

Banobras Sustainability Bond

Type of Engagement: Annual Review

Date: August 31, 2018

Engagement Leader: Zach Margolis, zach.margolis@sustainalytics.com, (+1) 647 695 4341

Introduction

In 2017 and 2018, Banco Nacional de Obras y Servicios Públicos, SNC (“Banobras”) issued sustainability bonds aimed at financing investments in affordable basic infrastructure to vulnerable segments of the population, public services infrastructure, disaster recovery, sustainable transport, renewable energy, energy efficiency, water efficiency and wastewater management, and pollution prevention and control. In August 2018, Banobras engaged Sustainalytics to review the projects funded through the issued sustainability bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Banobras Sustainability Bond Framework.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2017-2018 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Sustainability Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Sustainability Bond Framework.

Table 1 lists the Use of Proceeds and Eligibility Criteria, while Table 2 list the associated the KPIs as specified in the Issuer’s Sustainability Bond Framework.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria
Affordable basic infrastructure to vulnerable segments of the population	Construction, basic social activities and investments that directly benefit segments of the population that face conditions of social disadvantage and extreme poverty as established in Article 33 of the Fiscal Coordination Law , including , but not limited to: <ol style="list-style-type: none"> i. projects for drinking water supply, sewers, sewage and latrines, urbanization, electrification in rural areas and low income communities, basic infrastructure for the health and education sector, improvements of housing, rural roads, grain silos, as well as maintenance of such infrastructure.
Public services infrastructure	Development, construction, installation, operation and infrastructure improvements for the provision of public services, including but not limited to: <ol style="list-style-type: none"> i. public infrastructure for essential health services, education and vocational training such as hospitals, health clinics, educational facilities, training centers for low-income populations; or ii. infrastructure that promotes coexistence between socially vulnerable groups such as cultural and sports centers and rehabilitation of public spaces.
Disaster recovery	Projects for reconstruction of damaged infrastructure for public services and support for populations affected by natural disasters according to the FONDEN regulations including, but not limited to: <ol style="list-style-type: none"> i. repair, reconstruction (full or partial) and cleanup of public infrastructure damaged by natural disasters including infrastructure for roadways and

	<p>transport, water systems, education, health, electricity, fishing and aquaculture and urban infrastructure; or</p> <ul style="list-style-type: none"> ii. repair, reconstruction and reallocation of low-income homes iii. support to mitigate damage to the productive assets of low-income individuals who cannot access public or private insurance and whose livelihood has been severely affected or destroyed by a natural disaster; or iv. consolidation, restructuring and reconstruction of archaeological, artistic and historical monuments; or v. reforestation, clearing and cleanup operations to restore, in whole or in part, damage to forests, protected natural areas, coastal zones, riverbeds or lagoons that substantially affect the ecological balance of the region or increase the vulnerability of the region to the impact of future natural disasters. <p>The repair or restitution of the damages to public infrastructure will intend to bring it to operative conditions similar to those that prevailed before the disaster. In repair work or restitution of damages, mitigation measures should be included, as far as possible, for future damages, through design or construction regulations that reduce their vulnerability to future threats.</p> <p>Banobras will not finance the reconstruction of military and naval infrastructure with the proceeds of its Sustainability Bond.</p>
Sustainable transport	<p>Any project related to low-energy or low-carbon public transport assets, systems, infrastructure, components or services, including but not limited to:</p> <ul style="list-style-type: none"> i. acquisition, production and maintenance of electric / hybrid vehicles and vehicles for public transport, such as trains, subways, trams, trolleybuses, cable cars, buses and other vehicles; or ii. infrastructure and infrastructure improvements dedicated to mass public transportation.
Renewable energy	<p>Development, construction, installation, operation and improvements of:</p> <ul style="list-style-type: none"> i. equipment and installations totally dedicated to the generation of renewable energy; or ii. dedicated transmission infrastructure totally for the sources of renewable energy generation <p>Projects must comply with the definitions of renewable energy outlined in the Energy Transition Law and may include wind, solar, ocean, geothermal, biomass and hydroelectric projects.</p>
Energy efficiency	<p>Development, construction, installation, operations and improvements of projects (products or technology) that reduce energy consumption or improve the efficiency of resources, including but not limited to:</p> <ul style="list-style-type: none"> i. projects involving the installation, maintenance or replacement of efficient heating, ventilation, air conditioning, refrigeration, lighting and electrical equipment; or ii. projects that allow the monitoring and modeling of energy performance such as the design and installation of digital controls, sensors or building information systems; or iii. projects that optimize the amount and time of energy consumption by minimizing peak loads, such as design and installation of metering systems, smart grids, load control systems.
Water efficiency and wastewater management	<p>Development, construction, installation, maintenance and improvement of projects (products or technology) that reduce water consumption or improve resource efficiency, including but not limited to:</p>

	<ul style="list-style-type: none"> i. new or existing facilities used for the collection, treatment, recycling or reuse of water, rainwater or waste water; or ii. new or existing infrastructure for water distribution including aqueducts, pumps, drainage and sewage systems, tunnels and canals
Pollution prevention and control	<p>Development, construction, installation, operation and improvement of projects (products or technology) that reduce and manage emissions and waste generated, including but not limited to:</p> <ul style="list-style-type: none"> i. new or existing facilities, systems and equipment used for the collection, treatment, recycling or reuse of emissions, solid waste, hazardous waste or contaminated soil; or ii. new or existing installations, systems and equipment used to divert waste from landfills or reduce emissions

Table 2: Key Performance Indicators

Use of Proceeds	Key performance indicators
Affordable basic infrastructure to vulnerable segments of the population	Number and names of municipalities that benefit from various Eligible Projects
Public services infrastructure	<p>Case Studies of Eligible Projects for social infrastructure such as Hospitals and Schools</p> <p>Number and names of municipalities that benefit from various Eligible Projects</p>
Disaster recovery	Number and names of jurisdictions that benefit from various Eligible Projects
Sustainable transport	No key performance indicator specified in framework
Renewable energy	Annual renewable energy generation (GWh) and installed capacity (MW)
Energy efficiency	Electricity cost savings in municipalities with Eligible Projects for public lighting
Water efficiency and wastewater management	Volume of water or wastewater collected / stored / treated
Pollution prevention and control	No key performance indicator specified in framework

Issuing Entity's Responsibility

Banobras is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Banobras' Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from Banobras employees and review of documentation to confirm the conformance with the Sustainability Bond Framework.

Sustainalytics has relied on the information and the facts presented by Banobras with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Banobras.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,¹ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of the Banco Nacional de Obras y Servicios Públicos, SNC's Sustainability Bonds, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Sustainability Bond Framework. Banobras has disclosed to Sustainalytics that the proceeds of the Sustainability Bond, issuances BANO 17X, BANO 17-2X, and BANO 18X, have been fully allocated as of June 30, 2018.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the sustainability bonds in 2017-2018 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Sustainability Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the sustainability bonds in 2017-2018 to determine if the impact of projects was reported in line with the KPIs outlined in the Sustainability Bond Framework and above in Table 2. For detailed information on impact information provided please see Appendix 1.	All projects reviewed reported in line with the specified KPIs.	None

¹ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix 1: Impact and Allocation Reporting by Eligibility Criteria

Use of Proceeds Category	Impact Reported	Amount Allocated to Category (mdp)
Affordable basic infrastructure to vulnerable segments of the population	Financing granted to 117 municipalities and states for various basic infrastructure projects. Full list of borrowing jurisdictions provided in the appendix of the sustainability bonds report.	371.30
Public services infrastructure	Financing granted for the construction of five public hospitals in the cities of Mérida, Yucatán; Tapachula, Chiapas; the City of Mexico; Villahermosa, Tabasco; and Tepic, Nayarit. Case studies have been published for all five projects.	1,841.91
Disaster recovery	Financing granted to the states of Baja California, Baja California Sur, Campeche, Colima, Durango, Jalisco, Mexico, Morelos, Nuevo Leon, Oaxaca, Puebla, San Luis Potosí, Tabasco, Tamaulipas, and Veracruz. Examples provided include reconstruction of roads and drainage in the municipality of Ciudad del Carmen, Campeche and infrastructure reconstruction in the states of Morelos and Oaxaca after the September 2017 earthquakes.	6,734.34
Sustainable transport	Financing provided to the <i>Sistema de Transporte Colectivo</i> of the City of Mexico for the purchase of 30 new electric subway trains.	248.13
Renewable energy	Financing for nine wind farms, four solar parks, and one hydroelectric facility, with a total installed capacity of 3,049.4 MW and an annual electricity generation of 9,994.97 GWh.	12,036.34
Energy efficiency	Financing for 38 municipalities in the states of Chihuahua, Coahuila, Durango, Jalisco, Morelos, Nuevo Leon, Puebla, Tlaxcala, Veracruz, and Yucatan for upgrades to public lighting systems. The energy bill savings ranged from 6.3% to 65.6%, with an average savings of 40.3%.	453.94
Water efficiency and wastewater management	Financing for three wastewater treatment plants, with a combined capacity to treat 45.75 m ³ /second of wastewater, and one aqueduct with a capacity of 5.6 m ³ /second of water.	2,368.86
Pollution prevention and control	No eligible projects in this category.	0

Disclaimer

© Sustainalytics 2018. All rights reserved.

The intellectual property rights to this Second-Party Opinion (the “Opinion”) are vested exclusively in Sustainalytics. Unless otherwise expressly agreed in writing by Sustainalytics, no part of this Opinion may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings, nor publicly released without the “Sustainability Bond Framework” in conjunction with which this Opinion has been developed.

The Opinion was drawn up with the aim to provide objective information on why the analyzed bond is considered sustainable and responsible, and is intended for investors in general, and not for a specific investor in particular. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, the information is provided “as is” and, therefore Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date, nor assumes any responsibility for errors or omissions. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, nothing contained in this Opinion shall be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds’ use of proceeds.

The client is fully responsible for certifying and ensuring its commitments’ compliance, implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com

