

REPORT REVIEW

Bancomext Sustainability Bond report

Sustainability Bond Report Bancomext

16 August 2023

VERIFICATION PARAMETERS

Type(s) of reporting

- Green Bond and Social Bond Allocation and Impact Report

Relevant standard(s)

- Harmonized Framework for Impact Reporting (HFIR), updated June 2022, as administered by International Capital Market Association (ICMA)
- Bancomext's Sustainability Bond Report (as of March 29, 2023)
- Bancomext's Sustainability Bond Framework (as of July 2021)
- Sustainability Bond identification:

Scope of verification

ISIN	Maturity	Size (MXN)	Framework
MXCDBA0300F1	3 years	3 billion	Sustainability Bond Framework
MXCDBA0300d6	5 years	3 billion	Sustainability Bond Framework
MXCDBA0300E4	10 years	4 billion	Sustainability Bond Framework

Lifecycle

- Post-issuance verification

Validity

- As long as no changes are undertaken by the Issuer to its Sustainability Bond Report as of March 29, 2023

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SCOPE OF WORK

Banco Nacional de Comercio Exterior (“the Issuer” or “Bancomext”) commissioned ISS Corporate Solutions (ICS) to provide a Report Review¹ on its Sustainability Bond Report by assessing:

1. The alignment of Bancomext’s Sustainability Bond Report (as of March 29, 2023) with the commitments set forth in Bancomext Sustainability Bond Framework (as of July 2021)².
2. Bancomext’s Sustainability Bond Report - benchmarked against the Harmonized Framework for Impact Reporting (HFIR), updated June 2022, as administered by the International Capital Market Association (ICMA).
3. The disclosure of proceeds allocation and soundness of reporting indicators³ – whether the impact metrics align with best market practices and are relevant to the Sustainability Bond issued.

¹ A limited or reasonable assurance is not provided on the information presented in Bancomext Sustainability Bond Report. A review of the use of proceeds’ allocation and impact reporting is solely conducted against ICMA’s Standards (Green Bond and Social Bond Principles) core principles and recommendations where applicable, and the criteria outlined in the underlying Framework. The assessment is solely based on the information provided in the allocation and impact reporting. The Issuer [or Bancomext] is responsible for the preparation of the report including the application of methods and internal control procedures designed to ensure that the subject matter information is free from material misstatement.

² The Framework was assessed as aligned with the Green Bond and Social Bond Principles as of July 2021.

ASSESSMENT SUMMARY

REVIEW SECTION	SUMMARY	EVALUATION
<p>Part 1.</p> <p>Alignment with the Issuer's commitments set forth in the Framework</p>	<p>Bancomex's Sustainability Bond Report meets the Issuer's commitments set forth in the Sustainability Bond Framework. The proceeds have been used to (re)finance Sustainable Water and Wastewater Management, and Pollution prevention and control in accordance with the eligibility criteria defined in the Framework.</p>	<p>Aligned</p>
<p>Part 2</p> <p>Alignment with the Harmonized Framework for Impact Reporting (HFIR)</p>	<p>The Sustainability Bond Report is in line with ICMA's HFIR. The Issuer follows core principles and where applicable key recommendations.</p> <p>Allocation of proceeds is disclosed at a project category level. The report was produced on an annual basis and includes impact indicators for most of the financed projects.</p>	<p>Aligned</p>
<p>Part 3</p> <p>Disclosure of proceeds allocation and soundness of reporting indicators</p>	<p>The allocation of the bond's proceeds has been disclosed, with a detailed breakdown across different eligible project categories as proposed in the Framework⁴.</p> <p>Bancomex's Sustainability Bond Framework has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculation methodologies, and granularity reflecting best market practices.</p>	<p>Positive⁵</p>

⁴ The assessment is based on the information provided in the Issuer's report. The Issuer is responsible for the preparation of the report including the application of methods and procedures designed to ensure that the subject matter information is free from material misstatement.

⁵ The client is a Financial Institution and states that the source for the indicator information is received from external sources (borrowers) and that the Issuer cannot always directly confirm the data due to the nature of financing (e.g., syndicated loans). This presents a limitation based on the source and methodology disclosure requirements from the ICMA Harmonized Framework for Impact Reporting (HFIR) and/or Harmonized Framework for Impact Reporting for Social Bonds (HFIRSB).



REPORT REVIEW ASSESSMENT

PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE SUSTAINABILITY BOND FRAMEWORK⁶

The following table evaluates the Sustainability Bond Report against the commitments set forth in Bancomext’s Framework, which are based on the core requirements of the Green Bond Principles as well as best market practices.

ICMA HFIR	OPINION	ALIGNMENT WITH COMMITMENT
1. Use of Proceeds	<p>Bancomext confirms to follow the Use of Proceeds’ description provided by Bancomext’s Sustainability Bond Framework. The report is in line with the initial commitments set in Bancomext’s Sustainability Bond Framework: The proceeds have been used to (re)finance Sustainable Water and Wastewater management and Pollution prevention and control in accordance with the eligibility criteria defined in the Framework.</p> <p>The Issuer’s green and social categories align with the project categories and the client confirms that they are in line with the eligibility criteria set in Bancomext’s Sustainability Bond Framework. Environmental and social benefits at category level are described and quantified.</p> <p>The Issuer defined the expected look-back period and provided explicit exclusion of harmful project categories, in line with best market practice.</p>	✓
2. Process for Project Evaluation and Selection	<p>Bancomext confirms to follow the Process for Project Evaluation and Selection description provided by Bancomext’s Sustainability Bond Framework. The report is in line with the initial commitments set in Bancomext’s Sustainability Bond Framework.</p> <p>The projects selected are defined and structured in a congruous manner. The Issuer ensures compliance with the Eligibility Criteria. ESG risks associated with the project categories are identified and managed through an appropriate process.</p> <p>The Issuer included internal and external expertise, including departments like The Environmental and Social Management</p>	✓

⁶ The Bancomext Sustainable Bond Framework was assessed as aligned with the GBP/SBP as of July 13, 2021.

	<p>Unit (UGAS), Corporate Banking and the Deputy General Directo (DGA) of Emissions, and International Relation, in line with best market practice.</p>	
<p>3. Management of Proceeds</p>	<p>Bancomext confirms to follow the Process for Management of Proceeds description provided by Bancomext’s Sustainability Bond Framework. The report is in line with the initial commitments set in Bancomext’s Sustainability Bond Framework: Pending allocation, an amount equal to the net proceeds from the sale of any Green Bond may be held in accordance with their internal liquidity portfolio guidelines or in cash, cash equivalents and/or U.S. treasury securities.</p> <p>The proceeds allocated to eligible projects are equal to approximately 8% of the amount collected, with no exceptions. The proceeds are tracked in an appropriate manner and attested in a formal internal process.</p> <p>The Issuer defined an expected allocation period of 36 months and disclosed the nature of temporary investments, in line with best market practice.</p>	
<p>4. Reporting</p>	<p>The Bancomext Impact Report is coherent with the Reporting description provided by Bancomext’s Sustainability Bond Framework. The report is in line with the initial commitments set in Bancomext’s Sustainability Bond Framework: to publish an allocation and impact report annually, until full allocation of the net proceeds from the sale of any Sustainability Bond, and on a timely basis in case of material developments.</p> <p>The sections “Allocation reporting” and “Impact Reporting” of the Sustainability Bond Report comply with the pre-issuance commitment expressed in the framework. The report is intended to be publicly available. <i>Further analysis of this section is available in Part III of this report.</i></p>	
<p>5. Verification</p>	<p>ICS has provided a Second Party Opinion (SPO) on Bancomext’s Sustainability Bond Framework.</p>	

PART II: ASSESSMENT AGAINST THE ICMA HARMONIZED FRAMEWORK FOR IMPACT REPORTING (HFIR) AND HARMONIZED FRAMEWORK FOR IMPACT REPORTING FOR SOCIAL BONDS (HFIRSB)

FOR GREEN BONDS

Reporting is a core component of the Green Bond Principles and transparency is of particular value in communicating the expected and/or achieved impact of projects in the form of an annual reporting. Green bond issuers are required to report on both the use of green bond proceeds, as well as the environmental impacts at least on an annual basis until full allocation or maturity of the bond. The Harmonized Framework for Impact Reporting (HFIR) has been chosen as benchmark for this analysis as it represents the most widely adopted standard.

The table below evaluates Bancomext's Sustainability Bond Report against ICMA The Harmonized Framework for Impact Reporting (HFIR).

CORE PRINCIPLES		
ICMA HFIR	SUSTAINABILITY BOND REPORT	ASSESSMENT
Reporting on an annual basis	Bancomext has reported within one year from issuance, 7.70% of the proceeds have been allocated, and 92.30% are unallocated proceeds. The report will be available on Bancomext's website.	✓
Illustrating the environmental impacts or outcomes	<p>The assessment and measurement of the impacts generated by Bancomext's Sustainability Bond covered the following areas:</p> <ul style="list-style-type: none"> a. Sustainable water and wastewater management: Annual absolute (gross) water use before and after the project in m³/a, reduction in water use in %. b. Pollution prevention and control: Absolute annual (gross) amount of waste that is separated and/or collected, and treated (including composting) or disposed of (in tonnes per year), absolute annual (gross) amount of waste that is recycled (in tonnes per year)⁷ 	✓

⁷ Please note that this indicator does not differentiate between separation, collection, treatment, and disposal of waste.

ESG Risk Management	The Issuer has an internal Environmental and Social Risk Management System framework (SARAS) to identify, assess, and administer potential impacts. The SARAS framework was developed under the Equator Principles and manages environmental and social risks from the projects financed.	✓
Allocation of proceeds - Transparency on the currency	Allocated proceeds have been reported in MXN. Projects on which proceeds have been allocated have not been disclosed, but the Issuer has disclosed the project categories.	✓

RECOMMENDATIONS

ICMA HFIR	SUSTAINABILITY BOND REPORT	ASSESSMENT
Define and disclose period and process for Project Evaluation and Selection	<p>The entirety of proceeds has been allocated to eligible projects. No modification (removal or additional projects) of the portfolio is planned.</p> <p>The Issuer followed a transparent process for selection and evaluation of Eligible Green Projects. An Environmental and Social Management Unit (UGAS) was created to be responsible for validating that the pool of investments meets the eligible criteria. Projects financed and/or refinanced through the Sustainable Bonds issued under Sustainability Bond Framework were evaluated and selected based on compliance with the Eligibility Criteria as laid out in the Framework.</p>	✓
Disclose total amount of proceeds allocated to eligible disbursements	A total of MXN 10 billion has been raised through Issuer's Sustainability Bond. 7.70% of the proceeds have been allocated to Green Assets.	✓
Formal internal process for the allocation of proceeds and to report on the allocation of proceeds	The Issuer disclosed the process for a transparent process for the allocation of proceeds and reported on the allocation.	✓
Report at project or portfolio level	The Sustainability Bond Report includes the total amount of proceeds allocated per eligible project	✓

	category, type within categories, and geographical breakdown.	
Describe the approach to impact reporting	The Issuer states that impacts are reported based on the UoP categories on an aggregated basis.	✓
Report the estimated lifetime results and/or project economic life (in years)	The Issuer does not report on the average portfolio lifetime results or economic life (in years).	-
Ex-post verification of specific projects	The Issuer does not samples ex-post verification of specific projects and includes relevant results in the reporting	-
Report on at least a limited number of sector specific core indicators	<p>A description of core environmental impacts for each target area is available in the report:</p> <ol style="list-style-type: none"> Sustainable water and wastewater management: Annual absolute (gross) water use before and after the project in m³/a, reduction in water use in %. Pollution prevention and control: Absolute annual (gross) amount of waste that is separated and/or collected, and treated (including composting) or disposed of (in tonnes per year), absolute annual (gross) amount of waste that is recycled (in tonnes per year) 	✓
If there is no single commonly-used standard, Issuers may follow and disclose their own calculation methodologies	The Issuer has not disclosed calculation methodologies because the Borrowers have not provided the information.	-
Disclosure on the conversion approach (if applicable)	Not applicable. The Issuer reports with standardized units of measurement.	-
Projects with partial eligibility	The Issuer does not accept partially eligible projects.	-

When the expected impacts of different project components may not be reported separately, Issuers may use (and disclose) the attribution approach

The impact of Bancomext's projects is reported separately per category.



OPINION

Bancomext follows HFIR's core principles and some key recommendations such as defining and disclosing the period and process for Project Evaluation and Selection and disclosing the total amount of proceeds allocated to eligible disbursements. The Issuer provides transparency on the level of expected reporting as well as on the frequency, scope, and duration, aligned with best practices.

PART III: DISCLOSURE OF PROCEEDS ALLOCATION AND SOUNDNESS OF THE IMPACT REPORTING INDICATORS

Use of Proceeds Allocation

Use of Proceeds allocation reporting is key to put the impacts into perspective with the number of investments allocated to the respective Use of Proceeds' categories.

The Use of Proceeds allocation reporting occurred within one year from the issuance, 8% of proceeds had been allocated to environmental categories.

The Issuer also disclosed transparently the amount of unallocated proceeds and the temporary investments. Proceeds that have not been allocated have been temporarily invested in accordance with their internal liquidity portfolio guidelines or in cash, cash equivalents, and/or U.S. treasury securities.

Proceeds allocated to eligible projects/assets

The proceeds' allocation is broken down at the project category level. The Issuer has provided details about the type of projects included in the portfolio.

The allocation report section of the Sustainability Bond Report of Bancomext aligns with best-market practices by providing information on:

- The total amount of proceeds in million MXN allocated to environmental categories
- The percentage of use of proceeds by category
- The percentage of eligible projects by group of categories

Impact Reporting Indicators

The table below presents an independent assessment of the Issuer’s report and disclosure on the output, outcome, and/or impact of projects/assets using impact indicators.



ELEMENT	ASSESSMENT
Relevance	<p>The impact indicators chosen by the Issuer for this bond are the following:</p> <ul style="list-style-type: none"> ▪ Absolute annual (gross) amount of waste that is separated and/or collected and treated (including composting) or disposed of (in tons per year)⁸ ▪ Absolute annual (gross) amount of waste that is recycled (in tons per year) ▪ Annual absolute (gross) water use before and after the project in m³/a, reduction in water use is % <p>These indicators are qualitative, quantitative, and material to the Use of Proceeds categories financed through this bond and in line with the Suggested Impact Reporting metrics by the ICMA Harmonized Framework for Impact Report. This aligns with best market practices.</p>
Data sourcing and methodologies of quantitative assessment	<p>For Sustainable Water and Wastewater Management, and Pollution Prevention and Control data are received from external sources (borrowers). The Issuer cannot always directly confirm the data due to the nature of financing (e.g., syndicated loans).</p>
Baseline selection	<p>The Issuer has not selected a baseline as all project impacts are measured when the projects start being financed.</p>
Scale and granularity	<p>The impact data is presented at the Use of Proceed category level for the indicators.</p>

High-level mapping of the impact indicators with the UN Sustainable Development Goals

Based on the project categories financed and refinanced by the bonds as disclosed in the Issuer’s Sustainability Bond Report, the impact indicators adopted by Bancomex for its Sustainability Bond can be mapped to the following SDGs, according to the ICMA “A High-Level Mapping to the Sustainable Development Goals”⁹.

⁸ Please note that this indicator does not differentiate between separation, collection, treatment, and disposal of waste.

⁹ [ICMA’s Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds](#)

IMPACT INDICATORS	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> Absolute annual (gross) amount of waste that is separated and/or collected and treated (including composting) or disposed of (in tons per year) Absolute annual (gross) amount of waste that is recycled (in tons per year) 	
<p>Annual absolute (gross) water use before and after the project in m³/a, reduction in water use is %</p>	

OPINION

The allocation of the bond's proceeds has been disclosed, with a detailed breakdown across different eligible project categories/asset categories as proposed in the Framework, and Bancomext's Sustainability Bond Framework has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing and granularity. According to the Issuer, the borrower has not disclosed the calculation methodologies of the impact metrics. The impact indicators used align with best market practices using ICMA's HFIR recommended metrics.

DISCLAIMER

1. Validity of the Report Review (“Report Review”): Valid as long as no changes are undertaken by the Issuer to its Sustainability Bond Report as of March 28, 2023.
2. ISS Corporate Solutions, Inc. (“ICS”), a wholly-owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells/distributes Report Reviews which are prepared and issued by ISS ESG, the responsible investment arm of ISS, on the basis of ISS ESG’s proprietary methodology. In doing so, ISS adheres to standardized procedures to ensure consistent quality of responsibility research worldwide. Information on ISS’s methodology is available upon request.
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ANNEX 1: Methodology

Review of the post-issuance Reports

The ISS ESG Report Review provides an assessment of labelled transactions reporting against international standards using ISS ESG proprietary methodology. For more information, please visit: <https://www.issgovernance.com/file/publications/SPO-Report-Reviews.pdf>

High-level mapping to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method based on ICMA's Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, the extent to which the Issuers reporting and project categories contribute to related SDGs is identified.

ANNEX 2: Quality management processes

SCOPE

Bancomext commissioned ICS to compile a Report Review on its Bond Report. The Report Review process includes verifying whether the Bond Report aligns with the Issuer's Green, Social and Sustainability Bond Framework and the respective market standards, i.e. the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines and to assess the robustness and completeness of the reporting methodologies.

CRITERIA

Relevant Standards for this Report Review:

- ICMA Green Bond Principles and Social Bond Principles
- ICMA Harmonized Framework for Impact Reporting
- ICMA Harmonized Framework for Impact Reporting for Social Bonds
- ICMA A High -Level Mapping to the Sustainable Development Goals

ISSUER'S RESPONSIBILITY

Issuer's responsibility was to provide information and documentation on:

- Sustainability Bond Report
- Sustainability Bond Framework
- Proceeds Allocation
- Reporting Impact Indicators
- Methodologies, and assumptions for data gathering and calculation
- ESG Risk Management

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Report Review has been conducted by following the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews, and its methodology, considering, when relevant, the ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The engagement with Bancomext took place in May and August 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this Report Review

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyzes companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines), analyze the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent Report Review so that investors are as well informed as possible about the quality of the bond/loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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For more information on this specific Sustainability Bond Report Review, please contact: SPOOperations@iss-esg.com

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