

Nacional Financiera S.N.C. Social Bond

Type of Engagement: Annual Review

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Introduction

In 2017, Nacional Financiera S.N.C. (“NAFIN”) issued a social bond aimed at financing various programs providing social benefits to specified groups. In December 2018, NAFIN engaged Sustainalytics to review the projects funded through the issued social bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Nacional Financiera S.N.C. Social Bond Framework.

Evaluation Criteria

Sustainalytics evaluated a representative sample¹ of the loans funded in 2017-18 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Social Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Social Bond Framework.

Table 1 lists the Use of Proceeds and Eligibility Criteria, while Table 2 list the associated KPIs.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds Category	Eligibility Criteria
Enhancing access to essential services including education, vocational training, and financing and financial services for low-income and underserved populations including young entrepreneurs and students;	Provides credit to young entrepreneurs opening a business / growing their current business
Employment generation through microfinance and financing targeted at micro, small and medium enterprises (MSMEs);	Credit for Microbusinesses ² when the credit is granted to a single individual and having a maximum limit with the equivalent amount in local currency of UDI 30,000 (approximately MXN 172,228 or USD 9,473) and a maximum term of three years or when credit is given to groups of individuals having a maximum limit of the equivalent amount in local currency of UDI 11,500 (approximately MXN 66,020 or USD 3,631) for each member of the group and a maximum term of one year.
Socio-economic advancement and empowerment of women by providing credit to women entrepreneurs who want to expand their businesses;	Provides credit to women entrepreneurs who want to expand their businesses.
Enhancing cost-savings through resource efficiency (e.g. energy, water) for low-income households by financing the installation of high-	Credit for residential energy efficiency projects/eco-solutions.

¹ NAFIN provided Sustainalytics with a sample of 1000 loans, which were taken to be representative of the overall loan portfolio

² Microbusiness - the National Institute of Statistics defines a microbusiness as one that employs up to 10 workers in commerce, services, transportation and construction; and up to 15 workers in manufacturing.

efficiency products and technologies;	
Supporting the economic recovery of individuals and micro, small and medium enterprises (MSMEs) impacted by natural disasters.	Financing to micro, small and medium enterprises (MSMEs), or individuals with a business, for their recovery after having been affected by physical and economic damages due to a natural disaster or a circumstantial event.

Table 2: Reporting Commitments

Allocation Reporting	Impact Reporting (where feasible)
<ul style="list-style-type: none"> Confirmation that the use of proceeds of each NAFIN Social Bond complies with the NAFIN Social Bond Framework; A list of NAFIN programmes financed, in whole or in part, by net proceeds of the NAFIN Social Bond; The amount of net proceeds allocated to each NAFIN Programmes financed, in whole or in part, by net proceeds of the NAFIN Social Bond; The balance amount of unallocated net proceeds; 	<ul style="list-style-type: none"> Number of microfinance loans granted; Number of loans granted to low-income households for installations of sustainability improvement technologies. Amount of credit or microcredit distributed.

Issuing Entity's Responsibility

NAFIN is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of NAFIN's Social Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from NAFIN employees and review of documentation to confirm the conformance with the Social Bond Framework.

Sustainalytics has relied on the information and the facts presented by NAFIN with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by NAFIN.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,³ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of NAFIN's Social Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Social Bond Framework. NAFIN has disclosed to Sustainalytics that the proceeds of the social bond are fully allocated as of September 30, 2018, therefore no further annual reviews will be conducted by Sustainalytics.

³ Sustainalytics' limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of a sample of projects funded by the social bond in 2017-18 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Social Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria with regards to maximum loan size.	Exception: Sustainalytics did not confirm directly that loan recipients in the microcredit category were eligible microbusinesses, however, given that the proceeds are being used to fund second floor loans, NAFIN provided written confirmation that it verifies on a random basis that the loans granted by its financial intermediaries comply with the established criteria.
Reporting Criteria	Verification of a sample of the projects funded by the social bond in 2017-18 to determine if impact of projects was reported in line with the KPIs outlined in the Social Bond Framework and above in Table 2. For detailed reporting information please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

Appendix 1: Detailed Reporting Information

Impact Reporting by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Number of Loans	Amount of Credit (million MXN)
Microcredit	451,625	5,814.3
Sustainable Improvement in Existing Dwelling	1,229	31.4
TOTAL:	452,854	5,844.7

Microcredit Loans Disbursed by Sector

Sector	Number of loans	Share (%)	Amount of credit (million MXN)	Share (%)
Commerce	362,551	80.3	2,347.4	40.4
Services	63,408	14.0	3,323.0	57.2
Industry	25,666	5.7	143.9	2.5
TOTAL:	451,625	100	5,814.3	100

Information on Random Sample Provided from Microcredit Program

Loans Sampled	1000
Maximum Loan Size in Sample	150,000 MXN
Minimum Loan Size in Sample	57.10 MXN
Average Loan Size in Sample	10,534.58 MXN
Average Loan Size in Portfolio	12,874.18 MXN
Number of Sectors Represented in Sample	3
Number of States Represented in Sample	32

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Sustainalytics

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