MOODY'S
INVESTORS SERVICE

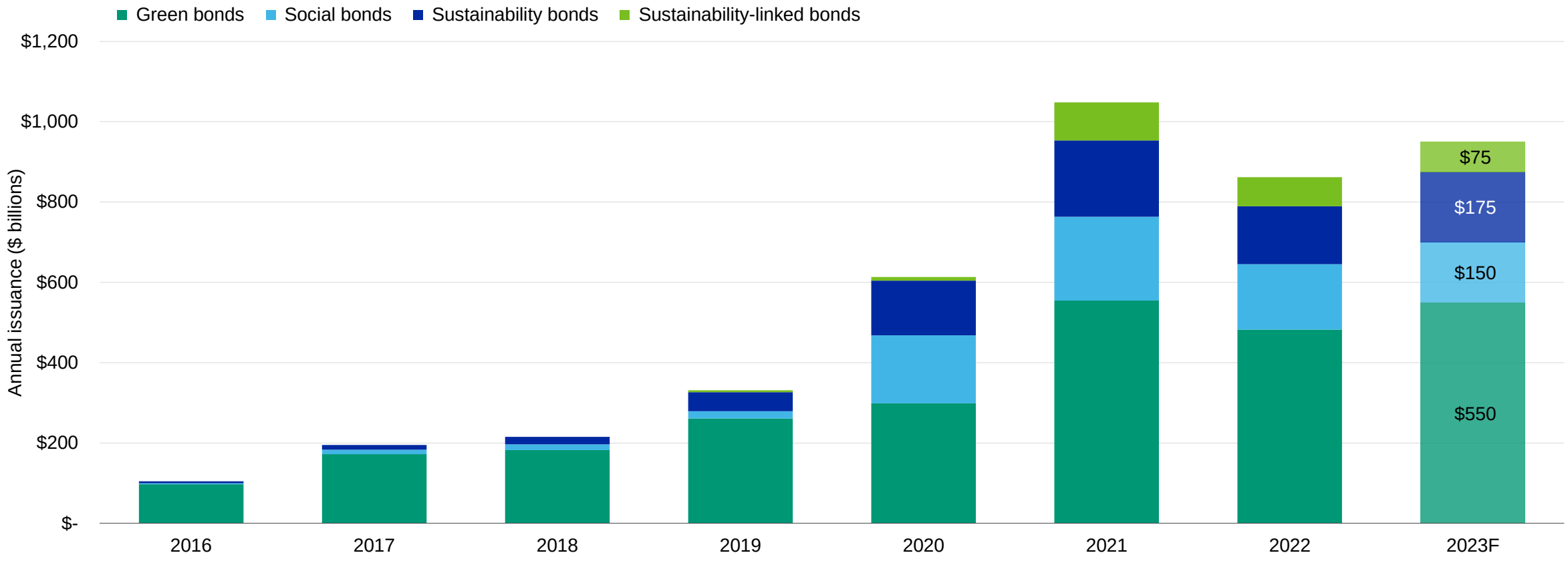
Access is everything™

Sustainable Finance in the Global South: How research support the industry

Adriana Cruz Félix, VP-Sustainable Finance, Moody's Investors Service

MARCH 2023

Green, social, sustainability and sustainability-linked bond volumes to hit $950 billion in 2023, below peak volumes



2023F represents Moody's Investors Service full-year 2023 forecast.
Sources: Moody's Investors Service and Environmental Finance Data

Sustainable bond market drivers and constraints in 2023

DRIVERS

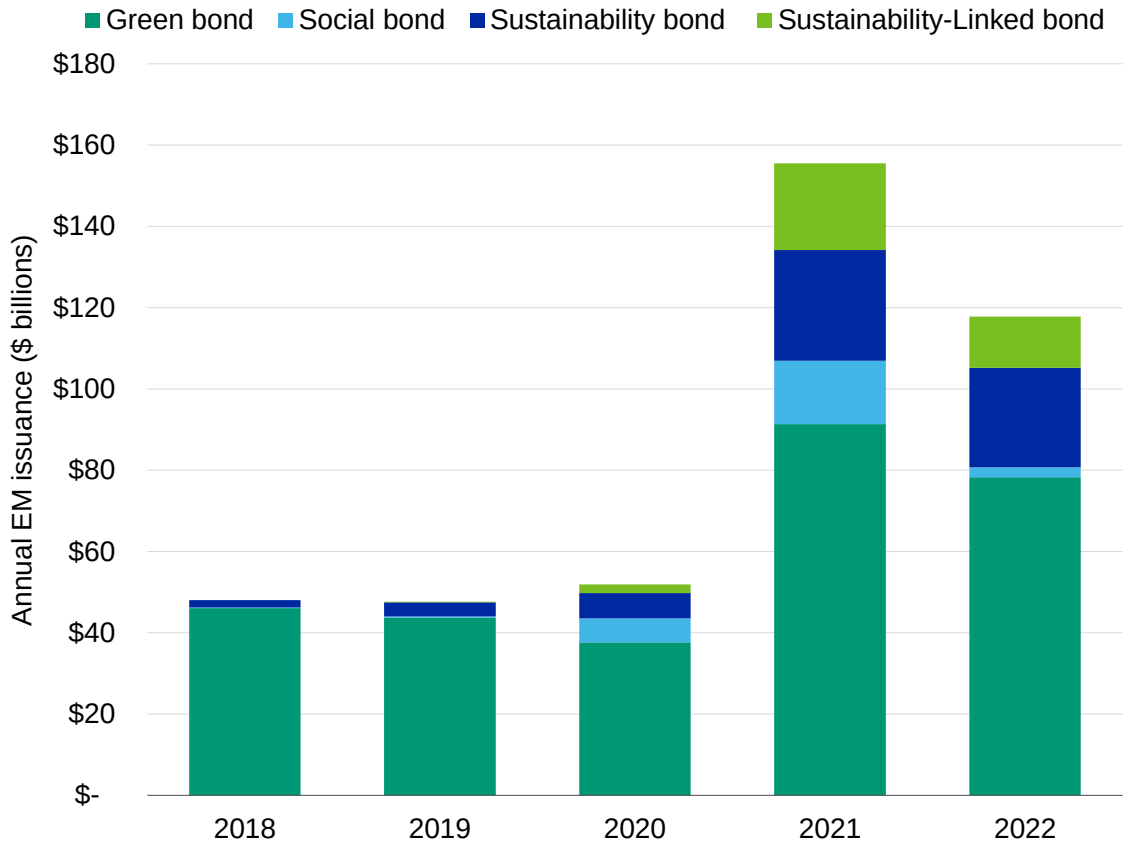
- Financing of decarbonization pledges
- Government spending on sustainable development
- Interplay of environmental and social factors
- Growing pressure to enhance sustainability disclosures
- Post-COP27 focus on blended finance

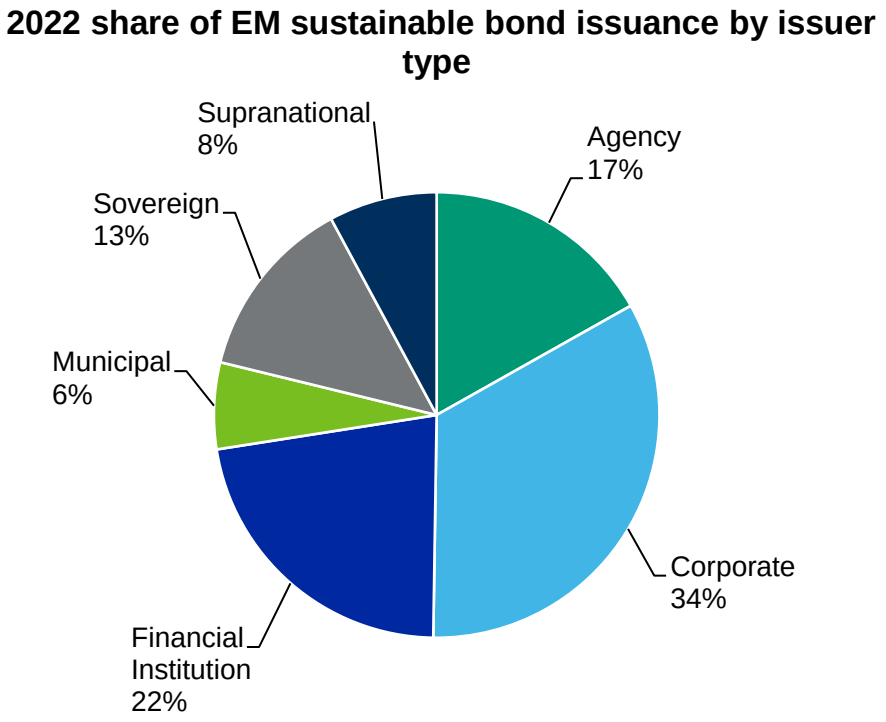
CONSTRAINTS

- Macroeconomic challenges and rising rates
- Heightened scrutiny of greenwashing
- Complex ESG regulatory and political landscape
- Diminished pandemic-related financing needs

Source: Sustainable Finance- Global: Sustainable bond issuance to rebound 10% in 2023 to $950 billion, short of record high, Moody's Investors Service

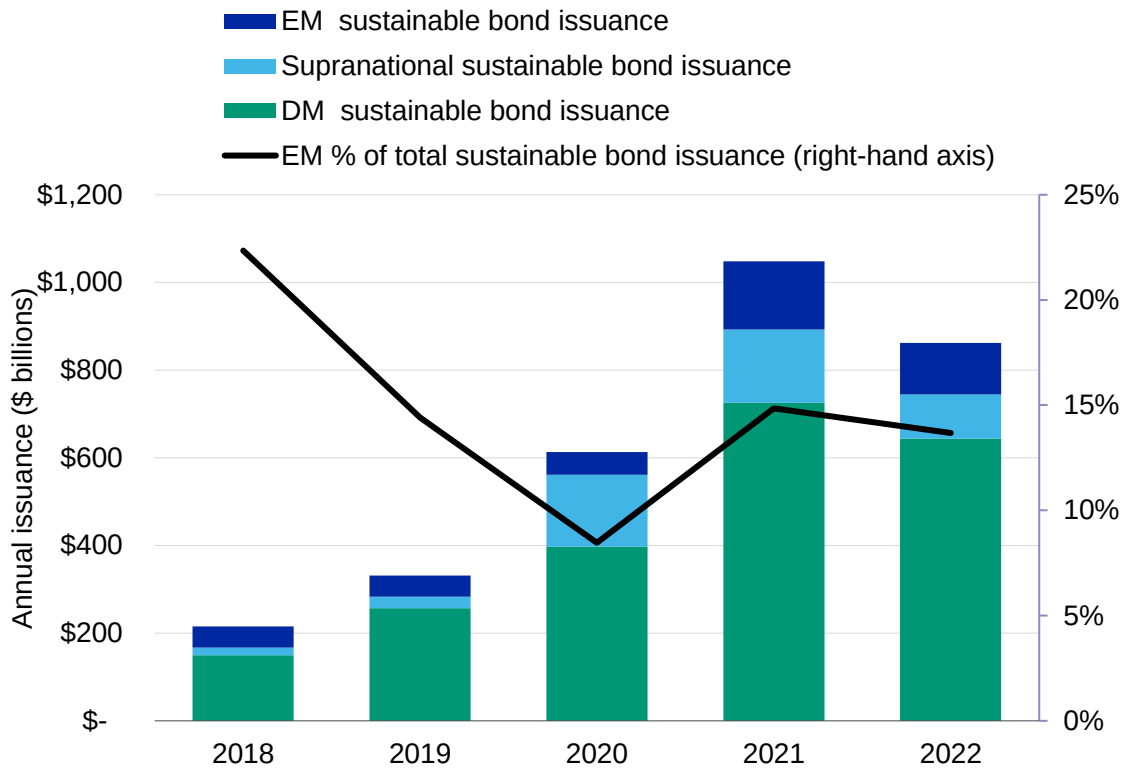
EM issuance accelerated in 2021 following the pandemic

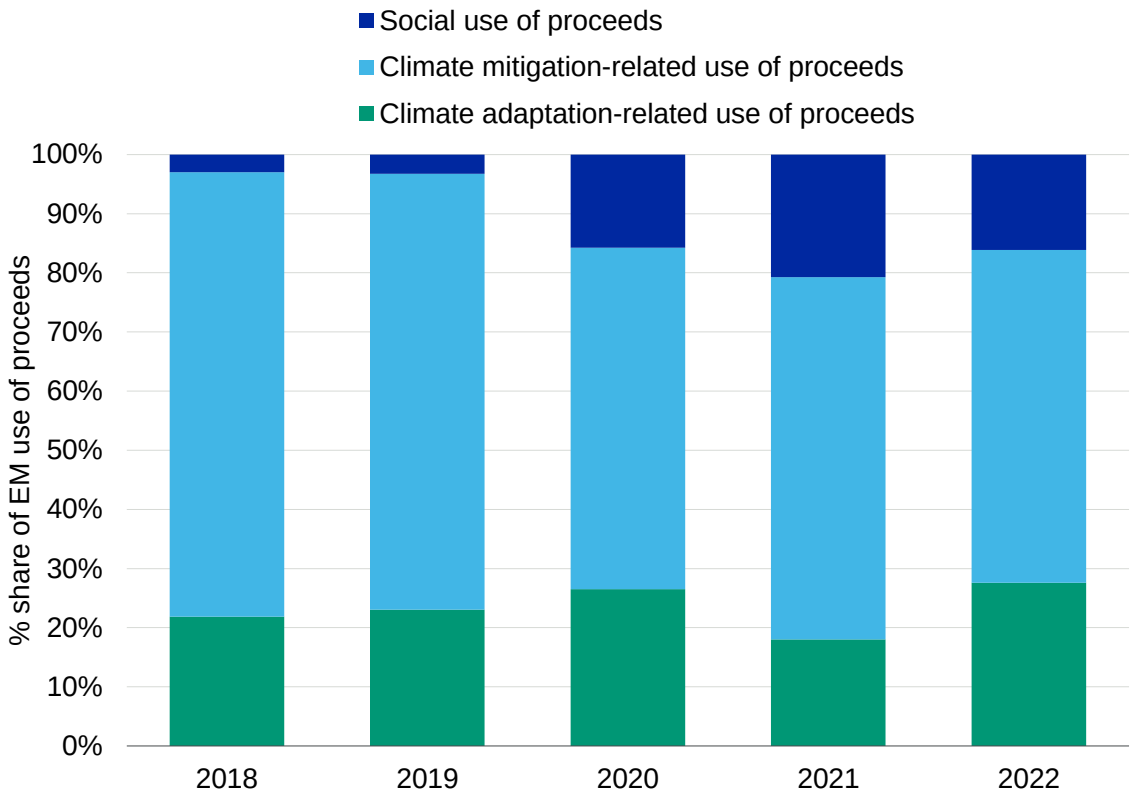




Sources: Moody's Investors Service and Environmental Finance Data

Public sector sustainable bond issuance, especially in EMs, will continue to expand and diversify use of proceeds



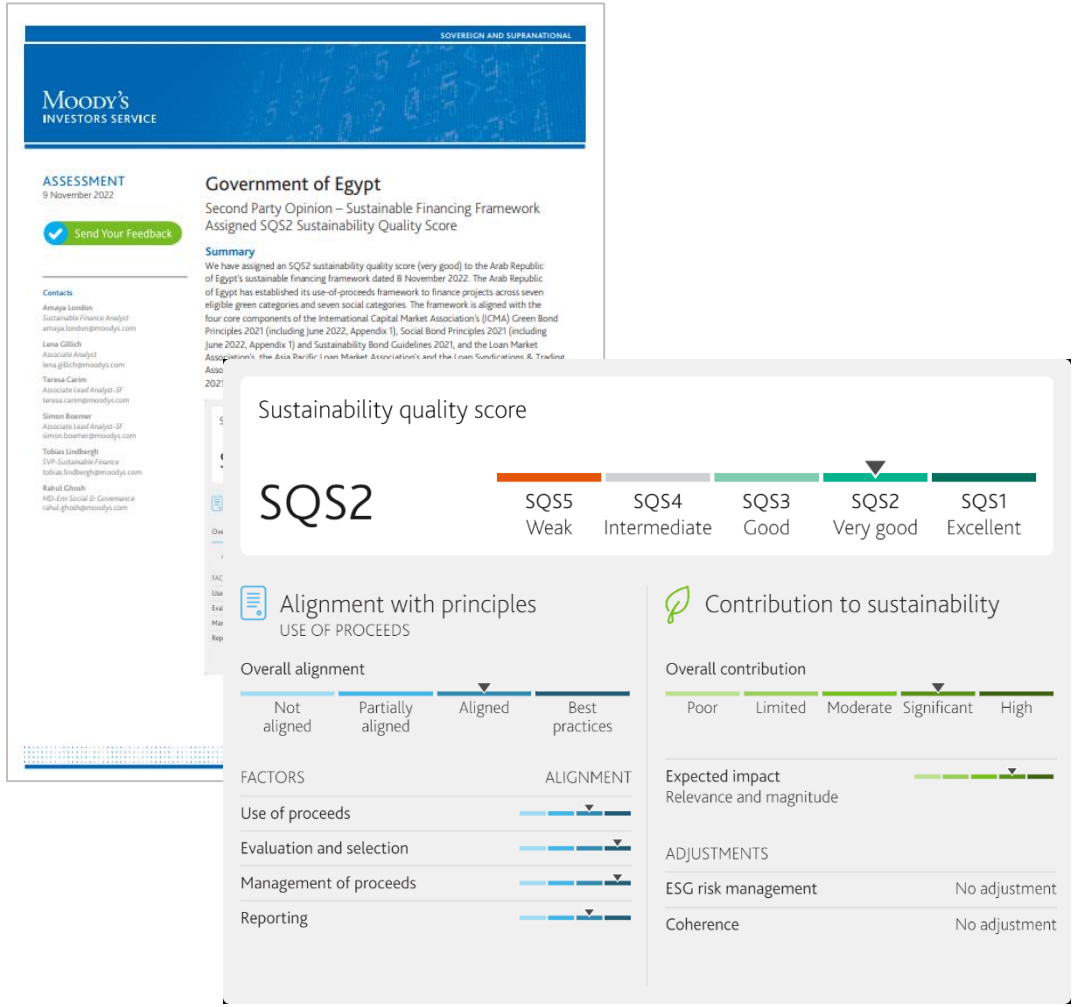


For purposes of this exhibit, climate mitigation-related use of proceeds include: clean transportation, eco-efficient products, energy efficiency, green buildings and renewable energy. Climate adaptation-related use of proceeds include: climate change adaptation, pollution prevention and control, sustainable management of living natural resources, sustainable water management and terrestrial and aquatic biodiversity conservation.

Sources: Moody's Investors Service and Environmental Finance Data

Case study: Government of Egypt

EGYPT I SOVEREIGN & SUPRANATIONAL I CENTRAL GOVERNMENT

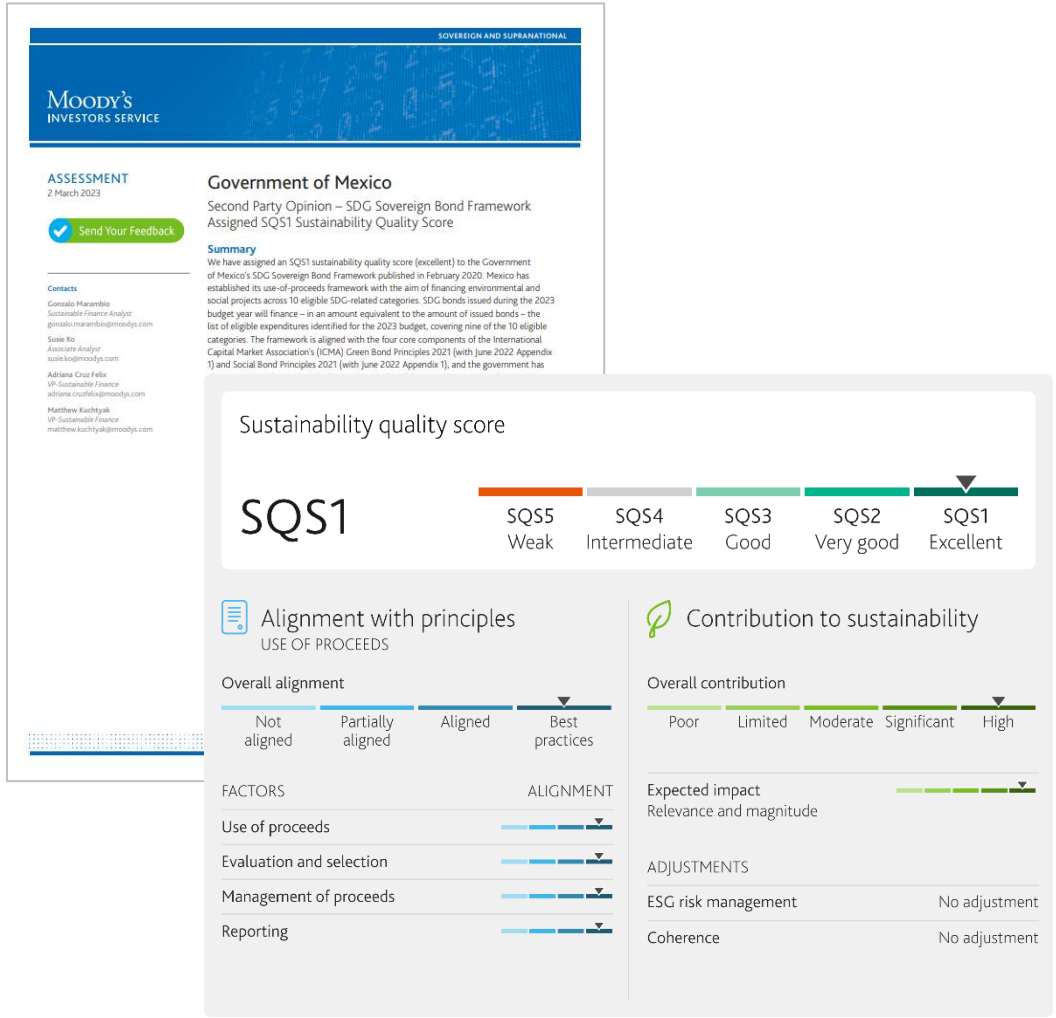


SUMMARY

- On November 9, 2022, we assigned an SQS2 (Very good) to the Government of Egypt's sustainable financing framework dated November 2022. Proceeds will go towards financing projects in **seven eligible green categories** and **seven eligible social categories**.
- The issuer's framework is **aligned** to the ICMA Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, the LMA/APLMA/LSTA Green Loan Principles and Social Loan Principles. The framework also demonstrates a **significant** expected contribution to sustainability.
- **Strengths:** Clear and structured process to evaluate and select eligible projects; management of proceeds in line with market best practices; proceeds allocation and impact to be publicly reported at the category level until full allocation of proceeds; vast majority of the eligible projects address locally relevant sustainability challenges
- **Challenges:** Limited visibility into expected proceeds distribution; lack of clarity of definitions for some eligible sub-categories; challenges with regard to the protection of human and labor rights in the country despite new law pending that seeks to address these challenges

Case study: Government of Mexico

MEXICO I SOVEREIGN & SUPRANATIONAL I CENTRAL GOVERNMENT



SOVEREIGN AND SUPRANATIONAL

Moody's INVESTORS SERVICE

ASSESSMENT
2 March 2023

Send Your Feedback

Contacts

Gonzalo Marambio
Sustainable Finance Analyst
gonzalo.marambio@moodys.com

Susie Ko
Associate Analyst
susie.ko@moodys.com

Adriana Cruz Felix
VP-Sustainable Finance
adriana.cruzfelix@moodys.com

Matthew Kuchtyak
VP-Sustainable Finance
matthew.kuchtyak@moodys.com

Government of Mexico

Second Party Opinion – SDG Sovereign Bond Framework
Assigned SQS1 Sustainability Quality Score

Summary

We have assigned an SQS1 sustainability quality score (excellent) to the Government of Mexico's SDG Sovereign Bond Framework published in February 2020. Mexico has established its use-of-proceeds framework with the aim of financing environmental and social projects across 10 eligible SDG-related categories. SDG bonds issued during the 2023 budget year will finance – in an amount equivalent to the amount of issued bonds – the list of eligible expenditures identified for the 2023 budget, covering nine of the 10 eligible categories. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles 2021 (with June 2022 Appendix 1) and Social Bond Principles 2021 (with June 2022 Appendix 1), and the government has

Sustainability quality score

SQS1

SQS5 Weak | SQS4 Intermediate | SQS3 Good | SQS2 Very good | SQS1 Excellent

Alignment with principles
USE OF PROCEEDS

Overall alignment: Not aligned | Partially aligned | Aligned | Best practices

FACTORS	ALIGNMENT
Use of proceeds	
Evaluation and selection	
Management of proceeds	
Reporting	

Contribution to sustainability

Overall contribution: Poor | Limited | Moderate | Significant | High

Expected impact
Relevance and magnitude

ADJUSTMENTS

ESG risk management	No adjustment
Coherence	No adjustment

SUMMARY

- On March 2 2023, we assigned an SQS1 (Excellent) to the Government of Mexico's SDG Sovereign Bond framework dated February 2020. Proceeds will go towards financing projects in **ten eligible SDG-related categories**.
- The issuer's framework is aligned ICMA Green Bond Principles and Social Bond Principles as well as MIS-identified **best practices**, and also demonstrates a **high** expected contribution to sustainability.
- **Strengths:** Experienced sustainable bond issuer with a track record of issuing bonds under its framework since 2020 and adhering to its post issuance reporting commitments; excellent transparency around eligible projects to be financed annually under each year's budget; use of geospatial eligibility criteria to identify and target regions where sustainable development gaps are the greatest; evaluation and selection of eligible projects follow a clear and structured process leveraging relevant expertise; clear processes for the management and allocation of bond proceeds that follow established market best practices
- **Challenges:** Eligible projects under some categories do not leverage best-in-class impact criteria and thresholds

MOODY'S
INVESTORS SERVICE

Access is everything™

Adriana Cruz Felix
Adriana.Cruzfelix@moodys.com

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.