

auxmoney

# Social Bond Framework

January 2024



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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 approximately €5 billion originated volume as of end of year 2023. While initially operating as a peer-to-peer (P2P) marketplace (i.e., loans funded by retail investors), loans are now mostly funded by institutional investors and by auxmoney itself through a combination of public and private asset-backed facilities.

The following events mark 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 first 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 and issuance of first €250 million Social Consumer Loan ABS (Fortuna 2021)
- **2022:** issuance of second €225 million Social Consumer Loan ABS (Fortuna 2022-1) and closing of third private facility with a total size of €500 million
- **2023:** issuance of third €350 million Social Consumer Loan ABS (Fortuna 2023-1) and acquisition of majority stake in the Dutch credit marketplace Lender & Spender

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 also hold shares of the company.

auxmoney GmbH (digital lending platform) and its 100% 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 loans.

auxmoney has specialized in providing access to credit to customers (including self-employed) that are underserved by traditional lenders as banks are often 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<sup>1</sup>:

- 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
- Those customers that fall into an inherently underserved group (e.g., self-employed)

## 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 continuously aligning its mission, business strategy, processes, brand and culture to 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.

As part of its ESG strategy, auxmoney has committed to becoming climate-neutral at the latest by 2035. This commitment is also reflected in auxmoney's membership within the "Düsseldorf climate pact with Business" ("Düsseldorfer Klimapakt mit der Wirtschaft"<sup>2</sup>), a climate protection cooperation network founded by the regional state capital of Düsseldorf and the Düsseldorf Chamber of Industry and Commerce ("IHK Düsseldorf") with the goal to support companies on their way to a more climate-friendly and sustainable future.

In order to fulfil its environmental protection goals, auxmoney is regularly measuring its CO2 footprint. The 2022 CO2 footprint was calculated with the help of a leading solutions provider for CO2 accounting. auxmoney has already implemented climate conscious measures (e.g., energy efficient headquarters renovated to latest industry standards, 100% green electricity, flexible home office arrangements on up to 5 days/week, etc.),

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<sup>1</sup> For details on the specifics of underserved customers that auxmoney services see Part C: Social Bond Transactions, 1. Use of Proceeds, section auxmoney Portfolio

<sup>2</sup> <https://klimapakt-duesseldorf.de>; Website available in German only

thereby effectively contributing to a CO2 footprint reduction. As a consequence, auxmoney's CO2 footprint for the year 2022 amounts to approximately 500 CO2 tons<sup>3</sup>.

auxmoney continuously encourages an environmentally friendly behaviour among its employees. Offerings, for instance, include an electric vehicle charging station in the parking garage, e-bike leasing and waste separation possibilities in the office kitchens. Additionally, auxmoney procures fast moving consumer goods (FMCG) and office stationery exclusively from selected bio-certified providers.

auxmoney's Environmental Impact Policy, substantiated by specific, measurable, and tangible environment protection measures, is a key pillar to reach long-term climate protection goals.

## Social

Since its foundation, facilitating financial inclusion has been an essential part of auxmoney's mission, business strategy, processes, brand and culture. Therefore, 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 access to funding to underserved borrowers, but also to ensure responsible lending practices across the entire credit lifecycle. auxmoney acknowledges the social responsibility associated with brokering loans to underserved and therefore particularly vulnerable groups of borrowers. Within its commitment to ensure responsible lending, auxmoney follows three concrete principles: reliability, transparency, and fairness. Selected examples of these include:

- 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 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)

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<sup>3</sup> Calculated for auxmoney Group (including office locations in Düsseldorf and Dublin)

Next to its customer base, it is essential for auxmoney to promote high well-being among its employees. Actions to promote employee well-being include:

- Training: extensive internal and external training and further education courses, e.g., language courses
- Subsidized transportation: e-bike leasing and monthly regional transportation costs
- Corporate benefits: employee discounts, yoga & mobility sessions, sponsored gym memberships, fully equipped in-house gym, diverse social activities (networking, games, relaxation), free lunches
- Mental health & awareness: online psychological & coaching support via specialized external provider
- Remote work within EU for up to 90 days/year possible

auxmoney considers diversity, equity and inclusion at the top of its list to attract, train and retain the best employees as well as to attain better and sustainable results. auxmoney sets out the following lines of action within which the strategic objectives developed by the company in relation to diversity, equity and inclusion are classified:

- Gender diversity: promotion of equal opportunities and gender equality at all levels
- Diversity of generations: contribution to work integration and coexistence of different generations
- Affective-sexual diversity: assurance of an inclusive environment for all employees, regardless of their sexual orientation or identity
- Cultural diversity: appreciation, respect, and positive inclusion of cultural differences
- Functional diversity: regard for the unique potential of people with different abilities and talents

auxmoney values the diversity of its employees and has been participating in the Diversity Charter, a corporate initiative to promote diversity in companies and institutions, since 2019. With this pledge, auxmoney commits to a work environment that is free of prejudice and in which all employees are valued – regardless of gender, nationality, ethnic origin, religion, disability, age, or sexual orientation. Each year auxmoney celebrates the Diversity Day (“Tag der Vielfalt”) and highlights different aspects of diversity. Further, auxmoney introduced an Anti-Discrimination & Anti-Harassment Policy in 2022 and actively monitors early signs of gender discrimination with immediate actions taken where required. Regular pay equity assessments are performed.

For auxmoney, it is important to actively assume its responsibility as a corporate citizen. Supporting the well-being of society and communities is realized through various community engagement projects led by the auxmoney Social Impact Board, which is open to all employees and joined on voluntary basis. To further strengthen and encourage social impact endeavours, auxmoney gifts its employees an additional vacation day per year to get involved in social or charitable projects of their own choosing. Selected examples to date include local community engagements, in-kind donations for people in need and charitable contributions to humanitarian causes.

## Governance

auxmoney is committed to maintaining best-in-class corporate governance. Generally, the approach is based on the principles and provisions of the relevant local legislation and applicable laws and industry standards. auxmoney's ethical conduct is promoted through a comprehensive set of policies and work instructions or similar guidance which have been established within the group and are accessible to all employees. Principles and policies provide standards and guidance across all relevant areas, covering topics such as anti-corruption, whistleblowing, data protection and notifiable events.

A core part of auxmoney's corporate governance framework is formed by its board of directors. Members of the board and its committees are highly experienced executives from the banking/financial services industry providing guidance and supervision to auxmoney's leadership.

Furthermore, an effective group-wide risk management has been established which is formalized in a comprehensive risk management framework including the implementation of a three lines of defence model, the establishment of an appropriate risk culture & governance and the implementation of a risk appetite statement. auxmoney carries out a risk inventory on a yearly basis and updates the inventory on an ad-hoc basis as required. For each relevant risk, first line owners (risk ownership) and second line owners (risk oversight) are defined.

External auditors and experts (as third line of defence) provide independent assurance on a regular basis that auxmoney manages risks effectively. auxmoney pays particular attention to continuously increase the level of information security and carefully selects third parties based on a system supported due diligence process involving several stakeholders including Legal & Compliance, Data Protection, IT Security and Enterprise Risk Management.

## 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 bonds 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 (SDG targets 8.10, 9.3, 10.2, 10.3<sup>4</sup>) 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 2023 administered by the International Capital Market Association (ICMA)<sup>5</sup>:

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

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<sup>4</sup> See Part C: Social Bonds Transactions, 1. Use of Proceeds, section “Alignment with UN Sustainable Development Goals (SDGs)” for details

<sup>5</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 or refinance, 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>6</sup> Furthermore, auxmoney's automated real-time underwriting diminishes the potential for biases, associated with manual underwriting processes, typically present at traditional lenders. As a consequence, auxmoney fulfils 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 deriving an appropriate risk-adjusted interest rate. In fact, underserved borrowers tend to have lower degrees of creditworthiness, hence the offered interest rates may exceed the average interest rate of auxmoney's overall loan portfolio as auxmoney applies interest rates that correspond to the underlying credit risk of borrowers. 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>7</sup> Importantly, interest rates remain below ranges that typically apply for credit card or overdraft segments.

Total demand for consumer lending in Germany which is not served is estimated to amount to €95-105 billion (as of 2022).<sup>8</sup> Pursuant to the auxmoney scoring model, €30-37 billion out of this demand is requested by borrowers

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<sup>6</sup> Deutsche Bundesbank, How does P2P lending fit into the consumer credit market? (2016)

<sup>7</sup> Deutsche Bundesbank, How does P2P lending fit into the consumer credit market? (2016)

<sup>8</sup> PwC, Welchen Beitrag leisten Kreditmarktplätze wie auxmoney zur Kreditversorgung? (2016, auxmoney update for 2022)

classified with “manageable” risks (as of 2022).<sup>9</sup> This demand would equate to 4.0-4.5 million individuals in Germany who could be served through auxmoney’s digital lending platform (as of 2022).<sup>10</sup>

## **auxmoney Portfolio**

Within auxmoney’s current outstanding portfolio, more than 70% of all loans are granted to underserved customers. Thereby, two groups of underserved customers can be distinguished:

- 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
- Those customers that fall into an inherently underserved group (e.g., self-employed)

Further drill-down on those two groups can be found below:

### *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)

More than 70% of assets in auxmoney’s portfolio comply with at least 1 of the social criteria identified (see Graph 1: Underserved borrowers in auxmoney’s portfolio as of November 2023). In line with the ICMA SBP requirements (i.e., 100% allocation to social projects), auxmoney will clearly designate which tranches of the intended ABS funding transactions are considered Eligible Social Assets 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.

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<sup>9</sup> auxmoney scoring model (2022)

<sup>10</sup> PwC, Welchen Beitrag leisten Kreditmarktplätze wie auxmoney zur Kreditversorgung? (2016, auxmoney update for 2022)

## *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>11</sup>

For auxmoney, the Schufa score only plays a subordinated role in the credit assessment, as it also considers various additional parameters. Historically, this group of borrowers at auxmoney has accounted for ~50% based on the number of 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 (i.e., can the customer afford the monthly instalment given their financial situation). The key component of the affordability assessment is net salary. Whilst around a quarter of the total population in Germany has a net salary below €1,500 per month<sup>12</sup>, this is mostly not sufficient to get consumer loans from traditional lenders given their restrictiveness in considering additional sources of income.

auxmoney considers net salary but also other reliable, regular income streams, such as mini jobs. Importantly, auxmoney uses its advanced digital technology in the area of affordability calculations, facilitating a more sophisticated decision than traditional lenders. Historically, borrowers with an income below €1,500 per month have accounted for ~18% of loans disbursed by auxmoney. It should be noted that auxmoney has set a minimum floor of income (€600 per borrower) below which no lending is granted.

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

Most of the traditional consumer lending providers in Germany consider the absence of a 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, ~7.8% of all employees in Germany are employed on a limited term basis (of which ~78% are even restricted to less than 2 years contract duration.)<sup>13</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. Further, in recent years workers in Germany have been experiencing job transitions more often with a high fluctuation rate at ~15% in 2022<sup>14</sup>.

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<sup>11</sup> PwC study (2019)

<sup>12</sup> Institut der deutschen Wirtschaft, Köln – Bedarfsgerechtes Nettoeinkommen je Monat (figures for 2022)

<sup>13</sup> Destatis, Befristet Beschäftigte (figures for 2022)

<sup>14</sup> Lünendonk Study 2023, Personalvermittlung in Deutschland 2021 und 2022 (figures for 2022)

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 number of loans disbursed.

## *Self-employed, Freelancers and Entrepreneurs*

Over the past decade, the number of self-employed and freelancers was stable in Germany with ~2.1 million individuals.<sup>15</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 lending is provided to self-employed and freelancers.<sup>16</sup>

auxmoney is able to provide 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 ~9% based on number of 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 3% of consumer loans in Germany are taken on by young people between the ages of 18 - 25 years.<sup>17</sup>

For auxmoney, the existence of a detailed credit/re-payment history is of less importance compared to traditional consumer lending providers. Based on its proprietary scoring technology, auxmoney is able to establish a more differentiated scoring, so that young people (< 25 years) at auxmoney have historically accounted for ~9% based on number of loans disbursed.

Among young people, students and trainees form a special group of customers: out of the ~2.9 million students and ~1.2 million trainees in Germany the majority typically does not have sufficient/regular income.<sup>18</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 ~€930<sup>19</sup> (BAfög) and €650<sup>20</sup> (KfW), respectively. Therefore, larger investments such as purchase of furniture, a car or the

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<sup>15</sup> Destatis, Solo-Selbstständige; Destatis, Erwerbstätigenrechnung - Erwerbstätige in Deutschland Jahresdurchschnitte in 1.000 und Veränderung gegenüber dem Vorjahr in % (figures for both sources for 2022)

<sup>16</sup> Bundesbank, Lending of banks (MFIs) in Germany to domestic non-banks (non-MFIs): breakdown of loans to domestic enterprises and households by customer and purpose of loan (figures for 2022)

<sup>17</sup> Schufa Kredit-Kompass (figures for 2022)

<sup>18</sup> Statista, Schere zwischen Azubis und Studis bleibt weit offen (figures for 2022)

<sup>19</sup> Deutsches Studierendenwerk, BAfög-Höchstsatz Wintersemester 2022/2023 (figures for 2022)

<sup>20</sup> KfW-Studienkredit (figures for 2022)

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 very limited financing offered to students and trainees in the German market. auxmoney provides loans to students and trainees in case they have relevant sources of income (e.g., monthly payment from BAfög, income from part-time work). Historically, this group of borrowers at auxmoney has accounted for ~5% based on number of 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 more than 20% until the mid-2030s.<sup>21</sup> At the same time, traditional lenders often apply hard knock-out criteria to rule out customers above a certain age, regardless of their financial situation.

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 ~9% based on number of 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).

### *Foreign Citizens*

In Germany, approximately every sixth resident does not have German citizenship (15.9% of total population)<sup>22</sup>. Quite often it is difficult for foreign citizens to obtain a loan from a traditional lender, in particular, also due to their lack of sufficient credit/re-payment history. Apart from the extensive paperwork, language barriers often further complicate the procedure.

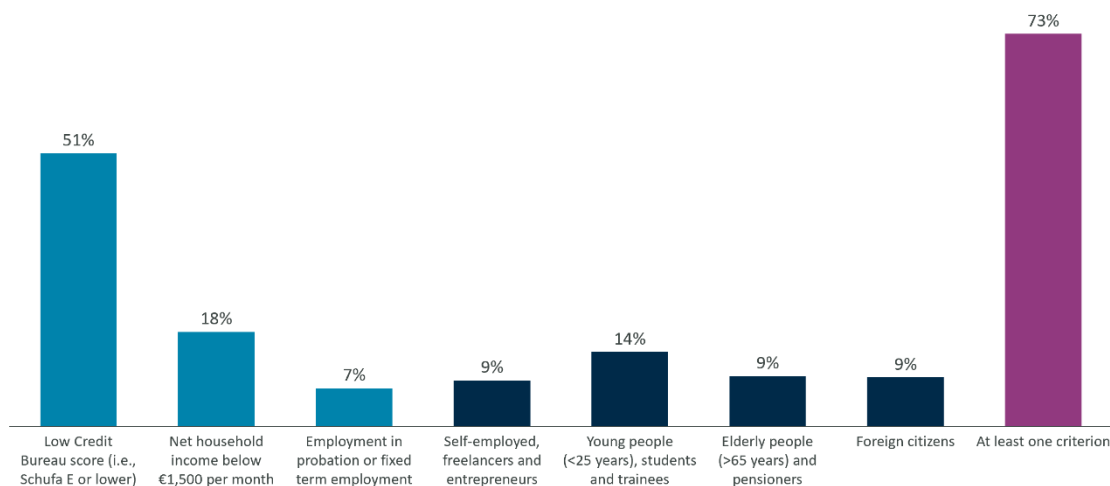
auxmoney is able to lend to foreign citizens, as long as they can prove residency in Germany and have an account with a German bank. Moreover, auxmoney makes sure that a simple and clear communication throughout the credit application process is used. Historically, this group of borrowers at auxmoney has accounted for ~9% based on number of loans disbursed.

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<sup>21</sup> Destatis, Zukünftige Bevölkerungsentwicklung (2022)

<sup>22</sup> Destatis, 24,3 % der Bevölkerung hatten 2022 eine Einwanderungsgeschichte (figures for 2022); Destatis, Bevölkerung Deutschlands im Jahr 2022 um 1,3 % gewachsen (figures for 2022)

## Target groups of auxmoney



Graph 1: Underserved borrowers in auxmoney's portfolio as of November 2023

Note: in %, based on # loans disbursed; Borrowers can fulfil more than one criterion

Source: auxmoney analysis

## Alignment with UN Sustainable Development Goals (SDGs)

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

SDG <sup>23</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>24</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) and equal opportunities (SDG target 10.3).

<sup>23</sup> United Nations

<sup>24</sup> United Nations

## 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 refinance 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 and auxmoney Investments as the group-internal investment company.

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 intends to intermediate a loan between borrowers and SWK Bank. At origination stage, auxmoney performs the full risk assessment based on various statistical models. This includes exclusion rules (e.g., hard knockouts), scoring via the auxmoney scorecard using various facility and borrower specific data points, pricing and potentially a quality assurance (QA) process (which is triggered if certain criteria are fulfilled). Based on this the SWK Bank then takes the legal credit decision.

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 pre-credit assessment checks) 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 had a longstanding business relationship and auxmoney has a good understanding of applicable credit assessment parameters. It is important to note that SWK Bank performs a full set of regulatory required KYC checks and credit assessments in order to ensure that every disbursed loan is issued in line with current German Banking Code and relevant regulation.

### *Affordability Assessment and Scoring*

auxmoney has established a thorough risk assessment which encompasses a dedicated affordability assessment and scoring of a borrower. The affordability assessment considers both income (e.g., salary, 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 sixth 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 AAA (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<sup>25</sup>. 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 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 net loan amount of €1,000 to €50,000<sup>26</sup> with a term of 12 months to 84 months. In the current portfolio, the average loan amount is ~€8,000 and term ~60 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: terrorism, money laundering and other criminal offences. This is also true with regards to the investors of the auxmoney platform.

### *Responsible Lending*

auxmoney acknowledges the social responsibility 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 potential negative social implications, auxmoney has defined and adheres to three concrete principles: reliability, transparency and fairness:

- Reliability: auxmoney makes sure that its customers can afford to borrow money
- Transparency: auxmoney clearly communicates criteria for access to the digital lending platform and costs for borrowing money and does not ambush customers with hidden fees
- Fairness: auxmoney does not engage in discriminatory lending practices or predatory lending

The above-mentioned principles are anchored in a Responsible Lending Standard, which is available and binding for each employee. Additionally, responsible lending champions are nominated from all relevant departments to serve as advocates for clients' best interests and are mandated to continuously identify improvement potential within policies, procedures, work instructions, handbooks, trainings, etc. with regards to responsible lending. The

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<sup>25</sup> auxmoney analysis

<sup>26</sup> Maximum amount provided to borrower may be higher driven by additional/adjacent services that may be financed, e.g., payment protection insurance (PPI)



scope of auxmoney's continued commitment to its customers is also outlined in the publicly available customer charter ("Kundencharta")<sup>27</sup>.

## *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, risk-based pricing, etc.). The Credit Risk Committee oversees the credit risk management composed of key stakeholders at auxmoney.

The Credit Risk 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, Business Development 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
- 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 of November 2023, the outstanding of all loans granted to underserved customers amounted to >70% 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.

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<sup>27</sup> <https://www.auxmoney.com/wp-content/uploads/auxmoney-kundencharta.pdf>

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

auxmoney maintains a dedicated ESG section<sup>28</sup> on its investor portal, where its Social Bond Framework and ESG related reports, e.g., the Social Bond Report (allocation & impact reporting) can be found.

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

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.

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<sup>28</sup> <https://auxmoney-investments.com/esg-social-bond-framework/>

## Allocation Reporting

Content of the report may include:

- 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. Content of the report 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
- Impact on financial inclusion, financial health, and financial wellbeing

## 5. External Review

### Pre-issuance Review:

auxmoney has appointed the independent second-party opinion provider, Sustainable Fitch Limited (“Sustainable Fitch”), to review this framework and attest to its alignment with the ICMA Social Bond Principles 2023.

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>29</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>29</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/>

<https://www.icmagroup.org/sustainable-finance/impact-reporting/social-projects>

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 within the Harmonised Framework for Impact Reporting for Social Bonds (2023) 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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