S&P Global
Ratings

Powered by Shades of Green

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Second Party Opinion

CAPEM's Sustainable Bond Framework

May 27, 2025

Location: Mexico **Sector:** Financial Services

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Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021

See Alignment Assessment for more detail.

Strengths

Projects are in line with both local and international standards, which reduces risk associated with eligible projects. CAPEM's Framework alignment to both the Mexican Sustainable Taxonomy (MST) and CBI Taxonomy provides additional eligibility criteria and thresholds for project eligibility, which provides more certainty about social and environmental risk mitigation.

Weaknesses

No weaknesses to report.

Areas to watch

Eligible projects, which are mapped to the MST, may allow financing of expenditures with indirect or unclear contribution to stated impact goals. Specifically, some types of certifications, such as those considered for food safety, do not guarantee stand-alone environmental or social benefits, despite their thematic link.

The Framework's broad scope and numerous project categories create some uncertainty about specific future projects that will be financed under this Framework. Some project categories may include activities with environmental risks such as livestock production and fossil-fueled machinery use that may be exposed to lock-in greenhouse gas emissions (GHG).

Eligible Green Projects Assessment Summary

CAPEM discloses a commitment to allocate all proceeds to eligible social and green projects within 18 months from issuance, with the possibility of refinancing existing projects with a look-back period dating back to 2020, which is longer than sector standards. The issuer expects 60% to 65% of proceeds to be allocated to refinancing projects, while 35% to 40% of proceeds will be directed to finance new projects.

Eligible projects under issuer's green finance [framework/transaction] are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Energy efficiency and renewable energies	**Medium to Light green**
Projects related to the generation of electricity from hydro, solar, wind, or other types of energy such as energy (geothermal and bioenergy)	
Projects through which the investment leads to a reduction in transmission losses of at least 20% compared to the baseline in current transmission systems. Such as the implementation of technologies that reduce and help optimize energy consumption.	

Sustainable agriculture and livestock projects	**Light green**
Projects aligned with Mexico's Sustainable Taxonomy in the agricultural and livestock sectors.	
Projects related to the economic activities of cattle farming for meat and milk production, sheep and goat farming, and services related to animal husbandry and farming.	

Responsible water management and use	**Medium to Light green**
The resources will also be used to finance projects that improve efficiency in water use and wastewater management.	
Water collection, purification and supply, and the collection and treatment of wastewater.	
The economic units of the private sector dedicated to providing agricultural irrigation services.	

Sustainable transportation	**Light green**
Transport of cargo, taxis, and private vehicles, as well as tourist transport by land that have an impact on the reduction of GHG.	

Sustainable construction projects	**Light green**
Integration of technology and eco-efficient construction methods.	
Contribute to improving efficiency in existing constructions.	
Construction of affordable housing that generates an improvement in the quality of life.	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

CAPEM (Grupo Onlix S.A.P.I. de C.V. SOFOM E.N.R.) is a Mexican financial institution that provides simple and revolving credit to individuals and micro, small, and midsize enterprises that have no or limited access to financial services. The entity constituted an irrevocable trust with CI Banco (CAPEMCB 25X) for the purpose of issuing financial instruments, specifically trust certificates. The proceeds from these instruments will be used for the origination of productive loans. CAPEM is headquartered in Guadalajara, Mexico.

Material Sustainability Factors

Access And Affordability

Financial institutions' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy often result in costly alternatives for small businesses and low-income people, so ensuring affordable access to financial services, especially to the most vulnerable population, remains a challenge for the banking industry. While structural issues such as poverty, informality, and lack of financial literacy partly limit access to financial services, banks have large opportunities to support economic development through financial inclusion.

Climate Transition Risk

Banks are highly exposed to climate transition risk through their financing of economic activities, which impact the environment. Banks' direct environmental impact is small compared to financed emissions and stems mainly from power consumption (e.g. data centers). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as oil and gas, metals and mining, real estate, or transportation. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital markets activities.

Physical Climate Risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Poor output--driven by volatile and more frequent and severe acute physical risks like drought, heatwaves, floods, and wildfires--are affecting crops, forests, and pose risks to livestock and supply of feed. Agricultural drought is almost twice as likely to occur now than before industrialization, according to the IPCC. The increasing frequency and severity of these events increase the likelihood of global shortages and/or inflated prices, alongside the potential for climate change to shift climate zones in many regions over time. Given Mexico's diverse geography, it is exposed to extreme weather events such as tropical cyclones and floods, as well as extreme temperatures and erratic rainfall that could potentially affect coastal and rural areas.

Biodiversity And Resource Use

Financial institutions contribute to significant resource use and biodiversity impact through the activities they fund or invest in. Current agricultural practices have increased food production in a cost-effective manner and enabled the industry to meet growing demand profitably despite reducing biodiversity and increasing land use. The overuse of some chemicals harms soil and water health and excessive land use harms biodiversity by expanding into spaces of natural habitat. This has a negative impact on a wide number of stakeholders, including people that depend on the natural ecosystems for their livelihoods. We see growing

stakeholder pressure on farmers and their industrial customers to switch to more methods such as regenerative soil treatment and no-tilling and increasing the mix of organic crops. Poor biodiversity can also jeopardize the longevity of agribusiness through the long-run general health of nature. Agriculture is responsible for over 70% of global freshwater withdrawals, and agribusiness may face various water supply and quality challenges depending on location and operational water needs.

Issuer And Context Analysis

Green categories aim to address climate transition, biodiversity and resource use, water, and physical climate risk, and social projects contribute to access and affordability, which are material sustainability factors for CAPEM. Eligible projects under the Framework aim to contribute to the sustainable development of CAPEM's customer base, which we view positively. While some of the projects could have some environmental risks, such as emission lock-in from fossil-fueled machinery, we think alignment to the eligibility criteria of the MST and CBI Taxonomy could help mitigate these risks and provide environmental benefits.

All projects financed through the Framework will allow CAPEM to provide more financing for individuals with business activities and small and midsize enterprises (**SMEs) in Mexico.** The entity's strategy is to promote the financial inclusion and development of SMEs across different sectors. CAPEM aims to finance projects and entities that do not have access to traditional credit markets. We believe financing of SMEs is key to promote local economic development, given their job creation potential, given Mexico’s large informal sector. We believe funding under the Framework will allow CAPEM to expand its lending capacity and help promote economic development for underserved businesses. The entity has policies in place to ensure affordability of services and promote their growth such as "Smart Money", a program that provides monitoring for clients to ensure the loan proceeds are used productively. While the entity provides this service for a small amount of loans, it expects to expand the program in the next few years.

While CAPEM's sustainability strategy is still nascent, it has implemented sustainability policies and guidelines to address potential social and environmental risk within its product offering. The Sustainability Committee held its first meeting in 2024 during which it defined the entity’s sustainability strategy. However, CAPEM is still missing key action, such as measuring its emissions, to address its main sustainability risks. In line with sector standards, CAPEM manages potential risk through its Environmental and Social Risk Management System (SARAS for its Spanish acronym). Through this system, the entity can assess and monitor climate risk, physical climate risk, as well as potential social risks. In addition, CAPEM applies an exclusion list to its financing projects based on International Finance Corporation’s (IFC's) criteria.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond/Loan principles and the Sustainability Bond Guidelines.

Alignment With Principles

Aligned = ✓ Conceptually aligned = o Not aligned = ×

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

✓ Use of proceeds

We assess all the Framework's green project categories are shaded in green and all social project categories are considered aligned. CAPEM commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects, contributing to specific Sustainable Development Goal (SDG) targets. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds. In addition, the entity clearly states the type of instruments and the constitution of the trust that will issue the assets issued under such bonds.

✓ Process for project evaluation and selection

CAPEM has a Feasibility Committee which oversees evaluating and determining the eligible projects. It meets once a week to screen the potential projects before the final approval by the credit committee. Eligible projects will be subject to the entity's due diligence process, and CAPEM will assess environmental and social risks in accordance with its Environmental and Social Management System and related policies. The Framework includes an exclusion list, covering topics such as weapons and munitions, alcoholic beverages, adult entertainment, tobacco and gambling, in line with IFC's criteria.

✓ Management of proceeds

The Framework outlines that net proceeds will be monitored and managed by the Administration and Finance area of the settlor. CAPEM commits to replacing projects that cease to comply with the framework's criteria as soon as practicable. Pending allocation, the net proceeds will be held in the trust's funds or accounts and invested in permitted investments (cash or cash equivalent instruments/short-term instruments].

✓ Reporting

CAPEM commits to report annually on the allocation of the net proceeds and on the financed projects' impact, until full allocation of the net proceeds and in case of material developments. Reporting will be available on the entity's website. Allocation reporting will include the total amount of instruments outstanding, a brief description of the projects and the breakdown of allocation of net proceeds by eligible category. Furthermore, CAPEM will share information on the assumptions used to calculate the key indicators, adding transparency on the projects' impact. n.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "Analytical Approach: Shades Of Green Assessments," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Green project categories

Energy efficiency and renewable energies

Assessment	Description
Medium to Light green	Projects related to the generation of electricity from hydro, solar, wind or other types of energy such as energy (geothermal and bioenergy) such as: Projects that ensure a reduction in energy consumption, including projects that: • Solar energy equipment such as photovoltaic systems and solar concentrators • Wind power generators • Installation or equipment for geothermal energy generation Projects through which the investment leads to a reduction in transmission losses of at least 20% compared to the baseline in current transmission systems, such as the implementation of technologies that reduce and help optimize energy consumption: • LED luminaires • Advanced cooling systems • Technology for reducing the use of electricity in manufacturing processes • Efficient boilers • Efficient pumping systems

Analytical considerations

- We assess the category a shade of Medium to Light green, given the different shades that compose the category. Renewable energy projects, such as solar photovoltaic (PV), wind, and geothermal, are essential for limiting global warming to well below 2°C, provided that their negative impacts on the local environment and physical risks are sufficiently mitigated. We assign a Dark green shade to the financing of renewable energy generation from solar, wind, and geothermal sources and the lifecycle GHG emissions are less than 100g CO2e/kWh. Bioenergy can play a role in the transition, but risks and impacts depend on the type of feedstock, and lifecycle emissions, which we view as Light green.
- Improvements in energy efficiency are crucial across all sectors, with the potential to reduce GHG emissions through reduced energy use, thereby improving alignment with a low-carbon, climate-resilient (LCCR) future. However, there is a risk of rebound effects when improving energy efficiency, where enhanced efficiency can lead to increased demand, reducing the achieved energy savings.
- Improving the efficiency of electricity networks is key to achieving a low carbon future in line with the 2050 Paris Agreement. Smart grids help to better match the supply and demand of electricity in real time. According to the International Energy Agency (IEA), most of the Mexico's electricity supply currently comes from oil (43%) and natural gas (41%). The overall climate benefits, however, depend on the grid's energy mix and its progress toward decarbonizing, and we assess these types of projects as Medium green. Meanwhile, investments in LED lighting can also help to reduce energy consumption.
- Bioenergy can have climate-mitigation benefits and contribute to the circular economy, but its climate risks and impacts depend on multiple factors such as feedstock, fugitive emissions, and transportation distances and mode. CAPEM will follow the MST's criteria for bioenergy, which establishes minimum criteria for GHG emissions (below 100 grams of carbon dioxide equivalent per kilowatt hour [gCO2e/kWh]), aligned with ISO 14067, an international standard that defines quantification and reporting of a product's carbon footprint. Projects must also have biogas emission control and tracing plans in place. In addition, biomass sourcing must come from residual biomass--defined as waste biomass from the agricultural, forestry, urban, industrial, and livestock sectors--following the Biomass National Atlas definitions.

- CAPEM's alignment with the MST provides threshold and criteria that help mitigate environmental risk related to the eligible projects. The taxonomy includes exclusion criteria for any fossil fuel used on the projects as well as minimum emission criteria of 100 gCO_2e/kWh and ISO 14067 for carbon footprint. Requirements for alignment with local regulation in terms of water use, land use, wastewater management, wastewater temperature, biodiversity, and physical climate change. We believe this criteria is in line with local best practices and help mitigate potential environmental risks.
- Projects financed under this category could face physical climate risk due to the fixed nature of the assets as well as in the supply of renewable feedstocks for energy generation. Through SARAS, CAPEM assesses environmental risk associated with projects, which is in line with industry peers.

Sustainable agriculture and livestock projects

Assessment	Description
Light green	Financing will be granted to projects aligned with the MST in the agricultural and livestock sectors, covering: a. Property located within the agricultural frontier in accordance with Series III of the SIAP, 2018. In the event that the property is located in a state that has an agricultural frontier baseline, that border will be respected, for example, through geospatial validation. b. Have a temporary disposal site for inorganic waste from agricultural activity. c. Have a transition plan that considers at least two improvement practices, either basic practices or advanced or transformative practices; and additionally, resources are allocated to some of the investment concepts described in Annex A of the Framework

Analytical considerations

- Agricultural practices that reduce climate emissions from crop and livestock farming and enhance soil health, water quality, and ecosystem integrity are crucial for an LCCR future. Sustainable inputs and farming practices, as well as a shift to more plant-based and lower-emissions protein sources, contribute to a green transition for this sector. Limiting our score is the potential environmental risks related to project to ruminants in the category, which encompass high GHG emissions.
- While some of the eligible projects under the category may lack a clear sustainability benefit on their own, CAPEM intends to follow the MST eligibility criteria and processes, which include identifying a clear main parameter, providing a substantial environmental contribution, doing no significant harm (DNSH), and other minimum criteria. We consider this alignment to the MST to be in line with local best practices and providing reassurance that eligible projects aim to mitigate environmental risks and/or have a positive impact on agricultural practices. Eligible projects must comply with the selection criteria of eligible crops under the MST and incorporate a transition plan that includes at least two improvement practices, such as the ones listed under the above eligible project categories. The wide range of possible projects and resulting uncertainty about the environmental benefit of the overall category limits our opinion, but the safeguards in the MST provide some certainty, so we assign the category a Medium to Light green shade.
- While we do not see a direct environmental benefit for animal welfare certifications, the BRC and HACCP certifications focus on food safety. Eligible projects also include reporting information for the National Livestock Registry of the Agriculture and Rural Development Secretary (SADER) and the tracking that information. Given the requirements of the MST, we think these projects will promote practices beyond business-as-usual in Mexico.
- Eligible projects include the use of agricultural machinery or irrigation systems. While these projects may present emissions lock-in risks from the use of fossil fuels, we see a clear environmental benefit from practices such as minimal and conservation tillage, which can promote more sustainable practices and biodiversity. In addition, we view alignment with the MST's DNSH as an effective mitigant for environmental risks. In Mexico, zero-emission machinery for the agricultural sector is scarce, as is the required infrastructure to enable the availability and use of such machines. For these reasons, we assign these projects a Light green shade.

- For projects related to the economic activities of cattle farming for meat and milk production, sheep and goat farming, and services related to animal husbandry and farming, metrics, thresholds, and minimum criteria to determine whether the economic activity is considered sustainable by the MST will be considered to determine the eligibility of the projects.
- All projects under the category must follow the minimum eligibility criteria, thresholds and do no significant harm and limitations in accordance with the MST and Climate Bond's Taxonomy. We believe these guidelines will help mitigate some of the environmental risk related to the projects, as well as physical climate risk. In addition, the MST's DNSH criteria considers water use, adaptation which will be assessed through the entity's SARAS process to ensure alignment.

Responsible water management and use

Assessment

Medium to Light green

Description

The resources will also be used to finance projects that improve efficiency in water use and wastewater management. These projects will include the construction of water treatment plants and systems for the collection and efficient use of water.

Water collection, purification and supply, and the collection and treatment of wastewater. It also includes:

- Economic units of the private sector dedicated to providing agricultural irrigation services.
- Construction, expansion and operation of water collection, purification and distribution systems

Analytical considerations

- Water is a necessary natural capital for economic activity, thriving ecosystems, and supporting public health. Therefore, water supply systems are important to secure a future where all stakeholders have reliable access to sufficient water of adequate quality. Improvements in water efficiency help reduce demands on natural capital and reduce greenhouse gas emissions associated with water treatment and conveyance, and as a result pose important benefits to achieving the LCCR future. That said, these systems are energy intensive and can generate significant waste, exacerbate water stress for other stakeholders, and pose disruptions to hydrology and aquatic ecosystems.
- Wastewater systems reduce pollution, enable resource recovery, and enhance ecosystem and public health; as a result, they are a key component of a low-carbon, climate-resilient future. The primary benefits they provide include improving water quality, which has important cumulative effects on a watershed; relieving water stress; and, depending on the system, providing a source of nutrient and energy recovery. However, these systems are energy-intensive and, if not sufficiently managed, can produce significant solid waste and methane emissions.
- Systems to treat and convey water are energy-intensive and can generate significant waste, exacerbate water stress for other stakeholders, or pose disruptions to hydrology and aquatic ecosystems if not sufficiently managed. Water efficiency improvements help reduce demands on natural capital and reduce greenhouse gas emissions associated with water treatment and conveyance and, as a result, provide important benefits to achieving an LCCR future. The MST outlines water treatment plants' minimum criteria include a median energy use for extraction and purification below 0.5 kilowatt hours per square meter (kwh/m3), a structural leakage threshold equal to or below of 1.5 per m3 according to a leakage index, and below 100 CO2e/KWh for desalination plants. Additionally, projects must comply with CBI taxonomy criteria, which includes components on GHG emissions and adaptation criteria. However, the framework doesn't consider energy sourcing, which could allow for the use of fossil fuel energy and its potential emissions lock-in.
- Investments made in rainwater harvesting systems, process optimization, and monitoring and management projects can help industries better manage and use water. These systems can mitigate the need to use water from freshwater bodies and help create reliable supplies for water availability during drought.
- Projects in this category are particularly relevant for industries in Mexico, where most states will face high exposure to water related stress by 2050, which could lead to decreased economic growth. According to CONAGUA (the national water commission), nearly two-thirds of the country's land area is arid or semiarid, and water scarcity is becoming an increasingly

urgent issue, especially in the Northern and Bajio regions (See "More Mexican States Could Face Water Stress By 2050", published April 4, 2023). In addition, the country is highly exposed to extreme weather events relates to the El Niño and La Niña climate patterns.

Sustainable transport

Assessment	Description
Light green	CAPEM seeks to finance projects that promote sustainable private transport with a focus on the reduction of greenhouse gases. Within the economic activities eligible for this category, CAPEM seeks to generate an impact mainly for the transport of cargo, taxis, and private vehicles, as well as tourist transport by land that have an impact on the reduction of GHG.

Analytical considerations

- Mitigating GHG emissions from transportation will be crucial to meet global decarbonization goals, as the transport sector accounts for 23% of global energy-related GHG emissions, according to the Intergovernmental Panel on Climate Change (IPCC). According to the National Institute of Ecology and Climate Change (INECC) in Mexico, emissions from the transport sector directly account for 25.1% of the total national emissions, the largest of any sector. This category is assigned an overall shade of Light green, given the financing of projects related to both hybrid and electric vehicles (EVs) will help provide cleaner solutions to the population through private vehicles, which we view positively.
- Electric road transport is key to decarbonizing land transportation and is a Dark green technology. However, there are limited considerations on reducing production emissions from EV manufacturing and potential environmental impacts associated with batteries. The production of batteries and sourcing of raw materials can have substantial climate and environmental effects.
- While hybrid vehicles are more climate-friendly than conventional fossil-fuel alternatives, they are considered a short-term solution that supports our Light green assessment. CAPEM recognizes hybrid solutions as a transitional technology in certain areas of Mexico where full electrification is currently not feasible due to technological constraints. To be eligible, vehicles must align with the MST, which limits the eligibility of hybrid vehicles until 2025, and plug-in hybrid vehicles until 2030, which we view positively. Similarly, eligible projects under the category must comply with CBI Taxonomy, which sets emission thresholds for passenger vehicles (0 g CO_2eq per p-km by 2026) and freight vehicles (25 CO_2eq per p-km by 2020, 21 CO_2eq per p-km by 2030 and 18 CO_2eq per p-km by 2050). Alignment to the MST and CBI standard add additional guidelines for the eligibility of projects limiting the type of eligible hybrid vehicles.
- Hybrid vehicle sales in Mexico saw remarkable growth in 2024, with overall sales of hybrid, plug-in hybrid, and EV rising by 70.2% compared to 2023, reaching 108,943 units by November, according to data from the National Institute of Statistics and Geography (INEGI). Nevertheless, these vehicles represent a small percentage of the overall country's fleet. Additionally, challenges to transform the industry remain, particularly the need for expanded charging infrastructure to enable long-distance travel. This limits our perspective on the percentage of EVs that will be financed in comparison to hybrids, which limits our assessment.

Sustainable construction

Assessment	Description
Light green	This category includes the construction and refurbishment of commercial buildings (including offices, hotels, healthcare buildings, and residential constructions) such that the Primary Energy Demand (DEP) expressed in kWh/m2 per year demonstrates an efficiency of 20% or higher. - To determine eligibility, the project is required to have LEED Gold level or higher,

	IFC EDGE, BREEAM Excellent, or Outstanding certification or equivalent certifications that demonstrate an efficiency in the consumption of electrical energy of 20% or greater.

Analytical considerations

- The IEA emphasizes that reaching net-zero emissions in buildings demands major energy efficiency strides and fossil fuel abandonment. All properties must achieve high energy performance. New properties should additionally cut emissions from building materials and construction. Additionally, addressing physical climate risks is crucial for strengthening climate resilience across all buildings.
- We assign a Medium to Light green shade to this project category, reflecting our view that the Framework criteria, combined with the issuer's policies ensure financed buildings are somewhat more energy efficient than required by regulation. The Framework's criteria include considerations of energy use, green building certifications, and physical climate risks, in alignment with the MST. While embodied emissions in building materials are significant, the Framework does not include thresholds on embodied emissions, and the issuer does not yet have policies in place to seek to reduce such emissions, which we consider a limitation.
- Eligible projects under the category must comply with the criteria outlined in the MST, which we view as in line with local best practices. The taxonomy incorporates a robust criteria on energy efficiency based on the type of building and the thermic zone where projects are located which ranges from 20 to 25% increase from baseline. In addition, the Framework has criteria for heating and cooling in buildings, which must comply with local energy efficiency regulation.
- Through the DNSH criteria, the MST includes the identification of ecosystem sensibility, disaster risk adaptation measures, and an evaluation on how climate risk could affect projects. New and existing properties are exposed to physical climate risk. The entity will conduct its climate risk assessment based on its ESRP in alignment with the criteria disclosed in the MST.
- Although green building certifications cover a broad set of environmental issues, they differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, and climate resilience. Typically, their point-based systems do not guarantee low carbon new construction nor highly energy efficient existing buildings. Their robustness depends on a variety of factors, such as levels achieved and type of certification. For example, design phase certifications are generally more robust than "in-use" certifications. The latter can be a good way of enabling a continued improvement in energy performance though proper management, but seldom include specific energy-efficiency thresholds. The MST mitigates this issue by enlisting eligible certifications with energy efficiency standards that comply or surpass the energy efficiency criteria disclosed for each type of building and thermic zone.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Financing productive SMEs for growth and job creation (employment generation)

Financing of productive projects that promote the growth of SMEs in Mexico. Productive financing aims to support companies that contribute to local and national economic growth, increasing their operational capacity and competitiveness.

Analytical considerations

- The Framework clearly defines SMEs based on local regulation's Calculated Business Size (TEC for its Spanish initials) as defined by the Ministry of Economy. This metric is based on the numbers of employees and annual sales. This definition also incorporates additional thresholds based on sector, for the definition of SMEs. In our view, these definitions provide clarity to the eligibility process and comply with local best practices.
- Eligible projects under the category aim to provide productive loans to SMEs across Mexico. As part of the eligibility criteria, SMEs must demonstrate that the loan's resources will be used in productive projects, which we view positively. We believe projects under the category will help CAPEM promote job generation, economic growth, and expansion of SMEs in Mexico.
- Providing funding for SMEs in Mexico will help contribute to the economic development in the country in a context where these entities are highly important. According to data from INEGI, around 99.8% of companies (4.7 million) in Mexico are considered as SMEs and contribute to 52% of the country's GDP. In addition, these companies employ 27 million people and 68.4% of people in the formal sector. The main sectors for these companies are manufacturing, commerce, and commercial services.
- Access to financial services is still an issue for SMEs in Mexico, particularly for those outside the main economic centers. From 2029 to 2020, around 20.8% of establishments in Mexico stopped operating, partly due to the lack of access to financing and of financial literacy. Around 65% or SMEs closed before reaching five years of operation and have an average life span of 8.4 years, with the lack of access to financing as one of the main contributors.
- CAPEM has implemented measures to mitigate social risks associated with its lending practices by providing a comprehensive approach for its clients. This includes offering advice to help them manage their payments effectively and leverage their projects, addressing the challenges faced by Mexican MEs, and conducting analyses to prevent over-indebtedness.

SME lending for financial inclusion (socioeconomic advancement and empowerment)

CAPEM will finance SMEs that have not had access to any source of institutional financing previously, promoting financial inclusion and permanence of SMEs in the market.

Analytical considerations

- As with other categories under the framework, SMEs' definition is based on local regulation's TEC, as defined by the Ministry of Economy.
- The Framework clearly defines eligible projects must be directed to enterprises that have not secured credit of more than MXN10 million ($490,000) from any financial institution. In our view, this allows the proceeds to be dedicated to underserved enterprises.
- We view positively CAPEM's intention to include within its reporting practices the number of formal jobs generated. This is particularly relevant, given that 44.9% of Mexico's population is employed by an informal sector in 2021, according to the National Survey of Financial Inclusion.
- CAPEM has implemented measures to mitigate social risks associated with its lending practices by providing a comprehensive approach for its clients. This includes offering advice to help them manage their payments effectively and leverage their projects, addressing the challenges faced by Mexican SMEs, and conducting analyses to prevent over-indebtedness.

Female-led SMEs

Part of the resources will be used to finance projects and companies that promote gender equality. Within this area, CAPEM seeks to finance SMEs owned and/or led by women.

- A SME qualifies as a female-owned enterprise if it meets the following criteria:
  - More than 50% of the shareholding structure is represented by women; or
  - More than 35% of its board of directors is made up of women; or
  - More than 35% of its top managers are women; or
  - The position of general manager or chairman of the board of directors is occupied by women.

Analytical considerations

- According to the data from the Women's World Banking Organization, Mexico's 6.3 million SMEs generate nearly half of Mexico's GDP and employ 37% of the workforce. Of SMEs, 94.2% are microenterprises, and over half of them are female-owned or led. We believe the eligible projects will help further promote the economic development of women and reduce economic gaps, further stimulating the development of women. In addition, we view positively the entity's commitment to consider affordability of its products and services.
- Eligible projects in this category aim to promote gender equality through the financing of female entrepreneurship. The framework establishes robust criteria to ensure social benefits reach women. In addition to complying with official definitions to determine the eligibility of SMEs, as stated above, eligible projects under the category must be female-owned or -led to qualify, following the IFC's definition.
- Women often reinvest up to 90% of their earnings back into their families and communities, prioritizing social goals alongside profitability, as stated by the Harvard Center for International Development. Therefore, female-owned businesses are not only economically impactful but also enhance community welfare by addressing both financial and social needs, making them key agents of change.
- CAPEM has implemented measures to mitigate social risks associated with its lending practices by providing a comprehensive approach for its clients. This includes offering advice to help them manage their payments effectively and leverage their projects, addressing the challenges faced by Mexican SMEs, and conducting analyses to prevent over-indebtedness.

Social inclusion projects in rural areas of Mexico

CAPEM also intends to issue sustainable bonds to promote growth of SMEs that operate in areas with low economic development indices, particularly those located in rural areas and that have traditionally been excluded from the formal economy.

Analytical considerations

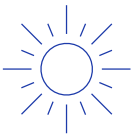
- CAPEM will support the activities that help SMEs access capital. The activities included in the framework aim to empower target groups and promote equitable economic growth and participation in the financial ecosystem. This greater access to capital supports scaling up businesses, which in turn promotes job creation, rising wages, and greater economic activity. These practices ultimately bring greater resilience to these communities.
- As with other eligible projects under the Framework, SMEs are defined based on local regulation's TEC, as defined by the Ministry of Economy. In addition, the bank specifies that the subcategory for SME lending targets MSMEs in localities with fewer than 50,000 inhabitants and limited access to financial services in Mexico.
- In 2022, Mexico's poverty rate decreased to 21.8% from 30.3% in 2020, but rural areas like Chiapas, Guerrero, and Oaxaca still have poverty rates of more than 67%. Extreme poverty remains a significant issue, with many areas lacking basic services and economic opportunities. Among SMEs, 94.2% are microenterprises, mostly reliant on cash transactions due to low financial inclusion. Over half of Mexico's adults do not have a bank account, and 32% lack access to any formal financial products.

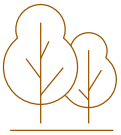
- A process to assess social risk for the category follows the same criteria as described in the previous category, which we consider as clearly defined and sufficient to address material social risks.

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Energy efficiency and renewable energies	 **7. Affordable and clean energy***  **13. Climate action**
Sustainable Agriculture and Livestock Projects	 **9. Industry, innovation and infrastructure**  **11. Sustainable cities and communities***  **13. Climate action**
Use and Consumption Water Manager	 **6. Clean water and sanitation***  **12. Responsible consumption and production***
Development of Sustainable Transport projects	 **7. Affordable and clean energy**  **11. Sustainable cities and communities***  **12. Responsible consumption and production**  **13. Climate action**

Sustainable Construction Projects	 **12. Responsible consumption and production**  **13. Climate action**  **15. Life on land**
Financing Productive SMEs for Growth and Job Creation	 **8. Decent work and economic growth***  **9. Industry, innovation and infrastructure***
SME Financing for Financial Inclusion	 **8. Decent work and economic growth***
Promoting Gender Equality	 **5. Gender equality***
Social Inclusion Projects in Rural Areas and in Entities with less access to financial services in Mexico.	 **1. No poverty***

[For use of proceeds] *The eligible project categories link to these SDGs in the ICMA mapping.
[for sustainability-linked] §The KPI is likely to contribute to the SDGs.

Related Research

- SPO Spotlight: Second Party Opinions, March 28, 2024
- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Maps

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