

## NAFIN'S ANNUAL GREEN BOND REPORT

### I. Green Commitment.

In line with the objectives of the Federal Government focused on promoting Sustainable Development in Mexico, stated in the National Development Plan 2013-2018, NAFIN positions itself as a strategic development bank to meet the environmental goals of the Federal Government on the transition to a low carbon economy. Our objective consists of granting short, medium and long-term funding to national and international companies and financial intermediaries, which promote projects in Mexico that lead to an ecological, economic and social development.

NAFIN has participated actively in several initiatives and conferences focused on recent innovations in the Green and Sustainability Bond Market in LatAm and Mexico such as:

- *“Project & Infrastructure Finance Summit”* organized by LatinFinance in the panel *Greener Pastures: Funding Strategies in Renewables Markets*.
- Within the framework of the Dual Year Mexico-Germany: *“Dialogues for Sustainable Projects”* in the panel *Green Bonds as a new economic instrument in Mexico*.
- Within the framework of a Strategic Alliance on Green Bond Market Development between GIZ and SEB: *“Green Bond Workshop for banks, investors and issuers”* in the panel *Case study: NAFIN’s last two Green Bond transactions*.
- *“Dialogue for investment strategies aligned to the Paris Agreement”* hosted by National Institute of Ecology and Climate Change (INECC).

- *“Green Bond Americas 2017”* organized by Environmental Finance in the panel *Green Bond Innovation and Development*

According to our mandate to develop domestic capital markets and fostering the Sustainable Markets in Mexico, NAFIN issued 2 placements: on August 31,2016 a MXP 2,000 million 7-year Green Bond to yield and coupon of 6.05%, representing the “First Green Bond in Mexican Pesos”. This issuance was the first listed in the Mexican Stock Exchange segment dedicated to green bonds. Talking about Sustainable Markets, NAFIN issued a 5-year floating bond being the “First Listed Social Bond in Mexico” for an amount of MXP 4,000 million to coupon of TIIE – 2bp.

### II. Green Bond denominated in US dollar framework.

On October 29, 2015, NAFIN issued a US\$500m Green Bond. The net proceeds from the issuance of the notes are being used to finance eligible wind energy generation projects in Mexico. We obtained a positive second-party review from Sustainalytics and the certification by the Climate Bond Initiative.



NAFIN was three times awarded for this transaction, recognizing innovation and post-deal reporting and transparency about use of proceeds:



- *First Green Bond-Mexico* granted by Climate Bonds Initiative.
- *Bond of the year SSA* (Sovereigns, Supranationals and Agencies) granted by Environmental Finance.
- *Latin American Green /SRI Bond Deal of the year* granted by Global Capital.

Following the guidance of Green Bond Principles, we are distributing this report as of the second anniversary of the issuance, along with the compliance review provided by Sustainalytics.

### III. Use of proceeds.

#### Eligibility criteria

Activities generating energy from wind are eligible for the use of proceeds of the bond. These activities specifically, refer to the development and construction of wind farms and/or wholly dedicated transmission infrastructure for wind farms.

Eligible Projects means financing of, and/or investments in wind energy projects;

- committed after or before the issuance of the Notes; or
- are funded or disbursed after the issuance of the Notes; or
- are funded or disbursed during previous financial year.

#### Funds monitoring

The loan balance, disbursements and repayments are monitored through our internal loan tracking system (SIRAC). On a daily basis, the International Treasury Department consults the latest updated loan balance shared by the Sustainable Projects Department and identifies the pending disbursements amount, which are held in the liquidity portfolio, and invests them in overnight and short-term financial instruments.

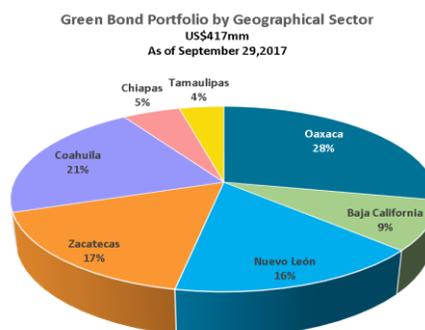
#### Management of proceeds.

As of September 29, 2017, NAFIN's wind energy green portfolio amounts **US\$417.0mm** and is integrated by ten wind projects with a total installed capacity of 1,644MW. These projects are calculated to reduce CO<sub>2</sub> emissions (\*) by almost 2.52 million tons per year.

**Green Portfolio: Nafin's Funded Wind Energy Projects**

Project Name	Nafin Investment	Installed Capacity	Energy Production	Reduction of Greenhouse Gases
	(US \$ in million) <sup>(1)(2)</sup>	(in MW)		t-CO <sub>2</sub> <sup>(*)</sup>
Wind Farm Oaxaca 4	\$ 33.1	164	514,604.45	235,689
Wind Farm Oaxaca 5	\$ 35.3	160	578,720.64	265,054
Wind Farm Oaxaca 6	\$ 48.7	137.5	469,995.90	215,258
Wind Farm Baja California	\$ 35.9	155.1	374,586.97	171,561
Wind Farm Nuevo León 1	\$ 34.2	126	451,989.72	207,011
Wind Farm Nuevo León 2	\$ 34.1	126	451,989.72	207,011
Wind Farm Zacatecas	\$ 70.0	130	337,198.68	154,437
Wind Farm Coahuila	\$ 87.4	199.5	698,698.48	320,004
Wind Farm Chiapas	\$ 21.6	21	49,025.34	22,454
Wind Farm Tamaulipas	\$ 16.7	425	1,587,127.37	726,904
<b>TOTAL</b>	<b>\$ 417.0</b>	<b>1,644.1</b>	<b>5,513,937.3</b>	<b>2,525,383.3</b>

(1) According to the financial model FX Rate used reported by Banco de México on September 29, 2017  
(2) Considering outstanding balance as of September 29, 2017. Figures in MXNmm provided by Nafin



Pending US\$83mm disbursements are held in our liquidity portfolio, invested in overnight and short-term Investments.

### IV. External Audit.

NAFIN engaged Sustainalytics to review all the projects funded through the 2015 issued bond and they concluded **all eight projects complied with the use of proceeds and reporting criteria**, for more details please find the Compliance Review in the next pages.

(\*) The reduction of greenhouse gases are calculated as per the Centro de Estudio de Tecnologías Energéticas Renovables methodology (tCO<sub>2</sub>/MWh, 0.454 for 2014):  
t-CO<sub>2</sub>=Annual Production (MWh/year)\*Annual Electricity Factor

# NAFIN GREEN BOND ANNUAL COMPLIANCE REVIEW

**October 30, 2017**

**Type of engagement:** Annual Review

**Engagement leader:** Ankita Shukla, ankita.shukla@sustainalytics.com +1 416 861 0403

## Introduction

In October 2015, Nacional Financiera, S.N.C, (“NAFIN”) issued a green bond aimed at funding eligible wind energy generation projects in Mexico. NAFIN engaged Sustainalytics for an annual review in October 2016 to review all the projects funded in 2015 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.

NAFIN engaged Sustainalytics in October 2017 for its second annual review of eligible projects.

## Compliance Evaluation Criteria

Sustainalytics evaluated ten 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
	CO <sub>2</sub> e or other 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 USD 417 million 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.

As per information provided by NAFIN, the pending USD 83 million disbursements are hold in NAFIN’s liquidity portfolio, invested in overnight and short-term Investments.

## Detailed Findings

**Table 2: Detailed Findings**

<b>Eligibility Criteria</b>	<b>Procedure Performed</b>	<b>Factual Findings</b>	<b>Error or Exceptions Identified</b>
<b>Use of Proceeds Criteria</b>	Verification of ten wind projects funded by the green bond issued in 2015 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Green Bond Framework and above in Table 1.	All ten projects reviewed complied with the Use of Proceeds criteria	None
<b>Reporting Criteria</b>	Verification of ten wind projects funded by the green bond issued in 2015 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 ten projects reviewed complied with the Reporting criteria	None

## Appendix 1: List of Projects Reviewed and Project Impact

### Green Portfolio: Nafin's Funded Wind Energy Projects

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