

auxmoney

# Social Bond Framework

September 2021



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## Part A: Introduction

### About auxmoney

auxmoney was founded in 2007 and is headquartered in Düsseldorf, Germany. It is a leading digital lending platform for consumer loans in Europe with over €2.7 billion originated volume as of end of August 2021. While initially operating as a pure peer-to-peer (P2P) marketplace (i.e., loans funded by retail investors), loans are now mostly funded by institutional investors and by auxmoney itself in combination with asset-backed facilities from banks.

auxmoney has specialized in providing access to credit consumers and self-employed, that are underserved by traditional lenders as banks are unwilling or unable to underwrite loans with such customers (due to inadequate scoring models, high capital requirements, and/or costly and cumbersome legacy processes). Two different forms of underserved customers can be distinguished: (1) Those customers that are underserved due to legacy underwriting models (e.g., models that put too much weight on traditional KPIs such as the credit bureau score) and (2) those customers that fall into an inherently underserved group (e.g., occupation with irregular income).

#### *Underserved due to legacy underwriting models*

- Low credit bureau score (i.e., Schufa E or lower)
- Net income below €1,500 per month
- Employment in probation or fixed term employment contract

#### *Underserved customer groups*

- Self-employed, freelancers and entrepreneurs
- Young people (< 25 years), students and trainees
- Elderly (> 65 years) and retired people
- Foreign citizens (often facing complex lending procedures, limited credit/re-payment history and language barrier)

The following events can be seen as key milestones of the company across the past few years:

- **2007:** Foundation of auxmoney in Hilden, Germany (in 2010, the headquarter was moved to Düsseldorf)
- **2008:** Partnership with SWK Bank, a specialized German retail bank, for loan origination
- **2013:** Introduction of proprietary auxmoney scoring (in its 1<sup>st</sup> generation)
- **2018:** Total origination via auxmoney digital lending platform of €1 billion
- **2020:** Series F financing round including change of corporate structure and start of own-balance-sheet funding with a total facility size of €500 million (via BNP Paribas as senior lender)
- **2021:** Launch of second investment facility with a total size of €250 million

As a result of the corporate structure change in 2020, the majority of shares in auxmoney is now held by Centerbridge, followed by other venture capital (VC) funds. The co-founders and selected employees are also holding shares in the company.

auxmoney GmbH (digital lending platform) and its wholly-owned subsidiary CreditConnect GmbH (loan servicing) are part of the wider auxmoney group and subsidiaries of auxmoney Europe Holding. auxmoney Investments as the Dublin-based investment company is responsible for the own-balance-sheet funding of loans in the digital lending platform for consumer credit.

## Management through the Covid-19 Crisis

In light of the ongoing Covid-19 crisis, auxmoney responsibly took actions across various areas early on to protect borrowers, investors, and employees:

### Loan Portfolio Measures

auxmoney tightened its credit risk framework in March 2020. Measures were carefully designed to continue the flow of credit to creditworthy borrowers and avoid adverse portfolio selection while implementing additional cushion to protect investor returns and manage risks (e.g., reduction of approval rates for some borrower segments and reduction of maximum loan amounts). Moreover, servicing measures were increased catering for borrower income loss due to Covid-19, e.g., via loan modifications.

### Monitoring of Macroeconomics and Legislative Changes

auxmoney closely monitors macroeconomic data indicating performance trends at an early stage. Regular communication with German regulators and ministries is ensured to adapt business processes to potential future legislative changes. Moreover, auxmoney is in regular exchange with other digital lending platforms as founding member of the Association of German Credit Platforms (Verband deutscher Kreditplattformen e.V.).

### Business Continuity

In order to protect its employees, auxmoney has been working fully remote since March 2020. All operational KPIs were maintained at stable service levels and auxmoney even expanded its operational readiness to handle the increased customer communication during the Covid-19 crisis.

## Rationale for Issuance

For auxmoney, Environment, Social, and Governance (ESG) considerations are a core part of its DNA, key drivers for its long-term success as well as for its identity as a responsible corporate citizen. ESG standards have become increasingly important to stakeholders including employees and investors who commit to responsible investments and respective standards.

Therefore, auxmoney has designed a comprehensive framework and is constantly updating its mission, business strategy, processes, brand and culture to be in line with the defined values and goals. This framework unifies key initiatives from across the firm into one cohesive set of objectives and targets, which aim to generate a positive impact on the environment and society.

## Environment

auxmoney acknowledges its duty to consider its environmental impact and takes responsibility to contribute to fighting climate change. Hence, it has set specific objectives to reduce its corporate carbon footprint (CCF) through optimized usage of office facilities and installations (e.g., electricity from renewable energy sources) and the use of sustainable goods and consumption within the office (e.g., environmentally-friendly cleaning supplies). Moreover, auxmoney encourages an environmentally-friendly behavior among its employees. Offerings, for instance, include an electric vehicle charging station in the parking garage and glass water bottles for filtered tap water.

## Social

Since its foundation, facilitating financial inclusion has been an essential part of auxmoney's mission, business strategy, processes, brand and culture. As a consequence, auxmoney continuously improves its unique underwriting models and credit risk scorecards to assess borrowers on parameters other than those used by banks to provide lending on a more individual and differentiated basis, allowing auxmoney to bring financing to the underserved parts of the population.

For auxmoney, it is crucial to not only provide financial access to underserved borrowers, but also to ensure responsible lending practices across the entire credit lifecycle, e.g.,:

- Use of clear and transparent language and explanations throughout advertising and the application funnel (formalized in communication standards laid down in a dedicated customer service handbook)
- Conduct of conscientious and discrimination-free credit assessment (formalized in a credit policy and risk management handbook)
- Offering of payment protection insurances as additional security for customers
- Offering of different payment options or advice for borrowers with payment difficulties where appropriate (financial healing)
- Providing a range of information on financial topics on the internet and digital media (financial literacy and education)

Next to its customer base, it is essential for auxmoney to promote high well-being among its employees. Actions to ensure this include mental health initiatives (e.g., external coaching), healthy lifestyle support (e.g., special sports activities, cooking classes, lectures for healthy food) and assessing an appropriate working environment in employee's home office. Supporting the well-being of society and communities is realized through various community engagement projects led by the auxmoney social impact board (e.g., company runs, holiday gifts for children, support of childcare facilities).

Lastly, fostering equal opportunities as well as diversity and inclusion are integral parts of auxmoney's business and culture: auxmoney is an active member in the Diversity Charter, regular diversity and inclusion programs are organized. Gender discrimination is actively monitored, and immediate action taken where required. Regular pay equity assessments are performed.

## **Governance**

auxmoney is committed to maintain industry-leading corporate governance. Generally, the approach is based on the principles and provisions of the relevant local legislation and applicable laws and industry standards. The ethical conduct of auxmoney's business is promoted through a comprehensive set of policies and work instructions or similar guidance which have been established within the firm and are accessible to every employee. Examples for the principles and policies include an anti-bribery policy, a whistleblowing policy, and a cybersecurity policy.

On top of those policies and work instructions, an effective risk management has been established which is formalized in a comprehensive risk management framework (e.g., Three Lines of Defense model, Risk Culture & Governance and Risk Appetite Statement). Additional measures of the risk management involve data protection, information and cyber security, physical health and safety as well as a diligent third-party management (e.g., vendor due diligence).

On the auxmoney group level, a board with highly experienced members from the banking/financial services industry is in place and key governing committees have been established (including: Audit Committee, Risk Management Committee, Commercial & Financial Performance Committee, Remuneration Committee, Risk & Compliance Committee). On top of the board and governing bodies, regular external audits (as 3<sup>rd</sup> line of defense) provide assurance about design and effectiveness of 1<sup>st</sup> and 2<sup>nd</sup> line and report to the Audit Committee.

auxmoney is building a dedicated ESG section on its investor portal on which it will make its Social Bond Framework and ESG related reports available for investors.

## Part B: auxmoney Social Bond Framework

auxmoney has developed this Social Bond Framework (framework) under which the issuer, a special purpose vehicle (SPV), will be able to issue social bond transactions to finance its purchase of consumer loans.

Specifically, this framework has been developed to demonstrate how the issuer may issue social bonds that are backed up over a portfolio of loans originated by auxmoney.

The issuance of social bonds under this framework will contribute towards sustainable development by earmarking the proceeds to finance, or refinance, projects and expenditures that fall within the social objective described in this framework.

Social bonds issued under this framework will align with the four core components, as further described in Part C of this framework, of the Social Bond Principles 2021 administered by the International Capital Market Association (ICMA)<sup>1</sup>:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

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<sup>1</sup> <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/>

## Part C: Social Bond Transactions

### 1. Use of Proceeds

The proceeds of each social bond issued by auxmoney will be used exclusively to finance and re-finance, in whole or in part, loans (Eligible Social Assets) that seek to achieve positive social impacts especially for target populations.

Eligible Social Assets are portfolios of consumer loans extended to underserved borrowers to alleviate the social issue of financial exclusion.

#### Target Population

As the leading digital lending platform, auxmoney has specialized in giving consumers that are underserved by traditional lenders access to credit. auxmoney serves segments of borrowers which banks are unwilling or unable to underwrite (due to inadequate scoring models, high capital requirements, and/or costly and cumbersome legacy-processes).<sup>2</sup> As a consequence, auxmoney fulfills an important function in the German financial sector.

Through its unique scoring technology, auxmoney can accurately assess credit rating based on its proprietary scoring models (more accurately than leading credit score providers). The more precise borrower assessment allows to identify an appropriate risk-adjusted interest rate. In fact, underserved borrowers tend to have lower degrees of creditworthiness, hence the offered interest rates may exceed average interests of auxmoney's overall loan portfolio. auxmoney applies interest rates that correspond to the underlying (credit) risk of borrowers. This in term is analyzed taking into account their economic situation within a dedicated affordability assessment and scoring. It should be noted that while auxmoney requests the loan purpose at loan application, this information is not used for the respective origination or pricing decisions.

A study conducted by Deutsche Bundesbank (2016) stated that the interest rates (based on risk adjustments) are in line with overall market practice.<sup>3</sup> Given that these borrowers cannot get loans for lower interest rates elsewhere, they do not perceive auxmoney's interest rates as too high. Importantly, interest rates remain below ranges that apply for credit card or overdraft segments.

Total demand for consumer lending in Germany which is not served is estimated to amount to €90-100 billion (as of 2020).<sup>4</sup> Pursuant to the auxmoney scoring model, €30-35 billion out of this demand is requested by borrowers classified with "manageable" risks (as of 2020).<sup>5</sup> In fact, this demand equals 4.0-4.5 million individuals in Germany, who can be served through auxmoney (as of 2020).<sup>6</sup>

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<sup>2</sup> Deutsche Bundesbank, How does P2P lending fit into the consumer credit market? (2016)

<sup>3</sup> Deutsche Bundesbank, How does P2P lending fit into the consumer credit market? (2016)

<sup>4</sup> PwC, Welchen Beitrag leisten Kreditmarktplätze wie auxmoney zur Kreditversorgung? (2016, update in 2020)

<sup>5</sup> auxmoney scoring model (2020)

<sup>6</sup> PwC, Welchen Beitrag leisten Kreditmarktplätze wie auxmoney zur Kreditversorgung? (2016, update in 2020)



## auxmoney Portfolio

Zooming into auxmoney's current portfolio it can be seen that ~85% of all loans are granted to underserved customers. Thereby two different forms of underserved customers can be distinguished: (1) Those customers that are underserved due to legacy underwriting models (e.g., models that put too much weight on traditional KPIs such as the Credit bureau score) and (2) those customers that fall into an inherently underserved group (e.g., occupation with irregular income).

~85% of assets in auxmoney's portfolio comply with at least 1 of the social criteria identified (see graph below). In order to fully respect the ICMA SBP requirement (i.e., 100% allocation to social projects), auxmoney will clearly designate which tranches of the intended ABS funding transactions are considered ESG and these will be labelled accordingly as they only finance social projects. The sum of these tranches will not exceed the amount of social assets in the pool. For transactions with static portfolios this will be indicated and confirmed at closing when the proceeds will be used for financing social assets. For transactions with a replenishment period this will be monitored and confirmed during the full length of the replenishment period and reported on a regular basis in publicly available investor reports to ensure ongoing compliance.

### *Underserved due to legacy underwriting models*

- Low credit bureau score (i.e., Schufa E or lower)
- Net income below €1,500 per month
- Employment in probation or fixed term employment contract

### *Underserved customer groups*

- Self-employed, freelancers and entrepreneurs
- Young people (< 25 years), students and trainees
- Elderly (> 65 years) and retired people
- Foreign citizens (often facing complex lending procedures, limited credit/re-payment history and language barrier)

### *Low Credit Bureau Score (i.e., Schufa E or Lower)*

The credit bureau score has been one of the key parameters that traditional lending institutions in Germany use to base their credit decision on. Thereby the Schufa score is most relevant among credit bureau scores in Germany (classes A-M with descending creditworthiness of the customer, e.g., A standing for super prime customers). While acceptance rates of traditional lenders for Schufa classes A-D is above 80%, it drops to below 30% for class E or lower – In classes K-M, hardly any customer is accepted<sup>7</sup>.

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<sup>7</sup> PwC study (2019)

For auxmoney, the Schufa score only plays a subordinated role in the credit assessment, as it also considers additional parameters (e.g., job situation, income, and expenses). Historically, this group of borrowers at auxmoney has accounted for ~64% based on # loans disbursed. While payments of borrowers after the disbursement of the loan are regularly monitored, the credit bureau score can only be assessed for the purpose of underwriting (e.g., also for loan top-ups) according to data protection law.

### *Net Income Below €1,500 per Month*

For traditional lending institutions affordability is critical to the credit decision next to the credit bureau score (i.e., can the customer afford the monthly instalment given his/her financial situation). Key component of the affordability assessment is net income. While ~30-35% of the total population in Germany has a net income below €1,500 per month, this is mostly not sufficient to get consumer loans from traditional lenders (given they are rather restrictive in considering additional sources of income).<sup>8</sup>

auxmoney considers net income but also other/irregular income streams (e.g., mini jobs, bonus). Historically, borrowers with an income below €1,500 per month at auxmoney have accounted for ~29% based on # loans disbursed. It should be noted that there is a minimum floor of income (€600 per borrower as of September 2021) below which no lending is possible. Income above €600 does not guarantee a loan brokerage offer, as individual household calculations are applied.

### *Employment in Probation or Fixed Term Employment Contract*

Most of the traditional consumer lending providers in Germany consider fixed term employment as a hard exclusion rule in case the employment contract duration is less than the duration of the loan. As a matter of fact, ~7.4% of all employees in Germany are employed on a fixed term basis (of which ~75% are even restricted to less than 2 years contract duration.)<sup>9</sup> The share of employees on fixed term contracts amounts to over 2 million people in Germany which are considered not “bankable” and remain underserved.

For auxmoney, employment in probation or fixed term employment contracts are not considered hard exclusion rules. Instead, creditworthiness is assessed similarly as for applicants with permanent employment contracts. Historically, this group of borrowers at auxmoney has accounted for ~7% based on # loans disbursed.

### *Self-employed, Freelancers and Entrepreneurs*

Over the past decade, the number of self-employed and freelancers was stable in Germany with ~2.2 million individuals.<sup>10</sup> This group of borrowers does not have a regular income comparable with income from employment (especially entrepreneurs) and with the lack of an adequate and consistent approach for those applicants among banks, they currently remain underserved in the market. In fact, less than 10% of all consumer

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<sup>8</sup> Institut der deutschen Wirtschaft, Köln – Bedarfsgerechtes Nettoeinkommen je Monat (2019)

<sup>9</sup> Bundesministerium für Arbeit und Soziales (figures in 2019)

<sup>10</sup> Bundesministerium für Arbeit und Soziales (figures for one-person self-employed and freelancers in 2019)

lending is provided to self-employed and freelancers (entrepreneurs typically do not receive any financing without a solid business plan and potential proof of concept).<sup>11</sup>

auxmoney provides loans to self-employed and freelancers with limited trading history and can look at cases with a 1-year business history. auxmoney is able to score entrepreneurs without requiring a business plan to make them qualify for financing. Historically, this group of borrowers at auxmoney has accounted for ~11% based on # loans disbursed.

### *Young People (< 25 Years), Students and Trainees*

Young people often face difficulties receiving financing from banks, even if they have regular income from employment. One major driver of this is their limited credit/re-payment history. In fact, less than 5% of consumer loans in Germany are taken on by young people of < 25 years.<sup>12</sup>

For auxmoney past credit/re-payment history is of less importance compared to traditional consumer lending providers. auxmoney considers other parameters as well, so that young people (< 25 years) at auxmoney have historically accounted for ~10% based on # loans disbursed.

Among young people, students and trainees form a special group of customers: Out of the ~2.9 million students and ~1.3 million trainees in Germany the majority typically does not have sufficient/regular income.<sup>13</sup> Depending on some pre-defined criteria this group of borrowers may have access to government aid (Bafög) as well as loans from the state-owned KfW bank. However, one of the key restrictions is the fact that the support/loan amount is not fully paid out at the beginning, but rather evenly spread into monthly instalments of a maximum of ~€850 (Bafög) and €650 (KfW), respectively. Therefore, larger investments such as purchase of furniture, a car or the payment of upfront tuition fees cannot be covered with this offering. In the case of Bafög, financing is not offered to students exceeding the standard period of study, leading to a need for additional financing.

Apart from the above-mentioned government sponsored programs, there is no/very limited financing offered to students and trainees in the German market. auxmoney provides loans to students and trainees in case they have at least some sources of income (e.g., monthly payment from Bafög, income from part-time work). Historically, this group of borrowers at auxmoney has accounted for ~7% based on # loans disbursed.

### *Elderly (> 65 years) and Retired People*

With an ageing population in Germany the number of older people requiring credit is growing – in fact, the share of people of > 65 years is expected to increase by 7-8 percentage points until 2030<sup>14</sup>. Already today 10% of all consumer loans are taken out by customers of > 65 years.<sup>15</sup>

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11 Bundesbank (figures in 2019)

12 Schufa Kredit-Kompass (figures in 2020)

13 Destatis (figures students in 2020), Statista (figures trainees in 2019)

14 Statista, Bevölkerung – Zahl der Einwohner in Deutschland nach relevanten Altersgruppen (2020)

15 Schufa Kredit-Kompass (figures in 2019)

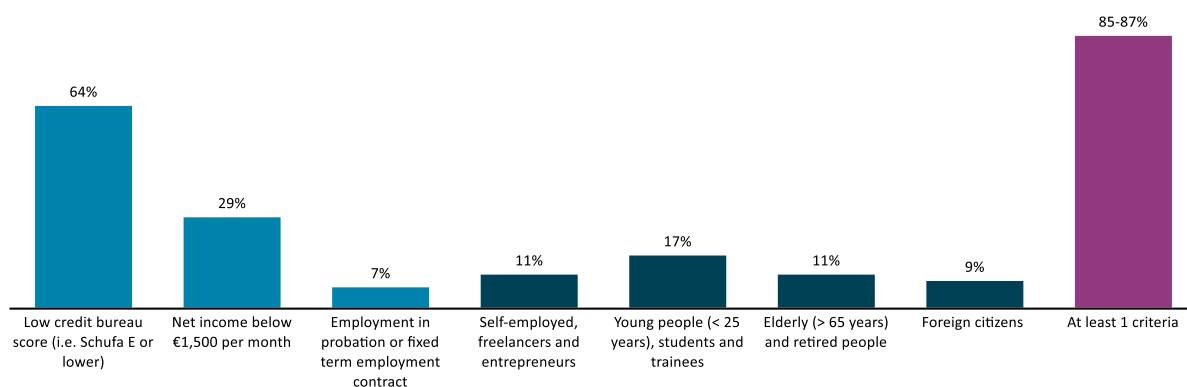
auxmoney aims at helping access to financing for borrowers of age > 65 years as well as retired people. Historically, this group of borrowers at auxmoney has accounted for ~11% based on # loans disbursed. auxmoney applies the same requirements to elderly and retired people as for other groups of the target population. Within the affordability assessment conducted during the loan application process, it is ensured that elderly or retired borrowers have sufficient current and future income streams (e.g., pensions) to settle their loan(s).

## Foreign Citizens

In Germany approximately every eighth resident does not have German citizenship (12.5% of total population)<sup>16</sup>. Quite often it is difficult for foreign citizens to obtain a loan from a traditional lender. Hence, they also lack sufficient credit/re-payment history. Apart from the extensive paperwork, language barriers often complicate the procedure on top.

For auxmoney, the only requirements to lend to foreign citizens include the following: residency in Germany and an account with a German bank. Moreover, auxmoney makes sure that a simple and clear communication throughout the credit application process is used towards foreign citizens. Historically, this group of borrowers at auxmoney has accounted for ~9% based on # loans disbursed.

## Target groups of auxmoney



Note: In %, based on # loans disbursed, 2019

Source: auxmoney estimates

<sup>16</sup> Bundesinstitut für Bevölkerungsforschung (2019)

## Alignment with UN Sustainable Development Goals (SDGs)

Below, the contribution of Eligible Social Assets to the UN Sustainable Development Goals is summarized.

SDG <sup>17</sup>	Contribution to SDG target(s) of Eligible Social Assets
8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	auxmoney grants access to loans for underserved groups of borrowers. This contributes to the SDG target 8.10 to “expand access to banking, insurance and financial services for all” <sup>18</sup> .
9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	auxmoney provides loans to self-employed and freelancers, including small-scale business owners, thereby supporting the goal of providing financial services and affordable credit to these groups (SDG target 9.3).
10 - Reduce inequality within and among countries	By applying discrimination-free scoring to grant access to credit for underserved groups of borrowers, auxmoney promotes the economic inclusion of all (SDG target 10.2) as well as equal opportunities (SDG target 10.3).

## 2. Process for Project Evaluation and Selection

The evaluation and selection process at auxmoney guarantees that the proceeds of a social bond issued under a pre-defined framework will be used to re-finance already originated consumer loans for underserved borrowers. Thereby, the objective of helping the underserved population in Germany, as described above, to get access to financing and build up credit/re-payment history is ensured. It should be noted that auxmoney continuously tracks features of its portfolio including internal scores/payment history.

### *Operating Model*

As the leading digital lending platform, auxmoney provides borrowers with consumer loans which are financed by investors (retail and institutional) and auxmoney Investments as the Dublin-based investment company. Additionally, borrowers are offered an optional payment protection insurance (PPI) whereby auxmoney is acting as an insurance broker.

In order to qualify for lending, borrowers have to enter into an intermediary agreement with auxmoney who is acting as the loan broker. Based on this contractual agreement, auxmoney introduces lending opportunities and intends to intermediate a loan between borrowers and SWK Bank. At origination stage a rule-based application process ensures that auxmoney’s risk framework (i.e., social bond criteria) is met. Those rules include exclusions

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17 United Nations

18 United Nations

(e.g., hard knockouts), categorization into score classes and potentially also a quality assurance (QA) process (which is triggered if certain criteria are fulfilled).

SWK Bank is a fully licensed credit institution (regulated under respective EU and national law). It independently conducts regulatory credit checks (on top of auxmoney's credit assessment) and KYC assessment of a borrower. SWK Bank enters into the loan agreement with the borrower and disburses the loan. It does not commit to grant any loan to specific customer segments. However, SWK Bank and auxmoney have agreed to serve all customers that auxmoney decides to introduce to SWK Bank and that passed KYC and credit assessment/regulatory credit checks performed by both parties.

### *Affordability Assessment and Scoring*

auxmoney acknowledges the social risks associated with brokering loans to underserved, and therefore especially vulnerable, groups of borrowers, in particular that monthly loan instalment payments can be a significant financial burden. To mitigate these potential negative social impacts, auxmoney has established a thorough (credit) risk assessment which encompasses a dedicated affordability assessment and scoring of a borrower.

The affordability assessment considers both income (e.g., salary, bonuses, pensions) and expenses (e.g., rent, living, debt/instalment payments) of a borrower and the remaining balance must at least cover the anticipated instalments to qualify for potential consumer lending.

The proprietary scoring model (in its 5<sup>th</sup> generation) is an additional key pillar of the (credit) risk assessment of the borrower which determines the probability of default (PD) and sets the corresponding score class ranging from AA (lowest PD) to E (highest PD). In fact, the difference between realized and model estimated default rates is ~4x closer to forecast at auxmoney compared to credit score providers in the market. Input for the scoring model are various sets of data including application data, demographic data, device data, etc. – It is ensured that there is no discrimination in data assessment and scoring (e.g., avoidance of any gender discrimination).

The score class, in turn, is the basis for deciding to introduce the lending opportunity/submit the loan request to SWK Bank and defining the individual price for a borrower.

### *Lending and Exclusion Criteria*

auxmoney's current lending criteria include a loan amount of €1,000 to €50,000<sup>19</sup> with a term of 12 months to 84 months. In the current portfolio, the average loan amount is ~€10,000 and term ~50 months and is expected to stay relatively stable during the life of the social bond.

Based on its strategy, auxmoney targets borrowers in need of consumer lending and therefore commits to not knowingly being involved in financing any of the following activities through the proceeds of any social bond:

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<sup>19</sup> Maximum amount provided to borrower may be higher driven by additional/adjacent services that may be financed, e.g., Payment Protection Insurance (PPI)

terrorism, money laundering and other criminal offences. This is also true with regards to the investors of the auxmoney platform.

## *Risk Governance*

The Credit Risk department consists of an experienced team and continuously monitors, steers and refines the credit assessment framework established at auxmoney (including policies, scorecards, pricing, etc.). The Risk Management Committee oversees the credit risk management composed of key stakeholders at auxmoney.

The Committee regularly reviews the risk and origination framework as well as the origination shares by customer segment. It intends to assure that a fair size of financial inclusion and underwriting criteria as well as overall performance are complying with auxmoney's risk policies.

## *Management of Framework*

A dedicated committee with key representatives from Senior Management, Risk, Funding, Legal/Compliance and HR meets semi-annually and is responsible for the following:

- Review and approval of the framework, where amended
- Review and approval of the eligible portfolio
- Review and approval of reporting
- Review of the post issuance external verification report
- Monitoring ongoing social bond market practices
- Ensuring all Eligible Social Assets comply with auxmoney's internal guidelines and exclusion criteria, which mitigate indirect negative social impacts by offering responsible access to credit as described above

### **3. Management of Proceeds**

auxmoney commits to track the allocation of net proceeds from social bonds and disclose those allocations in its Social Bond Report. Eligible Social Assets will be defined at moment of inclusion in the portfolio backing the ABS to ensure the note classes labelled social are fully backed by Eligible Social Assets. Net proceeds of issuance will be allocated at closing to fund Eligible Social Assets. As proceeds of the ABS are used to finance eligible social assets which already exist, it is ruled out that there will be temporarily unallocated proceeds. For future replenishing pools auxmoney will monitor the eligible portfolio to ensure it remains in line with eligibility criteria set at closing and also when new loans are added after closing.

As per end August 2021, the outstanding of all loans granted to underserved customers amounts to ~85% of auxmoney's total loan portfolio. The number of tranches that may be labelled as social projects will be capped at such level for ABS funding transactions to ensure that 100% of the proceeds of such tranches are used to finance loans identified as social.

In order to ensure correct earmarking of net proceeds also for future transactions, auxmoney will maintain and extract relevant information from its internal accounting, financial management, and information systems.

Key information relating to the social bond, include:

- Issuer
- Transaction date
- Principal
- Amount of proceeds
- Settlement date
- Maturity date
- Interest margin or coupon

Key information relating to the use of proceeds, include:

- Aggregate amount of social bond proceeds and social assets
- Estimated social impact as described in section 4 (where available)
- Other necessary information

## 4. Reporting

Information related to the allocation and impact of net proceeds will be published at least annually or in case of material changes.

Leveraging the information and data maintained and extracted in the respective systems, the Social Bond Report will contain at least the following sections: 1) Allocation and 2) Impact reporting on the respective characteristics of the eligible portfolio on an aggregate level.

The Social Bond Report may be updated more regularly as required for transactions financing replenishing portfolios and will be made available on the investor portal.

Moreover, there will be monthly investor reports published for all ABS transactions until the deal is fully repaid.

### Allocation Reporting

- Details of social bond tranches issued during reporting period and outstanding at the reporting date
- Aggregated reporting of loans financed by social bond tranches proceeds at the issuance date



## Impact Reporting

Qualitative and/or quantitative information of the social impact resulting from loans financed by the social bond proceeds will be provided. The impact indicators may include:

- # of loans included in portfolio
- # of borrowers
- # of self-employed, freelancers and entrepreneurs
- # of students and trainees
- # of young people (<25 years)
- # employees in probation or with fixed term employment contracts
- aggregated loan amount included in portfolio
- average loan amount included in portfolio
- % of loan amounts >€10,000 / >€25,000 / >€50,000 in portfolio
- weighted average interest rate in portfolio
- Breakdown of loans in portfolio:
  - Score class of borrower
  - Gender of borrower
  - Age of borrower
  - Income of borrower
  - Occupation of borrower
  - Location of borrower

## 5. External Review

### Pre-issuance Review:

auxmoney has appointed the independent second-party opinion provider, ISS Corporate Solutions, Inc. ("ICS"), to review this framework and attest to its alignment with the ICMA Social Bond Principles 2021.

### Post-issuance Review:

A suitable external auditor will be appointed to provide limited assurance on the Allocation Report to ensure net proceeds are being allocated in accordance with the framework. The auditor's certification review will be published within the Social Bond Report.

Subject to the availability of information, auxmoney will look to use the impact reporting guidelines as detailed within the ICMA Sustainable Finance Resource Centre<sup>20</sup>.

Information below will be produced and published on auxmoney's investor portal as shown above.

<b>Item</b>	<b>Frequency</b>
Social Bond Framework	At issuance of the first social bond, then for any subsequent framework updates
Second Party Opinion	At issuance of first social bond issued under the framework, then for any subsequent major framework updates
External Review of Stratification Tables	For all outstanding social bonds
Social Bond Report	For all outstanding social bonds

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<sup>20</sup> <https://www.icmagroup.org/sustainable-finance/resource-centre/>

## Part D: Appendices

### References

1. ICMA Social Bond Principles (SBP)

<https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/>

2. Impact Reporting

<https://www.icmagroup.org/sustainable-finance/resource-centre/>

Note: auxmoney aims to use potential environmental and social impact reporting indicators summarized in Part C of this framework (further detailed in the ICMA Sustainable Finance Resource Centre and guidance developed by the ICMA SBP Impact Reporting Working Groups, subject to the availability of information and confidentiality requirements).

auxmoney aims to report on all indicators of chosen categories but note that not all may be applicable to all bond issuances.

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