CERTIFICATION AND FINANCING PROPOSAL

BORDER-WIDE SUSTAINABLE HOUSING PROJECT FOR BANCO INMOBILIARIO MEXICANO

Published: September 12, 2023

CONTENTS

EXECUTIVE SUMMARY

BORDER-WIDE SUSTAINABLE HOUSING PROJECT FOR BANCO INMOBILIARIO MEXICANO

Project Summary

Project Name:	Border-wide Sustainable Housing Project for Banco Inmobiliario Mexicano.
Sector (Project Type):	Sustainable buildings.
Objective:	To support water and energy savings, as well as emission reductions, in the Mexican border region by financing efficient and sustainable primarily middle-income housing that incorporates measures to achieve environmental benefits equivalent to those of the Excellence in Design for Greater Efficiencies (EDGE) standards.[1]
Expected Outcomes:	The Project is expected to generate environmental and human health benefits related to the following Project outcomes when compared to a baseline scenario:[2] (i) a minimum 20% annual reduction in energy consumption, (ii) a minimum 20% annual reduction in water use; and (iii) a minimum 20% reduction in embodied energy in construction materials.[3]
Population to Benefit:	1,568 inhabitants.[4]
Sponsor:	Banco Inmobiliario Mexicano, S.A. Institución de Banca Múltiple (BIM).
Borrower:	BIM.
NADBank Loan Amount:	The equivalent in Mexican pesos of up to US$20 million.

[1] Middle-income houses are considered those falling in a price range between $700,000 and $4,500,000 pesos. EDGE is a green certification system developed by the International Finance Corporation (IFC) and focused on making residential and commercial buildings more resource efficient.
[2] Baseline parameters for efficiency in energy, water and materials are provided by EDGE tools and based on information from typical building practices, as well as national and local building performance codes, primarily considering minimum construction and product standards available in the market.
[3] Embodied energy is a calculation of all the energy that is used to produce a material or product, including mining, manufacture and transport.
[4] Calculation based on (i) the fact that the NADBank loan (US$20 million or MX$380 million) will fund up to 65% of the average cost of a middle-income sustainable house (MX$2.5 million); (ii) average occupancy in Mexican border states (3.3 people/house); and (iii) the assumption that the NADBank loan proceeds will be used twice during the grace period.

CERTIFICATION AND FINANCING PROPOSAL

BORDER-WIDE SUSTAINABLE HOUSING PROJECT FOR BANCO INMOBILIARIO MEXICANO

1. PROJECT OVERVIEW AND EXPECTED OUTCOMES

The proposed project consists of providing a US$20-million corporate loan to Banco Inmobiliario Mexicano S.A., I.B.M. (BIM or the "Sponsor"), a Mexican financial institution specializing in real estate that provides financial support to housing developers. BIM will use the corporate loan to fund its lending operations for eligible sustainable housing projects in cities within the 300-kilometer (186-mile) border region in Mexico (the "Project"). The NADBank funds have the potential to support the construction of over 460 sustainable houses primarily for middle-income residents.

BIM will finance sustainable housing developed under building standards that offer environmental benefits and enhanced comfort and resource efficiency for the homeowner. BIM will verify that proposed projects achieve, at a minimum, a 20% annual reduction in energy consumption, a 20% annual reduction in water use and a 20% reduction in embodied energy in construction materials, savings that are equivalent to the international EDGE certification standards.[5] These benefits will be generated by implementing a combination of energy- and water-saving measures that include LED lighting, air conditioning, thermal insulation, double-glazed windows, solar heaters, photovoltaic systems, low-flow toilets and faucets, and rainwater harvesting systems.

2. ELIGIBILITY

2.1. Project Type

The Project falls within the eligible category of sustainable buildings.

2.2. Project Location

The Project will be implemented in the northern border region of Mexico, which encompasses eligible cities such as Tijuana, Baja California; Nogales and Hermosillo, Sonora; Ciudad Juarez, Chihuahua, and Monterrey, Nuevo León. Figure 1 illustrates the geographic location of the

[5] Baseline parameters for efficiency in energy, water and materials are provided by EDGE tools and based on information from typical building practices, as well as national and local building performance codes, primarily considering minimum construction and product standards available in the market.

300-kilometer jurisdiction of NADBank in Mexico and highlights the largest metropolitan areas where eligible projects are most likely to be implemented.

Figure 1
PROJECT LOCATION MAP

2.3. Project Sponsor and Legal Authority

The private-sector project sponsor and borrower is Banco Inmobiliario Mexicano, S.A., I.B.M. In 2013, BIM was incorporated and obtained its banking license. It evolved from a limited-purpose financial institution created under the name of Apoyo Integral Inmobiliario by investors with experience in the financial, real estate and housing sectors. BIM was the first bank specializing in real estate in Mexico, and its core business is to provide construction loans. It has offices in 15 Mexican states, including Baja California, Chihuahua, Coahuila, Nuevo León and Sonora.[6]

[6] Source: BIM, Quarterly reports, 2023-Q1, https://www.bim.mx/faq-items/informes-trimestrales/

3. CERTIFICATION CRITERIA

3.1. Technical Criteria

3.1.1. General Community Profile

Given the location of BIM's operations, eligible projects are expected to be financed and developed in large metropolitan areas in the Mexican border states. Project implementation will mainly be focused on cities identified by BIM with a high demand for sustainable housing. Table 1 provides a list of the urban areas that form the potential market focus for Project implementation, along with their respective populations.

Table 1
MAIN URBAN AREAS FOR PROJECT IMPLEMENTATION

City	Population in 2020*	Number of Inhabited Houses*
Tijuana, Baja California	1,922,523	577,011
Monterrey, Nuevo Leon	1,142,994	329,095
Juarez, Chihuahua	1,512,450	449,602
Nogales, Sonora	264,782	78,396
Hermosillo, Sonora	936,263	278,712

* Source: Mexican national institute of statistics, INEGI, 2020.

Sustainable Housing in Mexico

With the constant and rapid urbanization occurring in Mexico, the need to assure the availability of affordable, well-constructed housing has remained a key priority for the Mexican government. To address this need, Mexico has promoted the development and implementation of a comprehensive framework to support sustainable housing. Sustainable housing refers to the design, construction and efficient operation of a house that incorporates energy and water saving technologies to reduce its environmental footprint and improve the resilience of housing structures to the volatility of climate change.

Early efforts of the Mexican government to promote energy efficiency in the residential sector date back to 1996, when the first official Mexican standards were issued for energy efficient appliances in this sector. In 1997, the Electricity Saving Trust (FIDE) was created and continued previous efforts aimed at replacing traditional residential light bulbs with energy efficient lamps.

The current sustainable housing framework, which includes elements for reducing the use of critical resources, is based on its predecessors: the federal programs "*Hipoteca Verde*" [Green Mortgage] and "*Ésta es tu casa*" [This is Your House], which were designed to promote the

use of water- and energy-efficient technologies.[7] The Federal Mortgage Corporation (SHF) was created in 2001 as a Mexican development bank to support the development of the financing market for low-income housing through loans for home construction, purchase and improvements.[8] Additionally, in 2006, the Mexican Housing Act was established, which promotes the construction of sustainable and energy efficient houses that use renewable energy systems and other efficient technologies. [9]

In 2013, SHF began operating housing programs that incorporate both sustainability and comfort standards that provide water and energy savings, as well as improve the quality of life of the homeowners. These programs include:

- ***ECOCASA***.[10] This program was created in cooperation with the German development bank Kreditanstalt für Wiederaufbau (KfW). Initially the program focused on energy efficiency, but over time evolved to incorporate additional elements for a comprehensive housing assessment and related benefits. Currently, this program offers financial incentives for three levels of efficiency. In general, the goal of the program is to evaluate energy efficiency, water savings, the carbon footprint of materials and the urban environment. Depending on the climate conditions where the proposed projects are located, the expected benefits are at least a 20% reduction in carbon dioxide (CO_2) emissions when compared to the corresponding baseline. From 2013 to 2020, more than 72,000 sustainable houses were certified.

  As part of the of the ECOCASA program, SHF received financial support from the European Union Latin America Investment Facility (LAIF) for the development of highly efficient housing units using passive technologies, such as heating systems based on solar radiation and heat-recovery measures. By the end of 2018, more than 400 houses were supported.

- ***NAMA Facility***.[11] The objective of this program was to facilitate the incorporation of small- and medium-sized developers (SMDs) into the low-carbon housing market. Eliminating investment barriers and better access to financing sources allowed SMDs to construct efficient homes that reduce CO_2 emissions by at least 20% when compared to a baseline home. As of December 2020, over 5,000 houses were financed. This program concluded in 2021.

While the implementation of sustainable housing programs in Mexico has been successful, the availability of funds is limited. The specialized funding for federal programs implemented

---

[7] Source: *Vivienda Sustentable en México* [Sustainable Housing in Mexico], https://www.conavi.gob.mx/images/documentos/sustentabilidad/2b_Vivienda_Sutentable_en_Mexico.pdf
[8] Source: Sisevive-Ecocasa, *Vinculación de Hipoteca Verde del Infonavit con el Sistema de Evaluación de la Vivienda Verde* [Linking INFONAVIT Green Mortgages with the Green Housing Evaluation System],http://portal.ruv.org.mx/wp-content/uploads/2019/08/VVINC-Sisevive-Ecocasa2017.pdf
[9] Source: Gobierno de Mexico [Government of Mexico], *Ley de Vivienda* [Housing Act], https://www.gob.mx/conavi/documentos/ley-de-vivienda
[10] ECOCASA. *Programa de Cooperación Financiera* [Financial Cooperation Program], https://www.gob.mx/shf/documentos/ecocasa-programa-de-cooperacion-financiera?state=published
[11] NAMA Facility. *El Programa EcoCasa para PyMEs* [EcoCasa Program for Small- and Medium-sized Developers], https://www.gob.mx/shf/documentos/nama-facility-el-programa-ecocasa-para-pymes#:~:text=Programa%20NAMA%20Facility,medida%20para%20las%20empresas%20PyME.

by Mexican development banks has come from international development agencies, including impact financing from the Inter-American Development Bank (IDB) and the International Finance Corporation (IFC), as well as some bond issuances and global impact funds.[12] More funding at an affordable cost is needed to expand sustainable housing developments. In this context, BIM has requested NADBank funding to support its efforts to expand development opportunities for sustainable housing in north border region of Mexico.

3.1.2. Project Scope

The proposed Project consists of providing a US$20-million corporate loan for the development of efficient and sustainable housing projects for middle-income residents in eligible cities in the Mexican border states. An estimated 460 single-family houses will be built with the NADBank funds. All housing developments will achieve environmental benefits equivalent to those established under EDGE standards, which is focused on making new residential and commercial buildings more resource-efficient, minimizing operating costs, and improving comfort quality for the occupants. Table 2 shows the elements that may be incorporated into the housing design to achieve the sustainable characteristics promoted by EDGE.

Table 2
RESOURCE-EFFICIENT ELEMENTS IN SUSTAINABLE HOUSING

Energy-efficiency Elements
▪ **LED lighting.** LED lamps use at least 75% less energy, and last up to 25 times longer, than incandescent lighting.
▪ **Heating, ventilation and air conditioning (HVAC).** System that controls different parameters such as humidity, ventilation, and temperature in a building to maintain cool temperatures in warm conditions.
▪ **Thermal insulation for ceiling/walls.** Insulation refers to installation of materials for the resistance to heat flow, decreasing heating and cooling costs, while improving comfort.
▪ **Double-glazed windows.** Windows with two spaced layers of glass, designed to reduce loss of heat.
▪ **Solar heaters.** These heaters use sunlight rather than traditional electricity to heat water used in the home. A solar heater uses an insulated storage tank and solar collectors.
▪ **Photovoltaic systems.** A solar photovoltaic (PV) system converts sunlight into electricity, which may supply all or some of the electricity needs of a home. Panels are reliable and require little maintenance.

[12] Impact financing is intended to help achieve measurable positive social and environmental impacts.

Water-efficiency Elements
▪ **Low-flow toilets.** Water saving toilets are estimated to use 1.28 gallons per flush as compared with older models (up to 7 gallons per flush). ▪ **Bathroom faucets with aerators.** These faucets help save water by limiting the speed and volume of water dispensed. ▪ **Efficient shower heads.** These components reduce the amount of water by regulating the flow or aerating the water.

3.1.3. Technical Feasibility

Most of the border states have adopted strategic plans with policies and activities designed to promote the efficient use of water and energy, emission reductions and measures for climate change adaptation and mitigation. The goals established by the state governments will facilitate and encourage the implementation of private-sector projects. The sustainable finance goals of BIM are also aligned with these policy measures.

BIM follows best industry practices in providing funding for sustainable housing through bridge loans for expenses during construction. The bridge loan is usually repaid through long-term mortgage loans as homes are purchased by individual homeowners. BIM has well-established policies and procedures, along with an experienced analysis and supervision team to implement these loans. In general terms, the process for credit evaluation and disbursements is as follows:

1. BIM begins the process with a feasibility study and technical, legal and financial evaluations.
    a) *Feasibility Study*. This study is conducted in order to obtain an appraisal, which is internally reviewed with BIM's technical team.
    b) *Technical Evaluation*. BIM has an existing process for evaluating the technical aspects of the project. The technical team conducts a due-diligence review to ensure that the project has been designed in accordance with applicable regulations and reviews the proposed technology and components to be included in the new home. BIM will also verify that all necessary permits are in place for the construction of the proposed projects, including the construction license and availability of water service under terms set by the local water utility. In the case of sustainable buildings, this due diligence review will also include verifying alignment with sustainable housing standards.
    c) *Legal Evaluation*. A legal evaluation is conducted to verify the legal authority of the potential client to develop the proposed project, as well as ownership of the land.
    d) *Financial Evaluation*. The financial analysis includes the evaluation of financial factors, such as credit reports, liquidity, solvency and profitability of the potential client and project.

Technical, legal and financial reports are issued, including findings and recommendations.

2. The technical, legal and financial reports are submitted to the BIM Credit Committee for final approval of proposed projects. The authorized loan amounts are defined by the Credit Committee, who will confirm the requested amount or adjust it downwards based on evaluation criteria and established limits according to the level of risk and concentration.

3. The first disbursement of bridge loans will be for the advance percentage authorized by the Credit Committee. Subsequent disbursements will be made according to the progress of the project.

4. BIM conducts site visits as necessary until the project is completed. At project completion BIM will compare the final housing units against the original designs and will present an evaluation report.

3.1.4. Land Acquisition and Right-of-Way Requirements

Land and rights of way acquired by the developer are verified by BIM as part of its due diligence process for approving financing, as well as for pledging the development to a trust as collateral for the financing. BIM will be required to provide appropriate land ownership, rights of way access, and permitting documentation to NADBank.

3.1.5. Project Milestones

Financial closing is expected by November 2023. After the first disbursement, the Sponsor will have a 24-month availability period to use the total amount of the loan according to BIM's funding needs.

BIM will allocate NADBank funds to projects that are already in its pipeline and must be able to demonstrate environmental benefits equivalent to EDGE standards. New housing projects will be required to obtain EDGE certification. The sponsor will report progress against the use of funds as construction of the development advances and NADBank will verify that construction included or will include equipment and construction measures that provide resource savings equivalent to EDGE standards.

3.1.6. Management and Operation

Since its incorporation as a licensed bank in 2013, BIM has achieved a larger role in the market through new financial products related to the industry of housing development. BIM's efforts are focused on increasing efficiency and profitability, as well as understanding the needs of its clients, in order to maintain portfolio quality and continue to position itself in the market. BIM has reported stable lending operations. For example, during the first quarter of

2023, BIM funded the construction of 2,609 houses, for a cumulative total of 73,604 homes since 2017.[13]

Additionally, BIM has established a long-term strategy to strengthen its operations with social and environmental commitments. For example, in September 2021, BIM committed to implementing responsible operations based on the Ten Principles of the United Nations Global Compact, which focus on human rights, labor, environment and anti-corruption.[14] BIM also set priorities to help achieve the objectives set by the Mexican federal government under the United Nations Sustainable Development Goals.

The Sponsor has a well-established financing program that is designed to provide financial support to housing developers. Projects included in BIM's portfolio prior to NADBank loan approval that are seeking financing under the NADBank loan must demonstrate environmental benefits equivalent to the international EDGE standard. BIM will work with NADBank through an independent, expert consultant in sustainability to define the methodologies that BIM will use for impact evaluation and reporting indicators for the proposed developments.

For verification regarding the use of NADBank loan funds, BIM must provide a description of the proposed projects and environmental attributes, support documentation to prove that loan proceeds were used to finance those activities, along with the remaining balance of unallocated funds. A list of required documentation will be referenced in the corresponding loan agreement. NADBank reserves the right to request additional information from the Sponsor for this purpose.

The NADBank loan proceeds may be held in a trust in accordance with BIM's liquidity management policy until new assets are pledged. However, as long as the NADBank loan is outstanding, the balance of the validated net proceeds should be periodically adjusted to match allocations to eligible housing projects made during such period.

3.2. Environmental Criteria

3.2.1. Environmental and Health Effects/Impacts

A. Existing Conditions

Sustainable housing represents a holistic approach to provide affordable housing with efficient systems and improved comfort. It also represents an opportunity in the residential sector to mitigate environmental pressures resulting from constant urban growth. With the implementation of more sustainable housing developments, efforts such as environmental preservation, as well as energy and water savings, can be promoted. According to the INEGI,

[13] Source: BIM, Quarterly reports, 2023-Q1, https://www.bim.mx/faq-items/informes-trimestrales/
[14] Source: United Nations. The UN Global Compact: Finding Solutions to Global Challenges. https://www.un.org/en/un-chronicle/un-global-compact-finding-solutions-global-challenges

there are 35.2 million inhabited houses in Mexico,[15] of which only 6% (2.1 million houses) have included measures for energy efficiency, specifically, insulation in one or more locations of the house, such as roof, walls or windows.[16]

Developing sustainable housing in Mexico requires affordable financing options to help overcome the environmental challenges and achieve the sustainability goals pursued by Mexican public policy and state initiatives. The Project will provide funding for the construction of sustainable houses that will incorporate technological and construction measures to reduce the demand on energy and water resources.

Energy

Historically, electricity generation for the residential sector has relied to a great extent on fossil fuel technologies, which can affect the natural environment due to the related harmful emissions. In 2022, the total electricity consumption through the Mexican national grid was 288,687 gigawatts-hour (GWh), and electricity use in the residential sector in 2023 is projected to be 25.5% of total consumption.[17] In 2019, Mexico reported 171.4 million metric tons of carbon dioxide equivalent (CO_2e) emissions from the power sector.[18] The CO_2 emissions related to electricity consumption for residential purposes is estimated at 43.7 million metric tons. Consequently, there is a need to reduce electricity consumption and its related emissions in the residential sector.

Additionally, the use of fuels in the residential sector, such as natural gas for cooking and heating, resulted in the emissions of 19.1 million metric tons of CO_2 in 2019, which represents 3.6% of the total net emissions in Mexico (534.6 million metric tons of CO_2).[19, 20]

In order to support its international commitments to combat climate change under the United Nations Framework Convention on Climate Change (UNFCCC), Mexico has developed strategies to reduce greenhouse gases (GHG). In 2015, Mexico prepared its Nationally Determined Contributions (NDC) based on its legal climate change framework, which includes the General Law of Climate Change and the National Climate Change Strategy, Vision

[15] Source: INEGI. Viviendas [Houses] https://cuentame.inegi.org.mx/poblacion/vivienda.aspx?tema=P
[16] Sources: INEGI. *Encuesta Nacional de Vivienda (ENVI) 2020*[*2020 National Housing Survey*], Principales resultados [*Main results*], https://www.inegi.org.mx/contenidos/saladeprensa/boletines/2021/envi/ENVI2020.pdf; and ENVI 2020, https://www.inegi.org.mx/programas/envi/2020/#Microdatos
[17] Source: Government of Mexico. *Programa para el Desarrollo del Sistema Eléctrico Nacional 2023-2037* [2023-2037 National Power Grid Development Program], https://www.gob.mx/sener/articulos/programa-de-desarrollo-del-sistema-electrico-nacional-2023-2037
[18] Source: Instituto Nacional de Ecología y Cambio Climático [National Institute of Ecology and Climate Change] (INECC), *Inventario Nacional de Emisiones de Gases y Compuestos de Efecto Invernadero* [National Inventory of Greenhouse Gas and Compound Emissions], https://datos.gob.mx/busca/dataset/inventario-nacional-de-emisiones-de-gases-y-compuestos-de-efecto-invernadero-inegycei.
[19] Net emissions are the result of subtracting CO_2 absorptions by forest land and crops from the total emissions of all sources.
[20] Source: INECC, *Inventario Nacional de Emisiones de Gases y Compuestos de Efecto Invernadero* [National Inventory of Greenhouse Gas and Compound Emissions], https://datos.gob.mx/busca/dataset/inventario-nacional-de-emisiones-de-gases-y-compuestos-de-efecto-invernadero-inegycei.

10-20-40.[21] In line with these commitments, Mexico also developed a specific, nationally appropriate mitigation action (NAMA) for sustainable housing, whereby the level of emission reductions of proposed projects requiring federal funding, such as ECOCASA, is evaluated.[22] The average mitigation potential for developments under this NAMA, is estimated at 0.62 metric tons of CO_2 per house.[23]

In 2022, Mexico updated its NDC under the UNFCCC and is committed to reducing total greenhouse gas emissions by approximately 347 million metric tons (35% lower than business-as-usual levels: 991 million metric tons) by 2030 through unconditional measures.[24] The use of energy saving technologies and construction techniques for sustainable housing supports these efforts.

Water

Water for residential and urban purposes is the second largest use in Mexico, representing 22.5% of the total, after the agricultural sector with 64%.[25] Water is a scarce resource in the border region. The Mexican National Water Commission (CONAGUA) posted an update regarding the availability of groundwater, including in the border states, which documents an insufficient rate of recharge in comparison to the rate of pumping.[26] A similar situation is occurring with surface water sources. In order to secure the water supply for new housing developments, developers must obtain a water supply agreement with the local water utility based on its supply capacity. Therefore, the water-saving elements incorporated into sustainable houses, such as highly efficient sanitary fixtures, are of paramount importance.

B. Project Impacts

The Project will provide financial support to developers of sustainable housing, which must be constructed using building standards that offer environmental benefits and adequate levels of comfort. As part of the review of BIM's portfolio for NADBank financing, BIM will provide documentation regarding each housing development to verify the environmental benefits and their equivalence with minimum efficiency standards internationally (e.g. EDGE), as described above.

---

[21] Source: Mexican Ministry of Environment and Natural Resources (SEMARNAT). National Climate Change Strategy, Vision 10-20-40, 2013.
[22] Source: Registro Único de Vivienda, https://portal.ruv.org.mx/index.php/soy-empresa/soy-desarrollador/vivienda-sustentable/
[23] Source: Comisión Nacional de Vivienda [National Housing Commision], *Política de Vivienda Sustentable en México* [Sustainable Housing Policy in Mexico] https://www.inecc.gob.mx/dialogos/dialogos1/images/documentos/Dialogo%203/Conavi.pdf
[24] Source: SEMARNAT. Nationally Determined Contributions, 2022 update. INDC includes a set of mitigation measures that Mexico will implement with its own resources (unconditional measures) and/or through international cooperation (conditional measures). https://unfccc.int/sites/default/files/NDC/2022-11/Mexico_NDC_UNFCCC_update2022_FINAL.pdf
[25] Source: CONAGUA, Registro Público de Derechos de Agua [Public Water Rights Registry] (REPDA) database, https://app.conagua.gob.mx/ConsultaRepda.aspx. The total volume of water does not include concessions for ecological conservation and power generation.
[26] Source: CONAGUA, *Disponibilidad por acuíferos*. [Water Availability by Aquifer], https://sigagis.conagua.gob.mx/gas1/sections/Disponibilidad_Acuiferos.html#:~:text=Es%20el%20volumen%20de%20agua,de%20tiempo%20utilizado%20para%20plantearlo.

In general, the evaluation of projects under the EDGE standard is performed with a web-based tool that helps to determine the optimum combination of efficiency strategies to be implemented in a building to achieve savings in energy use, water use and embodied energy in materials as benchmarked against a standard local building. The EDGE Certification is administered by the Green Business Certification, Inc. and validates the project's achievements for nearly all building types, both new and existing.[27]

BIM will verify that proposed projects achieve at least a 20% annual reduction in energy consumption, a 20% annual reduction in water use and a 20% reduction in embodied energy in construction materials, savings that are equivalent to the international EDGE Certified standards. For new projects, EDGE certification will be a requirement. For projects already ongoing, verification of compliance with EDGE-equivalent standards will be a requirement. All projects must report the inputs and measurement indicators for project eligibility determination and closeout evaluation. These requirements will be loan covenants for BIM in the NADBank loan agreement.

C. Transboundary Impacts

No negative transboundary environmental impacts are anticipated as a result of Project implementation. On the contrary, the Project will provide funding for sustainable housing that will result in more sustainable water and electricity use, preserving those critical resources for other purposes needed in the region.

3.2.2. Compliance with Applicable Environmental Laws and Regulations

In terms of infrastructure to be funded under the Project, the Sponsor's clients are housing developers, who are required to have all the necessary permits and licenses, such as water, sewage and electricity service and supply agreements, in place for their regular operations. As part of its standard process, BIM reviews loan requests for compliance with environmental regulations based on project size. All eligible projects must be consistent with applicable BIM environmental policies.

A. Environmental Clearance

For the appropriate allocation of NADBank funds, BIM will require the developer to comply with various state and local environmental regulations for housing, as well as obtain permits and licenses, as applicable. As part of its internal processes, BIM will be responsible for verifying compliance with all applicable environmental requirements related to the proposed housing developments. BIM will confirm that any necessary activities to develop the projects are appropriately completed, and documentation will be provided to NADBank to demonstrate compliance, as applicable.

[27] Source: U.S. Green Building Council, EDGE Basics ,https://support.usgbc.org/hc/en-us/articles/4522583244435-EDGE-basics

B. Mitigation Measures

The Project will provide financing for the development of sustainable housing; therefore, some temporary and minor adverse impacts may be expected during construction activities. Mitigation measures will be established as part of the permitting process and will typically include best management practices for waste handling and maintaining appropriate signage, fencing and work hours to promote public safety and avoid nuisances to the surrounding area.

BIM has a Credit Manual that governs its credit evaluation and comprehensive risk management and identification process. The manual establishes the institutional guidelines for the proper management and approval of loans, maximizing the benefits to BIM and facilitating the management of credit risk. In addition to the loan application and financing reports, "Know Your Customer" processes are required, including money laundering and terrorism alerts. As previously mentioned, the credit analysis includes a feasibility study, as well as technical, legal and financial evaluations. The results are presented to the Credit Committee for approval and may include a series of recommendations that must be addressed by the developer.

C. Pending Environmental Tasks and Authorizations

Since the Project consists of providing financing to private entities, there are no environmental authorizations pending.

3.3. Financial criteria

NADBank's loan will be used by the borrower to fund its lending operations to finance the construction of eligible sustainable housing projects. BIM's lending transactions will be in the form of construction-bridge loans for specific housing developments located within the NADBank jurisdiction.

The proposed payment mechanism for the NADBank loan is standard for similar lending programs created by Mexican development institutions, such as SHF. The source of payment will be the cash flow generated by the loans pledged into a guaranty and payment administration trust for BIM's loan to the project development, which, in turn, will serve as collateral for NADBank's loan. BIM will also use its own cash flows as a source of payment, as needed.

BIM is a leading funding institution for construction-bridge loans in Mexico and has the institutional capacity (procedures, technology and human resources) and experience to manage and supervise such financing. BIM will follow its own policies and procedures for the administration of NADBank's funding.

Considering the characteristics of the Project and based on the financial and risk analysis performed, the proposed loan is considered to be financially feasible and presents an acceptable level of risk. Therefore, NADBank proposes to provide a market-rate loan for the

equivalent in Mexican pesos of up to US$20.0 million to BIM, in the form of a corporate loan, to fund its eligible lending operations.

4. PUBLIC ACCESS TO INFORMATION

4.1. Public Consultation

On September 12, 2023, NADBank published the draft certification and financing proposal for a 30-day public comment period.

4.2. Outreach Activities

NADBank conducted a media search to identify potential public opinion about the Project. More than 15 articles were found in reference to BIM's participation in sustainable housing. Below are a few of the most recent examples:

- *El Financiero* (March 15, 2023) – "*Convención Bancaria 2023: BIM se diversifica y va por más productos financieros*" [2023 Banking Convention: BIM is diversifying with more financial products]
  https://www.elfinanciero.com.mx/economia/2023/03/15/convencion-bancaria-2023-bim-se-diversifica-va-por-mas-productos-financieros/

- *Centro Urbano* (February 20, 2023) – "*BIM ofrece créditos para construcción de EcoCasas*" [BIM offers construction loans for sustainable housing]
  https://centrourbano.com/vivienda/bim-creditos-ecocasas/

- *El Economista* (January 20, 2023) – "*El 2022 fue histórico para Banco Inmobiliario Mexicano: colocó 11,285 millones de pesos para desarrollo de vivienda*" [2022 was a record year for BIM; it provided $11,285 million pesos for housing developments]
  https://www.eleconomista.com.mx/econohabitat/El-2022-fue-historico-para-Banco-Inmobiliario-Mexicano-coloco-11285-millones-de-pesos-para-desarrollo-de-vivienda-20230120-0073.html

- *Grupo en concreto* (November 24, 2022) – "*Promueve BIM la construcción sustentable que además pronto será obligatoria*" [BIM promotes sustainable construction, which will soon become mandatory]
  https://www.grupoenconcreto.com/finanzas/bancos/promueve-bim-la-construccion-sustentable-que-ademas-pronto-sera-obligatoria/

- *El Economista* (August 25, 2022) – "*Hay retos en el sector vivienda que se han superado en el pasado: Banco Inmobiliario Mexicano"* [There are challenges in the housing sector that have been overcome in the past: BIM] https://www.eleconomista.com.mx/econohabitat/Hay-retos-en-el-sector-vivienda-que-se-han-superado-en-el-pasado-Banco-Inmobiliario-Mexicano-20220825-0039.html

No public opposition to the Project has been detected.