FINANCING AND RISK TRANSFER STRATEGY
GOVERNMENT OF MEXICO

SECRETARY OF FINANCE AND PUBLIC CREDIT INSURANCE, PENSIONS AND SOCIAL SECURITY UNIT
### Historical evolution

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>Civil Protection National System (SINAPROC)</td>
</tr>
<tr>
<td>1996</td>
<td>Federal Budget, branch XXIII: FONDEN</td>
</tr>
<tr>
<td>1999</td>
<td>FONDEN Trust - CENAPRED</td>
</tr>
<tr>
<td>2000</td>
<td>FOPREDEN Trust</td>
</tr>
<tr>
<td>2006</td>
<td>1° Catastrophe Bond Issuance</td>
</tr>
<tr>
<td>2007</td>
<td>Risk Models Development</td>
</tr>
<tr>
<td>2011</td>
<td>1° FONDEN Catastrophe Insurance</td>
</tr>
<tr>
<td>2012</td>
<td>Civil Protection General Law</td>
</tr>
<tr>
<td>2021</td>
<td>Budgetary Program to Address Natural Disasters</td>
</tr>
</tbody>
</table>
Financing and risk transfer structure

**Total value of assets**

- Federal government residual risk
- Average annual allocation 17,000 million pesos
- Coverage 8,122 million pesos* (485 million USD)
- Coverage 5,000 million pesos
- Coverage up to 6,500 million pesos

**Risk measurement**

- Federal budget natural disaster program
- Catastrophe bonds
- Catastrophe insurance
- Agencies & States Insurance

**Extreme events**

- Average annual allocation 17,000 million pesos

**Typical events**

- Average loss 11,300 million pesos

*Tipo de cambio 31/08/23: 16.7477
Catastrophe insurance protects Federal Public Infrastructure assets in a natural disaster event.

The damage adjustment process is traditionally done, and the first step is to evaluate the affected public assets by the Damage Evaluation Committee (Comité de Evaluación de Daños – CED).

The Government of Mexico placed the first coverage in 2011; in 2023, the thirteenth placement is in force with a coverage period from July 2023 to July 2024. Agroasemex has insured this program since 2011.

It considers an Operating Deductible differentiated by sector (million pesos):

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Roads</th>
<th>Education</th>
<th>Hydraulic</th>
<th>Popular Housing</th>
<th>Health</th>
<th>Urban</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td>$200</td>
<td>$350</td>
<td>$120</td>
<td>$400</td>
<td>$50</td>
<td>$20</td>
<td>$250</td>
</tr>
<tr>
<td>Deductibles</td>
<td></td>
<td></td>
<td></td>
<td>$200</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Amounts over the Operating Deductible erode the Aggregate Deductible until it overpasses 750 million pesos.

After both deductibles, there is a 5,000 million pesos insurance capacity.

In the past, the Federal Government received and used the resources according to its operational rules. Around 5,500 million pesos have been recovered from two events (2013 and 2017).
Catastrophe insurance 22-23 vs 23-24

Coverage 5,000 million pesos

Aggregated deductible 750 million pesos

Operating deductible 275 million pesos

Loss

Sector

Coverage 5,000 million pesos

Aggregated deductible 750 million pesos

Operating deductible differentiated by sector

Popular Housing

Education

Roads

Urban

Others

Sector

Hydraulic Infrastructure

Health

Urban

Others
CatBonds - Fonden-2020

Covered Area

Earthquake

Key Innovations

- The longest tenor of any sovereign CAT bond issued (4yrs)
- More granular boxes and extended covered area for EQ
- Gates definition and segmentation improvements for HU
- Modeling improvements

<table>
<thead>
<tr>
<th>Trigger</th>
<th>Cat-in-a-Grid</th>
<th>Cat-in-a-Box</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LR - EQ</td>
<td>Atlantic HU</td>
</tr>
<tr>
<td>Peril(s)</td>
<td>HR - EQ</td>
<td>Pacific HU</td>
</tr>
<tr>
<td>Pay-out</td>
<td>Piecewise Linear</td>
<td>Piecewise Linear</td>
</tr>
<tr>
<td>Size (USD)</td>
<td>175m</td>
<td>60m</td>
</tr>
<tr>
<td>Price (bps)</td>
<td>350</td>
<td>900</td>
</tr>
<tr>
<td>Expected Loss</td>
<td>0.90%</td>
<td>3.68%</td>
</tr>
<tr>
<td>Multiple</td>
<td>1.72x</td>
<td>1.31x</td>
</tr>
</tbody>
</table>

Hurricane
Thank you!