

Sustainable Finance Framework

UNIFIN

Nov 2021

Introduction

UNIFIN is the leading independent Mexican leasing company, operating as a non-banking financial institution.

We offer innovative financial solutions to the dynamic SME segment in Mexico, which traditional banks have historically underserved. Our goal is to be the one-stop-shop for financial solutions to support small and medium-sized enterprises' growth in Mexico.

At UNIFIN, we recognize the importance of protecting and preserving natural resources for sustainable societies and the development of economies. Thus, we have signed up to implement the principles of the United Nations Global Compact and have committed to the Principles for Responsible Banking.

In addition to reinforcing our company's commitment to responsible execution, our purpose is the egalitarian economic development of SMEs in Mexico through financial inclusion, strengthening competitiveness, and building more sustainable communities.

The following section summarizes UNIFIN's Sustainable Finance Framework which follows the four key pillars of the ICMA Green and Social Bond Principles, and Sustainability Bond Guidelines including: the use of proceeds, process for project evaluation and selection; management of proceeds; and reporting. The framework covers green, social, and/or sustainability bond offerings issued by UNIFIN.

The Framework also describes the manner in which UNIFIN's Green, Social and Sustainability Bonds support and contribute towards meeting the United Nations Sustainable Development Goals (SDGs).

Use of Proceeds



The proceeds from Green, Social or Sustainability issuances will be used exclusively to finance or refinance loans and investments that meet UNIFIN's Eligibility Criteria, as discussed below.

Sustainability issuance proceeds may finance or refinance a combination of Green and Social projects and assets eligible under either criterion.






Use of Proceeds - Green Eligible Projects

Green issuances will raise capital to reduce environmental impact, address climate change, and preserve natural resources.

Proceeds from Green issuances will exclusively be allocated to finance or refinance loans and investments made in projects and assets that fulfill the Eligibility Criteria as follows:

Eligible Project Categories	UN SDGs Alignment	Eligibility Criteria	Examples of Eligible Projects
Clean energy ¹		<ul style="list-style-type: none"> Activities that reduce the net emission of carbon linked to energy generation 	<ul style="list-style-type: none"> Solar power generation Wind power generation Hydropower generation, excluding large scale hydro projects Power generation sourced from waste products Renewable natural gas and methane capture projects Natural gas and steam cogeneration systems
Energy efficiency		<ul style="list-style-type: none"> Activities that reduce energy consumption or mitigate greenhouse gas (GHG) emissions 	<ul style="list-style-type: none"> Energy efficient heating and cooling systems Energy efficient lighting and appliances Centralized energy control systems Energy storage systems Smart grid investments for more efficient transmission and distribution of energy

¹ Technologies not primarily relying on fossil fuels

Green buildings		<ul style="list-style-type: none"> • Activities of new construction/renovation of residential and commercial buildings with green certifications 	<ul style="list-style-type: none"> • Buildings with certifications such as LEED (Gold or above)
Clean transportation		<ul style="list-style-type: none"> • Activities that reduce fossil fuel consumption • Activities that develop or improve sustainable transportation infrastructure • Activities that reduce carbon emissions per passenger trip 	<ul style="list-style-type: none"> • Electric and hydrogen vehicles technologies • Supporting infrastructure for electric and hydrogen vehicles • Electric and low-carbon non-electric public transportation such as trains and buses including supporting infrastructure • Infrastructure and technologies that support emissions reduction such as bike lanes, pedestrian walkways
Sustainable agriculture	 	<ul style="list-style-type: none"> • Activities that increase the output of agricultural and aquaculture products compliant with sustainable certification schemes such as Fairtrade, MSC and organic standards • Activities that reduce use of energy, carbon emissions, waste or spoilage linked to land use or distribution of agricultural products • Activities that advance the use of storage, processing, traceability and distribution capabilities that increase the sustainability of the food supply chain • Activities that provide quality control and reduce chemical and water inputs 	<ul style="list-style-type: none"> • Precision and regenerative agriculture solutions • Conventional to organic farmland conversion • Water management practices such as drip irrigation, irrigation scheduling, storage • Fertilizer and herbicide input management that reduce pesticide use • Alternative protein development
Waste management		<ul style="list-style-type: none"> • Activities that reduce or reuse waste products • Activities that increase resource efficiency 	<ul style="list-style-type: none"> • Carbon capture, utilization and storage projects • Treatment, remediation,

		<ul style="list-style-type: none"> • Activities that increase the percentage of sustainable materials used in industrial and manufacturing processes • Activities that reduce emissions or other environmental degradation linked to waste management 	<ul style="list-style-type: none"> • recycling or reuse of emissions, waste, hazardous waste or contaminated soil • Facilities, systems, and equipment that are used to divert waste from landfills or reduce emissions • R&D for sustainable materials development • Procurement and production of sustainably sourced materials
--	--	---	---

Use of Proceeds - Social Eligible Projects

Social issuances will raise capital to reduce inequalities and build strengthened communities.

Proceeds from Social issuances will exclusively be allocated to finance or refinance loans and investments made in projects and assets that fulfill the Eligibility Criteria as follows:

Target population categories:

- Underserved / underbanked micro, small and medium size businesses²
- Businesses owned, managed, or controlled by vulnerable, excluded and / or marginalized populations³
- Individuals living in the extreme poverty line and poverty line⁴

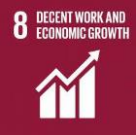

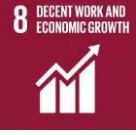

2 According to the World Bank, the number of employees is the most common and straightforward variable used in defining SME: i) Micro: less than ten employees; ii) Small: 10-49 employees; iii) Medium: 50-249 employees.

3 The World Bank defines vulnerable and marginalized groups as a distinct, vulnerable, social and cultural group possessing the following characteristics: i) self-identification as members of a distinct indigenous cultural group and recognition of this identity by others; ii) collective attachment to geographically distinct habitats or ancestral territories in the project area and to natural resources in these habitats and territories; iii) customary cultural, economic, social or political institutions that are separate from those of dominant society and culture, and; iv) an indigenous language, often different from the official language of the country.

Within the marginalized groups, some segments may also be more vulnerable than others: older persons, persons with disabilities, women, child, and women-headed households, youth, mentally ill, and vulnerable children.

For UNIFIN, these businesses may indicate, but are not limited to, those owned, managed, or controlled by a) an indigenous group; b) woman/ women (≥ 51% owned by woman/women or it has ≥ 1 woman as CEO/COO/President/Vice President or it has ≥ 30% of the board of directors composed of women, where a board exist).

4 According to CONEVAL (Consejo Nacional de Evaluación de la Política de Desarrollo Social), in Mexico there are two poverty cohorts, regarding income: i) extreme poverty line: equivalent to the monthly value of the food basket per person, calculated for rural and urban areas, and; ii) poverty line: equivalent to the total monthly value of the sum of the food basket and the non-food basket per person. As of September 2021, the extreme urban poverty line was Ps.1,798.53 (USD 89.9), and the urban poverty line was Ps. 3,451.46 (USD 172.57).

Eligible Project Categories	UN SDGs Alignment	Eligibility Criteria	Examples of Eligible Projects
Financial inclusion	 	<p>Activities that increase the use of financial services such as:</p> <ul style="list-style-type: none"> • Accessible⁵ and affordable⁶ financial services • Financial services for women and ethnic minorities • Financial services offering in the states with the higher extreme poverty rate 	<ul style="list-style-type: none"> • Small business lending • Loans or financial services for individuals or companies in states with higher extreme poverty rate (Chiapas, Guerrero, Puebla, Quintana Roo, Oaxaca, Veracruz, Tabasco, Yucatán) • Extension of affordable and accessible credit products such as online lending platforms⁷ • Financial education
Community strengthening	 	<ul style="list-style-type: none"> • Increase access to the economy and opportunity for asset ownership • Increase access and affordability of quality essential products and services • Provide community infrastructure • Provide infrastructure resistant to meteorological phenomena 	<ul style="list-style-type: none"> • Microcredits for the acquisition of assets for microentrepreneurs • Financial products that encourage the participation of women and vulnerable groups in the economy • Public parks, museums, libraries • Essential services such as hospitals, water and sanitation systems, natural disaster response

5 According to the last National Survey of Financial Inclusion (Encuesta Nacional de Inclusión Financiera), 70% of Mexicans meet their money needs through loans between individuals, only 37% of the adults own a bank account, and 68% of the adults haven't made or received an electronic payment. For UNIFIN, accessible financial services may indicate, but are not limited to, offering of financial services in geographies with limited or low bank penetration, and alternative channels including online lending platforms.

6 There are a limited number of financial services options for micro, small and medium-sized businesses in Mexico, from which microcredits and credit cards are the most relevant, with a Total Annual Cost (CAT) of 44.6% and 71.34%, respectively (Source: Banxico). For UNIFIN, affordable financial services indicate financial services below 40% Total Annual Cost (CAT).

7 Referring to digital solutions that embrace speed, convenience and agility, couple with high scalability, security and CAPEX savings to the lending process.

			<ul style="list-style-type: none"> • Telecommunications infrastructure, especially in states with the largest population living in extreme poverty. (Chiapas, Guerrero, Puebla, Quintana Roo, Oaxaca, Veracruz, Tabasco, Yucatán) • Weather resistant infrastructure such as flood prevention projects
--	--	--	--

Exclusionary criteria

In line with the European Development Finance Institutions (EDFI) exclusion list, UNIFIN has committed to the following exclusionary criteria for the proceeds for its Green, Social or Sustainability issuance. UNIFIN commits itself to not knowingly be involved in financing any of the following projects or activities through the proceeds of its issuances:

- 1) Production or activities involving forced labor or child labor.
- 2) Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
- 3) Any business relating to pornography or prostitution.
- 4) Trade in wildlife or wildlife products regulated under CITES.
- 5) Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos fibers and products containing PCBs.
- 6) Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations.
- 7) Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
- 8) Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances and other hazardous substances subject to international phase-outs or bans.
- 9) Destruction of Critical Habitat.
- 10) Production and distribution of racist, anti-democratic and/or neo-nazi media.
- 11) Production or trade in:
 - a) weapons and munitions
 - b) tobacco
 - c) hard liquor
- 12) Gambling, casinos and equivalent enterprises.

Process for project evaluation and selection process

The Sustainable Finance Committee will review Eligible Green and Social Projects and Assets with representatives from UNIFIN Risk, Credit, Operations, Commercial, Corporate Finance, Compliance, and Legal teams and the Chief of Staff. They will meet periodically to review and confirm the eligibility of Projects and Assets for funding with proceeds from Green, Social, or Sustainability issuances.

The process for evaluation and selection will comply with the following procedure:

- 1) The Credit Area will provide a prospective list of Projects and Assets
- 2) Further information about each specific Project and Asset will be collected by the Sustainability and Risk departments, to indicate which projects and assets meet the Eligibility Criteria identified in this framework
- 3) The final list of eligible Projects and Assets shall be approved by the Sustainable Finance Committee

The Committee will also be responsible for monitoring the pool of Projects and Assets identified as eligible Use of Proceeds, replacing those that no longer satisfy the criteria established in this framework with new Projects and Assets if needed, and validating the Sustainable Bond Report.

UNIFIN governs its risk identification cycle through the Manual for Comprehensive Risk Management.

The environmental and social risks are included within the segment of non-quantifiable, reputational risks. The identification thoroughness for both variables depend on the industry in question and is always governed by risk appetite levels, the maximum tolerance level within the operation defined by UNIFIN.

The inputs for the identification of the environmental and social risks are:

- 1) Credit application.
- 2) Report of legal incidents which contains, in general, labor, civil, commercial, administrative, and criminal actions.
- 3) Know Your Customer (KYC) processes, including Money Laundering Prevention (PLD) and Terrorism Financing Reports.
- 4) In certain operations, depending on their nature, operating permits or licenses, including environmental compliance certificates.

Regardless of their industry, all clients must comply with not being included in the List of Restricted Activities.

Those with credit, business, environmental, legal, social, and reputational risks outside UNIFIN's risk appetite are categorized as counterparties or prohibited structures.

The official responsible for monitoring and controlling environmental and social risks is the Director of Comprehensive Risk Management.

The identification and incidence of environmental and social risks are presented in the Risk Committee, formed by six members: two board members, one of them independent, CEO, Head of Risk and Credit, Director of Comprehensive Risk Management (Secretary), and the Internal Auditor.

In addition, UNIFIN applies the Equator Principles⁸ to all projects that are financed. All eligible projects and assets are subject to consistency with UNIFIN applicable environmental and social policies.

Management of proceeds

UNIFIN Corporate Finance team will track and manage the proceeds from each issuance. An amount equivalent to the net proceeds from Green, Social, and Sustainable issuances will be allocated toward Eligible Projects and tracked via a UNIFIN BI platform. Pending full allocation to the Eligible Project portfolio, UNIFIN may use unallocated funds for short term debt repayment and other transactions in line with the treasury policy, which may include investments in deposits, money market funds and other similar products. The proceeds will not be used for long-term debt repayment.

During the term of an issuance, if an asset that has been funded with the proceeds of a Green, Social, or Sustainable Bond either matures or is sold, UNIFIN will seek to reallocate the equivalent amount of proceeds into Eligible Projects and Assets where possible and feasible.

UNIFIN will prioritize the use of proceeds from Green, Social, or Sustainability issuances to finance new projects or assets that meet the criteria of the respective type of issuance and aim to allocate all proceeds within two years following the issuance. Loans and investments that qualify under the relevant criteria made up to 24 months prior to the issuance are considered eligible for refinancing with Green, Social, and Sustainable proceeds.

While the split of refinanced vs. financed loans for any specific UNIFIN bond will vary depending on timing, market conditions, and other factors, we expect, on average, for 40-50% of the net proceeds to be used to refinance eligible loans

Reporting

UNIFIN will publish on a Sustainable Bond Report on its website within a year from issuance and will renew it annually until full allocation and in case of any material changes. The Sustainable Bond Report will detail the total amount of spend allocated toward Eligible Green and Social Projects composing the Sustainable Bond Asset Portfolio and the total outstanding amount raised by UNIFIN Green, Social, or Sustainable Bond Issuances.

Each report will provide a brief description of categories of assets to which proceeds have been allocated, and the total amount of proceeds allocated to such eligible assets, the total amount of an issuance's unallocated proceeds if any, and the expected and realized qualitative and, where feasible, quantitative environmental and social impact of the assets to which the proceeds have been allocated, accompanied by case studies where relevant.

⁸ The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making.

<https://equator-principles.com/about/>

Although measuring impact will largely depend on category concentration, possible example impact metrics may include the number of eligible loans to different eligible categories, the number of SMEs assisted by eligible loans, eligible loans as a percent of UNIFIN's total portfolio, and / or newly originated eligible loans as a percent of total newly originated loans.

In September 2021, UNIFIN received its first sustainable funding from the eco.business Fund, which, in addition to providing financing, will provide technical advice for the implementation of the environmental and social risk management system in the Company. This system will facilitate the implementation of environmental and social impact metrics in UNIFIN's portfolio.

External review

S&P Global, has provided a Second Party Opinion ("SPO") on this framework and will be available on UNIFIN's website. S&P Global opinion intends to provide an assessment of UNIFIN's Sustainable Finance Framework's alignment with the transparency and reporting requirements of the Green and Social Bond Principles and Sustainability Bond Guidelines, as well as assess UNIFIN's overall sustainability performance and its alignment with the framework.

UNIFIN expects each Sustainable Financing Report will be accompanied by an attestation from an independent registered public accounting firm with respect to the amount of net proceeds allocated to specific Eligibility Criteria.