Credifamilia Compañía de Financiamiento S.A.

Second-Party Opinion — Social Issuance (ISIN COJ0WCBDH092)

Excellent ✓ | Good | Aligned | Not Aligned

Pillar	Alignment	Key Drivers
Use of Proceeds	Excellent	• Sustainable Fitch considers that Credifamilia Compañía de Financiamiento S.A.'s (Credifamilia) social mortgage bond is aligned with the ICMA Social Bond Principles (SBP). • All bond proceeds will be used to originate mortgage loans for low-income borrowers seeking to purchase their first new social interest house (SIH) and priority interest house (PIH) in Colombia. In our opinion, the social impact generated by the use of proceeds is excellent, as it will contribute to alleviating social inequalities and ensure vulnerable Colombians have access to decent housing.
Use of Proceeds – Other Information	Excellent	• The bond will finance the supply of new social mortgage loans, enabling people with low purchasing power to acquire a SIH or PIH. We see this as a positive, given that the unsatisfied housing gap in Colombia is one of the highest in Latin America.
Evaluation and Selection	Good	• Credifamilia has a defined process for granting mortgage loans, as expected of a financial institution. We are of the opinion that the client screening filters for the SIH and PIH favour vulnerable populations.
Management of Proceeds	Good	• The proceeds from the issuance will be temporarily invested in low-risk, highly liquid financial instruments. The funds will be deposited in Credifamilia's general bank account and be managed by its treasury department. The segregation of funds in a separate account and the temporary investment in positive social contribution instruments would be more positive in our view.
Reporting and Transparency	Excellent	• Credifamilia will prepare annual resource allocation reports until full allocation of proceeds raised by the bond. Annual impact reports will also be published until final maturity of the bond. The only reports to be independently verified are the consolidated loan performance reports. Best practice is for all reports to be independently reviewed.

Relevant UN Sustainable Development Goals

Framework Type	Social
Alignment	✓ Social Bond Principles 2023 (ICMA)
Date assigned	4 April 2024

See Appendix B for definitions.

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Key Debt Details

Instrument	Issue Date	Currency	Amount	Coupon	Maturity Date	Type[b]
Social mortgage bond – initial offering	3 April 2024	COU[a]	126.53 m (COP46.3 bn; USD12.2 m)	5.5%	3 April 2039	Social
Social mortgage bond – issue but not subscribed	3 April 2024	COP[c]	253.7 bn	5.5%	3 April 2039	Social

[a] COU – Unidad de Valor Real (UVR).

[b] As defined by issuer.

[c] Will be subscribed in COU on the subscription date.

Use of Proceeds Summary

Social	Affordable housing

Source: ICMA

Instrument Highlights

The first social mortgage bond issued by Credifamilia was issued under its social mortgage bond framework. We consider this bond to be aligned with the ICMA SBP and that its alignment is 'Excellent'.

Credifamilia created the framework to define its commitments in respect of the analysed bond and other social mortgage bonds to be issued in the future. The framework is based on the four relevant pillars set out in the ICMA principles that apply to this bond: use of proceeds, project selection and evaluation process, management of proceeds, and reporting.

This bond will finance mortgage loans for first time buyers of SIHs and PIHs. Borrowers will be vulnerable, low-income people. We believe that the social impact of the analysed bond is positive and will contribute to alleviating social inequalities and access to decent housing in Colombia.

The maximum value of this first social mortgage bond will be equivalent to COP300 billion (USD77 million). The bond is denominated in COU, with the exchange rate to the Colombian peso (COP:COU) fixed on the issuance date. The placement of the bond will be conducted through several offerings. This is a 15-year bond.

In the first instance, 100% of the nominal value of the bond will be guaranteed by the mortgage loans that originate with the funds raised by the bond. In the second instance, the bond will be guaranteed by the Colombian government. In our view, the Colombian government's guarantee confirms its prioritisation of social issues, including financial inclusion, social justice and access to affordable housing.

A World Bank study in 2021 called "A Space for Development: Housing Markets in Latin America and the Caribbean", indicates that over the past five years, one in three families in Latin America and the Caribbean lived in inadequate housing or housing built with precarious materials or lacks basic services. Almost two million of the three million families that are formed each year in Latin American cities are forced to settle in informal housing, such as in marginal areas, because of an insufficient supply of adequate and affordable housing.

As a result of the above, we believe that the social impact of Credifamilia's social mortgage bond issued under its framework will be positive.

Source: Sustainable Fitch, Credifamilia draft notice of public offering

Entity Highlights

Established in 2011, Credifamilia is a private sector financial institution regulated by the Financial Superintendency of Colombia. Credifamilia provides mortgage loans, home modernisation loans and savings products specifically for low- and medium-income populations. At the end of December 2023, Credifamilia's loan portfolio totalled COP700 billion (USD185 million).

The vast majority of Credifamilia's clients are vulnerable people. The gender distribution of its clients is well balanced, with 46% men and 54% women. Credifamilia's SIH and PIH loans are concentrated in the departments of Valle Cauca, the Eje Cafetero and La Sábana de Bogotá, low-income neighbourhoods. SIH and PIH ownership opens up opportunities for access to basic services, such as drainage, electricity and the internet.

At end-2023, 99% of Credifamilia's loan portfolio was represented by mortgage loans for the acquisition of SIH, PIH and priority interest housing loans for savers (PIHS). Likewise, 80% of borrower households had incomes of up to 2.5 times the minimum monthly wage. The current Colombian minimum monthly wage is COP1.3 million (USD332).

SIH, PIH and PIHS customers can access down payment and interest rate subsidies under a government programme called "Mi Casa Ya", operated by the Ministry of Housing, City and Territory (Ministry of Housing). The programme aims to promote the acquisition of housing for low-income Colombians and contribute to the reduction of poverty rates in the country. The vast majority of loans granted by Credifamilia are denominated in COU, which favours borrowers since the COP:COU exchange rates are more transparent and stable.

For decades, the Colombian government has continuously operated programmes to support access to affordable housing, indicating a desire on the part of the authorities to solve the problem of the housing deficit for people of low socioeconomic status.

Housing deficits still persist in Colombia. The problem is exacerbated by rising urban populations, population growth and a rise in the country's middle class.

The Mi Casa Ya programme’s conditions are more favourable compared to similar government programmes for first-time buyers operated in other international markets. In 2023, the Ministry of Housing modified the terms applicable to the Mi Casa Ya programme, moving from a first-come, first-served basis to a scoring system with variables including: location, whereby more vulnerable municipalities score more highly and are prioritised; the location of the project, with higher scores for projects located on rural areas; and housing type, with higher scores for SIH projects than for PIH projects.

In our view, the Colombian scheme has a considerable positive social impact, especially considering that the subsidised grants can represent a significant portion of the total value of the home. The social impact of the government-supported SIH and PIH subsidised programmes are measurable, and the number of beneficiaries has increased over the past four years. However, the government lowered its target for the next four years, as the Colombian economy is not expected to show significant economic growth. This will likely negatively affect the purchasing power of Colombians, by limiting the possibility of acquiring a home.

In our opinion, the social impact generated by the Mi Casa Ya programme and the SIH and PIH loans granted is highly positive. The subsidy conditions for SIH, PIH and PIHS differ slightly. However, the central objective is the same: to improve the social conditions of Colombian households through access to adequate and affordable housing. This generates stability, security and better living conditions for families, as well as better access to public services and education, and contributes to improved work performance.

Households with incomes that are four times higher than the monthly minimum wages, which is equivalent to COP5.2 million (USD1,300), can access the SIH and PIH. The maximum value of the homes is COP195 million (USD50,000). The maximum value of the grant is equivalent to 30 times of the minimum wage (COP39 million; USD10,000), which represents a significant portion of the total value of the home.

The value of the grant may be increased if the borrower has access to additional support through a clearing house. The annual interest rate subsidy is equivalent to 4% of the effective annual rate charged by the market for an equivalent loan. On average, the annual interest rate on a non-SIH home is between 15% and 20%; social mortgages provided by Credifamilia are more accessible.

Access to affordable housing generates several social benefits, as well as the potential to secure permanent employment, increased likelihood that children and young people will continue their education and health benefits, as SIH and PIH have access to water. Access to a SIH or PIH mortgage loans can also increase access to other financial services. In addition to generating a positive impact, they address the UN Sustainable Development Goal (SDG) 11 (sustainable cities and communities), specifically target 11.1 (by 2030, ensure access for all to adequate, safe and affordable housing and basic services and improve slums).

Source: Sustainable Fitch, Colombian Ministry of Finance and Public Credit, Colombian National Planning Department, Wageindicator.org

Use of Proceeds – Eligible Projects	Alignment: Excellent
Company Material	**Sustainable Fitch's View**
Affordable housing	
• The resources obtained in the Credifamilia issues that are labelled in the category of social bonds will 100% be used to originate mortgage loans to finance the acquisition of new homes that are considered SIH and PIH projects in Colombia, which must be occupied as the main residence of the debtors. The latter is eligible specifically at the time of disbursement.	• This category is aligned with the list of eligible projects for the ICMA SBP. • According to the World Bank, around 3.7 million households (more than a quarter) in Colombia faced housing shortages in 2023. In addition, two out of three of these households need improved infrastructure. This situation is similar to that of some countries in Latin America, though Colombia is facing a double challenge as the real estate sector does not meet the demand for housing, resulting in unsatisfied demand. • On the other hand, based on what is reported by the National Administrative Department of Statistics of Colombia, seven out of every 10 homes sold in Colombia are SIH. • We view positively from an ESG perspective that the resources of the first social mortgage bond issued by Credifamilia will be used exclusively to extend loans to low-income Colombian people interested in acquiring a SIH and PIH.
Source: Framework for mortgage bond issuances tagged as social by Credifamilia, Credifamilia notice of public offering	Source: Sustainable Fitch

Use of Proceeds – Other Information	Alignment: Excellent
Company Material	**Sustainable Fitch's View**
• Of the loans, 100% will be granted to new creditors looking to acquire their first home. • The lookback period considered by Credifamilia is 24 months.	• Positively, Credifamilia has defined that all proceeds raised by the bond will be exclusively used for new SIH and PIH mortgage loans. This ensures that the social eligibility criteria are met and 100% of the funds will be used to benefit new homeowners. We view this positively, as Credifamilia will promote financial inclusion among vulnerable people to help them access a home. • The 24-month lookback period considered by the issuer is in line with market practices and has been clearly defined in its framework.
Source: Framework for mortgage bond issuances tagged as social by Credifamilia	Source: Sustainable Fitch

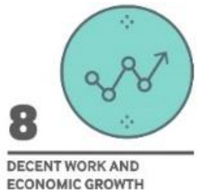
Evaluation and Selection	Alignment: Good
Company Material	**Sustainable Fitch's View**
• Credifamilia has policies for the granting of mortgage loans and includes the evaluation of criteria such as: the applicant's credit behaviour; the applicant's ability to pay; and the applicant's sociodemographic and economic variables. • Credifamilia has granting policies approved by the board of directors and its corresponding manual that is socialised with the sales force and with the analysis area so that the entire company is aware of the customer profile that the entity is looking for. The manual is divided into the following sections: new housing; PIHA housing; used housing; and housing improvement and consumer credit. • In each section, the different types of variables to be considered by the analysts in the process of analysing every request are defined. Credifamilia has a loan advisory area attached to its vice president of operations and a risk management with total independence, which allows for processes that do not lead to conflicts of interest and seek to reflect the conservative spirit that characterises the entity. • Among the policies, there are different variables, such as those listed below: loan-to-value, age, financing amounts, accuracy, internal score, document validity, insurance, income, debt variables, job continuity, contributions to the Solidarity and Guarantee Fund, credit experience and risk sectors. • Within the management of credit risk within Credifamilia, there is constant monitoring of the behaviour of the portfolio. This is in order to maintain tolerable indicators of behaviour and to have sufficient human resources to have a controlled granting process and sufficient standards of credit analysis in the factory process.	• The project selection and evaluation process is aligned with the ICMA SBP's guidelines. • The process of evaluation and selection of projects has been clearly indicated in the framework and involves three departments of Credifamilia. However, the three departments exercise purely financial functions and none of them has a socio-environmental profile, which is important due to the nature of the issuance. • Inclusion of a sustainability team in addition to another approval filter, such as a sustainability committee as is the case with some of Credifamilia's Latin American peers, would add greater certainty to the loan selection and evaluation process. • We view positively that Credifamilia has begun to collect information on the environmental impact of its loans, although this factor does not affect the assessment of this item.
Source: Framework for mortgage bond issuances tagged as social by Credifamilia	Source: Sustainable Fitch

Management of Proceeds	Alignment: Good
Company Material	**Sustainable Fitch's View**
• The funds received from the issuance of the bonds will be managed by the treasury, which is part of Credifamilia's financial management. Within Credifamilia, the board of directors must delegate specific approvals of tools and methodologies for the identification, measurement, monitoring, control and mitigation of market risks associated with the investment portfolio. • Financial and administrative management, together with risk management, are responsible for defining the investment classification and valuation methodology for the securities in the portfolio.	• The management of proceeds process aligns with the ICMA SBP's guidelines. • The unallocated balance will be invested in short-term highly liquid instruments. Our view would have been more positive if funds were segregated into a separate bank account and if temporary investments were made in instruments contributing to positive socio-environmental outcomes. • Credifamilia will continuously monitor the results of the selected projects with external audits, which will promote transparency towards its investors and stakeholders.
Source: Framework for mortgage bond issuances tagged as social by Credifamilia	Source: Sustainable Fitch

Reporting and Transparency	Alignment: Excellent
Company Material	**Sustainable Fitch's View**
• Credifamilia undertakes to disclose to the market an annual report during the term of the issuance. Its report will be made available to the public on its website and will contain the characteristics and profile of the SIH credit portfolio. • Credifamilia will permanently monitor the portfolio that backs the bond issuances through the analysis, monitoring and disclosure of information on the underlying asset, so that it can guarantee the investor market operational and credit risk control over the loan portfolio. In accordance with the information of Article 6.5.1.5.2 of Decree 2,555 of 2010, Credifamilia, as portfolio administrator, will issue a monthly report on the performance of the portfolio financed with resources from the issuance of mortgage bonds. • It is the function of the auditor of the issuance of mortgage bonds, in accordance with the audit contract, to verify the sending to the Financial Superintendence of Colombia of the reports on the consolidated behaviour of the credits that constitute collateral for the respective issue. • The indicators to be reported are: amount and number of loans granted to women, income range, geographic location, type of housing and educational level.	• The project reporting and transparency process aligns with the ICMA SBP's guidelines. • Credifamilia has defined a series of indicators to be reported, which we consider relevant, assertive and correlated to its business activity in order to communicate the positive impact of the loans to be granted. These reports will be published annually on Credifamilia's website, in line with best market practice, until full allocation of bond proceeds. • The issuer will report on the loans funded, detailing the socioeconomic characteristics of the borrowers; information will be provided by gender, socioeconomic status and income level. • Credifamilia will report allocation information details by bond, in line with market practices. Independently verified impact reports would add greater transparency, in our view.
Source: Framework for mortgage bond issuances tagged as social by Credifamilia	Source: Sustainable Fitch

Relevant UN Sustainable Development Goals

- **8.10:** Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.



- **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.

- **11.1:** By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

Source: Sustainable Fitch, UN

Appendix A: Principles and Guidelines

Type of Instrument: Green

Four Pillars	
1) Use of Proceeds (UoP)	Yes
2) Project Evaluation & Selection	Yes
3) Management of Proceeds	Yes
4) Reporting	Yes

Independent External Review Provider	
Second-party opinion	Yes
Verification	No
Certification	No
Scoring/Rating	No
Other	n.a.

1) Use of Proceeds (UoP)	
UoP as per Social Bond Principles (SBP)	
Affordable housing	Yes
Other	n.a.

2) Project Evaluation and Selection	
Evaluation and Selection	
Credentials on the issuer's social and green objectives	Yes
Documented process to determine that projects fit within defined categories	Yes
Defined and transparent criteria for projects eligible for sustainability bond proceeds	Yes
Documented process to identify and manage potential ESG risks associated with the project	Yes
Summary criteria for project evaluation and selection publicly available	Yes
Other	n.a.

Evaluation and Selection, Responsibility and Accountability	
Evaluation and selection criteria subject to external advice or verification	Yes
In-house assessment	Yes
Other	n.a.

3) Management of Proceeds	
Tracking of Proceeds	
Sustainability bond proceeds segregated or tracked by the issuer in an appropriate manner	Yes
Disclosure of intended types of temporary investment instruments for unallocated proceeds	Yes
Other	n.a.

Additional Disclosure	
Allocations to future investments only	Yes
Allocations to both existing and future investments	No
Allocation to individual disbursements	Yes
Allocation to a portfolio of disbursements	Yes
Disclosure of portfolio balance of unallocated proceeds	No
Other	n.a.

Type of Instrument: Green

4) Reporting	
UoP Reporting	
Project-by-project	No
On a project portfolio basis	Yes
Linkage to individual bond(s)	Yes
Other	n.a.
UoP Reporting/Information Reported	
Allocated amounts	
Sustainability bond-financed share of total investment	Yes
Other	n.a.
UoP Reporting/Frequency	
Annual	Yes
Semi-annual	No
Other	n.a.
Impact Reporting	
Project-by-project	No
On a project portfolio basis	Yes
Linkage to individual bond(s)	Yes
Other	n.a.
Impact Reporting/Information Reported (exp. ex-post)	
Beneficiaries	Yes
Vulnerable population	Yes
Impact Reporting/Frequency	
Annual	Yes
Semi-annual	No
Other	n.a.
Means of Disclosure	
Information published in financial report	No
Information published in ad hoc documents	Yes
Information published in sustainability report	No
Reporting reviewed	Yes
Other	n.a.

Note: n.a. – not applicable.
Source: Sustainable Fitch, ICMA

Appendix B: Definitions

Term	Definition
Debt types	
Green	Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Green Bond Principles or other principles, guidelines or taxonomies.
Social	Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Social Bond Principles or other principles, guidelines or taxonomies.
Sustainability	Proceeds will be used for a mix of green and social projects and/or environmental and social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies.
Sustainability-linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with ICMA Sustainability-linked Bond Principles or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan).
Conventional	Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective.
Other	Any other type of financing instrument or a combination of the above instruments.
Standards	
ICMA	International Capital Market Association. In the Second-Party Opinion we refer to alignment with ICMA's Bond Principles: a series of principles and guidelines for green, social, sustainability and sustainability-linked bonds.
LMA, LSTA and APLMA	Loan Market Association (LMA), Loan Syndications and Trading Association (LSTA) and Asia Pacific Loan Market Association (APLMA). In the Second-Party Opinion we refer to alignment with Sustainable Finance Loan Principles: a series of principles and guidelines for green, social and sustainability-linked loans.
EU Green Bond Standard	A set of voluntary standards created by the EU to "enhance the effectiveness, transparency, accountability, comparability and credibility of the green bond market".

Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group

Appendix C: Second-Party Opinion Methodology

Second-Party Opinion

Second-Party Opinions (SPO) are a way for issuers to obtain an independent external review on their green, social, sustainability and sustainability-linked instruments.

As per the ICMA Guidelines for External Reviewers, an SPO entails an assessment of the alignment of the issuer's green, social, sustainability or sustainability-linked bond or loan issuance, framework or programme with the relevant principles. For these purposes, "alignment" should refer to all core components of the relevant principles.

Sustainable Fitch analysts vary the analysis based on the type of instruments, to consider whether there are defined uses of proceeds or KPIs and sustainability performance targets. The analysis is done on a standalone basis, separate to the entity.

Analytical Process

The analysis considers all available relevant information (ESG and financial). The reports transparently display the sources of information analysed for each section and provide a line-by-line commentary on the sub-factors analysed. The ESG analysts working on an SPO will also engage directly with the issuer to acquire any additional relevant information not already in the public domain or in instrument-related documentation.

An important part of the analysis is the assessment of the E and S aspects of the use of proceeds. In addition to the alignment with ICMA Principle and Guidelines, the analysis may also refer to major taxonomies (e.g. the EU taxonomy for E aspects, and the UN Sustainable Development Goals for S aspects).

Once the analyst has completed the analysis, with commentary for the related SPO, it is submitted to the approval committee, which reviews it for accuracy and consistency. Based on issuer preference and mandate, an SPO can be monitored (annually or more frequently, if new information becomes available) or on a point-in-time basis.

Scale and Definitions

	ESG Framework
Excellent	Sustainable finance framework and/or debt instrument structure is fully aligned to all relevant core international principles and guidelines. Practices inherent to the structure meet excellent levels of rigour and transparency in all respects and are well in excess of the standards commonly followed by the market.
Good	Sustainable finance framework and/or debt instrument structure is fully aligned to all relevant core international principles and guidelines. Practices inherent to the structure meet good levels of rigour and transparency; in some instances, they go beyond the standards commonly followed by the market.
Aligned	Sustainable finance framework and/or debt instrument structure is aligned to all relevant core international principles and guidelines. Practices inherent to the structure meet the minimum standards in terms of rigour and transparency commonly followed by the market.
Not Aligned	Sustainable finance framework and/or debt instrument structure is not aligned to relevant core international principles and guidelines. Practices inherent to the structure fall short of common market practice.

Source: Sustainable Fitch

SOLICITATION STATUS

The Second-Party Opinion was solicited and assigned or maintained by Sustainable Fitch at the request of the entity.