf.org/en/News/Articles/2018/11/07/NA110818-Mexico-Economic-Outlook-in-5-Charts>

³⁶ Ruiz, L. & Pereznieta, P., (2022), "Women in formal and informal labour markets in Mexico", Work and Opportunities for Women, at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1133717/Query-70-Women-Informal-mexico.pdf

³⁷ Women's World Banking, "Mexico", at: <https://www.womensworldbanking.org/country-strategies-mexico/#keytrends>.

³⁸ Gurria A. (2020), "Gender Equality and the Empowerment of Women for Inclusive Growth in Mexico", OECD, at: <https://www.oecd.org/about/secretary-general/gender-equality-and-empowerment-of-women-for-inclusive-growth-mexico-january-2020.htm>.

³⁹ Government of Mexico, "National Financial Inclusion Policy", (2023), at: <https://www.gob.mx/cnbv/acciones-y-programas/politica-nacional-de-inclusion-financiera-43631>

⁴⁰ Riecke J., (2016), "Mexico Launches Comprehensive Financial Inclusion Strategy", Center for Financial Inclusion, at:

<https://www.centerforfinancialinclusion.org/mexico-launches-comprehensive-financial-inclusion-strategy>

⁴¹ IMF, "Financial Inclusion: Zeroing in on Latin America", (2015), at <https://www.imf.org/external/pubs/ft/wp/2015/wp15206.pdf>.

⁴² ENIF, "National Survey for Financial Inclusion", (2018), at: https://www.gob.mx/cms/uploads/attachment_data/file/435813/ENIF_2018_en.pdf.

⁴³ World Bank, "Mexico to Accelerate Path to Financial Inclusion", (2016), at: <https://www.worldbank.org/en/news/feature/2016/06/23/mexico-to-accelerate-path-to-financial-inclusion>.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Framework are expected to contribute to the following SDGs 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
Access to Essential Services	8. Decent work and economic growth	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
	10. Reduced inequalities	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

Conclusion

Banco Compartamos has developed the Banco Compartamos Social Bond Framework under which it intends to issue social bonds and use the proceeds to finance lending aimed at advancing social and economic inclusion. Sustainalytics considers that the use of the social bond's proceeds will provide positive social impact.

The Banco Compartamos Social Bond Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for the Bank to report on allocation and impact. Sustainalytics believes that the Banco Compartamos Social Bond Framework is aligned with the overall sustainability strategy of the Bank and that the use of proceeds 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.

Based on the above, Sustainalytics is confident that Banco Compartamos is well positioned to issue social bonds and that the Banco Compartamos Social Bond Framework is robust, transparent and in alignment with the Social Bond Principles 2023.

Appendix

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

Section 1. Basic Information

Issuer name: Banco Compartamos S.A. Institución de Banca Múltiple

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: Banco Compartamos Social Bond Framework

Review provider's name: Sustainalytics

Completion date of this form: September 08, 2023

Publication date of review publication:

Original publication date [please fill this out for updates]:

Section 2. Review overview

SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
 - Use of Proceeds
 - Process for Project Evaluation and Selection
 - Management of Proceeds
 - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- Second Party Opinion
- Certification
- Verification
- Scoring/Rating
- Other (please specify):

Does the review include a sustainability quality score?

- Of the issuer
- Of the project

- Of the Framework
 Other (please specify):
- No scoring

ASSESSMENT OF THE PROJECT(S)

Does the review include:

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

CLIMATE TRANSITION STRATEGY

Does the review assess:

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

Overall comment on this section:

Section 3. Detailed review

1. USE OF PROCEEDS

Does the review assess:

- the environmental/social benefits of the project(s)?

- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

Does the review assess if the issuer provides clear information on:

- the estimated proceeds allocation per project category (in case of multiple projects)?
- the estimated share of financing vs. re-financing (and the related lookback period)?

Overall comment on this section:

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 5, 8 and 10.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Does the review assess:

- whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones.
- whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Overall comment on this section:

Banco Compartamos' Directors Committee and Finance Committee will be in charge of evaluating and selecting Eligible Assets and ensuring compliance with the Framework. Banco Compartamos' Risk Committee is responsible for assessing the social risks, which are applicable to all allocation decisions made under the Framework, while individual loan officers are responsible for assessing potential environmental risks. Sustainalytics considers these social and environmental risk management systems to be adequate and the selection process to be aligned with market practice.

3. MANAGEMENT OF PROCEEDS

Does the review assess:

- the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- the intended types of temporary investment instruments for unallocated proceeds?
- Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Overall comment on this section:

Banco Compartamos' Finance Committee and Finance Department will oversee the allocation process to ensure that proceeds are fully allocated to eligible loans. An equal amount to the net proceeds of the Social Bonds will be allocated to the portfolio of eligible loans. The Bank will track proceeds using an internal tracking system. The Bank intends to fully allocate the proceeds to the eligible assets portfolio immediately after the issuance. The Bank has committed to ensuring continuous allocation of the proceeds to eligible loans. This is in line with market practice.

4. REPORTING

Does the review assess:

- the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- the frequency and the means of disclosure?
- the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

Overall comment on this section:

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 Asset 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.

Section 4. Additional Information

Useful links (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:

Additional assessment in relation to the issuer/bond framework/eligible project(s):

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

- i. **Second-Party Opinion:** An institution with environmental 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 Green 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 Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental 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 environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally 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 Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green 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. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green 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 environmental performance data, the process relative to the GBP, or another benchmark, such as

a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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For more information, visit www.sustainalytics.com

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