

Environmental and Social Review Summary (“ESRS”)

Mexican NBF1 Regulatory Enhancement Transition Bond in Mexico / 15873-01

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- 1. Scope of Environmental and Social Review.** The Environmental and Social (“E&S”) review of the proposed issuance included the analysis of the processes, policies and procedures of five Multiple Purpose Financial Companies (“SOFOM”), in their capacity as originators of the bond backed by their respective credit portfolios, as well as the review of information related to those portfolios. Likewise, conversations were held with officers and management members of the SOFOMs.
- 2. Environmental and Social Categorization and Rationale.** The proposed issuance is classified as FI-2, in accordance with IDB Invest’s E&S Sustainability Policy, given that the financing will be allocated to subprojects with moderate E&S risks. The resources of the Social Bond with a Gender Lens will be allocated to eligible projects within the Micro, Small and Medium Enterprises (“MSME”) portfolio, in accordance with the provisions of the Bond Framework, which will be aligned with the Thematic Bond Principles of the International Capital Market Association (“ICMA”), the Sustainable Taxonomy of Mexico and IDB Invest’s eligibility criteria.

The participating SOFOMs adopt the following definition of MSME: companies with annual revenues of up to US\$~\$14.5 million (\$250 million Mexican pesos). Currently, the five sectors with the highest participation in the aggregate SME portfolio of the five SOFOMs are: services (32%), commerce (22%), construction (19%), industry (11%) and manufacturing (4%). Category A subprojects (high E&S risk), according to IDB Invest’s definition, and activities included in IDB Invest’s Exclusion List will not be financed.

The transaction is considered aligned with the Paris Agreement, based on an analysis conducted in accordance with the IDB Group’s Paris Alignment Implementation Approach.

- 3. Environmental and Social Risks and Impacts.** The main E&S risks of the issuance are related to the capacity of the SOFOMs to identify and manage the risks associated with their financing activities in the eligible portfolio of the Social Bond with Gender Lens. These E&S risks may be related to worker health and safety, generation of wastewater and solid waste, emission of polluting gases, land use change, community health and safety, climate change, among others. It is considered that the E&S impacts and risks associated with the subprojects will have a moderate level.
- 4. Mitigation Measures.** Currently, none of the SOFOMs have an Environmental and Social Management System (“ESMS”) implemented yet; however, all have already initiated its development with the support of external consultants and are at different levels of progress (mostly in the initial stage). The ESMS implemented in each SOFOM will include an environmental and social policy, an exclusion list, a process and tools for E&S risk categorization, procedures to manage E&S risks during the due diligence, structuring and credit approval stages, as well as their monitoring during the supervision stage. The ESMS will be developed in alignment with the International Finance Corporation’s (“IFC”) Guidance Note for Financial Intermediaries and will be oriented to ensure compliance with applicable local E&S regulations and IDB Invest’s exclusion list. For its part, the Social Bond with Gender Lens Framework will have a second party opinion that will confirm that the use of funds complies with the established eligibility criteria.

Likewise, the participating SOFOMs have Human Resources policies that incorporate principles of equal opportunities and non-discrimination, as well as grievance mechanisms for their employees. However, the

five SOFOMs present different levels of development and scope with respect to these instruments. In that sense, they will all strengthen their Human Resources policies through the adoption and incorporation of a Protocol for the Prevention and Response to Workplace Harassment with a Gender Perspective ("PRWHGP").

The SOFOMs must ensure that all subprojects financed with the resources of the Social Bond with Gender Lens comply with the provisions of the Reference Framework, IDB Invest's Exclusion List and applicable local E&S laws. As part of the E&S Action Plan described in Section 5, each SOFOM must implement actions oriented towards the development and implementation of an ESMS, as well as the strengthening of its Human Resources policies.

Additionally, each SOFOM will designate a person responsible for supervising and monitoring the development and implementation of the ESMS, who must complete an online course on environmental and social risk management offered by IDB Invest.

5. **Environmental and Social Action Plan ("ESAP"):** The actions described below will be applicable to the five SOFOMs.

#	Activity	Description	Compliance Indicator	Delivery Date
Performance Standard 1: Assessment and management of environmental and social risks and impacts				
Environmental and Social Assessment and Management System				
1	Develop and Implement a SARAS	i) Develop and implement an ESMS, in line with IFC Performance Standard No. 1 and the Guidance Note for Financial Intermediaries. The process will consider the execution of a pilot phase prior to its full implementation, in order to validate procedures and tools before their definitive adoption. Its development must have the support of a consultant with experience in the matter and consider the clear allocation of functions and responsibilities within the institutional organizational chart.	a) ESMS Draft	Within 3 months of the date of signing the Bond Subscription Agreement ("BSA")
			b) ESMS Final approved version	Within 6 months of the date of signing of the BSA
		ii) With the support of the external consultant who developed the ESMS, provide specialized training on the ESMS to key personnel in the areas involved in its implementation, including senior management.	c) Training records	Within 6 months of the date of signing of the BSA
Organizational Capacity and Competency				
2	Capacity building and training	i) Designate an Environmental and Social (E&S) Officer responsible for coordinating the development and implementation of the ESMS. The role and hierarchical level of the E&S officer must be reflected in the institution's updated organizational chart.	Updated organizational chart with the name of the E&S Officer and their position	Within one month from the date of signing of the BSA
		ii) The designated E&S Officer must complete the online course on environmental and social risk management offered by IDB Invest	Course completion certificates	Within 6 months of the date of signing of the BSA, and each time new personnel are incorporated into the E&S team

Performance Standard 2: Labor and Working Conditions				
Working Conditions and Management of Worker Relationship				
3	Strengthening of human resources policies and procedures	Develop and implement a PRWHGP Protocol, accompanied by training for all staff, including senior management.	a) PRWHGP Protocol approved b) Training records	Within 12 months from the date of signing the CSB

- 6. Contact Information** For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email divulgacionpublica@iadb.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.