

Second-Party Opinion

Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel (Mifel) Green Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel (Mifel) Green Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds Sustainable Agriculture and Livestock, Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 2, 6 and 7.



PROJECT EVALUATION AND SELECTION Mifel's Prevention and Compliance Department and the ESG Risk Department, will be responsible for evaluating and selecting projects in line with the Framework's eligibility criteria. Mifel has an environmental and social risk management process in place, overseen by the Prevention and Compliance Department, to address environmental and social risks associated with projects being financed. The Bank is currently updating its identification, assessment and mitigation measures through the implementation of a formal process for risks associated with the financed projects. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Mifel's Treasury Department, in coordination with its Operations Department, will oversee the management and allocation of proceeds using a portfolio approach. The Bank has communicated that it will track the proceeds using an internal tracking system and that there will be ongoing matching of proceeds to eligible projects. Mifel intends to allocate proceeds within 36 months of the respective issuance date. Pending full allocation, proceeds will be temporarily held in cash or other liquidities consistent with Mifel's liquidity policy. This is in line with market practice.



REPORTING Mifel commits to report on allocation and impact of proceeds in its sustainability report, which will be published on its website on an annual basis until full allocation. Allocation reporting will include the use of funds within each category, total amount of unallocated funds and percentage of funds used for new financing and refinancing. In addition, Mifel intends to report on relevant impact metrics. Sustainalytics views the reporting commitments to be in line with market practice.

Evaluation date	September 14, 2023
Issuer Location	Mexico City, Mexico

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Introduction

Banca Mifel (“Mifel” or the “Bank”) is a Mexican financial services group focusing on commercial banking services. The Bank offers commercial banking, factoring, leasing, loan, retirement, investment, bank cards, mortgage lending, and private banking services.¹ The bank is headquartered in Mexico City, Mexico and employed approximately 1,376 people as of 2022.

Mifel has developed the Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel (Mifel) Green Finance Framework dated August 2023 (the “Framework”)² under which it intends to issue green bonds and loans and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that are expected to deliver a positive environmental impact by reducing the emissions in Mexico.

The Framework defines eligibility criteria in four areas:

1. Sustainable Agriculture and Livestock
2. Renewable Energy
3. Energy Efficiency
4. Sustainable Water and Wastewater Management

A list of eligible projects and projected allocations for the 2023 green bond issuance is provided in Appendix 1.

Mifel engaged Sustainalytics to review the Framework and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)³ and the Green Loan Principles 2023 (GLP).⁴ The Framework has been published in a separate document.⁵

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2023, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.14, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Mifel’s management team to understand the sustainability impact of its business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. Mifel representatives have confirmed that: (1) they understand it is the sole responsibility of Mifel to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

¹ Bloomberg, “Grupo Financiero Mifel SA de CV”, at: <https://www.bloomberg.com/profile/company/MIFELO:MM#xj4y7vzkg>

² The Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel (Mifel) Green Finance Framework is available at: <https://www.mifel.com.mx/storage/marcos-financiamiento>

³ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

⁴ The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>

⁵ The Mifel Banking, S.A, Multiple Banking Institution, Financial Group Mifel (Mifel) Green Finance Framework is available at: <https://www.mifel.com.mx/storage/marcos-financiamiento>.

⁶ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Mifel.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Mifel is encouraged to update the Framework after 24 (twenty-four) months from the evaluation date, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Mifel has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel (Mifel) Green Finance Framework

Sustainalytics is of the opinion that the Framework is credible and impactful, and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of Mifel's Green Finance Framework:

- Use of Proceeds:
 - The eligible categories, Sustainable Agriculture and Livestock, Renewable Energy, Energy Efficiency and Sustainable Water and Wastewater Management, are aligned with those recognized by the GBP and GLP.
 - Mifel has established a two-year lookback period for its refinancing activities, which Sustainalytics considers to be aligned with market practice.
 - Under the Sustainable Agriculture and Livestock category, Mifel may finance or refinance the following agricultural projects⁷ aimed at promoting climate-smart agriculture, increasing agricultural productivity, adapting and building resilience to climate change and reducing or absorbing GHG emissions:⁸
 - The purchase, installation, maintenance and implementation of rehabilitation activities for climate-smart agriculture such as irrigation canals, acquisition and expansion of greenhouses including drip irrigation, mechanization of farming and processing technologies⁹ and increasing use of quality seedlings per the Food and Agriculture Organization of the United Nations (FAO). The Bank has confirmed to Sustainalytics that the purchase and distribution of inorganic or synthetic fertilizers are excluded from financing under the Framework and techniques and technologies financed will not be on industrial-scale livestock units.

⁷ No support or economic incentives will be granted for activities on forest land whose land-use change has not been authorized by the Ministry of the Environment and Natural Resources. For more details, refer to Section 2.2.

⁸ For GHG absorption projects, there should be a demonstration of significant carbon sequestration, reduction of emissions and compatibility with sector-related low-carbon emissions objectives and adaptation and climate resilience actions in accordance with the Climate Bonds Initiative Agriculture Criteria. CBI, "Agriculture Criteria Climate Bonds Standard & Certification Scheme", (2021), at: <https://www.climatebonds.net/files/standards/agriculture/Agriculture%20Criteria%2020210622v3.pdf>

⁹ Mechanization includes all levels of technologies, from simple and basic hand tools to more sophisticated and motorized equipment, aimed at easing and reducing hard labour, relieves labours shortages and improves productivity and timeliness of agricultural operations.

- Establishing, expanding and continued operation of whole agricultural production units, including land used for agroforestry and forestry systems. Sustainalytics notes that eligible projects will have a resource management programme and hold a Sustainable Agriculture Rainforest Alliance Certification,¹⁰ RTRS,¹¹ EU Organic,¹² USDA Organic,¹³ JAS Organic¹⁴ and Organic SAGARPA Mexico or equivalent certifications recognized by ISEAL Alliance. The Bank will also comply with the provisions of the LGDFS, the LGEEPA and the Mexican Sustainable Rural Development Law.
 - Controlled grazing certified to the sustainable agricultural certifications noted above.
 - Establishment, operation and maintenance of livestock production units with agroforestry or forest grazing practices.¹⁵ Sustainalytics notes that projects will be limited to small-scale producers and that industrial-scale operations and units are excluded from financing under the Framework.
 - The Bank has communicated that comprehensive soil fertility management includes interventions that eliminate the use of synthetic fertilizers and pesticides as well as management systems the manufacturing and purchasing of equipment for analysis and mapping of farmland aimed at effective fertilizer use and reducing the burning of crop residue.^{16,17} Mifel has confirmed to Sustainalytics that livestock farms, including industrial livestock farms, and whole agricultural units will be excluded from financing under the Framework.
 - Based on the above, Sustainalytics considers investments under this category to be in line with market practice.
- Under the Renewable Energy category, Mifel may finance or refinance: i) the development, manufacturing, construction and maintenance for electric power generation or its replacement from photovoltaic solar energy and solar thermal energy including distributed generation, onshore and offshore wind energy, bioenergy and tidal energy; ii) infrastructure and transmission equipment, including the development and manufacture of technologies and components that provide energy services such as electric-powered heating and cooling systems, smart grids and energy recovery technology; and iii) investments in solar and wind projects on land which include electric generation and energy storage such as batteries. Sustainalytics notes the following:
- For solar thermal energy projects, the Framework specifies that concentrated solar power plants will derive at least 85% of the electricity from solar energy resources.
 - Emissions generated for geothermal power facilities and bioenergy will be below 100 gCO₂/kWh.
 - Bioenergy feedstock includes residues, energy crops and lignocellulosic biomass such as straw and waste wood. The Bank has communicated to Sustainalytics that feedstock will be limited to agricultural residues. Biomass or biofuel used for electricity generation will have an 80% reduction in lifecycle emissions compared to the fossil fuel baseline.
 - For tidal energy, fossil fuels backup is limited to restart capacity and control and for operation or resilience measures when there is a lack of energy in the system.

¹⁰ Rainforest Alliance, "Certification", at: <https://www.rainforest-alliance.org/business/certification/>

¹¹ Round Table on Responsible Soy, at: <https://responsiblesoy.org/?lang=en>

¹² EU, "The Organic Logo", at: https://agriculture.ec.europa.eu/farming/organic-farming/organic-logo_en

¹³ U.S. Department of Agriculture, "USDA Organic", at: <https://www.usda.gov/topics/organic>

¹⁴ Ministry of Agriculture, Forestry and Fisheries, "Organic JAS", at: https://www.maff.go.jp/e/policies/standard/specific/organic_JAS.html

¹⁵ Mifel has communicated to Sustainalytics that integrated cropland-livestock-forestry systems and agroforestry systems are aligned with the FAO's definition on agroforestry. FAO, "Agroforestry", at: <https://www.fao.org/forestry/agroforestry/80338/en/>

¹⁶ The Bank has communicated that soil fertility management projects are aligned with those outlined by a Mexican government research programme.

Listman, M. (2023), "A Mexican farm research program gains praise and interest for use abroad", CIMMYT, at: <https://www.cimmyt.org/blogs/a-mexican-farm-research-program-gains-praise-and-interest-for-use-abroad/>

Projects will also be aligned to the technical guidelines provided by the FAO. FAO, "Technical guidelines on soils for nutrition", (2023), at: <https://www.fao.org/3/cc5069en/cc5069en.pdf>

¹⁷ Soil fertility management projects will be certified to Global Gap Agriculture, Canada Organic, USDA Organic, Organic SAGARPA Mexico, Rainforest Alliance, RSPO, HACCP, ISO 14001, ISEAL Alliance or others that guarantee GHG mitigation. Projects will also comply with the provisions within the Guidelines for the Organic Operation of Agricultural Activities in Mexico. SEGOB, "DOF: 06/08/2020", at: https://dof.gob.mx/nota_detalle.php?codigo=5594612&fecha=08/06/2020#gsc.tab=0

- For heating or cooling systems using ocean thermals, these shall reduce emissions intensity by 80% over the fossil fuel alternative. The Bank has confirmed that fossil fuel back up is limited to power monitoring, operating and maintenance equipment, as well as resilience and protection measures, and restart capabilities.
- Regrading transmission equipment:
 - Equipment will support at least 90% renewable electricity or dedicated to connecting renewables to the power grid and transmission and distribution lines will be fully dedicated to renewables.
 - Electric-powered heating and cooling systems are primarily powered by renewables.
 - Regarding smart grids, components include electric power generators, electric power substations, transmission and distribution lines, controllers, smart meters, collector nodes, and distribution and transmission control centres.
 - Distribution transformers and equipment to operate recharge stations for electric vehicles and public transport. Sustainalytics notes that electric vehicles include passenger vehicles and buses. The Bank has confirmed that parking facilities will be excluded from financing under the Framework. Furthermore, the Bank has communicated that transformers are aimed at reducing the curtailment of renewable energy to the grid.
- Battery storage will be connected to renewables such as solar and wind.
- Based on the above, Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Energy Efficiency category, Mifel may finance or refinance projects aimed at improving energy efficiency. Projects include: i) manufacturing, installation, operation and maintenance of products that reduce the energy consumption of underlying assets, technology, products or systems¹⁸ such as LED lighting systems, smart grid meters and fuel cells with lower or zero emissions¹⁹ and ii) loans that facilitate the upgrade, replacement, construction, innovation and development of equipment and infrastructure such as heat pumps, energy efficient lighting, improved thermal insulation and air distribution systems upgrades; and iv) the retrofit of existing commercial buildings that lead to receiving EDGE²⁰ or LEED certifications. Sustainalytics notes the following:
 - Technologies financed under this category will not be primarily driven by fossil fuels.
 - The Bank confirmed that the manufacturing and purchasing of products, such as appliances, will be excluded from financing under the Framework.
 - Buildings are expected to achieve LEED (Gold or above).²¹ Based on the achievement of an eligible certification level, expenditures related to the retrofit as well as the asset value of the building will be financed.
 - Sustainalytics notes that heat pumps will include air-source and ground- or water-source electric heat pumps and absorption heat pumps driven by solar-heated water or geothermal-heated water. Mifel has communicated to Sustainalytics that financing of heat pumps with high global warming potential refrigerants are excluded from financing under the Framework. Further, projects will promote robust refrigerant leak control, detection and monitoring while ensuring recovery, reclamation, recycling or destruction of the refrigerants at the end of life.
 - Based on the above, Sustainalytics considers investments under this category to be in line with market practice.

¹⁸ Mifel has communicated to Sustainalytics that the underlying assets and technologies, such as clean technologies, consistent with trends identified by the International Renewable Energy Agency (IRENA). IRENA, "Renewable Technology Innovation Indicators: Mapping progress in costs, patents and standards", (2022), at: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2022/Mar/IRENA_Tech_Innovation_Indicators_2022_.pdf

¹⁹ Sustainalytics notes that financing will be limited to hydrogen fuel cells only. The Bank has confirmed to Sustainalytics that vehicles related to fossil fuels, such as LPG, conventional internal combustion engines and natural gas, will not be considered under this category.

²⁰ EDGE, "Create Value by Differentiating Your Project", at: <https://edgebuildings.com/certify/certification/>

²¹ Sustainalytics notes that certification will be considered for Building Design and Construction (BD+C) and Operation and Maintenance (O+M). USGBC, "LEED rating system", at: <https://www.usgbc.org/leed>

- Under the Sustainable Water and Wastewater Management category, Mifel may finance or refinance the upgrade, research, design, development and implementation of sustainable clean water supply. Eligible projects include:
 - Water storage projects including systems for rainwater harvesting, stormwater management and water distribution, infiltration ponds, aquifer storage, groundwater recharge systems, sewerage systems, pumps and sand dams.
 - Water treatment projects including water recycling systems, wastewater treatment facilities, manure and sludge treatment facilities, natural filtration and recycling systems such as wetlands, watersheds and forests, engineered natural filtration and recycling systems. Sustainalytics notes that wastewater treatment from fossil fuel operations is excluded from financing under the Framework.
 - Desalination plants aimed at protecting depletion and contamination of groundwater and wetlands. Sustainalytics notes that reasonable assurance of an appropriate waste management plan for brine disposal will be required and the average carbon intensity of the energy used to power the desalination plant will be equal to or less than 100 gCO₂/kWh over the remaining lifetime of the asset.
 - Technologies and equipment such as water monitoring and automation systems and leak elimination, Sustainalytics notes that leak elimination involves active leakage control.
 - Water distribution projects including installing or improving high-efficiency drip, flood and pivot irrigation systems. Examples include rainwater harvesting systems, gravity-fed canal systems, pumped water distribution or channeling systems and terrace systems.
 - Flood control projects including the construction of reservoirs to control water flow, surge barriers, pumping stations, levees and floodgates. Sustainalytics notes that projects will require a vulnerability assessment of the realized climate impacts and potential risks as well as an adaptation plan, or management response plan, based on the findings of the vulnerability assessment.
 - Conservation projects including protection of water catchment areas and preventing pollution affecting water supplies.
 - Based on the above, Sustainalytics considers investments under this category to be in line with market practice.
- Project Evaluation and Selection:
 - Mifel's Prevention and Compliance Department and the ESG Risk Department will be responsible for evaluating and selecting projects in line with the Framework's eligibility criteria.²²
 - The Bank has an environmental and social risk management process in place, overseen by the Prevention and Compliance Department, to address environmental and social risks associated with projects being financed. The Bank is currently updating its identification, assessment and mitigation measures through the implementation of a formal process for risks associated with the projects the Bank participates in. For additional details, refer to Section 2.
 - Based on the established process for project evaluation and selection and the presence of a risk management system, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Mifel's Treasury Department, in coordination with its Operations Department, will oversee the management and allocation of proceeds using a portfolio approach. The Bank has communicated that it will track the proceeds using an internal tracking system and that there will be ongoing matching of proceeds to eligible projects.
 - The Bank intends to allocate proceeds within 36 months of the respective issuance date. Pending full allocation, proceeds will be temporarily held in cash or other liquidities consistent with its liquidity policy which is available to investors.
 - Sustainalytics notes that multi-tranche loan facilities will be included and that Mifel intends to label only those tranches of such facilities where proceeds will be allocated according to the eligibility criteria in the Framework. This is aligned with market practice.

²² Mifel has communicated to Sustainalytics that the Prevention and Compliance Department consists of the department's director and monitoring coordinator. Its ESG Risk Department consists of the Risk Manager Director, the ESG Risk Deputy Director, a manager that oversees climate scenarios and a specialist.

- Based on the presence of an internal tracking system and the disclosure of the temporary use of proceeds, Sustainability considers this process to be in line with market practice.
- Reporting:
 - Mifel will report on the allocation and impact of proceeds in the Bank's sustainability report, which will be published on its website on an annual basis until full allocation.
 - Allocation reporting will include the use of funds within each category, total amount of unallocated funds and percentage of funds used for new financing and refinancing.
 - Sustainability notes that Mifel intends to issue revolving credit facilities under the loan issuance and commits to reporting until loan maturity.
 - Impact reporting is intended to include qualitative and quantitative indicators at a category level, subject to confidentiality issues, such as reduced emissions (tCO₂e/year), volume of water reduced (m³/year), installed capacity (MWh/year) and energy savings as a result of energy efficiency measures (MWh/year). For a full list of indicators, refer to Appendix 1.
 - Based on the commitment to allocation and impact reporting, Sustainability considers this process to be in line with market practice.

Alignment with Green Bond Principles 2021 and Green Loan Principles 2023

Sustainability has determined that the Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel (Mifel) Green Finance Framework aligns with the four core components of the GBP and GLP. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Strategy of Mifel

Contribution to Mifel's sustainability strategy

Sustainability is of the opinion that Mifel demonstrates a commitment to sustainability by integrating priorities related to climate change mitigation and the transition to energy-efficient and low-carbon economies into its current and future projects as well as its lending activities. In 2023, the Bank joined the Global Compact in Mexico to strengthen its strategy and further contribute to the achievement of the Sustainable Development Goals and internationally recognized practices and standards. In 2023, Mifel conducted a materiality assessment to identify key topics to inform its priorities. Those most relevant to the Framework include: i) alignment to sustainability practices and standards; ii) promotion of environmental culture; iii) corporate documentation and disclosure of internal practices related to ESG; iv) operational efficiency, energy, water and waste management; v) implementation of the principles of responsible banking; and vi) transparency in financial and non-financial reporting.²³

Mifel calculates and monitors its scope 3 emissions and conducts a climate scenario analysis of current and future financed projects.²⁴ Mifel's methodology to calculate its scope 3 emissions follows the Partnership for Carbon Accounting Financials (PCAF)²⁵ methodology, which is consistent with the Paris Agreement. To evaluate the climate scenario, Mifel aligns to the Paris Agreement Capital Transition Assessment (PACTA) methodology²⁶. The Bank has stated that it is currently developing a methodology to calculate its scope 1 and 3 emissions, indirect non-controllable emissions and value chain emissions as a part of scope 3 and commits to reporting results in its annual sustainability report. Furthermore, Mifel also focuses on increasing transparency by aligning its sustainability reporting with the Global Reporting Initiative and Sustainability Accounting Standards Board standards for Commercial Banking, International Sustainability Standards Board (ISSB), and International Financial Reporting Standards.²⁷

Sustainability is of the opinion that the Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Bank's action on its key environmental priorities. Nevertheless, Sustainability encourages Mifel to establish time-bound, quantitative targets where feasible and to publicly disclose its targets and report on its progress.

²³ Banca Mifel, "Banca Mifel Green Financing Framework", at: <https://www.mifel.com.mx/storage/marcos-financiamiento>

²⁴ *Ibid.*

²⁵ PCAF, "The Global GHG Accounting and Reporting Standard for the Financial Industry", at: <https://carbonaccountingfinancials.com/en/standard#the-global-ghg-accounting-and-reporting-standard-for-the-financial-industry>

²⁶ 2investing initiative, "PACTA / Climate Scenario Analysis Program", at: <https://2degrees-investing.org/resource/pacta/>

²⁷ Banca Mifel, "Banca Mifel Green Financing Framework", at: <https://www.mifel.com.mx/storage/marcos-financiamiento>

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. While the Bank plays a limited role in the development of the specific projects that it finances, by offering lending and financial services, it is exposed to risks associated with the companies and projects that it may finance. Some key environmental and social risks possibly associated with the eligible projects may include issues involving land use and biodiversity loss associated with large-scale infrastructure development, emissions, effluents and waste generated in construction, occupational health and safety, and community engagement.

Sustainalytics is of the opinion that Mifel is able to manage and/or mitigate potential risks through implementation of the following:

- Mifel has established an Environmental and Social Management Policy which outlines the Bank's risk assessment process applicable to its credits and projects. The policy mandates that the Bank monitor compliance and that clients plan corrective measures accordingly. It also enables the Bank to categorize potential social and environmental risks into three levels: low, medium and high, according to their level of socio-environmental impact.²⁸
- Regarding risks related to land use and biodiversity loss as well as emissions, effluents and waste generated in construction, Mifel has communicated to Sustainalytics that it will develop plans and programmes that consider the rules established by Ministry of the Environment and Natural Resources (SEMARNAT) through the General Law of Sustainable Forestry Development (LGDFS) and General Law on Ecological Balance and Environmental Protection (LGEEPA)²⁹. LGEEPA establishes a general framework for implementing plans and programmes that ensure the protection, adaptation and management of ecosystems and their biodiversity and guidelines to minimize and prevent pollution, as well as mechanisms to manage waste and effluent generation.
- Regarding occupational health and safety, Mifel's procedures per the regulations established by the Ministry of Labor, Health and Safety. These regulations encourage improvements in the safety and health of workers at work and mandates employers to take all necessary measures to prevent occupational health and safety risks and provide essential training, information, tools and means to ensure the health and safety of workers.^{30,31} Additionally, Mifel has established the Prevention of Psychosocial Risks Policy in line with NOM-035-STPS-2018 for the identification and prevention of psychological threats.³²
- Sustainalytics further notes that projects financed under the Framework are based in Mexico, which is recognized under the Equator Principles as a Designated Country. This indicates the presence of robust environmental and social governance systems, legislation and institutional capacity for protecting the environment and communities including continuous stakeholder engagement. The Principles requires clients to demonstrate effective stakeholder management as an ongoing process a process in a structured and culturally appropriate manner, with affected communities, workers and other relevant stakeholders for new projects.³³ Additionally, Mifel has communicated to Sustainalytics that they are developing the community relations policy and will publish in 2024.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that has implemented adequate measures and is well-positioned to manage and mitigate most of environmental and social risks commonly associated with the eligible categories.

²⁸ Mifel has shared its SEMS Policy confidentially with Sustainalytics.

²⁹ Economic Commission for Latin America and the Caribbean, "General Law of Ecological Balance and Environmental Protection", at: <https://observatoriop10.cepal.org/es/instrumentos/ley-general-equilibrio-ecologico-proteccion-al-ambiente>

³⁰ Ministry of Labor, "Health and Safety", at: https://strabajo.edomex.gob.mx/segunda_higiene

³¹ Ministry of Labor, "Health and Safety Courses", at: https://strabajo.edomex.gob.mx/concurso_seguridad_higiene

³² Mexlaws.com, "NOM-035-STPS-2018", at: <https://mexlaws.com/STPS/NOM-035-STPS-2018->

[information.htm#:~:text=NOM%2D035%2DSTPS%2D2018,factors%20%E2%80%93%20identification%2C%20analysis%20and%20prevention&text=The%20new%20Standard%20NOM%2D035,on%20the%20number%20of%20employees">information.htm#:~:text=NOM%2D035%2DSTPS%2D2018,factors%20%E2%80%93%20identification%2C%20analysis%20and%20prevention&text=The%20new%20Standard%20NOM%2D035,on%20the%20number%20of%20employees](#)

³³ Equator Principles, "About the Equator Principles", at: <https://equatorprinciples.com/about-the-equator-principles/>

Section 3: Impact of Use of Proceeds

All four use of proceeds categories are aligned with those recognized by the GBP and GLP. Sustainalytics has focused on the impact that is specifically relevant in the local context.

Importance of GHG emission reduction in the agricultural sector in Mexico

As the world's thirteenth largest GHG emitter,³⁴ Mexico has committed to a conditional reduction³⁵ of GHG emissions by 36% by 2030 and 50% by 2050 in its Intended Nationally Determined Contribution ("INDC").^{36,37} These goals were also included in Mexico's General Climate Change Law ("LGCC") in 2018.³⁸ According to Climate Transparency, the country's GHG emissions have increased by 51% from 1990 to 2019 and it is not on track to meet the Paris Climate Agreement's maximum temperature rise target of 1.5°C.³⁹ The agricultural sector is responsible for 15% of Mexico's total GHG emissions with manure and synthetic fertilizer making up 25% and 8% of agricultural emissions, respectively.^{40, 41} Therefore, the government has committed to reduce greenhouse gas emissions from the agricultural sector by a minimum of 8% by 2030.⁴²

More than 84% of all farms globally are small-scale farms measuring less than two hectares in size, with family farms occupying around 70% to 80% of farmland and producing over 80% of food worldwide.⁴³ In Mexico, small family farms account for about 40% of agricultural outputs and are essential contributors to the nation's economy.⁴⁴ There are many challenges to sustainable small-scale farming in Mexico, including limited access to financing for smallholder farms, lower production yields and droughts caused by climate change.^{45,46, 47} In response to these challenges, Mexico's Secretariat of Agriculture and Rural Development (SADER) introduced a program called "Production for Wellbeing", which is geared towards enhancing access to services and investments for small and medium-sized farms.⁴⁸ According to the FAO, a shift to sustainable agriculture will increase food production, create more jobs in the sector, preserve the natural resource base and will be powered by small scale farms.⁴⁹

Sustainalytics is of the opinion that Mifel's financing in sustainable agriculture activities in Mexico have the potential to support farms and contribute to the country's environmental and economic goals.

³⁴ NRDC, "Groups to Biden Admin: Step Up Climate Diplomacy with Mexico", (2022), at: <https://www.nrdc.org/media/2022/220118>

³⁵ Conditional contributions require the support of financial, technical and technological instruments, as well as capacity-building which will accelerate the implementation of mitigation actions across the country. For more information, please visit:

<https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Mexico%20First/NDC-Eng-Dec30.pdf>

³⁶ UNFCCC, "Nationally Determined Contributions", (2020), at: <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Mexico%20First/NDC-Eng-Dec30.pdf>

³⁷ IEA, "General Law of Climate Change (Mexico)", (2021), at: <https://www.iea.org/policies/8683-general-law-of-climate-change-mexico>

³⁸ *Ibid.*

³⁹ Climate Transparency, "Comparing G20 Climate Action towards Net Zero", (2022), at: <https://www.climate-transparency.org/wp-content/uploads/2022/10/CT2022-Mexico-Web.pdf>

⁴⁰ OECD, "Agricultural Policy Monitoring and Evaluation 2021 : Addressing the Challenges Facing Food Systems", (2021), at: <https://www.oecd-ilibrary.org/sites/a7f07ad3-en/index.html?itemId=/content/component/a7f07ad3-en>

⁴¹ Climate Transparency, "Comparing G20 Climate Action towards Net Zero", (2022), at: <https://www.climate-transparency.org/wp-content/uploads/2022/10/CT2022-Mexico-Web.pdf>

⁴² OECD, "Agricultural Policy Monitoring and Evaluation 2021 : Addressing the Challenges Facing Food Systems", (2021), at: <https://www.oecd-ilibrary.org/sites/a7f07ad3-en/index.html?itemId=/content/component/a7f07ad3-en>

⁴³ Science Direct, "Which farms feed the world and has farmland become more concentrated?", (2021), at: <https://www.sciencedirect.com/science/article/pii/S0305750X2100067X?via%3Dihub>

⁴⁴ International Fund for Agricultural Development (IFAD), "Smallholder farming key to development in Latin America and the Caribbean", at: <https://www.ifad.org/en/web/latest/speech/asset/39036385>.

⁴⁵ Catalyst Fund, "Why we invested: Verqor enables smallholder farmers in Mexico to access financing and connect with buyers", (2021), at: <https://bfaglobal.com/catalyst-fund/insights/why-we-invested-verqor-enables-smallholder-farmers-in-mexico-to-access-financing-and-connect-with-buyers/>

⁴⁶ Frontiers in Climate, "Evaluating Risk and Possible Adaptations to Climate Change Under a Socio-Ecological System Approach", (2021), at: <https://www.frontiersin.org/articles/10.3389/fclim.2021.674693/full>

⁴⁷ United States Department of Agriculture, "Drought Conditions in Mexico and Its Effect on Agriculture", (2021), at: https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Drought%20Conditions%20in%20Mexico%20and%20Its%20Effect%20on%20Agriculture_Monterrey%20ATO_Mexico_06-02-2021.pdf

⁴⁸ USDA Foreign Agricultural Service, "Mexico Announces New "Production for Wellbeing" Support Program", (2019), at: https://agriexchange.apeda.gov.in/MarketReport/Reports/Mexico%20Announces_New_Production_for_Wellbeing_Support_Program_Mexico_Mexico_2-7-2019.pdf

⁴⁹ Food and Agriculture Organization (FAO), "Smallholders and Family Farming", at: <http://www.fao.org/family-farming/themes/small-family-farmers/en/>.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Framework are expected to help advance the following SDGs and targets):

Use of Proceeds Category	SDG	SDG target
Sustainable Agriculture	2. Zero Hunger	2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and nonfarm employment
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Energy and Resource Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency.
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all

Conclusion

Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel has developed the Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel Green Finance Framework, under which it may issue green bonds and loans and use the proceeds to provide loans to corporations for project- and asset-specific financing related to Sustainable Agriculture and Livestock, Renewable Energy, Energy Efficiency and Sustainable Water and Wastewater Management. Sustainalytics considers that the projects funded by the green finance proceeds are expected to provide positive environmental impacts.

The Framework outlines a process by which proceeds will be tracked, allocated and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Bank and that the use of proceeds categories will contribute to the advancement of UN Sustainable Development Goals 2, 6 and 7. Additionally, Sustainalytics is of the opinion that Mifel has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel is well positioned to issue green bonds and loans and that the Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel Green Finance Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021 and Green Loan Principles 2023.

Appendix

Appendix 1: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Banca Mifel S.A.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Banca Mifel, S.A, Institución de Banca Múltiple, Grupo Financiero Mifel (Mifel) Green Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	September 14, 2023
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The review:

- ☒ assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- ☐ assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
- | | |
|---|---|
| ☐ Use of Proceeds | ☐ Process for Project Evaluation and Selection |
| ☐ Management of Proceeds | ☒ Reporting |
- ☐ assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- | | |
|--|---|
| ☒ Second Party Opinion | ☐ Certification |
| ☐ Verification | ☐ Scoring/Rating |
| ☐ Other (please specify): | |

Does the review include a sustainability quality score?

- | | |
|---|--|
| ☐ Of the issuer | ☐ Of the project |
| ☐ Of the Framework | ☐ Other (please specify): |

☒ No scoring

ASSESSMENT OF THE PROJECT(S)

Does the review include:

- ☒ The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- ☒ The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- ☒ The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

- ☒ An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- ☒ An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- ☒ A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

CLIMATE TRANSITION STRATEGY

Does the review assess:

- ☐ The issuer's climate transition strategy & governance?
- ☐ The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- ☐ The credibility of the issuer's climate transition strategy to reach its targets?
- ☐ The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- ☐ If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- ☐ The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- ☐ The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

Overall comment on this section:

Section 3. Detailed review

1. USE OF PROCEEDS

Does the review assess:

- ☒ the environmental/social benefits of the project(s)?
- ☒ whether those benefits are quantifiable and meaningful?
- ☒ for social projects, whether the target population is properly identified?

Does the review assess if the issuer provides clear information on:

- ☐ the estimated proceeds allocation per project category (in case of multiple projects)?
- ☐ the estimated share of financing vs. re-financing (and the related lookback period)?

The eligible categories for the use of proceeds Sustainable Agriculture and Livestock, Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 2, 6 and 7.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION**Does the review assess:**

- ☒ whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones. Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.
- ☒ whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- ☒ the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- ☒ the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- ☒ any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Mifel's Prevention and Compliance Department and the ESG Risk Department, will be responsible for evaluating and selecting projects in line with the Framework's eligibility criteria. Banca Mifel has an environmental and social risk management process in place, overseen by the Prevention and Compliance Department, to address environmental and social risks associated with projects being financed. The Bank is currently updating its identification, assessment and mitigation measures through the implementation of a formal process for risks associated with the financed projects. Sustainalytics considers the project selection process in line with market practice.

3. MANAGEMENT OF PROCEEDS**Does the review assess:**

- ☒ the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- ☒ the intended types of temporary investment instruments for unallocated proceeds?
- ☐ Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Mifel's Treasury Department, in coordination with its Operations Department, will oversee the management and allocation of proceeds using a portfolio approach. The Bank has communicated that it will track the proceeds using an internal tracking system and that there will be ongoing matching of proceeds to eligible projects. Mifel intends to allocate proceeds within 36 months of the respective issuance date. Pending full allocation, proceeds will be temporarily held in cash or other liquidities consistent with its liquidity policy. This is in line with market practice.

4. REPORTING**Does the review assess:**

- ☒ the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- ☒ the frequency and the means of disclosure?

☐ the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

Mifel commits to report on allocation and impact of proceeds in its sustainability report, which will be published on its website on an annual basis until full allocation. Allocation reporting will include the use of funds within each category, total amount of unallocated funds and percentage of funds used for new financing and refinancing. In addition, Mifel intends to report on relevant impact metrics. Sustainalytics views the reporting commitments to be in line with market practice.

Section 4. Additional Information

Useful links (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:

Additional assessment in relation to the issuer/bond framework/eligible project(s):

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

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