



# Annual Report

# Equator Principles

**2018**

January 1st – December 31st

**Content**

Introduction.....1

Implementation of the Equator Principles at Banorte.....1

    Social and Environmental Risk Management System (SEMS).....1

    Organizational Structure .....1

    Social and Environmental Risk Analysis Process .....2

    Identification .....2

    Categorization .....2

    Evaluation .....2

    Management.....2

    Review of the implementation of the Equator Principles.....2

    Training.....2

Report of Results of the Equator Principles 2018.....3

    Project Finance .....3

    Project-Related Corporate Loans.....4

    Project Finance Advisory Services .....4

    Bridge Loans .....4

Project Name Reporting for Project Finance .....4

Contact .....5

Annex 1. Banorte Exclusión List .....6

## Introduction

At Banorte, we recognize the importance of environmental and social aspects for the global financial sector in terms of risk. We understand that economic growth depends on the available natural and social capital and that the impacts it generates must be avoided, mitigated and compensated. For this reason, we have integrated non-financial risk management as a fundamental part of our credit operations.

Since 2012, we have a Social and Environmental Risk Management System aligned with the Equator Principles. We are the second Mexican bank that adhered to this framework, committing ourselves to grant financing only to clients that demonstrated an adequate management of their risks and environmental and social impacts.

This document is the report of implementation of the Equator Principles in Banorte from January 1st to December 31st, 2018, according to Principle 10 (Reporting and Transparency) and Annex B (Minimum Reporting Requirements) of the Equator Principles III-2013<sup>1</sup>.

## Implementation of the Equator Principles at Banorte

### Social and Environmental Risk Management System (SEMS)

The SEMS is the analyzing tool for the social and environmental risks and impacts generated by the activities we finance. It is based on the Equator Principles and the IFC Performance Standards, its objective is to promote that our clients develop socially and environmentally responsible projects, in compliance with the law and applying best practices.

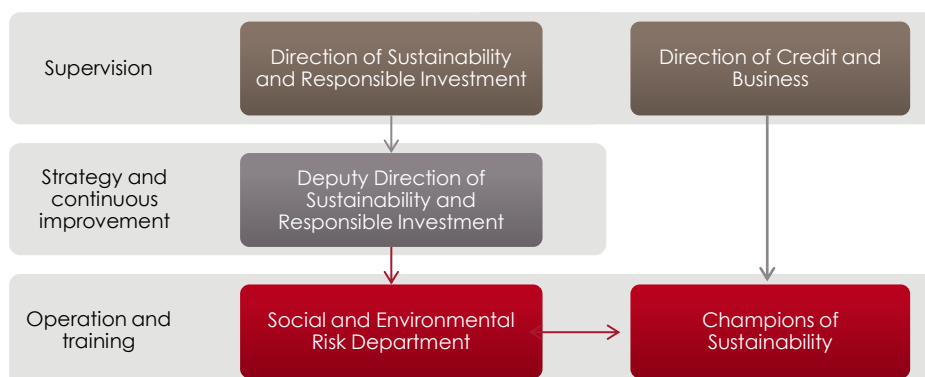
The analysis process was integrated into Banorte's regulations in 2015, operating as part of the credit process of Corporate and Commercial Banking.

### Organizational Structure

The SEMS is in charge of the Social and Environmental Risk Department (Área de Riesgo Socio-Ambiental, ARSA), a team which is part of the Direction of Sustainability and Responsible Investment, integrated by specialists in environmental and social matters, who are dedicated to the operation and continuous improvement of the process.

The ARSA is supported by the Champions of Sustainability, a group of Credit department partners who act as a link with the Business areas of the Bank to promote at national level, an adequate social and environmental risk management.

Figure 1. Organizational Structure of the SEMS



<sup>1</sup> [http://equator-principles.com/wp-content/uploads/2017/03/equator\\_principles\\_III.pdf](http://equator-principles.com/wp-content/uploads/2017/03/equator_principles_III.pdf)

## Social and Environmental Risk Analysis Process

The analysis follows a process of identification, categorization, evaluation and management of risk and impacts that is documented in a due diligence submitted to the Credit Committees, prior to the authorization of the credits. The process is detailed below:



### Identification

The ARSA identifies the potential environmental and social risks and impacts of the credits and verifies that none of the activities to be financed are on the exclusion list (Annex 1), that is, they are not risky or prohibited activities.

### Categorization

The ARSA assigns a level of socio-environmental risk to the credits depending on the magnitude of their impacts and the possibility of mitigating them. The risk is classified according to the Equator Principles in A category (high risk), B category (medium risk) and C category (low risk).

### Evaluation

Once the financings are categorized, the ARSA selects those that must be evaluated through a due diligence, depending on the amount of credit, the financial product and its destination. All sectors will be subject to evaluation, especially sensitive sectors.

The evaluation consists in verifying the compliance of the projects to be financed with the national legal framework and the guidelines of the Equator Principles, the IFC Performance Standards and the SEMS<sup>2</sup> Evaluation, so the ARSA asks customers for information related to permits, resolutions, licenses, plans, programs, specialized studies and good practices to elaborate the due diligence.

### Management

Risk management refers to monitoring the socio-environmental performance of the credits evaluated, during the life cycle of the financing. Mainly considers the credits analyzed under the Equator Principles and includes annual reviews, continuous advice for clients and business executives, site visits and reputational risk monitoring of the projects.

### Review of the implementation of the Equator Principles

As a part of the SEMS continuous improvement process, the Direction of Sustainability and Responsible Investment together with the ARSA verify the operation of the System and the application of the Equator Principles through annual reviews. These consider the achievement of objectives, the identification of improvement opportunities and the feedback of areas like Credit, Risks, Regulations, HR-Training, Communication and Specialized Areas.

## Training

The Credit and Business areas play a key role in environmental and social risk management, therefore, raising awareness and developing expertise in these issues is essential. Addressing this need, ARSA provides training for analysts, executives and directors in person mode, online and by telephone. In addition, it publishes biweekly informative pieces that address cases of high socio-environmental risk at the national and international level, success stories and relevant issues related to the SEMS operation.

<sup>2</sup> SEMS evaluation represents the third evaluation framework created for credits less than 1 million dollars. Its objective is to analyze the most relevant environmental, social and reputational impacts of credits and its compliance with the current national legislation and international guidelines.

During 2018, we reached to train 12, 095 employees in topics such as sustainability in the financial sector, social and environmental risk management, SEMS operation, sensitive sectors, reputational risk, sustainable and responsible customers. Of these, 485 are executives directly involved in the risk analysis and receive detailed training on the Equator Principles.

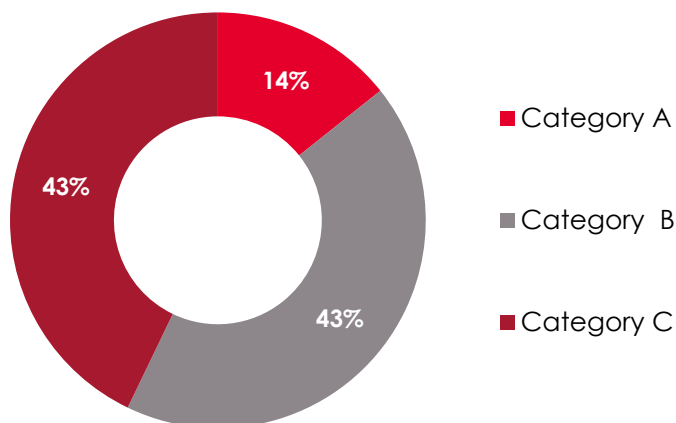
As mentioned above, ARSA is formed by a team with specialized education and experience in social and environmental matters, who in addition receive periodically training on specific topics for the adequate risk management, such as biodiversity, climate change, human rights, among others.

For more information, consult <https://investors.banorte.com/~media/Files/B/Banorte-IR/financial-information/annual-reports/en/2018/ARBANORTE2018.pdf>

## Report of Results of the Equator Principles 2018

SEMS operation considered the guidelines of Equator Principles III-2013 for non-designated countries like Mexico, in Americas region. Regarding to the provision of credits from January 1st to December 31st, 2018, the EP's application produced the results detailed below.

### Most of loans evaluated under the Equator Principles during 2018, are categorized in risk B and C



### Project Finance

As it is possible to observe, the five investment projects financed during 2018 belong to the Americas region, they are located in Mexico, a not designated country and they have a socio-environmental review by an independent consultant.

Most of the projects are in category C, within the oil and gas, agricultural and construction sectors, with minimal or non-adverse environmental and social risks and impacts. We finance a project in category B of the oil and gas sector and another in category A classified in the tourism sector.

	Category A	Category B	Category C
<b>Projects by category</b>	<b>1</b>	<b>1</b>	<b>3</b>
<b>By sector</b>			
Power	0	0	0
Infrastructure	0	0	0
Mining	0	0	0
Oil & gas	0	1	1
Others	1	0	2
Agricultural	0	0	1
Construction	0	0	1
Manufacture	0	0	0
Chemical	0	0	0
Tourism	1	0	0
<b>By region</b>			
Americas	1	1	3
Europe, Middle East and Africa	0	0	0
Pacific Asia	0	0	0
<b>By designated country</b>			
Designated	0	0	0
Non-Designated	1	1	3
<b>Independent review</b>			
Yes	1	1	3
No	0	0	0

## Project-Related Corporate Loans

	Category A	Category B	Category C
<b>Projects by category</b>	<b>0</b>	<b>2</b>	<b>0</b>
<b>By sector</b>			
Power	0	0	0
Infrastructure	0	0	0
Mining	0	0	0
Oil & gas	0	0	0
Others	0	2	0
Agricultural	0	1	0
Construction	0	0	0
Manufacture	0	0	0
Chemical	0	1	0
Tourism	0	0	0
<b>By region</b>			
Americas	0	2	0
Europe, Middle East and Africa	0	0	0
Pacific Asia	0	0	0
<b>By designated country</b>			
Designated	0	0	0
Non-Designated	0	2	0
<b>Independent review</b>			
Yes	0	2	0
No	0	0	0

The only two corporate loans financed during 2018 belong to the Americas region, they are located in Mexico, a not designated country and they have a socio-environmental review by an independent consultant.

Both projects are in category B, within the agricultural and chemical sectors with environmental and social risks that can readily addressed through mitigation measures.

## Project Finance Advisory Services

Banorte did not authorize any transaction of 10 million dollars or more for Project Finance advisory services with significant social and/or environmental risks.

## Bridge Loans

Due to their nature, the information about the bridge loans is not subject to specific reporting requirements of the report.<sup>3</sup>

## Project Name Reporting for Project Finance

In Mexico, according to the Law on Credit Institutions<sup>4</sup>, we cannot disclosure the project name of financings because its publication would violate current rules. In particular, Article 142 stating that the information and documentation relating to operations and services shall be confidential.

So credit institutions that protect the right to privacy of its customers and users, they can only give news or information to the owner, their representatives and when requested by the judicial authority, the National Banking and Securities Commission, Bank of Mexico, the Institute for Protection of Bank Savings and the Commission for the Protection and Defense of Financial Services Users.

<sup>3</sup> [http://equator-principles.com/wp-content/uploads/2017/03/equator\\_principles\\_III.pdf](http://equator-principles.com/wp-content/uploads/2017/03/equator_principles_III.pdf)

<sup>4</sup> [http://www.diputados.gob.mx/LeyesBiblio/pdf/43\\_170616.pdf](http://www.diputados.gob.mx/LeyesBiblio/pdf/43_170616.pdf)

## Contact

Mariuz Calvet Roquero  
Director of Sustainability and Responsible Investment  
[mariuz.calvet@banorte.com](mailto:mariuz.calvet@banorte.com)  
Tel. +52 (55) 1103- 40000 Ext. 1862

Britzia Silva Enciso  
Deputy Director of Sustainability and Responsible Investment  
[britzia.silva@banorte.com.mx](mailto:britzia.silva@banorte.com.mx)  
Tel. +52 (55) 1103- 40000 Ext. 1773

María Eugenia Orellana Ibáñez  
Coordinator of social and environmental risk  
[maria.orellana.ibanez@banorte.com](mailto:maria.orellana.ibanez@banorte.com)  
Tel. +52 (55) 1103- 40000 Ext. 2495

Diana Itzel Jiménez Márquez  
Coordinator of social and environmental risk  
[diana.jimenez.marquez@banorte.com](mailto:diana.jimenez.marquez@banorte.com)  
Tel. +52 (55) 1103- 40000 Ext. 2498

Salvador Rosales Reyes  
Analyst of social and environmental risk  
[salvador.rosales.reyes@banorte.com](mailto:salvador.rosales.reyes@banorte.com)  
Tel. +52 (55) 1103- 40000 Ext. 2149



## Annex 1. Banorte Exclusion List

### Banorte Exclusion List

#### 03.02 Prohibited or Risk Situations

The following activities and operations are considered prohibited. For this reason, these activities do not require a preliminary analysis to determinate their disapproval:

- a) Production or activities that involve forced labor (1) or child labor exploitation.
- b) Production or commerce of any product or activity considered as illegal, all in the current legal framework.
- c) Any business related to pornography and prostitution.
- d) Wildlife crime regulated by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
- e) Production or trade of radioactive material (including warehousing and treatment of radioactive wastes,) asbestos, polychlorinated biphenyl (PCB) and others chemical products that have been prohibited internationally.
- f) Production and trade of pharmaceutical or pesticide and herbicides that has been prohibited internationally.
- g) Production or trade of harmful substances that destroy ozone, which have been prohibited internationally.
- h) Sea fishing using nets more than 2.5 km long.
- i) Commercial forestry at commercial level in primary tropical rainforest.
- j) Any other activity that is in violation of environmental, health or industrial safety laws.
- k) Churches
- l) Gambling
- m) Military Equipment
- n) Candidates, Political Exposed Persons, Unions, Political Organizations. , the Central Credit Committee, has the exclusivity authority to approve the financing; this process also requires the signature of the CEO. Banorte can only provide financing the three largest political parties in the country registered with the National Electoral Institute (Instituto Nacional Electoral: INE); an exception can be made for the financing of other political parties registered in the INE, but only for 4 million Units of Investment (UDI) this process further requires that the Risk Policy Committee (Comité de Políticas de Riesgo) is informed about any such exceptions.

- (1) Forced labor means all labor or service that is involuntary, that is obtained through the use of threat, force or punishment.
- (2) Child labor exploitation means the employment of children characterized by economic exploitation, , or with a probable risk of danger for the child, or interferes with the formal education of the child, or that causes harm to the health of the child, or has a negative impact on the physical, mental, spiritual, moral or social welfare of the child.

For the case of SOFOL (Limited Scope Financial Institutions) mortgage loans, the prior authorization of the Risk Policy Committee is required, due to the "zero limit" according to the number 1.1.5.3.2.2. Specific Limit for Credit Risk for SOFOL Mortgages (Límite Específico de Riesgo de Crédito para Sofoles Hipotecarias) in the Risks Manual.

Transaction with applicants, whose credit score, which is determined by the Credit Bureau (Buró de Crédito) has one the following characteristics:

- Suspension of payments or bankruptcy, except expired procedures (1).
- Fraud, except when the Credit Bureau and/or the creditor determine that the fraud is not attributable to the client (2).
- Prevention Code 78, business receptors of credit cards that result in losses for the institution.
- Bankruptcy to 2,000 UDI.
- Observation Code UP. Account that result in bankruptcy. Amount superior to 2,000 UDI.
- Prevention Code 86; Client that have guarantees that support their line of credit, without authorization of the guarantor.

(1) The Codes that determine Suspension of Payments or Bankruptcy are:

- Prevention Code 80. Client declared to be Bankrupt, Suspension or Payments or Insolvency.

(2) The Codes that determine Fraud are:

- Prevention Code 82. Client that results in a loss to the guarantor by proven fraud.
- Observation Code FD. Fraudulent Account.
- MOP 99. Fraud committed by the consumer.