CERTIFICATION AND FINANCING PROPOSAL

BORDER-WIDE SUSTAINABILITY FINANCING FOR ENGEN IN MEXICO – TRANCHES A & B

Published: July 23, 2025

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EXECUTIVE SUMMARY

BORDER-WIDE SUSTAINABILITY FINANCING FOR ENGEN IN MEXICO – TRANCHES A & B

The project sponsor, 397 CAP, S.A. de C.V., SOFOM, E.N.R ("Engen" or the "Sponsor"), a non-bank financial institution (NBFI) that provides financial services to small and medium-sized enterprises (SMEs), has requested financing from NADBank to be used, in turn, by the Sponsor to finance eligible subprojects under the NADBank Green Loan Framework (GLF), as well as freight vehicles aligned with the criteria of the Sustainability Taxonomy of Mexico (STM).

Because Engen's stockholder equity exceeds the maximum threshold established in the eligibility criteria for the NADBank Green Loan Program, this certification and financing proposal is being submitted to the Board of Directors for consideration and approval. The proposal covers the certification and financing of two projects, as described below.

To better serve its clients and expand its portfolio of sustainable assets, Engen has requested that the NADBank financing be structured in two tranches—one denominated in pesos and the other in dollars—with longer financing terms, which will address the restrictions its clients currently face in accessing financial solutions (together, the "Projects"). "Tranche A" consists of providing a collateralized corporate loan for up to US$20.0 million directly to Engen backed by the collection rights or the book value of the assets associated with loan or lease agreements. "Tranche B" for up to MXN$400 million will be channeled through a trust as a non-recourse, asset-backed credit facility, which will be guaranteed by collection rights.

This dual structure allows NADBank to separate its financing by currency and aligns with the financial and risk strategies of both the corporation and its subsidiaries. Because of the financial differences between the two loan tranches, it is more convenient for NADBank to manage each tranche as a separate project even though the Sponsor, sectors and eligible assets will be the same for both tranches. In practice, project monitoring and oversight under the two tranches will be carried out in a similar and parallel manner.

The proposed use of the loan proceeds provides a structure to support meaningful environmental projects along the border, which NADBank is not suited to finance directly due to their small size. Specialized financial intermediaries, with the technical and financial support of the Bank, can expand and strengthen the evaluation and implementation of green investments. This approach maximizes community impact, diversifies the sustainability portfolio of NADBank and leverages external capacities to serve market segments that are currently underserved.

NADBank funds will be allocated to activities related to mobility, green manufacturing and products and sustainable food value chains, as well as water and waste management, renewable energy and energy efficiency. Expected environmental benefits include energy and water savings and waste recovery and recycling, along with a reduction in the emission of pollutants (e.g., CO_2, PM, and NOx).

NADBank will provide technical and environmental additionality by supporting Engen in the development of a portfolio of eligible projects consistent with its environmental, social and governance (ESG) policy, as well as strengthening its capacity to generate appropriate reports that demonstrate the environmental benefits of the projects financed. If necessary, NADBank will provide training and technical assistance tailored to Engen's needs, including training in the use of calculation tools and methodologies for estimating environmental benefits and identifying green assets, as well as reporting.

Table 1
PROJECT PROFILE

Project Eligibility

Project Type (Sector):	Financing for the implementation of eligible subprojects under the NADBank Green Loan Framework (GLF), as defined in this proposal, and assets related to freight transportation aligned with the criteria of the Sustainability Taxonomy of Mexico (STM).
Location:	Northern border region of Mexico
Sponsor:	397 CAP, S.A. de C.V., SOFOM, E.N.R ("Engen")

Project Summary

Objective:	Support energy efficiency, water conservation and emission reductions in the northern border region of Mexico through financing transactions for eligible projects under the categories presented as part of this proposal.
Expected Outcomes:	The Projects are expected to generate environmental and human health benefits related to the following outcomes: ▪ *CO_2 emissions avoided.* Reduction achieved through the use of: i. *Mobility:* low-emission tractor-trailers and short-haul distribution vehicles, trailers equipped with technology that improves fuel efficiency (aerodynamic deflectors); low-emission personnel buses, commercial fleets, and light-duty passenger vehicles, including hybrid and electric vehicles, as well as electric charging stations and related infrastructure. ii. *Green manufacturing and products*: machinery or equipment for efficient production during manufacturing processes. iii. *Sustainable food value chains*: energy-efficient machinery or equipment for food processing, packaging, storage, distribution, or marketing activities.

	iv. *Renewable energy*: photovoltaic systems for commercial and industrial use. v. *Energy efficiency*: energy-efficient equipment and HVAC systems as part of the modernization of commercial and industrial buildings. ▪ *Particulate matter (PM) and nitrogen oxide (NOx) emissions avoided*, resulting from the use of low-emission tractor-trailers, short-haul logistics distribution vehicles, and personnel buses. ▪ *Water savings*, achieved through the use of efficient irrigation systems; energy-efficient machinery or equipment for food processing, packaging, storage, distribution or marketing activities; and modular wastewater treatment plants for small-scale commercial uses. ▪ *Energy savings*, achieved through the installation of energy-efficient machinery or equipment for manufacturing processes and food processing, packaging, storage, distribution or marketing activities, as well as photovoltaic systems for commercial and industrial use and energy-efficient equipment and HVAC systems as part of the modernization of commercial and industrial buildings. ▪ *Solid waste recovered for reuse* through machinery, equipment, or the installation of recycling systems related to manufacturing processes.
Population to Benefit:	Community wide [1]
NADBank Additionality:	NADBank participation promotes access to financing for green projects and expands the availability of green leases in the border region in the areas of energy efficiency, solid waste management, wastewater treatment and freight and personnel transportation, among others.

Financial Summary

NADBank Loan	Up to US$40.0 million, divided into two tranches: Tranche A in U.S. dollars and Tranche B in Mexican pesos.

[1] The Projects will prevent the emission of pollutants (i.e., CO_2, PM and NOx), make better use of resources such as water and energy, and improve waste management and reuse within the community(ies)and region where the investments are made. Therefore, the population that will benefit is considered to be community wide, as it is not possible to define a specific number of individuals.

Borrower:	*Tranche A* – Engen *Tranche B* – Trust

CERTIFICATION AND FINANCING PROPOSAL

BORDER-WIDE SUSTAINABILITY FINANCING FOR ENGEN IN MEXICO – TRANCHES A & B

1. CERTIFICATION CRITERIA

1.1. Technical Criteria

1.1.1. Project Description

Location

The Projects will be implemented within the northern border states of Mexico, in accordance with the project portfolio projections of the Sponsor. Given the market focus of Engen, most of the eligible subprojects are expected to be financed and implemented within or near the major metropolitan areas of the states of Baja California, Chihuahua, Coahuila, Nuevo León, Sonora and Tamaulipas, all of which fall within the geographic jurisdiction of NADBank. Figure 1 illustrates the geographic location of the 300-kilometer (186-mile) jurisdiction of NADBank in Mexico and highlights the largest metropolitan areas where eligible projects are most likely to be implemented.

Figure 1
PROJECT LOCATION MAP

Table 2 provides the major border cities that represent the main market focus for project implementation, along with their respective populations.

Table 2
MAIN URBAN AREAS FOR PROJECT IMPLEMENTATION

City	Population in 2020*
Tijuana, Baja California	1,922,523
Mexicali, Baja California	1,049,792
Hermosillo, Sonora	936,263
Chihuahua, Chihuahua	937,674
Ciudad Juárez, Chihuahua	1,512,450
Saltillo, Coahuila	879,958
Monclova, Coahuila	237,951
Monterrey, Nuevo León	1,142,994
Reynosa, Tamaulipas	704,767
Ciudad Victoria, Tamaulipas	349,688
Total	**9,674,060**

* Source: Mexican National Institute of Statistics and Geography (INEGI), 2020.

According to the Mexican National Institute of Statistics and Geography (INEGI), these ten border cities represented approximately 8% of the population of Mexico and about 42% of the population residing in the six northern border states. Based on the 2019 Economic Census published by INEGI, total gross production reported for those states accounted for 26% of the national total.[2]

Project Scope

The Projects consist of providing a loan structured as two separate tranches with different financial characteristics, for up to a total of US$40.0 million:

- *Tranche A*: Corporate loan for up to US$20.0 million to be provided directly to Engen, guaranteed by a pledge of collection rights or the book value of the assets, with the loan proceeds to be used to finance eligible subprojects across various sectors, primarily mobility, green manufacturing and products, and sustainable food value chains, as well as water and waste management, renewable energy and energy efficiency.

- *Tranche B*: Non-recourse asset-backed credit facility for up to MXN$400.0 million, to be made to a trust related to the financial intermediary, with most of the loans proceeds to be allocated to eligible mobility subprojects, although they may also be allocated to other sectors and subprojects that meet the eligibility criteria.

[2] Total gross production represents the value of all goods and services produced or marketed in a given period through all economic activities. Source: INEGI, Calculadora Censal de los Censos Económicos [Economic Censuses] (https://www.inegi.org.mx/app/saic).

The subprojects submitted by the Sponsor to NADBank to justify the use of the loan proceeds will be considered eligible under the following parameters:

- All sectors and project types specified in the NADBank GLF; and
- Freight transportation vehicles that have Euro VI Stage E technology and use ultra-low sulfur diesel, aligned with the criteria established in the STM.
- Cargo trailers equipped with aerodynamic deflectors, which allow for fuel savings.

The Sponsor has developed a preliminary list of potential subprojects in which NADBank funding would be invested. Figures 2 and 3 show the estimated distribution of funds for each tranche.

Figure 2
ESTIMATED INDICATIVE LOAN ALLOCATION UNDER TRANCHE A
(USD)

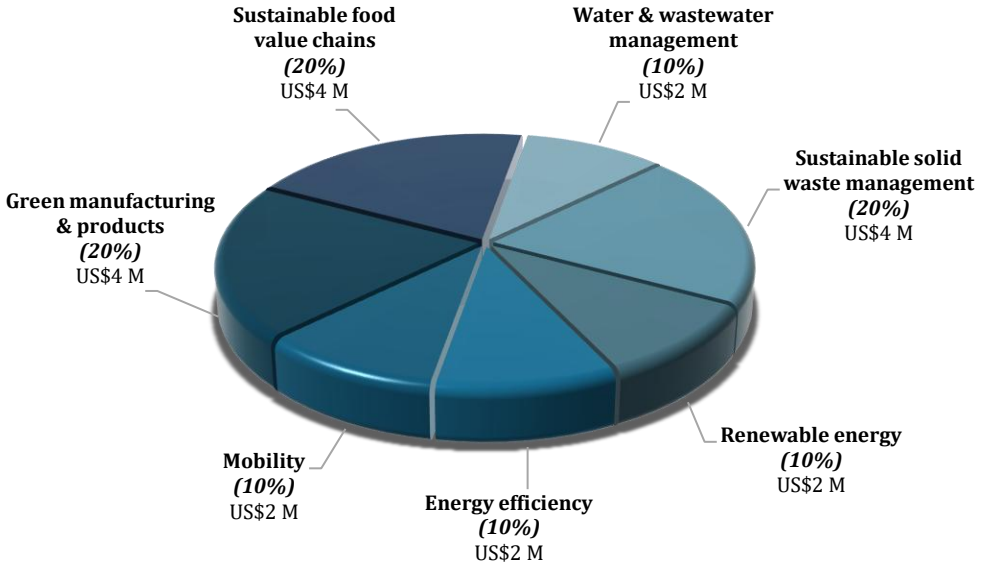
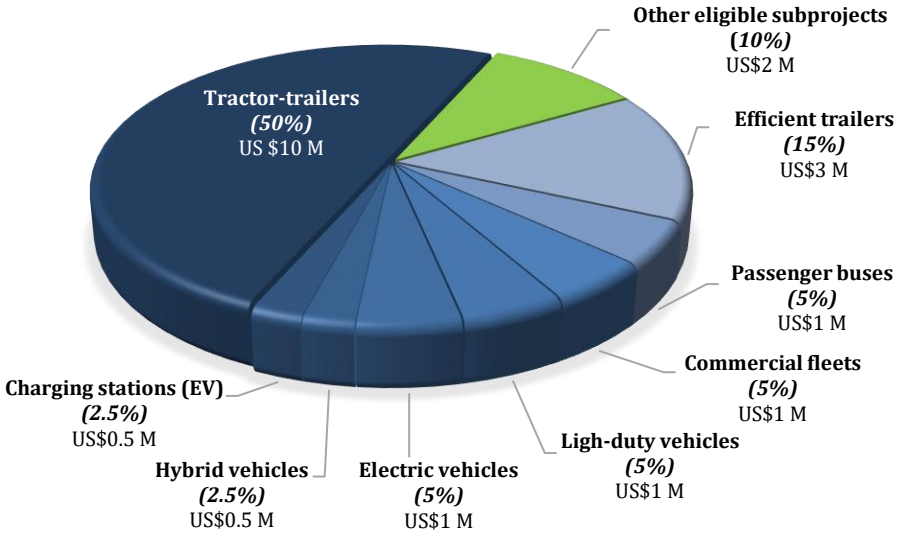


Figure 3
ESTIMATED INDICATIVE LOAN ALLOCATION UNDER TRANCHE B (USD)



As illustrated in the figures above and given the currency in which the two tranches will be structured, Tranche A is expected to be used for subprojects in various sectors, while Tranche B is expected to be used primarily for subprojects in the transportation sector.

Table 3 summarizes the results measurement framework for all proposed sectors and subprojects.

Table 3
RESULTS MEASUREMENT FRAMEWORK

Sub-loan Sectors	Type of Investment	Expected Results	Outputs to Measure
Mobility	1. Freight transportation, including tractor-trailers and short-haul logistics distribution vehicles 2. Trailers with technology that reduces emissions through better fuel efficiency 3. Low-emission personnel buses 4. Low-emission commercial fleets 5. Low-emission light-duty passenger vehicles, including hybrid and electric 6. Electric charging stations	CO_2 and criteria pollutants (PM & NOx) emissions avoided	Number of vehicles financed under each investment type

Sub-loan Sectors	Type of Investment	Expected Results	Outputs to Measure
Green manufacturing & products	Machinery or equipment for efficient production or manufacturing processes	Energy and water savings and CO_2 emissions avoided	Number of facilities or pieces of equipment and machinery financed
Sustainable food value chains	1. Efficient irrigation systems 2. Energy- or water-efficient machinery or equipment	Energy and water savings and CO_2 emissions avoided	Number of units financed under each investment type
Water & wastewater management	Small-scale modular wastewater treatment plants	Sustainable management and/or wastewater treatment, water savings from reuse	Number of wastewater treatment systems financed
Sustainable solid waste management	Recycling system machinery, equipment or facility	Solid waste recovered for reuse	Number of waste facilities and installed capacity financed
Renewable energy	Photovoltaic systems	Energy generation and CO_2 emissions avoided	Installed generation capacity financed
Energy efficiency	Building upgrades and efficient HVAC systems	Energy savings and CO_2 emissions avoided	Number of energy-efficient facilities or projects financed

For the implementation of all sub-loans, efficient technologies and equipment will be selected to help reduce energy use and related pollutant emissions. In all cases, investments must meet the applicable eligibility criteria and applicable measurement indicators:

- For mobility, the vehicles and related infrastructure must comply with the eligibility criteria and emission limits established under the GLF and, in the case of freight vehicles, with the STM. The location of the assets of the final borrower is expected to be representative of the area in which these mobile assets will be used most of the time and, therefore, are considered eligible.
- With respect to green manufacturing and products, the subprojects must reduce water or energy consumption or CO_2 emissions by at least 20% compared to the baseline cases established in the GLF.
- With respect to sustainable food value chains, equipment must comply with the criteria established in the GLF and reduce energy use by 20%.
- In the case of water and wastewater management, the subprojects must comply with the criteria established in the GLF.
- For sustainable solid waste management, the subprojects must comply with the criteria established in the GLF.
- With respect to renewable energy sub-loans, the equipment financed must comply with the emission limit established in the GLF (<100 grams of CO_2/kWh).

- For energy efficiency sub-loans, the assets financed must generate energy savings equal to or greater than 20% compared to conventional equipment and/or facilities, as established under the GLF.

Subprojects may include those already identified, as well as additional or substitute projects that also meet these criteria. In addition, the funds may be allocated retroactively to previously funded subprojects, provided that such projects were executed within the 24 months prior to the first disbursement and were not previously covered by another green financing mechanism.

NADBank will be responsible for verifying that the use of the loan proceeds is consistent with the terms of this proposal and is based on the previously defined requirements for project evaluation and reporting. Any unsubstantiated balance under the two tranches must be returned to NADBank upon expiration of the 24-month availability period, which begins on the date of the first disbursement.

Project Milestones

Financial closing is expected to take place during 2025. Following the first disbursement, the Sponsor will have a 24-month availability period to allocate the funds to eligible subprojects in accordance with the criteria established in this certification and financing proposal.

1.1.2. Technical Feasibility

The Sponsor has extensive and proven experience in financing projects across multiple sectors—including transportation and logistics, trade and services, food and beverage, plastics and chemicals, and machinery and equipment—primarily targeting small and medium-sized enterprises (SMEs). It has the organizational structure and the trained technical staff needed to assess the subprojects, including ESG factors, in order to determine their feasibility and compliance with current regulations.

In its capacity as a financial intermediary, Engen will be responsible for conducting the required due-diligence process for each subproject and submitting the corresponding documentation to NADBank for review and confirmation of eligibility. All proposed subprojects must comply with current federal, state, and local environmental regulations, based on the corresponding project type or sector.

1.1.3. Land Acquisition and Right-of-Way Requirements

No land acquisition or rights-of-way requirements are anticipated for the implementation of the Projects. If loan proceeds are used to purchase facilities or property, the Sponsor will provide the relevant documentation regarding the acquisition of rights of way or land.

1.1.4. Project Operation

The Sponsor has demonstrated its operational capability as a financial institution with more than 30 years of experience providing financial services to SMEs in a wide variety of business

and industrial sectors. Engen has well-established and documented processes, including internal manuals covering operations, code of ethics, governance, information security, due diligence processes, and regulatory compliance.

To modernize its processes and strengthen the sustainability of its business model, Engen developed an ESG Policy that establishes a sustainability framework with objectives and principles aimed at promoting sustainable development. Its sustainability framework is aligned with the STM and international standards, allowing it to classify its assets as green based on their environmental and technical characteristics, regardless of the activities in which they are used. This framework includes criteria and standardized processes for assessing the eligibility of sustainable assets.

Under this model, Engen promotes compliance with the United Nations Sustainable Development Goals (SDGs), reinforcing its commitment to sustainable development worldwide. The institution has taken an active stance on environmental stewardship, with a focus on collaboration and innovation to carry out its operations efficiently and sustainably for the benefit of its clients and society in general.

To evaluate, approve and monitor eligible subprojects, the Sponsor conducts a comprehensive review of its investment opportunities, including credit and risk analyses, as well as due-diligence reviews consistent with its internal manuals.

NADBank will require documentation supporting the eligibility and technical feasibility of the subprojects financed under the Projects. Based on its review of the organizational structure, processes and policies of Engen, NADBank has not identified any management or operational issues with respect to the proposed financing. Engen has the capacity and necessary tools to comply with NADBank requirements and procedures.

During the availability period of each loan tranche, Engen must provide documentation verifying that the loan proceeds were used as approved. The loan agreements will include a list of all required documents. To justify the use of funds, the Sponsor must provide a description of the assets acquired through loan agreements that qualify as eligible subprojects.

NADBank will evaluate the proposed subprojects based on the scope and eligibility criteria established in this proposal. For this purpose, the Sponsor must provide sufficient information to verify both eligibility and anticipated environmental benefits. If the information is insufficient or unclear, NADBank may decline to participate in the transaction. Upon completion of the review, NADBank will formally confirm or deny the eligibility of the subprojects.

Based on its analysis of the structure, processes and policies of Engen, the Bank has concluded that the company has the institutional capacity to manage the loan proceeds effectively.

1.2. Environmental Criteria

1.2.1. Environmental and Health Effects/Impacts

A. Existing Conditions

Current conditions in the border region demand a greater availability of more sustainable financing options to help the private sector overcome environmental challenges and support the sustainability targets established by Mexican public policy.

The sectors most likely to benefit from the financing provided by the Sponsor using the NADBank loan are presented below, along with sustainability trends that are driving a growing demand for this type of financing. While an analysis was performed to identify the most immediate investment opportunities, flexibility has been built into the proposal to allow consideration of other types of projects under the GLF.

Mobility

The transportation sector is one of the largest energy consumers and one of the main sources of CO_2 emissions and criteria pollutants. The intensive use of fossil fuels affects air quality and human health. In this context, replacing high-emission internal-combustion vehicles with more efficient hybrid or electric vehicles is a key strategy for increasing energy efficiency and reducing emissions. The use of these vehicles is expected to increase as they become more accessible and affordable for freight transportation companies, commercial fleets and individual users.

- *Personal vehicles and commercial fleets*. In this segment, vehicles with internal combustion engines continue to dominate the market. However, the viability of hybrid vehicles has been widely demonstrated both technically and financially. As part of this transition toward more sustainable mobility, only hybrid and electric vehicles will be eligible under these Projects, as well as charging stations and related infrastructure.

- *Passenger buses*. These vehicles are a more efficient and less polluting alternative to private vehicles, especially when operated on well-planned routes and with service standards that encourage their use. Under these Projects, only Euro VI buses will be eligible, as they generate significantly lower emissions compared to other technologies still in use in Mexico.

- *Freight vehicles*. Freight transportation represents a strategic sector for the national economy of Mexico. According to data from the Mexican National Chamber of Freight Transportation (CANACAR), this sector accounted for 3.8% of the gross domestic product in 2023. More than 670,000 tractor-trailers are currently estimated to be in

circulation. The average age of these vehicles is 21 years, reflecting an urgent need to modernize the vehicle fleet.[3]

On January 1, 2025, the updated provisions under Mexican standard NOM-044-SEMARNAT-2017 went into force establishing stricter emission limits for heavy-duty vehicles with diesel engines in line with Euro VI or EPA 2010 standards. Cargo vehicles manufactured in Mexico currently comply with Euro VI Stage E standards, which are higher than the national regulatory requirements and aligned with international standards. This technology, together with the use of ultra low sulfur diesel (ULSD) fuel, is recognized as an economic activity aligned with sustainability in the STM. The same criteria apply to short-haul drayage trucks, which use smaller units, but are subject to the same regulations applicable to heavy-duty vehicles with a gross vehicle weight greater than 3,857 kilograms (8,500 pounds).

Transportation companies currently have the option of importing 8- to 9-year-old, used tractor-trailers that do not comply with these regulations. Imports under regularization decrees have grown in recent years, representing more than 40% of the additional units put into circulation in Mexico in 2024.[4] NADBank financing would support the transition of the cargo transportation sector toward the acquisition of new trucks.

Providing financing for the purchase of new vehicles with low-emission technologies will help modernize freight transportation, significantly reducing CO_2 and criteria pollutant emissions and creating additional benefits for public health and the environment. This transition also paves the way for cleaner hybrid and electric technologies, which still face cost barriers

Moreover, the use of aerodynamic deflectors on trailers can reduce fuel consumption by up to 9% through a relatively low investment, making them a cost-effective alternative for reducing emissions in the short term.

The Sponsor has identified financing opportunities across these subsectors, including tractor-trailers and short-haul drayage vehicles, trailers with fuel-saving technologies, personnel buses, low-emission commercial fleets and hybrid and electric passenger vehicles, as well as electric charging stations and related infrastructure.

Green Manufacturing and Products

The industrial sector in Mexico is making decisive strides toward adopting sustainable practices and strategies throughout the entire supply chain and across production processes. This trend responds to both regulatory requirements and the need to optimize resources and reduce environmental impacts. Key benefits of this strategy include improved energy efficiency, optimal use of water resources and a reduced carbon footprint.

[3] Source: CANACAR, *Agenda Económica del Autotransporte de Carga 2024* [2024 Economic Agenda for Freight Transportation]., (https://canacar.com.mx/servicios/estadistica/agenda-economica-del-autotransporte-carga-2024/).
[4] Source: Mexican National Foreign Trade Information Service (SNICE), (Decreto_vehiculosusados-Usados_20240704-20240704.pdf).

In the context of pervasive water stress in the Mexican border region, efficient water management is a strategic necessity. Sustainable industrial operations and practices can help conserve this vital resource by reducing water waste and promoting water reuse. Likewise, incorporating more efficient technologies and production processes not only conserves energy, but it also generates long-term economic benefits, including reducing operating costs, increasing operational resilience and strengthening corporate commitments to environmental and social responsibility.[5]

The Sponsor has identified specific financing opportunities for machinery, equipment and technologies that facilitate the optimization of production processes with a focus on energy efficiency and water conservation, thus contributing to the development of cleaner, more competitive industries aligned with sustainability objectives.

Sustainable Food Value Chains

The agricultural sector in the Mexican border region faces significant environmental challenges, primarily stemming from inefficient natural resource management practices. Factors such as water stress, desertification, ecosystem pollution and soil degradation are driving the need for modernization and technological improvements in both agricultural activities and the food industry.

Mexico ranks 11th worldwide in food production, with 299 million metric tons produced in 2023.[6] The Mexican National Development Plan promotes food self-sufficiency, focusing on strengthening the productivity of small and medium-sized agricultural producers, who represent 90% of all agricultural producers and generate approximately 50% of national food production.[7]

The Sponsor has identified opportunities in the region to finance modern irrigation systems that are more water-efficient than traditional methods, as well as more efficient machinery and equipment aimed at reducing energy and water consumption in farming and food processing, packaging, storage, distribution and marketing

Wastewater Management

Mexico has made significant progress in providing access to drinking water and wastewater treatment services. However, significant challenges remain, especially in the northern border region of the country. The implementation and use of treatment plants in the commercial and industrial sectors would reduce pressure on public infrastructure and local utilities, while helping prevent the discharge of inadequately treated wastewater and potentially increasing the public water supply.

[5] Source: Consejo Nacional de la Industria Maquiladora y Manufactura de Exportación [National Maquiladora and Export Manufacturing Industry Council], (Revista index Nacional | Cambio climático, compromiso industrial by IndexNacional - Issuu).
[6] Source: Secretaría de Agricultura y Desarrollo Rural [Mexican Ministry of Agriculture and Rural Development] (SADER), Expectativas agroalimentarias 2024 [2024 Agro-food Outlook] (Expectativas agroalimentarias 2024 | Secretaría de Agricultura y Desarrollo Rural | Gobierno | gob.mx).
[7] Source: SADER, 2022 (https://www.gob.mx/agricultura/articulos/a-que-nos-referimos-con-autosuficiencia-alimentaria).

Nationally, the largest water user is the agricultural sector, which consumes 76% of all available water, followed by urban public use (14%) and industry and energy generation (10%). This distribution pattern, combined with population growth and increasing demand in the productive and urban sectors, has put more pressure on available water sources, particularly in regions with water shortages, such as the Mexican northern border.[8]

The Sponsor has identified financing and leasing opportunities for water infrastructure, focusing on small- and medium-scale solutions, including modular wastewater treatment plants designed to meet specific commercial and industrial needs and wastewater reuse equipment aimed at reducing the demand for drinking water in non-potable applications. These solutions contribute to more efficient water management while promoting sustainable practices that can improve living conditions in communities currently facing water shortages and deficient wastewater services. Financing these types of assets is intended to boost regional water resilience, reduce pressure on drinking water sources and generate environmental and social benefits in the areas served.

Sustainable Solid Waste Management

The population of Mexico is estimated to reach 148.2 million by 2050.[9] This population growth puts more pressure on natural resources, as well as increases the production of goods and generates more waste nationwide. All economic activities, including the production and consumption of goods and services, generate waste that, if not properly managed, can cause significant environmental and public health impacts.

Faced with this challenge, Mexico has adopted a plan for sustainable waste management with the goal of transitioning to a circular economy model. This approach seeks to reduce waste generation, maximize the productive reuse of waste through recycling and minimize the volume of waste sent to landfills.[10]

In the border region, population growth and expanding trade and manufacturing activities have led to a considerable increase in solid waste generation, including commercial and industrial waste. However, existing waste management infrastructure and systems have not kept pace, resulting in inadequate waste management that contributes to air, water and soil pollution.[11]

The Sponsor has identified opportunities to finance machinery and equipment leases and the installation of recycling systems aimed at optimizing sustainable solid waste management. These investments will reduce the volume of waste generated, promote its separation and reuse, and support the development of circular value chains in the border region.

[8] Source: SEMARNAT (https://apps1.semarnat.gob.mx:8443/dgeia/informe18/tema/cap6.html).
[9] Source: Consejo Nacional de Población [Mexican National Population Council] (CONAPO) (presentacion_conapo.pdf)
[10] Source: SEMARNAT (Vision_Nacional_Cero_Residuos_6_FEB_2019.pdf)
[11] Source: Government of Mexico (Metas y Objetivos del Programa Frontera 2025 | Secretaría de Medio Ambiente y Recursos Naturales | Gobierno | gob.mx)

Renewable Energy

Energy production and consumption represent one of the main sources of CO_2 emissions and other airborne pollutants. To achieve its national sustainability goals, it is imperative that Mexico increase energy generation from cleaner sources, in particular renewable technologies. According to the Mexican Energy Regulatory Commission (CRE), Mexico has seen significant growth in the installed capacity of small-scale distributed generation, which went from 1,083 MW in 2019 to 3,362 MW in 2023—an increase of 310%.[12,]

The Mexican Ministry of Energy (SENER) projects that this trend will continue given the numerous benefits deriving from distributed generation, including a more reliable power supply, better quality energy, fewer disruptions, greater energy efficiency, lower costs for users, integration of renewable energy sources and less polluting emissions.[13]

In this area, the Sponsor has identified opportunities to finance small-scale photovoltaic systems to supply electricity to commercial and industrial facilities. These investments will not only improve the operational efficiency of the users, but also directly help reduce their carbon footprint and move the border region toward a more sustainable energy model.

Energy Efficiency

The built environment represents one of the areas with the greatest potential for achieving significant energy efficiency improvements. In particular, retrofitting and upgrading industrial, commercial and other types of infrastructure allows resource-efficient measures to be incorporated, especially with respect to energy consumption, while also lowering operating costs.[14]

The Sponsor has identified opportunities to finance building retrofits and upgrades that include improvements in overall energy performance, achieving verifiable energy savings of at least 20%, in accordance with the criteria established in the NADBank GLF. These upgrades will reduce dependence on grid-based energy and improve the operational sustainability of the upgraded facilities.

Moreover, energy consumption in Mexico has been declining, which can be attributed to the adoption of high-efficiency equipment in industrial, commercial and residential buildings, among other sectors. In line with this trend, the Sponsor has identified opportunities to finance the replacement of obsolete HVAC systems with state-of-the-art, energy-efficient technologies available in the domestic market, as a key measure to reduce energy use and improve the operating comfort of built spaces.

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[12] Source: Comisión Regulatoria de Energía [Mexican Energy Regulatory Commission] (https://www.gob.mx/cre/documentos/pequena-y-mediana-escala). Small-scale distributed generation includes distributed power generation systems, as well as small- and medium-scale interconnection agreements.
[13] Source: Programa de Desarrollo del Sistema Eléctrico Nacional 2024-2038 [2024-2038 National Power Development Plan] (PRODESEN) (20 2024-2038 Capítulos 1 al 6.pdf).
[14] Retrofitting refers to any measure to improve the energy efficiency of an existing building. These measures may include improvements to lighting, lighting control systems, window glazing and HVAC systems, among other measures, as needed.

B. Expected Environmental/Human Health Outcomes

The Sponsor will use the NADBank loan to finance eligible subprojects that will generate environmental benefits for the border region. Based on the anticipated allocation of the loan proceeds, NADBank developed methodologies for calculating the expected Project results per eligible sector using the performance measurement indicators established in the GLF and other similar indicators for the freight transportation sector.

The Projects are expected to generate environmental and human health benefits related to the following outcomes:

- *CO_2 emissions avoided.* Reduction achieved through the use of:
  i. *Mobility*: low-emission tractor-trailers and short-haul distribution vehicles, trailers equipped with technology that improves fuel efficiency (aerodynamic deflectors); low-emission personnel buses, commercial fleets, and light-duty passenger vehicles, including hybrid and electric vehicles, as well as electric charging stations and related infrastructure.
  ii. *Green manufacturing and products*: Machinery or equipment for efficient production during manufacturing processes.
  iii. *Sustainable food value chains*: energy-efficient machinery or equipment for food processing, packaging, storage, distribution, or marketing activities.
  iv. *Renewable energy*. Photovoltaic systems for commercial and industrial use.
  v. *Energy efficiency:* Energy-efficient equipment and HVAC systems as part of the modernization of commercial and industrial buildings.

- *Particulate matter (PM) and nitrogen oxide (NOx) emissions avoided*, resulting from the use of low-emission tractor-trailers, short-haul logistics distribution vehicles and personnel buses.

- *Water savings*, achieved through the use of efficient irrigation systems; energy-efficient machinery or equipment for food processing, packaging, storage, distribution or marketing activities; and modular wastewater treatment plants for small-scale commercial uses.

- *Energy savings*, achieved through the installation of energy-efficient machinery or equipment for manufacturing processes and food processing, packaging, storage, distribution or marketing activities, as well as photovoltaic systems for commercial and industrial use and energy-efficient equipment and HVAC systems as part of the modernization of commercial and industrial buildings.

- *Solid waste recovered for reuse* through machinery, equipment, or the installation of recycling systems related to manufacturing processes.

C. Other Project Benefits

By expanding affordable financing sources, the Projects will encourage the adoption of low-emission freight vehicles and the transition to cleaner transportation promoted by the Government of Mexico and aligned with the STM and UN Sustainable Development Goals.

In addition to the specific benefits generated by the subprojects in terms of energy and water conservation and reduced emissions, investments in these types of projects help strengthen the environmental resilience of the border region overall and improve the quality of life in the communities served. Promoting more efficient technologies and processes, along with recycling and circular economies, positions the region as a more attractive environment for new investments, while also fostering low-carbon and environmentally sustainable economic growth.

Likewise, strengthening SMEs through access to financial services for the acquisition of green assets promotes job creation, regional development and economic diversification. A potential increase in the demand for new units would particularly benefit the transportation industry, which has several manufacturing plants in Mexico, supporting its consolidation in the national bus and truck market. This approach contributes to an orderly transition toward a more competitive and resilient economy, aligned with the environmental and social sustainability goals of Mexico.

D. Transboundary Impacts

No negative transboundary impacts are anticipated as a result of project implementation. On the contrary, financing vehicles and equipment with cleaner and more efficient technologies is expected to reduce polluting emissions and improve air quality in the region.

1.2.2. Compliance with Applicable Environmental Laws and Regulations

As part of its regular operations, Engen has processes in place to verify that the proposed projects comply with applicable local, state, and/or federal regulations and standards with respect to the proposed sectors.

A. Environmental Studies or Consultations

The Sponsor, as the financial intermediary responsible for financing the subprojects, has a documentation verification process in place to ensure that any environmental study or consultation that may be required for the implementation of a subproject is carried out. If applicable, the Sponsor will submit the corresponding documentation to NADBank for review during the eligibility verification process.

B. Environmental Permits and Authorizations

The Sponsor, as the financial intermediary, is responsible for verifying that the implementation of the subprojects complies with any applicable regulations. Engen has the necessary personnel and processes to carry out this verification. If applicable, the Sponsor

will submit the corresponding documentation to NADBank for review during the eligibility verification process.

C. Mitigation Measures

To mitigate environmental and social risks in its financing operations, Engen has loan manuals, policies and procedures that establish the responsibilities and processes to be followed, including an Environmental and Social Risk Management System (ESRMS) currently under development. These documents allow the Sponsor to provide financial services in an efficient, secure and orderly fashion in compliance with its environmental and social guidelines, as well as its business plan, which is aligned with sustainability.

The Sponsor has a specialized team of analysts responsible for conducting environmental and social due-diligence reviews of its clients and investment projects. As part of this process, Engen requests that its clients provide detailed information about the assets to be financed, including documentation specifying the type of project and the intended use of the funds. Its borrowers are also required to demonstrate their implementation capacity and experience in the relevant fields, in addition to securing the necessary studies and permits, as applicable.

Based on the analysis performed by the Bank and considering the Projects as a whole, as well as the sectors and size of the proposed subprojects, the environmental and social (E&S) risks of the transaction are considered to be low, and consequently, no specific mitigation measures are anticipated. As an additional preventive measure, the Bank has stipulated that the Sponsor not use the loan proceeds for any project or asset associated with the activities listed on the following exclusion list:

- Exploration and production of fossil fuels;
- Energy generation exclusively based on burning fossil fuels or hybrid plants with more than 15% fossil fuel support;
- Construction of rail infrastructure to transport fossil fuels;
- Generation of nuclear energy;
- Electricity transmission infrastructure and electricity systems where an average of 25% or more is fossil-fuel-generated;
- Industries involved in the production of alcoholic beverages, weapons, tobacco or gambling;
- Production or trade of any product or activity considered illegal according to national laws or regulations or international agreements and conventions;
- Deforestation or forest degradation; and
- Activities in protected areas or activities that violate rights of indigenous peoples.

D. Pending Environmental Tasks and Authorizations

There are no environmental tasks or authorizations pending.

1.2.3. Environmental and Social (E&S) Due-diligence Results

A. Projects E&S Risk Category

In accordance with its ESG Policy, which establishes guidelines for evaluating and classifying potential ESG risks in its financial operations, NADBank determined that the proposed Projects fall within the FI-3 category, which is assigned when a loan/line of credit has minimal or negligible exposure to adverse environmental and social impacts.[15]

B. E&S Due-diligence Conclusions

NADBank reviewed the organizational structure, operational processes, manuals and policies of the Sponsor and concluded that Engen has the tools and resources to comply with the environmental and social obligations related to the Projects, including compliance with the applicable regulations and annual compliance reports in accordance with applicable legislation.

C. Summary of Proposed Mitigation Measures

No additional mitigation measures are needed, since the Sponsor submitted documentation substantiating compliance with its AyS obligations.

1.3. Financial Criteria

The loan proceeds will be used by Engen to fund its financing operations aimed at supporting the acquisition of eligible assets under the NADBank GLF, as defined in this proposal, and assets related to freight transportation aligned with the Sustainability Taxonomy of Mexico, as well as the costs related to structuring the proposed financing.

Based on a comprehensive financial analysis and risk assessment, the proposed financing is feasible and presents an acceptable level of risk. Therefore, NADBank proposes providing financing to Engen for up to US$40.0 million, structured as two separate tranches as described in this proposal: Tranche A for up to US$20.0 million and Tranche B for up to US$400.0 million Mexican pesos.

[15] Source: NADBank ESG Policy, (https://www.nadb.org/uploads/files/nadbank_esg_policy_eng.pdf).

2. PUBLIC ACCESS TO INFORMATION

2.1. Public Consultation

NADBank published the draft of the Projects certification and financing proposal for a 30-day public comment period beginning July 23, 2025. The following Project documentation is available upon request:

- NADBank Green Loan Framework.

2.2. Outreach Activities

NADBank conducted a media search to identify potential public opinion or publications regarding the Sponsor and its operations. No references to the financial operations of Engen were found in regard to the proposed Projects.