



CORPOVAEL S.A.B. DE C.V. (CADU)

## CADU Green Bond Framework

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Based on the ICMA Green Bond Guidelines 2018

**March 2020**

**This Framework will offer investors a better understanding of the Green Bonds that may be issued by CADU from this day onwards. The objective is to be transparent with respect to the use and management of proceeds; the project selection processes; and, the reporting methodology.**

## Background

Corpovael S.A.B de C.V. (CADU) is a holding company with vertically integrated operations in the majority of its housing industry activities, which together with its subsidiaries, is engaged in the development of new homes, in the affordable entry-level, middle-income and residential segments. Its activities include the design, urbanization, construction, marketing and commercialization of homes in Mexico.

CADU was founded in 2001 and held its Initial Public Offering (IPO) in the Mexican Stock Market in 2015, under the ticker symbol “CADU”.

From 2001 to date, CADU has sold more than 100,000 homes in 6 (out of 32) States in Mexico and is the leading housing developer in the State of Quintana Roo, with 36.3% of the market share (INFONAVIT, 2019).

CADU was the first home builder in Quintana Roo to pursue a certified development, which aimed to promote more orderly, fair and sustainable urban growth. And, ever since, CADU has been aligned with these best-practice standards in its construction endeavors, and has been complying with the highest standards in infrastructure, services, equipment and sustainability.

Additionally, CADU has managed to maintain competitive margins, as it is its ROE, despite the different crises that the Mexican housing sector has coped with. This has been achieved through the efficiency in its processes and the ability to lower its costs due to its vertically integrated operations and its business model focused on a sustainable growth and high profitability.

The present Investment Framework is based on the Green Bond Principles (GBP) and CADU’s strategy. CADU’s strategy aims to strengthen the Company’s business model through a sustainability focus and, underlines the importance of accompanying it with: (a) environment-friendly initiatives and (b) housing with eco-technologies – which guarantees the long-term reduction of greenhouse gas (GHG) emissions and a more efficient utilization of existing natural resources.

CADU seeks to consolidate as one of the industry leaders in the adoption of environmental protection practices; therefore, it wishes to maintain itself as the leading Company in green house building in Mexico that launches a Green Bond Program

where the proceeds will be used to strengthen environment-friendly housing projects such as ECOCASA.

The ECOCASA Program was developed with the ultimate goals of: (a) improving the quality of life of individuals; (b) reducing energy consumption; and, (c) protecting the environment. Therefore, the Program is focused on evaluating housing projects in order to measure both their energy and environmental performance overall.

To achieve the aforementioned objectives, the ECOCASA Program uses three different tools:

1. The DEEVi – which evaluates the efficiency in the design of a certain household;
2. The SAAVi – which simulates how water will be saved in the projected house; and,
3. The General Performance Index (IDG) – which evaluates the housing model submitted by the developer based on its expected demand of energy<sup>1</sup> and its projected water consumption<sup>2</sup>.

The IDG uses both DEEVi and SAAVi as inputs; thus, the results that the IDG throws allow the evaluator and the housing developer to see how efficient the household is as a prototype<sup>3</sup>.

CADU has participated in the ECOCASA program since 2013 and has built 18,565 houses through this Program. This number represents nearly 18% of the total houses built throughout the history of the Company.

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<sup>1</sup> It includes a thermic evaluation of the household (which allows the evaluator to get CO2 emissions) and considers the design and the materials used for construction; plus, it considers local conditions, habits and technical characteristics of the household installations, gas and electric technologies installed.

<sup>2</sup> It measures water use efficiency in showers, laundry room, faucets and tap installations. And considers an added value when installations allow for water savings in places with water stress conditions.

<sup>3</sup> Compared to the baseline provided by the *Sociedad Hipotecaria Federal* (SHF).

## **Environmental Performance**

Based on the premise that the efficient use of natural resources contributes to the reduction of both direct and indirect environmental impacts (both locally and globally), CADU is mindful of the importance of having an appropriate use of land, water and electricity. That is why CADU has a considerable number of certified houses in its portfolio, through the ECOCASA Program.

In addition to that, and as of land and water use, CADU has never disposed of waste in aquifers such as rivers, lagoons and sea; and, as of today, no spillages that could have affected water bodies have occurred at any of its housing developments.

### Environmental features in CADU's developments

For ECOCASA and other developments CADU has aligned its construction mandates with environment-friendly features which include:

- The inclusion of eco-technologies in order to save energy and reduce CO2 emissions;
- The installation of water-saving toilets and water-saving faucets (for kitchens and bathrooms); and,
- The installation of energy-saving lamps and insulations materials that contribute to the reduction of GHG emissions.

### Additional environment-friendly programs

Apart from ECOCASA, CADU has worked to incorporate the following Programs to its portfolio in order to strengthen its role as a positive contributor to the environment:

- HIPOTECA VERDE (Green Mortgage) which is a Federal Government Program that prioritizes water and energy savings, as well as thermic insulation;
- VIVEROS which is a tree nursery Program that helps with the reproduction of species, and aims for their reintegration to the environment; and,
- Annual Reforestation Programs in the communities where the Company operates.

## **CADU Capital markets Performance**

CADU has issued five bonds in the local market since 2012 and held its IPO in the Mexican Stock Exchange in 2015.

- (“CADU 19”) for an amount of MXN 500 million, unsecured and a 5-year term.
- (“CADU 18”) for an amount of MXN 500 million, unsecured and a 5-year term.
- CADU carried out an Initial Public Offering on the Bolsa Mexicana de Valores (Mexican Stock Exchange) under the ticker symbol “CADU”, marking the return of the housing sector to the Mexican capital market after ten years.
- (“CADU 15”) for an amount of MXN 400 million.
- (“CADU 14”) for MXN 300 million, with a 50% guarantee from the *Sociedad Hipotecaria Federal* (SHF), obtaining a credit rating of “A+” by Fitch Ratings
- CADU’s first placement of local notes (“CADU 12”) for MXN 300 million, with a 48% guarantee from Nacional Financiera (the Mexican state-owned development bank, known as NAFIN by its Spanish acronym), and obtaining a credit rating of “A+” by Fitch Ratings.

## **CADU’s Sustainable Development Goals (SDGs)**

CADU has a firm commitment *vis-á-vis* human development, both nationally and globally; therefore, it has made an assessment to identify how it contributes to the UN’s Sustainable Development Goals (SDGs). The results show how both CADU’s business model and strategy are intimately lined up with SDGs 11 and 9; and, how they contribute to other eight SDGs, both directly and indirectly.

### **Main contributions to SDGs**

**Goal 11.** CADU’s main contribution to the SDGs is that, through its housing projects, it is making cities and human settlements inclusive, safer, resilient and sustainable. With ECOCASA, for example, CADU is not only impacting the environment in a positive way, but it is also contributing to social inclusion and human development.

**Goal 9.** Nowadays, there is a 9.2 million housing lag in Mexico. To attend this issue, CADU contributes to the SDGs through the development of affordable, reliable, sustainable and high-quality houses for the millions of people that lack of a house to live in.

### **SDGs that are impacted directly**

**Goal 6.** CADU makes sure that water and sanitation is available to all the families living in the housing projects developed by the Company – especially those that are built in alignment with ECOCASA, EDGE or any other environmental certifications recognized by the Climate Bonds Initiative (CBI).

**Goal 7.** CADU is contributing to this SDG with the installation of clean, public lighting that use renewable energies; and, with the reduction of GHG gases that come with the eco-technologies used by the Company; and, with the installation of energy infrastructure that allows individuals to have access to affordable energy services.

**Goal 8.** Through the Company's operation, CADU promotes sustained, inclusive and sustainable economic growth because as offers full and productive employment, and decent working conditions for its employees.

**Goal 13.** CADU is being an active promoter of GHG reductions due to the fact that it installs eco-technologies that help to reduce from 20% and up to 40% of CO2 emissions.

**Goal 15.** Life on land through CADU's environmental policy that addresses how the Company seeks to care, mitigate environmental impact, and positively contribute to biodiversity matters through its restoration practices.

### **SDGs that are impacted indirectly**

**Goal 4.** CADU's housing projects ensure inclusive and equitable quality education and promote lifelong learning opportunities for every individual that lives nearby. Its projects consider spaces for education and healthcare.

**Goal 1.** CADU contributes to the increase in the proportion of people that now have households with access to basic services; and, to the reduction of poverty through the provision of inclusive and fair employment.

**Goal 10.** CADU promotes the social, political and economic inclusion of all, irrespective of age, gender, race, origin, religious or political background.

## **Green Bond Issuance**

### **Use of Proceeds**

Proceeds from CADU's green bonds will be used to finance or refinance the Company's existing<sup>4</sup> or future housing projects that are aligned with an environment-friendly framework ("Green Projects"). That is, that these projects should already have the ECOCOSA, the EDGE or any other environmental certifications approved by the CBI. The intention is to be in line with the "Low Carbon Buildings Criteria for Residential Buildings".

Green Projects should also be in line with the *Sustainable Development Goal* (SDG) 11 which aims to make cities and human settlements inclusive, safe, resilient and sustainable. And, should punctually commit to ensure access to adequate, safe and affordable housing by 2030.

### **Projects' Eligibility Criteria**

CADU's green bond proceeds will be allocated to projects that continue to be built around the following characteristics:

- Environmentally:
  - Housing projects should either have or have the potential to get an environmental certification such as: (i) ECOCASA with an IDG rating of at least E (in other words, with the objectives to reduce from at least 20% and up to 40% of GHG emissions from each house built due to the eco-technologies used in the construction phase); (ii) EDGE; or, (iii) any other environmental certification approved by the CBI;
  - Housing projects should have infrastructure installations for electricity and water efficiency;
  - Housing developments should have gone through impact analyses on energy and water use in order to assess their

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<sup>4</sup> For existing projects, proceeds will be used only if the housings to-be-financed do not go back more than 2 years, as of the date of each issuance.

- potential environmental impact; and, opt for those where environmental care and protection is not jeopardized;
- Housing shall have basic infrastructure installations for rainwater sewage and sewage; and,
- Procedures for solid waste management should be formally operating.
- Socially:
  - Roads and sidewalks shall be developed;
  - Public spaces like parks, community centers and sports facilities shall be provided;
  - Spaces shall consider inclusion criteria for wheelchairs and strollers;
  - Areas for commercial and services (i.e. healthcare and education) areas shall be provided; and,
  - Legislation on optimal occupation conditions should be fully complied with.

In other words, CADU will be striving for: (i) compliance with the aforementioned technical specifications; (ii) ensure that assessments on environmental practices are implemented in order to help the Company identify, prevent and mitigate environmental damage; and, (iii) assure that the proceeds are destined to Green Projects only.

### **Understanding the ECOCASA Program**

The ECOCASA Program was developed with the ultimate goals of: (a) improving the quality of life of individuals; (b) reducing energy consumption; and, (c) protecting the environment. Therefore, the Program uses different simulation tools to evaluate housing projects from their early stages in order to measure their energy performance and environmental performance overall<sup>5</sup>.

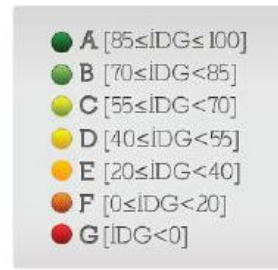
Based on the use of the tools like DEEVi and SAAVi, housing projects are measured first and then given an efficiency metric in a 0-100 scale (the IDG), which can be then compared to the baseline<sup>6</sup> that is represented in the G line below (see Figure).

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<sup>5</sup> Including, but not being limited to, measuring weather conditions, use of materials, the use of eco-technologies and construction systems.

<sup>6</sup> The baseline is to be provided by the *Sociedad Hipotecaria Federal (SHF)*, which according to GIZ (2018) was a concrete house with LED bulbs only.





Considering that ECOCASA aims to reduce at least 20% and up to 40% of GHG emissions, and to protect water, the Program validates houses within the C, D and E levels. CADU's use of proceeds will be used for ECOCASA projects with IDG ratings of at least E.

### **Process for Project Evaluation and Selection**

CADU's Sustainability Committee aims to disseminate the importance of good environmental, social and governance practices, and their relevance to the Company's business model.

The Committee seeks to create tactics that will continue to allow CADU to implement, measure, and monitor the sustainability impacts of its operations in order to be accountable to the board of directors; and, to strive for the Company's endurance in time.

### Committee Functions and Responsibilities

The Committee has the following functions and responsibilities:

1. On green, social and sustainable bonds
  - a. Assess every potential project based on the criteria described in this Investment Framework;
  - b. Authorize projects that will be financed or re-financed with these types of bonds;
  - c. Define how proceeds will be managed, once allocated;
  - d. Oversee the correct use of bond proceeds;
  - e. Create the KPI's for the corresponding green, social or sustainable projects;
  - f. Ensure that the KPI's are used as metrics to improve environmental performance;

- g. Report the progress and the impacts of each Project financed by the bond(s);
  - h. Report the financial status of the proceeds obtained.
- 2. On information
  - a. Generate sufficient information to provide our stakeholders with the material information that they seek from us;
  - b. Make sure that impacts (and not only performance indicators) are taken into account;
  - c. Build a Sustainability Report annually.
- 3. On awards and recognitions
  - a. Seek to position the Company as a candidate to receiving awards on ESG-related matters;
  - b. Participate in events that may contribute to sustainability issues; and,
  - c. Aim to join organizations or associations that may help the Company in the pursuit of better sustainability practices.
- 4. On risks
  - a. Update and review the materiality assessment of the Company;
  - b. Make sure that CADU's SGDs assessment and actions coming from it, are aligned with the Company's sustainability strategy;
  - c. Create or revise the Company's environmental and social policies;
  - d. Co-design the governance policies with the Board of Directors;
  - e. Create and implement the climate change strategy; and,
  - f. Report of progress.

## Members

The rationale behind the integration of this Committee is to have a group of capable, knowledgeable and professional people with diverse, yet relevant, sets of skills and experience that allow CADU to achieve the desired impacts presented herein.

The current members of this Committee are:

- a. Javier Cervantes: CADU's CFO, and Director, and Shareholder of the Company
- b. Victor Álvarez: Chief Technical and Environmental Officer at CADU
- c. Marta Vaca: Independent member, expert in corporate sustainability

- d. Rodrigo Rébora: Independent member, expert in corporate sustainability

### **Management of Proceeds**

Proceeds from the issuance are used according to this framework and supervised by the “Sustainability Committee” in order to: (i) track the milestones; and, (ii) report the balance and allocations of the proceeds (both quarterly and annually).

CADU has a separate bank account that will concentrate the bonds’ proceeds only; thus, all the proceeds will be easily managed, identified, controlled and reported.

It is relevant to underline that CADU will allocate all the proceeds in the following 12 months of the issuance.

### **Reporting**

- a) Allocation Reporting:

CADU will quarterly and annually disclose a Green Bond Report on its website with, at least, the following information:

- 1- list of projects financed;
- 2- amount of net proceeds allocated to each eligible project financed by net proceeds the bonds;
- 3- balance amount of unallocated net proceeds; and,
- 4- performance reporting elements.

- b) Performance Reporting:

Where feasible, the Green Bond Report will include qualitative and quantitative environmental performance indicators on eligible projects. Performance indicators may include (without being limited to):

- 1- Project Name
- 2- Number of houses built with ECO CASA or any other green certification;
- 3- Projects’ locations
- 4- Climate change mitigation metrics, where the Company will share:
  - i. GHG emissions avoided
  - ii. Tons of water saved; and,

iii. Number of rescued species (Progress report on compliance with MIA conditions)

5- IDG Rating

6- Percentage of projects with a green certification

In addition to impact metrics, if available, CADU may provide case studies of its completed sustainable community development projects within its Green Bond Report.