

Second-Party Opinion

Sicredi Sustainable Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the Sicredi Sustainable Finance Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, and Social Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – (i) Renewable Energy, (ii) Environmentally Sustainable Management of Living Natural Resources and Land Use, (iii) Green Buildings, (iv) Energy Efficiency, (v) Clean Transportation, (vi) Access to Essential Services, (vii) Employment Generation, through SME Financing and Microfinance, and (viii) Family Rural Production – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 2, 7, 8, 9, 10, 11, 12 and 15.



PROJECT EVALUATION / SELECTION Sicredi's Structured Operations and Sustainable Finance departments will be responsible for evaluating and selecting the eligible projects. Sicredi has in place processes to identify and mitigate environmental and social risks associated with its credit products and investments, which are applicable to all allocation decisions made under this Framework. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Sicredi's Treasury Team, together with the Sustainable Finance Team, will be responsible for the management and allocation of net proceeds. Sicredi intends to fully allocate the proceeds from each financial instrument within three years but reserves the right to do so until the instrument's maturity. Unallocated proceeds will be invested in cash or cash equivalents. Sustainalytics considers market expectation to be allocation within 36 months.



REPORTING Sicredi intends to report on allocation of proceeds on its website on an annual basis until full allocation or in case of material developments. In addition, Sicredi is committed to reporting on relevant impact metrics. Sustainalytics views Sicredi's allocation and impact reporting as aligned with market practice.

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Report Sections

Introduction.....	2
Sustainalytics' Opinion	3
Appendices	12

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Introduction

Sicredi (“Sicredi”, or the “Company”) is a cooperative financial institution in Brazil. Its business consists of raising funds from members and lending them to members of the same regions. Sicredi has more than 5.5 million members and is present throughout Brazil’s 26 states plus the Federal District with more than 2,200 branches and 100 cooperatives.

Sicredi has developed the Sicredi Sustainable Finance Framework (the “Framework”) under which it intends to issue sustainability bonds or loans, and use the proceeds to finance and/or refinance, in whole or in part, existing or future projects that are expected to contribute to a sustainable and low-carbon economy while bringing forward positive social impact in Brazil.

The Framework defines green eligibility criteria in the following five areas:

1. Renewable Energy
2. Environmentally sustainable management of living natural resources and land use
3. Green Buildings
4. Energy Efficiency
5. Clean Transportation

The Framework defines social eligibility criteria in the following three areas:

1. Access to Essential Services
2. Employment Generation, through SME Financing and Microfinance
3. Family Rural Production

Sicredi engaged Sustainalytics to review the Sicredi Sustainable Finance Framework, dated May 2022, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2021 (SBP)¹, Green Loan Principles 2021 (GLP), and Social Loan Principles 2021 (SLP)². This Framework will be published in a separate document.³

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2021 and Social Loan Principles 2021, as administered by Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA), and Loan Syndications & Trading Association (LSTA);
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Sicredi’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Sicredi representatives have

¹ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

³ The Sicredi Sustainable Finance Framework is available on Sicredi’s website at: www.sicredi.com.br/site/relacoes-com-investidores/

⁴ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

confirmed (1) they understand it is the sole responsibility of Sicredi to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Sicredi.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, Sicredi is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Sicredi has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Sicredi Sustainable Finance Framework

Sustainalytics is of the opinion that the Sicredi Sustainable Finance Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP, and SLP. Sustainalytics highlights the following elements of Sicredi's Sustainability Finance Framework:

- Use of Proceeds:
 - The eligible categories – (i) Renewable Energy, (ii) Environmentally Sustainable Management of Living Natural Resources and Land Use, (iii) Green Buildings, (iv) Energy Efficiency, (v) Clean Transportation, (vi) Access to Essential Services, (vii) Employment Generation, through SME Financing and Microfinance, and (viii) Family Rural Production – are aligned with those recognized by the GBP, SBP, GLP, and SLP.
 - Sicredi has established a three-year look back period for its refinancing activities, which Sustainalytics views to be in line with market practice.
 - Under the Renewable Energy category, Sicredi may finance expenditures for the purchase of wind and solar energy equipment and technology. The Company may also finance generation and distribution systems of wind, solar and biomass energy for rural landowners.
 - Regarding biomass energy, the Framework contemplates financing towards generating electricity using biomass energy from agriculture and animal waste through the bio-digestion and composting of animal waste. Sustainalytics recognizes the environmental benefits of such activities.
 - Under the Environmentally Sustainable Management of Living Natural Resources and Land Use category, the Framework contemplates expenditures towards projects that will contribute to the achievement of targets set out in Brazil's government programme to reduce greenhouse gas emissions in agriculture (the "ABC Programme")⁵ targeting rural producers. The Framework defined the following as eligible projects:

⁵ Brazilian Government, Plan for Adaptation and Low Carbon Emission in Agriculture, at: <https://www.gov.br/agricultura/pt-br/assuntos/sustentabilidade/plano-abc/arquivo-publicacoes-plano-abc/abc-english.pdf>

- No till farming methods for planting straws. Sustainalytics believes that no-till farming is an integral part of conservation agriculture as it minimizes soil disturbance and maintains (or restores) soil cover, and therefore helps to maintain soil's organic carbon and prevent soil erosion and runoff.
 - Integrated crop-livestock-forest (ICLF), integrated crop-livestock (ICL), crop-forest (ICF), livestock-forest (ILF) and agroforestry systems. Sicredi has confirmed that all ICLF projects funded under the Framework will exclude projects exclusively dedicated to livestock.
 - Sustainalytics recognizes that integrated cropland-livestock-forestry systems (ICLFS) and agroforestry projects encompass a diversified production strategy that aims to enhance agricultural productivity and have been demonstrated to reduce the vulnerability of farmers (particularly smallholder farmers) to environmental shocks, including climate change. However, such integrated projects could face certain barriers,⁶ especially related to their effective adoption at the farm level, as well as their overall potential for achieving a net reduction in methane emissions resulting from livestock production.⁷
 - Sicredi communicated to Sustainalytics that forestry projects will be accompanied by a sustainable forest management plan, enabling family producers to comply with requirements that would have otherwise been met through Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) certification.⁸
 - Soil recovery and restoration of degraded pasture investments. Sustainalytics views investments in soil restoration from degraded pasturelands, if done with the intent of promoting future livestock activities, to represent a deviation from market practice, as soil restoration does not address the primary environmental impacts of livestock production. This is therefore considered to be a limitation to the Framework.
 - Biological nitrogen fixation projects for atmospheric nitrogen transformation in assimilable forms for plants by microorganisms. Sustainalytics understands that these projects will support the ABC Programme's target to expand the use of biological nitrogen fixation as a source of nitrogen for plant nutrition⁹ and recognizes the potential environmental impact of such projects.
 - Animal waste treatment projects that aim to support the bio-digestion and composting of animal waste, including the generation of biogas. Sustainalytics understands that these projects will take place in the context of the ABC Programme and that they will not include waste from industrial-scale livestock production. Sustainalytics recognizes the environmental benefits of such projects.
 - Sicredi has confirmed that the financing under this category will exclude activities of manufacturing, purchasing or distribution of inorganic, synthetic fertilizers, pesticides or herbicides. Sustainalytics encourages Sicredi to promote the holistic deployment of conservation agriculture practices¹⁰ in its criteria for lending in agriculture and agroforestry projects.
- Under the Green Buildings category, the Framework contemplates expenditures towards buildings achieving a certification level of EDGE,¹¹ LEED (Gold or above),¹² Aqua-HQE (Excellent or above)¹³ or Living Building Challenge.¹⁴ The company may also finance retrofitting buildings

⁶ The adoption of integrated crop-livestock systems is influenced by several factors, including the "costs of adoption versus non-adoption, supply chain infrastructure, biophysical suitability, availability of skilled labour, access to information and know-how, as well as the willingness to diversify production." Land Use Policy, Determinants of crop-livestock integration in Brazil: Evidence from the household and regional levels: https://www.bu.edu/gdp/files/2018/02/Gil_Garrett_et_al_2016_Determinants-of-ICLS.pdf

⁷ IPCC, Land-Climate Interactions: https://www.ipcc.ch/site/assets/uploads/2019/08/2c.-Chapter-2_FINAL.pdf

⁸ Sustainalytics highlights that forestry-related assets or projects certified with either FSC or PEFC integrate an appropriate management plan related to soil health, water and fire management, riparian area protection, biodiversity management, species selection, as well as chemical use.

⁹ Climate Bonds, "Unlocking Brazil's Green Investment – Potential for Agriculture", (2020), at: https://www.climatebonds.net/files/reports/brazil_agri_roadmap_english.pdf

¹⁰ Conservation Agriculture is a set of management practices that helps to maintain soil health, enhance biodiversity and natural biological processes above and below the ground surface, such as through: conservation tillage; sowing of diverse cover crops; multiple crop rotation; soil restoration and management; nutrient and waste management; using no or minimal amounts of pesticides and synthetic fertilizers. FAO promotes the adoption of CA principles "that are universally applicable in all agricultural landscapes and cropping systems." Food and Agriculture Organization of the United Nations (FAO), Conservation Agriculture: <http://www.fao.org/conservation-agriculture/en/>

¹¹ EDGE (or "Excellence in Design for Greater Efficiencies"), "Why certify with EDGE?" at: <https://www.edgebuildings.com/certify/>

¹² Leadership in Energy and Environmental Design (LEED), "LEED rating system", at: <https://www.usgbc.org/leed>

¹³ HQE certification, at: <https://www.behqe.com/cerway/essentials#>

¹⁴ Living Future Institute, "Living Building Challenge", at: <https://www.living-future.eu/programs/living-building-challenge/>

achieving 30% improvement in emissions savings over initial performance. Sustainalytics views the schemes specified by the Framework to be credible and the levels selected to be indicative of positive impact and aligned with market practice.

- Under the Energy Efficiency category, Sicredi may finance or refinance expenditures towards (i) LED lighting systems with associated controls and (ii) efficient cooling technologies using low-GWP and low-ODP refrigerants that can achieve a minimum of 20% reduction in CO₂ emissions and electricity consumptions. Sustainalytics views positively the inclusion of a defined energy efficiency threshold for the installation of energy-efficient systems, equipment, and technologies.
- Under the Clean Transportation category, Sicredi may finance individuals' and companies' purchase of fully electric vehicles or hybrid vehicles.¹⁵ In addition, Sicredi may finance expenditures related to charging stations for fully electric vehicles. Sustainalytics considers this to be in line with market practice.
- Under the Access to Essential Services category, Sicredi may finance or refinance the provision of financial products/services to bring financial access to rural populations or urban cities that are below Brazil's average Human Development Index (HDI),¹⁶ and are more dependent on government pay-outs. This may include (i) underserved populations, owing to a lack of quality access to essential goods and services and (ii) excluded or marginalized populations and communities, based on individual or regional income. For the financial services and products financed under this category, Sicredi commits to provide below average interest rates of the Brazilian lending market for credit insecure borrowers. In addition, Sicredi shared with Sustainalytics internal documents and policies that demonstrate commitment to adhere to responsible lending practices. Sustainalytics views the clear definition of the target populations and established responsible lending practices to be in line with market practice.
- Under the Employment Generation, through the Potential Effect of SME Financing and Microfinance category, the Framework contemplates financing micro-, small- and medium-sized companies, such as providing credit to microentrepreneurs and promoting the inclusion of low-income microentrepreneurs in the financial market. This may include financing:
 - Micro and small companies with annual revenue below USD 3 million, as defined according to International Finance Corporation (IFC).¹⁷
 - Medium,¹⁸ micro and small companies led or owned by women,¹⁹ or located primarily in the North and Northeast region of Brazil or in municipalities or states with an HDI value below Brazil's average.
 - Target populations include (i) migrants and/or displaced persons; (ii) excluded and/or marginalized populations and communities; (iii) aging populations and vulnerable youth; and (iv) vulnerable communities due to impacts of natural disasters
- Under the Family Rural Production category, Sicredi may provide financial support to small rural producers with annual revenues of up to BRL 500,000 (approximately USD 100,000) under the following subprogrammes within the National Programme for Strengthening Family Agriculture (PRONAF): (i) Pronaf Custeio, (ii) Pronaf Mais Alimentos, (iii) Pronaf Agroindústria, (iv) Pronaf Mulher, (v) Pronaf Bioeconomia, (vi) Pronaf Agroecologia, (vii) Pronaf Cotas Partes. Sustainalytics recognizes that the purpose of the PRONAF programme is to incentivize and empower smallholder agricultural activities with multiple lines of credit for several types of activities, such as forestry, food production, and support for women-run family farms. Sicredi has confirmed to Sustainalytics that internal policies and guidelines, as described in Section 2 below, will be applied to ensure that projects financed under this social category apply as many of the principles of low-carbon agriculture as possible.
- Sicredi commits to exclude financing of activities related to (i) weapons, ammunitions and other military goods/technology, (ii) tobacco, (iii) gambling, casinos and equivalent enterprises, (iv) radioactive materials, (v) unbonded asbestos fibers and asbestos-containing products, (vi) drift net fishing in the marine environment using nets more than 2.5 km in length, (vii) unbonded

¹⁵ The financing to hybrid vehicles will be limited to those that meet one of the following direct emission thresholds: (i) private passenger cars and light commercial vehicles (vans) with emissions at or below 75 gCO₂/km, based on lab test NECD procedure; (ii) buses with emissions (WLTP) below 50 gCO₂e/pkm; (iii) heavy trucks with emissions at or below 25 gCO₂/tkm per each vehicle to be financed.

¹⁶ This refers to populations located in municipalities with human development index (HDI) below 0.755, which is Brazil's average HDI in 2015 according to UN Development Programme.

¹⁷ IFC, "IFC's definitions of targeted sectors", at:

https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors

¹⁸ Medium companies refer to those with annual revenue from USD 3 million to USD 15 million, as defined by IFC. Ibid.

¹⁹ According to IFC, to qualify as a woman-owned company, the company has to meet the following criteria: (a) ≥ 51% owned by woman/women; or (b) ≥ 20% owned by woman/women and (i) has ≥ 1 woman as CEO/COO/President/Vice President and (ii) has ≥ 30% of the board of directors composed of women, where a board exists. Ibid.

asbestos fibers,²⁰ (viii) commercial logging operations for use in primary tropical moist forest, (ix) production or trade of any product or activity that may relate to misdemeanors as importers and exporters, natural extraction, polluting/polluting substance producers, (x) coal mining or coal-fired power generation and associated facilities, (xi) upstream oil exploration and development projects, (xii) upstream gas exploration and development projects,²¹ (xiii) violation of human rights such as forced labor, child labor, discrimination, and (xiv) projects exclusively dedicated to livestock. Sustainalytics views the exclusion of these activities to further strengthen the Framework.

- **Project Evaluation and Selection:**
 - Sicredi’s Structured Operations and Sustainable Finance department will be responsible for evaluating and selecting the eligible projects, and moreover controlling and monitoring the eligible project portfolio. The department may consult with other departments such as Treasury, Socio-environmental Risk, Credit Products and Sustainability for obtaining necessary information regarding the projects.
 - Sicredi has in place processes to identify and mitigate environmental and social risks associated with its credit products and investments, which are applicable to all allocation decisions made under this Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectations. For additional detail see Section 2.
 - Based on the oversight for project selection and risk management system, Sustainalytics considers this process to be in line with market practice.
- **Management of Proceeds:**
 - Sicredi’s treasury team will be responsible for managing the proceeds that are yet to be allocated via the Company’s accounting system. Allocated proceeds will be managed by the Sustainable Finance Team together with the Socio-environmental Risk Team and other departments in the key areas within the Company.
 - Sicredi intends to fully allocate the proceeds from each financial instrument within three years but reserves the right to do so until the instrument’s maturity. Unallocated proceeds will be invested in cash or cash equivalents. Sustainalytics considers market expectation to be allocation within 36 months, and notes that Sicredi may allocate until the instrument’s maturity.
 - Based on the presence of an internal tracking system and the disclosure of temporary use of net proceeds, Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
 - Sicredi intends to report on the allocation and impact of net proceeds on the Company’s website annually until full allocation or in case of material developments.
 - Allocation reporting will include the eligibility criteria to which the net proceeds have been allocated, including the amounts and numbers of transactions on each criteria. Where confidentiality is a concern, Sicredi will report the allocation information in generic terms or on a portfolio basis, such as the percentage of proceeds allocated per project category. In addition, Sicredi may prepare specific reports at investor’s request depending on the financial instrument selected.
 - Sicredi is committed to reporting impact metrics such as GHG emissions avoided (t CO₂eq.), GHG captured (t CO₂eq), electric capacity (kW) of the generated biogas, estimated number of jobs supported, estimated annual revenue generated for rural families, and estimated number of beneficiaries.
 - Based on the frequency and accessibility of allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Sicredi Sustainable Finance Framework aligns with the four core components of the GBP, SBP, GLP, and SLP. For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

²⁰ This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

²¹ Under exceptional circumstances and on a case-by-case basis, consideration will be given to financing upstream gas infrastructure where there is a clear benefit in terms of energy access for the poor and where greenhouse gas (GHG) emissions are minimized, projects are consistent with national goals on climate change, and risks of stranded assets are properly analyzed.

Section 2: Sustainability Strategy of Sicredi

Contribution of Framework to Sicredi's sustainability strategy

Sicredi has adopted a sustainability strategy which formalizes three key sustainability drivers – relationship and cooperativism, local development and responsible solutions. Sicredi has further identified 12 focal themes in both environmental and social areas that underpin the three drivers, with a focus on (i) strengthening the business model in a sustainable way; (ii) operate sustainably; and (iii) promote positive transformations in localities.

On the environmental front, Sicredi has taken initiatives of granting credits and providing financial solutions to businesses that have low carbon emissions, resource efficiency and other environmental benefits. In 2021, Sicredi granted BRL 3.3 billion (approximately USD 0.6 billion) credit for financing solar energy solutions, representing an increase of 95% compared to the previous year. In the same year, it has also provided products and services, with a value around BRL 20 billion (approximately USD 4 billion), that contribute to low-carbon agriculture, organic agriculture, good agricultural practices and renewable energy.²²

In social areas, Sicredi seeks to promote financial inclusion and foster the local economy through financial solutions, job creation, development programmes and partnerships. With physical presence in few populous municipalities, such as those with less than 10,000 inhabitants, Sicredi serves the people who may lack the access to essential financial services. In 2021, 70.5% of Sicredi's agencies were in cities classified as needy, rural, and inland. Moreover, Sicredi has developed and supported a series of programmes, projects and social investment actions that take into account local needs. In 2021, it invested BRL 158.8 million (approximately USD 32 million) in educational and social programmes in local communities. In addition, Sicredi is committed to procurement from local suppliers, thus stimulating the creation of jobs and the generation of income for the locals.²³

Sustainalytics is of the opinion that the Sicredi Sustainable Finance Framework is aligned with the company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental priorities. Additionally, Sustainalytics notes that Sicredi is currently in the process of developing public sustainability commitments and encourages the Company to publicly disclose targets and report on progress.

Approach to managing environmental and social risks associated with the projects

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. While Sicredi has a limited role in the development of the individual projects financed under the Framework, it is exposed to risks associated with the companies and projects that it may finance. Some key environmental and social risks associated with the eligible projects, could include land use and biodiversity issues, emissions, effluents, and waste generated in construction, community relations/stakeholder participation, sustainability in supply chain and responsible lending.

Sustainalytics is of the opinion that Sicredi is able to manage and mitigate potential risks through implementation of the following:

- Sicredi has adopted a socio-environmental risk management policy²⁴ that sets forth guidelines for management of social and environmental risks in its operations and relationships. According to the policy, the management of socio-environmental risks entails the adoption of procedures, systems and routines to identify, evaluate, monitor, mitigate, control and report the risks in products, services and activities financed. The policy furthermore provides criteria and scope of contents that shall be incorporated in internal rules for the assessment and management of socio-environmental risks.
- Sicredi has processes in place to mitigate existing environmental and social risks. Examples of such processes include: (i) collection of data and qualitative assessment on environmental and social practices and risks through questionnaires; (ii) environmental and social screening to evaluate aspects related to use of resources; (iii) geoprocessing to ensure the exclusion of environmental protection areas, conservation units and indigenous lands; (iv) quantitative assessments of

²² Sicredi, "Nossos números em 2021", at: <https://sicredifazadiferenca.com.br/impactopositivo/>

²³ Ibid.

²⁴ Sicredi, "Política – Gerenciamento de Risco Socioambiental", at:

https://www.sicredi.com.br/media/produtos/politica_de_gerenciamento_de_risco_socioambiental.pdf

indicators from the Risk Appetite Statements and calculation of socio-environmental rating of members; (v) definition of excluded activities or sectors in line with market practice.²⁵

- Sicredi conducts a credit analysis process based on its internal lending policy. The process includes a questionnaire of Know Your Client to avoid money laundering, as well as an analysis of broader information of the potential client.²⁶
- Sicredi has joined the UN Global Compact and thus committed to adhere to the ten principles related to human rights, labor, environment and corruption.²⁷

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Sicredi has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All seven use of proceeds categories are aligned with those recognized by GBP, SBP, GLP or SLP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

Importance of financing sustainable agriculture under Brazil's ABC Programme

The agribusiness sector is a key contributor to the Brazilian economy, accounting for approximately 21% of the country's GDP in 2019.²⁸ In this context, agriculture in Brazil is the second largest source of GHG emissions after the energy sector, accounting for approximately 34% of the country's total emissions.²⁹ Recognizing the growth trajectory of this sector, the Brazilian government was prompted to enact Brazil's Low-Carbon Agriculture Plan in 2010, which led to the implementation of the Programme for Reducing Greenhouse Gas Emissions in Agriculture ("the ABC Programme").³⁰ The ABC Programme, a low-interest credit scheme, was created to incentivize and fund the implementation of low carbon agricultural practices that contribute to climate change mitigation through a reduction of GHG emissions and through the sequestration of carbon.³¹

In Brazil, low-carbon agricultural practices have been identified to include a series of agriculture and forestry-related activities, such as developing integrated crop-livestock forestry systems, commercial plantation forests, and the management and restoration of degraded natural forest areas. In addition, the ABC Plan includes no-till farming, restoration of degraded pasture, biological nitrogen fixation, and manure management. According to a study conducted in 2016, since its inception, the ABC Programme has issued more than 28,500 loans to rural producers, amounting to BRL13.2 billion (USD 2.36 billion).³² Sustainalytics is of the opinion that Sicredi's financing for low carbon agriculture projects will help accelerate action in support of the country's GHG emission goals³³ and enhance carbon sequestration.

Importance of supporting SMEs in Brazil

According to a 2020 OECD report, MSMEs in Brazil account for 98.5% of all legally constituted companies and 27% of the nation's GDP.^{34,35} Despite the important role SMEs play in supporting Brazil's citizenry and economy, these businesses face a number of challenges given the conditions of the economic environment in which they operate. For instance, Brazil's insufficient integration into the global supply chain makes it impossible for many local SMEs in rural areas to participate in international trade and successfully scale their

²⁵ Sicredi Sustainable Finance Framework (2022).

²⁶ Ibid.

²⁷ United Nations Global Compact, "Company Information", at: <https://www.unglobalcompact.org/what-is-gc/participants/138303-Sicredi-Participacoes-S-A->

²⁸ Brazilian-American Chamber of Commerce, GDP agribusiness has high of 3.81% in 2019, at: <https://brazilcham.com/gdp-agribusiness-has-high-of-3-81-in-2019/>

²⁹ The Carbon Brief, The Carbon Brief Profile: Brazil: <https://www.carbonbrief.org/the-carbon-brief-profile-brazil>

³⁰ World Development Perspectives, Overcoming barriers to low carbon agriculture and forest restoration in Brazil: The Rural Sustentável project: <https://www.sciencedirect.com/science/article/pii/S2452292916301321#b0010>

³¹ Climate Smart Agriculture, "Brazil's Low-Carbon Agriculture Plan", at: <https://csa.guide/csa/brazil-s-low-carbon-agriculture-abc-plan>

³² Ibid.

³³ Ministério das Relações Exteriores, "Brazil submits its Nationally Determined Contribution under the Paris Agreement", at: <https://www.gov.br/mre/en/contact-us/press-area/press-releases/brazil-submits-its-nationally-determined-contribution-under-the-paris-agreement#:~:text=The%20NDC%20is%20Brazil's%20main,emissions%20by%2043%25%20in%202030.>

³⁴ OECD, "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard", at: <https://www.oecd-ilibrary.org/sites/8153da8den/index.html?itemId=/content/component/8153da8d-en>

³⁵ Complementary Law 123 of 2006 defines micro-enterprises as companies with a gross annual revenues of up to USD 66,000, while small enterprises are those with gross annual revenues ranging from USD 66,000 to USD 880,000.

businesses.³⁶ The OECD cites a stark productivity gap between SMEs and large companies in Brazil, much of which has been attributed to limited innovation and export propensity amongst Brazilian SMEs.³⁷

Meanwhile, Brazil's federal government has used loan subsidies as the main instruments to encourage SME development.³⁸ However, despite the efforts made, the share of SME loans in total business loans decreased from 55% in 2007 to 36% in 2018, underscoring the financial gap Brazilian SMEs face.³⁹ This gap can be attributed to a number of challenges such as receiving little public and private sector credit for long-term viability credit, primarily because of high-interest rates, short loan maturities, lack of property collateral or credit history, highlighting the unfavorable market conditions for such businesses in Brazil.⁴⁰

Given the above-mentioned context, Sustainalytics is of the view that Sicredi's provision of financing SMEs in Brazil is expected to play a positive role in fostering economic and social development and contribute to reducing social inequalities in the country.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds issued under the Sicredi Sustainable Finance Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Environmentally Sustainable Management of Living Natural Resources and Land Use	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources. 12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.
	15. Life on Land	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally. 15.B Mobilize significant resources from all sources and at all levels to finance sustainable forest management and provide adequate incentives to developing countries to advance such management, including for conservation and reforestation.
Green Building	9. Industry, Innovation, and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater

³⁶ OECD, "SME and Entrepreneurship Policy in Brazil 2020", at: <https://www.oecd-ilibrary.org/sites/cc5feb81-en/index.html?itemId=/content/publication/cc5feb81-en>

³⁷ Ibid.

³⁸ OECD Library, SME and Entrepreneurship Policy in Brazil 2020: <https://www.oecd-ilibrary.org/sites/cc5feb81-en/index.html?itemId=/content/publication/cc5feb81-en>

³⁹ Ibid.

⁴⁰ Ibid.

		adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Clean Transportation	11. Sustainable cities and communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Access to Essential Services	8. Decent work and economic growth	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Employment Generation, , through the Potential Effect of SME Financing and Microfinance	8. Decent Work and Economic Growth 9. Industry, Innovation and Infrastructure 10. Reduce inequalities	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services. 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets. 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
Family Rural Production	2. Zero Hunger 15. Life and Land	2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

Conclusion

Sicredi has developed the Sicredi Sustainable Finance Framework under which it may issue sustainability bonds and loans and use the proceeds to finance (i) Renewable Energy, (ii) Environmentally Sustainable Management of Living Natural Resources and Land Use, (iii) Green Building, (iv) Energy Efficiency, (v) Clean Transportation, (vi) Access to Essential Services, (vii) Employment Generation, through the Potential Effect of SME Financing and Microfinance, and (viii) Family Rural Production. Sustainalytics considers that the projects funded by the sustainability bond proceeds are expected to provide positive environmental and social impact.

The Sicredi Sustainable Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Sicredi's Sustainable Finance Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 2, 7, 8, 9, 10, 11, 12 and 15. Additionally, Sustainalytics is of the opinion that Sicredi has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that Sicredi is well-positioned to issue sustainability bonds and that the Sicredi Sustainable Finance Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2021), Social Bond Principles (2021), Green Loan Principles (2021), and Social Loan Principles (2021).

Appendix

Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Sicredi
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Sicredi Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	May 20, 2022
Publication date of review publication: Original publication date <i>[please fill this out for updates]</i> :	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – (i) Renewable Energy, (ii) Environmentally Sustainable Management of Living Natural Resources and Land Use, (iii) Green Buildings, (iv) Energy Efficiency, (v) Clean Transportation, (vi) Access to Essential Services, (vii) Employment Generation, through the Potential Effect of SME Financing and Microfinance, and (viii) Family Rural Production – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 2, 7, 8, 9, 10, 11, 12 and 15.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|--|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input checked="" type="checkbox"/> Other (please specify): Family Rural Production |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Sicredi's Structured Operations and Sustainable Finance department will be responsible for evaluating and selecting the eligible projects. Sicredi has in place processes to identify and mitigate environmental and social risks associated with its credit products and investments, which are applicable to all allocation decisions made under this Framework. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Sicredi's treasury team will be responsible for the management and allocation of net proceeds. Sicredi intends to fully allocate the proceeds from each financial instrument within three years but reserves the right to do so until the instrument's maturity. Unallocated proceeds will be invested in cash or cash equivalents. Sustainalytics considers market expectation to be allocation within 36 months

Tracking of proceeds:

- | |
|--|
| <input type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|--|--|
| <input type="checkbox"/> Allocations to future investments only | <input type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

Sicredi intends to report on allocation of proceeds on its website on an annual basis until full allocation or in case of material developments. In addition, Sicredi is committed to reporting on relevant impact metrics. Sustainalytics views Sicredi's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|---|
| <input type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input type="checkbox"/> Other ESG indicators (please specify): GHG captured (t CO ₂ eq), electric capacity (kW) of the generated biogas, estimated number of jobs supported, estimated annual |

revenue generated for rural families, estimated number of beneficiaries

Frequency:

- Annual
 Semi-annual
 Other (please specify):

Means of Disclosure

- Information published in financial report
 Information published in sustainability report
 Information published in ad hoc documents
 Other (please specify):
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<https://www.sicredi.com.br/site/relacoes-com-investidores/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

- Consultancy (incl. 2nd opinion)
 Certification
 Verification / Audit
 Rating
 Other (please specify):

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of

funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.

- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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