

Second-Party Opinion

Banco La Hipotecaria Social Bonds Framework



Evaluation Summary

Sustainalytics is of the opinion that the Banco La Hipotecaria Social Bonds Framework is credible, impactful and aligns with the Social Bond Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible category for the use of proceeds – Access to Financial Services – is aligned with those recognized by Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that investments in the eligible category will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDGs 8 and 11.



PROJECT EVALUATION / SELECTION The Finance Department of Banco La Hipotecaria (the “Bank”) will be responsible for reviewing and selecting assets. The Bank’s internal credit risk management system addresses environmental and social risks associated with the properties to be financed. Sustainalytics considers the risk management systems to be adequate and the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS Banco La Hipotecaria’s Finance Department will also be responsible for tracking and monitoring the allocation of proceeds. Proceeds will be immediately allocated to a securitized portfolio of eligible assets at the time of issuance. Sustainalytics considers this to be in line with market practice.



REPORTING The Bank commits to annual allocation reporting via its Sustainability Report which will be made publicly available on its website. In addition, the Bank intends to report on relevant impact metrics. Sustainalytics views the allocation and impact reporting as aligned with market practice.

Evaluation date	October 5, 2021
Issuer Location	Panama, Republic of Panama

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Introduction

Banco La Hipotecaria (“La Hipotecaria”, or the “Bank”) is a financial institution that specializes in providing mortgage financing for the purchase of owner-occupied residential housing. Headquartered in Panama, the Bank has subsidiaries in El Salvador and Colombia. As of August 31, 2021, the Panama operations of La Hipotecaria had 19,962 customers, a total loan portfolio of \$705,906,187 and employed 118 people.

La Hipotecaria has developed the Banco La Hipotecaria Social Bonds Framework (the “Framework”) under which it intends to issue social bonds and use the proceeds to finance and/or refinance a portfolio of mortgages to provide affordable housing in geographies where the Bank operates. The Framework defines eligibility criterion in the following area:

1. Access to Financial Services

La Hipotecaria engaged Sustainalytics to review the Banco La Hipotecaria Social Bonds Framework, dated August 2021, and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2021 (SBP).¹ This Framework will be 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 project 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 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- 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 1.10.1, 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 La Hipotecaria’s 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. La Hipotecaria representatives have confirmed (1) they understand it is the sole responsibility of La Hipotecaria 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.

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 La Hipotecaria.

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 potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

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 La Hipotecaria Social Bonds Framework is available on Banco La Hipotecaria’s website at: www.lahipotecaria.com

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.

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

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Banco La Hipotecaria Social Bonds Framework

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

- Use of Proceeds:
 - The eligible category, Access to Financial Services, is aligned with those recognized by the SBP.
 - Net proceeds under the Framework will be used to finance and/or refinance a portfolio of mortgage loans on new or existing residential properties originated by La Hipotecaria. These mortgage loans are provided to a target population of low- to middle-income households in Panama. The Target Population is defined as those below the Panamanian average monthly household income.⁴
 - In order to ensure affordability, mortgage loans for all properties in the portfolio were financed under the Preferential Interest Rate Program developed by the Panamanian government as a means to incentivize home ownership through a subsidy to the interest rates. Sustainalytics considers the target population and adoption of subsidized interest rates as aligned with market practice.
 - In accordance with its internal Credit Policy, the Bank's due diligence process involves verifying that the mortgage loans correspond to properties that are the debtors' primary home. La Hipotecaria also limits maximum loan amounts based on payment capacity measured using metrics such as total debt to income based on each respective household. Recognizing the potential positive benefits of providing mortgage financing to support affordable housing, Sustainalytics highlights the importance of robust due diligence to protect against over-indebtedness and other potential negative impacts on low-income populations. Refer to Section 2 for further discussion of La Hipotecaria's risk policies.
- Project Evaluation and Selection:
 - The Bank's Credit Department reviews potential mortgage loan requests according to a process elaborated in La Hipotecaria's Loan Evaluation Manual. The Finance Department followed internal assessment procedures to select the eligible mortgage loans that qualify under the Framework. Final approval for determining underlying assets to be financed by the social bond proceeds will be given by the Chief Financial Officer of the Bank.
 - La Hipotecaria's has an internal credit risk management system to address environmental and social risks associated with the properties within the portfolio. This entails physical inspection and/or an appraisal conducted by a qualified expert required prior to mortgage-loan approval. Sustainalytics considers the risk management process to be adequate.
 - Based on the dedicated department and clear process for loan evaluation, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - La Hipotecaria's Finance Department will track the allocation of proceeds to eligible mortgage loans. The Bank intends to fully allocate bond proceeds immediately at the time of issuance to

⁴ Sustainalytics estimates the average household income in Panama to be PAB 2,214.38 (USD 2,215.01) based on the country's National Institute of Statistics and Census. For more information, see Instituto Nacional de Estadística y Censo, "Gráfica 1. Ingreso Promedio Mensual Del Hogar En El Área Urbana De La República, Por Dominio De Estudio: Año 2017/18", (2017-2018), at: <https://www.inec.gob.pa/Aplicaciones/eigh1718/datos/resultados/GRAFICA1.pdf>

the purchase of a portfolio of eligible assets previously originated by the Bank and immediately transferred to a trust to serve as guarantee and source of repayment for the issuance. As such, there will be no ongoing management of unallocated proceeds. The Framework applies a lookback period of 36 to 48 months for mortgage loans that will comprise the portfolio of mortgages being purchased.

- Based on the commitment to full allocation at issuance, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - La Hipotecaria commits to annual allocation reporting within the Annex of its Servicer Report which will be made publicly available on its website. Information to be provided by the allocation reports include amounts allocated as well as the number of outstanding selected eligible loans.
 - The Bank intends to report on relevant impact metrics on the allocations made under the Framework. This may include number of borrowers by family income, by gender of main borrower, % of mortgage debt-to-income as well as % of total debt-to-income (which entails all other debt of the borrower at the point of origination including debt from other financial institutions).
 - Sustainalytics considers the allocation and impact reporting to be in line with market practice.

Alignment with Social Bond Principles 2021

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

Section 2: Sustainability Strategy of Banco La Hipotecaria

Contribution of Framework to Banco La Hipotecaria's sustainability strategy

Sustainalytics recognizes that La Hipotecaria's sustainability approach is driven by its organizational vision to "become an inclusive institution that impacts socially with actions that transform, promoting that its suppliers, creditors and clients contribute to the conservation of the environment, social development and sustainable economic growth". In line with this, La Hipotecaria's primary business mission is to support essential housing by providing mortgage loans and other mortgage-related financial services to low- and middle-income segments of the population.⁵

Although the Bank has not implemented a formal sustainability strategy,⁶ Sustainalytics highlights the following aspects of La Hipotecaria's sustainability efforts and initiatives which are particularly aligned with the Framework:

- **Relationship with the Environment:** La Hipotecaria promotes internal campaigns related to protecting and conserving the environment and the rational use of natural resources.⁷ The Bank also supports external campaigns of foundations or institutions, including a partnership with the National Association for the Conservation of Nature (Asociación Nacional para la Conservación de la Naturaleza) to support the conservation of nature reserve area "Punta Patiño" in Panama.⁸
- **UN Global Compact:** Since March 2017, La Hipotecaria has been a signatory to the UN Global Compact.⁹ Through this, the Bank commits to implementing business practices that address key

⁵ Banco La Hipotecaria Banco La Hipotecaria Social Bonds Framework states: (i) La Hipotecaria focuses exclusively on lending activities to the granting first-mortgage loans on homes that are occupied as primary residences of its borrower clients, and (ii) La Hipotecaria has never provided mortgage financing for the construction of homes or the purchase or refinancing of second homes, vacation homes or residential properties to be leased as investments.

⁶ The Company's comprehensive guidelines related to ESG issues and activities are currently under development and it intends to publish its inaugural formal sustainability report highlighting its sustainability strategy between 2021 and 2022. La Hipotecaria's relevant ESG efforts and activities can be found at the Company's website at: <https://www.lahipotecaria.com/rse/>

⁷ Banco La Hipotecaria, "Codigo de Ética y Conducta", (2019), at: <https://s3.amazonaws.com/lahipotecaria.com/rse/wp-content/uploads/2016/08/Codigo-de-Etica-y-Conducta-Marzo-2019.pdf>

⁸ Punta Patiño is a 65,025 acre preserve area, owned by conservation group ANCON. The area is on the List of Ramsar wetlands of international importance,(2021), at: <https://ancon.org/reserva-de-punta-patino/>

⁹ Banco La Hipotecaria y Subsidiarias, UN Global Compact participants, (2021), at: <https://www.unglobalcompact.org/what-is-gc/participants/108441-Banco-La-Hipotecaria-y-Subsidiarias>

ESG issues related to human rights, labour standards, environmental protection and anti-corruption efforts as defined by the Ten Principles of the UN Global Compact.¹⁰

Sustainalytics is of the opinion that the Framework is aligned with the Bank's key sustainability objectives, while noting that La Hipotecaria has not substantiated its sustainability efforts with robust or defined objectives, indicators, or commitments. Sustainalytics encourages the Bank to set specific, time-bound, quantifiable short- and long-term targets as well as commence reporting 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 expected to have a positive social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key risks associated with consumer finance and over-indebtedness could include adverse impacts from land use, stakeholder relations as well as the exacerbation of inequalities if the underserved groups are not appropriately targeted.

Although La Hipotecaria has a limited role in the execution and development of the individual projects financed, Sustainalytics is of the opinion that the Company is able to manage or mitigate potential risks through the implementation of the following:

- La Hipotecaria has adopted formal policies ("Políticas Proyectos y Garantías") and processes¹¹ to ensure that credit decisions and projects financed consider the analysis of environmental and social risk factors.¹² These apply to homebuilders or developers, addressing each project regarding ESG risks, including environmental regulations compliance, building regulations compliance and access to optimal public services such as drinking water, energy, communications infrastructure and accessibility to roads in good conditions. The Bank's due diligence process also includes inspections to assess the technical (projects) systems, including interior and exterior components, and identify potential risks associated with the location, such as the land's topography, presence of tributaries and crime rate.
- La Hipotecaria has adopted formal data privacy and security policies which apply to existing and prospective customers.¹³ The employees and business partners who have access to the Bank's computer systems and database must follow guidelines in accordance with international standards on how to manage information security, including the ISO 27001, ISO 27002 and ISO 27032.¹⁴
- La Hipotecaria has implemented a comprehensive Code of Business Conduct and Ethics¹⁵ (Código de Ética y Conducta) which applies to all its employees, executives, managers, directors, shareholders, business partners, and suppliers. The Code contains general guidelines and is proactively disclosed internally among its employees to promote ethical and transparent business conduct. The policies related to this Code include corporate governance, regulatory compliance and prevention of money laundering, terrorist financing and financing of proliferation of weapons of mass destruction.
- La Hipotecaria's credit policies aimed at meeting the needs of the target population of low- to middle-income families entails setting maximum amounts per loan, depending on the income and payment capacity of each household. In addition, these policies are targeted to ensure that the home being purchased will promote the household's financial health. La Hipotecaria has communicated to Sustainalytics that this is achieved by offering advice to clients and considering client debt levels and payment capacity as well as through customer training sessions on various personal finance subjects

Based on these policies and standards, Sustainalytics is of the opinion that La Hipotecaria has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible projects.

¹⁰ The Ten Principles of the UN Global Compact, UN Global Compact, (2021), at: <https://www.unglobalcompact.org/what-is-gc/mission/principles>

¹¹ Banco La Hipotecaria, Manual de políticas departamento proyectos y garantías, (2021), shared with Sustainalytics in September 2021

¹² Banco La Hipotecaria, "Actividades gestión ambiental y social", (2021), shared with Sustainalytics in September 2021

¹³ Banco La Hipotecaria, "Política de protección de datos personales", (2021), shared with Sustainalytics in September 2021

¹⁴ Banco La Hipotecaria, "Manual de políticas de seguridad de la información y ciberseguridad", (2021), shared with Sustainalytics in September 2021.

¹⁵ Banco La Hipotecaria, "Codigo de Ética y Conduct", (2019), at: <https://s3.amazonaws.com/lahipotecaria.com/rse/wp-content/uploads/2016/08/Codigo-de-Etica-y-Conducta-Marzo-2019.pdf>

Section 3: Impact of Use of Proceeds

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

Importance of financing affordable housing mortgages in Panama

The real estate market in Panama has grown significantly due to an expansion in the low- and middle-income population, leading to a high demand for mortgages for affordable housing.^{16,17} However, there is inadequate access to financial services, especially those services directed towards ownership of property.¹⁸ It is estimated that only 9% of Panamanian adults have a home loan and approximately 25% of the low- and middle-income population live in deficient housing conditions.¹⁹ This is largely driven by limited provision of finance dedicated to this demographic compared number of institutions that lend to higher income borrowers.²⁰ Furthermore, the COVID-19 pandemic exacerbated the existing inequalities, making it more difficult from low-middle-income populations to access affordable mortgages.²¹ All these factors, hinder equitable growth of the country and quality of life improvements for the underserved groups.

In 2015, the Panamanian government committed to the United Nations 2030 Agenda for Sustainable Development and the SDGs through the Strategic Government Plan (“the Plan”).²² In line with a key priority under the Plan to eradicate poverty and inequality, the government intends to finance social sector programmes that improve the quality of life. In this regard, the Housing Solidarity Fund was established to increase affordable housing for lower-income earners by providing funding for a down payment.²³ Additionally, the government developed the Preferential Interest Rate Programme to compensate mortgage lenders who provide homeowners with a subsidized interest rate as a means to improve the affordability of mortgages.²⁴

Sustainalytics is of the opinion that by providing mortgage financing targeted at low- and middle-income populations in Panama, the Bank will contribute to addressing inequalities specifically through the accessibility and affordability of housing as well as enable Panama to meet its commitments under the 2030 Agenda for Sustainable Development and the SDGs.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) issued under the Banco La Hipotecaria Social Bonds Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Access to Financial Services	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.
	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.

¹⁶ Oxford Business Group, “Demand in Panama shifts to low- and mid-range housing”, (2015), at: <https://oxfordbusinessgroup.com/overview/price-and-vacancy-surge-high-end-units-shifts-low-and-mid-range-amid-growing-middle-class-and>

¹⁷ International Finance Corporation, “La Hipotecaria Holding Inc.”, (2012), at: <https://www.ifc.org/wps/wcm/connect/bd8bde70-289b-4387-9f18-dacb24834acb/LaHipotecaria.pdf?MOD=AJPERES&CVID=lv30Th>.

¹⁸ International Finance Corporation, “IFC partners with La Hipotecaria to increase mortgage financing in Panama and El Salvador with a focus on women households”, (2021), at: <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26429>

¹⁹ International Finance Corporation, “IFC partners with La Hipotecaria to increase mortgage financing in Panama and El Salvador with a focus on women households”, (2021), at: <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26429>

²⁰ International Finance Corporation, “La Hipotecaria Holding Inc.”, (2012), at: <https://www.ifc.org/wps/wcm/connect/bd8bde70-289b-4387-9f18-dacb24834acb/LaHipotecaria.pdf?MOD=AJPERES&CVID=lv30Th>.

²¹ International Finance Corporation, “IFC partners with La Hipotecaria to increase mortgage financing in Panama and El Salvador with a focus on women households”, (2021), at: <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26429>

²² United Nations, “Panama – Voluntary National Review 2020”, (2020), at: <https://sustainabledevelopment.un.org/memberstates/panama>

²³ Government of Panama, “Strategic Plan of the Government 2015-2019”, at:

<https://fpublico.mef.gob.pa/en/SiteAssets/Informacion/PlanEstrategicoGobierno.pdf>

²⁴ Flora, M. (2019), “Panama’s Preferential Interest Rate Law”, World Panama Real Estate Marketing, at: <https://www.worldpanamarealestate.com/panamas-preferential-interest-rate-law/>

Conclusion

Banco La Hipotecaria has developed the Banco La Hipotecaria Social Bonds Framework under which it intends to issue social bonds and use the proceeds to finance and/or refinance a portfolio of mortgage loans on new residential properties originated by La Hipotecaria. Sustainalytics considers that the projects funded by the social bond proceeds are expected to provide positive social impact.

The Banco La Hipotecaria Social Bonds 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 La Hipotecaria Social Bonds Framework is aligned with the overall sustainability strategy of the company and that the social use of proceed category will contribute to the advancement of the UN Sustainable Development Goals 8 and 11. Additionally, Sustainalytics is of the opinion that La Hipotecaria 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 La Hipotecaria is well-positioned to issue social bonds and that the Banco La Hipotecaria Social Bonds Framework is robust, transparent, and in alignment with the core components of the Social Bond Principles 2021.

Appendix

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

Section 1. Basic Information

Issuer name:	Banco La Hipotecaria
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	Banco La Hipotecaria Social Bonds Framework
Review provider's name:	Sustainalytics
Completion date of this form:	October [●], 2021
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 SBP:

- | | |
|--|--|
| <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 (<i>please specify</i>): | |

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.

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 category for the use of proceeds – Access to Financial Services – is aligned with those recognized by Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that investments in the eligible category will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDGs 8 and 11.

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input 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 SBP | <input type="checkbox"/> Other (please specify): |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The Finance Department of Banco La Hipotecaria will be responsible for reviewing and selecting assets. The Bank's internal credit risk management system addresses environmental and social risks associated with the properties to be financed. Sustainalytics considers the risk management systems as adequate and the project selection process 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 type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
|---|---|

- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Banco La Hipotecaria's Finance Department will be responsible for tracking and monitoring the allocation of proceeds. Proceeds will be immediately allocated to a securitized portfolio of eligible assets at the time of issuance. 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): The Bank intends to fully allocate bond proceeds immediately at the time of issuance to the purchase of a portfolio of eligible assets previously originated by the Bank and immediately transferred to a trust to serve as guarantee and source of repayment for the issuance.

Additional disclosure:

- | | |
|--|--|
| <input type="checkbox"/> Allocations to future investments only | <input type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

The Bank commits to annually report the allocation via its Sustainability Report which will be made publicly available on its website. In addition, the Bank intends to report on relevant impact metrics. Sustainalytics views the allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- Allocated amounts
- Social Bond financed share of total investment
- Other (please specify): Relevant impact metrics.

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 borrowers by family income, gender of main borrower, % of mortgage debt-to-income, % of total debt-to-income

Frequency:

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

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other (please specify):
- 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.)

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 (<i>please specify</i>): | |

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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