

Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito

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Introduction

In 2020 and 2021, Banco Nacional de Obras y Servicios Públicos, S.N.C. (“Banobras” or the “Bank”) issued eight 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, under the Banobras Sustainability Bond Framework (“the Framework”).¹ In 2022, Banobras engaged Sustainalytics to review the projects funded through the 2020 and 2021 sustainability bond issuances and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Framework.

Sustainalytics has previously provided a Second-Party Opinion on the Framework² in 2017, Annual Reviews of the projects funded in 2017-19, and pre-issuance review of the bonds issued in 2019, 2020 and 2021.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2020 and 2021 sustainability bond issuances, namely, BANOB 20X, BANOB 20-2X, BANOB 21X, BANOB 21-2X, BANOB 21-3X, BANOB 21UX, BANOB 21-4X and BANOB 21-5X, based on whether the projects:

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, Eligibility Criteria, and associated KPIs while Table 2 lists the associated KPIs.

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:

¹ Documentation for the Banobras sustainability bond programme is available at:

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

² Sustainalytics’ Second-Party Opinion is available at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/banobras-sustainability-bond-framework_second-opinion-by-sustainalytics_final-english.pdf?sfvrsn=22c35b99_3

	<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; or 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 wastewater; 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 benefiting from various Eligible Infrastructure and Disaster Recovery Projects
Public services infrastructure	Case Studies of Eligible Social Infrastructure Projects such as hospitals and schools
Disaster recovery	Number and names of municipalities benefiting from various Eligible Infrastructure and Disaster Recovery Projects
Sustainable transport	No key performance indicator specified in framework
Renewable energy	Annual renewable energy generation and installed capacity
Energy efficiency	Savings in electricity billing in municipalities with Eligible Public Lighting Projects
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, amounts allocated, 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,³ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of Banobras' 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 bonds were fully allocated as of the issuance date of each bond.⁴

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 2020 and 2021 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 2020 and 2021 to determine if impact of projects was reported in line with the KPIs outlined in the Sustainability Bond Framework and above in Table 2. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

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.

⁴ Banobras has confirmed to Sustainalytics that its approach for allocation targets only those projects that are already underway, with a lookback period of 5 years, in alignment with the Framework.

Appendix

Appendix 1: Impact and Allocation Reporting by Eligibility Criteria

Banobras has identified projects financed between November 27, 2015 and November 30, 2021, that are eligible for funding by the BANOB 20X, BANOB 20-2X, BANOB 21X, BANOB 21-2X, BANOB 21-3X, BANOB 21UX, BANOB 21-4X and BANOB 21-5X issuances for a total amount of MXN 23.5 billion.

Use of Proceeds Category	Eligible Projects Financed and Impact Reported	Amount Allocated (MXN million)
Affordable basic infrastructure to vulnerable segments of the population	Funding provided to five municipalities in the state of Oaxaca for water, urbanization, electrification and education projects and three credits to the state of Veracruz for projects such as drinking water infrastructure, rehabilitation and paving of roads and the rehabilitation of public spaces.	748.47
Public services infrastructure	Projects financed in this category include six public hospitals in the cities of Mérida, Yucatán; Tapachula, Chiapas; Mexico City; Villahermosa, Tabasco; Tepic, Nayarit; Bahía de Banderas, Nayarit.	7,552.28
Disaster recovery	Financing provided to the States of Mexico, Morelos and Oaxaca for infrastructure reconstruction works in response to earthquakes; investments in sectors such as health, housing, sports and education in the state of Baja California Sur in response to a hurricane and tropical storms; financing of projects for reconstruction of roads, education and health infrastructure, water and sanitation in Nayarit in relation to hurricanes; financing for public investment projects in Mexico City and Oaxaca in response to the earthquakes of September 7 and 12, 2017.	4,002.22
Sustainable transport	Financing provided for refinancing of an electric train.	2,807.11
Renewable energy	Refinancing of loans for five wind farms, seven solar farms, and one mini-hydroelectric facility, with a total installed capacity of 2,634.5 MW and an annual electricity generation of 5,481.9 GWh.	15,751.18
Energy efficiency	Loans to 28 municipalities in the states of Tabasco, Coahuila, Durango, Jalisco, Morelos, Nuevo Leon, Zacatecas and Guanajuato to finance and refinance expenditures for the upgradation of public lighting systems with LED lighting. The energy bill savings ranged from 6.3% to 65.6%.	269.94
Water efficiency and wastewater management	Financing for wastewater treatment plant with a capacity to treat 35,000 litres per second or around 60% of wastewater generated in the Valley of Mexico.	280.38
Total		31,411.58

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