

# Second-Party Opinion

## ConCrédito Social Bond Framework

### Evaluation Summary

Sustainalytics is of the opinion that the ConCrédito Social Bond Framework is credible and impactful and aligns with the four core components of the Social Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible category for the use of proceeds, Employment Generation and Socio-economic Empowerment, is aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations in Mexico. 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 10.



**PROJECT EVALUATION / SELECTION** ConCrédito's Credit department will be responsible for overseeing the identification and selection of eligible loans. ConCrédito has adopted internal processes to manage risks related to predatory lending and community relations. Sustainalytics considers this to be in line with market practice.



**MANAGEMENT OF PROCEEDS** ConCrédito intends to allocate proceeds fully at the time of each issuance. The Executive Committee will oversee the allocation process and track the proceeds in collaboration with the Credit department. This is in line with market practice.



**REPORTING** ConCrédito intends to publish a Social Bond Report on its website on an annual basis or earlier in case of material developments. The report will include details on the allocation of proceeds. In addition, ConCrédito intends to report on relevant quantitative impact metrics where feasible and has provided indicative metrics within the Framework. Sustainalytics views ConCrédito's allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	September 26, 2022
<b>Issuer Location</b>	Culiacán, Mexico

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## Introduction

ConCrédito (“Fin Útil S.A. de C.V., SOFOM ER.” or the “Company”) is a financial institution founded in 2007 and a subsidiary of Genera S. A. B. de C. V. (“Genera” or the “Group”) since 2019. ConCrédito is a provider of consumer lending services and serves 67,000 direct customers. As of June 2022, the Company operates in 25 states in Mexico and has a workforce of approximately 1,790 employees.<sup>1</sup>

ConCrédito has developed the ConCrédito Social Bond Framework (the “Framework”), under which it intends to issue social bonds<sup>2</sup> that will securitize a portfolio of retail loans aimed at enhancing financial access among the defined target populations in Mexico. The Framework defines eligibility criteria in one area:

### 1. Employment Generation and Socio-economic Empowerment

ConCrédito engaged Sustainalytics to review the ConCrédito Social Bond Framework, dated September 2022, and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2021 (SBP).<sup>3</sup> This Framework will be published in a separate document.<sup>4</sup>

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>5</sup> 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 1.11.4, 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 ConCrédito’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. ConCrédito representatives have confirmed that: (1) they understand it is the sole responsibility of ConCrédito to ensure that the information provided is complete, accurate or up to date; (2) they have provided Sustainalytics with all relevant information; and (3) 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 ConCrédito.

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

<sup>1</sup> Genera, “Genera Reports 4q20 Results”, (2021), at: [https://www.genera.com.mx/wcm/connect/04ec825f-c12e-451f-9231-09c48c18bc0d/Genera-4Q20+audited.pdf?MOD=AJPERES&CONVERT\\_TO=url&CACHEID=ROOTWORKSPACE-04ec825f-c12e-451f-9231-09c48c18bc0d-nxx6Uo0](https://www.genera.com.mx/wcm/connect/04ec825f-c12e-451f-9231-09c48c18bc0d/Genera-4Q20+audited.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-04ec825f-c12e-451f-9231-09c48c18bc0d-nxx6Uo0)

<sup>2</sup> ConCrédito has communicated to Sustainalytics that bonds issued under the Framework will be Secured Social Collateral Bonds and that it will ensure no double counting of the underlying loans with other outstanding social or sustainability issuance per the voluntary process guidelines published in [June 2022 Appendix 1](#) of the SBP 2021. ConCrédito has also communicated a commitment to disclosing these details in the offering documents of each issuance.

<sup>3</sup> ICMA, “Social Bond Principles”, (2021), at: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<sup>4</sup> The ConCrédito Social Bond Framework will be available on ConCrédito’s website at: <https://www.concredito.com.mx/informacion-financiera-concredito>

<sup>5</sup> 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.

measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, ConCrédito is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential 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 favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that ConCrédito has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the ConCrédito Social Bond Framework

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

- Use of Proceeds:
  - The eligible category, Employment Generation and Socio-economic Empowerment, is aligned with those recognized by the SBP. Sustainalytics expects the eligible loans to deliver social benefits for the target populations in Mexico.
  - ConCrédito has defined a look-back period of two years for selecting the eligible assets, which Sustainalytics considers to be in line with market practice.
  - Under the Employment Generation and Socio-economic Empowerment category, ConCrédito intends to securitize a portfolio of revolving credits (retail loans) extended by the Company to the individuals who have a direct contractual relationship with ConCrédito (the "Entrepreneurs")<sup>6</sup> to carry out microcredits requested digitally by other individual borrowers (the "Individual Borrowers"), as part of its ValeDinero product offering.<sup>7</sup> The loans can be used by the Individual Borrowers for any purpose, except for certain activities that are excluded from the Framework.<sup>8</sup> The Company has further communicated that Individual Borrowers have historically used most of the loan proceeds to finance their small businesses, other debt payments and medical emergencies.
  - The Entrepreneurs and the Individual Borrowers are required to be from one of the following defined groups of target populations based on: i) access to financial services as defined by the Sustainability Accounting Standard Board;<sup>9</sup> ii) the socio-economic level per the criteria

<sup>6</sup> The Framework defines Entrepreneurs as individuals from the Target Populations who have the responsibility to evaluate and select the Individual Borrowers and request the Company to originate and disburse loans to them based on the limit set for the lines of credit. ConCrédito provides the loans directly to final borrowers. ConCrédito has communicated to Sustainalytics that the Entrepreneurs receive in turn compensation based on the size of the loan and that it does not charge the Entrepreneurs any fee to participate in the financing model.

<sup>7</sup> ConCrédito, "ValeDinero", at: <https://www.concredito.com.mx/valedinero>

<sup>8</sup> The Framework excludes the financing of retail loans for the following purposes: production or activities involving harmful or exploitative forms of forced labour or harmful child labour; commercial logging operations for use in primary tropical moist forests; production or trade of products containing polychlorinated biphenyls, ozone-depleting substances subject to international phase out, wood or other forestry products from unmanaged forests; production, trade, storage or transport of significant volumes of hazardous chemicals, or commercial-scale usage of hazardous chemicals; production or activities that impinge on the lands owned or claimed under adjudication by Indigenous populations without full documented consent of such people; and production or commercialization of weapons or munitions.

<sup>9</sup> This group comprises: i) unbanked population, individuals without a chequing or savings account who may rely on alternative financial services (AFS), such as payday loans, non-bank money orders, non-bank cheque-cashing services, non-bank remittances, rent-to-own services, pawn shops or refund anticipation loans; ii) underbanked population, individuals that have a chequing or savings account but may still regularly use AFS; and iii) unserved population, individuals who are unbanked, underbanked or who otherwise have limited access to mainstream financial services often due to limited or no credit history. The Company has communicated that it has adopted internal processes to assess an individual's qualification per the criteria mentioned above. More information at: <https://www.sasb.org/about/>

- established by the Asociación Mexicana de Agencias de Investigación de Mercado;<sup>10</sup> iii) employment per the ILO criteria;<sup>11</sup> or iv) gender considerations<sup>12</sup> (together, the “Target Populations”).
- The loans offered to the Individual Borrowers can range from MXN 2,000 to MXN 10,000 (approximately USD 100 to USD 500). While collecting, ConCrédito shares a portion of the repayments with the Entrepreneurs.<sup>13</sup>
  - The Framework requires the interest rates on the loans offered to the Entrepreneurs and the Individual Borrowers to reflect existing market rates in Mexico at the time of loan origination. The Company has communicated to Sustainalytics that, in case the Individual Borrowers default on the repayment of loans, the Entrepreneurs have the responsibility to cover for them as part of their contractual obligations with ConCrédito.
  - To address potential risks related to predatory lending, ConCrédito has set up formal processes to ensure that the conditions set at the loan origination stage are aligned with the guidelines set by Mexico’s National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF).<sup>14</sup> The Company also provide the Entrepreneurs a credit management training as part of the onboarding process, including training on the fair practices associated with the repayment collection process, minimizing risks of adopting unfair collection practices by the Entrepreneurs. Refer to Section 2 for more details.
  - Sustainalytics recognizes the potential of securitizing retail loans for the Entrepreneurs to create positive social impacts for them and the Individual Borrowers and believes that such investments can enhance access to financing among the Target Populations in a developing country such as Mexico.
  - Project Evaluation and Selection:
    - ConCrédito’s Credit department will be responsible for overseeing the identification and selection of eligible loans per the criteria defined in the Framework.
    - The Company has adopted internal processes to manage risks related to predatory lending and community relations. Please refer to Section 2 for additional details.
    - Based on the delineation of responsibility and a mechanism for addressing the identified social risks, Sustainalytics considers this process to be in line with market practice.
  - Management of Proceeds:
    - ConCrédito intends to fully allocate proceeds at each issuance with no flexibility to reallocate. The Executive Committee oversees the total allocation. The principal repayments from the securitization will be used to onboard new Individual Borrowers and to increase the credit lines of the existing assigned Entrepreneurs in warranty.
    - The Company’s Executive Committee along with its Credit department will be responsible for tracking the proceeds.
    - Based on the commitment to full allocation at issuance, Sustainalytics considers this process to be in line with market practice.
  - Reporting:
    - ConCrédito intends to publish a Social Bond Report on its website on an annual basis or earlier in case of material developments.

<sup>10</sup> This group comprises (individuals from) the following households: i) Level C-: 74% of households in this segment have a head (of the household) with an educational qualification higher than elementary school, 52% have a fixed internet connection at home, 38% of monthly spending is dedicated to food and 24% to transportation and communication; ii) Level D+: 62% of households in this segment have a head that has an educational qualification higher than elementary school, 22% have a fixed internet connection at home, 42% of monthly spending goes to food and 7% to education; iii) Level D: 53% of households in this segment have a head with primary school education at most, 86% of the houses in which they live have one or two bedrooms, 14% have fixed internet at home, 48% of monthly spending goes to food; and iv) Level E: 82% of households have a head with education no higher than primary school, 70% of houses have only one bedroom and 83% do not have a full bathroom, 0.3% have fixed internet, and 52% of monthly spending goes to food and 1% to education. More information at: [https://www.amai.org/Acerca\\_AMAI.php](https://www.amai.org/Acerca_AMAI.php)

<sup>11</sup> This group consists of working-age individuals who are not employed, who have sought employment during a specified recent period and are currently available to take up employment given a job opportunity. More information at: [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms\\_422438.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_422438.pdf)

<sup>12</sup> This target group comprises women entrepreneurs.

<sup>13</sup> The Framework specifies that the Entrepreneurs typically get to keep MXN 2,700 to MXN 23,000 (USD 135 to USD 1,150) every month. According to the internal estimates by the Company, such financing has provided additional income to more than 67,000 Mexican families (cumulative figure; as of June 2022).

<sup>14</sup> CONDUSEF, “What do we do?”, at: [https://www.condusef.gob.mx/?p=que\\_hacemos](https://www.condusef.gob.mx/?p=que_hacemos)

- The allocation reporting will include details on the net proceeds raised from each issuance and proceeds used for finance or refinance purposes.
- The impact reporting may be based on an indicative list of key impact indicators including the number of jobs created, supported, or retained; the number of women-owned businesses benefitted; the number and amount of disbursements to women-owned businesses; and the number of low-income, rural or minority women provided with access to affordable credit.
- Based on the commitment to both impact and allocation reporting, Sustainalytics considers this process to be in line with market practice.

### Alignment with Social Bond Principles 2021

Sustainalytics has determined that the ConCrédito Social Bond Framework aligns to 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 ConCrédito

### Contribution of the Framework to ConCrédito's sustainability strategy

Sustainalytics is of the opinion that ConCrédito demonstrates a commitment to sustainability by adopting the Group's sustainability strategy, which is based on five key pillars: i) environment and climate change; ii) good governance and integrity; iii) corporate citizenship; iv) well-being of its employees; and v) impact on its clients.<sup>15,16</sup> As part of the fifth pillar, the Company intends to foster financial inclusion, innovation and development of new products for its clients.

As a consumer lending service provider, ConCrédito has a direct contractual relationship with entrepreneurs, which currently consist of 94% women and 6% men.<sup>17</sup> In 2021, it became a 100% digital company after closing all its brick-and-mortar branches.<sup>18,19</sup> ConCrédito's Mi oficina app assists entrepreneurs and other targeted populations in accessing the Company's lending services through their mobile phones. Through this app, the Company intends to support business growth and provide financial education training, such as the 10 Golden Rules guidelines for the loan origination process.<sup>20</sup>

Sustainalytics recognizes ConCrédito's commitment to its ongoing social initiatives and encourages it to develop quantifiable and time-bound targets to strengthen its sustainability practices further.

### Approach to managing social and environmental risks associated with the loans

Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible loans that are expected to have positive social impacts. However, Sustainalytics is aware that such eligible loans could also lead to negative social outcomes. Some key social risks associated with the eligible assets could include issues related to predatory lending and over-indebtedness for financially vulnerable individuals, community relations, stakeholder participation and unfair collection practices adopted by the Entrepreneurs.

Sustainalytics is of the opinion that ConCrédito is able to manage or mitigate potential risks through implementing the following:

- To address predatory lending and over-indebtedness for financially vulnerable individuals, ConCrédito has adopted a principle-based approach for servicing its clients, which includes: i) appropriate product design and distribution; ii) prevention of over-indebtedness; iii) transparency; iv) reasonable prices; v) fair and respectful treatment of clients; vi) customer privacy protection; and vii)

<sup>15</sup> Information has been shared to Sustainalytics on a confidential basis

<sup>16</sup> Genera, "2021 Annual and Sustainability Report", at: [https://www.genera.com.mx/wcm/connect/91456910-df94-43ca-85fabb0a1fbf8b19/Genera+2021+Annual+and+Sustainability+Report.pdf?MOD=AJPERES&CONVERT\\_TO=url&CACHEID=ROOTWORKSPACE-91456910-df94-43ca-85fa-bb0a1fbf8b19-o0.6dC](https://www.genera.com.mx/wcm/connect/91456910-df94-43ca-85fabb0a1fbf8b19/Genera+2021+Annual+and+Sustainability+Report.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-91456910-df94-43ca-85fa-bb0a1fbf8b19-o0.6dC)

<sup>17</sup> Information has been shared to Sustainalytics on a confidential basis

<sup>18</sup> Genera, "2021 Annual and Sustainability Report", at: [https://www.genera.com.mx/wcm/connect/91456910-df94-43ca-85fabb0a1fbf8b19/Genera+2021+Annual+and+Sustainability+Report.pdf?MOD=AJPERES&CONVERT\\_TO=url&CACHEID=ROOTWORKSPACE-91456910-df94-43ca-85fa-bb0a1fbf8b19-o0.6dC](https://www.genera.com.mx/wcm/connect/91456910-df94-43ca-85fabb0a1fbf8b19/Genera+2021+Annual+and+Sustainability+Report.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-91456910-df94-43ca-85fa-bb0a1fbf8b19-o0.6dC)

<sup>19</sup> ConCrédito Social Bond Framework 2022.

<sup>20</sup> Ibid.

customer complaints resolution mechanisms.<sup>21</sup> In addition, ConCrédito has established institutional protocols to ensure that the loan terms are aligned with the guidelines of CONDUSEF.<sup>22</sup> The Company has communicated that it leverages its digital loan origination system to ensure that the Entrepreneurs have no influence in deciding the loan conditions for the individual borrowers.

- Genera manages its relationships with its stakeholders through continual engagement, which includes direct meetings and surveys.<sup>23</sup> In 2021, it engaged with the representatives of its key stakeholders, including clients, employees, community members, investors and other stakeholders, to identify the key material issues that could potentially impact its business and stakeholders.<sup>24</sup>
- ConCrédito has communicated to Sustainalytics that it has adopted a Code of Ethics and Conduct (the “Code”), which speaks to compliance with human rights and occupational safety regulations, is also applicable to the employees and board members of ConCrédito, as well as to the collaborators and suppliers who take part in its social programmes. The Company has communicated that every new employee is expected to complete a training programme on the application of the Code. In addition, the Group has adopted a strategic ESG policy that outlines its environmental and social obligations, including those related to anti-corruption, non-discrimination, diversity and inclusion, labour rights and human rights.
- Regarding the repayment collection process adopted by the Entrepreneurs, ConCrédito has communicated to Sustainalytics that it provides training to Entrepreneurs as part of the onboarding process, which include awareness sessions on unfair practices that are prohibited by the Company. The Entrepreneurs also have access to ConCrédito's collection department and a business advisor (account executives), who provides support for training and the adoption of ethical collection practices. In addition, the Company leverages the Centro de Atención Multiplataforma, a service tool for the Entrepreneurs that encourages them to conduct the collection process via telephonic and digital channels.

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

### Section 3: Impact of Use of Proceeds

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

#### Importance of Financial Inclusion for the Target Populations in Mexico

As per a World Bank report in 2021, only 37% of adults have bank accounts, and just 32% have made or received digital payments in Mexico, both of which are significantly low compared to countries with similar levels of development.<sup>25</sup> The report additionally points out an eight-percentage point gender gap in financial access in the country.<sup>26</sup> Another World Bank report states that just 10% of Mexican adults save through a financial institution. In terms of payment methods, almost 90% of everyday transactions in Mexico below MXN 500 (USD 25) are executed in cash, and most individuals still do not have access to electronic payment systems.<sup>27</sup>

The penetration rate of credit cards in the country stood at just 12% in 2021, with its household debt ratio being only 16% (compared to 52% in China), which has led to significant pent-up credit demand in the country.<sup>28</sup> Some of the known reasons for this restrained demand for retail credit among a certain group of individuals may be attributed to the lack of trust in banks among the Mexican population and the lack of

<sup>21</sup> Ibid.

<sup>22</sup> Information has been shared to Sustainalytics on a confidential basis

<sup>23</sup> Genera, “2021 Annual and Sustainability Report”, at: [https://www.genera.com.mx/wcm/connect/91456910-df94-43ca-85fabb0a1fbf8b19/Genera+2021+Annual+and+Sustainability+Report.pdf?MOD=AJPERES&CONVERT\\_TO=url&CACHEID=ROOTWORKSPACE-91456910-df94-43ca-85fa-bb0a1fbf8b19-o0.6dC](https://www.genera.com.mx/wcm/connect/91456910-df94-43ca-85fabb0a1fbf8b19/Genera+2021+Annual+and+Sustainability+Report.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-91456910-df94-43ca-85fa-bb0a1fbf8b19-o0.6dC)

<sup>24</sup> Ibid.

<sup>25</sup> The World Bank, “Expanding Financial Access for Mexico’s Poor and Supporting Economic Sustainability”, (2021), at: <https://www.worldbank.org/en/results/2021/04/09/expanding-financial-access-for-mexico-s-poor-and-supporting-economic-sustainability>

<sup>26</sup> Ibid.

<sup>27</sup> Latamlist, “The low-hanging fruit of Mexico’s financial system”, (2022) at: <https://latamlist.com/the-low-hanging-fruit-of-mexicos-financial-system/>

<sup>28</sup> Advance AI, “Mexican Fintech Report 2021”, at:

[https://f.hubspotusercontent10.net/hubfs/5877117/Marketing%20Content/Reports/Mexico%20Fintech%20Report%20\(EN\).pdf](https://f.hubspotusercontent10.net/hubfs/5877117/Marketing%20Content/Reports/Mexico%20Fintech%20Report%20(EN).pdf)



access to physical banking facilities, especially in the underserved regions<sup>29,30</sup> Almost 60% of the Mexican population works in the informal sector, where they may receive inconsistent income in cash.<sup>31</sup> This lack of financial access affects some more than others, including low-income earners and women. As per CONDUSEF, banks in Mexico tend not to be interested in the “less well-off” individuals, as only a fifth of the poorest 20% of Mexicans have bank accounts.<sup>32</sup> Apart from the economically vulnerable populations, which may include low-income and unemployed individuals, some recent studies also state that the lack of financial inclusion in the country has negative impacts on female economic empowerment by creating barriers to essential tools for generating income and accumulate assets, which further reduces their social well-being.<sup>33</sup> In terms of microcredits, women in Mexico may face issues when trying to gain access to microcredit programmes, including low financial literacy and institutional distrust, high interest rates and over-indebtedness.<sup>34</sup> In the last few years, fintech has been recognized as an innovative mechanism to address the above-mentioned challenges individuals face when trying to access loans.<sup>35</sup> Mexico’s fintech industry had attracted more than USD 1.3 billion of investment as of September 2020, with online lending taking in the largest amount of money (USD 941 million) followed by payment services (USD 206 million) and digital banking (USD 98 million), which has led to increasing reliance on digital financing channels in the country.<sup>36</sup>

In 2020, the country’s National Council for Financial Inclusion and the Financial Education Committee launched the National Policy for Financial Inclusion (2020-2024). The policy, among other objectives, intends to ease access to financial products and services for individuals and small businesses, boost financial literacy and increase digital payment uptake among the population, and encourage the financial inclusion of vulnerable groups, such as women, migrants and rural populations.<sup>37</sup>

In this context, Sustainalytics considers that ConCrédito’s focus on providing financing access to the identified populations under the Framework is complementary to the Mexican government’s efforts to make essential services accessible to the vulnerable and underserved groups. Sustainalytics highlights the importance of financing social loans to the targeted groups through digital channels and their expected positive impacts on improving financial inclusion and promoting enhanced financial security in Mexico.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The bond(s) issued under the ConCrédito Social Bond Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Employment Generation and Socioeconomic Empowerment	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

<sup>29</sup> Center for Global Development, “The Puzzle of Financial Inclusion in Mexico: A Closeable Gap?”, at: <https://www.cgdev.org/publication/puzzle-financial-inclusion-mexico-closeable-gap>

<sup>30</sup> The Economist, “Mexicans lack access to credit”, at: <https://www.economist.com/finance-and-economics/2020/12/10/mexicans-lack-access-to-credit>

<sup>31</sup> Ibid.

<sup>32</sup> The Economist, “Mexicans lack access to credit”, at: <https://www.economist.com/finance-and-economics/2020/12/10/mexicans-lack-access-to-credit>

<sup>33</sup> Kazemikhasragh A. et al. (2022), “Financial inclusion and education: An empirical study of financial inclusion in the face of the pandemic emergency due to Covid-19 in Latin America and the Caribbean,” National Center for Biotechnology Information, at: [Financial inclusion and education: An empirical study of financial inclusion in the face of the pandemic emergency due to Covid-19 in Latin America and the Caribbean - PMC \(nih.gov\)](https://pubmed.ncbi.nlm.nih.gov/36111111/)

<sup>34</sup> Pepperdine University, “Enhancing the Effectiveness of Microcredit for Female Recipients in Mexico”, at:

<https://digitalcommons.pepperdine.edu/cgi/viewcontent.cgi?article=1192&context=ppr>

<sup>35</sup> LatamList, “The low-hanging fruit of Mexico’s financial system”, at: <https://latamlist.com/the-low-hanging-fruit-of-mexicos-financial-system/>

<sup>36</sup> Korefusion, “LATAM Fusion Landscape, Redefined”, at: <https://korefusion.com/report-download/>

<sup>37</sup> PNIF, “National Policy for Financial Inclusion”, at: [https://www.afi-global.org/wp-content/uploads/2020/07/EN\\_Summary\\_National\\_Financial\\_Inclusion\\_Strategy.pdf](https://www.afi-global.org/wp-content/uploads/2020/07/EN_Summary_National_Financial_Inclusion_Strategy.pdf)

## **Conclusion**

ConCrédito has developed the ConCrédito Social Bond Framework under which it intends to issue social bonds securitized by a portfolio of eligible retail loans. Sustainalytics considers that the loans securitized under the issuances are expected to provide positive social impacts for target populations in Mexico.

The ConCrédito 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 Framework is aligned with the overall sustainability strategy of the Company and that the social use of proceeds category will contribute to the advancement of the UN Sustainable Development Goals 8 and 10. Additionally, Sustainalytics is of the opinion that ConCrédito has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible loans.

Based on the above, Sustainalytics is confident that ConCrédito is well positioned to issue social bonds and that the 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:	ConCrédito
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	ConCrédito Social Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	September 26, 2022
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 <sup>nd</sup> 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.

### 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, Employment Generation and Socio-economic Empowerment, is aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations in Mexico. 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 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 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):

ConCrédito's Credit department will be responsible for overseeing the identification and selection of eligible loans. ConCrédito has adopted internal processes to manage risks related to predatory lending and community relations. 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):  |

**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):

ConCrédito intends to allocate proceeds fully at the time of each issuance. The Executive Committee will oversee the allocation process and track the proceeds in collaboration with the Credit department. 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):

ConCrédito intends to publish a Social Bond Report on its website on an annual basis or earlier in case of material developments. The report will include details on the allocation of proceeds. In addition, ConCrédito intends to report on relevant quantitative impact metrics where feasible and has provided indicative metrics within the Framework. Sustainalytics views ConCrédito's allocation and impact reporting as aligned with market practice.

**Use of proceeds reporting:**

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

**Information reported:**

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

**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*):

Jobs created, supported, and/or retained; number of women-owned business benefited; number of disbursements to women-owned business; amount disbursed to women-owned business; number of low-income, rural or minority women provided with access to affordable credit; number of low-income, rural or minority women provided with access to information or financial services through digital products/services

**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): Standalone report published on the Company's website
- 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 <sup>nd</sup> 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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