



GREEN BOND FRAMEWORK

Overview

In 1994 the Governments of Mexico and the United States created the North American Development Bank (NADB) with the explicit mandate to support the development and implementation of environmental infrastructure projects that help preserve, protect and enhance the environment of the border region in order to advance the well-being of the people of the United States and Mexico. All projects financed by NADB must demonstrate an environmental benefit.

NADB Green Bonds will be used to finance and/or refinance eligible environmental infrastructure projects which may include renewable energy generation and transmission; sustainable water and wastewater management; energy efficiency; and pollution prevention projects.

Use of Proceeds

An amount equal to the net proceeds of the NADB Green Bonds (“Net Proceeds”) will be allocated to finance, or refinance, in whole or in part, one or more Eligible Green Projects of the NADB.

Eligible Green Projects

Eligible Green Projects consist of the development, construction or expansion of facilities for new and existing environmental infrastructure projects that (i) have had a disbursement made during the twenty-four months preceding the issue date of the Green Bond or; (ii) will be financed following the issue date of the Green Bond and before the maturity date of the Green Bonds. Eligible Green Projects will be certified as environmental infrastructure by the NADB in line with the Bank’s mandate and charter.

Eligible Green Projects will contribute to one or more of the high-level objectives of the 2018 Green Bond Principles, namely: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control.

Eligible Green Projects may include:

1. Renewable energy:
 - a. Solar (production, transmission, and maintenance)
 - b. Wind (production, transmission, and maintenance)
2. Sustainable water and wastewater management (e.g. improvements to water distribution systems, including leak elimination, wastewater treatment and reuse, water conservation, storm drainage & flood control)

3. Energy efficiency (e.g. municipal and commercial building upgrades, industrial equipment retrofits, public lighting), excluding investments in fossil fuel-powered equipment (e.g. boilers) unless linked to a comprehensive retrofit where such equipment represents less than 20% of total investment
4. Pollution prevention and control (e.g. industrial emissions reduction, waste treatment and disposal), excluding investments in fossil fuel-powered equipment

Project Evaluation and Selection

All project selected for financing by NADB must be certified by the Bank's Board of Directors. The certification process requires projects to comply with technical, financial and environmental criteria, as well to provide public access to project information. As part of the environmental criterion, a project must demonstrate environmental merits and benefits, as well as compliance with local, state and national environmental regulations.

The Board of Directors is comprised of representatives from the U.S. Environmental Protection Agency and the Departments of State and Treasury; the Mexican Ministries of Environment and Natural Resources, Foreign Relations, and Finance and Public Credit; a representative from a border state government in each country, and; a representative of the residents of a border state in each country.

In connection with the Green Bonds and in addition to the analysis described above, NADB Management will approve a list of specific types of Eligible Green Projects expected to be funded out of the Net Proceeds. NADB may change projects and find a substitute Eligible Green Project.

Management of Net Proceeds

Prior to allocation to Eligible Green Projects, the Net Proceeds will be held in the Bank's investment portfolio or cash. The Bank's investment portfolio is managed with conservative guidelines, investing in US Treasuries or issues of U.S. agencies, Mexican Government US dollar denominated securities or investment grade corporate notes and bonds, denominated in US dollars, rated A or better. NADB intends to make the allocation to Eligible Green Projects in the 24 months following the issue date of the Green Bond. Payment of principal and interest on the Green Bonds will be made from NADB's general accounts and will not be directly linked to the performance of the Eligible Green Projects. Funds are tracked on a monthly basis and presented to management on a quarterly basis to ensure compliance with internal protocols.

Periodic Reporting

Allocation Reporting

During the term of the Green Bonds, NADB will endeavor to make and keep readily available on its website information on the Allocation of the Net Proceeds. The report will be updated annually until the Net Proceeds have been fully allocated to Eligible Green Projects. The information is expected to include amounts allocated to Eligible Green Projects and brief descriptions of the projects.

Impact Reporting

Detailed information regarding the certification of the project and the expected environmental benefits will continue to be made available for Eligible Green Projects. Where feasible, quantitative environmental performance indicators (e.g. annual renewable energy produced, and estimated carbon dioxide, sulfur dioxide and nitrogen oxide emissions avoided) will be made available on the NADB website.

External Review

For the benefit of NADB, a consultant has been engaged to provide a second party opinion, which provides investors with an independent assessment of the environmental credentials of the NADB framework as well as the alignment with the Green Bond Principles, 2018.

Further Information

The Green Bond Principles, 2018 are voluntary process guidelines for the issuance of green bonds developed by a committee of issuers, investors and other participants in the green bond market. The Green Bond Principles 2018 have four core components: (1) use of proceeds; (2) process for project evaluation and selection; (3) management of the proceeds; and (4) reporting.

NADB is in alignment with these components, as described above.