

Public Disclosure

A. Investment Summary

Disclosed Date:	June 4, 2020
Project Name:	CADU 2020
Project Number:	13033-01
Investment Type:	Partial Credit Guarantee Program and Revolving Credit Facility
E&S Category:	B
Projected Board Approval Date: J	July 4, 2020
Company name (Borrower):	Corpovael S.A.B. de C.V.
Sector:	Real Estate
Financing Requested:	Up to MXN\$500,000,000 for the Partial Credit Guarantee Program and up to MXN\$ 300,000,000 for the Revolving Credit Facility
Financing Currency:	Mexican pesos
Project Country:	Mexico
Team Leader:	Martha Fernández
For inquiries about the Project, contact:	Contact: Mauricio Torres Title: Finance Phone number: +55 (998) 193 1100 Email: mauricio.torres@caduimmobiliaria.com

Project Scope and Objective:

Corpovael S.A.B. de C.V. (“CADU”, or the “Company”) is a real estate company that designs, builds, promotes and sells housing projects in the affordable entry-level, middle-income and residential segments in Mexico. CADU intends to issue multiple green bonds in the Mexican Stock Exchange or in the Mexican Institutional Stock Exchange and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future green housing projects that incorporate energy and water efficiency measures under the ECOCASA program, including the construction of a new development housing project for low and middle income families in Tulum. This transaction is an opportunity to support CADU with a program of up to MXN\$500 million to issue partial credit guarantees (“PCG”) to cover up to 50% of such green bonds with a tenor of up to seven years. Additionally, IDB Invest will seek to provide a five-year revolving credit facility of up to MXN\$300 million including a committed tranche of up to MXN\$200 million and an uncommitted tranche of up to MXN\$100 million, with drawdowns of up to 12 months (the “RCF”) in order to finance working capital requirements in connection to the development of affordable housing for low and middle income families. Both the PCG Program and

the RCF (the “Project”) aim at (i) promoting the construction of green buildings with impact in energy and water efficiency; (ii) increase employment in the engineering and construction sectors; (iii) support the construction of affordable green housing and the implementation of new technologies; (iv) allow access to low and middle-income families to decent homes and (v) increase the availability of securities, especially thematic bonds, in the Mexican debt markets.

B. Environmental and Social Review Summary

1. General Information and Overview of Scope of IDB Invest E&S Review

IDB Invest’s review included meetings with CADU’s management in their offices in Cancun, Mexico from March 11-13, and included discussions with various management heads, including Finance, Human Resources (HR), and Environment. A site visit to the Tulum project was also carried out where details of the site location, proximity to Tulum and general environmental conditions were observed. The due diligence included a review of supporting information such as environmental management plans, manuals, and procedures, HR policies, occupational health and safety (OHS) programs, workplace and environmental monitoring data (e.g. air emissions and effluents), emergency procedures, and sustainability strategy plans under discussion, and a review of the *Manifiesto de Impacto Ambiental* (“MIA”) for the Tulum project. CADU is a new client for IDB Invest.

2. Environmental and Social Categorization and Rationale

Per IDB Invest’s Sustainability Policy, this project is a Category B. CADU is a real estate company that along with its subsidiaries, designs, builds, promotes and sells housing projects in the affordable entry-level, middle-income and residential segments. The Company has operations in the states of Quintana Roo, Mexico City, Mexico State, Jalisco, Aguascalientes and Chihuahua; and has land holdings in Quintana Roo (Cancún and Playa del Carmen), Mexico City, Querétaro and Jalisco. CADU is headquartered in Cancún, Quintana Roo. Project risks are associated with the Company’s general environmental and social management practices and specific project risk related to the Tulum development. These risks are limited and manageable. While all Performance Standards are applicable to this investment, the following Performance Standards are triggered.

PS 1 – Assessment and Management of Environmental and Social Risks and Impacts

PS 2 - Labor and working conditions

PS 3 - Resource Efficiency and Pollution Prevention

PS 4 – Community Health, Safety and Security

3. **Environmental and Social Context** - CADU, a Mexican-based company specializing in low to middle income housing and headquartered in Cancun, Quintana Roo, has developed over 30 projects, totaling 100,000 houses across six states in Mexico. CADU has been listed on the Mexican Stock Exchange since 2015. This is CADU’s first green bond and the first green bond in the Mexican real estate sector, which will be used to finance and/or refinance, in whole or in part, housing projects that incorporate energy and water efficiency measures. The 2nd party opinion, carried out by Sustainalytics, considers that the projects funded by the green bond proceeds will

provide positive environmental impacts and that the green bond framework developed aligns with the four core components of the Green Bond Principles 2018.

4. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures

4.1. Assessment and Management of Environmental and Social Risks and Impacts

E&S Assessment and Management System - The Company's internal procedures and management programs related to environmental and social (E&S) matters incorporate the basic elements of an Environmental and Social Management System and require some enhancement. As part of the ESAP, the ESMS will be improved to ensure full alignment with IFC's requirements. These enhancements are detailed below and in the corresponding sections on Performance Standards 2-4 that follow. CADU relies on regional-level management to address all issues related to E&S risks arising in each specific region where projects are developed as they relate to: environmental permitting, waste management, occupational health and safety (OHS), land acquisition and management of wastewater. For each project CADU hires third party firms to develop an environmental impact assessment MIA following the requirements established by the state environmental authority. The authority then reviews the assessment and provides a decision on the project. Assuming approval, an environmental license (*Resolutivo Ambiental*) is issued which includes recommendations and mitigation measures. These recommendations are presented in the environmental license. For purposes of this project, IDB Invest has assessed the Tulum project to better understand the application of CADU's management practices.

At a corporate level, CADU has demonstrated strong commitment towards managing environmental and social impacts. This commitment is illustrated by senior management ownership and responsibility to sustainability, the creation of a Sustainability Committee to oversee overall corporate E&S performance as well as that related to its green bond, measurable targets as defined and reported on through its sustainability reports, and in the second party opinion as performed by Sustainalytics as part of this green bond.

Policy - The Company has a commitment to develop projects that minimize impacts to the environment and presents this as a selling point and differentiator when compared to competitors. The Company has an environmental policy ; but, as part of the ESAP the Company will strengthen it in order to interweave social objectives and principles that guide CADU's activities to achieve sound environmental and social performance, which will include reference to the relevant IFC Performance Standards. When modified, the policy will be communicated to all individuals within and outside the organization (see ESAP item 1.1).

Identification of Risks and Impacts - The Company develops and implements projects with due considerations to environmental and social risks. All projects undertake an EIA as required by local laws and ensure that mitigation measures are implemented during construction and by the time the projects are handed over to the administration organization that will manage the housing projects.

Management Programs - CADU has some E&S procedures to manage issues related to human resources, environmental care practices, health and safety trainings, client communications and land acquisition, amongst others. Some of these procedures include that construction managers are responsible for ensuring that construction activities are undertaken in accordance with the requirements specified in the EIAs; that the Company's land acquisition processes align with local, environmental authorities' requirements; that CADU protects and restores biodiversity including

wildlife species in every site; and, that employees respond to an annual survey regarding the Company's work environment in order to measure pulse and construct activities that address opportunity areas. As part of the ESAP, CADU will complement its existing procedures by developing additional procedures to manage environmental aspects related to construction activities i.e., solid waste management (hazardous and non-hazardous), dust control, noise, water use and on-site sanitation (See ESAP item 1.3).

Organizational Capacity and Competency - For each region or business unit there is a person in charge of ensuring that all the necessary environmental permits and requirements for each state are fulfilled. These employees have relevant experience on housing projects and are acquainted with state regulations. For each construction site there is a construction site manager and an occupational health and safety (OHS) and first aid officer (*paramédico y enfermero industrial*) that oversee safe working practices and conditions. Construction site managers are responsible for implementing environmental requirements of the environmental license.

Emergency Preparedness and Response - The Company performs annual emergency drills at its offices and active construction sites for fire and earthquake emergencies. There are active fire brigades, first aid brigades, and evacuation brigades for each construction and office site. Offices and construction sites are equipped with fire extinguishers and are regularly maintained. Each construction site manager, with the support of the OHS/first aid officer are responsible to respond to medical emergencies. During 2019, CADU provided training to personnel on first aid, evacuation, and fire response. While there are drills, there are no defined procedures for emergencies and thus as per the ESAP, CADU will develop and implement emergency response procedures in line with PS1 requirements that will be applied to all construction sites so as to be able to respond to all potential emergencies e.g. medical, fire etc. (See ESAP item 1.4).

Monitoring and Review - CADU systematically collects and reports OHS statistics from its operations; these are compiled, analyzed and reviewed by management, and reported to the relevant authorities periodically. CADU's construction site managers and industrial nurses undertake periodic supervision and monitoring visits to ensure environmental management requirements as per the environmental license are being applied.

Stakeholder Engagement - Where there are immediate communities adjacent to projects, CADU undertakes high level social assessments as part of the MIA exercise. A formal engagement policy and procedure, however, has not been defined. CADU will, as a component of this operation develop stakeholder engagement procedures that sets out the Company's approach to communicating and engaging with impacted communities in line with the IFC's Good Practice Guidance Note (See ESAP item 1.5).

External Communication - CADU produces an external Sustainability Report and will further report on the use of proceeds and performance related to its green bond.

4.2. Labor and Working Conditions

Human Resources Policies and Procedures - As of December 2019, CADU has 4,765 employees, out of which 1,215 are direct employees and 3,550 are contractors. From these employees, 1,757 (58%) are women. From the total number of direct employees, 479 (40%) are women who work in administrative, commercial or operations departments. The Company is an equal opportunity employer and has a clearly defined policy on non-discrimination and equal opportunity and does not discriminate when hiring new employees or when considering promotions, as required by federal law. It has a Human Resource Policy that is distributed and discussed with all employees

during the induction process that defines working hours, compensation and leave benefits, no-tolerance of harassment, conflict of interests, training and development and other HR rules and procedures and benefits. However, the Company's HR procedures can be improved and thus, as part of the ESAP, CADU will develop and implement procedures to ensure that employees are periodically¹ trained in matters related to the grievance mechanism, compensation, social security, discrimination, and occupational health and safety. This will be tailored to office and construction employees alike (see ESAP item 2.1).

There is a documented grievance mechanism where employees, or any interested party, can submit grievances through the Ethics Line (*Sistema de Denuncias*) available on the Company's website. With regard to compensation, the Company's employees are paid timely; and, their salaries, benefits, and working schedules comply with local regulations. For direct employees, however, benefits go beyond local regulations as the Company evidences in its yearly Sustainability Report.

Every employee of the Company is registered in the social security system and has the right to freedom of association, and to collectively bargain his or her terms and conditions of work. As of December 2019, 75% of construction employees belong to the state construction employees' union. Each site has contact information for union representatives in case employees need to reach out to them.

Working Conditions and Terms of Employment, Third Party Workers

CADU provides construction workers with the appropriate, personal protective equipment (PPE) and its contractors are contractually required to use it on CADU projects. There are programs in place for accident prevention, health and safety, in collaboration with local health authorities. These programs provide for regular training to administrative and construction workers. Additionally, CADU has established employee brigades for first aid, fire prevention and evacuation.

Working conditions for both contractor and CADU employees on each construction site are supervised by both the site manager and an OHS officer. Workers have access to adequate sanitation facilities on construction sites. The Company coordinates with the state OHS office and facilitates the provision of health awareness and workplace safety campaigns for its employees. No workers are accommodated on any construction sites and there are areas designated for eating.

As noted above, contractor employees undertake land preparation activities and associated infrastructure to these developments (schools, public green space, water tanks, roads and water pipelines). Contractors undergo induction safety trainings and are contractually required by CADU to follow local regulations in regard to labor and environmental protection. As part of the updated OHS system to be developed, CADU will develop and implement a procedure to oversee contractors and ensure compliance with relevant OHS legislation. In addition, where contractors do not have a grievance mechanism, CADU will make available their grievance mechanisms to such contractors (see ESAP item 2.1).

¹ To be determined by the Ethics and the Sustainability Committee based on the evaluations and progress observed.

4.3. Resource Efficiency and Pollution Prevention

Resource Efficiency - CADU's vision is to continue to be a leader in the construction of green and sustainable housing. The Company aims to maintain the aforementioned objective through the design and construction of integral communities that consist of quality infrastructure that aligns with criteria of affordability, habitability, accessibility and location; plus, that it facilitates access to green spaces, transport and to commercial, educational and health services. In line with this vision, CADU is determined to continue to integrate environmental care practices in its housing developments. In the low-income housing segment, CADU leads the construction of houses with ECO CASA certification – that is, houses built with ecotechnologies that allow for more efficient water and energy use, and thus, promise to reduce the emission of GHG. To receive the ECO CASA certification, housing prototypes are evaluated with different tools: DEEVi, SAAVi and IDG in order to estimate energy and water savings vis-à-vis expected consumption. As of today, CADU has built 20,000 homes under this certification scheme. For other business segments, CADU is evaluating the adherence to the EDGE program.

Water and Energy - As mentioned earlier, all CADU developments undergo an assessment of environmental impact, including the sourcing of water for construction activities and subsequent water supply for housing developments. Water used for construction is generally transported to site on trucks or provided by on-site wells which are permitted by the relevant municipal authority. Housing complexes source its water for its operation either from wells permitted by the relevant municipal authority or from municipal supply connections.

Wastes & Wastewater - CADU designs and develops its housing complexes with considerations for wastewater treatment and disposal as defined via the relevant EIA and state regulations. Depending on the local setting, CADU's solution in regards to wastewater treatment could be: (i) constructing a dedicated wastewater treatment plant (WWTP) exclusively for the complex; (ii) coordinating with nearby developments and sharing the cost and construction responsibilities for a WWTP with other developments, or (iii) coordinating with municipal WWTP plants to collect and treat the complex's effluents in exchange for payments. In all cases, CADU's arrangements comply with local pre-treatment standards for sanitary wastewater discharges.

Hazardous Materials - Conventional construction waste is disposed appropriately in an area designated by each municipality. Maintenance of construction equipment and vehicles is done outside the project area; and, fuels, lubricants and other hazardous wastes are disposed appropriately. As part of the ESAP, CADU will develop and implement a waste management and hazardous waste management plan for all its developments to ensure this waste is disposed as per the local requirements (See 3.1).

4.4. Community Health, Safety and Security

Community Health and Safety - The main risks that CADU housing developments have for the communities in the vicinity of the project areas relate to traffic, noise and dust which are managed and supervised by construction supervisors. Going forward, these risks will be addressed via the enhancements made to the Stakeholder Engagement Policy and Procedures as defined in ESAP item 1.5. Nearby communities may approach construction sites with concerns, which will be processed via the Company's grievance mechanism and responded to through CADU's programs for the obtention and maintenance of social license.

Infrastructure and Equipment Design and Safety - As part of the permitting process, housing and future buildings have the relevant structural design, safety reviews and approval by local authorities. In regard to life and fire safety, CADU housing projects comply with Mexican fire safety codes. The new apartment building complex in Tulum will comply with the Mexican Fire Safety code, both in design and construction materials used.

5. **Local Access of Project Documentation** – Not Applicable.

6. **Environmental and Social Action Plan**

Item Number	Task	Description	Anticipated Completion Date
1.1	Update of Environmental Policy	Develop and communicate across the organization an overarching policy defining the environmental and social objectives and principles that guides environmental and social management which include the relevant IFC requirements.	Prior to closing
1.1	Development of an ESMS	Develop CADU's Environmental and Social Management System, with support from an external consultant, that ensures full alignment with IFC's requirements, with special focus on the corresponding sections on Performance Standards 2-4. Progress in this regard will be reported. As an umbrella policy and system, the ESMS will incorporate managed plans and mitigation measures defined by CADU and within this action plan.	One (1) year post disbursement

1.2	Capacity Building	Develop and implement procedures to ensure employees are periodically trained in matters related to: the grievance mechanism, compensation, social security, discrimination, and occupational health and safety; this will be tailored to office and construction employees alike.	One (1) year post disbursement
1.3	Internal policies and procedures for management of project impacts	Develop and implement procedures for the management of construction site environmental aspects related to: solid waste management (hazardous and non-hazardous), dust control, noise, water use and on-site sanitation.	6 months post disbursement
1.4	Emergency preparedness	Develop and implement an emergency response procedure in line with PS1 requirements for each and future construction sites to respond to medical, natural disaster and fire emergencies.	6 months post disbursement
1.5	Stakeholder Engagement	CADU will define an internal policy and set of procedures that details steps required for communicating and pro-actively working with neighboring communities to planned projects in line with IFC Performance Standard guidance	One (1) year post disbursement
2.1	Management of contractors	Develop and implement a procedure to oversee contractors and ensure compliance with relevant OHS legislation. Develop and implement a procedure to ensure that contractors either have a documented functioning grievance mechanism or have access to the company's grievance mechanism,	6 months post disbursement
3.1	Waste management plan	Develop a general waste management plan and hazardous materials risk assessment and management plan to be implemented in all project sites to ensure disposal of such materials in accordance with accepted industry practice.	6 months post disbursement