

NACIONAL FINANCIERA S.N.C. SOCIAL BOND

FRAMEWORK OVERVIEW AND SECOND PARTY OPINION BY SUSTAINALYTICS

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TABLE OF CONTENTS

- 1. Introduction** **3**
- 2. Overview of Issuer** **3**
- 3. Framework Overview** **4**
 - 3.1 Use of Proceeds 4
 - 3.2 Project Evaluation and Selection Process 7
 - 3.3 Management of Proceeds 8
 - 3.4 Reporting 9
 - 3.5 Compliance Review 9
- 4. Sustainalytics' Opinion** **10**
 - Conclusion 14
- APPENDIX 1** **16**
- APPENDIX 2** **17**
- SUSTAINALYTICS** **23**

1. INTRODUCTION

Nacional Financiera, S.N.C. (“NAFIN”), a Mexican development bank, intends to issue a series of Social Bonds and has engaged Sustainalytics to provide a second party opinion on its Social Bond Framework. Sustainalytics’ opinion is based on an assessment of the Social Bond Framework’s alignment with the transparency and reporting requirements of the Social Bond Principles 2017 (SBP)¹ as well as assess NAFIN’s overall sustainability performance and its alignment with the framework.

To come to this opinion, Sustainalytics reviewed several public and internal documents provided by NAFIN and held conversations with members from NAFIN’s management teams. These conversations were held to understand NAFIN’s initiatives, and the use of proceeds, management of proceeds and reporting aspects of the Social Bonds to be issued. This document contains two sections: Framework Overview – summary of the NAFIN’s Social Bond Framework; and Sustainalytics’ Opinion – an opinion of the framework.

2. OVERVIEW OF ISSUER

NAFIN was created in 1934 for the purpose of helping to finance important socio-economic development within the country. In the years that followed the opening of the Mexican economy, there was an increased challenge of modernization and structural change in the country’s industrial sector, therefore NAFIN has worked to boost the competitiveness of the country’s enterprises. It is also key to promoting the Mexican government’s policies for expanding economic and social development in the country with the primary objective of generating jobs and regional growth by strengthening and modernizing micro, small and medium enterprises (MSMEs).

According to its Institutional Program, the institutional mission of NAFIN is- "To contribute to the economic development of the country by facilitating the access of MSMEs, entrepreneurs and priority investment projects to financing and other business development services, as well as contribute to the formation of financial markets and act as fiduciary and financial agent of the Federal Government, which allows to boost innovation, improve productivity, competitiveness."²

As one of the Mexican development banks, all NAFIN Programmes are aligned with the objectives, strategies and lines of action defined in the National Development Plan 2013-2018³. The Development Plan establishes the following five national goals: (1) a Mexico in Peace, (2) an Inclusive Mexico, (3) a Mexico with Quality Education, (4) a Prosperous Mexico, (5) a Mexico with Global Responsibility.

NAFIN is issuing Social Bonds in line with its mandate to promote financial inclusion in Mexico.

¹ The Social Bond Principles are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market. They provide issuers guidance on the key components involved in launching a credible Social Bond and aid investors by ensuring availability of information necessary to evaluate the positive impact of their Social Bond investments.

² <http://www.nafin.com/portalfn/content/sobre-nafinsa/nuestra-estrategia/nuestra-estrategia.html>

3. FRAMEWORK OVERVIEW

This section presents NAFIN’s Social Bond Framework, which follows the four key pillars of the Social Bond Principles (SBP): the use of proceeds, process for programme selection and evaluation, management of proceeds, and reporting.

3.1 Use of Proceeds

The net proceeds of each Social Bond issued by NAFIN will be allocated to direct and indirect (through NAFIN’s network of financial intermediaries) lending via existing and future NAFIN programmes. NAFIN’s programmes will fall under one or more of the following Social Objectives:

1. Enhancing access to essential services including education, vocational training, and financing and financial services for low-income and underserved populations including young entrepreneurs and students;
2. Employment generation through microfinance and financing targeted at micro, small and medium enterprises (MSMEs);
3. Socio-economic advancement and empowerment of women by providing credit to women entrepreneurs who want to expand their businesses;
4. Enhancing cost-savings through resource efficiency (e.g. energy, water) for low-income households by financing the installation of high-efficiency products and technologies;
5. Supporting the economic recovery of individuals and micro, small and medium enterprises (MSMEs) impacted by natural disasters.

NAFIN’s existing eligible programmes may include:

Social Objectives	Programme Name	Eligibility Criteria
Enhancing access to essential services including training, and financing and financial services for low-income and underserved populations including young entrepreneurs and students	Credit for Young People (Crédito Joven)	Provides credit to young entrepreneurs opening a business / growing their current business In order to be eligible for credit, qualifying beneficiaries must be: <ol style="list-style-type: none"> a. young entrepreneurs with a business between the ages of 18 and 35; b. young entrepreneurs with new enterprises that have completed an incubation process with the National Institute for Entrepreneurs (INADEM); c. young entrepreneurs with ongoing businesses that have at least one year of seniority; d. young entrepreneurs with an adequate credit history (though it is no mandatory to have previous records);

		<p>e. young entrepreneurs with a guarantor.</p> <p>http://www.nafin.com/portalfn/content/productos-y-servicios/programas-empresariales/credito_joven.html</p>
Employment generation through microfinance and financing targeted at micro, small and medium enterprises (MSMEs)	Credit for Microbusinesses ⁴	<p>Microcredit in Mexico as per the Official Gazette of the Federation is defined as credit granted to natural persons whose resources are destined to finance activities of production or sale of goods or services, in which the main source of payment is the income obtained by said activities and whose amounts and terms will be under one of the following modalities:</p> <ul style="list-style-type: none"> (i) Individual: when the credit is granted to a single individual and having a maximum limit with the equivalent amount in local currency of UDI 30,000⁵ (approximately MXN 172,228 or USD 9,473) and a maximum term of three years; or (ii) Group: when credit is given to groups of individuals who endorse constitute debts or debtors jointly and severally with each other and having a maximum limit of the equivalent amount in local currency of UDI 11,500 (approximately MXN 66,020 or USD 3,631) for each member of the group and a maximum term of one year. <p>In order to be eligible for microcredit, qualifying beneficiaries must be:</p> <ul style="list-style-type: none"> a. microbusinesses having activities in the commercial, service or industrial sector; b. beneficiaries complying with the specific credit policies of each financial intermediary.
Socio-economic advancement and empowerment of women by providing credit to women entrepreneurs who want to expand their business	Support for Women Entrepreneurs (Apoyo a Mujeres Empresarias)	<p>Provides credit to women entrepreneurs who want to expand their businesses.</p> <p>In order to be eligible for credit, qualifying beneficiaries are women who:</p> <ul style="list-style-type: none"> a. are 18 years of age; b. have a micro, small or medium-sized company, or natural person with a legally constituted business activity and have at least two years of seniority; or, in the case of women who operate businesses under the Tax Incorporation Regime, have at least one year of seniority c. have 51% ownership stake in the company; d. have an adequate credit history and up-to-date legal and financial information; e. have collateral or guarantor for loans exceeding MXN 500,000.

⁴ Microbusiness - the National Institute of Statistics defines a microbusiness as one that employs up to 10 workers in commerce, services, transportation and construction; and up to 15 workers in manufacturing.

⁵ UDI - The Mexican unidad de inversión (ISO 4217 code MXV) is an index unit of funds used in Mexico. It can be traded in many currency markets because its value changes with respect to currencies. Unlike currencies, it is designed to retain its purchasing power and not be subject to inflation. The Mexican credit system uses the UDI rather than the peso because of its stability.

		http://www.nafin.com/portalfn/content/productos-y-servicios/programas-empresariales/empresarias.html
Enhancing cost-savings through resource efficiency (e.g. energy, water) for low-income households by financing installation of high-efficiency products and technologies	Sustainable Improvement in Existing Dwelling Programme with Mexico's National Housing Commission (Comisión Nacional de Vivienda, CONAVI) and the Mexican Energy Efficiency Trust (FIDE)	<p>Credit for residential energy efficiency projects/eco-solutions.</p> <p>In order to be eligible for credit, qualifying beneficiaries are households that:</p> <ol style="list-style-type: none"> earn a monthly income of up to five current minimum wages⁶; own existing dwelling; contribute at least 5% of the project amount in advance payment; have an adequate credit history; have a guarantor. <p>Qualifying beneficiaries may use credit toward the following:</p> <ol style="list-style-type: none"> Air conditioning equipment; Thermal insulation; Photovoltaic / solar systems; Solar heaters; Thermal windows; Gas heaters (with or without solar water heater); Solar window film; Energy efficient lighting; Waterproofing; Reflective finishing on ceilings and walls; Ceiling fans. <p>http://www.gob.mx/conavi/articulos/buscas-reducir-tus-gastos-de-agua-luz-y-gas-conavi-te-apoya?idiom=es</p>
Supporting the economic recovery of individuals and micro, small and medium enterprises (MSMEs) impacted by natural disasters	Natural Disaster and Economic Recovery Support Programme (Emergente de Apoyo en Desastres Naturales y Reactivación Económica)	<p>Financing to micro, small and medium enterprises (MSMEs), or individuals with a business, for their recovery after having been affected by physical and economic damages due to a natural disaster or a circumstantial event.</p> <p>In order to be eligible for credit, qualifying beneficiaries are MSMEs, or individuals with a business, that:</p> <ol style="list-style-type: none"> are registered by the state government and/or the Ministry of Economy; demonstrate physical and/or economic damage. <p>http://www.nafin.com/portalfn/content/productos-y-servicios/programas-empresariales/programa-emergente.html</p>

NAFIN adheres to the current definition of MSMEs as defined by the Mexican Government, as stated in Appendix 1.

⁶ The general minimum wage effective as of January 1, 2017 is MXN 80.04 per day (USD 4.40). Thus, five monthly minimum wages are equivalent to approximately MXN 12,166.08 (USD 669.19).

Exclusionary Criteria

NAFIN applies the following exclusionary criteria to all its programmes, as per its credit policies. Accordingly, NAFIN commits itself to not knowingly be involved in financing any of the following projects or activities:

- Consumer credit;
- Activities of agriculture, livestock, hunting, forestry and fishing, except those projects that incorporate transformation activities carried out in the productive unit itself;
- Manufacture of firearms and cartridges;
- Projects that generate negative effects on the environment;
- Financing companies in the sectors of commerce or services related to the renovation or establishments of bars and canteens not associated with restaurants;
- Applicants who present a "prevention code" identified by the Credit Bureau or whose guarantors, guarantors or joint sponsors present such codes;
- Applicants who are in technical bankruptcy, understood as the loss of two-thirds of their capital stock.

3.2 Project Evaluation and Selection Process

Social Objective of Issuer

In support of NAFIN's Mission, NAFIN's objectives include increasing access to financing as well as improving productivity. In line with this objective, NAFIN has social lending programmes that aim to increase access to finance to underserved populations like women, youth, entrepreneurs, etc. Such social lending programmes and their associated targeted populations are described in Table 1 in section 3.1.

Application of Social Objectives in Programme Selection

The NAFIN Treasury team will work with its Microcredit Division team and its network of financial intermediaries to select existing and future NAFIN programmes that align with (i) NAFIN's Mandate and (ii) NAFIN's Social Objectives outlined above in Section 3.1.

NAFIN has developed a two-step approach to evaluating programmes for eligibility against NAFIN's Social Objectives:

1. Relevant Business Units are responsible for screening and selection of programmes to ensure that programmes will create positive social impact for targeted disadvantaged populations;
2. NAFIN's Treasury team oversees the Social Bond issuances and is responsible for the approval of the programmes to be admitted for the Use of Proceeds in accordance with the Social Objectives.

Risk Mitigation

NAFIN selects financial intermediaries on the basis of: verification of portfolio management capacities, quarterly credit risk rating and periodic supervision at least annually. Furthermore, NAFIN promotes responsible lending practices by requiring all intermediaries to regularly report loans disbursed to the

credit bureau in order to pre-empt and mitigate the risk of over-indebtedness among microfinance borrowers.

3.3 Management of Proceeds

Net proceeds from the bond will be allocated prior to the bond maturity date within NAFIN's treasury liquidity portfolio and shall be used to fund, in whole or in part, the investments in Eligible Programmes that meet the Social Objectives stated in Section 3.1. Pending such disbursements, the net proceeds from the bond may be used for overnight investments and lending purposes, as well as in cash or other liquid marketable instruments.

While any NAFIN Social Bond is outstanding, the NAFIN's Treasury team will maintain internal records to show the allocation of the net proceeds to lending in alignment with the NAFIN Social Bond Framework. These records will be regularly updated until full allocation of the net proceeds.

Payment of principal and interest on NAFIN Social Bonds will be made from NAFIN's general funds and will not be directly linked to the performance of any loans.

Tracking

To track the compliance of borrowers, NAFIN has an internal area of supervision. Overall data on social programmes is also tracked and disclosed, including the type of programme, the amount of credit or microcredit distributed and number of loans. The Financial Intermediaries and Microcredit Division will provide the Treasury Department information on the amount of disbursements made by the Financial Intermediaries to Eligible Programmes.

NAFIN reports on such disbursements internally on a regular basis. Eligible Programmes means financing of, and/or investments in projects meeting the Social Objectives: committed after or before the issuance of the bond, but funded or disbursed after the issuance of the bond, and/or funded or disbursed during previous financial year.

3.4 Reporting

Allocation Reporting

Within one year of issuing a NAFIN Social Bond, NAFIN will publish a NAFIN Social Bond Report on its investor relations website (<http://www.nafin.com/portalnf/content/piso-financiero/relacion-con-inversionistas/>). The NAFIN Social Bond Report will be updated annually until full allocation and as necessary thereafter in the event of new developments.

NAFIN's Social Bond Report will contain at a minimum:

- i. Confirmation that the use of proceeds of each NAFIN Social Bond complies with the NAFIN Social Bond Framework;
- ii. A list of NAFIN programmes financed, in whole or in part, by net proceeds of the NAFIN Social Bond;
- iii. The amount of net proceeds allocated to each NAFIN Programmes financed, in whole or in part, by net proceeds of the NAFIN Social Bond;
- iv. The balance amount of unallocated net proceeds;
- v. Impact reporting elements as outlined below.

Impact Reporting

Where feasible, the NAFIN Social Bond Report will include qualitative and (if reasonably practicable) quantitative environmental and social performance indicators on the Eligible Programmes. Performance indicators may change from year to year.

Impact reporting may include some of the following information:

- i. Number of microfinance loans granted;
- ii. Number of loans granted to low-income households for installations of sustainability improvement technologies.
- iii. Amount of credit or microcredit distributed.

3.5 Compliance Review

Before the first anniversary of the Social Bond issuance, NAFIN will engage Sustainalytics (or another qualified third party) to review the lending financed by each NAFIN Social Bond in order to assess the compliance of the lending with the NAFIN Social Bond Framework. This review will be conducted annually until full allocation of the net proceeds from the NAFIN Social Bond. Sustainalytics will provide a report of the review, which NAFIN will publish on its investor relations website. In an unlikely event that the annual review identifies allocations made to activities that do not comply with the NAFIN Social Bond Framework, NAFIN will allocate the corresponding amounts to different lending activities that are compliant with the NAFIN Social Bond Framework.

4. SUSTAINALYTICS' OPINION

Section 1: NAFIN's Mandate and Contribution to National Goals

Sustainalytics believes that, as a state financing agency, NAFIN is well positioned to facilitate the achievement of national goals defined in the National Development Plan and the National Program for Financing Development.

In support of NAFIN's mission, NAFIN's objectives include: (i) increasing access to financing under better conditions (such as affordable credit) as well as other business services to MSMEs and entrepreneurs with a focus on improving their productivity, and (ii) promoting the regional and sectoral development of the country through a differentiated supply of products, individually or with other intermediaries.

Additionally, as a Mexican state development bank, NAFIN has a mandate to ensure that its programs are aligned with the objectives, strategies and lines of action defined in the National Development Plan. Mexico's National Development Plan 2013-2018⁷ establishes goals and policy actions that aim to boost the country's economic growth and social development.

The National Program for Financing Development 2013-2018⁸ has developed objectives that correspond to the National Development Plan in order to facilitate access to financial services in strategic sectors. The National Program promotes schemes that allow greater financial inclusion in populations facing constraints in accessing credit and other financial services. Particular emphasis is placed on programs that increase productivity, promote the growth of MSMEs, address gender gaps, and develop support programs for those affected by natural disasters.

Sustainalytics is of the opinion that NAFIN's Social Bonds are aligned to both the objectives of the National Development Plan as well as the National Program for Financing Development. Through its Social Bonds, NAFIN will allocate proceeds in alignment with the National Development Plan which include strategies to improve access to finance for a greater number of individuals and companies in Mexico, in particular for underserved populations (Strategy 4.2.2), and encourage entrepreneurs and strengthen micro, small and medium enterprises (MSMEs) (Strategy 4.8.4). NAFIN's Social Bond proceeds will also align to the National Program for Financing Development Plan to facilitate financial inclusion by focusing on strategic sectors and populations. Through NAFIN's Social Bond proceeds, the organization will further its mandate and promote financial inclusion in Mexico.

⁷ National Development Plan 2013 -2018, <http://pnd.gob.mx/wp-content/uploads/2013/05/PND.pdf>

⁸ National Program for Financing Development 2013-2018, <http://pnd.gob.mx/wp-content/uploads/2013/05/PND.pdf>

Section 2: Social Impacts from Use of Proceeds

Progress achieved through increasing access to finance in Mexico:

The International Monetary Fund's (IMF) Assessment of Financial System Stability in Mexico found that credit to the private sector is low, new loan origination by commercial banks has remained sluggish, and long-term financing is scarce.⁹ Though bank loans are a traditional source of financing for MSMEs, lending activity is very limited in Mexico. The country has fewer loans outstanding than Brazil and other Latin American peers. At 33 percent of GDP, Mexico's lending places it behind Ethiopia, a nation with much lower GDP per capita.¹⁰

However, over the last couple of years, significant progress has been achieved by the Mexican Government to develop a number of initiatives to support entrepreneurs and strengthen MSME access to finance in particular, including programmes to promote youth and female entrepreneurship.¹¹ This is apparent in the increase in number of SMEs obtaining a bank loan, which has increased from 248,000 in 2009 to 316,000 in 2014 with a corresponding increase in the average loan amounts.¹²

By extending access to finance to support MSMEs in Mexico, it has become possible to develop programmes that leverage credit in sectors that have until recently been disregarded, such as the construction industry, travel agencies, real estate development SMEs, rural tourism SMEs, small contributors, and government-supplier SMEs, amongst others.¹³

Sustainalytics is of the opinion that development banks, such as NAFIN, play an important role in fostering financial inclusion to ensure inclusive economic and social development within countries.

Importance of MSME financing in Mexico:

The OECD states that financing microenterprises in developing countries can serve to promote equal opportunities for women and men as participants and beneficiaries of development.¹⁴ A study conducted by the Women's World Banking (WWB) estimates that there is a market of approximately 2-2.5 million microentrepreneurs who are unserved by individual lending and reaching these microentrepreneurs with appropriate products would expand the local microfinance market and meet the business needs of microentrepreneurs.¹⁵

Additionally, SMEs play a strategic role within the Mexican economy. According to the National Survey Productivity and Competitiveness for Micro, Small and Medium Enterprises (ENAPROCE), conducted in

⁹ IMF, Financial System Stability Assessment, <https://www.imf.org/external/pubs/ft/scr/2016/cr16361.pdf>

¹⁰ McKinsey & Company, http://www.mckinsey.com/~media/McKinsey/Global%20Themes/Americas/A%20tale%20of%20two%20Mexicos/MGI_Mexico_Full_report_March_2014.ashx

¹¹ OECD, Mexico, Key facts on SME financing, <http://www.oecd.org/cfe/smes/financing-smes-and-entrepreneurs-23065265.htm>

¹² OECD, Mexico, Key facts on SME financing, <http://www.oecd.org/cfe/smes/financing-smes-and-entrepreneurs-23065265.htm>

¹³ OECD, Mexico, Key facts on SME financing, <http://www.oecd.org/cfe/smes/financing-smes-and-entrepreneurs-23065265.htm>

¹⁴ OECD, Micro-enterprise Development, <http://www.oecd.org/social/gender-development/1896448.pdf>

¹⁵ Women's World Banking, Individual Lending to Microenterprises in Mexico, <https://www.womensworldbanking.org/wp-content/uploads/2014/10/WomensWorldBanking-Microenterprise-Individual-Lending-Mexico.pdf>

2015 by the National Institute of Statistics and Geography (INEGI), Mexico had 4 million SMEs which accounted for 99.7% of all private companies and represented 62.6% of private-sector employment and 35.2% of national total gross production.¹⁶

According to a report by Mckinsey Global Institute, in order for Mexico to increase GDP growth and living standards, the country needs to focus on increasing productivity in traditional enterprises and creating opportunities for successful ones to grow into modern, formal SMEs. As per the report, the largest companies in Mexico are raising productivity by an impressive 5.8% a year, while the productivity of small, slow-growing enterprises is falling by 6.5% a year.¹⁷ In order to achieve growth of SMEs and expand employment in the modern sector, Mexico needs to improve access to capital.¹⁸

MSME entrepreneurs face stringent conditions when accessing capital such as higher interest rates for bank credit and higher hurdles in attracting alternative sources of finance.¹⁹ The Mexican Government has promoted specific programs and mandated development banks, such as NAFIN, to devote considerable resources in order to address the issue of MSME financing. As such, Sustainalytics is of the opinion that a key positive social impact of financing MSMEs in Mexico is the creation and preservation of jobs that will strengthen competitiveness and productivity within the country and lead to inclusive growth.

Importance of financing women entrepreneurs in Mexico:

Several studies indicate that when more women work, economies grow. An increase in female labour force participation, or a reduction in the gap between women's and men's labour force participation, results in global economic growth and a rise in global economic output by 26%, with the highest boost in the Latin American region.²⁰

In Mexico, women currently represent only a small fraction of the business sector: 16% in 2016, receiving an average salary 16% lower than that of their male counterparts. Furthermore, in 2013, 19% of Mexican entrepreneurs were women, 25% of which owned a micro company, 60% a small company, 12% a medium-sized company and only 3% owned a large one.²¹ According to a 2013 study by the Inter-American Development Bank, Mexico ranked fourth among Latin American and Caribbean countries in supporting the creation of micro, small, and medium-sized companies run by women, scoring 60.2/100 on the Women's Entrepreneurial Venture Scope Index.²²

Mexico's efforts to improve gender equality can be seen in the many institutions and programmes it has created aimed at female empowerment. The National Program for Equal Opportunities and Non-

¹⁶ OECD, Mexico, Key facts on SME financing, <http://www.oecd.org/cfe/smes/financing-smes-and-entrepreneurs-23065265.htm>

¹⁷ Mckinsey & Company, <http://www.mckinsey.com/global-themes/americas/a-tale-of-two-mexicos>

¹⁸ Mckinsey & Company, <http://www.mckinsey.com/global-themes/americas/a-tale-of-two-mexicos>

¹⁹ OECD, Financing SMEs and Entrepreneurs, <http://www.oecd.org/cfe/smes/financing-smes-and-entrepreneurs-23065265.htm>

²⁰ UN Women, Facts and Figures, <http://www.unwomen.org/en/what-we-do/economic-empowerment/facts-and-figures#notes> and Forbes, A U.S.-Mexico Women's Business Council, <https://www.forbes.com/sites/themexicoinstitute/2017/06/12/a-u-s-mexico-womens-business-council-lets-get-women-to-drive-the-bilateral-relationship/#25f3cc105726>

²¹ Wilson Center, Mexico Institute, <https://www.wilsoncenter.org/article/us-mexico-womens-business-council-lets-get-women-to-drive-the-bilateral-relationship>

²² The Economist Intelligence Unit, http://www.expeditionpr.com/wp-content/uploads/2013/08/Womens_Entrepreneurial_Venture_Scope_2013.pdf

Discrimination against Women 2013-2018 (PROIGUALDAD), which aims to comply with the National Development Plan, establishes as one of its objectives the promotion of women's access to paid work, decent employment and productive resources, within a framework of equality. To this end, it includes among its lines of action the following:

- 3.3.3. Facilitate access to financing and capital for entrepreneurs;
- 3.3.5. Consolidate productive projects of women in micro, small and medium enterprises;
- 3.3.7. Facilitate women's access to credit and funds that promote their entrepreneurial potential.

Sustainalytics is of the opinion that NAFIN's emphasis on improving access to capital for women entrepreneurs through the Social Bond will contribute towards reducing Mexico's gender gap, boosting the economy through increased productivity and empowering women.

Importance of financing sustainable improvements in housing for low-income households

Energy efficiency in low-income households serves as a dual purpose of reducing monthly costs for the beneficiary as well as contributing to Mexico's priorities to improve energy efficiency of residential buildings.

Low-income households tend to use inefficient appliances, heating and cooling systems, which lead to higher energy and gas bills and a disproportionate amount of their income is used to pay such bills. Additionally, high energy costs and poor housing quality are known to contribute to health problems. Poorly heated or cooled homes contribute to asthma, respiratory problems, heart disease, arthritis, and rheumatism.²³ Families struggling to pay energy bills may sacrifice nutrition, medicine and other necessities, which compound the effects of inequality. As such, expanding energy efficiency programs to targeted populations in Mexico will lead to cost savings for those most in need, reducing their energy burden.

The Mexican government has initiated a wide range of programmes aimed at improving the energy efficiency of residential buildings. The goal of the Mexican Sustainable Housing Nationally Appropriate Mitigation Action (NAMA) is to promote cost effective energy-efficient building concepts across the residential housing sector, with a particular focus on low-income housing, where significant growth is expected.²⁴ NAFIN works closely with the National Housing Commission (CONAVI) and the Electric Energy Savings Trust (FIDE) to provide assistance to low-income households in order to install energy efficiency solutions in Mexico.

Sustainalytics is of the opinion that such assistance will lead to greater cost-savings and a reduced energy burden for low-income households who are currently underserved in Mexico.

Advancement of U.N. Sustainable Development Goals:

NAFIN's Social Bond will also contribute to the United Nations Sustainable Development Goals (SDG), with a particular focus on the following:

²³ NRDC, <https://www.nrdc.org/experts/khalil-shahyd/study-highlights-energy-burden-households-and-how-energy-efficiency-can-help>

²⁴ CONAVI, SEMARNAT, GIZ,

http://climate.blue/download/biblioteca_pronama/nama_vivienda_nueva/nama_vivienda_nueva_financiamiento/GIZ%202011%20Supported%20NAMA%20for%20Sustainable%20Housing.pdf

SDG 1: End poverty in all its forms everywhere

- Target 1.4: By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

- Target 4.4: By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship

SDG 5: Achieve gender equality and empower all women and girls

- Target 5.A: Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws

SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

- Target 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
- By 2020, substantially reduce the proportion of youth not in employment, education or training

Alignment with Social Bond Principles 2017:

Sustainalytics has determined that NAFIN's Social Bond Framework is aligned with the four pillars of the Social Bond Principles 2017.²⁵ For detailed information please refer to Appendix 3: Social Bond Programme External Review Form.

Conclusion

In Sustainalytics' opinion, NAFIN's Social Bond Framework is closely aligned with its mandate to contribute to inclusive and sustainable economic development of the country. Social impacts facilitated by NAFIN's lending activities will contribute to advancing Mexico's development priorities as well as the Sustainable Development Goals. Sustainalytics is also of the opinion that NAFIN's Social Bond Framework aligns with the ICMA's Social Bond Principles 2017 given both the nature of the eligibility criteria for programmes and the targeted populations served. Proceeds from the Social Bonds will have a positive impact on vulnerable populations by supporting underserved populations including women, MSMEs, and low-income housing

²⁵ The Social Bond Principles 2017: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/SocialBondsBrochure-JUNE2017.pdf>

in Mexico. Based on the points above, Sustainalytics is of the opinion that NAFIN's Social Bond Framework is robust, credible and transparent and that the use of proceeds will have positive social outcomes.

APPENDIX 1

NAFIN's Definition of MSMEs

Size	Industry	Number of employees	Annual sales (Ps. in millions)	Max. weighted score ²⁶
Micro	manufacturing, trade and services	Up to 10	4 or less	5
Small	Trade	11 to 30	4.01 to 100	93
	manufacturing and services	11 to 50	4.01 to 100	95
Medium	Trade	31 to 100	100.01 to 250	235
	Services	51 to 100	100.01 to 250	235
	manufacturing	51 to 250	100.01 to 250	250

²⁶ Obtained through the following formula: $0.1 \times (\text{number of employees}) + 0.9 \times (\text{annual sales})$. Enterprises are considered micro, small or medium, as the case may be, if their maximum weighted score falls within the abovementioned limits.

APPENDIX 2

Social Bond/Social Bond Programme External Review Form

Social Bond / Social Bond Programme External Review Form

Section 1. Basic Information

Issuer name: Nacional Financiera, S.N.C, (NAFIN)

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

Review provider's name: Sustainalytics

Completion date of this form: July 5, 2017

Publication date of review publication:

Section 2. Review overview

SCOPE OF REVIEW

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Social Bond Framework and Second Opinion Document above.

Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section (if applicable):

Sustainalytics is of the opinion that the use of proceeds of the NAFIN Social Bond is aligned with the 2017 Social Bond Principles (SBP), due to (a) the nature of the social programmes described in the eligibility criteria, and (b) the targeted nature of the populations served.

Given the need for financial inclusion in Mexico, the targeted nature of NAFIN’s eligibility criterion ensures the inclusion of underserved groups. Sustainalytics is of the opinion that NAFIN’s Social Bond will have clear social impact as it increases access to finance for underserved populations in Mexico.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Sustainable management of living natural resources |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient products, production technologies and processes | <input checked="" type="checkbox"/> Other (<i>please specify</i>): financing to MSMEs, women, youth, low income housing, businesses affected by natural disasters, etc. |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The NAFIN Treasury team will work with its network of financial intermediaries and its Microcredit Division team to select existing and future NAFIN programmes that align with (i) NAFIN’s Mandate and (ii) NAFIN’s Social Objectives outlined in the Use of Proceeds.

NAFIN selects financial intermediaries on the basis of: verification of portfolio management capacities, quarterly credit risk rating and periodic supervision at least annually. Furthermore, NAFIN promotes responsible lending practices by requiring all intermediaries to regularly report loans disbursed to the

credit bureau in order to pre-empt and mitigate the risk of over-indebtedness among microfinance borrowers.

Sustainalytics is of the opinion that NAFIN's project evaluation and selection process is robust and comprehensive.

Evaluation and selection

- | | |
|--|--|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Net proceeds from the bond will be allocated prior to the bond maturity date within NAFIN's treasury liquidity portfolio. Pending such disbursements, the net proceeds from the bond may be used for overnight investments and lending purposes, as well as in cash or other liquid marketable instruments. While any NAFIN Social Bond is outstanding, the NAFIN's Treasury team will maintain internal records to show the allocation of the net proceeds to lending in alignment with the NAFIN Social Bond Framework. These records will be regularly updated until full allocation of the net proceeds. To track the compliance of borrowers, NAFIN has an internal area of supervision and NAFIN reports on such disbursements internally on a regular basis. Sustainalytics is of the opinion that this is in line with market best practices.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Social Bond proceeds segregated or tracked by the issuer in a systematic manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |

- Disclosure of portfolio balance of unallocated proceeds
- Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Within one year of issuing a NAFIN Social Bond, NAFIN will publish a NAFIN Social Bond Report on its investor relations website. NAFIN's Social Bond Report will contain at a minimum:

- i. Confirmation that the use of proceeds of each NAFIN Social Bond complies with the NAFIN Social Bond Framework;
- ii. A list of NAFIN programmes financed, in whole or in part, by net proceeds of the NAFIN Social Bond;
- iii. The amount of net proceeds allocated to each NAFIN Programmes financed, in whole or in part, by net proceeds of the NAFIN Social Bond;
- iv. The balance amount of unallocated net proceeds;
- v. Impact reporting elements.

Where feasible, the NAFIN Social Bond Report will include qualitative and (if reasonably practicable) quantitative environmental and social performance indicators on the Eligible Programmes. Performance indicators may change from year to year. Impact reporting may include some of the following information:

- i. Number of microfinance loans granted;
- ii. Number of loans granted to low-income households for installations of sustainability improvement technologies.
- iii. Amount of credit or microcredit distributed.

Sustainalytics is of the opinion that this reporting is in line with market norms.

Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

Information reported:

- Allocated amounts
- GB financed share of total investment
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
- Linkage to individual bond(s)
- On a project portfolio basis
- Other (please specify):

Frequency:

- Annual
- Other (please specify):
- Semi-annual

Information reported (expected or ex-post):

- GHG Emissions / Savings
- Energy Savings
- Other ESG indicators (please specify): See full list of social impact indicators in Section 4.

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other (please specify): NAFIN website
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): Allocation of social bond proceeds to eligible programmes will be audited annually

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<http://www.nafin.com/portalnf/content/piso-financiero/relacion-con-inversionistas/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion)
- Certification
- Verification / Audit
- Rating
- Other (please specify):

Review provider(s): Sustainalytics

Date of publication: July 5, 2017

Name: Ankita Shukla



ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

- (i) **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second opinions" may fall into this category.
- (ii) **Verification:** An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- (iii) **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- (iv) **Rating:** An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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SUSTAINALYTICS

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