

Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito (Banobras)

Type of Engagement: Sustainability Bond Pre-Issuance Review

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Introduction

In 2017, Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito (“Banobras”) developed the Banobras Sustainability Bond Framework (the “Framework”),¹ and in 2017, 2018, 2019 and 2020 Banobras issued sustainability bonds aimed at financing investments in the following categories – 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 2017, Sustainalytics provided a Second-Party Opinion² on the Framework, and in 2018 and 2020 provided Annual Reviews of the projects funded through the issued sustainability bonds.

In March 2021, Banobras engaged Sustainalytics to review the projects (the “Nominated Projects”) that will be funded through Banobras eighth, ninth, tenth and eleventh sustainability bonds (BANOB 21-X, BANOB 21-2X, BANOB 21-3X and BANOB 21UX collectively the “Banobras 2021 Sustainability Bond Issuances”) and provide an assessment as to whether the projects comply with the Use of Proceeds, Project Selection, and Management of Proceeds sections of the Framework.

Evaluation Criteria

Sustainalytics evaluated the underlying projects that will be funded through the 2021 issuances for compliance based on whether:

1. The Nominated Projects are aligned with the Use of Proceeds Eligibility Criteria outlined in the Banobras Sustainability Bond Framework; and
2. The commitments to select projects, manage proceeds, and report on allocation and impact in order to ensure that these commitments are aligned with the ones described in the Framework.

The projects funded by the 2021 sustainability bond issuances are summarized in Appendix 2, and Sustainalytics’ findings are summarized in Appendix 3.

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 a description of the eligible projects within each eligible category. This information was provided to Sustainalytics to support its review. Banobras is also responsible for confirming to Sustainalytics that processes for project selection and management of proceeds for the 2021 issuances will remain aligned with the commitments described in the Framework.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of the Banobras 2021 Sustainability Bond Issuances. The work undertaken as part of this engagement included verification of the Nominated Projects and confirmation from relevant employees of Banobras that the use of proceeds, processes for project selection, management of proceeds,

¹ Banobras, “Marco de Referencia de Bono Sustentable del Banco Nacional de Obras y Servicio Públicos, S.N.C.”, at:

https://www.gob.mx/cms/uploads/attachment/file/252361/Marco_de_Referencia_de_Bono_Sustentable.pdf.

² Sustainalytics, “Banobras Sustainability Bond Framework Second Party Opinion”, (2017), at: https://www.sustainalytics.com/wp-content/uploads/2017/08/Banobras-Sustainability-Bond-Framework_Second-Opinion-by-Sustainalytics_Final-English.pdf.

and reporting for the upcoming sustainability bond issuances will remain aligned with the commitments described in the 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 pre-issuance review.

Conclusion

Based on the limited assurance procedures conducted,³ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the Banobras 2021 Sustainability Bond Issuances are not aligned with the existing Banobras Sustainability Bond Framework.

³ 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: Banobras Sustainability Bond Framework's Use of Proceeds Eligibility Criteria

| Use of Proceeds | Eligibility Criteria |
|--|---|
| Affordable basic infrastructure to vulnerable segments of the population | <p>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:</p> <ul 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 | <p>Development, construction, installation, operation and infrastructure improvements for the provision of public services, including but not limited to:</p> <ul 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 | <p>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:</p> <ul 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 transport, water systems, education, health, electricity, fishing and aquaculture and urban infrastructure; or 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 |

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|--|---|
| | <ul style="list-style-type: none"> 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 |

Appendix 2: Summary of the Nominated Projects

Banobras has identified projects, financed between January 31st 2016 and January 31st 2021, that are eligible for funding by the Banobras 2021 Sustainability Bond Issuances.

Projected allocation per category

| Use of Proceeds Category | Number of Projects | Projected Allocation (million MXN) |
|---|--------------------|------------------------------------|
| Affordable basic infrastructure to vulnerable segments of the population ⁴ | 10 | 847.9 |
| Public services infrastructure | 6 | 7,635.9 |
| Disaster recovery ⁵ | 6 | 3,975.9 |
| Sustainable transport | 1 | 2,569.1 |
| Renewable energy* | 12 | 14,865.1 |
| Energy efficiency ⁶ | 29 | 286.6 |
| TOTAL | 64 | 30,180.6 |

*Details of Renewable Energy projects

| Project | Location | Amount Allocated (million MXN) | Annual generation of electricity (Gwh) | Installed capacity (MW) | Status |
|-----------------------------|---|--------------------------------|--|-------------------------|--------------|
| Wind farm 1 | Santo Domingo Ingenio, Oaxaca | 313.5 | 214 | 102 | In operation |
| Wind farm 2 | Juchitán de Zaragoza y el Espinal, Oaxaca | 7,249.7 | 832 | 396 | In operation |
| Wind farm 3 | Reynosa, Tamaulipas | 2,078 | 891 | 424 | In operation |
| Wind farm 4 | Mina, Nuevo León | 1,372.3 | 525 | 250 | In operation |
| Wind farm 5 | San Matías, Baja California | 696.7 | 63 | 30 | In operation |
| Solar farm 1 | Hermosillo, Sonora | 473.2 | 332 | 158 | In operation |
| Solar farm 2 | Galeana, Chihuahua | 531.2 | 347 | 165 | In operation |
| Solar farm 3 | El Llano, Aguascalientes | 357.6 | 294 | 140 | In operation |
| Solar farm 4 | El Llano, Aguascalientes | 472.5 | 315 | 150 | In operation |
| Solar farm 5 | Pitiquito, Sonora ⁷ | 629.8 | 668 | 318 | In operation |
| Solar farm 6 | | 639.9 | | | In operation |
| Small hydroelectric station | Mascota, Jalisco | 50.5 | 47.5 | 8.4 | In operation |

⁴ Funding in this category consists of financing granted to 80 municipalities in various states for eligible projects. This value represents the number of states to which financing was granted, not the number of specific projects undertaken.

⁵ Funding in this category consists of financing granted to various states for eligible projects for the reconstruction of damaged infrastructure. This value represents the number of states (Baja California Sur, Jalisco, México, Morelos, Nayarit and Oaxaca) to which financing was granted, not the number of specific projects undertaken.

⁶ Funding in this category consists of financing granted to 29 municipalities in the states of Chihuahua, Coahuila, Durango, Guanajuato, Jalisco, Morelos, Nuevo León, Tabasco, Tlaxcala and Zacatecas.

Appendix 3: Sustainalytics' Findings

| Eligibility Criteria | Procedure Performed | Factual Findings | Error or Exceptions Identified |
|--|---|---|---------------------------------------|
| Use of Proceeds Criteria | Verification of the projects funded by the sustainability bond issuances in 2021 (Appendix 2) to determine if the projects aligned with the Use of Proceeds Eligibility Criteria outlined in the Banobras Sustainability Bond Framework (Appendix 1). | All projects reviewed (Appendix 2) complied with the Use of Proceeds Eligibility Criteria. | None |
| Project Selection and Management of Proceeds Criteria | Verification of the projects to be funded by the sustainability bonds in 2021 to determine if the commitments under processes for project selection and management of proceeds were consistent with the Banobras Sustainability Bond Framework. | Banobras has also confirmed to Sustainalytics that the processes for project selection and management of proceeds for the 2021 issuances are consistent with the commitments described in the Banobras Sustainability Bond Framework. | None |

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