

# Corpovael S.A.B. de C.V.

## PRE-ISSUANCE VERIFICATION LETTER

### LOW CARBON BUILDINGS CRITERIA OF THE CLIMATE BONDS STANDARD

**Type of engagement:** Assurance Engagement

**Period engagement was carried out:** July 14-August 10, 2020

**Approved verifier:** Sustainalytics

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### Scope and Objectives

Corpovael S.A.B. de C.V. ("CADU" or the "Issuer") has engaged Sustainalytics to review and verify that CADU's green bond meets the requirements under the Low Carbon Buildings criteria of the Climate Bonds Standard.

CADU is a real estate company who, along with its subsidiaries, designs, builds, promotes and sells housing projects in the affordable entry-level, middle-income residential segments. The Company has operations in six out of 32 states in Mexico: Quintana Roo, Mexico City, Mexico State, Jalisco, Aguascalientes and in Ciudad Juárez; and has land holdings in Quintana Roo (Cancún, Tulum and Playa del Carmen), Mexico City, Querétaro and Jalisco. CADU is headquartered in Cancún, Quintana Roo.

CADU intends to issue green bonds and use the proceeds to finance and/or refinance housing projects that incorporate energy and water efficiency measures that lead to a reduction in greenhouse gas (GHG) emissions from 20% up to 40% against the regional baseline.

### Climate Bonds Standards Criteria

Pre-issuance requirements under Version 3:

- Low Carbon Buildings criteria:<sup>1</sup>
  - Residential buildings that are part of the ECOCASA Program with a minimum IDG "E" level <sup>2</sup>
  - Residential buildings that have EDGE certification

### Issuing Entity's Responsibility

CADU was responsible for providing information and documents relating to:

- The details concerning the selection process for the Nominated Projects;
- The details of the Nominated Projects;
- The management systems for internal processes and controls for Nominated Projects, including: tracking of proceeds, managing unallocated proceeds and Earmarking funds to Nominated Projects;
- The details of commitments for reporting prior to issuance, including: investment areas, management of unallocated proceeds and frequency of periodic Assurance Engagements.

### Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of CADU's green bond, issued to finance the development of eligible low carbon

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<sup>1</sup> Climate Bonds Standard, version 3.0 available at: <https://www.climatebonds.net/files/files/climate-bonds-standard-v3-20191210.pdf>.

<sup>2</sup> An IDG "E" level represents buildings that achieve a GHG emission reduction from 20% to 40%. Sustainalytics notes that a 20% carbon reduction target is compliant for CBI's standard for bonds with a tenor of up to 10 years; bonds including assets meeting this criterion must not have longer tenors in order to be covered by this verification. The baseline is based in the ECOCASA Program of Federal Mortgage Society (Spanish: Sociedad Hipotecaria Federal, "SHF").

residential buildings, and provided an independent opinion informing CADU as to the conformance of the green bond with the Pre-Issuance requirements and Low Carbon Buildings criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by CADU. Sustainalytics is not responsible if any aspect of the Nominated Projects referred to in this opinion including estimates, findings, opinions, or conclusions are incorrect. Thus, Sustainalytics shall not be held liable if any of the information or data provided by CADU's management and used as a basis for this assessment were not correct or complete.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

### **Verifier's Responsibility**

The work undertaken as part of this engagement included conversations with relevant CADU employees and review of relevant documentation to confirm the green bond's conformance with the Climate Bonds Certification Pre-Issuance Requirements, which include:

- Conformance of CADU's green bond with the Climate Bonds Standard Version 3
- Conformance with the Low Carbon Buildings Technical Criteria
- Conformance with the Internal Processes & Controls requirements
- Conformance with Reporting Prior to Issuance requirements

### **Basis of the Opinion**

Sustainalytics conducted the verification in accordance with the Climate Bond Standard Version 3 and with International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information.

Sustainalytics planned and performed the verification by obtaining evidence and other information and explanations that Sustainalytics considers necessary to give limited assurance that CADU's green bond meets the requirements of the Climate Bond Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that CADU will ensure compliance with Climate Bond Standard requirements.

### **Conclusion**

CADU will use the net proceeds from the green bonds to finance and/or refinance, in whole or in part, housing projects that incorporate sustainability standards compliant with the Low Carbon Building sector criteria.

Based on the limited assurance procedures conducted of CADU's green bond under the Low Carbon Buildings sector criteria of the Climate Bonds Standard, nothing has come to Sustainalytics' attention that causes us to believe that, in all material aspects, CADU's green bond is not in conformance with the Low Carbon Buildings of the Climate Bond Standard's Pre-Issuance Requirements.

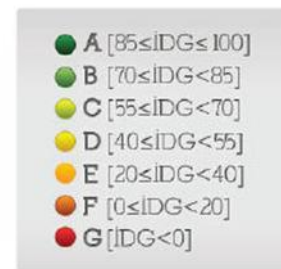
## Schedule 1: Detailed Overview of ECOCASA

Eligible projects are those that achieve a minimum of 20% reduction of CO<sub>2</sub> emissions against the baseline, measured using the DEEVi tool. The DEEVi is a tool for calculating the dimensions of Total Specific Demand (Spanish acronym: DET) and Primary Energy Demand (Spanish acronym: DEP), and was developed by the Passive House Institute. Its calculation methodology is based on the concept of the Whole Building Approach, which in summary calculates not only the energy balance of the home for a given location and architecture, but also under a previously defined operational regime.<sup>3</sup> The calculation accounts for temperature, humidity, house occupation, internal heat gain, internal humidity gain, air quality and ventilation. The tool determines an energy consumption rate by surface square meter to make data comparable.

CADU's use of proceeds would be used for ECOCASA with a minimum IDG "E":<sup>4</sup>

ECOCASA Level <sup>5</sup>	IDG rating <sup>6</sup>
ECOCASA I	C-E
ECOCASA II	D-E
ECOCASA III	D-E

IDG rating scale:



<sup>3</sup> GOPA, "Modelo del Sistema de Evaluación", (2013), at:

[https://energypedia.info/images/1/1a/GIZ\\_Modelo\\_del\\_Sistema\\_de\\_Evaluación\\_de\\_la\\_Vivienda\\_Verde\\_2013.pdf](https://energypedia.info/images/1/1a/GIZ_Modelo_del_Sistema_de_Evaluación_de_la_Vivienda_Verde_2013.pdf).

<sup>4</sup> Sociedad Hipotecaria Federal, ECOCASA Casa eficiente para todos", at: <https://www.gob.mx/shf/documentos/ecocasa>.

<sup>5</sup> ECOCASA I, ECOCASA II and ECOCASA III differ from each other because there is an additional factor (the HEEVi) that does not constitute part of the IDG but that it does measure how positive a social impact can be achieved through the construction of that house or housing project. The HEEVi considers the urban context and landscape.

<sup>6</sup> SEDATU, "Hipoteca Verde y SISEVIVE-ECOCASA", at: [https://www.gob.mx/cms/uploads/attachment/file/32462/Presentation1\\_COP21\\_SEDATU.pdf](https://www.gob.mx/cms/uploads/attachment/file/32462/Presentation1_COP21_SEDATU.pdf).

## Schedule 2A: Pre-Issuance General Requirements

<p>1. Use of Proceeds</p>	<p>1.1. The Issuer shall document the Nominated Projects &amp; Assets which are proposed to be associated with the Bond and which have been assessed as likely to be Eligible Projects &amp; Assets. The Issuer shall establish a list of Nominated Projects &amp; Assets which can be kept up-to-date during the term of the Bond.</p> <p>1.2. The expected Net Proceeds of the Bond shall be no greater than the Issuer’s total investment exposure to the proposed Nominated Projects &amp; Assets, or the relevant proportion of the total Market Value of the proposed Nominated Projects &amp; Assets which are owned or funded by the Issuer.</p> <p><i>Note: The Issuer may choose whether to use its investment exposure or debt obligation to the Nominated Projects &amp; Assets or their Market Value when satisfying Clause 1.2.</i></p> <p>1.3. Nominated Projects &amp; Assets shall not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments (such as social bonds or SDG bonds) unless it is demonstrated by the Issuer that:</p> <p>1.3.1. distinct portions of the Nominated Projects &amp; Assets are being funded by different Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments; or,</p> <p>1.3.2. the existing Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument is being refinanced via another Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument.</p>
<p>2. Process for Evaluation and Selection of Projects &amp; Assets</p>	<p>2.1. The Issuer shall establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects &amp; Assets. The decision-making process shall include, without limitation:</p> <p>2.1.1. A statement on the climate-related objectives of the Bond;</p> <p>2.1.2. How the climate-related objectives of the Bond are positioned within the context of the Issuer’s overarching objectives, strategy, policy and/or processes relating to environmental sustainability;</p> <p>2.1.3. The Issuer’s rationale for issuing the Bond;</p> <p>2.1.4. A process to determine whether the Nominated Projects &amp; Assets meet the eligibility requirements specified in Part C of the Climate Bonds Standard.</p> <p><i>Note to 2.1: A wide variety of climate-related objectives are possible. These can vary from increasing the installed capacity of low carbon assets, such as solar power facilities, to having a specific objective focused on the operations or indirect effects of the projects &amp; assets, such as emissions reductions.</i></p> <p><i>The climate-related objectives of the Bond, as stated by the Issuer, have implications for the reporting requirements under the Climate Bonds Standard. See Clauses 2.3, 5.2, 5.8, 6.1.1 and 8.4.</i></p> <p>2.2. The Issuer should include under Clause 2.1 further aspects of the decision-making process, including:</p> <p>2.2.1. related eligibility criteria, including, if applicable, exclusion criteria or any other process, applied to identify and manage potentially material environmental, social or governance risks associated with the Nominated Projects &amp; Assets.</p>

	<p>2.2.2. any green standards or certifications referenced in the selection of Nominated Projects &amp; Assets.</p> <p>2.3. The Issuer shall assess that all proposed Nominated Projects &amp; Assets to be associated with the Bond meet the documented objectives as stated under Clause 2.1.1 and are likely to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard.</p>
<p>3. Management of Proceeds</p>	<p>3.1. The systems, policies and processes to be used for management of the Net Proceeds shall be documented by the Issuer and disclosed to the Verifier, and shall include arrangements for the following activities:</p> <p>3.1.1. Tracking of proceeds: The Net Proceeds of the Bond can be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the Issuer in an appropriate manner and documented.</p> <p>3.1.2. Managing unallocated proceeds: The balance of unallocated Net Proceeds can be managed as per the requirements in Clause 7.3.</p> <p>3.1.3. Earmarking funds to Nominated Projects &amp; Assets: An earmarking process can be used to manage and account for funding to the Nominated Projects &amp; Assets and enables estimation of the share of the Net Proceeds being used for financing and refinancing.</p>
<p>4. Reporting</p>	<p>4.1. The Issuer shall prepare a Green Bond Framework and make it publicly available prior to Issuance or at the time of Issuance. The Green Bond Framework shall include, without limitation:</p> <p>4.1.1. Confirmation that the Bonds issued under the Green Bond Framework are aligned with the Climate Bonds Standard. This may include statements of alignment with other applicable standards, such as the EU Green Bond Standard, the ASEAN Green Bond Standard, Chinese domestic regulations, Japanese Green Bond Guidelines, etc.;</p> <p>4.1.2. A summary of the expected use of proceeds, as defined under Clause 1.1, and the expected contribution of the relevant sectors or sub-sectors to the rapid transition required to achieve the goals of the Paris Climate Agreement;</p> <p>4.1.3. A description of the decision-making process, as defined under Clause 2.1, with particular reference to the requirements in Clause 2.1.2;</p> <p>4.1.4. Information on the methodology and assumptions to be used for: confirming, where required by relevant Sector Eligibility Criteria, the characteristics or performance of Nominated Projects &amp; Assets required to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard; and any other additional impact metrics that the issuer will define.</p> <p>4.1.5. A summary of the approach to the management of unallocated Net Proceeds in accordance with Clause 3.1;</p> <p>4.1.6. The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding;</p> <p>4.1.7. The list of proposed Nominated Projects &amp; Assets associated with the Bond and the investment areas, as provided in Clause 9.1, into which the Nominated Projects &amp; Assets fall. Where there are limits on the amount of detail that can be made available about specific Nominated Projects &amp; Assets, information shall be presented on the investment areas which the Nominated Projects &amp; Assets fall into, as provided in Clause 9.1, and the Issuer shall provide an explanation of why detail on Nominated Projects &amp; Assets is limited</p> <p>4.1.8. Where a proportion of the Net Proceeds are used for refinancing, an estimate of the share of the Net Proceeds used for financing and refinancing, and the relevant Nominated Projects &amp; Assets or investment areas which may be</p>

refinanced. This may also include the expected look-back period for refinanced Nominated Projects & Assets.

*Note: Issuers are encouraged to disclose as much information as possible with respect to Nominated Projects & Assets. However, in many cases it is not possible for the Issuer to disclose detailed information about specific projects & assets prior to the issuance of the Bond. This limitation may be due to confidentiality arrangements with owners of projects & assets, the dynamic nature of the project portfolio, competitive considerations, or other legal provisions which limit the disclosure of detailed information*

4.2. The Issuer shall include in the Disclosure Documentation:

4.2.1. The investment areas, as provided in Clause 9.1, into which the Nominated Projects & Assets fall;

4.2.2. The intended types of temporary investment instruments for the management of unallocated Net Proceeds in accordance with Clause 7.3;

4.2.3. The Verifier engaged by the Issuer for the mandatory verification engagements;

4.2.4. The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding, including the location of the published documents;

4.2.5. The Climate Bonds Initiative Disclaimer provided in the Certification Agreement.

*Note to 4.2.4: Issuers are encouraged to provide their Update Reports through existing reporting channels for the bond markets, such as the Electronic Municipal Market Access (EMMA) website for the US Municipality sector.*

## Schedule 2B: Conformance to the Pre-Issuance Requirements

Procedure Performed	Factual Findings	Error or Exceptions Identified
<p>1. Use of Proceeds</p>	<p>1.1 CADU developed a list of Nominated Projects &amp; Assets that is compliant with ECOCASA, EDGE and other green building certifications approved by CBI. CADU has disclosed the list of soon-to-be-financed projects to Sustainalytics, and has committed to keeping this list updated with all the financed projects that fall within the scope of the Issuer’s green bond program and Framework.</p> <p>1.2 CADU’s management confirms that the Net Proceeds of the future green bond will not be greater than the total investment exposure to the proposed Nominated Projects &amp; Assets.</p> <p>1.3 CADU’s management confirms that the Nominated Projects &amp; Assets will not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instrument, green bonds, green loans or other labelled instruments unless it is demonstrated by CADU that distinct portions of the Nominated Projects &amp; Assets are being funded by different instruments or that the existing instrument is being refinanced.</p>	<p>None</p>
<p>2. Process for Evaluation and Selection of Projects &amp; Assets</p>	<p>2.1.1. CADU’s Green Bond Framework states that the intention of the green bonds are to advance (a) environment-friendly initiatives and (b) housing with eco-technologies that provides long-term reduction of GHG emissions and a more efficient utilization of existing natural resources.</p> <p>2.1.2. CADU’s environmental objectives are summarized in their Green Bond Framework.</p> <p>2.1.3. CADU’s rationale for issuing green bonds is to consolidate itself as an industry leader in the adoption of environmental practices, and to maintain its position as a leading company in the building of green residential buildings in Mexico.</p> <p>2.1.4. CADU’s Green Bond Framework includes a process for project evaluation and selection in which its Sustainability Committee will verify that projects meet the Green Bond Framework eligibility criteria.</p> <p>2.2.1. CADU has sufficient measures in place to manage and mitigate environmental and social risks that are commonly associated with the eligible category.</p> <p>2.2.2. The CADU Green Bond Framework references ECOCASA, EDGE or any other future proxy approved by CBI under the Low Carbon Buildings criteria.</p> <p>2.2.3. CADU’s Sustainability Committee will verify that all proposed</p>	<p>None</p>

	<p>Nominated Projects &amp; Assets conform to the Climate Bonds Taxonomy and Low Carbon Building sector criteria.</p>	
<p>3. Management of Proceeds</p>	<p>3.1.1. The CADU Green Bond Framework outlines a process by which proceeds will be tracked.</p> <p>3.1.2. CADU will hold unallocated net proceeds in a separate bank account and proceeds will be held in temporary investment instruments that are cash, or cash equivalent instruments, within a Treasury function.</p> <p>3.1.3. The CADU Green Bond Framework details the process it will use to earmark, allocate, and manage green bonds proceeds.</p>	
<p>4. Reporting Prior to Issuance</p>	<p>4.1.1. CADU has confirmed that the bonds it intends to issue in the future will be aligned with the Climate Bonds Standard.</p> <p>4.1.2. The CADU Green Bond Framework indicates that green bond proceeds will be used for low carbon residential building projects and therefore for reducing CO<sub>2</sub>.</p> <p>4.1.3. The CADU Green Bond Framework provides details on its decision-making process. CADU's Sustainability Committee will verify that projects meet the Green Bond Framework eligibility criteria. The bond proceeds will be used to strengthen environment-friendly housing projects in line with the company's sustainability strategy.</p> <p>4.1.4. CADU has confirmed that Nominated Projects &amp; Assets will conform with the Low Carbon Buildings sector criteria.</p> <p>4.1.5. CADU will hold net proceeds in a separate bank account. Net proceeds will be managed, identified, controlled and reported and the company will hold unallocated proceeds in cash or cash equivalents.</p> <p>4.1.6. CADU will provide quarterly and annual reports on the use of proceeds on its website and until full allocation. In addition, CADU is committed to reporting on relevant impact metrics that have been identified in the CADU Green Bond Framework.</p> <p>4.1.7. CADU's Nominated Projects &amp; Assets fall under the Low Carbon Building sector criteria. CADU will report on the number of houses built with ECOCASA or any other eligible certification.</p> <p>4.1.8. CADU has communicated to Sustainalytics that approximately 30% of net proceeds will be allocated for the financing of new projects and 70% will be used for refinancing. CADU has established lookback period of up to two years from the date of each bond issuance to be eligible for financing or refinancing.</p> <p>4.2.1. CADU Nominated Projects &amp; Assets will conform with the Low Carbon Buildings sector criteria.</p> <p>4.2.2. The intended types of temporary investment instruments for the management of unallocated Net Proceeds are in accordance with Clause 7.3.</p> <p>4.2.3. No third-party verifier has been appointed yet to conduct the Post-Issuance assurance exercise. Post-issuance will be carried out 12 months after issuance. However, conducting</p>	



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	<p>periodic Assurance Engagements over the term of the bond is at the discretion of the bond issuer, as per CBI guidelines.</p> <p>4.2.4. CADU intends to publish a quarterly and annual Green Bond Report on its website.</p> <p>4.2.5. Sustainalytics notes that under the terms of its certification, the Issuer must include the CBI Disclaimer provided in the Certification Agreement in disclosure documentation.</p>	
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## Disclaimer

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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.

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