

BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS, S.N.C. (BANOBRAS) SUSTAINABILITY BOND FRAMEWORK

SECOND OPINION BY SUSTAINALYTICS

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1. INTRODUCTION

Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, “Banobras”, is a state-owned Mexican development bank that seeks to improving the quality of life of local populations while contributing to the country’s sustainable development. Banobras provides financing and refinancing to public and private investment projects focused on the delivery of essential infrastructure and public service projects, and contributes to the strengthening of federal, state and municipal government institutions. Banobras was founded in 1933 and is based in Mexico City.

Banobras has developed a Sustainability Bond Framework¹ in accordance with which it intends to issue sustainability bonds. The net proceeds of the sustainability bonds issued by Banobras will be used to finance or refinance, in whole or in part, directly or indirectly (through lines of credit to other financial institutions) existing and future projects that promote sustainable development in Mexico. Proceeds of the bonds may be directed towards the following categories:

- 1) Affordable basic infrastructure to vulnerable segments of the population,
- 2) Public services infrastructure,
- 3) Disaster recovery,
- 4) Sustainable transport,
- 5) Renewable energy,
- 6) Energy efficiency,
- 7) Water efficiency and wastewater management,
- 8) Pollution prevention and control.

A list of sample projects that may be considered for refinancing purposes is provided in Appendix 1.

Banobras has engaged Sustainalytics to provide a second opinion on its Sustainability Bond Framework and on the framework’s environmental and social credentials. As part of this engagement, Sustainalytics held conversations with various members of Banobras’ team to understand the planned use of proceeds and potential social and environmental impacts, as well as management of proceeds and reporting aspects of the Banobras Sustainability Bond Framework. Sustainalytics also reviewed relevant public documents and non-public information. Following this engagement, some elements of the Sustainability Bond Framework were clarified to ensure an alignment with the level of disclosure expected by ICMA’s Sustainability Bond Guidelines, 2017.²

This document contains Sustainalytics’ opinion on the Banobras Sustainability Bond Framework and should be read in conjunction with that framework.

¹ Available at: <https://www.gob.mx/banobras/archivo/documentos>

² “The Sustainability Bond Guidelines 2017”, dated 2 June 2017, issued by the International Capital Market Association (ICMA)

2. SUSTAINALYTICS' OPINION

Section 1: Sustainalytics' Opinion on the Sustainability Bond Framework

Overall, Sustainalytics is of the opinion that Banobras' Sustainability Bond Framework is credible and transparent. Sustainalytics views the following elements of the Framework positively:

- Sustainalytics considers that the issuance of sustainability bonds strongly aligns with Banobras' mandate and strategy, and will contribute to advancing the bank's commitment to sustainable development in Mexico.
- The eligible categories for the use of proceeds are aligned with those recognized by ICMA's Sustainability Bond Guidelines, and Sustainalytics considers that Banobras has provided a good level of disclosure for each category. Guidelines for ensuring that projects will benefit vulnerable populations (as recommended by the Social Bond Principles) have been clearly defined. For considerations on the impact of the use of proceeds please see Section 3.
- Given the current efforts to formalize its social and environmental risk assessment management system, in alignment with best international practices, and evidence of practices already implemented by Banobras, Sustainalytics is of the opinion that the bank is well positioned to address the environmental and social risks associated with the projects project financed. For further details please see Risk Assessment analysis in Section 2.
- Banobras' Treasury Department has a dedicated team (Sustainability Bond Proceeds Tracking Unit) that will select and approve projects with a positive social and/or environmental impact, and in alignment with the eligibility criteria. This is in line with recommended market practice.
- Banobras has disclosed that while allocation of proceeds by eligible category will not be audited on a case-by-case basis, several of the programmes financed with the proceeds of the bonds (namely those with a social purpose) are verified by other public institutions responsible by auditing expenditures of public funds (such as SEDESOL and CONEVAL). Sustainalytics is of the opinion that, despite this not being in full alignment with market best practice, which recommends having the management of proceeds externally audited, it does provide an adequate level of assurance.
- Banobras will publish a Sustainability Bond Report one year after issuance. The report will include an annual compliance review by a third party, ensuring that the selected projects comply with the eligibility criteria defined in the Framework. This is in line with market best practice. Furthermore, the report will disclose the allocation of proceeds per eligible category and provide examples of financed projects. Banobras will also strive demonstrate the environmental and social impacts of the projects financed, in alignment with impact indicators defined in the Framework. Additional impact reporting information will be made available by other public agencies (such as SEDESOL and CONEVAL), which provide detailed insights into the expenditures and impacts of federal programmes. For further insights on reporting please see Section 3.

Alignment with Sustainability Bond Guidelines 2017:

Sustainalytics has determined that the Banobras Sustainability Bond Framework aligns to the four pillars of the Sustainability Bond Guidelines 2017. For detailed information please refer to Appendix 2: Green Bond Programme External Review Form.

Section 2: Assessment of Banobras' Mandate and Strategy

Contribution of the Sustainability Bond to Banobras' social and environmental mandate

Banobras' overall mission is to improve the quality of life of local populations by financing projects with high social returns and positive impacts on the environment. In order to support the fulfilment of its mission, Banobras contributes to public and private sector investment in infrastructure and public services, with the aim of supporting projects that increase the competitiveness of the country, provide basic social infrastructure and support the sustainable development of Mexico. This directly correlates to a social directive in that the provision of infrastructure and public services helps to meet the basic needs of the population and reduce social inequalities. The bank has supported its mission with a diverse range of past and ongoing projects, including infrastructure investments in energy, transportation, healthcare, and waste management.

In addition to its socially-focused mission, Banobras has outlined an environmental strategy. The bank has taken steps to align itself with OECD's 'green bank' definition: a public institution that assists in channelling private investment in climate-resilient infrastructure, low-carbon markets, and other sustainable sectors such as water, sanitation, and solid waste management.³ Banobras' environmental strategy consists of the three following pillars:⁴

- 1) Increase financing for sustainable projects.
- 2) Design and implement an Environmental and Social Risk Management System to improve the environmental and social risk profile of its loan portfolio.
- 3) Foster awareness of resource efficiency and energy efficiency within the institution, as well as link Banobras abroad with strategic partners for the adoption of international best practices.

Furthermore, Banobras' social and environmental mandate, is closely aligned with Mexico's National Development Plan 2013-2018 (Plan Nacional de Desarrollo – PND). The PND establishes goals and policy actions that aim to boost the country's economic growth and social development, and support transition to a low-carbon economy. The PND strongly depends on the contribution of development banks to expand access to credit and finance development projects.

Following a review of Banobras' mandate, environmental strategy and alignment with Mexico's sustainable development priorities, Sustainalytics is of the opinion that the issuance of sustainability bonds strongly aligns and will contribute to advancing the bank's commitment to sustainable development in Mexico.

Well positioned to address common environmental and social risks associated with the projects

As disclosed in the Sustainability Bond Framework, Banobras is in the process of formalizing its Environmental and Social Risk Management System (Sistema de Administracion de Riesgos Ambientales y Sociales - SARAS) to identify, evaluate, and mitigate the environmental and social risks associated with the projects it finances. The SARAS seeks to better integrate risk management into Banobras' internal credit processes, as well as to verify compliance with national environmental and social regulations.

³ <http://www.oecd.org/greengrowth/green-investment-banks.htm>

⁴ https://www.gob.mx/cms/uploads/attachment/file/238294/Informe_Anual_de_Actividades_2016__comprimido__07.07.2017.pdf

Although efforts to formalize and fully integrate the SARAS into the bank's credit system are ongoing, the bank has disclosed to Sustainalytics that all financed projects are already subject to a social and environmental assessment by the Credit Officers. For example, there have been 16 recent projects that consider the Equator Principles and, for large infrastructure projects, Banobras requires the beneficiary of the credit to comply with international safeguards and to embrace international best practices. Specifically, it is mandatory that the beneficiary performs an environmental impact assessment, and, in most cases, diligence on the social impacts is also required.

Furthermore, Banobras is working towards becoming an Accredited Entity of the UN Green Climate Fund (GCF).⁵ In order for Banobras to become a GCF Accredited Entity, the bank needs to undergo a rigorous five-step accreditation process, which includes proving that Banobras is "capable of safeguarding funded projects and programmes against any unforeseen environmental or social harm". This assessment requires a systematic assessment of social and environmental risks in alignment with IFC's Performance Standards.

Given the current efforts to formalize its social and environmental risk assessment management system in alignment with international best practices (GCF Accreditation), and evidence of practices already implemented by the bank, Sustainalytics is of the opinion that Banobras is well positioned to address the environmental and social risks associated with the projects project financed.

Section 3: Impact of Use of Proceeds

Sustainalytics has reviewed the use of proceeds and numerous projects implemented by Banobras, and is of the opinion that the proceeds from the sustainability bonds will have social and environmental benefits that contribute to some of Mexico's most pressing national sustainability priorities. Sustainalytics recommends that Banobras continues to perform thorough due diligence to identify and mitigate any potential negative impacts associated with the projects. Below, Sustainalytics provides an opinion on the impact of the Banobras' sustainability bond eligibility criteria, considering the local context and focusing on the analysis of some of the projects financed over the past years.

Improving infrastructure and access to essential public services as a means to tackling poverty

The poverty rate in Mexico rose to 46.2% in 2014, equivalent to approximately 55.4 million people⁶ and the level of inequality remains relatively high.⁷ Improving basic infrastructure and enhancing the quality of and access to essential public services are therefore of critical importance.⁸ For example, enhancing the quality and accessibility of Mexico's fragmented healthcare system is critical to tackling the country's socioeconomic disparities.⁹ Banobras has contributed to the development of healthcare infrastructure in Mexico, such as financing the construction of a public hospital in the city of Mérida in Yucatán. The

⁵ The GCF aims to mobilize finance for climate-related investment in developing countries that contributes to low-emission and climate-resilient development.

⁶ <http://www.reuters.com/article/us-mexico-poverty-idUSKCN0PX2B320150723>

⁷ <https://data.oecd.org/inequality/income-inequality.htm>

⁸ https://www.oecd.org/about/secretary-general/2012%2009_Mexico_Brochure_EN.pdf

⁹ <https://www.oecd.org/health/health-systems/OECD-Reviews-of-Health-Systems-Mexico-2016-Assessment-and-recommendations-English.pdf>

hospital which will improve access to secondary health services, is eligible for refinancing through the sustainability bond proceeds. Increasing access to clean water and sanitation is also an essential part of the wider process of poverty reduction and sustainable development. Mexico is the world's second largest bottled water market, and spending on bottled water puts a significant financial burden on many low-income households that do not have access to clean tap water.¹⁰

Other examples of expenditures mentioned in the framework include rural electrification and the construction of rural roads and grain silos. In Sustainalytics' view, such investments have positive impacts for rural and/or vulnerable communities by providing them with a more reliable access to income, food security and allowing for further economic and social development. Sustainalytics also recognizes that some projects, notably those related to the development of new infrastructure, might have negative social and environmental impacts such as removal of biodiversity, displacement of people, noise pollution, among others, that should be adequately identified, managed and mitigated.

Sustainalytics has a positive view on the process to ensure that proceeds of social projects are directed to vulnerable populations. Definition and identification of eligible target groups are established by a public body¹¹ and consider data such as: ¹² (i) income per capita, (ii) average education level at household level, (iii) access to healthcare services, (iv) access to housing, (v) access to food, etc. Sustainalytics is of the opinion that the targeted nature of the financing, in line with national legislation and data provided by public institutions, increases the social benefits of the projects financed by Banobras and the impact of the sustainability bonds.

Given the assessment above, Sustainalytics is of the opinion that the inclusion of basic infrastructure and public services projects in Banobras' sustainability bond portfolio will address a wide range of sustainable development needs and contribute to the reduction of Mexico's poverty and income inequality rates.

Impact of financing of natural disaster reconstruction efforts

In 2010, Banobras launched the *Programa de Financiamiento para la Reconstrucción de Entidades Federativas* (FONREC), a loan programme that provides funding to state authorities affected by natural disasters. This programme allows for a timely financial support to affected regions so that rebuilding of infrastructure and provision of public services can resume as soon as possible and bring back stability to the lives of affected populations. The financing granted by Banobras for reconstruction and rehabilitation after natural disasters is allocated in accordance with detailed guidance provided by the *Mexican Government's Fund for Natural Disasters* (FONDEN). Sustainalytics has assessed the fund's rules and definitions and is of the opinion that the type of investments allowed will be essential to relieve the situation of affected populations and provide essential public services. For example, Banobras authorized over USD 145m in emergency loans to states affected by Hurricane Ingrid and Tropical Storm Manuel, which hit Mexico's east and west coasts simultaneously in September 2013 causing widespread infrastructural damage.¹³

¹⁰ <https://www.ft.com/content/b24b14cc-f4ee-3b8a-b1b9-56f56972d8c5>

¹¹ The National Council for the Evaluation of Social Development Policy – CONEVAL

¹² Ley General de Desarrollo Social (DOF 01-06-2016), Article 36

¹³ <http://www.bbc.co.uk/news/world-latin-america-24098184>

Mexico's optimal potential for renewable energy and energy efficiency investments

A number of projects in Banobras' portfolio relate to renewable energy and energy efficiency investments, which are particularly relevant given Mexico's climate policy. As part of the Paris Agreement, Mexico has pledged a 25% reduction in greenhouse gases by 2030 relative to business-as-usual projections. Mexico's Congress also recently passed the *Energy Transition Law* in December 2015, which aims to transform the power sector by mandating a 35% increase in the use of clean energy by 2024.

The IFC estimates that there could be USD 20 billion of potential climate-smart investments in Mexico by 2020, most of which are in the wind sector that is expected to provide a USD 11 billion investment opportunity.¹⁴ As an active participant in the wind sector in recent years, Banobras has earmarked proceeds to financing and refinancing seven wind farm projects. An example is the financing of the construction, operation, and administration of the La Bufa wind farm in the Zacatecas municipality, which will have a 130MW capacity. Banobras has also included one hydropower project in the eligible portfolio. While Mexico's renewable energy law (LAERFTE) defines hydropower as "renewable" if projects have a capacity of less than 30MW, Sustainalytics has verified that the eligible hydropower project is well below this capacity (8.4MW) and well aligned with international definitions which are more conservative in setting a maximum threshold of 20-25MW of installed capacity for renewable hydro.

Banobras may also finance projects that generate renewable energy from biomass to promote diversification of energy sources. Sustainalytics recognizes the potential negative impacts associated with the use of biomass for energy production and has assessed the Law that regulates its use.¹⁵ Following an assessment of the Law, Sustainalytics is of the opinion that it adequately promotes the use of various sources of biomass, while explicitly requiring that it should not "jeopardize the country's environmental sustainability and sovereignty of the food chain in accordance with the provisions of articles 178 and 179 of *The Rural Sustainable Development Act*", as well as requiring an evaluation and mitigation of potential negative impacts.

Banobras' inclusion of energy efficiency projects will also contribute to Mexico's ambitious climate targets. The bank granted approximately USD 17.3m in financing to 26 municipalities across seven states as part of the National Project of Energy Efficiency in Municipal Public Lighting, which seeks to replace inefficient public lighting systems. Only municipalities that obtained a technical opinion from the National Commission for the Efficient Use of Energy (CONUEE), which verified that upgrades would provide the envisaged energy savings while delivering adequate lighting levels, were eligible for financing. Sustainalytics recognizes that, with respect to investments in energy efficiency, best practice in the green bond market is to invest in technologies that ensure a minimum of 20-30% performance improvement in energy efficiency. Sustainalytics recommends that Banobras always strives to achieve that level of improvement for projects financed with the proceeds of the sustainability bonds.

¹⁴ https://www.ifc.org/wps/wcm/connect/51183b2d-c82e-443e-bb9b-68d9572dd48d/3503-IFC-Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES

¹⁵ Ley de Promoción y Desarrollo de los Bioenergéticos (DOF 01-02-2008), http://dof.gob.mx/nota_detalle.php?codigo=5094933&fecha=18/06/2009

The need to provide a cleaner mass public transportation system

While 75% of the population lives in urban areas, Mexico's urban transport infrastructure is not keeping pace with these urbanizing demographic trends. Mexico City's Bus Rapid Transit (BRT) system, Metrobús, has increased the number of city residents taking public transportation. However, it is widely acknowledged that Mexico City's advanced BRT system is not enough to deal with the city's persistent traffic congestion and deteriorating air quality.¹⁶ These factors highlight the importance of continued investment in low-emission transportation assets that are included in Banobras' portfolio of eligible projects. An indicative example is the refinancing of Banobras' investment in 30 new trains for Mexico City's metro system that will transport up to 475,000 passengers daily. Furthermore, Sustainalytics notes that while Banobras has included BRT infrastructure improvements in its sustainability bond portfolio, proceeds will finance infrastructure that encourages the use of public transportation, such as bus terminals, but not the fossil-fuel based bus vehicles themselves. Only hybrid¹⁷ or electric vehicles are eligible for financing.

Importance of improving water efficiency and wastewater treatment

As noted in recent Sustainalytics report on water scarcity, Mexico is part of a growing list of countries that are depleting non-replenishable aquifers to meet water demand.¹⁸ Furthermore, as water resources are spread unevenly across the country, three quarters of the population live in water scarce regions. The impacts of climate change are intensifying the country's water problems as areas in northern Mexico are showing persistent drying trends.

Banobras acknowledges the critical need for water efficiency, water access, and wastewater treatment initiatives in Mexico, having included a number of aqueduct and wastewater management projects in the sustainability bond portfolio. For example, Banobras featured its Atotonilco wastewater treatment plant project in its 2016 Annual Report, which is the largest of its kind in Latin America. Spearheaded by Banobras and incorporating private investment, the plant will treat approximately 60% of the residual wastewater from the Mexico City metropolitan area. This will provide treated water for the irrigation of around 80,000ha in the Tula Valley of Hidalgo, as well as improve the quality of life of the approximately 300,000 inhabitants in the region that lack access to treated water.

Filling the gaps in Mexico's solid waste management system

Mexico lacks comprehensive urban waste collection and processing systems, as well as a formal recycling industry.¹⁹ Therefore, Banobras' decision to include investments in solid waste management infrastructure as an eligible use of bond proceeds is highly relevant in the Mexican context. Financing of facilities, systems, and equipment that support waste treatment, recycling, the reuse of emissions, and the diversion of solid waste from landfills will in particular render significant environmental benefits.

¹⁶ <http://www.bbc.co.uk/news/science-environment-38840076>

¹⁷ Sustainalytics recognizes that hybrid vehicles, despite still being partly dependent on fossil fuels, qualify as a transition solution towards a low-carbon economy and can therefore be financed with the proceeds from a green bond.

¹⁸ http://marketing.sustainalytics.com/acton/media/5105/water-scarcity-will-investors-be-left-high-and-dry?utm_term=Read%20an%20Excerpt%20from%20the%20Report&utm_campaign=Sustainalytics%20Reporter%20%7C%20Summer%202016&utm_content=landing+page&utm_source=Act-On+Software&utm_medium=landing+page&sid=TV2:JZpbEdOVg

¹⁹ <https://www.theguardian.com/environment/2012/jan/09/waste-mountain-mexico-city>

Alignment with the Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. Sustainalytics is confident that given the eligibility criteria defined in the Banobras Sustainability Bond Framework, the selected projects will provide a positive contribution, in particular to the following SDGs:

Use of Proceeds Category	SDG	SDG target
2. Public Services Infrastructure	1. No Poverty	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.
3. Disaster Recovery	1. No Poverty	1.5 By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.
2. Public Services Infrastructure	3. Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
2. Public Services Infrastructure; 7. Water Efficiency and Wastewater Management	6. Clean Water and Sanitation	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all
5. Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
8. Pollution Prevention and Control	12. Responsible Consumption and Production	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.

Reporting on the impact of the financed projects

As mentioned in Section 1, Banobras will publish yearly (or until full allocation of proceeds) a Sustainability Bond Report which will disclose the allocation of proceeds per eligible category and provide examples of financed projects. Banobras will also strive to demonstrate environmental and social impacts of the projects financed, and has identified several potential impact indicators in its Sustainability Bond Framework (for instance, it will strive to report on the annual renewable energy generation and installed capacity and volume of water or wastewater collected / stored / treated). Moreover, other public agencies regularly publish online reports with detailed insights into the expenditures and impacts of the main federal programmes that Banobras will support through its Sustainability Bond proceeds. For example:

- Report covering the Banobras FAIS program (providing affordable basic infrastructure) is published by the Secretariat of Social Development (SEDESOL) and by the National Council for the Evaluation of Social Development Policy (CONEVAL). These entities track and verify annually

the social conditions of the regions benefitted by the investments,²⁰ define the requirements for impact evaluation²¹ and report on the allocation of resources contributed by Banobras.²²

- Reporting covering the FONDEN program (support natural disaster recovery) is published by the Ministry of Finance.²³
- Program evaluation of the Cruzada Nacional Contra el Hambre (financing for municipalities under the federal program against hunger) is being conducted by CONEVAL²⁴ and initial impact evaluation results were published in August 2015.

Conclusion

Banobras, a state-owned Mexican development bank, intends to issue sustainability bonds to finance or refinance, in whole or in part, existing and future projects that promote sustainable development in Mexico. The net proceeds of the sustainability bonds will be allocated towards the following eligible categories: (i) Affordable basic infrastructure to vulnerable segments of the population, (ii) Public services infrastructure, (iii) Disaster recovery, (iv) Sustainable transport, (v) Renewable energy, (vi) Energy efficiency, (vii) Water efficiency and wastewater management, and (viii) Pollution prevention and control. Given Banobras' mission to improve the quality of life of local populations by financing projects with high social returns and positive impacts on the environment, Sustainalytics considers that the issuance of sustainability bonds strongly aligns with the bank's mandate and commitments. Furthermore, Sustainalytics considers that proceeds will contribute to promoting sustainable development in Mexico and advancing SDGs 1, 3, 6, 7 and 12. Although Sustainalytics is confident that Banobras is well positioned to address the environmental and social risks, Sustainalytics recommends that the issuer continues to perform thorough due diligence to identify and mitigate any potential negative impacts associated with the projects (especially those requiring the development of new infrastructure).

Banobras' eligible projects are evaluated and selected by a dedicated team, and the Bank will engage a third party to review the financed projects, ensuring compliance with the eligibility criteria defined in the Framework. This is in line with best market practice. Furthermore, Banobras will publish Sustainability Bond Reports, in which it will disclose the allocation of proceeds per eligible category and provide examples of financed projects. Banobras will also strive to include information demonstrating the environmental and social impacts of the projects financed.

Based on the above, Sustainalytics is confident that Banobras is well positioned to issue Sustainability Bonds and that the Sustainability Bond Framework is credible and transparent and in alignment with the four pillars of ICMA's Sustainability Bond Guidelines 2017.

²⁰ <https://www.gob.mx/sedesol/documentos/informe-anual-sobre-la-situacion-de-pobreza-y-rezago-social>

²¹ http://www.sedesol.gob.mx/work/models/SEDESOL/Sedesol/sppe/upri/dgapl/fais/PDFS/Evaluacion/Criterios_y_agenda_de_evaluacion.pdf

²² <https://www.gob.mx/sedesol/documentos/fondo-de-aportaciones-para-la-infraestructura-social-fais>

²³ http://finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/congreso/infotrim/2017/iit/04afp/itanfp09_201702.pdf

²⁴ http://www.coneval.org.mx/Evaluacion/ECNCH/Paginas/Balance_Cruzada_Nacional_contra_el_hambre.aspx

APPENDICES

Appendix 1: Examples of Eligible Projects

Eligible Category	Example Projects (based on existing Banobras portfolio; actual allocations will be confirmed within one year of issuance date)		
1. Affordable Basic Infrastructure	<ul style="list-style-type: none"> - Banobras puts forward up to 25% of the resources that marginalized and low-income states and municipalities receive from the Fondo de Aportaciones para la Infraestructura Social (FAIS). Over Jan 2013-Jun 2017 Banobras has supported 559 municipalities (74% designated as medium, high or very high marginalization) with financing for social projects: drinking water, sewers, drainage, rural electrification, basic health and education infrastructure. - Banobras also provides financing to municipalities included in the federal programmes against hunger and for violence prevention: (Jan 2013-Jun 2017 data) <ul style="list-style-type: none"> o Cruzada Nacional contra el Hambre: 188 municipalities supported o Programa Nacional para la Prevención Social de la Violencia y la Delincuencia: 48 municipalities supported 		
2. Public Services Infrastructure	<ul style="list-style-type: none"> - ISSSTE Public Hospital in Merida, Yucatan: In 2016, Banobras financed the design construction and operation of this 66-bed hospital that provides free health services 		
3. Disaster Recovery	<ul style="list-style-type: none"> - Banobras finances the reconstruction of public infrastructure damaged by natural disasters in line with the laws governing the federal disaster recovery fund (Fondo de Desastres Naturales-FONDEN). Recent financing includes: <ul style="list-style-type: none"> o Ciudad del Carmen in Campeche: cleanup of roads and reconstruction of drainage o Jalisco: reconstruction of state-owned infrastructure after tropical storm Manuel (Sep 2013) o Los Cabos, La Paz, Loreto, Mulegé in Baja California: reconstruction of damaged infrastructure after Hurricane Odile (Sep 2014) 		
4. Sustainable Transport	<ul style="list-style-type: none"> - Sistema de Transporte Colectivo (STC) Mexico City metro: Banobras invested in the acquisition of 30 new trains and maintenance projects to ensure that the fleet meets overall performance quality standards 		
5. Renewable Energy	Project	Annual Generation (GWh)	Capacity (MW)
	Wind, General Bravo, Nuevo León – operational	622.0	126
	Wind, General Bravo, Nuevo León – operational	621.0	126
	Wind, Santo Domingo Ingenio, Oaxaca – operational	600.0	160
	Wind, Juchitán de Zaragoza y El Espinal, Oaxaca – in construction	598.0	164
	Wind, Zacatecas, Zacatecas – in construction	409.6	130
	Wind, Santo Domingo Ingenio, Oaxaca - operational	340.0	102
	Wind, Juchitán de Zaragoza y El Espinal, Oaxaca – in construction	1,552.0	396
Mini hydro, Mascota, Jalisco – operational	47.5	8.4	
6. Energy Efficiency	<ul style="list-style-type: none"> - National Project for Energy Efficiency in Municipal Public Lighting: Banobras has financed technology upgrades for public/street lighting in 26 municipalities. Financing is only 		

	<p>awarded to projects that are verified by the National Commission for Energy Efficiency (CONUEE) in terms of technology, light quality, energy efficiency and cost savings. E.g.</p> <ul style="list-style-type: none"> ○ Coneto de Comonfort, Durango: Financing for substitution of 348 lights with LED bulbs, resulting in 42.7% reduction in municipal energy bill. ○ Motul, Yucatán: Financing for substitution of 3,077 lights with LED bulbs, resulting in 36.7% reduction in municipal energy bill. 	
7. Water Efficiency and Wastewater Management	Project	Water treated/distributed m³/sec
	Water treatment plant, Tlajomulco de Zúñiga, Jalisco - operational	2.25
	Water treatment plant, Atotonilco de Tula, Hidalgo - in construction	35
	Water treatment plant, Zapopan, Jalisco - operational	8.5
	Aqueduct, Santiago de Querétaro, Querétaro - operational	1.0
	Aqueduct, Santa María del Río, San Luis Potosí – operational	1.5
	Aqueduct, Los Altos de Jalisco - León, Guanajuato – in construction	3.8
8. Pollution Prevention and Control	- Solid waste management projects for collection of non-hazardous wastes and sanitation, and closure of open dumps.	

Appendix 2: Green Bond Programme External - Review Form

Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: Banco Nacional de Obras y Servicios Publicos, S.N.C. (Banobras)

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: Banco Nacional de Obras y Servicios Publicos, S.N.C. (Banobras) Sustainability Bond

Review provider's name: Sustainalytics

Completion date of this form: August 2017

Publication date of review publication: August 2017

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 Banobras Sustainability Bond Framework, August 2017, available at <https://www.gob.mx/banobras/archivo/documentos> and Second Opinion Document above.

Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section (if applicable):
Proceeds of the sustainability bonds will be allocated towards financing or refinancing, in whole or in part, existing and future projects that promote sustainable development in Mexico, and that are aligned with the following eligible categories: (i) Affordable basic infrastructure to vulnerable segments of the population, (ii) Public services infrastructure, (iii) Disaster recovery, (iv) Sustainable transport, (v) Renewable energy, (vi) Energy efficiency, (vii) Water efficiency and wastewater management, and (viii) Pollution prevention and control.
Given Banobras’ mission to improve the quality of life of local populations by financing projects with high social returns and positive impacts on the environment, Sustainalytics considers that the issuance of sustainability bonds strongly aligns with the bank’s mandate and commitments.
Furthermore, overall, Sustainalytics is of the opinion that the proceeds from the sustainability bonds will have clear environmental and social benefits and contribute to advancing SDGs 1, 3, 6, 7 and 12.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Sustainable management of living natural resources |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" 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 (please specify): Affordable basic infrastructure; Public services infrastructure; Disaster recovery |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | |

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):
Banobras’ Treasury Department has a dedicated team (Sustainability Bond Proceeds Tracking Unit) that will work with other teams and select and approve projects with a positive social and/or environmental impact, and in alignment with the eligibility criteria. Sustainalytics considers this to be in line with recommended market practice. Banobras has also disclosed the current portfolio that may be eligible for refinancing purposes.
Sustainalytics recognizes that several development projects such as those to be financed and refinanced by the bonds can generate environmental and social risks. However, given the current efforts to

formalize its social and environmental risk assessment management system in alignment with international best practices (GCF Accreditation), and evidence of practices already implemented by the bank, Sustainalytics is of the opinion that Banobras is well positioned to address the environmental and social risks associated with the projects project financed. Sustainalytics recommends that the issuer continues to perform thorough due diligence to identify and mitigate any potential negative impacts associated with the projects (especially those requiring the development of new infrastructure).

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" 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 checked="" 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:

Banobras' Sustainability Bond Proceeds Tracking Unit will be responsible for the allocation and management of the proceeds. In addition to tracking outstanding balances and directing investment to eligible projects, this team will also prepare a monthly report detailing the use of proceeds, that will be presented periodically to the Banobras Finance Committee. This is in line with market practices. Banobras has further disclosed that while allocation of proceeds by eligible category will not be audited on a case-by-case basis, several of the programmes financed with the proceeds of the bonds (namely those with a social purpose) are verified by other public institutions responsible by auditing expenditures of public funds (e.g. SEDESOL, CONEVAL). Sustainalytics is of the opinion that, despite this not being in full alignment with market best practice, which recommends having the management of proceeds externally audited, it does provide an adequate level of assurance.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green 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 |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> : |

4. REPORTING

Overall comment on section *(if applicable)*:
 Banobras will publish an annual Sustainability Bond Report. The report will include an annual compliance review by a third party, ensuring that the selected projects comply with the eligibility criteria defined in the Framework. This is in line with market best practice. Furthermore, the report will disclose the allocation of proceeds per eligible category and provide examples of financed projects. Banobras will also strive to demonstrate environmental and social impacts of the projects financed, and has identified several potential impact indicators in its Sustainability Bond Framework (for instance, reporting on the annual renewable energy generation and installed capacity and volume of water or wastewater collected / stored / treated). Moreover, other public agencies (such as SEDESOL and CONEVAL), regularly publish online reports with detailed insights into the expenditures and impacts of the main federal programmes that Banobras will support through its Sustainability Bond proceeds.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

Information reported:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> GB financed share of total investment |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Impact reporting:

- | | |
|--|---|
| <input type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input checked="" type="checkbox"/> Other <i>(please specify)</i> : <i>When possible, impact reporting will be included in the Sustainability Bond Report</i> |

Frequency:

- Annual Semi-annual

Other (please specify): When possible, impact reporting will be included in the Sustainability Bond Report

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings

Other ESG indicators (please specify):

Number and names of municipalities that benefit from various Eligible Projects for infrastructure and disaster recovery; Annual renewable energy generation and installed capacity; Volume of water or wastewater collected / stored / treated, etc.

Means of Disclosure

- Information published in financial report Information published in sustainability report
- Information published in ad hoc documents Other (please specify): Sustainability Bond Report
- Reporting reviewed: Banobras will engage a third party for an annual compliance review that will verify that the selected projects are in alignment with the criteria defined in the Sustainability Bond Framework.

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.)

See references used in the second opinion document presented above.

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):

Date of publication:

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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