

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 2021, Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito (“Banobras”, or the “Bank”) developed the Banobras Sustainable Bonds with Gender Perspective Framework (the “Framework”).¹ The Framework is an update to Banobras’ previous framework,² under which it issued multiple sustainability bonds since 2017 aimed at financing affordable basic infrastructure, public services infrastructure, disaster recovery, sustainable transport, renewable energy, energy efficiency, water efficiency and wastewater management projects. In September 2022, Sustainalytics provided a Second-Party Opinion on the Framework.³

In September 2022, Banobras engaged Sustainalytics to review the projects (the “Nominated Projects”) that will be funded through the Bank’s BANOB 22X and BANOB 22-2X sustainability bond issuances (the “2022 Sustainability Bonds”) under the Framework 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 2022 Sustainability Bonds issuance for compliance based on whether:

1. The Nominated Projects are aligned with the Use of Proceeds Eligibility Criteria outlined in the Framework; and
2. The commitments to select projects and manage proceeds are aligned with the ones described in the Framework.

The Eligibility Criteria are included in Appendix 1; the Nominated Projects 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 2022 Sustainability Bonds issuance 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 Banobras’ 2022 Sustainability Bonds issuance. The work undertaken as part of this engagement included verification of the Nominated Projects and confirmation from relevant employees

¹ Banobras, “Framework for Sustainable Bonds with a Gender Perspective”, (2022), at: <https://www.gob.mx/banobras/acciones-y-programas/bonos-sustentables-con-perspectiva-de-genero-314453>

² Banobras, “Marco de Referencia de Bono Sustentable del Banco Nacional de Obras y Servicio Públicos, S.N.C.”, (2017), at: https://www.gob.mx/cms/uploads/attachment/file/252361/Marco_de_Referencia_de_Bono_Sustentable.pdf

³ Sustainalytics, “Banobras Sustainable Bonds with Gender Perspective Framework Second-Party Opinion”, (2022), at: [https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/banobras/banobras-sustainable-bonds-with-gender-perspective-framework-second-party-opinion-\(2022\)/banobras-sustainable-bonds-with-gender-perspective-framework-second-party-opinion-\(2022\)](https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/banobras/banobras-sustainable-bonds-with-gender-perspective-framework-second-party-opinion-(2022)/banobras-sustainable-bonds-with-gender-perspective-framework-second-party-opinion-(2022))

of Banobras that the use of proceeds, processes for project selection and management of proceeds for the 2022 Sustainability Bonds issuance 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,⁴ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the Banobras 2022 Sustainability Bonds issuance is not aligned with the Framework.

⁴ 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 Sustainable Bonds with Gender Perspective Framework's Use of Proceeds Eligibility Criteria⁵

Use of Proceeds	Eligibility Criteria
<p>Affordable basic infrastructure</p>	<p>Public works, basic social actions and investments that directly benefit sectors of the population that are in conditions of social backwardness and extreme poverty in terms of what is established in article 33 of the Fiscal Coordination Law, including:</p> <ol style="list-style-type: none"> i. Potable water projects, sewage, drainage, latrines, urbanization, electrification of poor neighbourhoods (installation of power lines to provide electricity to rural and poor communities), basic infrastructure of the health and education sector, housing improvement. ii. Paving rural roads, sidewalk building/repairing and sports facilities. <p>This category also includes recognition of those loans that promote affordable basic infrastructure works in those territorial demarcations (municipalities) that have a majority presence of female population or female heads of households above the national average. The foregoing constitutes a strategy of targeting and accelerating gaps reduction in access to basic infrastructure services between women and men. This ensures that the population benefited by the projects is made up mostly of women, or by communities with a high proportion of households headed by women. The projects considered under this category could be financed by the Banobras FAIS Program or by granting direct loans to states and municipalities.</p> <p>Infrastructure projects related to the Urbanization category are established in the Contribution Fund for Social Infrastructure (FAIS) Guidelines.⁶ In the case of these projects, Banobras grants financing following the provisions of the law: Second Title FAIS Operation "Acts and actions aimed at the use or exploitation of the land, within urbanized or developable areas, such as subdivisions, mergers, relocations, or urbanizations in general that include the execution of works under the modalities of expansion, construction, equipment, improvement, rehabilitation and installation". These projects will aim to allow population living within the impacted localities to access public facilities such as parks, sidewalks, and better quality urban roads.</p>
<p>Public services infrastructure</p>	<p>Development, construction, installation, operation and improvement of infrastructure for the provision of public services, including:</p> <ol style="list-style-type: none"> i. Public infrastructure for health services, education and professional training, such as hospitals, considering those that provide several medical specialties, health clinics, educational establishments, training centers for low-income populations. In particular, those hospitals or medical units that have services that meet the specific needs of women, such as gynecological-obstetric services, maternity wards, reproductive health, identification and treatment of oncological conditions (breast or cervical cancer), or other typical women's diseases, will be recognized. On the other hand, those educational works that consider the construction and equipment of educational institutions, training centers and shelters with facilities for the care (exclusive or priority) of women will also be recognized. ii. Infrastructure that promotes coexistence between socially vulnerable groups such as cultural centers, childcare centers, sports centers, feeding centers,

⁵ Sustainalytics notes that the Framework includes five other Use of Proceeds categories, from which no project will be financed with the 2022 Sustainable Bonds issuance.

⁶ More information on the Contribution Fund for Social Infrastructure (FAIS) Guidelines available here: https://dof.gob.mx/nota_detalle.php?codigo=5641245&fecha=25/01/2022#gsc.tab=0

	<p>mental health therapy centers and rescue of public spaces. This infrastructure will be accessible to all the population regardless of their ability to pay for it.</p> <p>iii. Conditioning, maintenance, renovation and development of public markets where the population can have access to consumer staple products within their localities of construction and adaptation of public offices and/or buildings for ease of access of women, vulnerable population to different types of services in the same physical space (usually related to sexual and reproductive health, job training and business development, and services for survivors of violence against women).</p>
Disaster recovery	<p>Reconstruction works of public services infrastructure damaged by a Disturbing Natural Phenomenon will be managed following the Specific Operation Guidelines to address the damage triggered by disturbing natural phenomena and support the population affected by natural hazards in accordance with the Program for the Attention of Emergencies due to Natural Hazards or the regulations on the matter that replaces it. The works and actions that may be considered will be those corresponding to Banobras' service sectors, distributed as follows, and provided to all the population regardless of their ability to pay:</p> <ol style="list-style-type: none"> i. Highways (toll free) ii. Public education facilities iii. Public sports facilities iv. Public health facilities v. Urban roads vi. Solid waste (aligned with category 8) vii. Waterworks, sewage and dams⁷ viii. Fishing infrastructure such as public docks or public piers ix. Tourism (such as integrally planned centers and integral tourism projects developed by the National Tourism Promotion Fund) x. Culture (such as artistic or historical public facilities) xi. Archaeological, artistic and historical monuments (according to the definition of the Federal Law on Monuments and Archaeological, Artistic and Historical Zones) <p>The detail of the projects will be the exclusive responsibility of the Federal Agency or Entity that coordinates each sector.</p> <p>The purpose of the reconstruction will be to leave the affected assets in operating conditions, preferably better than those that prevailed before the Disturbing Natural Phenomenon, considering a comprehensive risk management approach and promoting the construction of safe, resilient and inclusive communities.</p>
Sustainable transportation	<p>Any project related to low-energy or lowcarbon public transportation assets, systems, infrastructure, components or services, including:</p> <ol style="list-style-type: none"> i. Acquisition and maintenance of electric or hydrogen powered buses or public transport vehicles. ii. Design, construction, operation, and maintenance of public transport programs and projects with zero direct emissions land transport activities, including: metro lines, light rail transit, tram, trolleybus, bus and rail, and trains. iii. Acquisition and maintenance of buses and hybrid public transport vehicles, as well as technologies that provide a reduction in the emission of pollutants from the start of their operation (clean technology diesel fueled), such as buses and passenger trains; or iv. Design, construction, operation, and maintenance of infrastructure for low carbon transport, including:

⁷ Dams are run-of-river with no artificial reservoir or has a life cycle carbon intensity of <100 CO₂e/kWh or has a power density greater than 5W/m² and the financing will not increase the size of the existing dam.

	<ul style="list-style-type: none">- Infrastructure and infrastructure improvements dedicated to public mass transportation (including BRTs).- Infrastructure required for zero direct emissions transport (e.g., electric charging points, electricity grid connection upgrades or hydrogen fueling stations).- Infrastructure and equipment (including fleets) for active mobility (walking, cycling, e-bikes and e-scooters).- Intermodal infrastructure to connect different means of clean public transportation, monitoring and control systems, passenger safety systems and infrastructure along with paths and parking for bikes. <p>v. Any type of electric mobility equipment (for example, motorcycles, bicycles, scooters, and segways) or passenger vehicles (cars) that have an emission threshold at or below 50gCO₂/km¹² that aim to improve mobility in order to provide any public service.</p> <p>This category also considers those projects that have specific components that promote the use of public transport projects by vulnerable groups, such as women and people with disabilities, and allows them access to more opportunities.</p>
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Appendix 2: Summary of Projects to be Funded by the 2022 Sustainability Bonds Issuance (Nominated Projects)

Banobras has identified projects, financed between July 31, 2017, and July 31, 2022, that are eligible for financing by the 2022 Sustainability Bonds issuance.

Projected allocation per category

Use of Proceeds Category	Number of Projects, or Local or State Governments Financed ⁸	Projected Allocation (MXN million)
Affordable Basic Infrastructure	52 local or state governments	1,496.4
Public Services Infrastructure	11 projects	10,463.3
Disaster Recovery⁹	2 local or state governments	1,183.6
Sustainable Transportation	7 projects	8,921.7
TOTAL	72	22,065.1

Affordable Basic Infrastructure

Projects funded in this category included direct loans disbursed to states and municipalities¹⁰ for the development of works such as the construction or rehabilitation of six public parks and a municipal plaza are also considered; seven public sports units; 11 works related to streets and sidewalks; 17 water infrastructure projects that increase access to drinking water and sewage services; four electrification projects; as well as a project to improve public education spaces.

In addition, of the total eligible amount financed under this category, MXN 1,221.5 million (USD 60 million) (81.6%) belong to projects in municipalities that have a majority female population or female head of household greater than the national average, therefore, under the criteria described in the Framework, these projects are considered to have a gender focus.

Public Services Infrastructure

For this category, there are four loans related to the health sector, five for education and two for cultural centres and care for vulnerable groups. Some projects have special consideration to promote gender inclusion and the features have been included in the Project Details column.

Project	Sector	Project Details
Neonatal Intensive Care Hospitals in the municipalities of Manzanillo and Colima	Health	<ul style="list-style-type: none"> - Provides gynaecological-obstetric services, maternity wards and reproductive health services - 166 beds - 450,000 beneficiaries - 23 medical specialties - Covid care hospital
Tierra y Libertad Hospital in Monterrey, Nuevo Leon	Health	<ul style="list-style-type: none"> - Provides gynecological-obstetric services, maternity ward and reproductive health - 109 beds

⁸ A project may consist of various facilities or phases being financed; therefore, the number of projects listed per category may not match the number of projects being described.

⁹ Funding in this category consists of loans disbursed to the Government of the State of Morelos to cover the cost of works and actions to rebuild infrastructure damaged by the 7.1-magnitude earthquake that occurred on September 19, 2017. Moreover, it covers loans disbursed to the Government of the State of Nayarit to address the damage caused in eight municipalities by severe rains and river flooding ("Hurricane Willa") that occurred in October 2018.

¹⁰ Funding in this category consists of 46 loans disbursed to municipalities in the states of Aguascalientes, Chiapas, Chihuahua, Hidalgo, Jalisco, Michoacan, Nuevo Leon, Oaxaca and Veracruz, and one loan disbursed to the Government of the State of Veracruz.

		<ul style="list-style-type: none"> - 650,000 beneficiaries - 14 medical specialties - Covid care hospital
Substitution for new construction of the State Psychiatric Hospital in the State of Nuevo Leon	Health	Not available
Medical instrument and laboratory equipment, in the State of Nuevo Leon	Health	Not available
Second stage construction of the University of Tlalnepantla, State of Mexico	Education	174 students in 2021. 61% of student population are women. 30% of students have scholarships. 79% of scholarships go to women.
Construction and equipment of 15 newly created schools for basic level in municipalities of Nuevo León: Cadereyta, Juárez, el Carmen, Escobedo, García, Guadalupe and Montemorelos	Education	Not available
Transition Center for Social Assistance for Children and Adolescents "Monarcas" in the Municipality of Escobedo, Nuevo León	Education	<ul style="list-style-type: none"> - Temporary shelter and psychological, legal, social and medical care for girls, boys and teenagers abandoned or victims of abuse. Maximum capacity of 120 minors - 4 pavilions each with capacity for 25 minors (girls, boys, female adolescents and male adolescents); as well as a pavilion with a capacity for 20 babies, infants and pre-schoolers - Areas: evaluation and diagnosis, medical and dental offices, pharmacy, dining room and visiting area, as well as for recreation and sports
Cultural Laboratory, in the State of Nuevo León	Education	<ul style="list-style-type: none"> - Platform for young people between 16 and 35 years old to design and generate collaborative projects with social impact through the use of new technologies, focused on issues related to sustainability, mobility, inclusion, diversity, gender and human rights - 13,000 m² - Public space for cultural production - 34 workspaces
Completion of the construction of the second stage of the School of Performing Arts (Edificio de Vientos), State of Mexico	Education	<ul style="list-style-type: none"> - Six theoretical-practical rooms, two assembly rooms, a mixed-use room and cubicles for teachers - Three degrees: Music, Film, Studies and Dance
Zapopan Municipality: Construction and rehabilitation of pavements and infrastructure in different roads; construction and rehabilitation of various educational centers; construction and rehabilitation of sports, cultural, public spaces and leisure infrastructure	Education	<p>The project includes cultural, legal and care centres for girls, boys and teenagers with autism or victims of violence, and a women's park, managed and maintained totally by women, in a public space rescued from insecurity and drug addiction.</p> <p>CALUC (Cultural space)</p> <ul style="list-style-type: none"> - Beneficiaries: 7,885 inhabitants - Users: more than 60 young people per day <p>Office for the Protection of Children and Adolescents</p> <ul style="list-style-type: none"> - Rehabilitation of 579 m²

		<ul style="list-style-type: none"> - Beneficiaries: 9,704 inhabitants “Parque de la Mujer” (Women’s park) - Managed and maintained totally by women, in a public space rescued from insecurity and drug addiction
Facilities and equipment at the levels of basic, middle, and higher education in its university modality “Escuelas al Cien”	Education	54% of funds allocated in this program are considered to have gender perspective, considering one of the following criteria: 1) total allocation in schools whose enrolment is mostly women/girls (more than 50%); 2) amounts invested in water, sanitation, and hygiene facilities in all other schools, as this is considered a major obstacle to women/girl school attendance.

Details of Sustainable Transport projects

Sustainable Transport projects include financing for expenditures designed with a gender focused. Examples include facilities for lactating and baby changing tables, security cameras, loudspeakers and help buttons to provide safe spaces for women; a unit for Attention to Sexual Violence; and designated riding spaces for women.

Project	Characteristics	Annual tCO ₂ emissions avoided
Metrobús-Ciudad de México (Line 5)	GHG emissions under 50g CO ₂ /p-km	44,585
Cablebús-Ciudad de México (Construction of Line 2: Constitución 1917-Santa Catarina)	Electric	8,000
Cablebús-Ciudad de México (Construction of Line 1: Cuatepec-Indios Verdes)	Electric	8,653
Trolebús-Ciudad de México (Trolleybus Electric Transportation System, Av. Ermita Iztapalapa)	Electric	Not available
Metro de la Ciudad de México (Line 1) Collective Transportation System Mexico City	Electric	Not available
Mexicable-Estado de México (Construction of the Ecatepec-Tlalnepantla extension)	Electric	17,000
Peribús (Mi Macro Periférico)-Jalisco	GHG emissions under 50g CO ₂ /p-km	10,500

Appendix 3: Sustainalytics' Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the Nominated Projects to be funded by the 2022 Sustainability Bonds (Appendix 2) to determine if the projects are aligned with the Use of Proceeds Eligibility Criteria outlined in the 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 Nominated Projects funded by the 2022 Sustainability Bonds to determine if the commitments under processes for project selection and management of proceeds were consistent with the Framework	Banobras has also confirmed to Sustainalytics that the processes for project selection and management of proceeds for the 2022 issuance are consistent with the commitments described in the Framework.	None

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