

## 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*
- *Attended “Green Bond Americas 2018”* sharing experience about our sustainable issuance.
- Within the framework of the Green Finance Council organized by MÉXICO<sub>2</sub>, subsidiary of the Mexican Stock Exchange with the support of Environment and Natural Resources Ministry.
- In addition, through our Sustainable Projects Division, Nafin has been actively participating in forums such as the 3<sup>rd</sup> Energy IMEF National Forum; Mexico towards Climate Change: Mexico’s renewable energy sector developments and opportunities in the Project Financing Panel and in the 3<sup>rd</sup> National Meeting of the Ecology and Climate Change National Institute.

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 October 08, 2018, NAFIN's wind energy green portfolio has been fully allocated and amounts **US\$499.3mm** (as it was issued at a discount rate and considering the issuance expenses); it is integrated by eleven wind projects, two still under construction, with a total installed capacity of 1,732MW. These projects are calculated to reduce CO<sub>2</sub> emissions (\*) by almost 2.29 million tons per year.

Green Portfolio: Nafin's Funded Wind Energy Projects

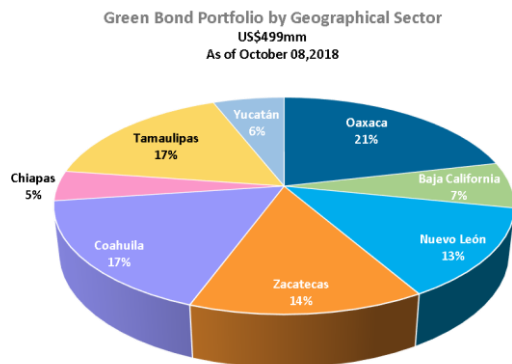
Project Name	Nafin Investment	Installed Capacity	Energy Production	Reduction of Greenhouse Gases
	(US \$ in million) <sup>(1)(2)</sup>	(in MW)		t-CO <sub>2</sub> <sup>(*)</sup>
Wind Farm Oaxaca 4	\$ 29.6	164	514,604.45	299,500
Wind Farm Oaxaca 5	\$ 32.0	160	578,720.64	336,815
Wind Farm Oaxaca 6	\$ 45.1	137.5	469,995.90	273,538
Wind Farm Baja California	\$ 34.1	155.1	374,586.97	218,010
Wind Farm Nuevo León 1	\$ 33.5	126	451,989.72	263,058
Wind Farm Nuevo León 2	\$ 33.4	126	451,989.72	263,058
Wind Farm Zacatecas	\$ 69.8	130	337,198.68	196,250
Wind Farm Coahuila	\$ 85.9	199.5	698,698.48	406,643
Wind Farm Chiapas	\$ 22.5	21	49,025.34	28,533
Wind Farm Tamaulipas	\$ 83.6	442.8		
Wind Farm Yucatán	\$ 29.7	70		
<b>TOTAL</b>	<b>\$ 499.3</b>	<b>1,731.9</b>	<b>3,926,809.9</b>	<b>2,285,403.4</b>

(1) According to the financial model FX Rate used reported by Banco de México on October 08, 2018

(2) Considering outstanding balance as of October 08, 2018. Figures in MXNmm provided by Nafin

(\*) Annual Electricity Factor (tCO<sub>2</sub>/MWh)

Still under construction.



#### 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

## Nacional Financiera S.N.C.

**Type of Engagement:** Annual Review

**Date:** 26 October 2018

**Engagement Leader:** Marion Oliver, [marion.oliver@sustainalytics.com](mailto:marion.oliver@sustainalytics.com), 1-647-317-3644

### Introduction

In 2015, Nacional Financiera, S.N.C (“NAFIN”) issued a green bond aimed at financing wind energy generation projects in Mexico. NAFIN engaged Sustainalytics in October 2016 and 2017 to review all the projects funded in 2015 and 2016 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.

In October 2018, NAFIN engaged Sustainalytics to provide a third and final annual review of the projects funded through the issued green bond, and to assess whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the NAFIN Green Bond Framework.

### Evaluation Criteria

Sustainalytics evaluated the projects funded in 2018 based on whether the projects and programmes:

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

**Table 1: Use of Proceeds, Eligibility Criteria, and KPIs**

Use of Proceeds Criteria	Eligibility Criteria	KPIs
<b>Renewable Energy</b>	<ul style="list-style-type: none"> <li>• Activities generating energy from wind including the a.) development and construction of wind farms and/or b.) wholly dedicated transmission infrastructure for wind farms.</li> </ul>	<ul style="list-style-type: none"> <li>• KWh of energy produced</li> <li>• GHG emissions reductions or avoidance achieved</li> </ul>

### 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 Green 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 Green Bond Framework.

Sustainalytics has relied on the information and the facts presented by NAFIN with respect to the eligible 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,<sup>1</sup> 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 green bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Green Bond Framework. NAFIN has disclosed to Sustainalytics that the proceeds of the green bond were fully allocated as of October 8<sup>th</sup>, 2018, therefore no further annual reviews will be conducted by Sustainalytics.

### Detailed Findings

**Table 3: Detailed Findings**

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Use of Proceeds Criteria</b>	Verification of the projects funded by the green bond in 2018 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Green Bond Framework and above in Table 1.	All 11 projects reviewed complied with the Use of Proceeds criteria.	None
<b>Reporting Criteria</b>	Verification of the projects funded by the green bond in 2018 to determine if impact of projects was reported in line with the KPIs outlined in the Green Bond Framework and above in Table 1. For a list of KPIs reported per project please refer to Appendix 1.	All 11 projects reviewed reported on at least one KPI per Use of Proceeds criteria.	Exception, the 2 projects currently under construction did not report on any KPIs.

<sup>1</sup> 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.

## Appendix 1: Impact Reporting by Eligibility Criteria

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

Project Name	NAFIN Investment	Installed Capacity	Energy Production	Reduction of Greenhouse Gases
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<b>TOTAL</b>	<b>499.3</b>	<b>1731.9</b>	<b>3,926,809.90</b>	<b>2,285,403.4</b>

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(2) Considering outstanding balance as of October 8, 2018. Figures in MXNmm provided by NAFIN

(\*) Annual Electricity Factor (tCO<sub>2</sub>/MWh)

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## Sustainalytics

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For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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