

Environmental and Social Review Summary (ESRS)

CADU: Increasing the availability of green and affordable housing - MEXICO

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1. General Information of the Project and Scope of IDB Invest's Environmental and Social Review

This transaction consists of a revolving credit facility in favor of Corpovael, S.A.B. de C.V. and its subsidiaries ("CADU" or the "Company"), including both a committed and an uncommitted tranche to finance working capital needs, including the construction and development of low- and middle-income green housing in Mexico (the "Transaction"). This would be IDB Invest's third transaction with CADU.

The environmental and social due diligence ("ESDD") process included: i) visits to the Aldea Tulum and La Selva projects in Playa del Carmen (the "Sample Projects"); ii) the analysis of the information gathered during the supervisory visits made by IDB Invest to the two previous transactions with CADU; iii) virtual meetings with Company personnel; and iv) an assessment of its Environmental and Social Management System ("ESMS").

Given that the projects to be financed by the Transaction cannot be determined a priori, the ESDD process included a documentary analysis of the Sample Projects. Based on this, and to ensure full compliance with IDB Invest's Environmental Sustainability Policy, the process generated a list of criteria and conditions¹ that the projects to be developed by the Company must meet in order to access the financing that would be granted by the Operation.

To ensure the Project's commitment to the respect and protection of human rights, zero tolerance for retaliation, and its commitment to providing and ensuring a safe environment for stakeholders to express their concerns without fear of retaliation, the ESDD process also included the review of the following Company documents: i) its Code of Ethics; ii) its Human Resources Manual; and iii) the Charter of Commitment to the United Nations Global Compact as well as the Communication on Progress 2024.

2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with IDB Invest's Environmental and Social Sustainability Policy as its environmental and social impacts are expected to be limited, reversible, and easily managed, and include, among others: i) increased risks associated with working conditions, occupational health and safety ("OHS"); ii) production of solid and liquid waste; iii) the generation of noise and vibrations; iv) potential alteration of air quality as a result of construction activities; v) potential impact on archaeological remains; and vi) possible impacts on communities as a

¹ These include: i) no project may intercept ecological or environmentally sensitive areas; ii) the land acquisition process for enterprises shall cause no physical or economic displacement of the population; iii) the areas of influence of the projects shall not overlap with indigenous territories or lands subject to traditional practices; iv) the projects shall generate no adverse impacts on indigenous populations; v) the environmental studies for each enterprise, in addition to fulfilling the requirements of Mexican legislation, shall be prepared using as a benchmark the generic terms of reference for the preparation of environmental studies as part of this Operation; and vi) the environmental and social management plans will include, in addition to those deemed appropriate, the generic management measures prepared as part of this Operation.

result of increased vehicular traffic in construction projects. These impacts and risks are deemed to be of medium intensity. It is important to mention that in previous operations, CADU has demonstrated the ability and commitment to address the risks associated with its interventions.

The Performance Standards (PS) triggered by the Transaction are: i) PS1: Assessment and Management of Environmental and Social Risks and Impacts; ii) PS2: Labor and Working Conditions; iii) PS3: Resource Efficiency and Pollution Prevention; and iv) PS4: Community Health, Safety, and Security.

3. Environmental and Social Context

3.1 General Characteristics of the Project's site

CADU is a Mexican company dedicated to the design, construction, development and sale of low-income housing, middle-income housing, and residential housing. Its main area of intervention is in the State of Quintana Roo, which accounts for 99% of its deeded houses, with a marginal presence in Mexico City, Jalisco, and Queretaro. The Company's activities for each development include purchasing the land; obtaining the necessary permits and licenses; creating the required infrastructure on land owned by the Company or third parties; designing, building, and marketing the real estate developments; and assisting purchasers in obtaining mortgages.

None of the sample Projects or their areas of influence will affect protected natural areas (PNAs), priority land regions (PLRS), important bird areas (IBAs) sites included in the Convention on Wetlands of International Importance (RAMSAR), Indigenous populations, or archaeological heritage sites.

3.2 Contextual Risks

The State of Quintana Roo is a region of high urban growth and infrastructure expansion that faces significant security and social cohesion risks. The presence of organized crime and the limited response capacity of registered security forces increase the vulnerability of communities and operational risks. In addition, rapid urbanization and the proliferation of informal settlements have generated social tensions and challenges in access to basic services and exacerbated the risks of reprisals against environmental and human rights defenders in the region.

4. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures

4.1 Assessment and Management of Environmental and Social Risks and Impacts

4.1.a Environmental and Social Management System

CADU has developed and implemented an ESMS that consists of policies, procedures and qualified personnel to manage environmental and social (“E&S”) risks in its projects.

4.1.b Policy

CADU has developed and disseminated its environmental, social and OHS policy among all its employees through signs placed at strategic points in its corporate and sales offices, and a portable version attached to their identification cards.

4.1.c Identification of Risks and Impacts

4.1.c.i Direct and Indirect Impacts and Risks

CADU has developed and implemented a procedure to identify environmental, social, physical, and ergonomic risks and impacts, as well as control measures to mitigate them, which have been condensed into evaluation matrices. In addition, as required by local legislation and for each project, the Company prepares an Environmental Impact Statement (“EIS”) that evaluates the effects of the works and defines prevention, mitigation, and compensation measures.

4.1.c.ii Analysis of Alternatives

To identify new housing sites, CADU conducts an analysis of alternatives that evaluates legal, environmental, and social criteria, including climate change risks.

4.1.c.iii Cumulative Impacts

The EISs prepared by CADU do not require cumulative impact studies. Nevertheless, a preliminary analysis suggests that future developments could affect water availability and vehicular traffic. Although these effects would not be significant, CADU will: (i) implement measures to reduce its water footprint, and (ii) ensure that all developments have access to public transportation routes.

4.1.c.iv Gender Risks

According to a study based on data from the National Survey on the Dynamics of Household Relationships, 70% of women in Mexico have experienced some type of violence in their lifetime.² In terms of housing tenure, the 2023 Gender Affordability Report indicates that, in 2022, 35.5% of the dwellings owned were headed by women, while 64.5% were headed by men.³ This disparity is attributed to factors such as poverty, vulnerability to violence, and discriminatory laws that contribute to gender inequality overall.

4.1.c.v Gender Programs

CADU projects do not generate disproportionate impacts on women or other vulnerable groups. On the contrary, CADU integrates measures that favor their safety and well-being. Housing planning prioritizes proximity to public transportation, reducing risks such as muggings for women. Additionally, each development includes a pharmacy and a convenience store, facilitating access to essential goods.

4.1.c.vi Climate Change Exposure

² <https://oem.com.mx/elsoldesinaloa/local/7-de-cada-10-mujeres-en-mexico-han-sufrido-violencia-a-lo-largo-de-su-vida-inegi-18487865>

³ https://www.gob.mx/cms/uploads/attachment/file/919247/Reporte_de_asequibilidad_por_g_nero_2023.pdf?utm_source=chatgpt.com

CADU assesses climate change risk through adaptation and mitigation strategies. In terms of adaptation, the Company conducts vulnerability assessments considering future climate scenarios to identify physical risks, such as the impact of extreme weather events on its developments. To mitigate these effects, it implements preventive measures, such as the use of resilient materials and designs that reduce exposure to adverse weather events. In addition, to address the risk of drought, CADU incorporates rainwater harvesting and reuse systems, as well as technologies to improve the efficiency of water consumption in its homes. In terms of mitigation, the Company seeks to reduce its carbon footprint by optimizing energy use in its constructions, implementing ecotechnologies and promoting sustainable practices in the development of its projects.

4.1.d Management Programs

CADU has developed and implemented procedures to properly manage waste, hazardous materials, effluents, air emissions, and vectors.

4.1.e Organizational Capacity and Competency

CADU has assigned specific responsibilities to its personnel to manage environmental, social, labor, and OHS issues. It recently strengthened its sustainability team by hiring personnel to oversee the implementation of best practices at the construction site and, to optimize its management, split its Human Resources team to focus on corporate and construction site matters, respectively. In parallel, its Sustainability Committee has played a key role in promoting and disseminating good environmental, social, and corporate governance (“ESG”) practices, fostering a culture of sustainability among employees.

4.1.f Emergency Preparedness and Response

For each project, CADU develops emergency preparedness and response plans (“EPRP”) that address different crisis scenarios, including floods, hurricanes, fires, explosions, and other risks identified in its vulnerability analysis. In addition, the EPRP’s include protocols to manage alerts, evacuations, first aid, and firefighting, as well as a drill program that is updated annually.

4.1.g Monitoring and review

CADU has developed and implemented a procedure to monitor performance indicators, which has recently been updated to formalize the evaluation of the environmental, social, health, and safety performance of its contractors and to establish corrective measures in the event of breaches.

4.1.h Stakeholder Engagement

CADU has developed and implemented a Stakeholder Engagement Plan for the Aldea Tulum Project, where baselines have been developed and open and ongoing communication with residents of neighboring communities is maintained. At present, it is in the process of implementing this plan in its other projects.

4.1.i External Communication and Grievance Mechanisms

Stakeholders can submit their questions, complaints, claims, and suggestions through a telephone hotline, mailboxes, e-mail, and the digital platform available on CADU's website.⁴ The External Grievance Mechanism is disseminated through social media and WhatsApp groups with sales office managers to ensure accessibility and awareness.

4.2 Labor and Working Conditions

4.2.a Working Conditions and Management of Worker Relationships

CADU has more than 1,399 employees, of which 506 are women, distributed among their corporate offices and work fronts. The contracted personnel are local, so no temporary accommodation is required.

4.2.a.i Human Resources Policies and Procedures

CADU's human resources policies and procedures regulate the labor relations between the company and its direct employees. The Company's employees have written contracts, are aware of their labor rights and have equal opportunities for growth within the organization. CADU has developed formal procedures for recruitment, selection, hiring and termination, and payroll administration.

4.2.a.ii Working Conditions and Terms of Employment

Working hours and working and employment conditions are defined in individual contracts, which adhere to the provisions of Mexico's Federal Labor Law. At the work fronts, workers have adequate areas for resting, eating areas, and gender-segregated sanitary facilities.

4.2.a.iii Workers' Organizations

Although CADU's Human Resources Policy recognizes the right of association of employees, there are currently no employees affiliated with a labor union.

4.2.a.iv Non-discrimination and Equal Opportunity

In its Code of Ethics and Human Resources Manual, CADU establishes its commitment to equal opportunities and non-discrimination in the workplace, promoting an inclusive work environment based on respect for diversity and equity. The Company rejects any kind of discrimination based on gender, age, sexual orientation, marital status, socioeconomic status, disability, ethnic or national origin, religion, political opinion, or any other status protected by the legislation in force, as well as any form of harassment or unequal treatment that may be detrimental to the dignity of workers. Furthermore, CADU guarantees recruitment, selection, and promotion processes based on objective criteria and the merit of the candidates, ensuring equal opportunities for professional development within the organization.

⁴ <https://maq.caduinmobiliaria.com/>

4.2.a.v Retrenchment

CADU does not anticipate any collective dismissals among its workforce.

4.2.a.vi Grievance Mechanism

CADU's workers have several mechanisms for submitting complaints, including mailboxes at corporate offices and construction sites, e-mail, telephone numbers, and a form on the website. The internal grievance mechanism is disseminated on the cards carried by the workers, who indicate that they are aware of how it works.

4.2.b Protecting the Workforce

Mexico is a signatory to several international conventions of the International Labor Organization relating to workers' rights. In its Code of Ethics, CADU declares its commitment to the respect for human rights, compliance with regulations that promote decent working conditions, and the prohibition of child labor and any form of labor exploitation.

4.2.c Occupational Health and Safety

CADU has developed and implemented procedures for safety management in high-risk activities, including work at heights, hot work, excavation, machinery and vehicle operation, use of heavy machinery, and electrical work. To that effect, it has a Safety and Hygiene Regulation, which is disclosed at the work fronts.

On site, the Company ensures that hazardous areas are delimited and that hydration centers are located at distances that allow easy access. CADU is currently strengthening OHS supervision, with special emphasis on compliance with the use of personal protective equipment and critical risk management on site, particularly those related to the use of scaffolding and work at heights.

During 2024, the Company recorded thirteen lost-time accidents, which accumulated 90 days of disability, resulting in an incidence ratio of 0.76 and a severity ratio of 5.28, both values below the industry average. As part of its continuous improvement strategy, CADU is strengthening its oversight through more rigorous inspections, worker and subcontractor training, and the implementation of stricter controls on equipment management and working conditions.

4.2.d Provisions for People with Disabilities

In its Code of Ethics, CADU establishes the principle of non-discrimination towards people with disabilities and hires workers with these characteristics. Nevertheless, it currently does not keep track of the number of these employees on its payroll.

4.2.e Workers Engaged by Third Parties

CADU operates under a vertical integration model that allows it to internally manage most of the activities related to the development of its projects. Thus, most of its workforce consists of internal

employees, with a limited participation of outsourced personnel. At the construction sites, CADU has 1,237 employees, 32.82% of whom are subcontracted. The Company oversees compliance with OHS standards by subcontracted workers, ensuring that they operate under safe conditions and in compliance with applicable regulations.

4.2.f Supply Chain

In addition to on-site contractors and subcontractors, CADU relies on corporate and local suppliers to provide essential materials and services for its operations. All of them are required to respect CADU's Code of Ethics, as well as its social and environmental responsibility principles and criteria.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

As part of its sustainability strategy, CADU has certified its homes under the ECOCASA⁵ and, as of 2024, EDGE⁶ standards, guaranteeing energy efficiency criteria, reduced water consumption and lower environmental impact in the selection of materials. In addition, CADU optimizes resource use through eco-technologies and efficient construction practices, promoting responsible waste management and the mitigation of environmental impacts in its projects.

4.3.a.i Greenhouse Gases

Activities related to construction of the projects executed by CADU generate gas emissions such as CO₂, NO_x and SO_x, mainly associated with the use of vehicles, machinery, and building processes. These emissions, largely concentrated in the construction phase, are estimated to be of medium intensity, and are less than 25,000 tons of CO_{2eq}/year.

4.3.a.ii Water Consumption

During the construction stage, CADU uses water for human consumption and for processes such as compaction and wetting of materials to reduce dust dispersion. The Company implements strategies to optimize water use, integrating technologies that reduce water consumption in its housing developments.

The water used in CADU's projects comes from local sources and is supplied through pipes, which are used for construction activities as well as for supplying the homes. The homes built prioritize water efficiency, incorporating low-flow toilets, water-saving showerheads and flow-controlled kitchen faucets, which contribute to a significant reduction in water consumption. As part of its preventive approach, CADU monitors the quality of water bodies near its developments and promotes responsible water use among residents.

⁵ A sustainable housing program that seeks to reduce carbon dioxide (CO₂) emissions in each project by at least 20%

⁶ DGE is a sustainable building certification system that focuses on making buildings more efficient in terms of energy and water consumption.

4.3.b Pollution Prevention

Construction activities generate noise, vibrations, and particulate matter (PM₁₀ and PM_{2.5}). These associated impacts are estimated to be of medium intensity since they are limited to the construction stage of the residences. CADU regularly monitors ambient noise and air quality, and implements an irrigation schedule to avoid dust dispersion and minimize the effects on the surrounding area.

4.3.b.i Waste

Housing construction generates common solid waste (organic, wrappers, paper, plastic), recyclables (metal, plastic, paper, cardboard), construction waste (petrous aggregates, wood, inert material, rubble, gravel) and hazardous waste (containers with solvents, paints, resins, or other chemical substances used in the construction process). CADU adequately segregates and temporarily stores these wastes, ensuring their proper disposal. In addition, it promotes the recycling of plastics and other recoverable waste.

Following an incident at one of its projects, CADU has strengthened the implementation of its waste management procedures, with special emphasis on fire prevention, especially during the dry season.

4.3.b.ii Hazardous Materials Management

During the construction of its residential developments, CADU handles certain quantities of hazardous materials, including fossil fuels, solvents, and paints. Thus, the Company has developed a corporate procedure for their management that has been successfully implemented in Aldea Tulum and is in the process of being implemented in other projects.

4.3.b.iii Pesticide Use and Management

CADU has implemented a corporate procedure for pest and vector control, which includes periodic spraying and sanitization, as well as preventive activities such as informative talks and junk removal programs. Vegetation is mainly controlled by mechanical means, reducing the need for chemical products⁷ for its management.

4.4 Community Health, Safety and Security

4.4.a Community Health and Safety

CADU's housing design complies with the Mexican Building Code and incorporates accessibility criteria for people with disabilities, including ramps and other adaptations. As part of its external stakeholder management, CADU conducts awareness campaigns for the prevention of vector-borne diseases such as dengue, Zika, and chikungunya.

⁷ If strictly necessary, it uses herbicides that are not in the categories 1a or 1b of the World Health Organization.

4.4.b Security Personnel

The security personnel hired by CADU do not carry weapons and operate in accordance with the guidelines established to guarantee the protection of its developments.

4.5 Land Acquisition and Involuntary Resettlement

CADU's developments do not generate involuntary resettlement since the land for its projects is acquired through a free sale and purchase process with its owners.

4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

As part of the EIS preparation process, CADU assesses the biodiversity that may be affected by the planned actions. Nevertheless, given that its projects are usually developed in urbanized or previously intervened areas, the impact on biodiversity is immaterial. However, CADU implements in each project a Flora Rescue Program and a Reforestation Program, using native vegetation in landscaping and gardens. These actions are aligned with sustainable construction best practices and contribute to the preservation and restoration of the natural environment.

4.7 Indigenous Peoples

CADU's housing projects are developed in previously disturbed urban areas, without affecting native populations or occupying traditional use lands. Also, projects financed under the Operation shall not be located in Indigenous territories or in areas subject to traditional practices, nor shall they generate adverse impacts on these communities.

4.8 Cultural Heritage

CADU has the reports from the National Institute of Anthropology and History ("INAH") of Mexico for the Sample Projects, which confirm the absence of archaeological elements. It also has a corporate chance finds procedure, which includes a flowchart of the process for obtaining the necessary permits from the INAH. This procedure establishes the methodology to identify the presence of archaeological remains in the project area prior to the construction stage, as well as the measures to be taken in the event of a chance find during the execution of the works.

5. Local Access of Project Documentation

The documentation relating to the Project can be accessed at the following link: <https://ri.caduinmobiliaria.com/>