

NAFIN GREEN BOND ANNUAL COMPLIANCE REVIEW

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Type of engagement: Annual Review

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Introduction

In August 2016, Nacional Financiera, S.N.C, (“NAFIN”) issued a green bond aimed at funding eligible wind and hydro energy generation projects in Mexico. In August 2017, NAFIN engaged Sustainalytics to review all the projects funded through the issued green bond, and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Green Bond Framework.

Compliance Evaluation Criteria

Sustainalytics evaluated two hydro and one wind farm projects for compliance based on whether the projects:

1. Met the Use of Proceeds criteria outlined in the Green Bond Framework
2. Reported on two Key Performance Indicators (KPIs) outlined in the Green Bond Framework

Sustainalytics has not verified the methodology or accuracy of the carbon emissions data reported as part of this engagement.

Table 1 lists the Use of Proceeds and Reporting criteria.

Table 1: Use of Proceeds and Reporting Criteria

Use of Proceeds criteria	Key Performance Indicator (KPI)
Renewable Energy -	Energy produced from renewable sources
Wind Power Plants and Small Hydro Power Plants	GHG emissions reduced or avoided

Issuing Entity’s Responsibility

NAFIN is responsible for providing accurate information and documentation relating to the details of the project that has 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 Green Bond Framework and provided an independent opinion. The work undertaken as part of this engagement included conversations with relevant NAFIN employees and review of relevant documentation to confirm the conformance with the Green Bond Framework.

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.

Exceptions

No exceptions were identified.

All projects aligned with the Renewable Energy Use of Proceeds criteria as well as the Reporting criteria.

Conclusion

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the allocation of Ps. 2,042.8 million (MXN) from NAFIN’s green bond, issued to fund eligible green projects, is not in conformance with the Use of Proceeds and Reporting criteria outlined in the NAFIN Green Bond Framework.

On August 31, 2016, NAFIN issued a Ps. 2,000 million (MXN) ’s green bond. As per information provided by NAFIN, proceeds were fully allocated to fund eligible wind and hydro energy generation projects in Mexico as of July 31, 2017. Since proceeds have been fully allocated, no further compliance reviews will be conducted by Sustainalytics.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of three projects funded by the green bond issued in 2016 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Green Bond Framework and above in Table 1.	All three projects reviewed complied with the Use of Proceeds criteria	None
Reporting Criteria	Verification of three projects funded by the green bond issued in 2016 to determine if impact of projects was reported in line with the KPIs outlined in the Green Bond Framework and above in Table 1.	All three projects reviewed complied with the Reporting criteria	None

Appendix 1: List of Projects Reviewed and Project Impact

Project Name	Location	Sustainalytics' Comments	Year	Total Project Investment	NAFIN's Investment	Installed Capacity	Energy Production	Sustainalytics' Comments	Reduction of Greenhouse Gases	Sustainalytics' Comments
		Project Meets Use of Proceeds Criteria		Million Ps.	Total Amount Disbursed ⁽²⁾ (Million Ps.)	(in MW)	(GWh/year) ⁽¹⁾	Energy Reporting Meets Criteria	t-CO ₂	GHG Reporting Meets Criteria
1 Hydro Plant 1	Nayarit	yes	2013	899	521.8	28.8	130.0	yes	75,400	yes
2 Wind Farm	Puebla	yes	2016	1,863	1,121.0	66.0	220.0	yes	99,880	yes
3 Hydro Plant 2	Puebla	yes	2016	1,120	400.0	36.0	239.0	yes	153,677	yes
TOTAL				3,882.5	2,042.8	130.8	589.0		328,957.0	

(1) Considering outstanding balance as of July 2017. Figures in MXNmm provided by NAFIN.

(i) Annual Electricity Factor according to SEMARNAT (2015) 0.580

(ii) Adjusted electricity factor for hidroelectric system, considering penstock 0.454

(iii) Adjusted electricity factor for hidroelectric system, considering pumping system 0.643

(2) This amount represents the total amount disbursed by NAFIN as of July 31, 2017.

(3) The "total project investment amount" considers the amount financed by all the banks, including NAFIN's investment.

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