

## 1. Scope of the Environmental and Social Review

The operation's environmental and social ("E&S") analysis consisted of a review of documentation on the portfolio and E&S processes, as well as discussions with Kubo representatives during the due diligence.

## 2. Environmental and Social Classification, and its Fundamentals

The proposed operation is classified as IF-3 under the IDB Invest Environmental and Social Sustainability Policy. Even though it involves equity investment financing, the portfolio of sub-projects to which support will be provided has a low risk potential; that is, the sub-loans granted by Kubo are expected to include commercial and production activities which in most cases have minimal or no adverse E&S impacts. The sub-loans to be granted by Kubo using IDB Invest funds will be business loans to individuals and microenterprises in Mexico. Going forward, the Company will seek to expand its offering to MSMEs.

As of the end of the second quarter of 2020, the loan portfolio was made up of loans in the following categories: (i) business loans (45% of total loans/41% of loan portfolio value) for fixed asset purchases, merchandise purchases, business improvements, business debt refinancing, housing improvement, education and health; and (ii) personal loans (55% of total loans/59% of loan portfolio value) for personal debt repayment, recreation, vehicle repair or replacement, family events and home furnishing purchases. These sub-loans range in value from: (i) MXN5,000 to MXN100,000, for new loans, with terms from four to 36 months; (ii) up to MXN250,000 for renewal or additional loans, with terms from four to 60 months; and (iii) up to MXN800,000 for restructuring payments, with terms from four to 60 months.

Kubo will refrain from financing activities classified as Category A (high risk), nor can it finance activities in the sectors specified in the IDB Invest Exclusion List.

## 3. Environmental and Social Risks and Impact

The E&S risks of this operation are related to Kubo's ability to assess and manage the risks associated with its financing activities. At present, the Company's loan portfolio focuses on business and personal loans to individuals and microenterprises with low risk potential.

The Company has implemented basic procedures that, according to IDB Invest's policy, constitute an Environmental and Social Management System ("ESMS"). Kubo has a Policy on Unauthorized Activities and Drafts and a qualified organizational structure, made up of a Vice President of Credit and a Compliance Officer, who verify and evaluate the risk and regulatory compliance of each sub-loan. The Company has also implemented a Code of Ethics, Internal Labor Regulations and an Occupational Health Plan, which comply with Mexican labor and Occupational Health and Safety ("OHS") regulations.

The Company has developed efficient external communication mechanisms, both to provide business information to interested parties and to receive and review inquiries and complaints regarding the social and environmental risks and impacts of its operations. Similarly, its Code of Ethics establishes an internal communication mechanism and procedure for receiving and addressing grievances and complaints from shareholders, directors, officers, suppliers and employees of the Company.

## 4. Mitigation measures

All financing granted by Kubo, in addition to complying with the Policy on Unauthorized Activities and Drafts, must comply with the provisions of the IDB Invest Exclusion List. Furthermore, financing for microenterprises—and eventually, MSMEs—must comply with applicable Mexican laws, specifically: (i) compliance with labor and OHS legislation, particularly the prohibition of child labor and forced labor, non-discrimination, gender equity and guaranteeing safe working conditions; and (ii) environmental legislation, in order to minimize environmental impacts through the control of air emissions, the adequate management and treatment of liquid and solid, hazardous and non-hazardous waste, and the rational and efficient use of natural resources in production processes. In order for Kubo to better understand IDB Invest's requirements, the Company will appoint a representative from senior management to take the IDB Invest Financial Intermediaries ESMS virtual course<sup>[1]</sup> or any other similar course approved by IDB Invest. This virtual course will help Kubo's personnel to incorporate E&S practices into the Company's risk management procedures. Finally, Kubo will submit annual monitoring reports on its loan portfolio. These mitigation measures are standard contract requirements, and no action plan is required to address additional gaps.

#### 5. Environmental and Social Action Plan ("ESAP")

Not applicable.

#### 6. Contact Information

For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email [requestinformation@idbinvest.org](mailto:requestinformation@idbinvest.org). As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to [mecanismo@iadb.org](mailto:mecanismo@iadb.org) or [MICI@iadb.org](mailto:MICI@iadb.org), or calling +1(202) 623-3952.

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