

# Second-Party Opinion

## Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Nacional Financiera S.N.C., I.B.D (“NAFIN”) Sustainability Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Clean Transportation, Energy Efficiency, Renewable Energy, Sustainable Waste Management, Access to Essential Services, Small, Medium and Micro Enterprises, and Women’s Empowerment and Socioeconomic Progress – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals (“SDGs”), specifically SDGs 4, 5, 6, 7, 8 and 11.



**PROJECT EVALUATION / SELECTION** NAFIN’s project evaluation and selection process will be overseen by the Deputy General Directorate (DGA) of Issuances and International Relations with final approval for eligible projects being the responsibility of the DGAs of Financial Institutions, Corporate Banking and Finance. The Bank has a robust risk management system which is applicable to all allocation decisions in alignment with the Framework. Sustainalytics considers this risk assessment and mitigation process to be strong, and the project selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** Net proceeds from issuances under the Framework will be monitored by NAFIN’s DGA of Issuances and International Relations in coordination with the DGA of Finance. The Bank intends to allocate proceeds within 36 months of each bond issuance. Pending full allocation, the bond proceeds will be invested in accordance with the Bank’s liquidity policy. This is in line with market practice.



**REPORTING** NAFIN intends to report on the allocation of proceeds on its website annually until full allocation. Allocation reporting will include total amount of bond proceeds allocated to each eligible category, balance of unallocated proceeds and the share of financing and refinancing. In addition, the Bank is committed to reporting on relevant impact metrics, where feasible. Sustainalytics views the allocation and impact reporting process to be in line with market practice.

|                        |                     |
|------------------------|---------------------|
| <b>Evaluation date</b> | October 29, 2021    |
| <b>Issuer Location</b> | Mexico City, Mexico |

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## Introduction

Nacional Financiera S.N.C., I.B.D (“NAFIN”, or the “Bank”) is a Mexican development bank established in 1934 that aims to contribute to the economic development of the country by facilitating the access of micro, small and medium enterprises (MSMEs) to finance through loans, grants, guarantees and other financial service programmes.

NAFIN has developed the NAFIN Sustainability Bond Framework (the “Framework”) under which it intends to issue sustainability bonds and use the proceeds to finance and/or refinance in whole or in part, loans that contribute to the socio-economic development and carbon footprint of Mexico.

The Framework defines green eligibility criteria in four areas:

1. Clean Transportation
2. Energy Efficiency
3. Renewable Energy
4. Sustainable Solid Waste Management

The Framework defines social eligibility criteria in three areas:

1. Access to Essential Services
2. Micro, Small and Medium Enterprises
3. Women’s Empowerment and Socioeconomic Progress

NAFIN engaged Sustainalytics to review the Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework, dated November 2021, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), and Social Bond Principles 2021 (SBP).<sup>1</sup> This Framework will be published in a separate document.<sup>2</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of NAFIN’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. NAFIN representatives have confirmed (1) they understand it is the sole responsibility of NAFIN to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and

<sup>1</sup> The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>2</sup> The Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainable Bond Framework is available on Nacional Financiera S.N.C., I.B.D (NAFIN)’s website at: <https://www.nafin.com>

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

(3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and NAFIN.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that NAFIN has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework

Sustainalytics is of the opinion that the Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework is credible, impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of NAFIN's Sustainability Bond Framework:

- Use of Proceeds:
  - The eligible categories – Clean Transportation, Energy Efficiency, Renewable Energy, Sustainable Solid Waste Management, Access to Essential Services, MSMEs, and Women's Empowerment and Socioeconomic Progress – are aligned with those recognized by the GBP and SBP.
  - The Framework specifies a look-back period of three years for refinancing activities which is in line with market practice.
  - Within the Clean Transportation category, NAFIN may finance electric, hydrogen, hybrid passenger and/or freight vehicles as well as buses for public transportation. In addition to direct investments in vehicles, the Bank also intends to finance supporting infrastructure such as electric charging points, hydrogen fueling stations and grid connection improvements required to increase access clean transportation options.
    - Hybrid vehicles in this category will be subject to a carbon emissions threshold of 50 gCO<sub>2</sub>/p-km or less. Sustainalytics considers this as best practice and views investments in vehicles that contribute to the decarbonization of passenger transportation as aligned with market expectations.
    - Freight vehicles financed under the Framework will be limited to vehicles that meet an emissions threshold of 25gCO<sub>2</sub>/tonne-km and comply with requirements under national regulations of emissions at the time of financing the project.<sup>4</sup> Sustainalytics notes that the Framework excludes the transportation of fossil fuels and considers the criteria to be in line with market practice.

<sup>44</sup> National requirements are outlined in the Official Journal of the Federation at: [https://dof.gob.mx/nota\\_detalle.php?codigo=5513626&fecha=19/02/2018](https://dof.gob.mx/nota_detalle.php?codigo=5513626&fecha=19/02/2018)

- NAFIN has confirmed that it intends to rely on the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) to measure emissions from clean transportation vehicles under the Framework. This is in line with market standards for assessing thresholds.
- Under the Energy Efficiency category, the Bank is targeting expenditures that are aligned with Mexico's national guidelines such as the Law for the Sustainable Use of Energy, the Official Standards and the guidelines issued by the National Commission for the Efficient Use of Energy.<sup>5,6</sup> The projects relate to upgrades and installations to thermal insulation of building, air conditioning, refrigeration systems as well as lighting systems that lead to energy efficiency improvements.
  - NAFIN intends to finance the installation of energy-efficient technologies and/or equipment that are not primarily powered by fossil fuels. Sustainalytics encourages the Bank to report on the estimated and/or achieved energy efficiency on a portfolio basis where feasible.
  - Regarding refrigeration systems, Sustainalytics notes that NAFIN may upgrade energy-efficient mechanical cooling systems and recommends that the Bank ensure the use of low-GWP refrigerants(s) for such cooling systems and promote robust refrigerant leak control, detection, monitoring, while ensuring recovery, reclamation/recycling, or destruction of refrigerants at the end of life.
- NAFIN contemplates financing Renewable Energy projects that are wholly dedicated to the production and delivery of electricity and heat from renewable energy sources, including wind,<sup>7</sup> solar and hydropower as follows:
  - Solar photovoltaic, solar thermal and concentrated solar powers (CSP). Sustainalytics notes that NAFIN does not intend to allocate proceeds to fossil-fuel back up generation for CSP projects, which is in line with market practice.
  - Hydropower plants with capacity less than 10 MW and life-cycle emissions below 100gCO<sub>2</sub>e/kWh. For new facilities, the Bank will require an environmental and social impact assessment by a credible body and is also committed to ensuring the absence of significant risk, expected negative controversies associated with the projects. These are carried out in line with the Bank's Environmental and Social Management System and in compliance with Mexico's Ministry of Environment mandate. Sustainalytics considers NAFIN's criterion for hydropower projects as aligned with market practice.
  - As part of this category, the Framework also allows for investments in transmission, distribution and energy storage infrastructure to support eligible renewable energy projects. Sustainalytics considers the financing of projects that contribute to expanded renewable energy capacity as aligned with market practice.
  - In addition, NAFIN may also finance the installation of controls, automation systems, sensors, meters, and technology dedicated to smart grid systems. This is in line with market practice.
- Under the Sustainable Solid Waste Management, the Bank may invest in facilities that are dedicated to the collection, sorting and disposal of non-hazardous waste towards preparing material for reuse and/or recycling. Sustainalytics notes that that waste products from fossil-fuel-related operations will not be considered under the Framework. This is in line with market practice.
  - Additionally, NAFIN is considering the financing of projects that capture biogas from closed landfills for waste to energy. The Bank has communicated to Sustainalytics that landfills are non-operational with high gas capture efficiency of at least 75%. Sustainalytics notes that recovering methane produced from closed landfill will not prolong the lifespan of the landfill and is a key strategy to reduce methane emissions from waste.
- Access to Essential Services may include financing a range of projects aimed at improving access to education, financial services and basic public infrastructure for a target population. NAFIN defines the target population across three criteria: (i) low-income communities with

<sup>5</sup> Diario Oficial de la Federación, "Ley para el Aprovechamiento Sustentable de la Energía", (2008), at:

[https://www.senado.gob.mx/comisiones/energia/docs/marco\\_LASE.pdf](https://www.senado.gob.mx/comisiones/energia/docs/marco_LASE.pdf)

<sup>6</sup> Comisión Nacional para el Uso Eficiente de la Energía, "Actions and Programs", (2021), at: <https://www.gob.mx/conuee#6871>

<sup>7</sup> Sustainalytics notes that the Framework limits the proportion of non-renewable sources for wind power projects to less than 15%.

- revenues below the income poverty line according to the definition provided by the National Council for the Evaluation of Social Development Policy; (ii) young entrepreneurs; and (iii) students.
- As part of this category, the Bank intends to provide vocational training and technical assistance programmes to the entrepreneurs and students. This is completely free of charge and is aimed at capacity building of this target population to support their business success. These are offered via NAFIN's e-learning platform as well as in collaboration with consulting firms accredited by NAFIN that offer free advisory services to Mexican MSMEs to access Funding Programs.<sup>8</sup>
  - Water and sanitation projects within this category relate to investing in federal and state government infrastructure projects to increase water access in Mexico. Sustainalytics considers the financing of basic public infrastructure as in line with market expectation.
- Within the MSMEs category, the Bank intends to finance MSMEs that target the following: (i) unemployment prevention and reduction, (ii) increase funding access for MSMEs, (iii) advance gender equality and (iv) improve regional development competitiveness and productivity. Sustainalytics considered investments to MSMEs that target underserved communities as aligned with market practice.
  - Under the Women's Empowerment and Socioeconomic Progress category, NAFIN contemplates investing in activities and programmes directed at MSMEs that empower women leadership.<sup>9</sup>
    - Some of the financial access to women MSMEs is provided through the Regime of Fiscal Incorporation programme through which the Bank extends credit via loans and guarantees as well as facilities offered through commercial banks.<sup>10</sup>
    - Sustainalytics considers the target population definition as aligned with market practice and views the activities contemplated as advancing women's participation in the Mexican workforce.
  - Under the Framework, NAFIN contemplates investments across the categories directed towards digital systems that allow data collection and processing of eligible projects financed under the Framework. Sustainalytics notes that these systems will be limited to 5% of total allocations and be used specifically for the purpose of tracking the environmental or social impact of the allocations made by NAFIN.
  - Given the minor use of proceeds and dedicated use for impact measurement, Sustainalytics considers this expenditure as in line with market practice.
  - NAFIN has in place Framework-level exclusions for activities that either cause material environmental harm or are considered as illegal under the laws and regulations of Mexico or under the treaties and international agreements. This includes but is not limited to entities involved in human right abuses or not in compliance with fundamental labour rights. Sustainalytics views this exclusion criterion as aligned with market practice.
- Project Evaluation and Selection:
    - The Bank's project selection and evaluation process will be overseen by the Deputy General Directorate (DGA) of Issuances and International Relations with final approval for eligible projects being the responsibility of the DGAs of Financial Institutions, Corporate Banking and Finance.<sup>11</sup>
    - NAFIN has a robust 5-step risk management system which is implemented by the Environmental and Social Management System Coordination and is applicable to direct loan disbursements the Framework. All other investments will be assessed based on the Bank-wide policies. Sustainalytics considers this risk assessment and mitigation process to be strong and to be aligned with market best practice. For additional detail see Section 2.
    - Based on the risk management systems, clear process for project selection and oversight by the respective DGA, Sustainalytics considers this process to be in line with market practice.

<sup>8</sup> For more information see: <https://www.nafintecapacita.com/>

<sup>9</sup> NAFIN has confirmed that the financed MSMEs will be majority-owned (51%) and operated by women.

<sup>10</sup> For more information, see "Financiamiento" at: <https://www.nafin.com/portalfn/content/financiamiento/mujeres-rif-crezcamos-juntas.html>

<sup>11</sup> NAFIN has confirmed with Sustainalytics that the DGAs of Financial Institutions, Corporate banking and Finance will make the final approvals for eligible projects.

- Management of Proceeds:
  - Net proceeds from issuances under the Framework will be deposited in a designated account by NAFIN to ensure adequate monitoring. NAFIN's DGA of Issuances and International Relations in coordination with the Financial DGA will oversee the allocation of proceeds.
  - NAFIN intends to allocate proceeds within 36 months of each bond issuance, which Sustainalytics considers as aligned with market expectations. Pending full allocation, the bond proceeds will be invested in accordance with the Bank's liquidity policy.
  - Based on the defined management approach and disclosure around the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - NAFIN intends to report on the allocation and impact of proceeds on its website on an annual basis until full allocation. Allocation reporting will include details such as total amount of bond proceeds allocated to each eligible category, balance of unallocated proceeds as well as the share of financing vs refinancing. In addition, the Bank is committed to reporting on relevant impact metrics such as the annual renewable energy generation (MWh/GWh), annual greenhouse gas (GHG) emissions avoided (tonnes), number of SMEs supported, and number of beneficiaries benefitted through finance social programmes.
  - Based on commitments to both impact and allocation reporting, Sustainalytics considers this process to be in line with market practice.

#### Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework aligns with the four core components of the GBP and SBP. For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Strategy of NAFIN

#### Contribution of Framework to Nacional Financiera S.N.C., I.B.D (NAFIN)'s sustainability strategy

NAFIN's commitment to sustainability is articulated in the Bank's mandate, as a national development bank, to contribute to the economic development of Mexico. This mandate is implemented across the following environmental and social areas: (i) climate change adaptation and mitigation; and (ii) sustainable development. The Bank's environmental priorities are advanced through its accreditation as a Direct Access Entity of the Green Climate Fund (GCF) and directly contributes to its efforts towards achieving Mexico's Nationally Determined Contributions under the Paris Agreement.<sup>12,13</sup> The Bank's strategic priorities include promoting energy efficiency for MSMEs and the transportation sector in Mexico, areas that the Bank sees as critical for the country.<sup>14</sup>

As the country's development bank, NAFIN is a key player in the expansion of MSMEs by providing access to finance in Mexico. In this regard, the Bank has developed a strategy set out in its Institutional Programme (2020 - 2024) which is aligned with Mexico's National Development Plan (2019 - 2024) and the National Development Finance Program (2020 - 2024).<sup>15</sup> The four priority objectives under the strategy are as follows:

- Contribute to economic development and promote regional development by financing companies whose activities are aligned to priority sectors and / or vocations productive of each State
- Promote the strengthening of the local supply chains through financial support to companies, mainly to MSMEs, so that they can be inserted in the national and global value chains
- Promote greater penetration of the credit in the private sector, with special emphasis on MSMEs
- Provide training and technical assistance to MSMEs and non-bank financial institutions in order to increase credit penetration in the private sector

<sup>12</sup> NAFIN, "Green Climate Fund", (2021), at: <https://www.nafin.com/portalf/content/emisiones-y-relaciones-internacionales/fondo-verde-clima.html>

<sup>13</sup> The Green Climate Fund was created in 2010 by the United Nations Framework Convention on Climate Change (UNFCCC), in order to be the main international financial mechanism that helps countries developing to reduce their greenhouse gas emissions and improve their ability to respond to climate change. For more information, see: <https://www.greenclimate.fund/>

<sup>14</sup> *Ibid*

<sup>15</sup> NAFIN, "Programa Institucional Nacional Financiera", (2020), at: [https://www.nafin.com/portalf/files/secciones/Acerca\\_de\\_Nafin/Programa-Institucional-NAFIN-2020-2024.pdf](https://www.nafin.com/portalf/files/secciones/Acerca_de_Nafin/Programa-Institucional-NAFIN-2020-2024.pdf)

As a result of its activities, NAFIN contributes to 30% of all commercial credit and 65% of loans granted to MSMEs in the country.<sup>16</sup> In 2020, 13,336 credits amounting to MXN 22.3 billion directed towards sector-based programs to assist MSMEs.<sup>17</sup> Furthermore, the Bank has developed the Sustainable Fund through which it deploys resources to sustainable development related projects in Mexico.<sup>18</sup> NAFIN also directs its efforts towards the financial inclusion of women and young people, granting; (i) 478 loans amounting to MXN 653 million through its Support for Women Entrepreneurs programme; and (ii) 388 loans amounting to MXN 162 million through its Young Entrepreneurs programme.<sup>19</sup>

Sustainalytics is of the opinion that the Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Bank's action on its key environmental priorities.

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

Sustainalytics recognizes that while projects financed through issuances under this Framework are anticipated to provide environmental benefits. However, by offering lending and financial services, banks are exposed to risks associated with controversial companies and/or projects they may finance and may also be exposed to the possibility of financing activities that have negative social or environmental impacts from large scale infrastructure development projects, worker health and safety, impacts on local communities.

Sustainalytics is of the opinion that NAFIN is able to manage and/or mitigate potential risks through implementation of the following:

- NAFIN's Environmental and Social Management Systems Coordination Unit – The unit oversees the compliance of beneficiaries with regards to environmental and social obligations through various monitoring and reporting activities.<sup>20</sup> In addition, this unit is responsible for the implementation of the Bank's Social and Environmental Risk Management Systems which are set up to strengthen its credit process by identifying potential risks associated with investments made by NAFIN.<sup>21</sup>
- Regulatory Frameworks – As a development bank founded in 1933 through decree authorizing the Ministry of Finance and Public Credit to establish a Financial Company, NAFIN is subject to regulation by the Mexican Government.<sup>22</sup> Furthermore, NAFIN voluntarily adopts the Equator Principles, and the International Finance Corporation (IFC) Performance Standards when considering environmental and social risks associated with project financing. Sustainalytics notes that the financing under the Framework will take place in Mexico, which is not on the list of Designated Countries under the Equator Principles, however the Bank does voluntarily adopt the Principles indicating that environmental and social governance legislation systems and institutional capacity are in place to ensure mitigation of the common environmental and social risks.<sup>23</sup>
- Code of Conduct – NAFIN's code of conduct lays out how the Bank conducts business, including how to help clients make informed financial decisions that are fair and honest.<sup>24</sup> In addition, this document articulate the responsibilities towards its clients, beneficiaries, suppliers, partner organizations and the Mexican government.
- Occupational Health and Safety – The Condiciones Generales de Trabajo (General Working Conditions) have been established by NAFIN to govern the labour relations between the Bank and its workers and are implemented to ensure that all workers and clients are in compliance with Mexican Regulatory Law, including health and safety.
- Responsible Lending Policy – NAFIN's Reglas de Operación del Programa de Crédito de Primer Piso (First Floor Credit Program Operating Rule) has been established by the Bank to act as a regulatory framework and financial guidelines, that allows the Bank to directly channel its resources to companies or entities from both the private and public sector, and ensures that investments made

<sup>16</sup> NAFIN, "Programa Institucional Nacional Financiera", (2020), at: [https://www.nafin.com/portalnf/files/secciones/Acerca\\_de\\_Nafin/Programa-Institucional-NAFIN-2020-2024.pdf](https://www.nafin.com/portalnf/files/secciones/Acerca_de_Nafin/Programa-Institucional-NAFIN-2020-2024.pdf)

<sup>17</sup> *Ibid*

<sup>18</sup> NAFIN, "NAFIN Sustainable Fund", (2021), at: <https://www.nafin.com/portalnf/content/emisiones-y-relaciones-internacionales/fondo-desarrollo-sostenible.html>

<sup>19</sup> NAFIN, "2019 Annual Report", (2020), at: [https://www.nafin.com/portalnf/content/nafin-en-cifras/informes\\_anuales.html](https://www.nafin.com/portalnf/content/nafin-en-cifras/informes_anuales.html)

<sup>20</sup> NAFIN, "NAFIN SARAS", (2021), at: <https://www.nafin.com/portalnf/content/sobre-nafin/saras/>

<sup>21</sup> *Ibid*.

<sup>22</sup> NAFIN, "Regulatory Background", (2021), at: [https://www.nafin.com/portalnf/content/marco-legal/legislacion\\_atribuciones.html](https://www.nafin.com/portalnf/content/marco-legal/legislacion_atribuciones.html)

<sup>23</sup> Equator Principles, "Designated Countries", (2020), at: <https://equator-principles.com/designated-countries/>

<sup>24</sup> NAFIN, "Code of Conduct", (2021), at: [https://www.nafin.com/portalnf/files/secciones/normatividad/pdf/codigo\\_de\\_conducta/2021/Co\\_769\\_digo\\_de\\_Conducta\\_2021.pdf](https://www.nafin.com/portalnf/files/secciones/normatividad/pdf/codigo_de_conducta/2021/Co_769_digo_de_Conducta_2021.pdf)

by the bank contribute to the sustainable use of natural resources and are responding specifically to the needs of the public sector.

Based on the Banks policies, standards and assessments, Sustainalytics is of the opinion that NAFIN has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories in the Framework.

### Section 3: Impact of Use of Proceeds

All seven use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

#### Importance of Renewable Energy Investments in Mexico

In 2020, only 27.8% of Mexico's energy was produced from clean energy sources.<sup>25</sup> Although there has been an increase in renewable energy generation capacity over the last decade, the corresponding carbon intensity has remained almost unchanged.<sup>26</sup> This can be attributed to the rise in fossil-based sources used to meet growing energy demands.<sup>27</sup> Currently, fossil fuels make up over 87% of Mexico's energy mix, which is above the G20 average.<sup>28</sup> As a result, total CO<sub>2</sub> emissions of the energy sector have risen by over 74% since 1990.<sup>29</sup>

In 2015, the Mexican government established the Energy Transition Law to advance renewable energy projects that support the country's achievement of its Nationally Determined Contributions ("NDC") under the Paris Agreement.<sup>30, 31</sup> The law aims to increase the share of clean energy in Mexico to 35% by 2024, and 43% by 2030.<sup>32</sup> Furthermore, the International Renewable Energy Agency estimates that renewable energy has the potential to reduce Mexico's total coal demand by 62%, natural gas by 21% and oil by 6% respectively compared to business as usual to 2030.<sup>33</sup> Therefore, transitioning to renewable energy can significantly contribute towards Mexico's NDC of reducing GHG emissions by 22% and black carbon emissions by 51% by 2030.<sup>34</sup>

Sustainalytics considers that NAFIN's investments under the Framework will contribute to expanding renewable energy capacity in Mexico and advancement the achievement of the country's long-term climate targets.

#### Importance of Providing Support to MSMEs in Mexico

MSMEs account for about 95% of companies in Mexico highlighting their important contribution the country's economic growth.<sup>35</sup> According to the Organization for Economic Co-operation and Development (OECD), there are over 4 million MSMEs in Mexico contributing to 12.4% of total gross production and employing 47.2% of the workforce.<sup>36</sup> However, MSMEs face significant barriers to access financing at affordable rates, paying an average of 17.7% of interest rate in comparison to 11.8% paid by larger companies.<sup>37</sup> In addition, the World Bank reports that only 11% of MSMEs use bank credit due to affordability and accessibility issues.<sup>38</sup> This has been further exacerbated by the COVID-19 pandemic which resulted in the closure of more than 1 million MSMEs across Mexico and a corresponding loss of 3 million jobs.<sup>39</sup>

<sup>25</sup> International Trade Association, "Mexico- Renewable Energy", (2021), at: <https://www.trade.gov/country-commercial-guides/mexico-renewable-energy>

<sup>26</sup> Climate Transparency, "Mexico", (2020), at: <https://www.climate-transparency.org/wp-content/uploads/2020/11/Mexico-CT-2020-WEB2.pdf>

<sup>27</sup> *Ibid.*

<sup>28</sup> *Ibid.*

<sup>29</sup> International Energy Agency, "Mexico", at: <https://www.iea.org/countries/mexico>

<sup>30</sup> The Law Reviews, "The Renewable Energy Law Review: Mexico", (2020) at: <https://thelawreviews.co.uk/title/the-renewable-energy-law-review/mexico>

<sup>31</sup> Gobierno Federal, "Intended Nationally Determined Contribution", at: [https://www.gob.mx/cms/uploads/attachment/file/162973/2015\\_indc\\_ing.pdf](https://www.gob.mx/cms/uploads/attachment/file/162973/2015_indc_ing.pdf)

<sup>32</sup> *Ibid.*

<sup>33</sup> IRENA, "A Renewable Energy Roadmap 2030", at: [https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2015/IRENA\\_REmap\\_Mexico\\_report\\_2015.pdf](https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2015/IRENA_REmap_Mexico_report_2015.pdf)

<sup>34</sup> Forbes, "Mexico Climate Policy Can Boost Its Economy, Save \$5 Billion, Prevent 26,000 Deaths By 2030", (2019) at: <https://www.forbes.com/sites/energyinnovation/2019/05/20/mexico-climate-policy-can-boost-its-economy-save-5-billion-prevent-26000-deaths-by-2030/?sh=43c917291615>

<sup>35</sup> Entrepreneur, "Why SMEs in Mexico Fail: The Reasons Nobody Talks about", (2021), at: <https://www.entrepreneur.com/article/371859>

<sup>36</sup> OECD, "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard", (2020), at: <https://www.oecd-ilibrary.org/sites/c2314a63-en/index.html?itemId=/content/component/c2314a63-en>

<sup>37</sup> OECD, "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard", (2020), at: <https://www.oecd-ilibrary.org/sites/c2314a63-en/index.html?itemId=/content/component/c2314a63-en>

<sup>38</sup> The World Bank, "Expanding Financial Access for Mexico's Poor and Supporting Economic Sustainability", (2021), at:

<https://www.worldbank.org/en/results/2021/04/09/expanding-financial-access-for-mexico-s-poor-and-supporting-economic-sustainability>

<sup>39</sup> Mexico News Daily, "Coronavirus has shuttered 1 million small businesses", (2020), at: <https://mexiconewsdaily.com/news/coronavirus-has-shuttered-1-million-small-businesses/>

In response to the financial challenges faced by MSMEs, the Government of Mexico introduced the Crédito a la Palabra Programme in 2020, directing MXN 25 billion (USD 1 billion) to support family SMEs.<sup>40</sup> The programme provides loans of MXN 25,000 (USD 1,032) to be paid within 3 years with an annual interest rate of 6.5%.<sup>41</sup> In 2021, the Mexican government announced the extension of the programme, allocating an additional MXN 1.5 billion (USD 74 million) for the fiscal year.<sup>42</sup> Additionally, the federal government has provided loans to almost 700,000 MSMEs and intends to extend credit to about 642,000 small businesses.<sup>43</sup>

Sustainalytics notes that NAFIN's financing for MSMEs to support their economic activities will help generate more employment opportunities in Mexico, develop the nation's economy and help make it more resilient in the face of the current pandemic.

#### Alignment with/contribution to SDGs

The SDGs were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) issued under the Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework advances the following SDGs and targets:

| Use of Proceeds Category     | SDG   | SDG target   |
|------------------------------|---|--|
| Clean Transportation         | 11. Sustainable Cities and Communities  | 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children   |
| Energy Efficiency            | 7. Affordable and Clean Energy  | 7.3 By 2030, double the global rate of improvement in energy efficiency  |
| Renewable Energy             | 7. Affordable and Clean Energy  | 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix   |
| Sustainable Waste Management | 6. Clean Water and Sanitation   | By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations  |
| Access to Essential Services | 4. Quality Education<br><br>6. Clean Water and Sanitation<br><br>8. Decent Work and Economic Growth | 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<br><br>6.a By 2030, expand international cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programmes, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies<br><br>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. |

<sup>40</sup> Global Trade Alert, "Mexico: Government launches USD 1 billion credit programme to family SMEs (COVID-19)", (2020), at: <https://www.globaltradealert.org/intervention/79315/state-loan/mexico-government-launches-usd-1-billion-credit-programme-to-family-smes-covid-19>

<sup>41</sup> *Ibid.*

<sup>42</sup> *Ibid.*

<sup>43</sup> Mexico News Daily, "IMSS has approved 700,000 loans worth 25,000 pesos to small businesses", (2020), at: <https://mexiconewsdaily.com/news/coronavirus/imss-has-approved-700000-loans-to-small-businesses/>

|  |                                    |   |
|--|------------------------------------|---|
| Micro, Small and Medium Enterprises            | 8. Decent Work and Economic Growth | 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. |
| Women's Empowerment and Socioeconomic Progress | 5. Gender Equality                 | 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life.   |

## Conclusion

NAFIN has developed the Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework under which it may issue sustainability bonds and use the proceeds to finance projects that promote women empowerment, clean transportation, MSMEs and other projects that support Mexico's advancement of the SDGs. Sustainalytics considers that the projects funded by the sustainability bond proceeds are expected to provide positive environmental and social impact.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 4, 5, 6, 7, 8, and 11. Additionally, Sustainalytics is of the opinion that NAFIN has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that Nacional Financiera S.N.C., I.B.D (NAFIN) is well-positioned to issue sustainability bonds and that Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2021) and Social Bond Principles (2021).

## Appendix

### Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

#### Section 1. Basic Information

|  |   |
|--|---|
| <b>Issuer name:</b>  | Nacional Financiera S.N.C., I.B.D (NAFIN)                               |
| <b>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</b> | Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework |
| <b>Review provider's name:</b>   | Sustainalytics  |
| <b>Completion date of this form:</b>   | October 29, 2021  |
| <b>Publication date of review publication:</b>   |   |

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

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

- |  |  |
|--|--|
| <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 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

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

Please refer to Evaluation Summary above.

#### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

## 1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds – Clean Transportation, Energy Efficiency, Renewable Energy, Sustainable Waste Management, Access to Essential Services, Small, Medium and Micro Enterprises, and Women’s Empowerment and Socioeconomic Progress – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals (“SDGs”), specifically SDGs 4, 5, 6, 7, 8 and 11.

### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy   | <input checked="" type="checkbox"/> Energy efficiency  |
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation   |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):   |

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

### Use of proceeds categories as per SBP:

- |   |  |
|---|--|
| <input type="checkbox"/> Affordable basic infrastructure  | <input checked="" type="checkbox"/> Access to essential services                                   |
| <input type="checkbox"/> Affordable housing   | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment                      |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the social taxonomy, if other than SBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

NAFIN's project evaluation and selection process will be overseen by the Deputy General Directorate (DGA) of Issuances and International Relations with final approval for eligible projects being the responsibility of the DGAs of Financial Institutions, Corporate Banking and Finance. The Bank has a robust risk management system which is applicable to all allocation decisions in alignment with the Framework. Sustainalytics considers this risk assessment and mitigation process to be strong, and the project selection process to be in line with market practice.

#### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                           | <input type="checkbox"/> Other (please specify):  |

#### Information on Responsibilities and Accountability

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

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

Net proceeds from issuances under the Framework will be monitored by NAFIN's DGA of Issuances and International Relations in coordination with the DGA of Finance. The Bank intends to allocate proceeds within 36 months of each bond issuance. Pending full allocation, the bond proceeds will be invested in accordance with the Bank's liquidity policy. This is in line with market practice.

#### Tracking of proceeds:

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

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

#### 4. REPORTING

Overall comment on section (if applicable):

NAFIN intends to report on the allocation of proceeds on its website annually until full allocation. Allocation reporting will include total amount of bond proceeds allocated to each eligible category, balance of unallocated proceeds and the share of financing and refinancing. In addition, the Bank is committed to reporting on relevant impact metrics, where feasible. Sustainalytics views the allocation and impact reporting process to be in line with market practice.

#### Use of proceeds reporting:

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

#### Information reported:

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

#### Frequency:

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

#### Impact reporting:

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

#### Information reported (expected or ex-post):

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings   |
| <input type="checkbox"/> Decrease in water use              | <input checked="" type="checkbox"/> Number of beneficiaries  |
| <input type="checkbox"/> Target populations                 | <input type="checkbox"/> Other ESG indicators (please specify): Annual renewable energy generation; Renewable Energy Installed Capacity; Number of clean vehicles deployed, Annual reduction of atmospheric contaminants; Annual |

Renewable Energy from the valorization of waste; Value of the credits granted to the SMEs; Number of the jobs created to SMEs competitive program; Number of benefitted women; Number of benefitted SMEs headed by women

**Frequency:**

- Annual  Semi-annual  
 Other (please specify):

**Means of Disclosure**

- Information published in financial report  Information published in sustainability report  
 Information published in ad hoc documents  Other (please specify): NAFIN's website.  
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

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.)**

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- Consultancy (incl. 2<sup>nd</sup> 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 AND THE SBP**

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.

- 
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
  - iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
  - iv. Green, Social and Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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